

CYFROWY POLSAT S.A.

Annual Report for the financial year ended December 31, 2017

Place and date of publication: Warsaw, March 22, 2018
Place and date of approval: Warsaw, March 21, 2018



CONTENT OF THE ANNUAL REPORT

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

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

Report of the Management Board on the activities of Cyfrowy Polsat S.A. in the financial year ended December 31, 2017

Management Board's representations

Report of the independent auditor on the audit of the financial statements for the year ended December 31, 2017

Financial statements for the year ended December 31, 2017

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD



Ladies and Gentlemen,

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

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

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

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

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

Upon the finalization of the first transaction we would be able to offer new services to the customers of the two companies, enrich the smartDOM program and offer an even wider choice and variety of telecommunication services in both big and small cities, as well as outside them. In line with our long-term strategy for TV broadcasting and production segment, the acquisition of the new TV channels not only substantially enhances TV Polsat's offer of music programs, and generally increases the diversity of our rich thematic channels portfolio, but it also strengthens our group versus international and domestic competitors on the media market. Guided by our mission of providing top quality TV content which meets our

viewers' expectations, we have acquired exclusive rights for broadcasting the UEFA Champions League and the UEFA Europa League matches in the years 2018-2021, and we have also extended our cooperation with FIVB International Volleyball Federation by acquiring further rights to volleyball events. By virtue of the contract with FIVB, over the next 7 years TV Polsat will broadcast major international volleyball events, including Volleyball Nations League, the matches of Polish men's and women's national teams in the FIVB Volleyball World Championship in 2022, as well as the qualifying tournaments for the 2020 and 2024 Olympics.

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

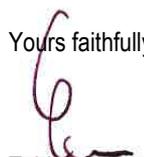
The year 2017 also saw our debut on the movie market – two feature films, produced as part of the program *Cyfrowa Strefa Twórców* (Digital Filmmakers' Zone), namely Łukasz Palkowski's "*Najlepszy*" ("The Best") and "*Narzeczony na niby*" ("Make-Believe Fiancé") were shown in cinemas across Poland and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

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

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

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

Yours faithfully,



Tobiasz Solorz

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

LETTER OF THE CHAIRMAN OF THE SUPERVISORY BOARD



Ladies and Gentlemen,

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

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

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

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

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

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

What is also worth noting, is the fact that the Group has been actively involved in work related to regulations governing the markets on which it operates. The past year was a time of discussions regarding new solutions for the media and telecommunication markets. The 5G Strategy for Poland, developed by the Ministry of Digitization, was an important

milestone. Our Group, being one of the signatories of this document, has demonstrated that it is ready to take active part in the technological development of the country. Joint efforts of the national administration and the industry seem to be the factor which conditions the country's ability to move to the next stage of digital and civilizational development.

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

Yours faithfully,



Marek Kapuściński

Chairman of the Supervisory Board
Cyfrowy Polsat S.A.

**REPORT OF THE MANAGEMENT BOARD
ON THE ACTIVITIES OF CYFROWY POLSAT S.A.
IN THE FINANCIAL YEAR ENDED DECEMBER 31, 2017**



TABLE OF CONTENTS

Cyfrowy Polsat at a glance	10
Disclaimers	11
Selected financial data	14
1. Characteristics of Cyfrowy Polsat	16
1.1. Information on organizational or capital connections with other entities.....	16
1.2. Who we are	16
1.3. Strategy of the Group	17
1.4. Competitive advantages	19
1.5. Market opportunities	22
1.6. Development prospects	23
2. Business overview of Cyfrowy Polsat	24
2.1. Activities on the pay TV market	24
2.2. Operations on the telecommunications market	30
2.3. Activities on the bundled services market	34
2.4. Sales and marketing	36
2.5. Customer relations and retention management	38
2.6. Other aspects of our business	39
3. Significant events and agreements	42
3.1. Corporate events	42
3.2. Business related events	42
3.3. Events after the balance date	44
4. Operating and financial review of Cyfrowy Polsat	46
4.1. Key factors impacting our operating activities and financial results.....	46
4.2. Key market trends	50
4.3. Major investments in 2017	51
4.4. Operating review of the Company	52
4.5. Key positions in the consolidated income statement.....	55
4.6. Review of our financial situation	57
5. Other significant information	72
5.1. Transactions with related parties	72
5.2. Information on loans granted.....	72
5.3. Management's opinion regarding the possibility to realize published financial forecasts	72
5.4. Information on material proceedings at the court, arbitration body or public authorities	72
5.5. Changes to the principle rules of management of our Company.....	72
5.6. Sales markets and dependence on the supplier and client markets	72
5.7. Disclosure of non-financial information.....	72
6. Key risk and threat factors	74
6.1. Risks related to our business and the sector in which we operate	74
6.2. Risk factors associated with the Company's financial profile	78
6.3. Risks related to market environment and economic situation	79
6.4. Factors relating to market risks.....	80
6.5. Risk factors associated with the legal and regulatory environment	84

7. Cyfrowy Polsat on the capital market	87
7.1. Cyfrowy Polsat shares	87
7.2. Shares quotes	88
7.3. Analysts' recommendations.....	90
7.4. Close dialogue with the capital market	92
7.5. Dividend policy	93
8. Corporate governance Statement	95
8.1. Principles of corporate governance which the Company issuer is subject to	95
8.2. Internal control systems and risk management applied with respect to the process of preparing financial statements	98
8.3. Agreements with an entity certified to perform an audit of the financial statements.....	99
8.4. Share capital and shareholding structure of Cyfrowy Polsat	99
8.5. Articles of Association of the Company	103
8.6. General Shareholders' Meeting	104
8.7. Management Board of the Company.....	105
8.8. Supervisory Board	109
8.9. Diversity policy applicable to administrative, managing and supervising bodies of the Company	115
Glossary	117

CYFROWY POLSAT AT A GLANCE

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

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

We provide mobile broadband Internet access in state-of-the-art LTE and LTE-Advanced technologies, using the network of our subsidiary Polkomtel. We offer the largest LTE coverage in Poland and our customers attain the highest data transmission speed among offers provided by national mobile network operators.

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

DISCLAIMERS

The following constitutes the Annual Report of Cyfrowy Polsat prepared as required by Article 82 and Article 91 of the Ordinance of the Minister of Finance of February 19, 2009 on current and periodic information published by issuers of securities and the conditions of recognizing as equal the information required under non-member states' regulations.

Presentation of financial and other information

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

Financial and operating data

This Report contains financial statements and financial information relating to the Company, in particular the financial statements for the financial year ended December 31, 2017. The financial statements for the twelve month period ended December 31, 2017 attached to this Report have been prepared in accordance with International Financial Reporting Standards as approved for use in the European Union ("IFRS") and are presented in millions of zlotys.

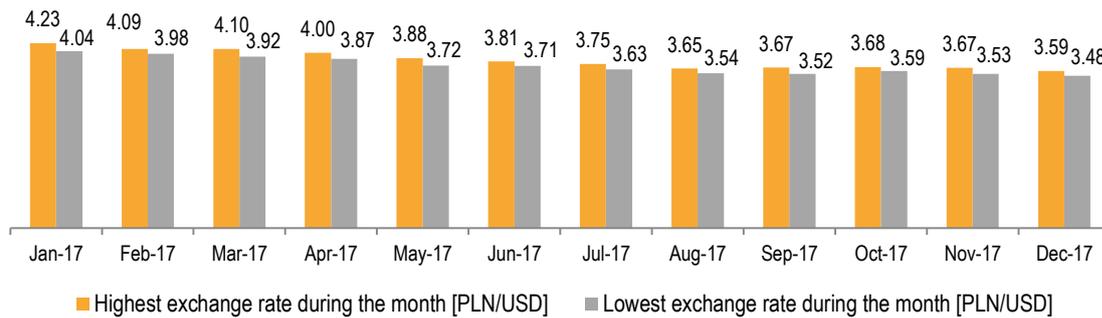
Certain arithmetical data contained in this Report, including financial and operating information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this Report may not conform exactly to the total figure given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

Currency presentation and information on exchange rates

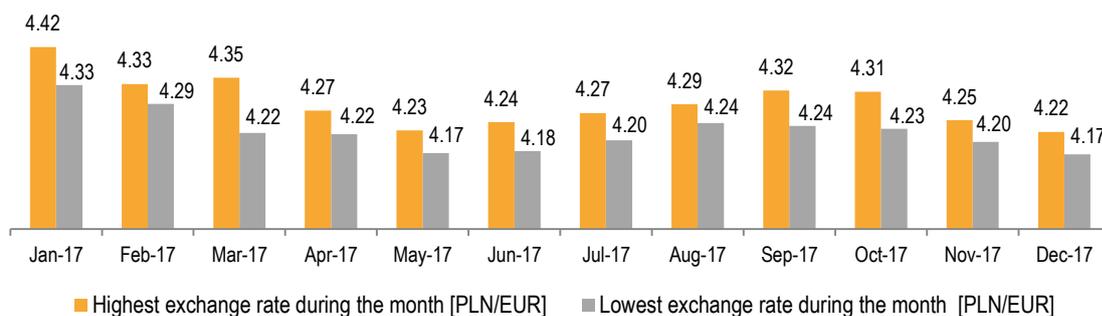
Unless otherwise indicated, all references to "PLN" or "zloty" in this Report refer to the legal tender of the Republic of Poland, all references to "USD" or "US dollars" refer to the legal tender of the United States and all references to "EUR" or the "euro" refer to the legal tender of the member states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

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

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



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



Forward looking statements

This Report contains forward looking statements relating to future expectations regarding our business, financial and operating results. These statements are expressed, without limitation, through words such as "may," "will," "expect," "anticipate," "believe," "estimate" and similar words used in this Report. By their nature, forward looking statements are subject to numerous assumptions, risks and uncertainties. Accordingly, actual results may differ materially from those expressed or implied by forward looking statements. We caution investors not to base investment decisions on such statements, which speak only as at the date of this Report.

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

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

Industry and market data

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

- Eurostat, for data relating to the Polish economy and GDP growth;
- the Polish Chamber of Electronic Communication;
- the Office of Electronic Communications (UKE);
- the Central Statistical Office of Poland (GUS);
- the Body of European Regulators for Electronic Communications (BEREC);
- the European Commission (Digital Agenda Scoreboard);
- IAB AdEX;
- PMR – *Pay TV market in Poland 2017. Market analysis and forecasts for the years 2017-2022*;
- PMR – *Telecommunication market in Poland 2017. Market analysis and forecasts for the years 2017-2022*;
- PMR – *Integrated telecommunications services market in Poland 2018; Market analysis and forecasts for the years 2018-2023*;
- GfK Polonia;
- Ericsson Mobility Report;
- Fiber to the Home Council Europe; and
- operators functioning on the Polish market.

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

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

SELECTED FINANCIAL DATA

The following tables set out selected financial data for the twelve month periods ended December 31, 2017 and December 31, 2016. The selected financial data presented in the tables below is expressed in millions of PLN, unless otherwise stated. This information should be read in conjunction with financial statements for the financial year ended December 31, 2017 (including the notes thereto) attached to this Report, as well as the information included in item 4 of this Report - *Operating and financial review of Cyfrowy Polsat*.

Selected financial data:

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

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

It should be noted that data for the financial year ended December 31, 2017 are not fully comparable to data for the financial year ended December 31, 2016 due to the acquisition of 31.76% of shares of Netia S.A. on December 5, 2017 (influences certain items on the balance sheet and the cash flow statement), the merger of the Company with Metelem Holding Company Limited on April 7, 2017 and the merger with Netshare Sp. z o.o. on November 30, 2016.

Balance sheet

	December 31, 2017		December 31, 2016	
	mPLN	mEUR	mPLN	mEUR
Cash and cash equivalents ⁽¹⁾	29.5	7.1	278.8	66.8
Assets	13,536.8	3,245.5	13,283.8	3,184.9
Non-current liabilities	1,598.7	383.3	1,862.7	446.6
Non-current financial liabilities	1,510.7	362.2	1,757.5	421.4
Current liabilities	1,025.7	245.9	908.9	217.9
Current financial liabilities	422.4	101.3	281.5	67.5
Equity	10,912.4	2,616.3	10,512.2	2,520.4
Share capital	25.6	6.1	25.6	6.1

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

Cash flow statement

	for the 12-month period ended December 31			
	2017		2016	
	mPLN	mEUR	mPLN	mEUR
Net cash from operating activities	429.9	101.0	349.6	82.1
Net cash from/(used in) investment activities	(290.4)	(68.2)	351.4	82.5
Net cash used in financial activities	(388.5)	(91.2)	(558.6)	(131.2)
Net (decrease)/increase in cash and cash equivalents	(249.0)	(58.5)	142.4	33.4

Income statement

	for the 12-month period ended December 31			
	2017		2016	
	mPLN	mEUR	mPLN	mEUR
Revenue	2,280.3	535.6	2,213.2	519.8
Retail revenue	2,134.4	501.3	2,061.6	484.2
Wholesale revenue	67.8	15.9	71.7	16.8
Sale of equipment	33.4	7.8	54.3	12.8
Other sales revenue	44.7	10.5	25.6	6.0
Total operating cost	(1,994.8)	(468.5)	(1,904.1)	(447.2)
Content costs	(586.2)	(137.7)	(590.7)	(138.7)
Technical costs and cost of settlements with mobile network operators	(577.8)	(135.7)	(470.9)	(110.6)
Distribution, marketing, customer relation management and retention costs	(323.3)	(75.9)	(322.4)	(75.7)
Depreciation, amortization, impairment and liquidation	(214.4)	(50.4)	(224.8)	(52.8)
Salaries and employee-related costs	(107.5)	(25.2)	(100.1)	(23.5)
Cost of equipment sold	(34.1)	(8.0)	(53.9)	(12.7)
Cost of debt collection services and bad debt allowance and receivables written off	(13.8)	(3.2)	(12.1)	(2.8)
Other costs	(137.7)	(32.3)	(129.2)	(30.3)
Other operating income, net	3.9	0.9	8.3	1.9
Profit from operating activities	289.4	68.0	317.4	74.5
Gain/(loss) on investment activities, net	452.2	106.2	412.0	96.8
Financial costs	(84.4)	(19.8)	(102.4)	(24.1)
Gross profit for the period	657.2	154.4	627.0	147.3
Income tax	(51.2)	(12.0)	(49.0)	(11.5)
Net profit for the period	606.0	142.3	578.0	135.8
Basic and diluted earnings per share in PLN (not in millions)	0.95	0.22	0.90	0.21
Weighted number of issued shares (not in millions)	639,546,016		639,546,016	

Other financial data

	for the 12-month period ended December 31			
	2017		2016	
	mPLN	mEUR	mPLN	mEUR
EBITDA ⁽¹⁾	503.8	118.4	542.2	127.3
EBITDA margin	22.1%	22.1%	24.5%	24.5%
EBIT margin	12.7%	12.7%	14.3%	14.3%
Capital expenditures ⁽²⁾	29.6	7.0	53.5	12.6

(1) We define EBITDA as net profit/(loss), as determined in accordance with IFRS, before depreciation and amortization, impairment charges and reversals on property, plant and equipment and intangible assets, net value of disposed property, plant and equipment and intangible assets, revenue obtained from interest, finance costs, positive/(negative) exchange rate differences and income taxes. The reconciling item between EBITDA and reported operating profit/ (loss) is depreciation and amortization expense and impairment charges and reversals on property, plant and equipment and intangible assets and net value of disposed property, plant and equipment and intangible assets. The reconciliation between reported net profit and EBITDA is presented in Note 13 of the financial statements for the year ended December 31, 2017.

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

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

1. CHARACTERISTICS OF CYFROWY POLSAT

1.1. Information on organizational or capital connections with other entities

The following table presents shares in other entities that we held directly as at December 31, 2017 and December 31, 2016.

Company	Registered office	Activity	Share in voting rights (%) as at	
			December 31, 2017	December 31, 2016
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	non-current assets and intellectual property rights management	100%	100%
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	television broadcasting and production	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o. Sp. k.	Ostrobramska 77, 04-175 Warsaw	advertising activities	37.75%	37.75%
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	radio and TV activities	73.5%	73.5%
PL 2014 Sp. z o.o. ⁽¹⁾	Ostrobramska 77, 04-175 Warsaw	telecommunication activities	12.22%	-
Metelem Holding Company Limited ⁽²⁾	Chrysanthou Mylona 3 Office no. 102 CY 3030 Limassol, Cyprus	holding and financial activities	-	100%
Eileme 1 AB (publ) ⁽³⁾	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	100%
Orsen Holding Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	99.9%	99.9%
Interphone Service Sp. z o.o.	Inwestorów 8, 39-300 Mielec	production of set-top boxes	99%	99%
Teleaudio Dwa Sp. z o.o. Sp.k.	Al. Jerozolimskie 81, 02-001 Warsaw	premium-rate services	99%	99%
Karpacka Telewizja Kablowa Sp. z o.o.	Warszawska 220, 26-600 Radom	dormant	99%	99%
Polskie Badania Internetu Sp. z o.o.	Al. Jerozolimskie 65/79, 00-697 Warsaw	web portals activities	4.55%	4.55%
Netia S.A. ⁽⁴⁾	Poleczki 13, 02-822 Warsaw	telecommunication activities	31.76%	-

(1) On July 24, 2017, the Company acquired shares in PL 2014 Sp. z o.o.

(2) On April 7, 2017, the cross-border merger of Cyfrowy Polsat with Metelem Holding Company Limited was registered.

(3) As at December 31, 2016, Cyfrowy Polsat held control over Eileme 1 AB (publ) indirectly through Metelem Holding Company Limited.

(4) On December 5, 2017 Cyfrowy Polsat announced a tender offer for the sale of another 33% of shares in Netia S.A. As at the date of publication of this Report the tender offer has not been finalized.

1.2. Who we are

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

Pay TV

Cyfrowy Polsat is the largest pay TV provider in Poland and a leading satellite platform in Europe in terms of the number of customers. Since 2006 we are the leader on the Polish market in terms of the number of active services, as well as market share, providing satellite TV services to about 3.5 million subscribers. We actively expand our pay TV offer by adding additional services, such as Multiroom or paid video online subscriptions, providing over 5 million pay TV services as at December 31, 2017.

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

Online video

The online television IPLA offered by our Company is the leader of the Polish video online streaming market, both in terms of compatibility with a broad range of end-user devices (including computers, tablets, smartphones, TV sets with Internet access, set-top boxes and game consoles) as well as in terms of the volume of available content. IPLA also enjoys one of the leading positions in terms of the number of users and the average time spent by a single user on watching streamed content. According to our data the average monthly number of unique users of the IPLA website and application was approximately 4.3 million in the fourth quarter of 2017 and 3.6 million in 2017.

Broadband Internet

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

We provide a comprehensive array of mobile broadband access services to residential customers in the contract model. Moreover, thanks to our LTE Internet access service combined with the set Home LTE Internet we can offer customers a product that constitutes a substitute for fixed-line Internet.

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

Bundled services

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

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

1.3. Strategy of the Group

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

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

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

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

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

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

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

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

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

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

The channels we produce and broadcast enjoy strong, well-established positions on the Polish TV market as well as high ratings in their target groups. We currently broadcast 29 channels (including 19 HD channels), programmed to appeal to most target groups within the Polish audience. Our goal is to maintain our audience share at a stable level and consistently improve our viewer profile. We believe that by making sensible investments in programming, and wider distribution of our own content, we will be able to gradually improve our viewer profile. This in turn will have a positive effect on the advertising airtime pricing.

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

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

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

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

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

Predictable dividend payouts to Shareholders constitute one of the main goals underlying our capital resources management policy. The dividend policy adopted by us assumes an increase of dividend payouts dependent on the reduction of the Group's total indebtedness. We consistently aim to reduce our debt, which will assure attractive profitability levels for the capital employed by our Shareholders.

1.4. Competitive advantages

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

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

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

Our pay TV, mobile telephony and Internet access services are sold through a nationwide distribution network consisting of over 1.1 thousand stationary points of sale. We simultaneously offer our services in alternative telemarketing, door-to-door channels as well as online.

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

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

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

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

Our Capital Group has a significant base of customers, consisting of the individual customers of Cyfrowy Polsat and Polkomtel, business and corporate customers, as well as prepaid users. This base includes 5.8 million unique customers, bound by contracts for definite or indefinite periods of time, which entails the generation of regular monthly revenues.

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

We offer a unique combination of integrated services

We provide multi-play services combining pay DTH offer, Internet and telecommunication services. In addition, we offer our customers the option to purchase electric energy and gas, household appliances, electronic equipment, banking, insurance or home security services at attractive prices. We are the only pay TV operator in Poland who provides comprehensive multi-play services, which is a significant competitive advantage on the pay TV market in Poland.

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

We are the leader of Internet access services in LTE technology

As the first commercial supplier in Poland we started to provide broadband Internet access service in LTE technology in 2011. The advantage of the LTE technology over HSPA+ or UMTS is based on greater capacity and transmission speed with lower latency, which enables LTE Internet service users to use interactive and multimedia applications requiring high bandwidth and transmission in real time, such as video communication, online games and HD TV over the Internet.

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

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

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

We have also developed unique technological competencies in encoding and streaming audiovisual content on the Internet, as well as optimizing distribution of this type of signal. Unlike our competitors, we apply proprietary solutions to our IPLA

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

We control the process of production of set-top boxes

As the only operator on the Polish market we produce our own set-top boxes at a manufacturing plant located in Mielec that belongs to our Capital Group. In 2007, we launched own production of SD set-top boxes, in 2010 we began to produce HD set-top boxes, in 2012 we started to produce DVB-T set-top-boxes, in 2013 we began the production of PVR set-top-boxes, and in 2016 we started producing a PVR set-top box offers the possibility of simultaneous recording of as many as three channels. By the end of 2017, 8.1 million high technology devices left our production lines. We control the entire process of production of set-top boxes, from the hardware and software design phase to the production in our own factory as well as in our subcontractors' facilities. This enables us to produce high quality set-top boxes while incurring manufacturing costs which are noticeably lower than the price of purchasing such equipment from third-party providers. The functionalities of our set-top boxes are designed in line with the customers' expectations as analyzed by the surveys, so that we can be sure the equipment will meet their needs. The fact that software installed on our set-top boxes is developed by in-house engineers, enabling us to rapidly respond to emerging customer needs.

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

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

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

We have strong, stable and diversified cash flows

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

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

We have experienced managing staff

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

1.5. Market opportunities

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

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

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

According to the European Commission's report "E-Communications and the Digital Single Market" of May 2016 the penetration rate of multi-play services (defined as more than one service within the offer of one operator) in Poland in October 2015 amounted to 37% while the average penetration rate in the European Union reached 50%. The leading European countries in this respect included the Netherlands, Belgium or Portugal, where the level of penetration with bundled services reached 87%, 69% and 68%, respectively. We believe that as a result of the low saturation of integrated services and poor quality of Internet access services offered in low-urbanized areas, Cyfrowy Polsat may become the leading provider of high quality multi-play services in Poland.

Development of the Internet access market in Poland

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

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

The main drivers for growth in the number of mobile Internet users in the long term will include increased speeds of data transmission, increase in the number of mobile devices i.e. laptops, smartphones, tablets, as well as relatively low cost of mobile infrastructure covering low urbanized areas. The driver behind the growth of fixed-line broadband will be the modernization and roll-out of existing infrastructure, with focus on the optical fiber technology.

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

As the market for innovative technologies is growing at a fast pace, the number of mobile devices (notebooks, tablets, smartphones or Smart TV sets) owned by consumers is on the rise as well. This has spurred a sharp increase in access to video content, and hence in video viewership. According to Ericsson Mobile Report dated November 2017, video content remains the biggest and fastest growing segment of the mobile data transmission. It is expected that in the years 2017-2023 the use of data related to watching video content will grow by 50% per year on average, reaching ca. 75% of the entire mobile data traffic in 2023. Consumers expect service providers to offer them the possibility of watching TV on any screen, anywhere and at any time. We perceive this group as a prospective customer segment for television services, opening also the opportunity for the monetization of our audiovisual content. At the same time, the above mentioned trend will translate into an increased demand of our customers for data transmission services on mobile devices, which will result in a growing stream of revenues from the sale of these devices to our customers.

Growing popularity of smartphones

Replacing of traditional handset models, used mainly for voice communication, with smartphones designed for communication via data transmission is a universal trend on the mobile telephony market. Currently, smartphones constitute the majority of handsets sold by us. The continuous growth of popularity of smartphones, along with their technological development, will drive the growing demand for the mobile data transmission packs purchased by the users of our network, which in turn should have a positive impact on the level of ARPU generated by our customers.

Development of the online advertising market in Poland

The Internet advertising market in Poland is characterized by dynamic growth. According to the IAB AdEx report, online advertising expenditures increased at a rate of 6% y-o-y and reached the value of over PLN 2.7 billion in the first three quarters of 2017. The growth dynamics of this form of advertising is influenced to a significant extent by expenditures on the video advertising segment, in which we generate our revenue. In the first three quarters of 2017 those expenditures increased by 30% and represented 12% of the total expenditures on online advertising. We believe that thanks to the leading position on the online video market (through IPLA internet television and the Cyfrowy Polsat GO service) we may benefit from the growth of this promising advertising market segment.

1.6. Development prospects

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

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

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

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

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

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

2. BUSINESS OVERVIEW OF CYFROWY POLSAT

2.1. Activities on the pay TV market

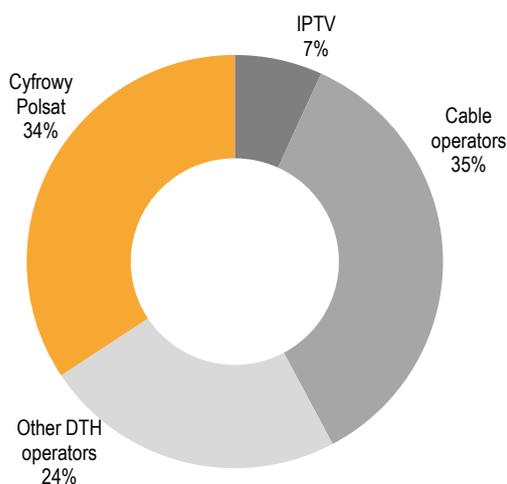
2.1.1. Pay TV market in Poland

The Polish pay TV market is a mature market characterized by a high degree of penetration and low growth dynamics. According to PMR estimates, in 2016 the market was worth almost PLN 6 billion and remained at a stable level year-on-year.

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

Both in terms of the number of subscribers and value, the situation on the Polish pay TV market is stable. On the one hand, a high level of market penetration with pay TV services (estimated by PMR at ca. 70% of households with at least one person aged 16-74) leads to a very low growth potential. On the other hand, pay TV operators actively increase the loyalty of their subscriber bases, most of all through increasingly popular bundling of services, by combining pay TV with telecommunication services (Internet, phone), or developing and offering to customers their own online (*OTT – over the top*) video services, enabling the users to consume content on demand on a wide range of mobile devices. This trend leads to an increasingly strong interpenetration of pay TV and telecommunication markets.

Pay TV market in Poland in 2017 in terms of subscriber base



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

Pay TV services in Poland are offered by satellite platform operators (DTH) and cable TV operators as well as through IPTV providers. According to our own estimates, sector data and PMR forecasts, in 2017 operators of satellite TV platforms had the dominant share, both in terms of the number of subscribers and revenue, on the pay TV market – nearly 58% in terms of subscriber base, followed by cable TV operators with slightly over 35%. Despite strong growth dynamics, the significance of IPTV remains marginal, with market share of almost 7%.

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

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

Poland has also seen successive development of the video-on-demand market – VOD (*video on demand*) and OTT (*Over the top*). Video content is supplied to customers directly as an independent service, offered via Internet connection, or as an element of pay TV packages. Improvement of the quality of broadband Internet connections, and consequently of data transfer rates offered to customers, as well as changing preferences of consumers who wish to have access to their favorite content at any time and place of their choice are the factors that have a positive influence on the growth of the OTT and VOD services market in Poland. Several dozen online services operate on the market, including those offered by TV broadcasters, DTH satellite platform operators, cable TV networks or telecommunication operators, as well as global players (like the US

giant Netflix, Amazon Prime Video and Showmax which is owned by Naspers Group). In terms of the number of users, the most popular services of this type include vod.pl, player.pl, vod.tvp.pl and ipla.tv. A high level of Internet piracy in Poland as well as the low propensity of Poles to pay for video content remain the major barriers to the development of the OTT and VOD segment in Poland. Bearing the above in mind, video on demand is currently perceived by Polish consumers as a service which is complementary to linear TV services.

DTH operators

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

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

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

Cable TV operators

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

According to PMR estimates, after several years of decline due to the process of digitization and the migration of customers to digital terrestrial television, the cable TV market stabilized at approximated over 3.5 million subscribers. Additionally, the migration of cable TV users from analogue services towards digital services is still in progress. Possibilities of acquiring new subscribers are limited due to a high penetration rate of cable TV in urban areas as well as the reluctance of cable TV operators to make significant investments in cable TV infrastructure in the less-densely populated and rural areas of Poland. As a result, inhabitants of those areas currently have access only to a limited number of Polish terrestrial channels and alternative providers of broadband Internet and mobile telephony services.

Digital television through the IP protocol (IPTV)

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

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

Development forecasts for the pay TV market

According to PMR forecasts, in the years 2017-2022 the pay TV market in Poland will remain stable both in quantitative and qualitative terms, facing a slightly declining number of subscribers. This is mainly due to high market penetration and high saturation of the target group for terrestrial TV services with DVB-T standard services.

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

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

2.1.2. Pay TV offer

We build customer loyalty by offering a wide array of channels at competitive prices. That is why we make sure that our pay TV packages offer very good value for money. Currently, our Customers have access to over 180 TV channels (including over 80 in HD standard) on diverse topics: general, sports, movie, lifestyle, education, music, news/information and children's channels. A number of channels are available exclusively via satellite from Cyfrowy Polsat, such as Polsat sports channels. Exclusive content is a significant element that helps build the value of our pay TV offer, that is why in 2017 our subsidiary Telewizja Polsat acquired exclusive rights to the football competitions UEFA Champions League and UEFA Europa League.

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

Programming packages

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

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

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

In order to help our customers make their choice, we have prepared attractive package sets, such as the Familijny Max HD combined with the Sport HD, Film HD and Cinemax HD channels (171 channels, including 76 HD) or the Premium Max offer (177 channels, including 82 HD) addressed to our most demanding customers, comprising additional channels – HBO together with the online service HBO GO, the Package Eleven Sports HD and the option On the Go, which enables to watch over 100 channels on mobile devices in the Cyfrowy Polsat GO service. The described above sets come with a benefit – the monthly subscription fee is lower than the sum of standard fees for each packages separately.

Flexibility

In order to offer our customers a better insight into our programming offer, each of our basic packages comes with a set of bonuses. A customer signing a contract can receive, free-of-charge, access to additional channels, online services or our

VOD package for the first few months of the subscription period. This strategy not only helps to better customize the offer to suit the customer's individual needs and expectations, but also constitutes an important tool for supporting the migration of customers to higher-end programming packages.

Set-top boxes

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

The majority of the set-top boxes that we lease is produced in-house at our manufacturing plant in Mielec. In 2016, we offered our customers the EVOBOX PVR set-top box. Apart from a 500 GB disc, the possibility of recording 3 programs simultaneously and an integrated WiFi module, this device offers an intuitive interface, allowing quick access to interesting content

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

Multiroom HD

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

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

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

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

2.1.4. IPLA online TV offer

IPLA online television offers the largest database of legal video content and live broadcasts and over 90 online TV channels, an average of 200 hours of live coverage of major national and international sports events every month, a vast and regularly expanded library of feature films, TV series and television programs provided by both Polish and international licensors. IPLA offers its users access to content in the free of charge model accompanied by advertisements and the paid model, as well as the possibility to download content and view it offline. Approximately 84% of IPLA VOD content is available free of charge, whereas advertisements constitute the source of revenue.

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

IPLA offers access to selected TV content on a one-off basis in the form of 48-hour access to selected items or in the form of thematic packages (IPLA SPORT, IPLA FILMY I SERIALE, IPLA DZIECI, IPLA WIEDZA I NEWS, IPLA ROZRYWKA, IPLA WORLD, IPLA ELEVEN SPORTS) and the package IPLA EXTRA, which are activated for a period of 30 or 90 days.

Moreover, we offer dedicated packages in the IPLA service (IPLA MIX, IPLA PLUS and FILMBOX LIVE) to our pay TV, mobile telephony and Internet access customers. Some of these packages are included in the subscription fee for a promotional period, dependent on the purchased basic package. In selected offers, our customers gain access to three IPLA packages as part of the pre-activated service IPLA Elastic, while a different version of this service enables the customers to change the active package, choosing one from the three packages available.

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

2.1.5. Video on demand offer

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

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

2.1.6. Technology and infrastructure pay TV services

Conditional access system

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

Moreover, we cooperate with the company Irdeto B.V. in the field of security of digital content transmitted using DVB-T technology. Irdeto provides us with a conditional access system with the necessary technical support, as well as specialized and complete monitoring of the Internet enabling the collection and analysis of occurrences that may infringe copyrights of entities in our Group.

Satellite

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

Broadcasting center

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

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

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

Compression and TV signal multiplexing systems

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

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

Services for television and radio broadcasters

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

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

Services provided in DVB-T technology

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

Set-top boxes

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

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

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

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

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

Internet content distribution

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

2.2. Operations on the telecommunications market

2.2.1. Broadband Internet access market in Poland

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

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

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

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

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

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

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

Fixed broadband Internet access

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

It is worth mentioning that in June 2016, UPC Polska announced an investment plan as a result of which the coverage of services provided by UPC should be doubled (the services should finally reach nearly 6 million households) within 5 years. Furthermore, in October 2016 UPC signed a preliminary agreement for the purchase of Multimedia shares, the third biggest cable TV operator on the Polish market. As at the date of publication of this Report the proceedings at the Office of Competition and Consumer Protection (UOKiK), aimed at issuing a decision regarding the above transaction, were still ongoing.

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

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

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

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

Mobile broadband Internet access

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

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

According to the UKE report, in 2016 revenue from mobile technologies grew in nominal terms at the fastest rate on the entire broadband Internet access market, and mobile broadband became the most popular Internet access technology in terms of the number of users (market share of 51.1%, up from 48.3% in 2015). The success of mobile broadband can be attributed to broad availability and the ease of installation of this form of broadband access, affordability, the growing HSPA+ and LTE network coverage, and increasing data transmission speeds, also thanks to the implementation of the new data transmission technologies, e.g. LTE-Advanced. The mobility feature constitutes an advantage of this form of broadband access to a group of customers.

Development forecasts for the broadband Internet access market

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

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

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

2.2.2. Internet access offer

We provide broadband mobile Internet access to our residential customers based on the telecommunication network of our subsidiary Polkomtel. Internet LTE Plus Advanced from Plus network and Cyfrowy Polsat based on the aggregation of three frequency bands in a 50 MHz bandwidth was the winner on the category "2017 Mobile Internet of the year" in the Mobility Trends 2017 competition.

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

We offer several data plans with different allowances and price tiers, tailored to customers' individual needs. Dedicated mobile broadband Internet access is offered in contract tariffs. These contract plans are based on a monthly access fee and

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

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

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

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

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

2.2.3. Consumer devices offer

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

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

Over half of the contracts sold with equipment comprise the sale of mobile or fixed-line routers. Among the available devices the Home LTE Plus Internet set, based in the ODU-IDU (Outdoor Unit-Indoor Unit) technology, is particularly worth noting. It is a combination of an LTE modem for installation outdoors, which is able to operate in difficult conditions, and a router which

distributes the signal inside the house. This solution provides much better signal power and consequently higher quality transfer than traditional modems and routers.

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

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

2.2.4. Technology and infrastructure of telecommunication services

Network

Our broadband Internet access services are based on a radio infrastructure provided by our subsidiaries. Through our Group we have access to an integrated 2G, 3G and 4G mobile communication network. Thanks to this we can offer our customers services in GSM/GPRS/EDGE (2G), UMTS/HSPA+/HSPA+ Dual Carrier (3G) and LTE/LTE Advanced (4G) technologies. As mobile telecommunications networks enable automatic switches between technologies, uninterrupted service functionality for end users is ensured, while parameters such as data transmission rate improve when the user comes within the coverage of a more technologically advanced network.

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

In 2011, as the first commercial provider in Poland we started offering broadband Internet access in LTE technology, which currently is able to provide a maximum speed of up to 200 Mbps (with MIMO2x2) based on a continuous 20 MHz block in the 1800 MHz band owned by our subsidiary Polkomtel. Since 2015 we additionally use the network based on a 5 MHz block in the 800 MHz band, which combined with the clearly intensified roll-out of the LTE 1800 in the second half of 2016, allowed us to increase the coverage of mobile LTE Internet from Cyfrowy Polsat to the level of almost 100% of the population at the end of 2017. Concurrently, thanks to the aggregation of 800, 1800 and 2100 and 2600 MHz bandwidths we offer our customers services in the LTE-Advanced technology which enables data transmission with maximum speed of even 500 Mbps in selected regions of the country. In December 2017 the service LTE Plus Advanced was available to over 54% of Poles.

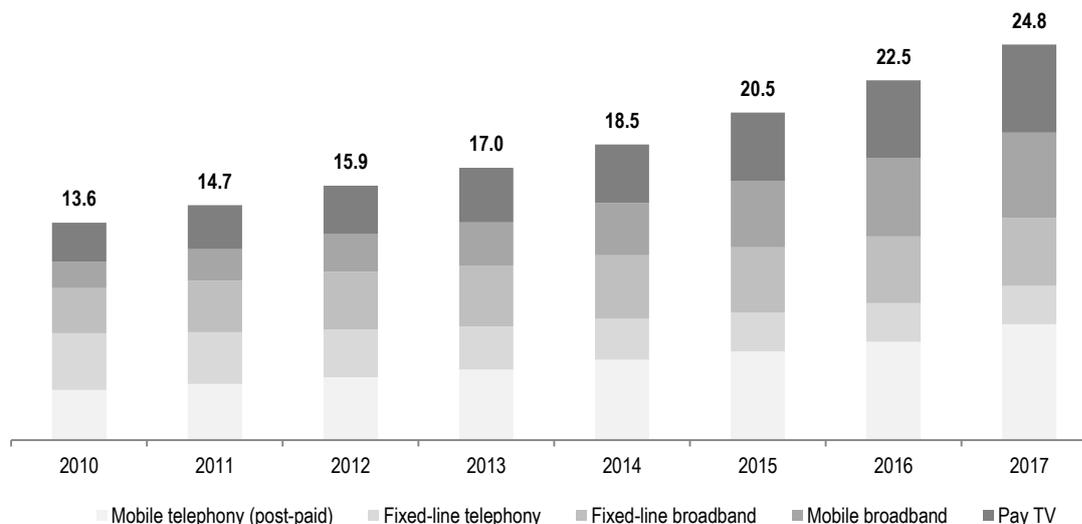
2.3. Activities on the bundled services market

2.3.1. Bundled services market in Poland

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

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

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



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

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

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

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

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

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

Development forecasts for the bundled services market

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

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

2.3.2. Bundled services offer

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

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

Currently, the programs smartDOM and smartFIRMA comprise nine products and services. Apart from our basic, core products and services: mobile telephony (including wireless home telephony), Plus and Plus Advanced LTE Internet and satellite TV from Cyfrowy Polsat, smartDOM and smartFIRMA customers can also buy gas or electric energy, banking services offered by PlusBank, comprehensive insurance services and home security services, such as monitoring. Moreover, the offer also comprises telecommunication devices, home electronics and domestic appliances.

All the products and services offered play an important role in the household and in the company. Thanks to the unique formula of the smartDOM and smartFIRMA programs the customer can purchase all products and services necessary in the household in one place and generate savings on each additional service bought.

2.4. Sales and marketing

Marketing and branding

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

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

According to a survey conducted in November and December 2017 by the agency GfK on the Polish pay TV market, Cyfrowy Polsat was the most recognizable DTH provider in Poland, with the spontaneous awareness ratio of 78% and aided awareness ratio of 95%.

Our primary advertising channels include: TV (commercials, sponsorship billboards and product placement), online advertising and outdoor. We also carry out nationwide advertising campaigns in the radio and press. Key nationwide campaigns are supported by local campaigns. Advertising campaigns related to our services are additionally supported in social media.

Cyfrowy Polsat's commercial websites are an important channel of communication with new and existing customers. In addition, we maintain communication with our existing customers using telemarketing tools, email bulletins, a dedicated customer channel (through which Cyfrowy Polsat customers have access to information concerning their subscription) and the Internet Customer Service Center.

Sales network

We sell our services through an integrated sales network covering the entire territory of Poland. As at December 31, 2017, the combined sales network of Cyfrowy Polsat and Polkomtel covered 1,165 stationary points of sale. Cyfrowy Polsat's pay TV and Internet offers are available at a majority of those points. A majority of points of sale offer additional products and services to customers, such as insurance and banking services or the sale of electric energy and gas.

The sale of our services also takes place through remote channels. As at December 31, 2017 Cyfrowy Polsat had 6 telemarketing centers (own and external), whose role was customer retention and the sale of core products.

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

Call center

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

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

Online communication

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

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

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

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

Thanks to the <http://www.ipla.tv> website and dedicated applications the content of IPLA online television is available on a wide array of consumer devices, including computers with Windows, mobile devices powered by iOS, Android and Windows Phone, TV sets with internet connections (Samsung, LG, Sony, Panasonic, Philips, Sharp, Ikea, Toshiba, Thomson, TCL), set-top boxes (cable TV TOYA, Netia), game consoles (PlayStation 3) and Blu-ray. In February 2018, we refreshed our IPLA website by introducing changes which made the service even more user-friendly and adjusted to users' needs. The new version of IPLA website is available in the RWD (responsive web design) technology thanks to which the web page automatically adjusts to the screen resolution of a device used by a user. In addition we introduced the *Follow me content* functionality which enables users to continue watching the content on any device and substantially improves comfort of use and user experience. We also implemented a solution which involves recommendation of content based on a user's behavior, thus gaining the possibility of proposing to our users content that matches their needs and interests to the best degree.

2.5. Customer relations and retention management

Customer relations management

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

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

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

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

Customer retention management

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

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

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

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

2.6. Other aspects of our business

Trademarks

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

Research and development - new services and implementations

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

In February 2017, we introduced the possibility of purchasing natural gas supply service in the smartDOM program, available at Cyfrowy Polsat’s points of sale. The offer includes a guarantee of a fixed price throughout the contract’s duration. As part of the smartDOM loyalty scheme one can obtain savings on utility bills and discounts for the gas consumed by a household.

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

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

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

IT systems

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

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

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

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

developed, secured and monetized using mainly our proprietary IPLA solutions as well as systems provided by third party suppliers and our business partners.

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

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

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

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

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

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

Real estate property

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

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

Insurance agreements

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

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

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

In the scope of property insurance general agreements were concluded for the years 2017-2019 with the possibility of extending the term of the contract for another year with STU Hestia S.A. in co-insurance with TUIR Warta S.A. and TU

Generali S.A. regarding the insurance of assets against all risks, electronic equipment insurance, insurance of machinery against damages, loss-of-profit insurance, insurance of assets in domestic and international transport (cargo).

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

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

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

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

Charity and sponsorship activities

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

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

3. SIGNIFICANT EVENTS AND AGREEMENTS

3.1. Corporate events

Merger of the Company with Metelem Holding Company Limited

Pursuant to resolution no 6 of the Extraordinary General Meeting of the Company of January 23, 2017, on April 7, 2017 the cross-border merger of the Company with Metelem Holding Company Limited seated in Cyprus was registered. The merger was effected by transferring to the Company – as the sole shareholder – all the assets of Metelem and termination of Metelem without liquidation.

As a result of the merger, Cyfrowy Polsat assumed all rights and obligations of Metelem, effective on the date of the merger. Given that the Company held all the shares of Metelem the merger was effected without increasing the share capital of the Company.

The merger was performed in order to optimize costs of operations and simplify the organizational structure of Cyfrowy Polsat Group.

As a result of the merger the Company became a direct parent of the company Eileme 1 AB (publ). On January 9, 2018 the Extraordinary General Meeting of the Company adopted a resolution concerning the cross-border merger by acquisition of Cyfrowy Polsat (Acquiring Company) and Eileme 1 AB (Ceasing Company). The merger will be effected by transferring all of the assets and liabilities of the Ceasing Company to the Acquiring Company and dissolving the Ceasing Company without liquidation. As at the date of approval of this Report the merger had not been finalized yet.

Decision of the Head of the Mazovian Tax Office in Warsaw

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

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

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

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

Dividends for 2016

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

Changes in the Supervisory Board of the Company

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

3.2. Business related events

Acquisition of a stake in Netia S.A.

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

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

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

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

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

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

Agreement with Karswell Limited

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

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

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

3.3. Events after the balance date

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

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

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

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

New smartDOM edition

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

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

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

Conclusion of an amendment to the Combined SFA

On March 2, 2018, the Company, acting as the Obligors' Agent, and UniCredit Bank AG, London Branch, acting as the Finance Parties' Agent, executed the Second Amendment and Restatement Deed to the Facilities Agreement of September 21, 2015, amended by the Amendment, Restatement and Consolidation Deed of September 21, 2015 (see item 4.6.4. *Operating and financial review of Cyfrowy Polsat – Review of our financial situation – Liquidity and capital resources – Material financing agreements executed by the Company*).

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

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

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

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

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

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

4. OPERATING AND FINANCIAL REVIEW OF CYFROWY POLSAT

4.1. Key factors impacting our operating activities and financial results

4.1.1. Factors related to social-economic environment

Economic situation in Poland

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

Based on data published by the European Commission, a noticeable recovery of economies both of Poland and other EU countries took place in the years 2015-2017. GDP growth for Poland in 2015 and 2016 was 3.8% and 2.9%, respectively, and is estimated at 4.2% for 2017. Current forecasts, published by domestic and international institutions, regarding growth prospects of the Polish economy assume that the high rate of growth of Poland's GDP will be sustained in 2018 and 2019 and that it will continue to significantly outperform corresponding indices for the whole European Union.

We believe that average consumer spending, including spending on pay TV, broadband access, bundled services and end-user devices generally will grow in line with the overall GDP growth and further growth of the level of wages in Poland, and will support our future revenue growth.

Situation on the pay TV market in Poland

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

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

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

Dynamic growth of non-linear distribution of content, delivered by video on demand and OTT (over-the-top) services is a global trend. This market is still at an early stage of development in Poland as compared to Western Europe or the United States and in our opinion has significant growth prospects, especially in light of the improving quality of broadband links on the market. The launch of services by global players, such as Netflix, Showmax or Amazon Prime, is proof that Poland is considered an attractive market. We consequently develop our services which consist in providing our customers with content on demand – our VOD rental service, the leading online television in Poland, IPLA, as well as our online service Cyfrowy Polsat GO which allows access to content on mobile devices anytime and anywhere. These products are complementary to our core business in the field of pay TV and allow us to broaden our content distribution channels.

Development of the online advertising market in Poland

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

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

Substituting fixed services with their mobile counterparts is the universal trend on the telecommunication market. The number of fixed lines and revenues generated by fixed line operators has been gradually decreasing along with the growing penetration of mobile services. This phenomenon, visible in the voice services segment for many years, is recently also noticeable in the area of mobile broadband access.

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

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

In our opinion, the high preference of Poles for mobile technologies combined with the systematically improving quality of mobile data transmission as a result of the development of the LTE/LTE Advanced technologies, and in the future also 5G, create an opportunity for continued growth of the mobile broadband market in Poland over the next years. At the same time, large scale investments in the modernization and roll-out of NGA networks will lead to the successive stabilization of the fixed-line market and, in a longer time horizon, may contribute to return of growth of the fixed broadband market.

Growing demand for smartphones and data transmission

In Poland the popularity and sales of smartphones has been gradually growing over recent year. This trend translates into growing sales of data transmission products in the segment of small screen devices. According to estimates presented in the Ericsson Mobility Report dated November 2017, the volume of transmitted data in the Central and Eastern Europe region, to which Poland belongs, will grow eightfold in the years 2017-2023.

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

Information on seasonality

Other revenues are not directly subject to substantial seasonal fluctuations.

4.1.2. Factors related to the operations of the Company

Growing importance of bundled services

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

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

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

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

Development of broadband access services

We provide broadband Internet access services in numerous available mobile technologies, including mainly HSPA/HSPA+ and the latest LTE and LTE-Advanced technologies. Currently, LTE Internet has become the standard of mobile broadband Internet in Poland, successfully replacing the 3G technologies. Rapid technological change combined with investments in network development lead to the constant improvement of the parameters of our LTE network, such as coverage, capacity and transfer speed. As a result of aggregation of frequency bands within our Capital Group, we were able to propose to our customers in selected areas of Poland the LTE-Advanced technology that offers transmission speed of up to nearly 500 Mbps.

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

Development of IPLA

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

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

4.1.3. Financial factors

Exchange rates fluctuations

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

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

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

Interest rate fluctuations

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

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

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

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

4.1.4. Influence of financial reporting standards issued but not yet effective

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

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

Estimated impact of the adoption of IFRS 9 and IFRS 15

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

[mPLN]	Estimated impact of adoption of IFRS 9 and IFRS 15			
	As reported at December 31, 2017	Estimated adjustments due to adoption of IFRS 9	Estimated adjustments due to adoption of IFRS 15	Estimated adjusted opening balance at January 1, 2018
Retained earnings	3,712.7	(0.0)	30.3	3,743.0

The total estimated adjustment (net of tax) to the opening balance of the Company's equity at January 1, 2018 is PLN 30.3 million. The principal component of estimated adjustment is an increase of PLN 30.3 million in retained earnings due to earlier recognition of revenue.

IFRS 9 Financial Instruments

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

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. The Company did not early adopt IFRS 16.

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

Implementation of IFRS 16 will increase depreciation and financial costs which will result in an increase of EBITDA, assets and liabilities (due to the recognition of a right-of-use asset and a lease liability) as well as an increase of debt ratio. The Company assesses that the agreements for space rental which are currently presented as operational lease may result in recognition of right-of-use asset and finance liability. The Company is currently assessing the impact of IFRS 16 on the financial statements. Future minimum lease payments under operating lease pursuant to currently effective standards are presented in Note 30 of the financial statements for the financial year ended December 31, 2017.

4.2. Key market trends

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

- high level of market penetration with services provided by the Company as well as a high level of competitiveness of the markets in which we operate;
- bundling of media and telecommunications services, as well as services from other sectors, such as electric energy or financial and banking products;
- growing smartphone penetration among mobile network users; which entails the development of the mobile data transmission market;
- growing demand for data transmission and high-speed broadband connectivity driven by changing consumer preferences and the resulting growing complexity of data transmission-based services;
- development of state-of-the-art fixed broadband networks (NGA), optical fiber in particular;
- dynamic development of non-linear video content, distributed via VOD and OTT services, accompanied by growing online ad spending;
- entry of global VOD and OTT players to the Polish market, as well as investments of operators already present on the market in offered content in order to adjust it to the preferences of local viewers;
- increasing sales of smart-TVs - television sets with integrated Internet access;
- consolidation of the pay TV market, in the cable TV segment;

- consolidation of the telecommunication markets, manifested by acquisitions of local fixed-line operators by larger telecommunication groups; and
- significant slowdown of the scale of migration of subscribers towards free of charge digital terrestrial television.

4.3. Major investments in 2017

Acquisition of a stake in Netia S.A.

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

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

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

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

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

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

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

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

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

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

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

4.4. Operating review of the Company

The Company does not publish separate KPIs with respect to its core business. Key performance indicators (KPI) presented below for the four quarters of 2017 and 2016 include the operating results of Polsat Group comprising Aero2 Group (formerly Midas Group), acquired on February 29, 2016. In light of the above, the operating results for 2017 and 2016 are not fully comparable. However, the effect of consolidation of the operating results of Aero2 Group on the overall reported operating results of Polsat Group is immaterial.

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.

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

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

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

Contract services

As at December 31, 2017, we provided contract services to a total of 5,776,598 customers, i.e. 1.8% less compared to 5,882,804 customers the Group had as at December 31, 2016. The main reason behind the decline of the contract customer

base was the outflow of single-play customers, especially with a mobile telephony service, as well as further merging of contracts under one common contract for the household, which is reflected in the growing RGU saturation per customer ratio (increase by 5.3% YoY). In line with our strategic assumptions, we avoid conducting an aggressive sales policy on individual products and concentrate rather on increasing customer loyalty, in particular through offering a wide portfolio of bundled services, as well as on increasing ARPU per contract customer.

The number of contract services provided by us increased by 430,466 in the last 12 months, that is by 3.2%, to 13,685,044 as at December 31, 2017, from 13,254,598 as at December 31, 2016. As at December 31, 2017, every customer in our base had on average 2.37 contract services, which constitutes an increase of 5.3% compared to 2.25 contract services per customer as at December 31, 2016.

We recorded growth in the number of all types of services provided in the contract model. The number of pay TV services provided in the contract model amounted to 4,942,640 as at December 31, 2017, which constitutes an increase by 176,211, or 3.7%, compared to 4,766,429 as at December 31, 2016. This increase is due in particular to the growing popularity of our Multiroom service (YoY increase by nearly 78 thousand, to 1.1 million RGUs), as well as to dynamically increasing sales of paid OTT services. The number of provided mobile telephony services in the contract model increased by 202,249, or 3.0%, reaching the level of 6,932,676 as at December 31, 2017, up from 6,730,427 as at December 31, 2016. This growth was driven by the successful implementation of our strategy of cross-selling. In terms of mobile broadband, as at December 31, 2017, we provided 1,809,728, RGUs in the contract model, that is by 51,986, or 3.0%, more than as at December 31, 2016, when we provided 1,757,742 such services. We believe that further saturation of our customer base with integrated services, including our flagship product smartDOM, will positively influence the growth of the number of contract RGUs provided by us in the future.

In line with the assumptions of our long-term strategy we aim to maximize revenue per contract customer through cross-selling, i.e., selling additional products and services to the customer base of Cyfrowy Polsat and Polkomtel, among others within the framework of our bundled services offer, which has a positive impact on ARPU per contract customer. In 2017 the average revenue per contract customer increased by 0.3%, to PLN 89.0 from PLN 88.7 in 2016. In the fourth quarter of 2017 ARPU decreased to PLN 89.0 from PLN 90.7 recorded in the corresponding period of 2016. ARPU dynamics in both analyzed periods of 2017 was significantly negatively impacted by the levelling of retail roaming charges with domestic fees across the European Economic Area as of June 15, 2017 (the *Roam Like at Home* regulation). We also anticipate that this impact may adversely affect the rate of growth of contract ARPU also in the first two quarters of 2018.

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

Our bundled services offer, based on a mechanism of offering attractive rebates on every additional product or service purchased from the Group's portfolio, remains very popular and continues to record very good sales results, which has a positive effect on the level of RGU saturation per customer, ARPU per contract customer, and the churn rate.

At the end of December 2017, already 1,510,715 customers were using our bundled offer, which constitutes an increase of 204,252 customers, or 15.6%, YoY. This means that the saturation of our customer base with multiplay services was at the level of 26.2% at the end of 2017. This group of customers had a total of 4,519,761 RGUs, that is by 649,588, or 16.8%, more than in the previous year. In the second quarter of 2017 we addressed the bundled services offer also to customers who subscribe to services in low-end tariffs, which had a positive influence on the growth dynamics of the multiplay customer base, as well as on the blended level of ARPU across the entire customer base. Bearing in mind the long-term goal of our Group - the maximization of revenue per contract customer through cross-selling - our bundled services offer is perfectly in line with our strategy.

Prepaid services

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

In 2017, average revenue per prepaid RGU (prepaid ARPU) increased by 7.0%, to PLN 19.9 from PLN 18.6 in 2016, whereas in the fourth quarter of 2017 prepaid ARPU increased by 4.7% to PLN 20.1 from PLN 19.2 in 2016. High growth dynamics of prepaid ARPU in both analyzed periods of 2017 was, among other things, the effect of the elimination of SIM

cards characterized by low ARPU (so called one-time use cards) from the base, as well as the expiration of the effect of promotions aimed at encouraging users to register their prepaid cards early, as these promotions had a negative impact on ARPU in the prepaid segment in the second half of the previous year.

4.5. Key positions in the income statement

Revenue

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

Retail revenue

Retail revenue consists primarily of:

- (i) monthly subscription fees paid by our pay digital television contract customers for programming packages;
- (ii) subscription fees paid by our contract customers for telecommunication services;
- (iii) fees for telecommunication services provided to our contract customers, which are not included in the subscription fee;
- (iv) fees for the lease of set-top boxes;
- (v) activation fees;
- (vi) penalties; and
- (vii) fees for additional services.

The total revenue from pay digital television and telecommunication subscription fees depends on the number of customers and the number of services provided to them, as well as on the amount of monthly subscription fees paid for our programming and telecommunication packages and the amount of additional services provided to our customers in the given period. Activation fees are collected at the moment of activation and amortized over the life of the contract.

Wholesale revenue

Our wholesale revenue comprises:

- (i) advertising and sponsorship revenue;
- (ii) revenue from the sale of broadcasting and signal transmission services;
- (iii) revenue from the sale of licenses, sublicenses and property rights; and
- (iv) 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, 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 primarily of programming license costs, which include monthly license fees due to television broadcasters and distributors, license fees for materials broadcast on VOD and royalties due to collective copyright management organizations and the Polish Film Institute.

Distribution, marketing, customer relation management and retention cost

Distribution costs consist of:

- (i) commissions due to authorized retail points of sale as remuneration for concluded agreements with our customers for pay television and telecommunication services;
- (ii) costs of courier services, distribution of reception equipment, storage costs and costs associated with services of our regional agents;
- (iii) costs of warranty service; and
- (iv) costs of maintenance of points of sales.

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

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

Depreciation, amortization, impairment and liquidation

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

- (i) depreciation of set-top boxes and other equipment leased to our customers;
- (ii) depreciation of plant and equipment;
- (iii) amortization of intangible assets and IT programs;
- (iv) non-current assets impairment allowance; and
- (v) net value of disposed property, plant and equipment as well as intangible assets, no longer suitable for use.

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with telecommunication operators comprise:

- (i) IT systems maintenance costs;
- (ii) payments for the lease of satellite transponder capacity;
- (iii) payments for the use of conditional access system based on the number of access cards;
- (iv) Interconnection; and
- (v) other costs.

Salaries and employee-related costs

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

Cost of equipment sold

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

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

In this group of costs we present:

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

Other costs

Key items of other costs include:

- (i) the cost of SMART and SIM cards provided to customers;
- (ii) legal, advisory and consulting costs;
- (iii) property maintenance costs;
- (iv) taxes and other charges;
- (v) trademark license costs; and
- (vi) other costs.

Other operating income/costs, net

Other operating income/costs consist of:

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

Gains and losses on investment activities, net

Gains and losses on investment activities include interest income on funds invested, interest expenses (other than interest expenses on borrowings), dividends income, results on the disposal of available-for-sale financial instruments, fair value gains/losses on financial instruments (other than interest rate derivatives) at fair value through profit or loss, 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), bank and other charges on borrowings and guarantee fees resulting from indebtedness and discount on borrowings.

4.6. Review of our financial situation

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

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

We emphasize that the financial data for the twelve month period ended December 31, 2017 are not fully comparable to data for the corresponding period of 2016 due to the acquisition of shares of Netia S.A. on December 5, 2017 (influences certain items on the balance sheet and in the cash flow statement), the merger of the Company with Metelem Holding Company Limited on April 7, 2017 and the merger with Netshare Sp. z o.o. on November 30, 2016.

4.6.1. Income statement analysis

[mPLN]	for the 12-month period ended December 31		change	
	2017	2016	[mPLN]	[%]
Revenue	2,280.3	2,213.2	67.1	3.0%
Operating cost	(1,994.8)	(1,904.1)	(90.7)	4.8%
Other operating income, net	3.9	8.3	(4.4)	(53.0%)
Profit from operating activities	289.4	317.4	(28.0)	(8.8%)
Gain/(loss) on investment activities, net	452.2	412.0	40.2	9.8%
Financial costs	(84.4)	(102.4)	18.0	(17.6%)
Gross profit for the period	657.2	627.0	30.2	4.8%
Income tax	(51.2)	(49.0)	(2.2)	4.5%
Net profit for the period	606.0	578.0	28.0	4.8%
<i>EBITDA</i>	503.8	542.2	(38.4)	(7.1%)
<i>EBITDA margin</i>	22.1%	24.5%	-	(2.4 p.p.)

Revenue

Our total revenue increased by PLN 67.1 million, or 3.0%, to PLN 2,280.3 million in 2017 from PLN 2,213.2 million in 2016.

[mPLN]	for the 12-month period ended December 31		Change	
	2017	2016	[mPLN]	[%]
Retail revenue	2,134.4	2,061.6	72.8	3.5%
Wholesale revenue	67.8	71.7	(3.9)	(5.4%)
Sale of equipment	33.4	54.3	(20.9)	(38.5%)
Other revenue	44.7	25.6	19.1	74.6%
Revenue	2,280.3	2,213.2	67.1	3.0%

Retail revenue

Retail revenue increased by PLN 72.8 million, or 3.5%, to PLN 2,134.4 million in 2017 from PLN 2,061.6 million in 2016. The driver behind this growth was higher revenue from pay TV services, resulting from the migration of customers to higher packages, as well as the growing number of provided services, in particular Multiroom and paid OTT services, as well as growing revenue from the mobile Internet access service.

Wholesale revenue

Wholesale revenue decreased by PLN 3.9 million, or 5.4%, to PLN 67.8 million in 2017 from PLN 71.7 million in 2016, primarily due to the base effect resulting from the recognition in 2016 of higher revenue related to the wholesale sales of packages of channels dedicated to the UEFA EURO 2016.

Sale of equipment

Revenue from the sale of equipment decreased by PLN 20.9 million, or 38.5%, to PLN 33.4 million in 2017 from PLN 54.3 million in 2016, which was due primarily to a lower volume of end-user equipment sold in 2017.

Other revenue

Other revenue increased by PLN 19.1 million, or 74.6%, to PLN 44.7 million in 2017 from PLN 25.6 million in 2016, primarily due to the recognition of higher revenues from the provision of services to other companies of Polsat Group following the centralization of selected back-office tasks in the Group.

Operating costs

Our total operating costs increased by PLN 90.7 million, or 4.8%, to PLN 1,994.8 million in 2017 from PLN 1,904.1 million in 2016.

[mPLN]	for the 12-month period ended December 31		change	
	2017	2016	[mPLN]	[%]
Content costs	586.2	590.7	(4.5)	(0.8%)
Technical costs and cost of settlements with network operators	577.8	470.9	106.9	22.7%
Distribution, marketing, customer relation management and retention costs	323.3	322.4	0.9	0.3%
Depreciation, amortization, impairment and liquidation	214.4	224.8	(10.4)	(4.6%)
Salaries and employee-related costs	107.5	100.1	7.4	7.4%
Cost of equipment sold	34.1	53.9	(19.8)	(36.7%)
Cost of debt collection services and bad debt allowance and receivables written off	13.8	12.1	1.7	14.0%
Other costs	137.7	129.2	8.5	6.6%
Operating costs	1,994.8	1,904.1	90.7	4.8%

Content costs

Content costs amounted to PLN 586.2 million in 2017 and remained on a similar level compared to PLN 590.7 million in 2016.

Technical costs and cost of settlements with network operators

Technical costs and cost of settlements with network operators increased by PLN 106.9 million, or 22.7%, to PLN 577.8 million in 2017 from PLN 470.9 million in 2016, mainly as a result of incurred higher costs of wholesale purchase of data traffic from our subsidiary Polkomteltel, which is the effect of the dynamic growth of traffic generated by customers of our broadband Internet access service.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs amounted to PLN 323.3 million in 2017 and remained on a stable level compared to PLN 322.4 million in 2016.

Depreciation, amortization, impairment and liquidation

Depreciation, amortization, impairment and liquidation costs decreased by PLN 10.4 million, or 4.6%, to PLN 214.4 million in 2017 from PLN 224.8 million in 2016, among others as the result of lower costs of depreciation of equipment leased to the customers of our satellite platform.

Salaries and employee-related costs

Salaries and employee-related costs increased by PLN 7.4 million, or 7.4%, to PLN 107.5 million in 2017 from PLN 100.1 million in 2016, which was related to a higher level of employment in Cyfrowy Polsat resulting primarily from the reorganization of the employment structure within the Group.

Cost of equipment sold

The cost of equipment sold decreased by PLN 19.8 million, or 36.7%, to PLN 34.1 million in 2017 from PLN 53.9 million in 2016 as a consequence of a lower volume of sales of end-user devices in 2017.

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 amounted to PLN 13.8 million in 2017 and increased slightly by PLN 1.7 million, or 14.0%, from PLN 12.1 million in 2016.

Other costs

Other costs increased by PLN 8.5 million, or 6.6%, to PLN 137.7 million in 2017 from PLN 129.2 million in 2016, among others as a result of the recognition of higher legal and consulting costs.

Other operating income/costs, net

Other operating income, net decreased by PLN 4.4 million, or 53.0%, to PLN 3.9 million in 2017 from PLN 8.3 million in 2016.

Gains/losses on investment activities, net

Net gains on investment activities amounted to PLN 452.2 million in 2017 and were higher by PLN 40.2 million, or 9.8%, compared to PLN 412.0 million in 2016, primarily due to higher dividends received from subsidiaries and a higher share in the profits of subsidiaries.

Finance costs

Finance costs amounted to PLN 84.4 million in 2017 and decreased by PLN 18.0 million, or 17.6%, from PLN 102.4 million in 2016. This decrease was caused, among other factors, by lower interest costs on bank loans and bonds as a consequence of repayments according to schedule of our indebtedness and a lower value of execution and valuation of hedging instruments.

Net profit

As a consequence of the changes described above, net profit increased by PLN 28.0 million, or 4.8%, to PLN 606.0 million in 2017 from PLN 578.0 million in 2016.

EBITDA & EBITDA margin

EBITDA decreased by PLN 38.4 million, or 7.1%, to PLN 503.8 million in 2017 from PLN 542.2 million in 2016. EBITDA margin amounted to 22.1% in 2017 and decreased by 2.4 p.p. compared to 24.5% in 2016.

Employment

The average employment of permanent workers not engaged in production in the Company, excluding workers who did not perform work in the reporting period due to long-term absences, was 792 full-time equivalents (FTE) in 2017 and increased by 111 FTE, or 16.3%, compared to 681 FTE in 2016. This is primarily the effect of the reorganization of the employment structure within the Group.

4.6.2. Balance sheet analysis

As at December 31, 2017 our balance sheet amounted to PLN 13,536.8 million and increased by PLN 253.0 million, or 1.9%, from PLN 13,283.8 million as at December 31, 2016.

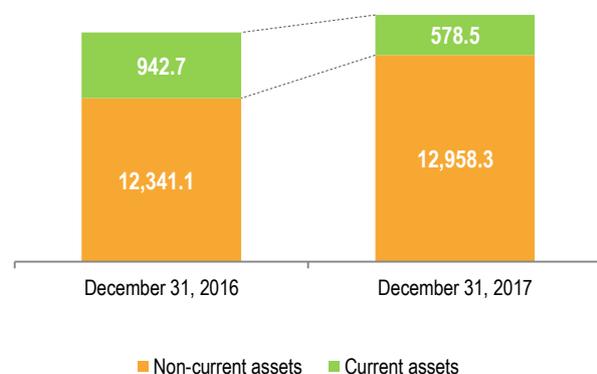
Assets

[mPLN]	December 31, 2017	December 31, 2016	Change	
			[mPLN]	[%]
Reception equipment	357.9	372.2	(14.3)	(3.8%)
Other property, plant and equipment	114.6	131.4	(16.8)	(12.8%)
Goodwill	197.0	197.0	-	-
Other intangible assets	66.3	73.7	(7.4)	(10.0%)
Investment property	36.3	31.2	5.1	16.3%
Shares in subsidiaries and associates	12,125.5	11,469.3	656.2	5.7%
Non-current deferred distribution fees	33.1	28.3	4.8	17.0%
Other non-current assets	27.6	38.0	(10.4)	(27.4%)
<i>includes derivative instruments</i>	0.2	0.9	(0.7)	(77.8%)
Total non-current assets	12,958.3	12,341.1	617.2	5.0%
Inventories	65.6	84.9	(19.3)	(22.7%)
Trade and other receivables	273.9	279.3	(5.4)	(1.9%)
Income tax receivables	0.8	-	0.8	n/a
Current deferred distribution fees	75.0	76.2	(1.2)	(1.6%)
Other current assets	133.7	223.5	(89.8)	(40.2%)
<i>includes derivative instruments</i>	0.4	0.6	(0.2)	(33.3%)
Cash and cash equivalents	29.5	278.8	(249.3)	(89.4%)
Total current assets	578.5	942.7	(364.2)	(38.6%)
Total assets	13,536.8	13,283.8	253.0	1.9%

As at December 31, 2017 and December 31, 2016, our non-current assets amounted to PLN 12,958.3 million and PLN 12,341.1 million, respectively, and accounted for 95.7% and 92.9% of total assets, respectively.

As at December 31, 2017 and December 31, 2016, our current assets amounted to PLN 578.5 million and PLN 942.7 million, respectively, and accounted for 4.3% and 7.1% of total assets, respectively.

Change in assets [mPLN]



The value of reception equipment amounted to PLN 357.9 million as at December 31, 2017 and decreased by PLN 14.3 million, or 3.8%, compared to PLN 372.2 million as at December 31, 2016.

The value of other property, plant and equipment decreased by PLN 16.8 million, or 12.8%, to PLN 114.6 million as at December 31, 2017 from PLN 131.4 million as at December 31, 2016, mainly due to the recognition of amortization for the year 2017, which was partially compensated by capital spending on the purchase of IT equipment.

The value of goodwill amounted to PLN 197.0 million as at December 31, 2017 and remained at an unchanged level compared to the balance as at December 31, 2016.

The value of other intangible assets amounted to PLN 66.3 million as at December 31, 2017 which constitutes a decrease by PLN 7.4 million, or 10.0%, compared to PLN 73.7 million as at December 31, 2016. The main reason behind this decrease is

the recognition of depreciation for the year 2017 and was partially compensated by expenditures on the purchase and development of software.

Investment property amounted to PLN 36.3 million as at December 31, 2017 and increased by PLN 5.1 million, or 16.3%, from PLN 31.2 million as at December 31, 2016, among others as a result of the extension of our recording studio.

The value of shares in subsidiaries amounted to PLN 12,125.5 million as at December 31, 2017 and increased by PLN 656.2 million, or 5.7%, compared to PLN 11,469.3 as at December 31, 2016. This increase was caused primarily by the recognition of shares in Netia S.A. acquired in December 5, 2017.

The value of non-current and current deferred distribution fees increased by PLN 3.6 million, or 3.4%, to PLN 108.1 million as at December 31, 2017 from PLN 104.5 million as at December 31, 2016.

The value of other non-current assets amounted to PLN 27.6 million as at December 31, 2017 and decreased by PLN 10.4 million, or 27.4%, compared to PLN 38.0 million as at December 31, 2016 as a result of lower non-current trade receivables.

The value of inventories amounted to PLN 65.6 million as at December 31, 2017 and decreased by PLN 19.3, or 22.7%, from PLN 84.9 million as at December 31, 2016 due to a lower stock of end-user devices.

The value of trade and other receivables decreased by PLN 5.4 million, or 1.9%, to PLN 273.9 million as at December 31, 2017 from PLN 279.3 million as at December 31, 2016, primarily due to higher trade receivables from unrelated entities.

The value of income tax receivables amounted to PLN 0.8 million as at December 31, 2017 compared to a zero balance as at December 31, 2016.

The value of other current assets amounted to PLN 133.7 million as at December 31, 2017, which constitutes a decrease by PLN 89.8 million, or 40.2%, compared to PLN 223.5 million as at December 31, 2016, mainly as a result of a decrease in the value of accruals related to the partial utilization of prepayments on account of the agreement for the purchase of data packages from our subsidiary Polkomtel.

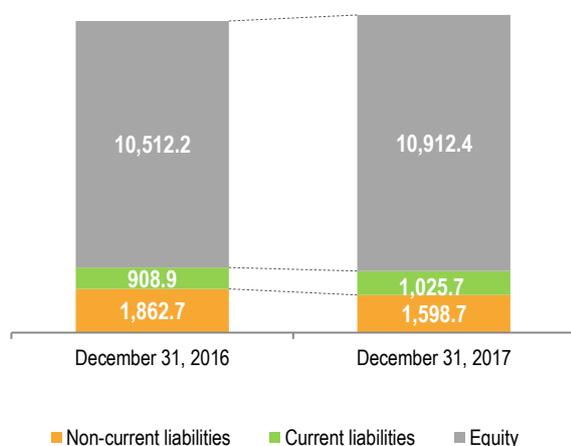
The value of cash and cash equivalents and restricted cash decreased by PLN 249.3 million, or 89.4%, to PLN 29.5 million as at December 31, 2017 from PLN 278.8 million as at December 31, 2016, i.a. as a result of successive repayments of our indebtedness, the payment of dividend from profit generated in 2016 and the acquisition of shares in Netia.

Equity and liabilities

[mPLN]	December 31, 2017	December 31, 2016	change	
			[mPLN]	[%]
Share capital	25.6	25.6	-	-
Share premium	7,174.0	7,174.0	-	-
Hedge valuation reserve	0.1	1.2	(1.1)	(91.7%)
Retained earnings	3,712.7	3,311.4	401.3	12.1%
Total equity	10,912.4	10,512.2	400.2	3.8%
Loans and borrowings	535.0	782.0	(247.0)	(31.6%)
Issued bonds	975.7	975.5	0.2	0.0%
Deferred tax liabilities	83.4	91.0	(7.6)	(8.4%)
Deferred income	3.2	4.2	(1.0)	(23.8%)
Other non-current liabilities and provisions	1.4	10.0	(8.6)	(86.0%)
Total non-current liabilities	1,598.7	1,862.7	(264.0)	(14.2%)
Loans and borrowings	379.9	239.1	140.8	58.9%
Issued bonds	42.5	42.4	0.1	0.2%
Finance lease liabilities	351.5	385.2	(33.7)	(8.7%)
<i>includes derivative instruments liabilities</i>	0.5	-	0.5	n/a
Income tax liability	19.5	8.0	11.5	143.8%
Deposits for equipment	2.4	1.9	0.5	26.3%
Deferred income	229.9	232.3	(2.4)	(1.0%)
Total current liabilities	1,025.7	908.9	116.8	12.9%
Total liabilities	2,624.4	2,771.6	(147.2)	(5.3%)
Total equity and liabilities	13,536.8	13,283.8	253.0	1.9%

Equity increased by PLN 400.2 million, or by 3.8%, to PLN 10,912.4 million as at December 31, 2017 from PLN 10,512.2 million as at December 31, 2016, primarily as a result of the recognition of profit generated in the twelve-month period ended December 31, 2017 in the amount of PLN 606.0 million reduced by the value of dividend distributed in the third quarter of 2017 in the amount of PLN 204.7 million.

Change in liabilities [mPLN]



As at December 31, 2017 and December 31, 2016 the value of our non-current liabilities amounted to PLN 1,598.7 million and PLN 1,862.7 million, which constituted 60.9% and 67.2% of the Group's total liabilities, respectively.

As at December 31, 2017 and December 31, 2016 the value of our current liabilities amounted to PLN 1,025.7 million and PLN 908.9 million, which constituted 39.1% and 32.8% of the Group's total liabilities, respectively.

Loans and borrowings (long and short-term) decreased by PLN 106.2 million, or 10.4%, to PLN 914.9 million as at December 31, 2017 from PLN 1,021.1 million as at December 31, 2016, which was the effect of repayment of the capital attributable to Cyfrowy Polsat under the Combined SFA according to schedule.

Senior Notes liabilities (long and short-term) amounted to PLN 1,018.2 million as at December 31, 2017 and remained at a practically unchanged level compared to PLN 1,017.9 million as at December 31, 2016.

Deferred income tax liabilities decreased by PLN 7.6 million, or 8.4%, to PLN 83.4 million as at December 31, 2017 from PLN 91.0 million as at December 31, 2016.

Non-current and current deferred income amounted to PLN 233.1 million as at December 31, 2017, and decreased by PLN 3.4 million, or 1.4%, from PLN 236.5 million as at December 31, 2016.

The value of other non-current liabilities and provisions amounted to PLN 1.4 million as at December 31, 2017 and decreased by PLN 8.6 million, or 86.0%, compared to PLN 10.0 million as at December 31, 2016 due to a lower value of deposits included in this item in 2017.

The value of trade and other payables amounted to PLN 351.5 million as at December 31, 2017 which constitutes a decrease by PLN 33.7 million, or 8.7 %, compared to PLN 385.2 million as at December 31, 2016. This decrease was due, among other things, to the base effect, as at December 31, 2016 this item included advance payments against dividends from subsidiaries.

The value of deposits for equipment amounted to PLN 2.4 million as at December 31, 2017 and remained on a similar level compared to PLN 1.9 million as at December 31, 2016.

Income tax liabilities amounted to PLN 19.5 million as at December 31, 2017 and increased by PLN 11.5 million, or 143.8%, from PLN 8.0 million as at December 31, 2016.

4.6.3. Cash flow analysis

The table below presents selected data from the cash flow statement for the twelve month periods ended December 31, 2017 and December 31, 2016.

[mPLN]	for 12 months ended December 31		change	
	2017	2016	[mPLN]	[%]
Net profit	606.0	578.0	28.0	4.8%
Net cash from operating activities	429.9	349.6	80.3	23.0%
Net cash used in investing activities	(290.4)	351.4	(641.8)	(182.6%)
<i>Capital expenditures</i>	(29.6)	(53.5)	23.9	(44.7%)
Net cash used in financing activities	(388.5)	(558.6)	170.1	(30.5%)
Cash and cash equivalents at the beginning of the period	278.8	136.4	142.4	104.4%
Cash and cash equivalents at the end of the period	29.5	278.8	(249.3)	(89.4%)

Net cash from operating activities

Net cash from operating activities amounted to PLN 429.9 million in 2017 and increased by PLN 80.3 million, or 23.0%, from PLN 349.6 million in 2016.

A higher stream of cash from operating activities generated in 2017 as compared to 2016 was the effect of a positive change in the level of engaged working capital resulting from, among others, the partial utilization of earlier prepayments made to Polkomtel for the wholesale purchase of data traffic in the mobile network and a lower level of expenditures on reception equipment provided to our customers under operating lease, which compensated for a lower level of EBITDA in 2017 than in the comparative period.

Net cash used in investing activities

Net cash used in investing activities amounted to PLN 290.4 million in 2017, while in 2016 the Company recorded a positive balance of net cash from investing activities in the amount of PLN 351.4 million. The most important factors influencing the change in the amount of cash used in investing activities in 2017 was the expenditure on the acquisition of a minority stake in Netia in the amount of PLN 638.7 million and the increase of the share capital in our subsidiary PL 2014 Sp. z o.o. by PLN 72.0 million.

In 2017, the Company incurred expenditures on the purchase of property, plant and equipment and intangible assets in the amount of PLN 29.6 million, that is by PLN 23.9, or 44.7%, less compared to PLN 53.5 million in 2016. In 2017 these expenditures included the purchase of equipment and systems for the purpose of developing our services, with a focus on OTT, the modernization of our broad casting infrastructure and the expansion of our recording studios.

Net cash from/(used in) finance activities

Net cash used in financing activities amounted to PLN 388.5 million in 2017, which constitutes a decrease by PLN 170.1 million, or 30.5%, compared to PLN 558.6 million in 2016. The amount of cash used in financing activities in 2017 was affected primarily by current repayments according to schedule and servicing of the Combined SFA attributable to Cyfrowy Polsat, the payment of coupons on the Series A Notes and the payment of dividends to shareholders from profit generated in 2016.

4.6.4. Liquidity and capital resources

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

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

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

The table below presents a summary of the indebtedness of the Group as at December 31, 2017.

	Balance value as at December 31, 2017 [mPLN]	Coupon / interest	Maturity date
Combined SFA, incl.	10,633.3	WIBOR + margin	2022 ⁽¹⁾
<i>Revolving Facility Loan</i>	1,000.0	WIBOR + margin	
Series A Notes	1,018.2	WIBOR + 2.5%	2021
Leasing and other	28.3	-	-
Gross debt	11,679.8	-	-
Cash and cash equivalents ⁽²⁾	(1,172.0)	-	-
Net debt	10,507.8	-	-
EBITDA LTM	3,617.0	-	-
Total net debt / EBITDA LTM	2.91	-	-
Weighted average interest cost ⁽³⁾	3.3%	-	-

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

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

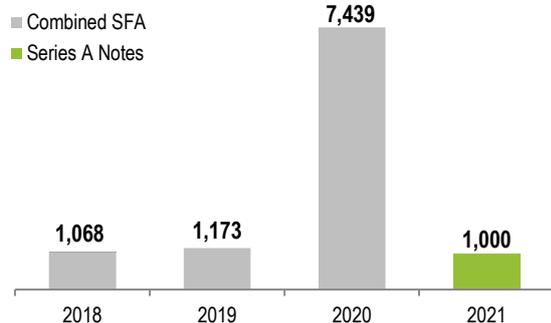
3) Prospective average weighted interest cost of the Combined SFA (including the Revolving Facility Loan) and the Series A Notes, excluding hedging instruments, as at December 31, 2017 assuming WIBOR 1M of 1.65% and WIBOR 6M of 1.81%.

As at December 31, 2017, the total amount used under the Revolving Facility Loan was PLN 1.0 billion. On February 8, 2018 the Group has repaid part of the debt under the Revolving Facility Loan in the amount of PLN 400.0 million.

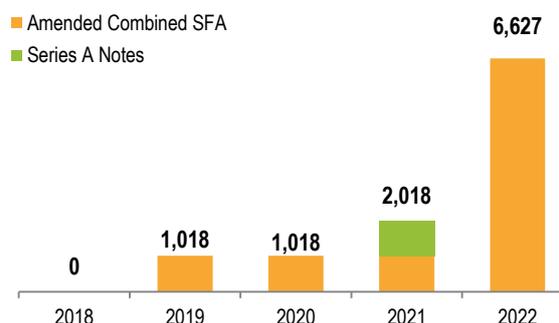
As a result of the conclusion on March 2, 2018 of the second amendment and restatement deed to the Combined SFA, the termination date of the Term Loan and consequently the repayment schedule have changed. The extended repayment schedule resulted, i.a. in the freezing of repayments of capital installments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

The graphs below present the aging balance of the Group's debt (expressed in nominal values and excluding the indebtedness under the revolving facility loans and leasing) as at December 31, 2017 and the date of approval of this Report, i.e. March 21, 2018, as well as its structure according to instrument type and currency as at December 31, 2017.

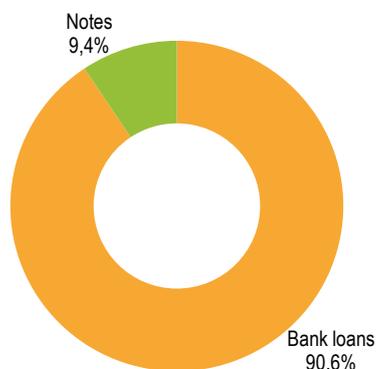
**Debt maturing profile
as at December 31, 2017 [mPLN]**



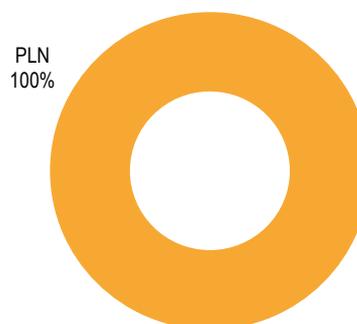
**Debt maturing profile
as at March 21, 2018 [mPLN]**



**Debt structure by instrument type
as at December 31, 2017**



**Debt structure by currency
as at December 31, 2017**



In order to reduce exposure to interest rate risk related to interest payments on the Combined SFA and amended Combined SFA calculated in the basis of floating rates, our Group actively applies hedging strategies based on derivative instruments, interest rate swaps (IRS) in particular.

Material financing agreements executed by the Company

Presented below is information on significant agreements executed by the Company and the Group companies, which remain in force as at the date of publication of this Report.

Combined Senior Facilities Agreement

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

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

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

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

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

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

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

The Term Facility and the Revolving Facility bear interest at a variable rate equal to WIBOR for the relevant interest period plus margin. The margin on the Term Facility and the Revolving Facility depends on the ratio of net consolidated indebtedness to consolidated EBITDA in such a way that the lower the ratio – the lower the margin, with the maximum margin level applicable when the net consolidated indebtedness to consolidated EBITDA ratio exceeds 3.50:1, and the minimum margin level applicable when that ratio is no higher than 1.50:1, whereby the value of consolidated net debt used in the calculation of this ratio, pursuant to the definition set out in the Combined SFA, does not include debt instruments under which capital is repaid not sooner than 6 months after the term of repayment of the Term Facility and Revolving Facility and interest is not paid in cash on a current basis. Pursuant to the provisions of the amended SFA the final repayment date for the Term Facility and the Revolving Facility is September 30, 2022. The Term Facility is being repaid in quarterly installments of variable value according to an established schedule.

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

Pursuant to the provisions of the Combined SFA when the net consolidated indebtedness to consolidated EBITDA ratio falls to or below 3.00:1, the Company will have a right to demand that the collaterals for the Combined Senior Facilities Agreement be released (save for guarantees granted on the basis of the Combined SFA). However, such released collateral will need to be re-established if the net consolidated indebtedness to consolidated EBITDA ratio again rises above 3.00:1. Additionally, if certain members of the Company's Group incur secured indebtedness, a pari passu collateral will need to be established in favor of the Security Agent (acting for, among others, the lenders under the Combined Senior Facilities Agreement).

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

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

- (i) the timely discharge of the obligations under the Combined SFA and other finance documents executed in relation thereto,
- (ii) a payment of amounts due under the Combined SFA and other finance documents executed in relation thereto; and
- (iii) an indemnification of the financing parties referred to above against any liabilities, costs and losses that such financing parties may incur in relation to unenforceability, ineffectiveness or unlawfulness of any obligation secured by these guarantees. The period of the guarantees has not been specified. The guarantors will be remunerated at arm's length for granting the guarantees.

The CP SFA, PLK SFA and the Amendment and Restatement Deed of September 21, 2015 provided for typical conditions precedent for the disbursement of the contemplated facilities and certain conditions subsequent for the disbursement of the contemplated facilities, also typical for this kind of transactions.

As at December 31, 2017, the balance value of the debt attributable to Cyfrowy Polsat under the Combined SFA amounted to PLN 811.2 million.

Series A Bonds issued by Cyfrowy Polsat

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

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

- (i) the margin amounts to 250 bps if the Leverage Ratio in the given period is less than or equal to 3.5:1;
- (ii) the margin amounts to 275 bps if the Leverage Ratio in the given period is greater than 3.5:1 but less than or equal to 4.0:1;
- (iii) the margin amounts to 325 bps if the Leverage Ratio in the given period is greater than 4.0:1.

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

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

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

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

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

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

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

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

Contractual obligations

Contractual liabilities related to purchases of non-current assets

The total amount of capital commitments resulting from agreements on property construction and improvements was PLN 0.4 million as at December 31, 2017 (PLN 0.0 as at 31 December 31, 2016). Additionally the amount of deliveries and services committed to under agreements for the purchases of licenses and software as at December 31, 2017 was PLN 0.3 million (PLN 0.3 million as at 31 December 2016).

Contractual liabilities related to purchase of data transfer services

The total amount of capital commitments resulting from agreements on data transfer services as at December 31, 2017 was PLN 353.2 million (PLN 696.0 million as at December 31, 2016).

Ratings

The table below presents a summary of ratings assigned to Polsat Group in 2017.

Rating agency	Rating / perspective	Previous rating / perspective	Update
S&P Global Ratings	BB+ / positive	BB+ / stable	18.04.2017
Moody's Investor Service	Ba2 / positive	Ba2 / stable	08.08.2017
S&P Global Ratings	BB+ / stable	BB+ / positive	20.12.2017

On April 18, 2017 S&P Global Ratings (formerly Standard&Poor's Rating Services) ("S&P") revised the rating outlook for the Company 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 resilient performance and solid deleveraging capacity in 2017-2018, which has been demonstrated by the early redemption of the Litenite Notes on April 26, 2017.

On December 20, 2017, S&P affirmed the Company's and the entire Group's rating at BB+ revising the outlook to stable from positive. In the rationale behind the decision S&P stated that the outlook revision was primarily influenced by the acquisitions announced by the Company on December 4, 2017, that is the acquisition of a ca. 32% stake in Netia and the intention to increase this stake to no more than 66%, and the acquisition of several television channels from ZPR Media Group. In the opinion of S&P, expenditures related to the above acquisitions will translate into a slower than previously anticipated by S&P pace of deleveraging, as they will be financed partially from own resources and partially from bank loans. The stable outlook reflects S&P's expectation that the net debt to EBITDA ratio will remain at 3.0-3.5x (applying S&P's calculation method) in 2017-2018 and decrease gradually thereafter. Concurrently, S&P assumes that the integration with Netia will be smooth and will generate synergies expected by the Group.

On August 8, 2017 Moody's Investors Service ("Moody's") revised the rating outlook for Cyfrowy Polsat Group to positive from stable, concurrently affirming the Ba2 corporate family rating.

In its justification Moody's stated that the upward revision of the rating outlook reflects in particular the Group's improved leverage metrics and strong cash flows, thanks to which the Group proactively reduced its indebtedness over the past year. The positive outlook reflects Moody's expectations with respect to further deleveraging and consistent improvement of indebtedness ratios over the next two years and it assumes that the Group will not implement significant changes to its dividend and leverage policies.

4.6.5. Information on guarantees granted by the Company or subsidiaries

Securities related to the Combined Senior Facilities Agreement

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

- (i) registered pledges over variable collections of movable property and rights comprised in the enterprises of the Company, Cyfrowy Polsat Trade Marks Sp. z o.o., Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp.k., Telewizja Polsat, Polkomtel, Plus TM Management Sp. z o.o., Aero2, PL 2014 Sp. z o.o. and Plus Flota Sp. z o.o., governed by Polish law;
- (ii) financial and registered pledges on shares in Cyfrowy Polsat Trade Marks Sp. z o.o. (with an aggregate nominal value of PLN 615,445,000), Telewizja Polsat (with an aggregate nominal value of PLN 236,946,700), Polkomtel (with a total nominal value of PLN 3,525,300,000), Plus TM Management Sp. z o.o. (with a total nominal value of PLN 2,106,000), Aero2 (with a total nominal value of PLN 91,958,700) and PL 2014 Sp. z o.o. (with a total nominal value of PLN 29,494,600), governed by Polish law, together with powers of attorney to exercise corporate rights attached to the shares in the said companies; the pledged shares represent 100% of the share capital of each company and are held by the Company as a long-term capital investment;
- (iii) financial and registered pledges on shares in Netia S.A. (with a total nominal value of PLN 110,702,441), governed by Polish law, together with powers of attorney to exercise corporate rights attached to the shares in the said company; the pledged shares represent 31.76% of the share capital of the company;
- (iv) financial and registered pledges on shares in TV Spektrum Sp. z o.o. (with a total nominal value of PLN 4,850,000), governed by Polish law, together with powers of attorney to exercise corporate rights attached to the shares in the said company; the pledged shares represent 49.48% of the share capital of the company;
- (v) financial and registered pledges on receivables under bank account agreements of the Company, Cyfrowy Polsat Trade Marks Sp. z o.o., Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp.k., Telewizja Polsat, Polkomtel, Eileme 1, Plus TM Management Sp. z o.o., Aero2 and PL 2014 Sp. z o.o., governed by Polish law;
- (vi) powers of attorney to bank accounts of the Company, Cyfrowy Polsat Trade Marks Sp. z o.o., Polsat Media Biuro Reklamy spółka z ograniczoną odpowiedzialnością Sp.k., Telewizja Polsat, Polkomtel, Eileme 1, Plus TM Management Sp. z o.o., Dwa Sp. z o.o., Teleaudio Dwa Spółka z ograniczoną odpowiedzialnością Sp. k., Polsat Media Biuro Reklamy Sp. z o.o., Interphone Service Sp. z o.o., Muzo.fm Sp. z o.o., INFO-TV-FM Sp. z o.o., Polkomtel Business Development Sp. z o.o., Nordisk Polska Sp. z o.o., TM Rental Sp. z o.o., Liberty Poland S.A., Aero2, PL 2014 Sp. z o.o. and Plus Flota Sp. z o.o., governed by Polish law;
- (vii) ordinary and registered pledges on protection rights to trademarks vested in Polsat Brands AG, governed by Polish law;
- (viii) assignment for security of certain property rights in Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp.k., governed by Polish law;
- (ix) contractual joint mortgage under Polish law on the following real properties owned by the Company: (a) land located in Warsaw, Targówek district, vicinity of ul. Łubinowa, Title and Mortgage Register WA3M/00102149/9, (b) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00136943/2, (c) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00102615/7, (d) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00101039/8, (e) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00132063/1, (f) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00104992/7, (g) land located in Warsaw, Targówek district, vicinity of ul. Łubinowa, Title and Mortgage Register WA3M/00100109/3, (h) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00103400/4, (i) land located in Warsaw, Targówek district, vicinity of ul. Łubinowa, Title and Mortgage Register WA3M/00100110/3, (j) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00131411/9;

- (x) contractual mortgage governed by Polish law on the land property owned by Polkomtel and located in Warsaw, Ursynów district, in the vicinity of Baletowa street, comprising plots of land no. 131/4 and 132/6, Land and Mortgage Register No. WA5M/00478842/7;
- (xi) assignment for security of receivables under hedge agreements of the Company and Polkomtel, governed by English law;
- (xii) assignment for security of rights under insurance agreements covering the property referred to in item (i) and item (ix) above;
- (xiii) pledge on shares in Polsat License Ltd. (with an aggregate nominal value of CHF 1,000,000), governed by the Swiss law; the pledged shares represent 100% of the company's share capital and are held by the Company as a long-term capital investment;
- (xiv) pledge on shares in Eileme 1 (with a total nominal value of SEK 500,000), governed by Swedish law; the pledged shares represent 100% of the share capital of the company and are held by the Company as a long-term capital investment;
- (xv) pledge on shares in Litenite (with the total nominal value of EUR 1,800), governed by Cypriot law;
- (xvi) assignment for security of: (a) receivables due from various debtors, (b) receivables and rights to and in bank accounts; and (c) rights under insurance agreements of Polsat License Ltd., governed by the Swiss law;
- (xvii) assignment for security of rights under a license agreement between Polsat Brands AG and Polsat License Ltd. and rights under bank account agreements, governed by the Swiss law;
- (xviii) pledge on bank accounts taken over by Cyfrowy Polsat following the merger with Metelem, governed by Cypriot law;
- (xix) assignment for security of receivables and rights to and in bank accounts taken over by Cyfrowy Polsat following the merger with Metelem, governed by the Swiss law;
- (xx) pledge on shares in Polsat Brands AG (with the total nominal value of CHF 250,074), governed by the Swiss law;
- (xxi) pledge on receivables under bank account agreements of Litenite governed by Swiss law;
- (xxii) statements of the Company, Cyfrowy Polsat Trade Marks sp. z o.o., Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością sp.k., Telewizja Polsat, Polkomtel, Plus TM Management sp. z o.o., Aero2 and PL 2014 Sp. z o.o. on the submission to enforcement on the basis of a notarial deed, governed by Polish law; and
- (xxiii) statements of Litenite and Eileme 4 (the legal successor of which is Eileme 1) on the submission to enforcement on the basis of a notarial deed executed under the Polish law (concerning all property located in Poland or governed by Polish law).

5. OTHER SIGNIFICANT INFORMATION

5.1. Transactions with related parties

Transactions concluded in 2017 by us or our subsidiaries with entities related to Cyfrowy Polsat have all been concluded on market conditions and are described in Note 39 of the financial statements for the financial year ended December 31, 2017.

5.2. Information on loans granted

Information on loans granted is presented in Note 35 of the financial statements for the financial year ended December 31, 2017.

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

Cyfrowy Polsat did not publish any financial forecasts for 2017.

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

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

Proceedings before the Office of Competition and Consumer (UOKiK)

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

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

Other proceedings

On April 28, 2017, ZASP (Polish Actors Association) filed a lawsuit against Cyfrowy Polsat for payment of PLN 20.3 million. The Company issued an objection in the writ-of-payment proceedings and filed for its dismissal entirety. On January 10, 2018 the Court issued a decision to refer the case to mediation proceedings.

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

There were no changes to the principle rules of management of our Company in the year 2017.

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

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

5.7. Disclosure of non-financial information

On March 22, 2018, the Company published, as a separate document, the "Social Report of Cyfrowy Polsat Group for 2017", which comprehensively addresses key non-financial issues for both the Group and Cyfrowy Polsat, and demonstrates how we aim to achieve our goals in a sustainable and responsible manner. The publication complies with the Global Initiative Reporting Standard, in the Core option, as well as the amended Accounting Act and contains detailed information relating to environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters with respect to both Polsat Group and Cyfrowy Polsat as the dominant entity of the Group.

The "Report of Cyfrowy Polsat S.A. Capital Group and the company Cyfrowy Polsat S.A. on non-financial information for the years 2016-2017" is available on Polsat Group's corporate website at <http://www.grupapolsat.pl/en/investor-relations> in the tab *Results centre/Non-financial reports*.

6. KEY RISK AND THREAT FACTORS

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

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

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

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

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

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

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

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

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

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

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

Our ability to grow our customer base depends on our ability to provide high-quality, reliable services and products. In offering products and services, we rely on a number of third-party providers of network, services, equipment and content over whom we have no control.

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

We also rely on Nagravision S.A., who provides our conditional access system to secure our networks against unauthorised access by pirates and hackers.

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

If such third-party providers do not perform their contractual obligations towards us or do not adjust to changes in requirements of the Company, or are unable or refuse to provide services or deliver infrastructure or equipment, on which the possibility of timely and economically justified provision of certain services and products to our customers depends, our customers may experience service interruptions, which could adversely affect the perceived quality of our services and products, therefore, adversely impact the brand and reputation of the Company, thus affecting our business, financial condition, results of operations or prospects.

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

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

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

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

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

Given the fast pace of technological change and customers' growing expectations, and considering the risk that our competitors may offer telecommunications products and services that are based on new technologies which are more advanced, less costly or otherwise more attractive to customers than those provided by us, we may be required to rapidly

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

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

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

The good name of the “Cyfrowy Polsat” and “IPLA” brands is a significant component of Company’s value. Maintaining their good name is fundamental for acquiring new and retaining existing customers. Our reputation may suffer if we are unable to provide existing products and services or implement new products and services due to technical faults, a lack of necessary equipment, or other circumstances. Also, the quality of our products and services depends on the quality of third-party infrastructure and services, over which we have little control. If our partners fail to observe relevant performance standards or supply faulty products or services, the quality of our products and services, as well as our good name may suffer. There can be no assurance that these or other risks, which would compromise the good name of our most important brands, will not materialise in the future. Any damage to our good name may have a material adverse effect on our business, financial condition, results of operations or prospects.

Goodwill and brand values may be impaired

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

We may lose our management staff and key employees

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

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

To reduce acquisition costs of satellite TV reception equipment and to be able to offer our pay TV customers the option to or lease set-top boxes at lower prices, we are currently producing most of the set-top boxes we offer to our customers at the manufacturing plant in Mielec that belongs to our subsidiary Interphone Service Sp. z o.o. Set-top boxes manufactured by our Group accounted for a majority of all the set-top boxes leased by us. Should any batch of the set-top boxes we have manufactured prove defective and need to be withdrawn from the market, we are under the obligation to replace the set-top boxes we have made available to our customers. Furthermore, the withdrawal of reception equipment due to a confirmed epidemic defect could be harmful to our reputation.

Any problems with production of set-top boxes would force us to acquire larger numbers of set-top boxes from third-party suppliers. There can be no assurance that we will be able to purchase a sufficient number of set-top boxes from third-party

suppliers when required. Furthermore, the cost of acquiring from third-party suppliers of the vast majority of set-top box models we offer would be much higher than the cost of manufacturing them at our own plant. If we were unable to obtain set-top boxes from third-party suppliers on satisfactory pricing terms, we might have to raise the prices for our customers to cover our increased expenses. Moreover, if the deliveries of set-top boxes we managed to procure were insufficient to meet the demand, our reputation among our current and potential customers would suffer. As our production of set-top boxes is based on components purchased from third-party contractors, there is a risk that we lose access to such components, for instance due to discontinuation of their production or changes in technologies or products. Losing access to certain components would force us to redesign our set-top boxes, which could affect continuity of their production and supplies to our customers.

Any difficulties in the production of most of our set-top boxes at our own production plant could lead to a loss of our current customers or adversely affect our ability to acquire new customers for our pay TV services. Any disruption to our set-top box production and subsequent necessity to procure more set-top boxes from third-party suppliers could adversely affect our reputation and lead to erosion of our brand value, which could have a material adverse effect on our business, financial condition, results of operations or prospects.

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

The pay TV business depends on providing customers with both reliable service, based among other on the security of our infrastructure. The services we provide may encounter disruptions from many sources, including power outages, acts of terrorism and vandalism and human error, as well as fire, flood, or other natural disasters.

In order to provide pay TV services to our customers, we rely primarily on our satellite centre, as well as satellite transponders, customer management system, reporting systems, sales support system, and customer relationship management system. Any failure of the individual components of our satellite centre, including failure of satellite transponders or any intermediate link, may result in serious disruption or even suspension of our activities for a certain period.

In addition, we could experience interruptions of our services due to, among other things, software bugs, computer virus attacks, or unauthorised access. Any interruptions in our ability to provide services could seriously harm our reputation and reduce customer confidence, which could materially impair our ability to attract and retain customers. Such interruptions could also result in an obligation to pay contractual penalties or cause our customers to terminate their agreements. They might also result in a need to incur significant expenditure to restore the functionality of the our infrastructure and guarantee reliable services to customers.

Such events may have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

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

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

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

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

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

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

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

6.2. Risk factors associated with the Company's financial profile

The servicing of our debt is very cash-intensive, and our debt servicing liabilities may impair our ability to finance our business operations

Our Company uses large financial leverage. In the past, debt servicing and other cash requirements were financed with cash flows from operating activities and revolving credit facilities. Our debt servicing liabilities increased significantly following the acquisition of Telewizja Polsat and Polkomtel, and completion of the related financial transactions.

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

Also, the refinancing of our debt on unfavorable market terms would require us to pay higher interest rates or observe more stringent covenants, which could further restrict our business activity. If our debt financing increased, the related risks would also increase. Moreover, any significant adverse change in financial market liquidity, resulting in tighter lending terms and

debt or equity financing constraints, may restrict our access to financing sources and increase our borrowing costs, which could significantly affect our ability to achieve and manage liquidity, raise additional capital, or restructure or refinance our existing debt.

The Combined SFA and Series A Notes Indenture provide for a number of restrictions and obligations (including maintaining specified financial ratios), limiting the Company's ability to incur new debt for financing future operations or to pursue business opportunities and activities that may be in our interest.

If our debts are not repaid in accordance with the underlying agreements, then those debts, as well as other liabilities incurred under other agreements or debt instruments, which include cross-default or cross-acceleration clauses, may become immediately payable, and we may not have sufficient funds to repay all our liabilities. Our inability to generate sufficient cash flows to service our debt, or to restructure or refinance it on commercially reasonable terms (or at all), may have a material adverse effect on our business, financial condition, results of operations or prospects.

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

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

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

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

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

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

6.3. Risks related to market environment and economic situation

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

The Company derives almost all of its revenue from pay-TV and telecommunication services customers in Poland. Our revenue depends on the amount of cash our existing and potential customers can spend on entertainment, recreation and telecommunications services. If the economic conditions in Poland deteriorate, consumers may be willing to spend less on entertainment, recreation and telecommunications services, which may have an adverse effect on the number of our

customers or on our customers' spending on our services. Lower consumer spending caused by economic recession may also lead existing and potential customers to choose cheaper versions of our service packages or to discontinue using the services, which in turn may have a material adverse effect on results of our operations, financial condition, and growth prospects.

Moreover, the worsening of the macroeconomic conditions across the world, as well as possible uncertainty regarding the future economic situation, may have, among others a negative impact on the Company's ability to acquire sufficient financing on the global capital markets.

In view of the above, the worsening of macroeconomic conditions in Poland or across the world may, as a result, have a considerably adverse impact on our business, financial condition, results of operations or prospects.

We face competition from entities offering alternative forms of entertainment and leisure

Technological progress, as well as a number of various other factors expose our operations to growing competition for the time and form of customers' leisure and entertainment activities. In particular, we compete with entities offering such alternative forms of leisure and entertainment as cinema, radio, home video, printed media, as well as other non-media forms of leisure, including live events. Moreover, new technologies, such as video on demand (VoD), Internet streaming and downloading, have broadened and may continue to broaden the selection of entertainment options available to existing and potential users of our services. In particular, increasing activity of foreign players operating in the OTT model (Netflix, Amazon Prime or Showmax) can be observed on the Polish market recently. The growing variety of leisure and entertainment options offered by our current and future competitors may bring about a decrease in demand for our products and services, and weaken the effect of television as an advertising medium. This may have a material adverse effect on our business, financial condition, results of operations or prospects.

Given the intense competition across all market segments in which we operate, there can be no assurance that in the future our customers will use our services rather than those of our competitors

Because the Polish TV market is highly competitive, there can be no assurance that our revenue from pay TV and telecommunication services subscriptions will be satisfactory compared to that of our competitors. Our current and future competitors may outmatch us in terms of financial and marketing resources, which may allow them to attract customers and advertisers more effectively.

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

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

6.4. Factors relating to market risks

Market risk management

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

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

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

The Company applies an integrated approach to market risk management. This means a comprehensive approach to the whole spectrum of identified market risks, rather than to each of them individually. The primary technique for market risk

management is the use in the Company of hedging strategies involving derivatives. Apart from this, natural hedging is also used to the extent available.

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

It is permitted to use the following types of instruments:

- Swaps (IRS/CIRS),
- Forwards and futures,
- Options.

Currency risk

Our business is exposed to risk related to fluctuations in foreign exchange rates. While our revenue is denominated mainly in the Polish zloty, part of our operating costs is denominated in other currencies. We have trade payables (including amounts due for access to the catalogues of the leading film and TV studios as well as other suppliers and producers of programming content, purchase of modems, parts of set-top boxes, other hardware and software, as well as lease of transponder capacities) that are denominated in foreign currencies, mainly in euro and US dollars. Fluctuations in foreign exchange rates are outside our control and any adverse changes in the exchange rates of foreign currencies against the Polish zloty may significantly increase our costs and expenses translated into the Polish zloty, which in turn may have a material adverse effect on our business, financial condition, results of operations or prospects.

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

The Company does not hold any significant assets held for trading denominated in foreign currencies.

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

In millions	December 31, 2017		December 31, 2016	
	EUR	USD	EUR	USD
Trade receivables	4.3	0.3	4.2	0.2
Cash and cash equivalents	0.1	2.4	0.3	0.1
Trade payables	(3.8)	(2.6)	(0.2)	(1.7)
Gross balance sheet exposure	0.6	0.1	4.3	(1.4)
Net exposure	0.6	0.1	4.3	(1.4)

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

PLN	Average rate		Rates at the reporting date	
	2017	2016	December 31, 2017	December 31, 2016
1 EUR	4.2576	4.3625	4.1709	4.4240
1 USD	3.7777	3.9431	3.4813	4.1793

For the purposes of the exchange rate sensitivity analysis as at December 31, 2017 and December 31, 2016, exchange rate volatility in the +/- 5% range was assumed as probable. This analysis assumes that all other variables, in particular interest rates, remain constant.

in millions	2017					2016				
	as at December 31, 2017		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	as at December 31, 2016		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	4.3	17.9	5%	0.9	-	4.2	18.7	5%	0.9	-
USD	0.3	0.9	5%	-	-	0.2	0.7	5%	-	-
Cash and cash equivalents										
EUR	0.1	0.6	5%	-	-	0.3	1.5	5%	0.1	-
USD	2.4	8.5	5%	0.4	-	0.1	0.5	5%	-	-
Trade payables										
EUR	(3.8)	(15.7)	5%	(0.8)	-	(0.2)	(0.9)	5%	-	-
USD	(2.6)	(9.2)	5%	(0.5)	-	(1.7)	(7.1)	5%	(0.4)	-
Change in operating profit				-	-	0.6				-
Income tax				-	-	(0.1)				-
Change in net profit				-	-	0.5				-

in millions	2017					2016				
	as at December 31, 2017		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	as at December 31, 2016		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	4.3	17.9	-5%	(0.9)	-	4.2	18.7	-5%	(0.9)	-
USD	0.3	0.9	-5%	-	-	0.2	0.7	-5%	-	-
Cash and cash equivalents										
EUR	0.1	0.6	-5%	-	-	0.3	1.5	-5%	(0.1)	-
USD	2.4	8.5	-5%	(0.4)	-	0.1	0.5	-5%	-	-
Trade payables										
EUR	(3.8)	(15.7)	-5%	0.8	-	(0.2)	(0.9)	-5%	-	-
USD	(2.6)	(9.2)	-5%	0.5	-	(1.7)	(7.1)	-5%	0.4	-
Change in operating profit				-	-	(0.6)				-
Income tax				-	-	0.1				-
Change in net profit				-	-	(0.5)				-

mPLN	2017		2016	
	Estimated change in profit [PLN]	Estimated change in other comprehensive income [PLN]	Estimated change in profit [PLN]	Estimated change in other comprehensive income [PLN]
Estimated change in exchange rate by 5 %				
EUR	0.1	-	0.8	-
USD	(0.1)	-	(0.3)	-
Estimated change in exchange rate by -5 %				
EUR	(0.1)	-	(0.8)	-
USD	0.1	-	0.3	-

Had the Polish zloty strengthened 5% against the basket of currencies as at December 31, 2017 or there would be a depreciation of the Polish zloty by 5%, the Company's net profit and other comprehensive income would have been unchanged in 2017. Had the Polish zloty strengthened 5% against the basket of currencies as at December 31, 2016, the Company's net profit would have increased by PLN 0.5 million and other comprehensive income would have been unchanged in 2016. Had the Polish zloty weakened 5%, the Company's net profit would have decreased by PLN 0.5 million in 2016 and other comprehensive income would have been unchanged in 2016, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

Interest rate risk

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

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

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

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

mPLN	Carrying amount	
	December 31, 2017	December 31, 2016
Fixed rate instruments		
Financial assets	2.3	10.0
Variable rate instruments		
Financial assets	29.7	281.6
Financial liabilities*	(1,919.7)	(2,029.5)
Net interest exposure	(1,887.7)	(1,737.9)

*Nominal debt

The Company's Management Board classifies the CP Term Facility Loan as a variable rate instrument. Changes in the interest rate components do not result in a change in the carrying amount of the loan liability. The changes are reflected prospectively in the interest expense on loans and borrowings.

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

mPLN	Income statement		Other comprehensive income		Equity	
	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp
December 31, 2017						
Variable rate instruments*	(18.9)	18.9	3.1	(3.1)	(15.8)	15.8
Cash flow sensitivity (net)	(18.9)	18.9	3.1	(3.1)	(15.8)	15.8
December 31, 2016						
Variable rate instruments*	(17.5)	17.5	3.7	(3.7)	(13.8)	13.8
Cash flow sensitivity (net)	(17.5)	17.5	3.7	(3.7)	(13.8)	13.8

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

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

Information regarding financial instruments related to:

- price change risk, credit risk, risk of significant disruptions to cash flows and risk of financial insolvency, to which the Company is exposed; and
- objectives and methods established by the Company in order to manage financial risk, including methods of securing significant types of planned transactions to which hedging accounting is applicable

are described in Note 35 of the financial statements for the financial year ended December 31, 2017.

6.5. Risk factors associated with the legal and regulatory environment

The complexity, lack of clarity, and frequent amendments of Polish tax laws may lead to disputes with tax authorities

Tax laws in Poland are complex, unclear and subject to frequent and unpredictable changes. On July 15, 2016 provisions of General Anti-Avoidance Rule (GAAR) were introduced, which aim at preventing establishing and using artificial legal arrangements with tax savings as its principal purpose. Frequent amendments in the tax laws and contradicting legal interpretations among the tax authorities result in uncertainties and lack of consistency in the tax ordinance, which in fact lead to difficulties in the judgement of the tax consequences in the foreseeable future.

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

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

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

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

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

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

Our operations are reviewed by institutions of competition and consumer protection to ensure that we comply with Polish and European laws prohibiting practices that limit competition or violate the collective interests of consumers, such as for example providing inaccurate information to customers, dishonest market practices or use of abusive contract clauses. As a general rule, our operations are subject to the assessment of the President of the Polish Office of Competition and Consumer Protection (UOKiK). If the regulator finds any of our practices or contract terms to be misleading or in conflict with Polish or European competition and consumer protection laws, we may be subject to fines and our reputation could be harmed. In addition, if any clauses in our standard consumer contracts are considered abusive, they will be entered in the Register of Abusive Contract Clauses maintained by the President of UOKiK and their application will be no longer possible, which will require amendment to our standard contracts.

If the President of UOKiK determines that any of our practices had the effect of limiting competition or violating consumer rights, we could be required to discontinue the unlawful practice. In addition, the President of UOKiK could impose on us a cash fine of up to 10% of our revenue generated in the financial year immediately preceding the year in which the fine is imposed and additionally, pursuant to the provisions of the amended legislation on consumer and competition protection, can, for example, impose on us the obligation to pay compensation to consumers, who were affected by the practises in question or apply other measures. Moreover, if we, even unintentionally, fail to provide the President of UOKiK with the required information or provide misleading information, a fine of up to EUR 50 million may be imposed on us.

Any decisions by the President of UOKiK or by appeals bodies confirming our infringement could also result in claims for damages by consumers, contractors and competitors. The potential amount of such claims is difficult to assess but may be significant. If any of our practices or contract terms are deemed to be misleading or in conflict with Polish consumer protection laws, we may be subject to fines and our reputation could be harmed, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, expansion of consumer protection legislation could increase the scope or scale of our potential liability or the scope of consumer rights. Such events may have a material adverse effect on our business, financial condition, results of operations and prospects.

We may violate the acts of law and regulations governing our satellite TV distribution business as well as telecommunications, which are subject to periodic amendments

We are required to comply with Polish and EU laws, which impose limitations on the conduct of our business. Our operations are extensively regulated by government authorities and market regulators, especially the President of the Office of Electronic Communications (UKE) and the National Broadcasting Council (KRRiT), the bodies responsible for overseeing compliance with the Polish Act on Television and Radio Broadcasting, the Telecommunications Law, and the terms of our broadcasting licences. Decisions by the President of UKE, the Chairperson of KRRiT, or other regulators may place certain restrictions on the way in which our business can be run.

The President of UKE supervises our telecommunications operations. As part of our telecommunications services, we mainly provide broadband Internet access. Telecommunications enterprises operating in Poland are subject to a number of legal and administrative requirements having a direct impact on their business in relations with individual customers (for instance, by specifying the scope of customers' rights or the content of standard terms and conditions for the provision of telecommunications services, setting caps for pricing of international roaming services, or restricting the maximum time for which contracts can be concluded with customers). We cannot give any assurance that we will be able to meet the numerous

requirements imposed on us by the Polish Telecommunications Law. In the event of our non-compliance with any provisions of the Telecommunications Law, companies from the Group may face a fine from the President of UKE of up to 3% of revenue generated in the year preceding the year in which such fine is imposed.

In the future, our DTH business may be subject to zoning, environmental or other regulations that will place restrictions on where satellite antennas may be deployed. We may also have to deal with pressures from local communities regarding deployment of our satellite antennas. Any such legal restrictions or conflicts with local communities related to the deployment of our satellite antennas may render our DTH services less attractive, leading to a fall in customer numbers.

Non-compliance with valid law or with the regulations issued by regulatory bodies may have material adverse effect on our business, financial condition, or prospects.

No assurance can be given that we will not breach any personal data protection laws or regulations, or that we will not fail to meet requirements imposed by the Inspector General for the Protection of Personal Data

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

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

7. CYFROWY POLSAT ON THE CAPITAL MARKET

7.1. Cyfrowy Polsat shares

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

The table below presents the characteristics of the shares issued as of December 31, 2017:

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

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

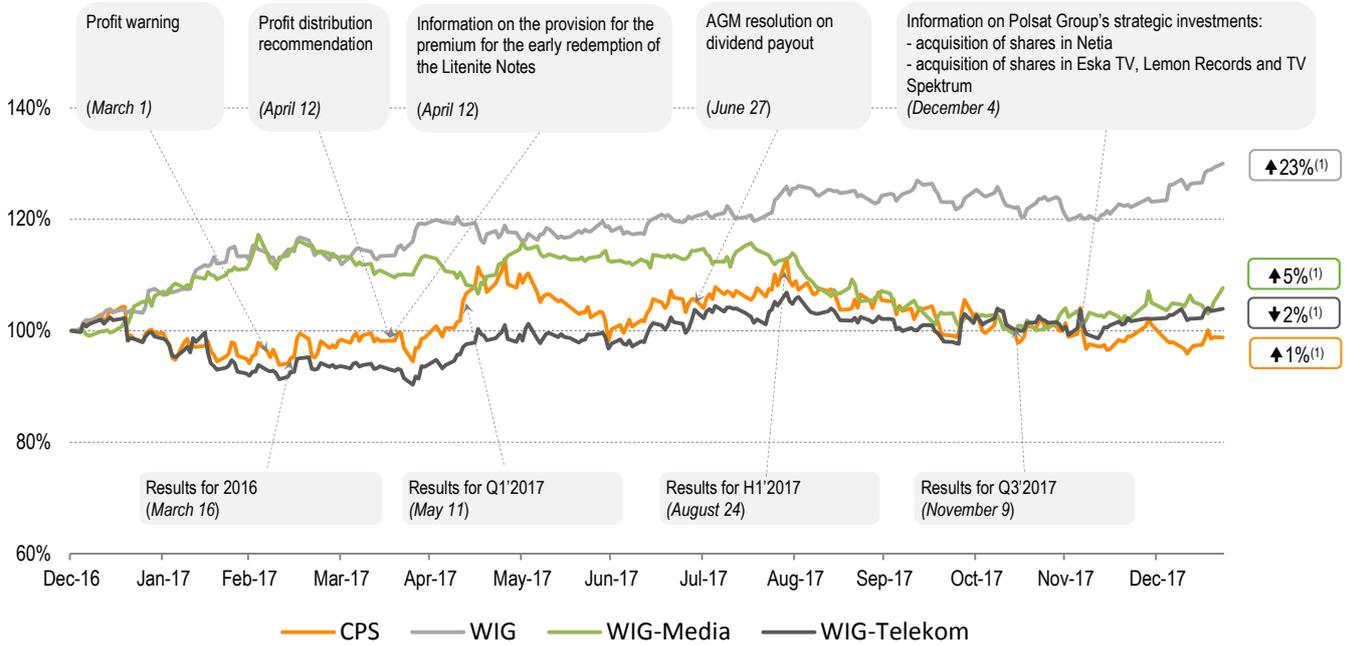
The shareholding structure as at the date of approval of this Report together with a description of changes in the structure of ownership of significant number of shares of the Company in the period since the publication of the last periodic report are set forth in detail in item 8.4 – *Corporate Governance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

Basic data on the Cyfrowy Polsat shares in trading

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

7.2. Shares quotes

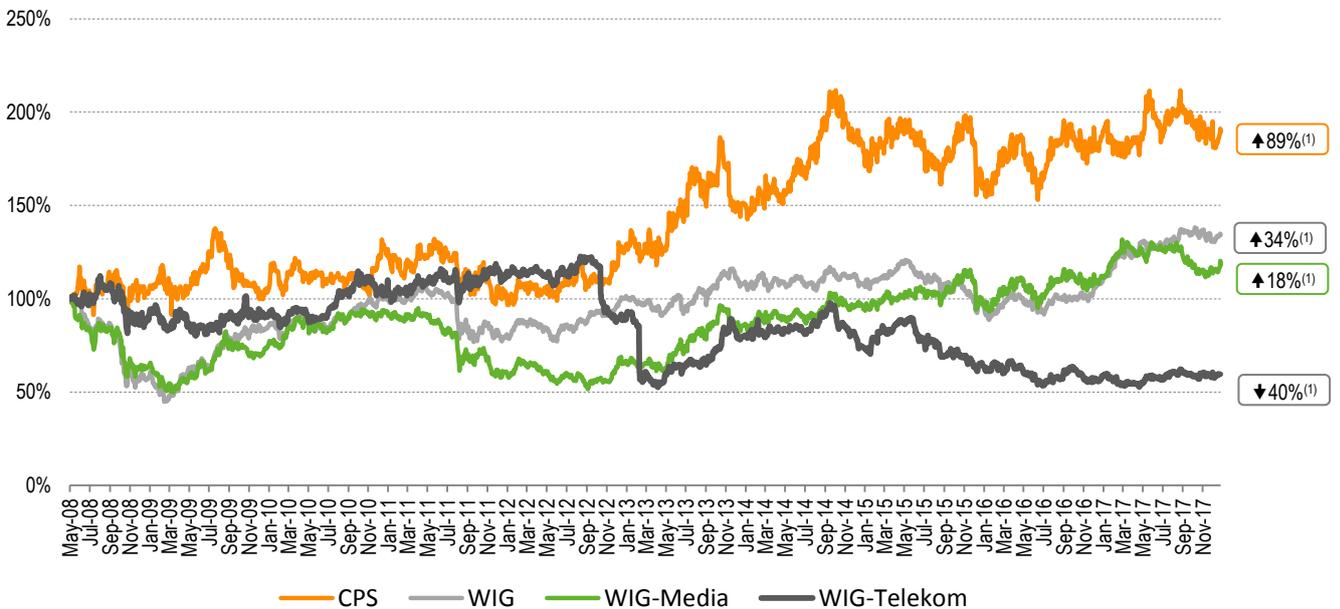
(indexed; 100 = closing price on December 30, 2016)



⁽¹⁾ change December 30, 2016 vs December 29, 2017

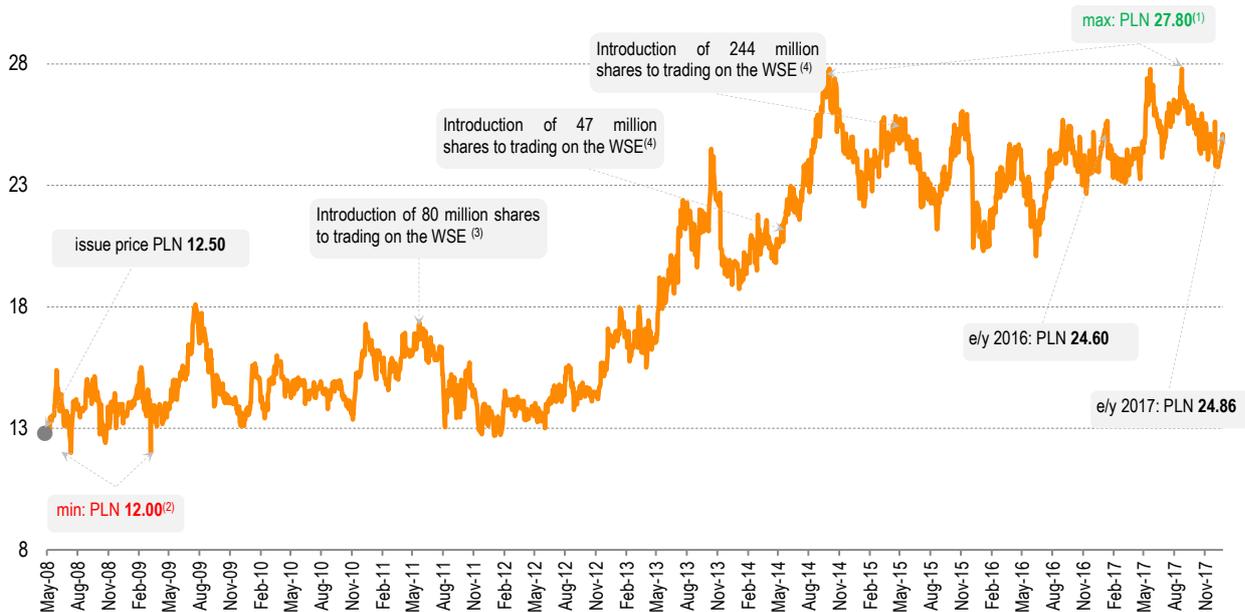
Performance of Cyfrowy Polsat shares since the debut on the WSE in May 2008 until the end of 2017 compared to WSE indexes

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



⁽¹⁾ change December 29, 2017 vs. May 6, 2008

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



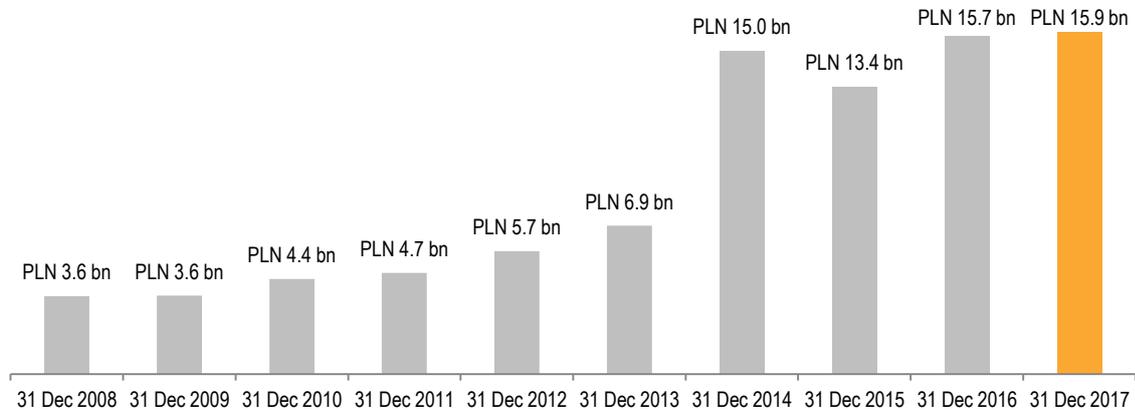
- (1) Share price on October 6-7, 2014 and August 28, 2017.
- (2) Share price on July 15-16, 2008, March 12, 2009.
- (3) On April 20, 2011, the Company issued 80,027,836 ordinary bearer H Series shares with a nominal value of PLN 0.04 each. These shares were registered on May 30, 2011 in the Central Securities Depository of Poland under ISIN code PLCFRPT00013, and were admitted to trading on the main market of the stock exchange pursuant to the resolution of the Management Board of Warsaw Stock Exchange of May 30, 2011. The proceeds from the issue of H Series shares were used as part of financing the acquisition of Telewizja Polsat. All H Series shares were taken up by the shareholders of Telewizja Polsat.
- (4) On May 7, 2014 the Company issued 47,260,690 Series I shares and 243,932,490 Series J shares with the nominal value of PLN 0.04 each. On May 14, 2014 these shares were registered in the Central Securities Depository of Poland with ISIN codes PLCFRPT00013 and PLCFRPT00021, respectively. Series I shares were admitted to trading on May 12, 2014 and Series J shares – on April 20, 2015, pursuant to the resolutions of the Management of the Warsaw Stock Exchange in Warsaw. The issue of Series I and J shares provided the source of financing of the transaction of acquisition of Metelem Holding Company Limited. The issued shares were acquired by shareholders of Metelem Holding Company Limited.

Cyfrowy Polsat shares on the stock exchange in 2017

		2017	2016
Year-end price	PLN	24.86	24.60
High for the year	PLN	27.80	25.69
Low for the year	PLN	23.09	20.09
Average for the year	PLN	25.08	23.25
Average daily turnover	PLN '000	13,218	9,210
Average daily trading volume	shares	527,587	398,461
Number of shares (as at year-end)	shares	639,546,016	639,546,016
Bearer shares	shares	460,128,515	460,128,515
Market capitalization (as at year-end)	PLN '000	15,899,144	15,732,832

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

Cyfrowy Polsat is the largest in terms of market capitalization, that amounted to PLN 15.9 billion as of the end of 2017, media and telecommunications company quoted on the Warsaw Stock Exchange and one of the largest in Middle and Eastern Europe.



7.3. Analysts' recommendations

Brokers covering the Company:

Local

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

International

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

Recommendations for the shares of Cyfrowy Polsat published in 2017

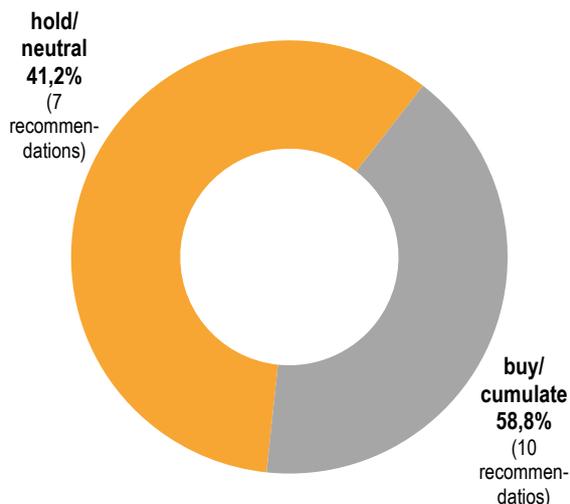
Date	Institution	Recommendation	Target price [PLN]
December 18	Haitong Bank S.A.	▲ Buy	27.50
December 10	Dom Maklerski BOŚ S.A.	▲ Buy	27.00
December 5	Goldman Sachs	– Neutral	26.60
November 17	UBS Investment Bank	▲ Buy	30.00
October 5	ERSTE Group Research	▲ Cumulate	31.00
September 22	Trigon Dom Maklerski S.A.	▲ Buy	29.10
September 11	Raiffeisen CENTROBANK	▲ Buy	29.50
September 5	Haitong Bank S.A.	▲ Buy	30.40
September 1	ERSTE Group Research	▲ Cumulate	31.00
August 29	DM mBanku S.A.	▼ Reduce	24.40

Date	Institution	Recommendation	Target price [PLN]
August 23	DM PKO BP S.A	▲ Buy	29.20
July 26	Citigroup Global Markets Inc.	– Neutral	27.00
July 26	IPOPEMA Securities S.A.	– Hold	26.00
July 25	Deutsche Bank Securities S.A.	– Hold	28.00
July 18	Dom Maklerski BOŚ S.A	– Hold	26.20
July 11	Haitong Bank S.A.	▲ Buy	30.00
June 30	Pekao Investment Banking S.A.	– Hold	24.34
June 7	Wood&Co	– Hold	28.90
May 17	Dom Maklerski BOŚ S.A	▼ Sell	25.50
May 16	Goldman Sachs	– Neutral	26.80
May 15	Dom Maklerski BDM S.A.	▲ Cumulate	28.49
May 8	Raiffeisen CENTROBANK	▲ Buy	28.00
April 26	Wood&Co	▲ Buy	28.60
April 17	Goldman Sachs	– Neutral	25.60
March 23	Berenberg	▲ Buy	27.50
March 23	Trigon Dom Maklerski S.A.	▲ Buy	29.40
March 14	Citigroup Global Markets Inc.	– Neutral	25.00
March 3	ERSTE Group Research	▲ Cumulate	26.00
February 17	Dom Maklerski BZ WBK S.A.	▲ Buy	28.50
January 30	IPOPEMA Securities S.A.	– Hold	25.00
January 27	DM mBanku S.A.	▼ Reduce	22.30

Recommendations released in 2018 after the reporting period

Date	Institution	Recommendation	Target price [PLN]
March 19	Citi	– Neutral	26.70
March 5	DM mBanku S.A.	▲ Cumulate	24.90
February 13	Raiffeisen CENTROBANK	▲ Buy	27.30
February 8	Goldman Sachs	– Neutral	27.80
February 2	Berenberg	– Hold	27.50
January 31	DM mBanku S.A.	– Hold	25.70

Structure of recommendations as at March 21, 2018



Target price as at March 21, 2018 [PLN]

minimum	24.3
maximum	31.0
average	27.7

7.4. Close dialogue with the capital market

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

In order to ensure current access to information we participate in conferences with investors, we organize numerous individual meetings and roadshows both in Europe and in the United States. Moreover, every quarter, after the publication of financial results, we organize periodical meetings with investors and sell-side analysts as well as teleconferences with the members of the Company's management. Both are open events. In 2017, we attended meeting with approximately 300 meetings with representatives of the capital market during 18 conferences and roadshows outside of Poland.

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

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

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

Numerous distinctions presented to Cyfrowy Polsat in the field of investor relations are the confirmation of our efforts which are aimed at guaranteeing high quality and top standards of the Group's communication with the capital markets in Poland and around the world. Several times in the past years we were ranked at the top spots of the Best Listed Company of the Year ranking organized by *Puls Biznesu* daily. In 2017, we were once again named "Best IR Department in a Listed Company" in Poland, with the award presented to us during the third edition of the CEE Capital Markets Awards. Moreover,

in 2017, Cyfrowy Polsat was also a finalist in the ranking “Transparent Company 2016”, organized by the daily *Parkiet* in cooperation with the Institute of Accountancy and Taxes. In March 2018, Cyfrowy Polsat was announced the winner of the investor relations survey among WIG30 companies, organized by the daily *Parkiet* and the Chamber of Brokerage Houses in the poll of representatives of financial institutions.

7.5. Dividend policy

On November 8, 2016 the Management Board of the Company adopted a new dividend policy of the Company, worded as follows:

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

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

Predictable dividend payout to shareholders is one of the main goals underlying our capital resources management policy. To assure attractive profitability levels for the capital employed by our shareholders, while at the same time bearing in mind the strategy of deleveraging of the Group, the Management Board has set the desirable consolidated debt level, as measured by the net debt/EBITDA ratio, which should be reduced to below the level of 1.75x.

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

1. if the ratio of the Group’s net debt to consolidated EBITDA, as calculated for the end of the quarter preceding the quarter of adoption of the dividend payout resolution and while accounting for the impact that the proposed dividend payout will have on net debt, is lower than 3.2x but higher than 2.5x, then the Management Board of Cyfrowy Polsat S.A. will recommend a dividend payout in the range between PLN 200 million and PLN 400 million;
2. if the ratio of the Group’s net debt to consolidated EBITDA, as calculated for the end of the quarter preceding the quarter of adoption of the dividend payout resolution and while accounting for the impact that the proposed dividend payout will have on net debt, is equal or lower than 2.5x but higher than 1.75x, the Management Board of Cyfrowy Polsat S.A. will recommend a dividend payout in the range from 25% to 50% of the Group’s consolidated net profit for the past financial year;
3. if the ratio of the Group’s net debt to consolidated EBITDA, as calculated for the end of the quarter preceding the quarter of adoption of the dividend payout resolution and while accounting for the impact that the proposed dividend payout will have on net debt, is lower than 1.75x, the Management Board of Cyfrowy Polsat S.A. will recommend a dividend payout in the range from 50% to 100% of the Group’s consolidated net profit for the past financial year.

Every time when presenting a proposal of distribution of the profit, along with the recommendation, the Company’s Management Board will take into account the Group’s net profit, financial standing and liquidity, existing and future liabilities (including potential restrictions related to facility agreements and other financial documents), the assessment of the Group’s prospects in specific market and macroeconomic conditions, potential necessity of spending funds for the Group’s

development, in particular through acquisitions and embarking on new projects, one-off items, as well as valid legal regulations. Moreover, given that a significant portion of the generated capital resources is obtained by the Group from dividends paid by its subsidiaries, the above mentioned policy and the Board's recommendation will, in each case, be dependent on the financial situation of the Company's subsidiaries and the Company itself.

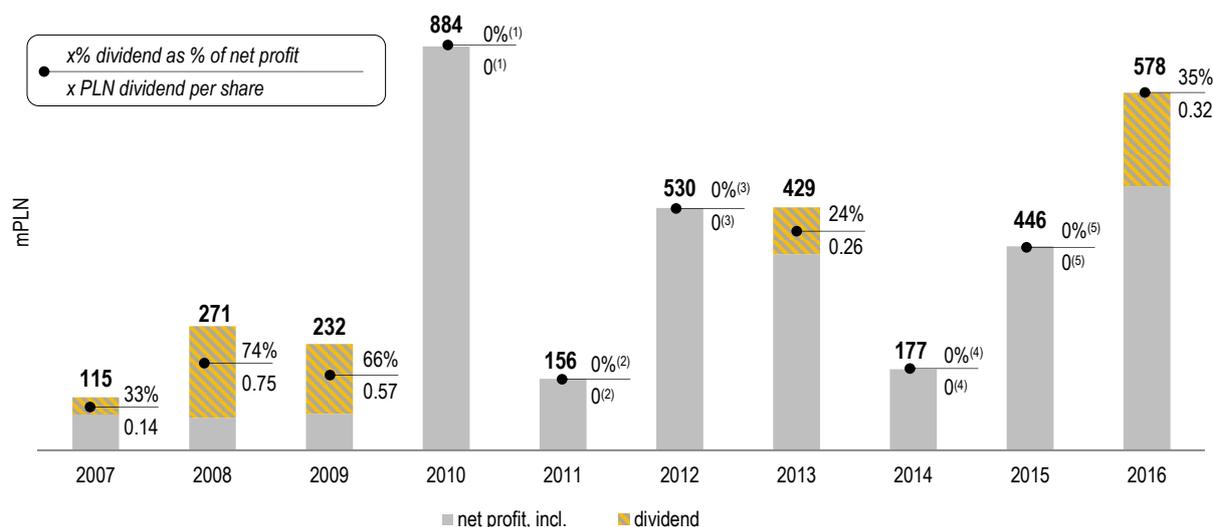
The dividend policy will be subject to regular verification by the Company's Management Board. In particular, the Management Board provides for a modification of the dividend policy following the refinancing of Polsat Group's debt which is expected in 2020.

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

Distribution of net profit of Cyfrowy Polsat for 2016

Acting in accordance with resolution no. 35 of the Ordinary General Meeting, held on June 27, 2017, regarding profit distribution, the Company's total standalone net profit for the financial year ended December 31, 2016 in the amount of PLN 578.0 million was distributed in such a way that PLN 204.7 million was allocated to dividend for shareholders and PLN 373.3 million was allocated to the reserve capital.

History of Cyfrowy Polsat's profit sharing



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

8. CORPORATE GOVERNANCE STATEMENT

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

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

Application of principles of corporate governance

Following the entry into force of the Best Practices 2016 on January 1, 2016, the Management Board of the Company has adopted the recommendations and principles specified in the aforementioned document, except for the recommendations included in items III.R.1., IV.R.2., VI.R.1., VI.R.2., VI.R.3. and the detailed principles included in items I.Z.1.3., II.Z.1., II.Z.7., III.Z.2., III.Z.4., III.Z.5., IV.Z.2., V.Z.6., VI.Z.4. At the same time, the Management Board decided that the recommendations and detailed principles, marked as items I.Z.1.10., III.Z.6., VI.Z.1. and VI.Z.2. do not apply to the Company.

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

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

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

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

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

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

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

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

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

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

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

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

- **Principle IV.Z.2.**, about ensuring publicly available real-time broadcasts of general meetings. An efficient course of proceedings of general meetings as well as cost optimization are priorities for the Management Board. The Management Board makes every effort to ensure that the documentation, as well as the proceedings of general meetings ensure transparency and protect the rights of all shareholders. Information regarding draft resolutions and adopted resolutions, as well as additional materials, is disclosed in the form of current reports and published on the Company's website, thus enabling equal access to information on the matters addressed at general meetings for all stakeholders. In view of the above, the Management Board is of the opinion that ensuring real-time coverage of general meetings would not be economically justified. At present the Management Board plans no changes to the manner in which general meetings are organized.
- **Principle V.Z.6.**, stating that in its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company. The Company's internal regulations related to prevention, identification and solving of conflicts of interests do not meet the requirements of principle V.Z.6. In particular, they do not include a list of criteria and circumstances under which a conflict of interest may arise in the Company. In accordance with § 3 item 4 of the Supervisory Board By-laws and § 3 item 3 of the Management Board Bylaws, a Supervisory Board Member or a Management Board Member should inform the Supervisory Board, or both the Management Board and the Supervisory Board - in the case of a Management Board Member - of any existing conflict

of interests, or the possibility of its emergence, and such an individual should refrain from participation in discussions or voting on resolutions related to a matter in which there exists a conflict of interests. In the opinion of the Company's Management Board, current internal regulations properly address the principles of conduct in a situation of conflict of interests.

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

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

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

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

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

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

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

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

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

Nonetheless, it should be underscored that in accordance with the regulations related to information disclosure, the Company presents, in its annual report, general information regarding the remuneration principles valid in the Company as well as the information regarding the remuneration obtained in a given financial year by Management Board Members and Supervisory Board Members, while indicating the fixed and the variable components. The presented

information also indicates the rules of payment of severance pay and other payments on account of termination of employment.

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

The Management Board is responsible for our internal control system and its effectiveness in the process of preparing financial statements and interim reports prepared and published in accordance with the provisions of the Ordinance of the Minister of Finance of February 19, 2009 regarding current and periodic information to be submitted by issuers of securities, and the conditions for recognizing equivalence of information required under non-member states regulations.

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

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

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

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

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

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

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

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

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

The Audit Committee, appointed within the Company's Supervisory Board, supervises the financial reporting process in the Company. The Audit Committee oversees the financial reporting process, in order to ensure sustainability, transparency and integrity of financial information. Two out of three Members of the Audit Committee meet the independence criteria set out in

the Best Practices 2016 in section II.Z.4. and the requirements listed in article 129 item 3 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight. .

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

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

On June 20, 2017, the Company entered into an agreement with PricewaterhouseCoopers Sp. z o.o., with registered office in Warsaw at 14 ul. Lecha Kaczyńskiego, for the performance of an audit of standalone financial statements for the financial year ended December 31, 2017 of Cyfrowy Polsat S.A.

The following summary presents a list of services provided by the certified auditor and remuneration for the services in the twelve month period ended on December 31, 2017 and December 31, 2016.

[mPLN]	For the year ended December 31	
	2017	2016
Review of interim financial statements	0.1	0.1
Audit of financial statements for the year and other certifying services	0.3	0.3
Business and tax consulting (provision of services terminated by December 31, 2017)	0.6	0.3
Total	1.0	0.7

8.4. Share capital and shareholding structure of Cyfrowy Polsat

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

The tables below present Shareholders of Cyfrowy Polsat S.A. possessing material bundles of shares as at the balance date, i.e. December 31, 2017 and as at the date of approval of this Report, i.e. March 21, 2018. 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.

Shareholding structure as at December 31, 2017:

Shareholder	Number of shares	% of shares	Number of votes	% of votes
Reddev Investments Limited ⁽¹⁾ , including:	154,204,296	24.11%	306,709,172	37.45%
- privileged registered shares	152,504,876	23.85%	305,009,752	37.24%
- ordinary bearer shares	1,699,420	0.26%	1,699,420	0.21%
Embud2 Sp. z o.o. Sp. K-A ⁽²⁾	58,063,948	9.08%	58,063,948	7.09%
Karswell Limited ⁽²⁾	157,988,268	24.70%	157,988,268	19.29%
Sensor Overseas Limited ⁽³⁾ , including:	55,092,796	8.61%	82,005,421	10.01%
- privileged registered shares	26,912,625	4.21%	53,825,250	6.57%
- ordinary bearer shares	28,180,171	4.40%	28,180,171	3.44%
Others	214,196,708	33.50%	214,196,708	26.16%
Total	639,546,016	100.00%	818,963,517	100.00%

(1) Reddev Investments Limited is an indirect subsidiary Mr. Zygmunt Solorz.

(2) Formerly Embud Sp. z o.o., entity controlled by Mr. Zygmunt Solorz.

(3) Entity controlled by EVO Foundation with its registered seat in Vaduz, Liechtenstein.

Shareholding structure as at March 21, 2018:

Shareholder	Number of shares	% of shares	Number of votes	% of votes
Zygmunt Solorz, through:	366.720.780	57,34%	540,267,031	65.97%
Reddev Investments Limited	175.245.671	27,40%	348,791,922	42.59%
Karswell Limited	133.411.161	20,86%	133,411,161	16.29%
Embud2 Sp. z o.o. Sp. K.A.	58.000.000	9,07%	58,000,000	7.08%
Argumenol Investment Company Limited	63.948	0,01%	63,948	0.01%
Others	272.825.236	42,66%	278,696,486	34.03%
Total	639.546.016	100,00%	818,963,517	100.00%

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

Since the publication of the previous interim report, i.e. since November 9, 2017 (interim report for the third quarter of 2017) until the date of approval of this Report, i.e. March 21, 2018, the Company has received notifications issued pursuant to Article 69 of the Act of July 29, 2005 on public offering and the conditions of introducing financial instruments to an organized system of trading and on public companies from Karswell Limited, Sensor Overseas Limited, EVO Holding Limited, EVO Foundation, Reddev Investments Limited, TIVI Foundation and Mr. Zygmunt Solorz.

Karswell Limited

According to the notification received on January 30, 2018, the Company was informed of a disposal transaction executed on January 26, 2018 by Karswell Limited consisting in the disposal of 16,577,107 ordinary bearer shares of Cyfrowy Polsat, constituting 2.59% of the share capital of the Company and carrying the right to 16,577,107 votes at the General Meeting of the Company, representing 2.02% of the total number of votes at the General Meeting of the Company.

Prior to the disposal of shares described above, Karswell held directly 149,988,268 ordinary bearer shares of Cyfrowy Polsat, constituting 23.45% of the share capital of the Company and carrying the right to 149,988,268 votes at the General Meeting of the Company, representing 18.31% of the total number of votes at the General Meeting of the Company.

Following the disposal of shares described above Karswell holds directly 133,411,161 ordinary bearer shares of Cyfrowy Polsat, constituting 20.86% of the share capital of the Company and carrying the right to 133,411,161 votes at the General Meeting of the Company, representing 16.29% of the total number of votes at the General Meeting of the Company.

Sensor Overseas Limited, EVO Holding Limited and EVO Foundation

According to notifications received on January 30 and 31, 2018, the Company was informed that on January 29, 2018, Sensor Overseas Limited disposed of and Reddev Investments Limited acquired 21,041,375 registered, privileged with respect to votes shares of Cyfrowy Polsat constituting 3.29% of the share capital of the Company and carrying the right to 42,082,750 votes at the General Meeting of the Company, representing 5.14% of the total number of votes at the General Meeting of the Company. EVO Foundation is the direct parent of EVO Holding, and EVO Holding controls directly Sensor.

Prior to the disposal of shares by Sensor, EVO Foundation and EVO Holding held indirectly and Sensor held directly 55,092,796 shares of Cyfrowy Polsat, constituting 8.61% of the share capital of the Company and carrying the right to 82,005,421 votes at the General Meeting of the Company, representing 10.01% of the total number of votes at the General Meeting of the Company. The above shares consisted of:

- (i) 26,912,625 registered, privileged with respect to votes shares of Cyfrowy Polsat, constituting 4.21% of the share capital of the Company and carrying the right to 53,825,250 votes at the General Meeting of the Company, representing 6.57% of the total number of votes at the General Meeting of the Company, and
- (ii) 28,180,171 ordinary bearer shares of Cyfrowy Polsat, constituting 4.40% of the share capital of the Company and carrying the right to 28,180,171 votes at the General Meeting of the Company, representing 3.44% of the total number of votes at the General Meeting of the Company.

Following the disposal of shares by Sensor, EVO Foundation and EVO Holding hold indirectly and Sensor holds directly 34,051,421 shares of Cyfrowy Polsat, constituting 5.32% of the share capital of the Company and carrying the right to 39,922,671 votes at the General Meeting of the Company, representing 4.87% of the total number of votes at the General Meeting of the Company. The above shares consist of:

- (i) 5,871,250 registered, privileged with respect to votes shares of Cyfrowy Polsat, constituting 0.92% of the share capital of the Company and carrying the right to 11,742,500 votes at the General Meeting of the Company, representing 1.43% of the total number of votes at the General Meeting of the Company, and
- (ii) 28,180,171 ordinary bearer shares of Cyfrowy Polsat, constituting 4.40% of the share capital of the Company and carrying the right to 28,180,171 votes at the General Meeting of the Company, representing 3.44% of the total number of votes at the General Meeting of the Company.

Reddev Investments Limited and TiVi Foundation

According to notifications received on January 30, 2018, the Company was informed that on January 29, 2018, Reddev Investments Limited acquired 21,041,375 registered, privileged with respect to votes shares of Cyfrowy Polsat constituting 3.29% of the share capital of the Company and carrying the right to 42,082,750 votes at the General Meeting of the Company, representing 5.14% of the total number of votes at the General Meeting of the Company. Reddev is a direct subsidiary of TiVi Foundation.

Prior to the Acquisition of Shares, TiVi Foundation held indirectly and Reddev held directly 154,204,296 shares of Cyfrowy Polsat, constituting 24.11% of the share capital of the Company and carrying the right to 306,709,172 votes at the General Meeting of the Company, representing 37.45% of the total number of votes at the General Meeting of the Company. The above shares consisted of:

- (i) 152,504,876 registered, privileged with respect to votes shares of Cyfrowy Polsat, constituting 23.84% of the share capital of the Company and carrying the right to 305,009,752 votes at the General Meeting of the Company, representing 37.24% of the total number of votes at the General Meeting of the Company, and
- (ii) 1,699,420 ordinary bearer shares of Cyfrowy Polsat, constituting 0.27% of the share capital of the Company and carrying the right to 1,699,420 votes at the General Meeting of the Company, representing 0.21% of the total number of votes at the General Meeting of the Company.

Following the Acquisition of Shares, TiVi Foundation holds indirectly and Reddev holds directly 175,245,671 shares of Cyfrowy Polsat, constituting 27.40% of the share capital of the Company and carrying the right to 348,791,922 votes at the General Meeting of the Company, representing 42.59% of the total number of votes at the General Meeting of the Company. The above shares consist of:

- (i) 173,546,251 registered, privileged with respect to votes shares of Cyfrowy Polsat, constituting 27.13% of the share capital of the Company and carrying the right to 347,092,502 votes at the General Meeting of the Company, representing 42.38% of the total number of votes at the General Meeting of the Company, and
- (ii) 1,699,420 ordinary bearer shares of Cyfrowy Polsat, constituting 0.27% of the share capital of the Company and carrying the right to 1,699,420 votes at the General Meeting of the Company, representing 0.21% of the total number of votes at the General Meeting of the Company.

Mr. Zygmunt Solorz

According to the received notification, the share in the total number of votes at the General Meeting of the Company held indirectly by Mr. Solorz, through entities controlled by him, changed as a result of concluding two transactions mentioned above, that is the disposal of 16,577,107 ordinary bearer shares of the Company by Karswell on January 26, 2018 and the disposal by Sensor Overseas Limited to the benefit of Reddev Investments Limited of 21,041,375 registered, privileged with respect to votes shares of Cyfrowy Polsat on January 29, 2018.

Prior to the transactions Mr. Solorz held indirectly, through entities controlled indirectly and directly by him, that is Reddev, Karswell, Embud2 Sp. z o.o. Sp. k.a. and Argumenol Investment Company Limited 362,256,512 shares of Cyfrowy Polsat, constituting 56.64% of the share capital of the Company and carrying the right to 514,761,388 votes at the General Meeting of the Company, representing 62.85% of the total number of votes at the General Meeting of the Company. The above shares consisted of:

- (i) 152,504,876 registered, privileged with respect to votes shares of Cyfrowy Polsat, constituting 23.84% of the share capital of the Company and carrying the right to 305,009,752 votes at the General Meeting of the Company, representing 37.24% of the total number of votes at the General Meeting of the Company held through Reddev, and
- (ii) 209,751,636 ordinary bearer shares of Cyfrowy Polsat, constituting 32.80% of the share capital of the Company and carrying the right to 209,751,636 votes at the General Meeting of the Company, representing 25.61% of the total number of votes at the General Meeting of the Company, held through the following entities:
 - a. through Reddev - 1,699,420 ordinary bearer shares of Cyfrowy Polsat, constituting 0.27% of the share capital of the Company and carrying the right to 1,699,420 ordinary votes at the General Meeting of the Company, representing 0.21% of the total number of votes at the General Meeting of the Company;
 - b. through Karswell - 149,988,268 ordinary bearer shares of Cyfrowy Polsat, constituting 23.45% of the share capital of the Company and carrying the right to 149,988,268 votes at the General Meeting of the Company, representing 18.31% of the total number of votes at the General Meeting of the Company;
 - c. through Embud2 – 58,000,000 ordinary bearer shares of Cyfrowy Polsat, constituting 9.07% of the share capital of the Company and carrying the right to 58,000,000 votes at the General Meeting of the Company, representing 7.08% of the total number of votes at the General Meeting of the Company;
 - d. through Argumenol – 63,948 ordinary bearer shares of Cyfrowy Polsat, constituting 0.01% of the share capital of the Company and carrying the right to 63,948 votes at the General Meeting of the Company, representing 0.01% of the total number of votes at the General Meeting of the Company.

Following the transactions Mr. Solorz currently holds indirectly, through entities controlled indirectly and directly by him, that is Reddev, Karswell, Embud2 and Argumenol 366,720,780 shares of Cyfrowy Polsat, constituting 57.34% of the share capital of the Company and carrying the right to 540,267,031 votes at the General Meeting of the Company, representing 65.97% of the total number of votes at the General Meeting of the Company. The above shares consist of:

- (i) 173,546,251 registered, privileged with respect to votes shares of Cyfrowy Polsat, constituting 27.13% of the share capital of the Company and carrying the right to 347,092,502 votes at the General Meeting of the Company, representing 42.38% of the total number of votes at the General Meeting of the Company held through Reddev, and
- (ii) 193,174,529 ordinary bearer shares of Cyfrowy Polsat, constituting 30.21% of the share capital of the Company and carrying the right to 193,174,529 votes at the General Meeting of the Company, representing 23.59% of the total number of votes at the General Meeting of the Company held through the following entities:
 - a. through Reddev - 1,699,420 ordinary bearer shares of Cyfrowy Polsat, constituting 0.27% of the share capital of the Company and carrying the right to 1,699,420 ordinary votes at the General Meeting of the Company, representing 0.21% of the total number of votes at the General Meeting of the Company;
 - b. through Karswell - 133,411,161 ordinary bearer shares of Cyfrowy Polsat, constituting 20.86% of the share capital of the Company and carrying the right to 133,411,161 votes at the General Meeting of the Company, representing 16.29% of the total number of votes at the General Meeting of the Company;
 - c. through Embud2 - 58,000,000 ordinary bearer shares of Cyfrowy Polsat, constituting 9.07% of the share capital of the Company and carrying the right to 58,000,000 votes at the General Meeting of the Company, representing 7.08% of the total number of votes at the General Meeting of the Company;
 - d. through Argumenol – 63,948 ordinary bearer shares of Cyfrowy Polsat, constituting 0.01% of the share capital of the Company and carrying the right to 63,948 votes at the General Meeting of the Company, representing 0.01% of the total number of votes at the General Meeting of the Company.

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

As at the date of approval of this Report, i.e. March 21, 2018, the Company did not have any knowledge of any agreements that could result in a change in the proportion of shares held by hitherto shareholders in the future.

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

To the Company's best knowledge members of the Management Board did not hold any shares of the Company, directly and indirectly, as at the date of approval of this Report, i.e. March 21, 2018 as well as at the date of publication of the interim report, i.e. November 9, 2017 (interim report for the third quarter of 2017).

As at the date of approval of this Report, i.e. March 21, 2018, the Member of the Supervisory Board, Mr. Aleksander Myszkowski held directly 50,000 shares of the Company with the nominal value of PLN 2,000.00. To the Company's best knowledge the remaining Members of the Supervisory Board did not hold any shares of the Company, directly and indirectly, as at the date of approval of this Report, i.e. March 21, 2018.

8.4.3. Securities with special controlling rights

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

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

The holders of shares with special controlling rights are:

- Reddev Investments Ltd. (173,546,251 shares carrying 347,092,502 voting rights on General Meeting),
- Sensor Overseas Ltd. (5,871,250 shares carrying 11,742,500 voting rights on General Meeting).

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

8.4.4. Limitations related to shares

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

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

8.5. Articles of Association of the Company

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

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

8.6. General Shareholders' Meeting

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

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

- a) discussion and approval of Reports on the Management Board's activity and the Supervisory Board's activity, and the financial statements for the previous year,
- b) decision about distribution of profits, or covering losses,
- c) signing off for the Supervisory Board's and the Management Board's performance of duties,
- d) appointment and dismissal of members of the Supervisory Board and determination of their compensation,
- e) amendments to the Articles of Association of the Company,
- f) amendments to the business activity of the Company,
- g) increase or decrease in the share capital,
- h) merger or transformation of the Company,
- i) dissolution or liquidation of the Company,
- j) issuance of convertible bonds or seniority bonds,
- k) sale or lease of the Company and establishment of a right of use or sale of the Company's plant,
- l) purchase of real estate or equipment for the Company, serving for permanent usufruct for a price exceeding by 1/5 (one fifth) the paid-up share capital if the purchase takes place within two years of the Company's registration,
- m) all decisions regarding claims for damages upon establishment of the Company, or activities of management or supervision,
- n) other issues set out by the provisions of the commercial companies code.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8.7. Management Board of the Company

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

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

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

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

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

8.7.2. Composition of the Management Board and changes in 2017

At the date of approval of this Report, i.e. March 21, 2018, the Management Board consisted of seven Members. In 2017 there were no changes in the composition of the Management Board.

The following table presents names, surnames, functions, dates of appointment and dates of expiry of the current term of particular Members of the Management Board as at December 31, 2017.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

From the beginning his professional career Mr. Stec was connected with television market. From 1998 he worked among others for OMD Poland Sp. z o.o. media house, owned by Omnicom Group, where in the years 1998-2003 held a position of Managing Director of Brand&Media OMD. From February 2003 until May 2007 he was Managing Director of Telewizja Polsat's advertisement office - Polsat Media Sp. z o.o. (currently Polsat Media Biuro Reklamy Sp. z o.o. Sp.k.).

Mr. Stec graduated from the Management and Marketing Faculty of the Leon Kozminski Academy of Entrepreneurship and Management in Warsaw.

Katarzyna Ostap-Tomann has been connected with Cyfrowy Polsat Group since 2009, where she assumed the position of deputy CFO of the Capital Group in 2015, and she has been a Member of the Management Board responsible for the finances of the Group since October 2016. She also holds the position of Member of the Management Board of Telewizja Polsat Sp. z o.o., Polkomtel Sp. z o.o., INFO-TV-FM Sp. z o.o., CPSPV1 Sp. z o.o., CPSPV2 Sp. z o.o., Plus TM Management Sp. z o.o. and Polsat License Ltd.

In the years 1996–2004 she was employed at various positions at Philip Morris in Poland and in the regional headquarters of the company in Switzerland, where she gained considerable experience in the fields of corporate finance, financial reporting, management accounting and internal audit. In the years 2004–2009 she worked for TVN Group as financial controller of the capital group. She was responsible for the preparation of financial statements at the capital group level and internal management reporting. In 2009 she took the position of Director of Controlling at Cyfrowy Polsat, where she became Financial Director in 2012. Since 2011 she has also held the function of Financial Director at Telewizja Polsat, where she was appointed as Member of the Management Board in 2014. She has been a Member of the ACCA since 2001. In 2013–2017 she was a Member of the ACCA Council in Poland.

Ms. Ostap-Tomann is a graduate of the Warsaw School of Economics with a major in International Economic and Political Relations and also holds the title of MBA from Oxford Brookes University.

8.7.3. Competences and Bylaws of the Management Board

Our Management Board acts pursuant to the provisions of the commercial companies code, the Company's Articles of Association and the Bylaws of Management Board approved by the Supervisory Board on 29 November 2007.

The Management Board runs our matters in a transparent and efficient way pursuant to the provisions of the law, our internal provisions and the Best Practices 2016. Upon taking decisions related to our matters, the Members of the Management Board act within justified limits of business risk.

The following are entitled to submit statements on our behalf

- (i) in the case of one person Management Board – the President of the Management Board acting independently, and
- (ii) in the case of a more numerous Management Board – the President of the Management Board acting independently, the Vice-president of the Management Board acting jointly with a Member of the Management Board or another Vice-president, two Members of Management Board acting jointly, the Vice-president of the Management Board acting jointly with a proxy, or a Member of the Management Board acting jointly with a proxy.

All issues related to our management, not restricted by the provisions of the law or the Articles of Association to the competence of the Supervisory Board or the General Meeting, are within the scope of competence of the Management Board.

Members of the Management Board participate in sessions of the General Meeting and provide substantive answers to questions asked during the General Meeting. Members of the Management Board invited to a meeting of the Supervisory Board by the Chairman of the Supervisory Board participate in the meeting with the right to take the floor regarding issues on the agenda. Members of the Management Board shall, within their scope of competence and the scope necessary to settle issues discussed by the Supervisory Board, submit explanation and information regarding Company affairs to the participants in the meeting of the Supervisory Board.

The Board adopts resolutions provided that at least a half of the Members of the Board are present in the meeting and all Members of the Board have been notified of the meeting. Resolutions are adopted by an absolute majority of votes of the Members of the Board present in the meeting or participating in the voting. The establishment of a proxy requires consent of all the Members of the Management Board. Each Member of the Management Board may revoke the power of proxy. In the case of equality of votes upon adoption of resolutions by the Management Board the vote of the President of the Management Board shall prevail.

Resolutions are adopted in a meeting or in a manner set out below. The President of the Management Board or an authorized Member of the Board calls meetings of the Management Board. The meetings of the Management Board are held in our offices or another place indicated by the person calling the meeting.

The voting is open. A secret voting shall be administered upon a request of just one Member of the Board present in the meeting.

Moreover, according to the Bylaws of the Management Board, the Management Board may adopt resolutions in writing, or in a manner enabling instantaneous communication of the Members of the Management Board by means of audio-video communication (e.g. teleconferencing, videoconferencing).

8.7.4. Remuneration of the Members of the Management Board

Information regarding remuneration of Members of the Management Board in 2017 is included in Note 42 of the financial statements for the financial year ended December 31, 2017.

8.7.5. Managerial contracts with Members of the management board setting out severance packages payout as a result of their resignation or dismissal from the position without a material cause

The Company has concluded managerial contracts with the following Members of the Management Board: Dariusz Działkowski, Tomasz Gillner-Gorywoda, Aneta Jaskólska, Agnieszka Odorowicz and Katarzyna Ostap-Tomann. These contracts do not provide for the payment of severance packages as a result of the resignation of the mentioned above Members of the Management Board or their dismissal from the position without a material cause, or in the case when their resignation or dismissal results from a merger by acquisition of the Company.

8.8. Supervisory Board

The Supervisory Board consists of five to nine Members including the Chairman of the Supervisory Board, appointed by the General Shareholders' Meeting. The General Shareholders' Meeting, prior to appointment of Members of the Supervisory Board for a new term, determines the number of Members of the Supervisory Board. The term of office of the Supervisory Board is three years and is a joint one.

The Supervisory Board consists of two Members meeting the criteria of an independent Member of the Supervisory Board as set out in article 129 item 3 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight and in principle II.Z.4 of the Best Practices 2016. A Supervisory Board Member is required to submit a statement to the Management and Supervisory Boards of the Company on his or her compliance with independence criteria.

8.8.1. Composition of the Supervisory Board

As at January 1, 2017 the Supervisory Board comprised the following Members:

- Marek Kapuściński – Chairman of the Supervisory Board,
- Józef Birka – Member of the Supervisory Board
- Robert Gwiazdowski – Independent Member of the Supervisory Board,
- Aleksander Myszka - Member of the Supervisory Board,
- Leszek Rekxa – Independent Member of the Supervisory Board,
- Heronim Ruta - Member of the Supervisory Board,
- Tomasz Szelaż - Member of the Supervisory Board.

On November 15, 2017 Mr. Heronim Ruta resigned from the membership of the Company's Supervisory Board effective from November 30, 2017

The following table presents names, surnames, functions, dates of appointment and dates of expiry of the current term of particular Members of the Supervisory Board as at December 31, 2017.

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Marek Kapuściński	Chairman of the Supervisory Board	2016	2016	2018
Józef Birka	Member of the Supervisory Board	2015	2015	2018
Robert Gwiazdowski	Independent ⁽¹⁾ Member of the Supervisory Board Chairman of the Audit Committee	2008	2015	2018
Aleksander Myszk	Member of the Supervisory Board	2015	2015	2018
Leszek Reksa	Independent ⁽¹⁾ Member of the Supervisory Board Member of the Audit Committee	2008	2015	2018
Tomasz Szelaąg	Member of the Supervisory Board Member of the Audit Committee Member of the Remuneration Committee	2016	2016	2018

(1) conforms with the independence criteria listed article 129 item 3 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight and in principle II.Z.4 of the Best Practices 2016.

Marek Kapuściński joined the Company's Supervisory Board on 1 October 2016, and has performed the function of Chairman since 25 October 2016. He graduated from the Faculty of Trade of the Academy of Planning and Statistics in Warsaw (now the Warsaw School of Economics) and completed postgraduate studies at SEHNAP in cooperation with Stern School of Business – New York University.

Until the end of September 2016, for over 25 years, he has been part of the Procter&Gamble team. From July 2011 as a General Manager and Vice President (that is a President of the Management Board/CEO) for nine key markets of the Central Europe, and before that – from January 2007 he was responsible for Poland and Baltic states. Currently, he is a Member of the Supervisory Boards of Bank Handlowy w Warszawie S.A. and Cydrownia S.A. and provides consulting services within the Essences Consulting Group. He is also involved in the activities of the public benefit organizations supporting the development of the young Polish culture and arts.

Józef Birka joined the Company's Supervisory Board in April 2015. He is an advocate and graduate of the Faculty of Law of Wrocław University. He has been associated with Telewizja Polsat S.A. since its inception, he was in charge of the function of the President of the Management Board of Telewizja Polsat during the first licensing procedure granting terrestrial license to broadcast the first independent countrywide TV channel in Poland. Since its establishment, he is a Member of the Board of the POLSAT Foundation, one of the largest non-governmental organizations operating in Poland.

Mr. Józef Birka has extensive experience of working in statutory bodies of commercial-law companies. He is a Member of the Supervisory Boards of Telewizja Polsat, Polkomtel and Elektrim S.A. Between 2004 and 2006 he was also in the Supervisory Board Member of Polska Telefonia Cyfrowa Sp. z o.o. He acted actively in the Association of Private Media Employers, incorporated into Polish Confederation of Private Employers "Lewiatan." He was honored by the Polish Bar Council with a medal "Commendable Service to the Advocates Bar."

Robert Gwiazdowski has been a Member of the Company's Supervisory Board since July 2008. He holds a post-doctoral degree of Habilitated Doctor (*doctor habilitatus*) in law and is a professor at Łazarski University. Mr. Gwiazdowski is an active attorney-at-law and tax advisor.

In the years 2005-2014, he served as President of Adam Smith Centre. He is currently a Chairman of the Institute's Council. In 2006-2007, he served as Chairman of the Supervisory Board of the Polish Social Insurance Institution (Zakład Ubezpieczeń Społecznych). At present, Mr. Gwiazdowski serves as Chairman of the CAS Program Committee, Chairman of the Warsaw Enterprise Institute Board, Chairman of the Supervisory Board of ZPP (Union of Entrepreneurs and Employers) and Chairman of the Supervisory Board of KIGS (the Polish Institute of Silver Economy).

Aleksander Myszka joined the Company's Supervisory Board in April 2015. He is a solicitor and graduate of the Faculty of Law of Wrocław University. In 1976, he commenced his career as a solicitor in a Law Firm in Oleśnica, and then he worked for Law Office No. 4 in Wrocław where he also held a position of a Director for two terms of office. In particular, he focused in his practice on civil law and since the mid-eighties he has specialized in commercial law and developed legal services for business entities. He was honored by the Polish Bar Council with a medal "Commendable Service to the Advocates Bar." His career has been connected with Telewizja Polsat since its establishing, as Mr. Myszk is one of its co-founders. For 12 years – in the period from 1995 to 2007 – he held the position of the President of the Management Board of Telewizja Polsat.

Since April 2007 Mr. Aleksander Myszk has been a Member of the Supervisory Board of Telewizja Polsat and since November 2011 - a Member of the Supervisory Board of Polkomtel. He is also a Member of the Polsat Foundation Council since its creation, that is since 1996. He is also a co-founder and a Member of Stowarzyszenie Kreatywna Polska, a society gathering the community of artists and creative industries, whose main goals are the protection of copyrights and intellectual property. In 2015, Mr. Myszk was elected for a 3-year term of office to the Council of the Polish Film Institute. In 2016-2017 he was a Member of the Management Board of Association of Private Media Employers, incorporated into Polish Confederation of Private Employers "Lewiatan."

Leszek Reksa was appointed a Member of the Company's Supervisory Board in July 2008. He graduated from the Foreign Trade Faculty of the Central School of Planning and Statistics in Warsaw (currently: Warsaw School of Economics). He has also completed numerous specialist seminars and courses in management and finance, including a seminar on corporate management at the Faculty of Finance at DePaul University in Chicago.

He has vast experience in managerial positions at various companies, including 20 years in the banking sector (Powszechna Kasa Oszczędności Bank Polski S.A.). Mr. Reksa also has many years' experience in serving on the governing bodies of commercial-law companies, which includes the positions of President of the Management Board of PHU BIMOT S.A., Member of the Supervisory Board of Bankowy Fundusz Leasingowy S.A., and Member of the Supervisory Board of Zakłady Azotowe Kędzierzyn S.A. Currently he is a Member of the Management Board of AGRAMPEX Sp. z o.o. and a Member of Supervisory Boards of PLUS BANK S.A. and EBU Węgrzynowo.

Tomasz Szelag has been a Member of the Company's Supervisory Board since October 2016, where he is also a Member of the Audit Committee and Remuneration Committee. He graduated from the National Economy Faculty of the Economic Academy of Wrocław, with major in International Economic and Political Relations specializing in Foreign Trade. He has been involved with Cyfrowy Polsat since 2009. In 2016 he was appointed a Member of Supervisory Boards of Polkomtel, Telewizja Polska, ZE PAK and Plus Bank S.A.

In 2000-2003 Mr. Szela was an assistant at Foreign Trade Faculty of the Economic Academy of Wrocław. In May 2003 Mr. Szela received PhD title for his thesis on hedging transaction used by world copper producers and went on to become a lecturer in the Faculty of International Economic Relations of the Economic Academy of Wrocław. Between 2003 and 2004 he also held a position of a lecturer in the Wrocław School of Banking - at the Faculty of International Economic Relations. Parallel to his academic career Mr. Szela also developed his professional career gaining experience in managerial positions in the area of finance and investment. From 2003, Mr. Szela was Chief Specialist in the Currency Risk Department of KGHM Polska Miedź S.A., and then of the Market Risk and Analysis Department. In September 2004, he became Director of the Department. In December 2004, he became Director of Hedging Department of KGHM and held the function until March 2007. From April 2007 to June 2008 he worked as Director of Branch of Société Générale Bank in Wrocław. In July 2008, Mr. Szela took the position of Vice-president for Finance in Telefonía Dialog S.A., which he held until March 2009. In Telefonía Dialog S.A. Mr. Szela was responsible for finance, accounting, controlling, and budgeting management, and also owner supervision and capital investment, logistics and purchases, project management and IT.

From May 2009 until September 2016 he held the position of Member of the Management Board and Chief Financial Officer in Cyfrowy Polsat S.A. and was responsible for broadly understood finances in the entire capital group. In the years 2010-2016 Mr. Szela was a Member of the Management Boards of numerous companies from Polsat Group, including Telewizja Polsat (October 2011-October 2014), INFO-TV-FM Sp. z o.o. (July 2012-November 2016), Plus TM Management (April 2014-December 2016) and Polkomtel (September 2014-December 2016). He was also a President of the Management Board of Cyfrowy Polsat Trade Marks Sp. z o.o. (2010-2016) and Telewizja Polsat Holdings Sp. z o.o. (2012-2016).

8.8.2. Competences and Bylaws of the Supervisory Board

The Supervisory Board acts pursuant to the commercial companies code and also pursuant to the Articles of Association of the Company and the Bylaws of the Supervisory Board of 3 December 2007.

Pursuant to the Articles of Association of the Company the Supervisory Board performs constant supervision over activities of the enterprise. Within the scope of supervision performance the Supervisory Board may demand any information and documents regarding our business from the Management Board.

Members of the Supervisory Board shall take necessary steps to receive regular and full information from the Management Board regarding material matters concerning our business and risks involved in the business and the strategies of risk management. The Supervisory Board may - not infringing the competencies of other bodies of the Company - express their opinion on all the issues related to our proceedings, including forwarding motions and proposals to the Board.

The competencies of the Supervisory Board also include matters restricted by the Commercial Companies Code, in particular:

- a) audit of the financial statements both as to their compliance with the books and documents and also the factual state, audit of the interim and annual reports of the Management Board, or Management Board's motions regarding allocation of profit or covering debts and presenting written reports with results of the audits to the General Shareholders Meeting,
- b) creating, once a year, and presenting before the Annual General Meeting a concise evaluation of the situation of the Company, considering the evaluation of the internal control system, and the system for managing risks relevant for the Company,
- c) appointment of Members of the Management Board,
- d) delegation of Members of the Supervisory Board to temporary performance of duties of Members of the Management Board who are unable to perform their duties,
- e) suspending particular or all Members of the Management Board for material reasons,
- f) approval of the Bylaws of the Management Board,
- g) determination of remuneration of the Members of the Management Board,
- h) appointment of a certified auditor to examine financial statements of the Company,
- i) granting consent for disbursement of a down payment toward the anticipated dividend.

Moreover, the competencies of the Supervisory Board include:

- a) creation and presentation of an evaluation of the work of the Management Board to the General Shareholders' Meeting,
- b) analysis and issuing of an opinion on matters that may be the subject of a resolution of the General Meeting,
- c) approval of one-year and long-term programs for the Company developed by the Management Board,
- d) determination of the remuneration level of the Supervisory Board delegated to temporary performance of duties of a Member of the Management Board,
- e) granting consent for participation in other companies,
- f) granting consent for appointing, dismissing and suspending members of authorities of the subsidiaries,
- g) granting consent for entering into a material agreement with a related entity,
- h) granting consent for performance of activities resulting in the Company incurring a liability, with the exception of:
 - activities projected or set out in the annual program for the Company approved by the Supervisory Board, or
 - activities resulting in incurring a liability of the value up to PLN 10.0 million, including guarantees or issuing or guaranteeing bills of exchange done in the scope of daily business, in particular the business of pay digital television, Internet service or the business of MVNO.
- i) issuing, upon the Management Board's request, opinion on all issues material for the Company.

Meetings of the Supervisory Board take place at least once a quarter. The venue for meetings is the seat of the Company or any other place indicated by the person calling the meeting.

The Chairman of the Supervisory Board, or a Member of the Supervisory Board appointed by the Chairman calls a meeting of the Supervisory Board. Meetings of the Supervisory Board are chaired by the Chairman, and in the case of his absence by a Member of the Supervisory Board indicated by the Chairman in writing, or another Member of the Supervisory Board elected by the Members present in the meeting.

The Chairman calls a meeting of the Supervisory Board also upon request of a Member of the Management Board, or a Member of the Supervisory Board, or upon a motion of a shareholder representing at least one tenth of the share capital. A Meeting of the Supervisory Board shall take place at least within 14 days of the date of filing a written application to the Chairman.

Resolutions of the Supervisory Board are passed by majority of votes cast. In the case of equality the vote of the Chairman prevails. A resolution of the Supervisory Board requires inviting all the Members of the Supervisory Board and presence of at least half of the Members of the Supervisory Board to be valid.

The Supervisory Board may pass resolutions via means of direct, remote communication and also a Member of the Supervisory Board may cast their vote in writing via other Member of the Supervisory Board.

Members of the Supervisory Board execute their rights and perform their duties in person. Members of the Supervisory Board participate in General Meetings.

Moreover, within the performance of their duties, the Supervisory Board shall:

- a) once a year prepare and present before the General Meeting a report on its activities and the evaluation of the situation of the Company in the scope provisioned for by corporate governance principle adopted by the Company,
- b) investigate and issue opinions about matters to be subjects of resolutions of the General Meeting.

8.8.3. Committees of the Supervisory Board

Pursuant to the Bylaws of the Supervisory Board the Supervisory Board may appoint permanent committees, in particular an Audit Committee, a Remuneration Committee, or a Strategic Committee, as well as ad hoc committees to investigate certain issues remaining in the competence of the Supervisory Board or acting as advisory and opinion bodies of the Supervisory Board.

Pursuant to article 128 item 1 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight, an Audit Committee functions in the Company. As at December 31, 2017, the Audit Committee comprised the following Members of the Supervisory Board:

- Robert Gwiazdowski, an independent Member of the Supervisory Board and Chairman of the Audit Committee,
- Leszek Reksa, an independent Member of the Supervisory Board,
- Tomasz Szelaq.

On November 15, 2017 Mr. Heronim Ruta resigned from the membership of the Company's Supervisory Board effective November 30, 2017, thus also resigning from the Audit Committee.

The composition of the Audit Committee meets the requirements article 128 item 1 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight.

As at December 31, 2017, Mr. Tomasz Szelaq was a Member of the Remuneration Committee. On November 15, 2017 Mr. Heronim Ruta resigned from the membership of the Company's Supervisory Board effective November 30, 2017, thus also resigning from the Remuneration Committee.

The provisions of the Bylaws of the Supervisory Board apply to meetings, resolutions, and minutes of the committees of the Supervisory Board, and in the case of the Audit Committee provisions of the Bylaws of the Audit Committee are also applicable, with reservation of the following information.

A committee is appointed by the Supervisory Board from among its Members by means of a resolution. The committee appoints, by means of a resolution, the Chairman of the particular committee from among its Members. The mandate of

a Member of a particular committee expires upon expiry of the mandate of the Member of the Supervisory Board. The Supervisory Board may, by means of a resolution, resolve to dismiss a Member from the composition of a particular committee before the expiry of the mandate of the Member of the Supervisory Board. Dismissal from membership in a committee is not tantamount to dismissal from the Supervisory Board.

The first meeting of a committee is convened by the Chairman of the Supervisory Board or other Member of the Supervisory Board they indicate. Meetings of the committees are convened as needs arise, ensuring thorough delivery of duties assigned with a particular committee. Minutes of committee's meetings and adopted resolutions are made available to the Members of the Supervisory Board not being Members of the committee. The Chairman of a given committee chairs its proceedings. The Chairman also performs supervision over preparation of the agenda, distribution of documents, and preparation of minutes of the meetings of the committee.

Audit Committee

Regulations of the Audit Committee apply to the meetings, resolutions and minutes of meetings of the Audit Committee.

Meetings of the Audit Committee are convened by the Chairman of the Audit Committee or a Member of the Audit Committee authorized by the Chairman and are held at least once a quarter, at dates determined by the Chairman of the Audit Committee. Additional meetings of the Audit Committee may be convened by the Chairman of the Audit Committee at the request of the Member of the Audit Committee, Chairman of the Supervisory Board or another Supervisory Board Member, as well as at the request of the Management Board.

The Audit Committee passes resolutions if at least half of its Members is present at the Meeting and all Members were properly invited. Resolutions are passed by an absolute majority of votes and in the case of equal number of votes, the Chairman of the Audit Committee shall have a casting vote. Members of the Audit Committee may participate in the Committee's meetings and vote in person, or by means of direct remote communications.

The work of the Audit Committee is managed by its Chairman who is responsible for preparing an agenda of each meeting or may appoint a Secretary of the Audit Committee whose tasks include in particular preparation of an agenda of each meeting and organization of the distribution of documents for Committee's meetings. A notification about the meeting, including its agenda together with all required materials, must be delivered to the Members of the Audit Committee at least 7 days before the meeting and in extraordinary circumstances a Committee's meeting may be convened at a shorter notice than the above mentioned deadline.

The Chairman of the Audit Committee may ask a relevant Management Board Member to prepare appropriate materials.

Minutes are taken of every meeting of the Audit Committee and are then signed by all Members who participated in a given meeting. Minutes of the Audit Committee meetings, including conclusions, instructions, opinions and recommendations are presented to the Supervisory Board at its next meeting as well as to the Management Board.

Members of the Supervisory Board who are not part of the Audit Committee may, at their own initiative, participate in the Committee's meeting, however without a voting right. Chairman of the Audit Committee may invite Members of the Supervisory Board, auditors, employees of the Company and other persons as experts.

The tasks of the Audit Committee include in particular monitoring of the financial reporting process, efficiency of internal control systems and risk management systems as well as internal audit and performing financial revision activities, in particular carrying out audits by an audit company.

The Audit Committee evaluates, controls and monitors independence of a certified auditor and audit company, in particular in the case when the audit company provides the Company with services other than auditing of financial documents in the Company and grants consent to provision of such services by the audit company. The Audit Committee notifies the Company's Supervisory Board about the results of audit and the role of the Committee in the auditing process as well as explains how this audit contributed to the reliability of financial reporting in the Company.

The tasks of the Audit Committee also include developing a policy of selection of an audit company to carry out the audit as well as developing a policy of provision by the selected audit company of permitted services which are not part of the audit. The Audit Committee provides the Supervisory Board with recommendation regarding the selection of audit company.

Additionally, the Audit Committee presents recommendations to the Company's Management Board aimed at ensuring the reliability of financial reporting in the Company.

8.8.4. Remuneration of the Members of the Supervisory Board

Information regarding remuneration of Members of the Supervisory Board in 2017 is included in Note 43 of the consolidated financial statements for the financial year ended December 31, 2017.

8.9. Diversity policy applicable to administrative, managing and supervising bodies of the Company

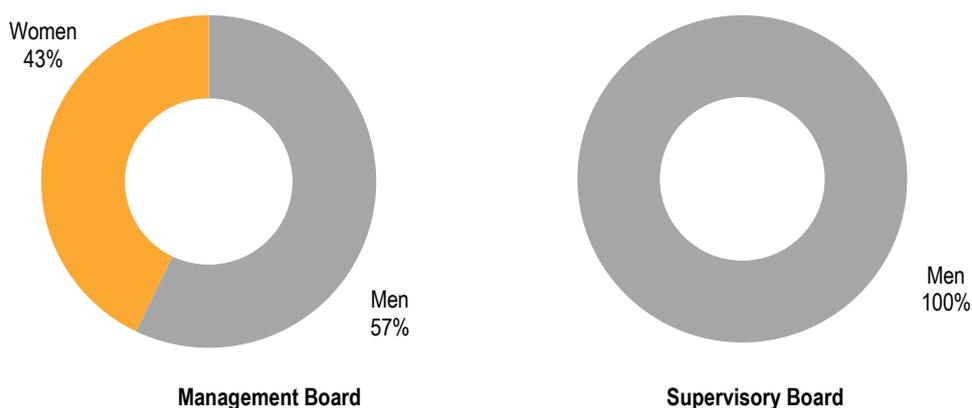
Cyfrowy Polsat adopted the *Diversity and Human Rights Respect Policy of Cyfrowy Polsat Group* (the "Diversity Policy") which has the purpose of supporting the pursuit of the Company's as well as the Group's business goals. The policy enables the Company to respond in a better way to the employees' expectations, make full use of their potential and at the same time help adjust to the changes occurring on the labor market. We trust that diversity is one of the sources of our competitive advantage, and competing views, opinions, work styles, skills and experience generate new quality and enable companies to achieve better business results.

The basic principles of Polsat Group's Diversity Policy include respect for human rights and prohibition of any discrimination due to gender, age, sexual orientation, competence, experience, potential degree of disability, nationality, ethnic and social origin, color of skin, language, parental status, religion, confession or lack of any confession, political views, or any other dimensions of diversity which are defined by valid law.

The principles and the goals of Polsat Group's Diversity Policy are regulated in the Group's corporate documents which apply to all the companies that form the Group, especially in the Code of Ethics, HR Policy, Work Regulations, Regulations of Anti-Mobbing Committee. The Diversity Policy is implemented, among others, by including diversity-related issues in HR processes and tools, such as organization of training and staff development sessions, recruitment and rewarding processes. An Ethics Ombudsman has been appointed in the Group whose tasks include, among others, the prevention of discrimination and mobbing.

The provisions of Polsat Group's Diversity Policy apply to all employees, including Management Board Members and Supervisory Board Members of the Company. The diagrams below present the gender and age structures of the Members of the Management and Supervisory Boards of Cyfrowy Polsat.

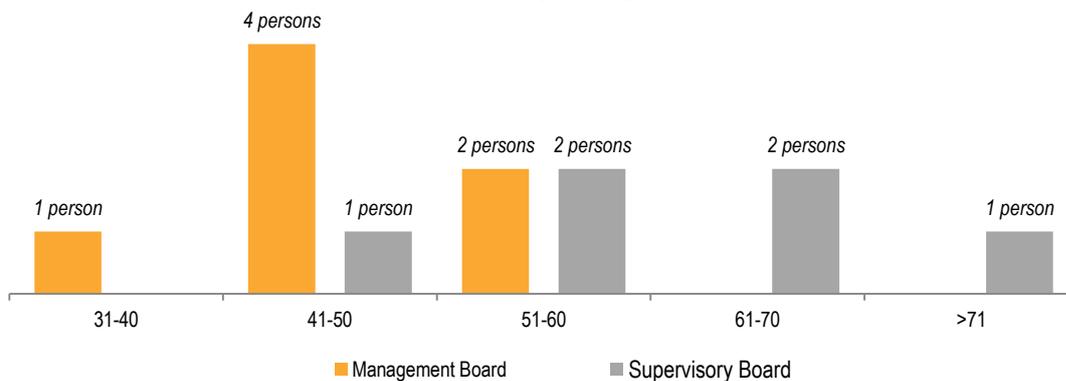
Structure of the Management Board and the Supervisory Board of Cyfrowy Polsat with respect to gender



As at December 31, 2017 four men and three women sat on Cyfrowy Polsat's Management Board while the Supervisory Board included six men.

Members of the Management Board and the Supervisory Board of the Company have education in such fields as management and marketing, law, economy, finance, or technical education as well as rich and diverse professional experience.

**Structure of the Management Board and Supervisory Board of Cyfrowy Polsat
with respect to age**



Tobias Solorz
President of the Management Board

Katarzyna Ostap-Tomann
Member of the Management Board

Dariusz Działkowski
Member of the Management Board

Tomasz Gillner-Gorywoda
Member of the Management Board

Aneta Jaskólska
Member of the Management Board

Agnieszka Odorowicz
Member of the Management Board

Maciej Stec
Member of the Management Board

Warsaw, March 21, 2018

GLOSSARY

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

Glossary of general terms

Term	Definition
Aero2	Aero2 spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000305767, subsidiary of Litenite.
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.
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.
Combined SFA	CP SFA of September 21, 2015 as amended by the Amendment, Restatement and Consolidation Deed of September 21, 2015.
CP Revolving Facility Loan	The revolving facility loan of up to PLN 300 million, issued under the CP Senior Facilities Agreement, with the maturity date of September 21, 2020.
CP Senior Facilities Agreement, CP SFA	The Senior Facilities Agreement of September 21, 2015 between the Company, Telewizja Polsat, CPTM, Polsat License Ltd. and Polsat Media Biuro Reklamy, and a syndicate of Polish and foreign banks, covering the CP Term Facility Loan and the CP Revolving Facility Loan.
CP Term Facility Loan	The term facility loan of up to PLN 1.2 billion, issued under the CP Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
Cyfrowy Polsat, the Company	Cyfrowy Polsat Spółka Akcyjna, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000010078.
Cyfrowy Polsat Trade Marks, CPTM	Cyfrowy Polsat Trade Marks spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. 0000373011.
EEA, European Economic Area	Internal Market guaranteeing free move of goods, services, capital and persons, comprising EU Member States and Island, Norway and Lichtenstein.
Eileme 1	Eileme 1 AB (publ), a company under Swedish law, registered under No. 556854-5668.
Eileme 2	Eileme 2 AB (publ), a company under Swedish law, registered under No. 556854-5676. Merged with Eileme 1 on November 24, 2017.
Eileme 3	Eileme 3 AB (publ), a company under Swedish law, registered under No. 556854-5692. Merged with Eileme 1 on November 24, 2017.
Eileme 4	Eileme 4 AB (publ), a company under Swedish law, registered under No. 556854-5684. Merged with Eileme 1 on November 24, 2017.
Embud2	Embud2 spółka z ograniczoną odpowiedzialnością spółka komandytowo-akcyjna (Limited Liability Company Limited Joint-Stock Partnership) entered in the register of entrepreneurs of the National Court Register under entry No. 0000676753, legal successor of Embud spółka z ograniczoną odpowiedzialnością.
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.
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.
NBP	Narodowy Bank Polski, the central bank of the Republic of Poland.
NDS	National Depository for Securities (<i>Krajowy Depozyt Papierów Wartościowych, KDPW</i>).
Netia	Netia Spółka Akcyjna, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000041649.
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 Term Facility Loan	The term facility loan of up to PLN 10,300 million, issued under the PLK Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
Plus Bank	Plus Bank Spółka Akcyjna entered in the register of entrepreneurs of the National Court Register under entry No. 0000096937.
Plus TM Management	Plus TM Management spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000378997.
Polkomtel	Polkomtel spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. 0000419430. The company was established following the transformation of Polkomtel Spółka Akcyjna, which was entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000020908.
Sensor	Sensor Overseas Limited, a company under Cypriot law, with its registered office in Nicosia, Cyprus.
SOKiK	The District Court in Warsaw, 17 th 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.
TM Rental	TM Rental spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000567976.
UKE	The Office of Electronic Communications (Urząd Komunikacji Elektronicznej).
UOKiK	The Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów).

Technical terms

Term	Definition
2G	Second-generation cellular telecommunications networks commercially launched on the GSM standard in Europe.
3G	Third-generation cellular telecommunications networks that allow simultaneous use of voice and data services.
4G	Fourth-generation cellular telecommunications networks.
Add-on sales	Sales technique combining cross-selling and up-selling.
CAGR	Compounded Annual Growth Rate – the average annual growth rate calculated for a given value using the following formula: $CAGR = \left(\frac{W_{rk}}{W_{rp}} \right)^{\left(\frac{1}{rk-rp} \right)} - 1$ <p>where: rp – start year, rk – end year, Wrp – value in start year, Wrk – value in end year.</p>
Catch-up TV	Services providing access to view selected programming content for a certain period after it was broadcast. Cyfrowy Polsat provides such services from 2011.
Churn	Termination of the contract with Customer by means of the termination notice, collections or other activities resulting in the situation that after termination of the contract the Customer does not have any active service provided in the contract model. Churn rate presents the relation of the number of customers for whom the last service has been deactivated (by means of the termination notice as well as deactivation as a result of collection activities or other reasons) within the last 12 months to the annual average number of customers in this 12-month period.
Contract ARPU	Average monthly revenue per customer generated in a given settlement period (including interconnect revenue).
Converged (integrated) services	A package of two or more services from our pay TV, mobile telecommunications and broadband Internet access offering, provided under a single contract and for a single subscription fee.
Customer, contract customer	Natural person, legal entity or an organizational unit without legal personality who has at least one active service provided in a contract model.
DTH	Satellite pay TV services provided by us in Poland from 2001.
DTT	Digital Terrestrial Television.
DVB-T	Digital Video Broadcasting – Terrestrial technology.
DVR	Set-top boxes equipped with a hard drive enabling the recording of TV programs (Digital Video Recorder).
GB	Gigabyte – a measure of digital information, comprising one billion bytes, or 1024 ³ bytes, depending on the interpretation – decimal or binary, respectively.
GSM	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols, in particular regarding access to voice services (Global System for Mobile Communications).
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.
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).

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 8x8 antennas).
Mb/s	A unit of telecommunications channel capacity, being one million or 1024 ² bytes (Megabyte) per second, depending on the interpretation – decimal or binary, respectively.
MIMO	Multiple Input Multiple Output, a method for multiplying the capacity of a wireless network using multiple transmit and receive antennas.
Mobile TV	Our pay mobile TV service rendered in DVB-T technology.
Multiroom	Our service providing access to the same range of TV channels on several television sets in one household for a single subscription fee.
MUX, Multiplex	A package of TV and radio channels and additional services, simultaneously transmitted digitally to the user over a single frequency channel.
MVNO	Mobile Virtual Network Operator.
ODU-IDU	Outdoor Unit Indoor Unit, a proprietary solution of Polsat Group based on a set comprising an external LTE modem (ODU) and an indoor WiFi router (IDU), which increases effective coverage and improve the quality of the LTE signal.
PPV	Services providing paid access to selected TV content (pay-per-view).
Prepaid ARPU	Average monthly revenue per prepaid RGU generated in a given settlement period (including interconnect revenue).
PVR	Electronic commodity hardware for digital recording of TV programs on its hard drive (Personal Video Recorder).
real users	An estimated number of persons who visit a website or open an Internet application at least once in a given month (Real Users).
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).
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.
Usage definition (90-day for prepaid RGU)	Number of reported RGUs of prepaid services of mobile telephony and Internet access refers to the number of SIM cards which received or answered calls, sent or received SMS/MMS or used data transmission services within the last 90 days. In the case of free of charge Internet access services provided by Aero2, the Internet prepaid RGUs were calculated based on only those SIM cards, which used data transmission services under paid packages within the last 90 days.
VOD - Home Movie Rental	Our video on demand services.
WiFi	A set of standards for the development of wireless computer networks.

Management Board's representations

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

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

hereby represents that:

- to the best of its knowledge the annual financial statements and the comparative information were prepared in accordance with the currently effective accounting principles, and they truly and fairly present the financial position of the Company as well as its financial performance and the Management Board's report on activities contains a true image of the Company's development, achievements and standing, including description of basic risks and threats;

- the entity authorised to audit the financial statements, which has audited the annual financial statements, was selected in accordance with the regulations of law. That entity as well as the registered auditor who has carried out the audit fulfilled the conditions for expressing an unbiased and independent opinion about the financial statements pursuant to relevant provisions of the national law and industry norms.

Tobias Solorz	Dariusz Działkowski	Tomasz Gillner-Gorywoda	Aneta Jaskólska
President of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board

Agnieszka Odorowicz	Katarzyna Ostap-Tomann	Maciej Stec
Member of the Management Board	Member of the Management Board	Member of the Management Board

Warsaw, 21 March 2018



Independent auditor's report

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

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects the consolidated financial position of Cyfrowy Polsat S.A. (the 'Company') as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ('IFRS').

What we have audited

The Company's financial statements comprise:

- the balance sheet as at December 31, 2017;
- the income statement and the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

PricewaterhouseCoopers Sp. z o.o.,
ul. Lecha Kaczyńskiego 14, 00-638 Warszawa, Poland
T: +48 (22) 523 4000, F: +48 (22) 523 4040, www.pwc.com

RJ

Our audit approach

Overview



- The overall materiality for the engagement was amounting to PLN 12.6 million, i.e. 2.5% of EBITDA.
- We have audited the Company's financial statements for the year ended December 31, 2017.
- Recognizing sales revenue;
- Impairment of non-current assets;
- Claims, disputes and contingent liabilities;
- Assessment of new IFRS standards impact.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

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

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

Overall materiality	PLN 12.6 million (PLN 13.5 million for 2016 audit)
How we determined it	2.5% of EBITDA. EBITDA is an alternative performance measure and was defined by the Company in note 13 of the financial statements. The Management Board is responsible for defining and setting the related measure - EBITDA calculation method may vary from other entities' calculation of such measure.

Rationale for the materiality benchmark applied

We adopted the EBITDA as a basis for determining the overall materiality, as we believe that this ratio is commonly used to assess the activity of the Company for users of financial statements and generally accepted indicator of reference, especially for the entities with a significant external borrowing costs as well as depreciation and amortisation. The overall materiality was assumed at 2.5%, as based on our professional judgement it is in line with the acceptable quantitative thresholds for determining materiality levels.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above PLN 630 thousand as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit referred to the matter
<p><i>Recognizing sales revenue</i></p> <p>The Company disclosed information related to revenues on sales of services, finished goods, goods for resale and materials in Note 8 to the financial statements.</p> <p>In the financial year ended 31 December 2017, the Company earned revenue:</p> <ul style="list-style-type: none"> from retail sales to individual and business customers (mainly in respect of subscription fees on programme packages of paid digital TV and subscription fees for telecommunication services provided to contract customers, and leasing of TV receiver sets); from wholesale (advertising and sponsoring, signal transmission and broadcasting services); from sales of equipment. <p>This was the matter we focused on due to the fact that applying appropriate financial reporting standards relating to recognizing and presenting revenue is a complex matter and requires Management Board estimates and accounting judgements, and is based on the use of computer data processing (in particular billing data).</p>	<p>Our audit procedures covered in particular:</p> <ul style="list-style-type: none"> understanding and assessing the internal control environment relating to the recognition, measurement and presentation of particular revenue streams; assessing compliance of the accounting policies relating to recognizing revenues with the respective financial reporting standards, in particular those related to material accounting estimates and judgments; testing IT General Controls and selected IT systems, including billing systems, used in the process of recognizing revenues by the Company to confirm their accuracy and completeness in the audited period; assessing the Company's Management Board's assumptions and estimates related to recognizing revenues, mainly in respect of multi-component contracts and discounts granted; in order to confirm the amounts of revenue recognized, testing material contracts concluded by the Company, on a selected sample, by reconciling amounts of revenue recognized to contract terms for particular revenue streams; testing internal controls, on a selected sample, in terms of the recognition and verification of billing revenue, to confirm the existence and correctness of measurement of revenues using IT systems;

- substantive testing, on a selected sample, consisting, among other things, of reconciling sales invoices issued, respective contracts with customers, billing tariffs applied (quotations) and payments received.

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

Impairment of non-current assets

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

The balance of goodwill recognized as at December 31, 2017 in the financial statements amounted to PLN 197.0 million and the investment in subsidiaries and associates amounted to PLN 12,125.5 million. In accordance with IFRS, the Management Board of the Company performs goodwill impairment tests at least as at the end of each financial year and tests investment in subsidiaries and associates for impairment in case of identification of any impairment indicators.

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

Our audit procedures covered in particular:

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

Based on the procedures performed we concluded that the assumptions adopted by the Management Board are rational and supported by the documentation obtained. We have not identified any material adjustments to the financial statements. We assessed goodwill impairment testing disclosures and communicated our comments related to their level of detail. We have not identified

deficiencies having material impact on the financial statements.

Claims, disputes and contingent liabilities

The Company presented the disclosures related to contingent liabilities and disputes in Note 40, 44 and 45 to the financial statements.

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

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

Our audit procedures covered in particular:

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

In the light of the evidence obtained, we concluded that the judgements and estimates made by the Management Board in respect of the disputes and related provisions are justified. As a result of procedures performed, we have not identified any material adjustments to the financial statements. We assessed claims, disputes and contingent liabilities disclosures and communicated our comments related to their level of detail. We have not identified deficiencies having material impact on the financial statements.

Assessment of new IFRS standards impact

In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the financial statements should disclose information required to assess the potential impact of new accounting standards that have been published, but are not in force, yet. European Securities and Markets Authority (ESMA), whose member is the Polish Financial Supervision Authority (*Komisja*

Our audit procedures covered in particular:

- understanding and assessing the process of identification and assessment of impact of new IFRS on the financial statements;
- critical assessment of the key assumptions and judgements made by the Company's Management;



Nadzoru Finansowego) expects that such disclosures would include both qualitative and detailed quantitative information explaining the impact of the first time adoption of the standards to enable users of the financial statements to understand the impact which the implementation of new standards will have on the financial situation of the Company.

The Company presented disclosures related to the assessment of the new standards IFRS 9 *Financial instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leasing* in note 4 to the financial statements, which presents quantitative and qualitative information enabling users to understand the expected impact of the new standards and areas where the management made significant judgements and estimates related to the implementation of the new standards.

These disclosures were subject to our analysis due to the significant impact of new IFRS (in particular IFRS 15) on the financial statements and the requirement of making significant judgements and estimates by the Company's Management, following the additional requirements related to these disclosures imposed on the public interest entities by the financial oversight bodies.

- critical assessment of the completeness of analysis performed by the Company's Management;
- detailed testing, on sample basis, of - among other - the declared impact of the new IFRS on the financial statements;
- verification of accuracy and completeness of disclosures in relation to the requirements of the standards and expectations of the financial oversight bodies.

Our audit procedures did not identify any material adjustments of provisional impact of implementing new standards on equity as of January 1, 2018 disclosed in the financial statements. We assessed impact of implementation of new standards disclosures and communicated our comments related to their level of detail. We have not identified deficiencies having material impact on the financial statements.

Other information

Management is responsible for the other information. The other information comprises the Report of the Management Board on the activities of Cyfrowy Polsat S.A. in the financial year ended December 31, 2017 (the 'Report on the Company's operations').

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

In connection with our audit of the financial statements, our responsibility is to read the Report on the Company's operations and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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



In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The Key Registered Auditor responsible for the audit resulting in this independent auditor's report is Pawel Wesolowski.

A handwritten signature in blue ink, appearing to read 'Pawel Wesolowski', is written over the printed name.

Pawel Wesolowski
Key Registered Auditor
No. 12150

PricewaterhouseCoopers Sp. z o.o.
Warsaw, Poland

March 21, 2018

CYFROWY POLSAT S.A.

**Financial Statements
for the year ended 31 December 2017**

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

Table of contents

APPROVAL OF THE FINANCIAL STATEMENTS	4
INCOME STATEMENT	5
STATEMENT OF COMPREHENSIVE INCOME	5
BALANCE SHEET	6
CASH FLOW STATEMENT	8
STATEMENT OF CHANGES IN EQUITY	9
NOTES TO THE FINANCIAL STATEMENTS	10
GENERAL INFORMATION	10
1. The Company	10
2. Composition of the Management Board of the Company	10
3. Composition of the Supervisory Board of the Company	11
PRINCIPLES APPLIED IN THE PREPARATION OF FINANCIAL STATEMENTS	11
4. Basis of preparation of the financial statements	11
5. Accounting policies	14
6. Determination of fair values	27
7. Approval of the Financial Statements	27
EXPLANATORY NOTES	28
8. Revenue	28
9. Operating costs	28
10. Gain/(loss) on investment activities, net	29
11. Finance costs	29
12. Income tax	29
13. EBITDA (unaudited)	31
14. Basic and diluted earnings per share	31
15. Property, plant and equipment	32
16. Impairment test on goodwill allocated to the "Services to individual and business customers" cash-generating unit	34
17. Other intangible assets	35
18. Investment property	37
19. Shares in subsidiaries and associates	38
20. Deferred distribution fees	40
21. Other non-current assets	40

22. Inventories	40
23. Trade and other receivables	41
24. Other current assets	41
25. Cash and cash equivalents	42
26. Equity	43
27. Hedge valuation reserve	44
28. Loans and borrowings	45
29. Issued bonds	48
30. Company as a lessor and as a lessee	48
31. Other non-current liabilities and provisions	49
32. Trade and other payables	50
33. Deposits for equipment	51
34. Deferred income	51
OTHER NOTES	52
35. Financial instruments	52
36. Capital management	65
37. Barter transactions	66
38. The impact of merger with Metelem Holding Company Limited on assets, equity and liabilities	66
39. Transactions with related parties	67
40. Litigations	69
41. Other disclosures	70
42. Remuneration of the Management Board	71
43. The Supervisory Board remuneration	72
44. Important agreements and events	72
45. Events subsequent to the reporting date	73
46. Judgments, financial estimates and assumptions	73
FINANCIAL RESULTS FOR THE 3 MONTHS ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016	76
47. Income Statement	76
48. Statement of Comprehensive Income	76
49. Revenue	77
50. Operating costs	77
51. Gain/(loss) on investment activities, net	78
52. Finance costs	78

APPROVAL OF THE FINANCIAL STATEMENTS

On 21 March 2018, the Management Board of Cyfrowy Polsat S.A. approved the financial statements of the Cyfrowy Polsat S.A. prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which include:

Income Statement for the period

from 1 January 2017 to 31 December 2017 showing a net profit for the period of: PLN 606.0

Statement of Comprehensive Income for the period

from 1 January 2017 to 31 December 2017 showing a total comprehensive income for the period of: PLN 604.9

Balance Sheet as at

31 December 2017 showing total assets and total equity and liabilities of: PLN 13,536.8

Cash Flow Statement for the period

from 1 January 2017 to 31 December 2017 showing a net decrease in cash and cash equivalents amounting to: PLN 249.0

Statement of Changes in Equity for the period

from 1 January 2017 to 31 December 2017 showing an increase in equity of: PLN 400.2

Supplementary Information to the Financial Statements

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

Tobias Solorz	Dariusz Działkowski	Tomasz Gillner-Gorywoda	Aneta Jaskólska
President of the	Member of the	Member of the	Member of the
Management Board	Management Board	Management Board	Management Board

Agnieszka Odorowicz	Katarzyna Ostap-Tomann	Maciej Stec	Agnieszka Szatan
Member of the	Member of the	Member of the	Chief Accountant
Management Board	Management Board	Management Board	

Warsaw, 21 March 2018

Income Statement

	Note	for the year ended	
		31 December 2017	31 December 2016
Revenue	8	2,280.3	2,213.2
Operating costs	9	(1,994.8)	(1,904.1)
Other operating income, net		3.9	8.3
Profit from operating activities		289.4	317.4
Gain on investment activities, net	10	452.2	412.0
Finance costs	11	(84.4)	(102.4)
Gross profit for the period		657.2	627.0
Income tax	12	(51.2)	(49.0)
Net profit for the period		606.0	578.0
Basic and diluted earnings per share (in PLN)	14	0.95	0.90

Statement of Comprehensive Income

	Note	for the year ended	
		31 December 2017	31 December 2016
Net profit for the period		606.0	578.0
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Valuation of hedging instruments	27	(1.3)	9.8
Income tax relating to hedge valuation	27	0.2	(1.9)
Items that may be reclassified subsequently to profit or loss		(1.1)	7.9
Other comprehensive income, net of tax		(1.1)	7.9
Total comprehensive income for the period		604.9	585.9

Balance Sheet - Assets

	Note	31 December 2017	31 December 2016
Reception equipment	15	357.9	372.2
Other property, plant and equipment	15	114.6	131.4
Goodwill	16	197.0	197.0
Other intangible assets	17	66.3	73.7
Investment property	18	36.3	31.2
Shares in subsidiaries and associates	19	12,125.5	11,469.3
<i>includes shares in associate</i>		638.7	-
Non-current deferred distribution fees	20	33.1	28.3
Other non-current assets	21	27.6	38.0
<i>includes derivative instruments</i>		0.2	0.9
Total non-current assets		12,958.3	12,341.1
Inventories	22	65.6	84.9
Trade and other receivables	23	273.9	279.3
Income tax receivables		0.8	-
Current deferred distribution fees	20	75.0	76.2
Other current assets	24	133.7	223.5
<i>includes derivative instruments</i>		0.4	0.6
Cash and cash equivalents	25	29.5	278.8
Total current assets		578.5	942.7
Total assets		13,536.8	13,283.8

Balance Sheet - Equity and Liabilities

	Note	31 December 2017	31 December 2016
Share capital	26	25.6	25.6
Share premium	26	7,174.0	7,174.0
Hedge valuation reserve	27	0.1	1.2
Retained earnings		3,712.7	3,311.4
Total equity		10,912.4	10,512.2
Loans and borrowings	28	535.0	782.0
Issued bonds	29	975.7	975.5
Deferred tax liabilities	12	83.4	91.0
Deferred income	34	3.2	4.2
Other non-current liabilities and provisions	31	1.4	10.0
Total non-current liabilities		1,598.7	1,862.7
Loans and borrowings	28	379.9	239.1
Issued bonds	29	42.5	42.4
Trade and other payables	32	351.5	385.2
<i>includes derivative instruments</i>		0.5	-
Income tax liability		19.5	8.0
Deposits for equipment	33	2.4	1.9
Deferred income	34	229.9	232.3
Total current liabilities		1,025.7	908.9
Total liabilities		2,624.4	2,771.6
Total equity and liabilities		13,536.8	13,283.8

Cash Flow Statement

	Note	for the year ended	
		31 December 2017	31 December 2016
Net profit		606.0	578.0
Adjustments for:		(134.7)	(174.1)
Depreciation, amortization, impairment and liquidation	9	214.4	224.8
Interest expense		71.8	91.9
Change in inventories		19.4	(8.9)
Change in receivables and other assets		97.6	(48.2)
Change in liabilities, provisions and deferred income		13.6	96.2
Income tax	12	51.2	49.0
Net increase in reception equipment provided under operating lease		(155.7)	(173.1)
Dividends income and share in the profits of partnerships	10	(444.0)	(416.1)
Other adjustments		(3.0)	10.3
Cash from operating activities		471.3	403.9
Income tax paid		(47.8)	(55.2)
Interest received from operating activities		6.4	0.9
Net cash from operating activities		429.9	349.6
Received dividends, advance payments on dividend and shares in the profits of partnerships	10, 32	378.1	474.1
Cash acquired through merger with related entities	38	53.8	17.5
Proceeds from sale of property, plant and equipment		6.5	3.9
Loans granted		(0.5)	(13.3)
Loans repaid		10.5	7.5
Interest on loans repaid		1.5	-
Acquisition of property, plant and equipment		(16.7)	(37.8)
Acquisition of intangible assets		(12.9)	(15.7)
Share capital increase in subsidiary	19	(72.0)	-
Acquisition of shares in subsidiaries		-	(85.0)
Acquisition of shares in associate	19	(638.7)	-
Other		-	0.2
Net cash (used in)/from investing activities		(290.4)	351.4
Net cash from the Cash Management System Agreement with interest paid	28	103.5	(299.0)
Payment of interest on loans, borrowings, bonds and commissions*		(73.8)	(89.1)
Dividend paid	26	(204.7)	-
Repayment of loans and borrowings	28	(213.5)	(170.5)
Net cash used in financing activities		(388.5)	(558.6)
Net (decrease)/increase in cash and cash equivalents		(249.0)	142.4
Cash and cash equivalents at the beginning of the year		278.8	136.4
Effect of exchange rate fluctuations on cash and cash equivalents		(0.3)	-
Cash and cash equivalents at the end of the year		29.5	278.8

* includes impact of hedging instruments

Statement of Changes in Equity
for the year ended 31 December 2017

	Note	Number of shares	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	Total Equity
Balance as at 1 January 2017		639,546,016	25.6	7,174.0	1.2	3,311.4	10,512.2
Dividend declared and paid	26	-	-	-	-	(204.7)	(204.7)
Total comprehensive income		-	-	-	(1.1)	606.0	604.9
<i>Hedge valuation reserve</i>	27	-	-	-	(1.1)	-	<i>(1.1)</i>
<i>Net profit for the period</i>		-	-	-	-	606.0	606.0
Balance as at 31 December 2017		639,546,016	25.6	7,174.0	0.1	3,712.7	10,912.4

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

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

* As at 31 December 2017 and 31 December 2016 the capital excluded from distribution amounts to PLN 8.5. In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital.

Notes to the Financial Statements

General information

1. The Company

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

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

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

The Company is the Parent Company of Cyfrowy Polsat S.A. Capital Group (the 'Group'). On 7 April 2017 the Company completed a merger with its subsidiary, Metelem Holding Company Limited – the impact of the merger is presented in detail in note 38. As at 31 December 2017 the Group encompasses the Company, Eileme 1 AB (publ) ('Eileme 1') and its subsidiaries and joint ventures, Telewizja Polsat Sp. z o.o. and its subsidiaries and joint ventures, Cyfrowy Polsat Trade Marks Sp. z o.o. and its subsidiaries, INFO-TV-FM Sp. z o.o., Interphone Service Sp. z o.o., Teleaudio Dwa Sp. z o.o. Sp.k. and Orsen Holding Limited and its subsidiaries. On 5 December 2017 the Company acquired 31,76% shares of Netia S.A.

The Company as the Parent Company prepared the consolidated financial statements (approved on 21 March 2018). These financial statements should be read in conjunction with the consolidated financial statements.

2. Composition of the Management Board of the Company

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

3. Composition of the Supervisory Board of the Company

- Marek Kapuściński	President of the Supervisory Board,
- Józef Birka	Member of the Supervisory Board,
- Robert Gwiazdowski	Member of the Supervisory Board,
- Aleksander Myszka	Member of the Supervisory Board,
- Leszek Reksa	Member of the Supervisory Board,
- Heronim Ruta	Member of the Supervisory Board (until 30 November 2017),
- Tomasz Szelaąg	Member of the Supervisory Board.

Principles applied in the preparation of financial statements

4. Basis of preparation of the financial statements

Statement of compliance

These financial statements for the year ended 31 December 2017 have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU (IFRS EU). The Company applied the same accounting policies in the preparation of the financial data for the year ended 31 December 2017 and the financial statements for 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.

During the year ended 31 December 2017 the following became effective:

- (i) amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*
- (ii) amendments to IAS 7 *Disclosure Initiative*
- (iii) annual improvements – 2014-2016 reporting cycle

Standards published but not yet effective:

- (i) amendments to IFRS 9 *Financial instruments*
- (ii) IFRS 15 *Revenue from Contracts with Customers*
- (iii) clarification to IFRS 15 *Revenue from Contracts with Customers*
- (iv) amendments to IFRS 2 *Share-based Payment*
- (v) amendments to IFRS 4: Application of IFRS 9 *Financial Instruments* and IFRS 4 *Insurance Contracts*
- (vi) IFRS 16 *Leasing*
- (vii) annual improvements – 2014-2016 reporting cycle
- (viii) IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
- (ix) amendments to IAS 40 *Investment property*
- (x) IFRIC 23 *Uncertainty over income tax treatment*
- (xi) Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*
- (xii) Annual Improvements to IFRS Standards 2015-2017 Cycle
- (xiii) Amendments to IAS 19 *Employee benefits*

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

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

Estimated impact of the adoption of IFRS 9 and IFRS 15

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

	Estimated impact of adoption of IFRS 9 and IFRS 15			
	As reported at 31 December 2017	Estimated adjustments due to adoption of IFRS 9	Estimated adjustments due to adoption of IFRS 15	Estimated adjusted opening balance at 1 January 2018
Retained earnings	3,712.7	(0.0)	30.3	3,743.0

The total estimated adjustment (net of tax) to the opening balance of the Company's equity at 1 January 2018 is PLN 30.3. The principal component of estimated adjustment is an increase of PLN 30.3 in retained earnings due to earlier recognition of revenue (more details are presented in note *IFRS 15 Revenue from Contracts with Customers*).

IFRS 9 Financial Instruments

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

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. The Company did not early adopt IFRS 16.

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

Implementation of IFRS 16 will increase depreciation and financial costs which will result in an increase of EBITDA, assets and liabilities (due to the recognition of a right-of-use asset and a lease liability) as well as an increase of debt ratio. The Company assesses that the agreements for space rental which are currently presented as operational lease may result in recognition of right-of-use asset and finance liability. The Company is currently assessing the impact of IFRS 16 on the financial statements. Future minimum lease payments under operating lease pursuant to currently effective standards are presented in note 30.

5. Accounting policies

The accounting policies set out below have been applied by the Company consistently to all periods presented in the financial statements.

a) Basis of measurement

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments, which are valued at fair value.

b) Going concern assumption

These financial statements have been prepared assuming that the Company will continue as a going concern in the foreseeable future, not shorter than 12 months from 31 December 2017.

c) Functional currency and presentation currency

The financial data in the financial statements is presented in Polish zloty, rounded to million. The functional currency of the Company is the Polish zloty.

d) Judgments and estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about critical estimates and judgements in applying accounting policies is included in note 46.

e) Comparative financial information

Comparative data or data presented in previously published financial statements has been updated, if necessary, in order to reflect presentational changes introduced in the current period. The changes had no impact on previously reported amounts of net income or equity.

It should be noted that the year ended 31 December 2017 is not comparable to the year ended 31 December 2016 due to the merger of the Company with Metelem Holding Company Limited as at 7 April 2017 and the merger of the Company with Netshare Sp. z o.o. as at 30 November 2016.

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

f) Foreign currency

Transactions in foreign currencies are translated to Polish zloty at exchange rates effective on a day of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated in accordance with the balance sheet date into Polish zloty at the average exchange rate quoted by the National Bank of Poland ("NBP") for that date. The foreign exchange differences arising on translation of transactions denominated in foreign currencies and from the balance sheet valuation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the average NBP exchange rate in effect at the date of the valuation. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the average NBP foreign exchange rate in effect at the date the fair value was determined.

g) Financial instruments*(i) Non-derivative financial instruments*

Non-derivative financial instruments comprise trade and a part of other receivables, cash and cash equivalents, loans and borrowings, issued bonds, finance lease liabilities, deposits for equipment and trade and a part of other payables.

Non-derivative financial instruments are recognized initially at fair value increased by directly attributable transaction costs.

A financial instrument is recognized if the Company becomes a party to the contractual obligations of the instrument. Financial assets are derecognized if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset. Standardised sale and purchase transactions of financial assets are recognized at the transaction date i.e. on the date the Company is obliged to acquire or sell the asset. Financial liabilities are derecognized if the Company's obligations specified in the contract expire (are discharged or cancelled).

Cash and cash equivalents comprise cash on hand and short term deposits (up to 3 months). The cash and cash equivalents balance presented in the cash flow statement comprises the above mentioned cash and cash equivalents.

Principles for recognition of gains and losses on investment activities and finance costs are presented in note 5u.

Loans and receivables and other financial liabilities

Loans and receivables which are not derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses. Other financial liabilities which are not derivative financial instruments are measured at amortised cost using the effective interest method.

Deposits

Deposits received from subscribers and distributors are valued at amortised costs and are presented as non-current or current liabilities depending on the minimum term of the agreements.

*(ii) Derivative financial instruments**Hedge accounting*

The Company may use derivative financial instruments such as forward currency contracts, foreign exchange call options, interest rate swaps and cross-currency interest rate swaps to hedge its foreign currency and interest rate risks. The Company may use forward currency contracts and foreign exchange call options as cash flow hedges of its exposure to foreign currency risk in forecasted payments as well as interest rate swaps and cross-currency interest rate swaps for its exposure to volatility in the interest payments on floating rate debt.

For the purpose of hedge accounting, the Company's hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

For cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the hedge valuation reserve, while any ineffective portion is recognized immediately in the income statement.

The amounts recognized within other comprehensive income are transferred from equity to the income statement when the hedged transaction affects profit or loss, such as when the related gain or loss is recognized in finance cost or when a forecast sale occurs.

Gains and losses from the settlement of derivative instruments that are designated as, and are effective hedging instruments, are presented in the same position as the impact of the hedged item. The derivative instrument is divided into a current portion and a non-current portion only if a reliable allocation can be made.

Other derivatives not designated for hedge accounting

Derivative instruments that are not designated for hedge accounting are recognized initially at fair value, attributable transaction costs are recognized in the profit or loss as incurred. Subsequent to initial recognition, the Company measures those derivative financial instruments at fair value, and changes therein are recognized in profit or loss.

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or divided into a current and non-current portion based on an assessment of the relevant facts and circumstances (i.e. the underlying contracted cash flows):

- Where the Company will hold a derivative instrument considered an economic hedge (for which hedge accounting is not applied) for a period exceeding 12 months after the reporting date, such derivative instrument is classified as

non-current (or divided into current and non-current portions) consistent with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

h) Equity

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity.

Preferred shares

Preference share capital is classified as equity, if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity.

Costs attributable to the issue and public offer of shares

Costs attributable to a new issue of shares are recognized in equity while costs attributable to a public offering of existing shares are recognized directly in finance costs. These costs relating to both new issue and sale of existing shares are recognized on a pro-rata basis in equity and finance costs.

Share premium

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

Retained earnings

Retained earnings include net result, reserve capital and effect of merger with the Company. Effect of merger is calculated as the difference between assets and liabilities of the merged entity.

In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital. This capital is excluded from distribution, however, it can be utilised to cover accumulated losses.

i) Property, plant and equipment

(i) Property, plant and equipment owned by the Company

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes purchase price of the asset and other expenditure that is directly attributable to the acquisition and bringing the asset to a working condition for its intended use, including initial delivery as well as handling and storage costs. The cost of purchased assets is reduced by the amounts of vendor discounts, rebates and other similar reductions received.

The cost of self-constructed assets and assets under construction includes all costs incurred for their construction, installation, adoption, and improvement as well as borrowing costs incurred until the date they are accepted for use (or until the reporting date for an asset not yet accepted for use). The above cost also may include, if necessary, the estimated cost of dismantling and removing the asset and restoring the site. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Investment property

Investment property is defined as a property (land, building, or both) held by the Company to earn rentals or for capital appreciation or both.

Investment property is measured initially at cost. Once recognized all investment property held by the Company are measured using the cost model as set out in IAS 16. This means that the assets are recognized at cost and depreciated systematically over its useful life as presented in (i) above.

Investment property is removed from the balance sheet on disposal or when it is permanently withdrawn from use and no further economic benefits are expected from its disposal.

(iii) Subsequent costs

Subsequent cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company and the amount of the cost can be measured reliably. Replaced item is derecognised. Other property, plant and equipment related costs are recognized in profit and loss as incurred.

(iv) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The estimated useful lives for the current and comparative period are as follows:

Buildings and structures	2-61	Years
Reception equipment	2 or 3 or 5	Years
Technical equipment and machinery	2-22	Years
Vehicles	2-10	Years
Other	2-26	Years

Depreciation methods, useful lives and residual values of material assets are reviewed at each financial year-end and adjusted if appropriate.

(v) Leased assets

Assets used under lease, tenancy, rental or similar contracts which meet finance lease criteria, are classified as non-current assets and recognized at the lower of fair value of the leased asset and the present value of the minimum lease payments. Equipment that is provided to customers under operational leases is accounted for as property, plant and equipment (Reception equipment in balance sheet).

Assets subject to the lease are depreciated in a manner that is consistent with the policies applied to similar Company-owned assets. Depreciation is based on the principles of IAS 16 *Property, plant and equipment*. Where it is not reasonably certain that the lessee will obtain ownership of the asset before the lease term ends, the asset is depreciated over its useful life or the lease term, if shorter.

Carrying amounts of reception equipment and other items of property, plant and equipment may be reduced by impairment losses whenever there is uncertainty as to those assets' revenue generating potential or their future use in the Company's operations. The accounting policies relating to impairment are presented in note 5n.

j) Intangible assets

(i) Goodwill

Goodwill represents the excess of the sum of consideration transferred and payable, the amount of non-controlling interest in the acquiree and the fair value as at the date of acquisition of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired.

Goodwill is presented at purchase price less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if possible impairment is indicated. Goodwill is allocated to acquirer's cash-generating units for the purpose of testing for impairment. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Other intangible assets

The Company capitalizes costs of IT software internally generated, including employee-related expenses, directly resulting from generation and preparing asset to be capable of operating, if the Company is able to demonstrate: the technical feasibility of completing the intangible asset so that it will be available for use or sale; its intention to complete the intangible

asset and use or sell it; its ability to use or sell the intangible asset; how the intangible asset will generate probable future economic benefits, the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other intangible assets acquired by the Company are stated at cost less accumulated amortization and impairment losses.

Subsequent expenditure on existing intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in the profit or loss as incurred.

Amortization is based on the cost of an asset less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The estimated useful lives for respective intangible assets groups are as follows:

- Computer software: 2 – 15 years,
- Other: 2 – 7 years.

k) Shares in subsidiaries and associates

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

Subsidiaries are entities controlled by the Company. Associates are all entities over which the Company has significant influence but not control or joint control, over the financial and operating policies. This is generally the case where the Company holds between 20% and 50% of the voting rights.

l) Inventories

Inventories are measured at the lower of cost or net realizable value. Cost of acquisition or production cost of inventories is determined by using the weighted average cost of acquisition or production cost of inventory.

The cost of inventories includes purchase price, costs relating directly to the acquisition and the costs related to preparing the inventory for use or sale.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In the case of set-top boxes, mobile phones, modems and tablets, which under the business model applied by the Company are sold below cost, the loss on the sale is recorded when transferred to the customer.

The Company creates an allowance for slow-moving or obsolete inventories.

m) Settlements concerning data transfer purchases

Settlements concerning data transfer purchases are recognized in the nominal value upon payments made. The costs are recognized in the income statement based on actual usage of data transmission and contractual. Payments, which will be

settled after 12 months from the balance sheet date are presented as other non-current assets.

n) Impairment of assets

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis at balance sheet date. The remaining financial assets are assessed for impairment collectively in groups that share similar credit risk characteristics.

Receivables are reduced by an allowance based on the likelihood of future debt collection. The allowance is charged to cost of debt collection services and bad debt allowance and receivables written off. An allowance for receivables from individuals is estimated based on the historical recoverability of overdue receivables and recovery efficiency.

Impairment losses are reversed if a subsequent increase in recoverable value of a financial asset can be related objectively to an event occurring after the impairment losses were recognized.

(ii) Non-financial assets

The carrying amounts of non-financial assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of intangible assets which are not yet ready for use is assessed at each financial year-end.

The Company considers on annual basis whether there are indicators that investments in subsidiaries suffered any impairment (i.e. value of net assets). If so, then the impairment test is performed and the recoverable amount of the investment is estimated based on value-in-use calculations.

An impairment loss is recognized when the carrying amount of an asset or a cash-generating unit is greater than its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in the income statement. An impairment loss for a cash-generating unit is initially recognized as a decrease of goodwill assigned to this unit (group of units), then it proportionally reduces the carrying amount of other assets from this unit (group of units).

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In the case of assets that do not generate independent cash flows, the value in use is estimated for the smallest identifiable cash-generating unit to which the asset belongs.

An impairment loss for goodwill cannot be reversed. As for other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss other than that in respect of goodwill is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

o) Employee benefits

(i) Defined contribution program

The Company is obliged, under applicable regulations, to collect and remit the contribution to the state pension fund. These benefits, according to IAS 19 *Employee Benefits* represent state plans and are classified as defined contribution plans. Therefore, the Company's obligations for each period are estimated as the amount of contributions to be remitted for a given period.

(ii) Defined benefit program – retirement benefits

The Company is obliged to pay retirement benefits calculated in accordance with the relevant provisions of the Polish labour code. The minimum retirement benefit is as per the labour code provisions at the moment of payment.

The calculation is carried out using the Projected Unit Credit Method. Employee rotation is estimated based on historical experience and forecasts of future employment levels.

Changes in the value of the retirement benefit provision are recognized in the income statement. Actuarial gains and losses are recognized in the equity, in other comprehensive income in full in the period they originated.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are recognized as an expense as the related service is provided.

The Company recognizes a liability and charges the income statement for the amounts expected to be paid under short-term bonuses, if the Company has a legal or constructive obligation to make such payments as a result of past services provided by the employees and the obligation can be estimated reliably.

p) Provisions

A provision is recognized when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where the effect of the time value of money is material, the Company discounts the provision, using a pre-tax discount rate that reflects current market assessments of the time value of money and those risks specific to the component of the liability.

Certain disclosures may not be included in these consolidated financial statements as they relate to sensitive information.

Warranty provision

A warranty provision is recognized when products or goods, for which the warranty was granted, are sold. The amount of the provision is based on historical warranty data and on a weighted average of all possible outflows connected with warranty claims against their associated probabilities.

q) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company or a present obligation that arises from past events, but its amount cannot be estimated reliably or it is not probable that there will be an outflow of resources embodying economic benefits.

A contingent liability is disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Unless the possibility of any outflow in settlement is remote, the Company discloses for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practice able:

- an estimate of its financial effect;
- an indication of the uncertainties relating to the amount or timing of any outflow and
- the possibility of any reimbursement.

r) Revenue

Revenue, which excludes value added tax, returns, trade discounts and volume rebates, represents the gross inflow of economic benefit from Company's operating activities. Revenue is measured at the fair value of the consideration received or receivable. The Company's main sources of revenue are recognized as follows:

- (a) Retail revenue consists primarily of subscription fees paid by our pay digital television contract customers and our contract customers for telecommunication services. Retail revenue also includes contractual penalties related to terminated agreements in the amount expected to recover which are recognized when the contract is terminated and revenue from the rental of reception equipment. Revenue from above mentioned services is recognized as these services are provided.

Revenue from the rental of reception equipment and activation fees are recognized on a straight-line basis over the minimum base period of the subscription contract.

Revenues from prepaid mobile telephone services are recognized in profit or loss once the prepaid credit is utilised or forfeited.

- (b) Wholesale revenue consists of revenue from the sale of broadcasting and signal transmission, advertising and sponsorship revenue, revenue from the sale of licenses, sublicenses and property rights and interconnect revenue. Wholesale revenue is recognized, net of any discount given, when the relevant goods or service are provided.
- (c) Revenue from sale of equipment is measured at the fair value of the consideration received or receivable, net of discounts, rebates and returns. Revenue from the sale of goods is recognized in profit or loss when the significant risks and rewards of ownership have been transferred to the customer.
- (d) Other revenue is recognized, net of any discount given, when the relevant goods or service are provided.

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

s) Distribution fees

Commissions for distributors for registering new subscribers and for retention existing subscribers are recognized during the minimum basic period of the subscription agreement.

Turnover commissions for concluding a certain number of subscription contracts are recognized in the income statement as they are due.

Commissions for distributors which will be settled within the period of 12 months after the balance sheet date are presented as current assets, however, the commissions, which will be settled after the 12-month period from the balance sheet date, are presented as non-current assets.

t) Revenues and costs of barter transactions

Revenues from barter transactions for dissimilar services or goods are recognized when the services are rendered or goods are delivered. Programming licenses, products or services are expensed or capitalized when received or used. The Company recognizes barter transactions based on the estimated fair value of the programming licenses, products or services.

u) Gains and losses on investment activities and finance costs

Gains and losses on investment activities income includes interest income on funds invested, interest expenses (other than interest expenses on borrowings), dividends income, share in the profits of partnerships, results on the disposal of available-for-sale financial instruments, net foreign currency gains/losses, and results on completed forward exchange contracts and call options related to investment activities, impairment losses recognized on financial assets. Interest income and expense (other than interest expense on borrowings) is recognized as it accrues in profit or loss using the effective interest method. Dividends income is recognized in profit or loss on the date that the Company's right to receive payment is established, with the exception of advance dividend shown as other liabilities, if there is a likelihood of the return on the basis of the final distribution of financial results of the subsidiaries. Share in the profits of partnerships are recognized once unconditional right to the division of these profits is gained. Share in the losses of partnerships are recognized in accordance with the partners' agreements.

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

v) Lease payments

Payments under an operating lease are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments due to financial lease agreements are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

w) Taxation

Income tax expense/benefit for the year comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are measured based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, respectively, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be partly or wholly realised. When not recognized deferred tax asset becomes recoverable, it is recognised to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are offset by the Company as criteria for offsetting from IAS 12 are fulfilled.

x) Earnings per share

The Company presents basic and diluted earnings per share for its ordinary and preference shares. Basic earnings per share are calculated by dividing the period's profit or loss from continuing operations attributable to ordinary and preference shareholders of the Company by the weighted average number of ordinary and preference shares outstanding during the period. Diluted earnings per share are calculated by dividing the period's profit or loss from the continued operations attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares adjusted for all potentially dilutive ordinary and preference shares.

y) Segment reporting

The Company operates in the services to individual and business customers segment which relates to the provision of services to the general public, including digital television transmission signal, mobile services, the Internet access services, the mobile TV services and the online TV services.

The Company conducts its operating activities in Poland.

Further information on segments is presented in the consolidated financial statements of the Group.

z) Cash flow statement

Cash and cash equivalents in the cash flow statement are equal to cash and cash equivalents presented in the balance sheet.

The purchase of reception equipment provided to clients under operating lease contracts is classified in the cash flow statement in operating activities. The purchase and sales of reception equipment are classified in the cash flow statement in operating activities and presented as "Net disposals/(additions) in reception equipment provided under operating lease".

Purchases of property, plant and equipment or intangible assets are presented in their net amount (net of VAT).

aa) Business combinations among entities under common control

In principle, the issues relating to acquisitions and business combinations are regulated by IFRS 3 "Business combinations". However, transactions under common control are excluded from the scope of this standard. The situation in which a given transaction or business phenomenon that require recognizing in financial statements prepared in accordance with IFRS are not regulated by the provisions of the individual standards is regulated by the provisions of IAS 8, points 10-12. These provisions put an entity which prepares its financial statements in accordance with IFRS under an obligation to determine an accounting policy and to use it on a consistent basis for similar transactions.

The Company decided to apply the predecessor accounting method to account for the combination of entities that are under common control. This method is based on the assumption that the entities combining were, both before and after the transaction, controlled by the same shareholder and, therefore, the financial statements reflect the continuity of joint control.

The predecessor accounting method guidelines for the merger of the parent company with its subsidiaries are as follow:

- a) Assets and liabilities are not adjusted to reflect fair values as at the merger date. Instead, the acquirer recognizes in its financial statements assets and liabilities in the amount as recognized in the financial statements of the predecessor. "Predecessor values" are the carrying amounts of the merged subsidiary, which were recognized in the consolidated financial statements of the parent company. These amounts include the goodwill on acquisition of shares in a subsidiary recognized in the consolidated financial statements of the parent company.
- b) Intercompany transactions and balances between the merging entities are eliminated.
- c) Goodwill other than already recognized in the consolidated financial statements of the parent company is not recognized.
- d) Share capital of the combined entity is the share capital of the acquiring entity. Share capital of a predecessor is eliminated.
- e) Other elements of predecessor's equity are added to the relevant items of the acquiring company's equity. The difference between the value of net assets and payment is recognized in the Retained earnings.

Pursuant to the predecessor accounting method, the Company recognizes in its financial statements the assets and liabilities of the acquired subsidiary at their carrying amounts as recognized in the consolidated financial statements of the Group.

The Company recognized business combinations under common control prospectively from the date of the merger, i.e. standalone financial statements of the Company will include the assets, liabilities, income, costs and cash flows of acquired entities from the date of the legal merger. Comparative data will remain unchanged.

6. Determination of fair values

A number of accounting principles and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. The methods for determining fair values are described below. In justified cases, further information on methods of fair value measurement is described in the appropriate notes specific to that asset or liability.

(i) Derivatives

The fair value of derivatives is calculated based on their quoted closing bid price at the balance sheet date or, in the lack thereof, other inputs that are observable for the asset or liability, either directly (i. e. as prices) or indirectly (i. e. derived from prices). In the second case, the fair value of derivatives is estimated as the present value of future cash flows, discounted using the market interest rate at the reporting date. Information on the structure of Polish and eurozone interest rates and Polish zloty exchange rate are used in order to estimate future cash flows and market interest rate.

(ii) Non-derivative financial assets

The fair value of non-derivative financial asset for disclosure purposes is estimated as the present value of future cash flows discounted using a market interest rate as at the balance sheet date.

(iii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on liabilities' quoted closing bid price at the balance sheet date or, in the lack thereof, estimated on the present value of future principal and interest cash flows, discounted using the market interest rate at the reporting date. Market interest rate is estimated as interbank interest rate for a given currency zone (WIBOR, EURIBOR) plus a margin regarding the Company's credit risk. A market interest rate for a finance lease contract is estimated based on interest rates for similar lease contracts.

7. Approval of the Financial Statements

These financial statements were approved for publication by the Management Board on 21 March 2018.

Explanatory notes

8. Revenue

	for the year ended	
	31 December 2017	31 December 2016
Retail revenue	2,134.4	2,061.6
Wholesale revenue	67.8	71.7
Sale of equipment	33.4	54.3
Other revenue	44.7	25.6
Total	2,280.3	2,213.2

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

9. Operating costs

	Note	for the year ended	
		31 December 2017	31 December 2016
Content costs		586.2	590.7
Technical costs and costs of settlements with network operators		577.8	470.9
Distribution, marketing, customer relation management and retention costs		323.3	322.4
Depreciation, amortization, impairment and liquidation		214.4	224.8
Salaries and employee-related costs	a	107.5	100.1
Cost of equipment sold		34.1	53.9
Cost of debt collection services and bad debt allowance and receivables written off		13.8	12.1
Other costs		137.7	129.2
Total		1,994.8	1,904.1

a) Salaries and employee-related costs

	for the year ended	
	31 December 2017	31 December 2016
Salaries	90.9	86.6
Social security contributions	13.5	11.6
Other employee-related costs	3.1	1.9
Total	107.5	100.1

Average headcount of non-production employees*

	for the year ended	
	31 December 2017	31 December 2016
Employment contracts (full-time equivalents)	792	681

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

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

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

	for the year ended	
	31 December 2017	31 December 2016
Dividends received	387.4	377.8
Share in the profits of partnerships	56.6	38.4
Other	8.2	(4.2)
Total	452.2	412.0

11. Finance costs

	for the year ended	
	31 December 2017	31 December 2016
Interest expense on loans and borrowings	34.6	43.0
Interest expense on issued bonds	43.3	43.1
Valuation and realization of hedging instruments	(0.2)	7.2
Guarantee fees	4.9	5.7
Bank and other charges	1.8	3.4
Total	84.4	102.4

12. Income tax

(i) Income tax in the income statement

	for the year ended	
	31 December 2017	31 December 2016
Corporate income tax	58.6	56.6
Change in deferred income tax in the income statement	(7.4)	(7.6)
Income tax expense in the income statement	51.2	49.0

	for the year ended	
	31 December 2017	31 December 2016
Change in deferred income tax		
Receivables and other assets	(7.0)	(2.9)
Liabilities	1.8	(5.2)
Deferred distribution fees	0.6	(2.7)
Tangible and intangible non-current assets	(3.0)	0.2
Other	0.2	3.0
Change in deferred income tax – total	(7.4)	(7.6)

(ii) Income tax recognized in other comprehensive income

	for the year ended	
	31 December 2017	31 December 2016
Change in deferred income tax on hedge valuation	(0.2)	1.9
Income tax expense recognized in other comprehensive income - total	(0.2)	1.9

(iii) Effective tax rate reconciliation

	for the year ended	
	31 December 2017	31 December 2016
Profit before income tax	657.2	627.0
Profit before tax multiplied by the statutory tax rate in Poland of 19%	124.9	119.1
Dividend received from subsidiaries	(73.6)	(71.8)
Other	(0.1)	1.7
Tax charge for the year	51.2	49.0
Effective tax rate	7.8%	7.8%

(iv) Deferred tax assets

	31 December 2017	31 December 2016
Liabilities	41.2	42.9
Tangible and intangible non-current assets	1.1	1.3
Receivables and other assets	21.8	20.2
Total deferred tax assets	64.1	64.4
Offsetting of deferred tax liabilities and deferred tax assets	(64.1)	(64.4)
Deferred tax assets in the balance sheet	-	-

(v) Deferred tax liabilities

	31 December 2017	31 December 2016
Receivables and other assets	43.7	49.1
Deferred distribution fees	20.5	19.9
Tangible and intangible non-current assets	83.2	86.4
Liabilities	0.1	-
Total deferred tax liabilities	147.5	155.4
Offsetting of deferred tax liabilities and deferred tax assets	(64.1)	(64.4)
Deferred tax liabilities in the balance sheet	83.4	91.0

The tax authorities may at any time inspect the books and records within 5 years from the end of the year when a tax declaration was submitted, and may impose additional tax assessments with penalty interest and penalties. Furthermore, on 15 July 2016 provisions of General Anti-Avoidance Rule (GAAR) were introduced, which aim at preventing establishing and using artificial legal arrangements with tax savings as its principal purpose. Frequent amendments in the tax laws and contradicting legal interpretations among the tax authorities result in uncertainties and lack of consistency in the tax system, which in fact lead to difficulties in the judgement of the tax consequences in the foreseeable future.

13. EBITDA (unaudited)

EBITDA (earnings before interest, taxes, depreciation, amortization, impairment and liquidation) presents the Company's key measure of earnings performance. The level of EBITDA measures the Company's ability to generate cash from recurring operations, however it is neither a measure of liquidity nor cash level. The Company defines EBITDA as operating profit adjusted by depreciation, amortization, impairment and liquidation. EBITDA is not an IFRS EU measure, and as such can be calculated differently by other entities.

	for the year ended	
	31 December 2017	31 December 2016
Net profit for the period	606.0	578.0
Income tax (see note 12)	51.2	49.0
Gain/loss on investment activities, net (see note 10)	(452.2)	(412.0)
Finance costs (see note 11)	84.4	102.4
Depreciation, amortization, impairment and liquidation* (see note 9)	214.4	224.8
EBITDA (unaudited)	503.8	542.2

* depreciation, amortization, impairment and liquidation comprise depreciation and impairment of property, plant and equipment, amortisation and impairment of intangible assets and net book value of disposed property, plant, equipment and intangible assets

14. Basic and diluted earnings per share

As at the balance sheet date, the Company did not have financial instruments that could have a dilutive effect, therefore the Company's diluted earnings per share are equal to basic earnings per share.

	for the year ended	
	31 December 2017	31 December 2016
Net profit for the period	606.0	578.0
Weighted average number of ordinary and preference shares in the year	639,546,016	639,546,016
Earnings per share in PLN (not in million)	0.95	0.90

15. Property, plant and equipment

	Reception equipment	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Tangible assets under construction	Other property, plant and equipment
Cost								
Cost as at 1 January 2017	1,123.1	6.9	105.6	175.3	4.6	28.3	1.6	322.3
Additions	157.1	-	2.9	10.1	0.1	0.3	0.5	13.9
Transfer from assets under construction	-	-	-	0.4	-	-	(0.4)	-
Transfer to investment property	-	-	(6.6)	-	-	-	-	(6.6)
Disposals	(55.2)	-	(2.8)	(3.1)	(1.7)	(9.9)	-	(17.5)
Cost as at 31 December 2017	1,225.0	6.9	99.1	182.7	3.0	18.7	1.7	312.1
Accumulated impairment losses as at 1 January 2017								
	6.6	-	-	0.1	-	-	-	0.1
Recognition	0.3	-	-	0.2	-	-	-	0.2
Reversal	-	-	-	-	-	-	-	-
Utilisation	(1.7)	-	-	-	-	-	-	-
Accumulated impairment losses as at 31 December 2017	5.2	-	-	0.3	-	-	-	0.3
Accumulated depreciation								
Accumulated depreciation as at 1 January 2017	744.3	-	37.4	129.8	4.1	19.5	-	190.8
Additions	169.0	-	4.2	15.6	0.3	1.8	-	21.9
Disposals	(51.4)	-	(0.7)	(2.7)	(1.7)	(8.2)	-	(13.3)
Transfer to investment property	-	-	(2.2)	-	-	-	-	(2.2)
Accumulated depreciation as at 31 December 2017	861.9	-	38.7	142.7	2.7	13.1	-	197.2
Carrying amount								
As at 1 January 2017	372.2	6.9	68.2	45.4	0.5	8.8	1.6	131.4
As at 31 December 2017	357.9	6.9	60.4	39.7	0.3	5.6	1.7	114.6

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

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

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

16. Impairment test on goodwill allocated to the “Services to individual and business customers” cash-generating unit

The Company recognized goodwill in the amount of PLN 52.0 on the acquisition of M.Punkt Holdings Ltd. and goodwill in the amount of PLN 145.0 on the acquisition of Redefine Sp. z o.o. in the financial statements and allocated them to the “Services to individual and business customers” cash-generating unit. “Services to individual and business customers” cash-generating unit is equivalent to the Company. Upon merger of M.Punkt Holdings and Redefine with the Company the amount of goodwill recognized in consolidated financial statements was transferred to these financial statements (see accounting policy in note 5aa).

Goodwill was tested for impairment as at 31 December 2017. The impairment test did not indicate impairment.

The impairment test was based on the recoverable amounts of the cash generating unit to which the goodwill has been allocated. The recoverable amount of the cash-generating unit is determined based on the value-in-use calculations. The Company tests the total carrying amount of the cash-generating unit and any impairment identified is recognized in the profit or loss immediately with respect to goodwill first and is not subsequently reversed. If goodwill is fully impaired the remaining amount of the impairment loss is allocated to other assets of the cash-generating unit on a pro rata basis.

In the annual impairment test performed by the Company as at 31 December 2017 the calculation of value-in-use was based on discounted free cash flows and involved the use of estimates related to cash flow before tax projections based on actual financial business plans covering the 5-year period until 2022. Cash flow projections after 5-year forecast period are estimated using the terminal growth. Terminal growth rate does not exceed the long-term average growth rate for the country in which the Company operates.

The key financial assumptions

The most sensitive key financial assumptions used in the value-in-use calculations of the “Services to individual and business customers” cash-generating unit were as follows:

- discount rate
- terminal growth rate used for estimating free cash flows beyond the period of financial plans

	Services to individual and business customers	
	2017	2016
Terminal growth	2%	2%
Discount rate before tax	10.0%	10.4%

Discount rate – the discount rate reflects the estimate made by the management of the risks specific to cash-generating unit, taking into account the time value of money and risks specific to the asset. The discount rate was estimated on the basis of weighted average cost of capital method (WACC) and considered Company’s business environment. WACC considers both debt and equity. Cost of equity is based on the return on investment expected by the Company’s investors while cost of debt is based on the interest bearing debt instruments. Operating segment - specific risk is considered by the estimation of beta. Beta is estimated annually and is based on the market data.

Terminal growth rate – growth rates are based on widely available published market data.

Sensitivity analysis of key financial assumptions

The Company believes that the key assumptions made in testing for impairment of the “Services to individual and business customers” cash-generating unit as at 31 December 2017 are reasonable and are based on our experience and market forecasts that are published by the industry experts. Management believes that any reasonably possible change in the key assumptions on which the cash-generating unit’s recoverable amount is based would not cause the impairment charge to be recognized.

17. Other intangible assets

	Software and licenses	Other	Under development	Total
Cost				
Cost as at 1 January 2017	210.8	13.4	12.5	236.7
Additions	2.8	0.2	11.7	14.7
Transfer from intangible assets under development	6.6	-	(6.6)	-
Disposals	(11.9)	(6.4)	(0.9)	(19.2)
Cost as at 31 December 2017	208.3	7.2	16.7	232.2
Accumulated impairment losses as at 1 January 2017				
Recognition	-	-	-	-
Reversal	-	-	-	-
Accumulated impairment losses as at 31 December 2017	-	-	-	-
Accumulated amortization				
Accumulated amortization as at 1 January 2017	150.5	12.5	-	163.0
Additions	20.6	0.4	-	21.0
Disposals	(11.7)	(6.4)	-	(18.1)
Accumulated amortization as at 31 December 2017	159.4	6.5	-	165.9
Carrying amounts				
As at 1 January 2017	60.3	0.9	12.5	73.7
As at 31 December 2017	48.9	0.7	16.7	66.3

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

18. Investment property**Cost**

Cost as at 1 January 2017	32.3
Additions	2.4
Transfer from buildings and structures	6.6
Cost as at 31 December 2017	41.3

Accumulated amortization

Accumulated amortization as at 1 January 2017	1.1
Additions	1.7
Transfer from buildings and structures	2.2
Accumulated amortization as at 31 December 2017	5.0

Carrying amounts

As at 1 January 2017	31.2
As at 31 December 2017	36.3

Cost

Cost as at 1 January 2016	13.3
Additions	18.6
Transfer to investment property	0.4
Cost as at 31 December 2016	32.3

Accumulated amortization

Accumulated amortization as at 1 January 2016	0.4
Additions	0.6
Transfer to investment property	0.1
Accumulated amortization as at 31 December 2016	1.1

Carrying amounts

As at 1 January 2016	12.9
As at 31 December 2016	31.2

19. Shares in subsidiaries and associates

Shares in subsidiaries and associates as at 31 December 2017

	Company's registered office	Activity	Voting rights percentage	Cost and carrying amount
Eileme 1 AB (publ)	Stureplan 4C 114 35 Stockholm Sweden	holding and financial activities	100%	6,723.5
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, Warsaw	broadcasting and television production	100%	3,899.0
Netia S.A.*	Poleczki 13, Warsaw	telecommunication activities	31.76%	638.7
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, Warsaw	non-current assets and intellectual property rights management	100%	615.4
PL 2014 Sp. z o.o.**	Ostrobramska 77, Warsaw	telecommunication activities	12.22%	72.0
Interphone Service Sp. z o.o.	Inwestorów 8, Mielec	production of set-top boxes	99%	64.0
Orsen Holding Limited	Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	99.9%	34.9
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, Warsaw	radio and TV activities	73.5%	29.3
Polsat Media Biuro Reklamy Sp. z o.o. Sp.k.	Ostrobramska 77, Warsaw	advertising activities	37.75%	25.2
Teleaudio Dwa Sp. z o.o. Sp.k.	Al. Jerozolimskie 81, Warsaw	premium rate services	99%	21.0
Karpacka Telewizja Kablowa Sp. z o.o.	Warszawska 220, Radom	dormant	99%	2.4
Polskie Badania Internetu Sp. z o.o.	Al. Jerozolimskie 65/79, Warsaw	web portals activities	4.55%	0.1
			Total	12,125.5

* shares in associates include shares in Netia S.A.

** shares in subsidiaries include shares in PL2014 Sp. z o.o. as the Company hold directly and indirectly 100% shares in PL2014 Sp. z o.o.

	31 December 2016	Additions	Decreases	31 December 2017
Metelem Holding Company Limited	6,778.0	-	(6,778.0) ^(a)	-
Eileme 1 AB (publ)	-	6,723.5 ^(a)	-	6,723.5
Telewizja Polsat Sp. z o.o.	3,899.0	-	-	3,899.0
Netia S.A.	-	638,7 ^(b)	-	638,7
Cyfrowy Polsat Trade Marks Sp. z o.o.	615.4	-	-	615.4
PL 2014 Sp. z o.o.	-	72.0 ^(c)	-	72.0
Interphone Service Sp. z o.o.	64.0	-	-	64.0
Orsen Holding Limited	34.9	-	-	34.9
INFO-TV-FM Sp. z o.o.	29.3	-	-	29.3
Polsat Media Biuro Reklamy Sp. z o.o.	25.2	-	-	25.2
Sp. k.	21.0	-	-	21.0
Teleaudio Dwa Sp. z o.o. Sp.k.	21.0	-	-	21.0
Karpacka Telewizja Kablowa Sp. z o.o.	2.4	-	-	2.4
Polskie Badania Internetu Sp. z o.o.	0.1	-	-	0.1
Total	11,469.3	7,434.2	(6,778.0)	12,125.5

(a) On 7 April 2017 the Company completed a merger with Metelem Holding Company Limited. Following the merger the Company became a direct shareholder of Eileme 1 AB (publ) (see note 38).

(b) On 5 December 2017 the Company acquired 110,702,441 shares of Netia S.A. – the purchase price is PLN 5.77 (not in million) per one share.

On 5 December 2017 the Company announced a tender offer to place subscriptions for the sale of 119,349,971 ordinary bearer shares issued by Netia S.A., representing 34.24% of Netia's share capital. The tender offer price amounts to PLN 5.77 (not in million) for one share. The tender offer was announced subject to precedent conditions including *inter alia* receiving a decision from the President of the Office for Competition and Consumer Protection consenting to the concentration resulting from taking over control of Netia S.A.. The term to place subscriptions for the sale of Netia's shares was extended until 9 April 2018. In the event of Netia's share capital decrease (pursuant to Netia's resolution dated 30 January 2018) being registered by the registry court before the end of the subscription period for the sale of shares, then the tender offer will concern 110,702,444 shares, representing 33% of Netia's share capital.

On 15 December 2017 the Company entered into a bank guarantee agreement with Bank BGŻ BNP Paribas S.A. securing the Company's obligations resulting from the tender offer to sell Netia's shares. Bank's total commitment may not exceed PLN 200.

(c) On 24 July 2017 the Company acquired shares in PL 2014 Sp. z o.o. and on 25 July 2017 the share capital of PL 2014 Sp. z o.o. was increased.

No impairment on shares in related entities was recognized as at 31 December 2017.

20. Deferred distribution fees

	31 December 2017	31 December 2016
Deferred distribution fees	108.1	104.5
<i>Of which: Current</i>	75.0	76.2
<i>Non-current</i>	33.1	28.3

Deferred distribution fees include commissions for distributors for contracts effectively concluded with subscribers. These costs are expensed by the Company to profit or loss over the minimum base period of the subscription contracts.

As at 31 December 2017, the balance of distribution fees relating to agreements whose basic period as at the date of signing was more than 12 months amounted to PLN 108.0 (as at 31 December 2016: 104.4 PLN).

21. Other non-current assets

	31 December 2017	31 December 2016
Non-current trade receivables	26.6	35.9
Non-current loans granted	0.2	0.2
Other deferred costs	0.6	1.0
Derivative instruments (IRS) assets (see note 35)	0.2	0.9
Total	27.6	38.0

22. Inventories

Types of inventories	31 December 2017	31 December 2016
Set-top boxes and disc drives	22.4	26.0
Mobile phones, modems, tablets and laptops	11.2	18.4
Other inventories	32.0	40.5
Total net value	65.6	84.9

Write-downs of inventories	2017	2016
Opening balance	3.5	4.5
Increase	5.1	0.9
Utilisation	(0.3)	(1.6)
Decrease	-	(0.3)
Closing balance	8.3	3.5

23. Trade and other receivables

	31 December 2017	31 December 2016
Trade receivables from related entities	32.8	29.2
Trade receivables from non-related entities	195.7	208.9
Tax and social security receivables	20.1	12.7
Other receivables	25.3	28.5
Total	273.9	279.3

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

Trade receivables by currency

Currency	31 December 2017	31 December 2016
PLN	209.7	218.7
EUR	17.9	18.7
USD	0.9	0.7
Total	228.5	238.1

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

	2017	2016
Opening balance as at 1 January	36.9	36.3
Increase	11.1	22.9
Reversal	(4.0)	(6.2)
Utilisation	(11.8)	(16.1)
Closing balance as at 31 December	32.2	36.9
<i>Of which:</i>		
<i>Short-term</i>	31.1	35.8
<i>Long-term</i>	1.1	1.1

24. Other current assets

	31 December 2017	31 December 2016
Other deferred costs	130.2	215.1
Other deferred income	3.1	7.8
Derivative instruments (IRS) assets (see note 35)	0.4	0.6
Total	133.7	223.5

Other deferred costs as at 31 December 2017 and 31 December 2016 comprise mainly deferred costs related to the agreement with Polkomtel Sp. z o.o. for the data transfer services. Agreements dated 3 March 2015 are described in detail in the financial statement for the period ended 31 December 2015.

25. Cash and cash equivalents

	31 December 2017	31 December 2016
Current accounts	12.9	34.4
Deposits	16.6	244.4
Total	29.5	278.8

The Company places its cash and cash equivalents in banks and financial institutions with reliability proven by ratings awarded by universally recognized agencies Standard & Poor's, Moody's or Fitch and in Plus Bank, as required by the loan agreement and policies adopted therein. As at 31 December 2017, the largest concentration of funds in one bank (rated A2 by Moody's Investors Service Ltd.) was approximately 51%.

Currency	31 December 2017	31 December 2016
PLN	20.4	276.8
USD	8.5	0.5
EUR	0.6	1.5
Total	29.5	278.8

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

26. Equity

(i) Share capital

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

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

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

	Number of shares	Nominal value of shares	% of share capital held	Number of votes	% of voting rights
Karswell Ltd. ¹	157,988,268	6.3	24.70%	157,988,268	19.29%
Reddev Investments Ltd. ²	154,204,296	6.2	24.11%	306,709,172	37.45%
Sensor Overseas Ltd. ³	55,092,796	2.3	8.61%	82,005,421	10.01%
Embud 2 Sp. z o.o. S.K.A. (formerly Embud Sp. z o.o.) ¹	58,063,948	2.3	9.08%	58,063,948	7.09%
Others	214,196,708	8.5	33.50%	214,196,708	26.16%
Total	639,546,016	25.6	100%	818,963,517	100%

¹ Entity is controlled by Mr. Zygmunt Solorz.

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

³ Sensor Overseas Ltd. is controlled by EVO Foundation.

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

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

¹ Entity is controlled by Mr. Zygmunt Solorz.

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

³ Sensor Overseas Ltd. is controlled by EVO Foundation.

(ii) Share premium

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

(iii) Retained earnings

On 27 June 2017 the Annual General Meeting of the Company adopted a resolution on the distribution of the profit for the year ended 31 December 2016 in the amount of PLN 578.0 as follows:

- (i) PLN 204.7 (PLN 0.32 (not in million) per share) to be distributed as dividends to the shareholders of the Company,
- (ii) PLN 373.3 to be allocated to the reserve capital.

27. Hedge valuation reserve

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

The transaction was concluded for the period from 30 December 2016 to 28 September 2018. The Transaction protects the nominal amount of a bank loan in the amount of PLN 250.

On 18 January 2017 the Company concluded interest rate swap transaction with Credit Agricole Corporate and Investment Bank. The transaction exchanges interest payments based on a floating rate WIBOR 3M into interest payments based on a fixed interests rate amounting to 2.0695%.

The transaction was concluded for the period from 31 March 2017 to 30 September 2019. The Transaction protects the nominal amount of a bank loan in the amount of PLN 125.

Impact of hedging instruments valuation on assets and liabilities as at 31 December 2017

	IRS
Assets	
Long-term	0.2
Short-term	0.4
Liabilities	
Short-term	(0.5)
Total	0.1

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

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

Impact of hedging instruments valuation on hedge valuation reserve

	2017	2016
Balance as at 1 January	1.2	(6.7)
Valuation of cash flow hedges	(1.3)	9.8
Deferred tax	0.2	(1.9)
Change for the period	(1.1)	7.9
Balance as at 31 December	0.1	1.2

28. Loans and borrowings

Loans and borrowings	31 December 2017	31 December 2016
Short-term liabilities	379.9	239.1
Long-term liabilities	535.0	782.0
Total	914.9	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	(213.5)	(170.5)
Repayment of interest	(30.8)	(39.1)
Net cash from the Cash Management System Agreement with paid interest	103.5	(299.0)
Interest accrued	34.6	43.0
Loans and borrowings as at 31 December	914.9	1,021.1

Facilities agreement between the Company and a consortium of financial institutions

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

Based on the CP Facilities Agreement the Company has been granted a Term Facility Loan up to PLN 1,200.0 (the "CP Term Facility") and a Revolving Facility Loan up to PLN 300.0 (the "CP Revolving Facility").

Amendment, Restatement and Consolidation Deed executed between the parties to the CP Facilities Agreement, PLK Facilities Agreement and certain members of the Group

On 21 September 2015 the Amendment, Restatement and Consolidation Deed was concluded between the Company, Polkomtel Sp. z o.o., Telewizja Polsat Sp. z o.o., Cyfrowy Polsat Trade Marks Sp. z o.o., Polsat License Ltd. and Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością sp.k., Eileme 2 AB (publ), Eileme 3 AB (publ), Eileme 4 AB (publ), Plus TM Management Sp. z o.o., TM Rental Sp. z o.o., Plus TM Group Sp. z o.o. and the consortium of Polish and foreign financing institutions (the "Amendment, Restatement and Consolidation Deed").

According to the Amendment, Restatement and Consolidation Deed, upon repayment of the HY Notes Indebtedness (indebtedness under the senior notes issued on 26 January 2012 by Eileme 2 AB (publ) – a Company's indirect subsidiary), the indebtedness under the PLK Facilities Agreement (facilities agreement between Polkomtel and consortium of financial institutions dated 21 September 2015) was refinanced using the funds made available under the CP Facilities Agreement, as amended in the Amendment, Restatement and Consolidation Deed. The HY Notes Indebtedness have been repaid on 1 February 2016.

The Amendment, Restatement and Consolidation Deed amends the CP Facilities Agreement as follows:

- i. the maximum amount of the CP Term Facility is PLN 11,500, and the maximum amount of the CP Revolving Facility is PLN 1,000;
- ii. the Company and other Group members established additional collaterals for the facilities granted on this basis.

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

The CP Term Facility and the CP Revolving Facility bear interest at a variable rate equal to WIBOR for the relevant interest period plus margin. The margin on the CP Term Facility and the CP Revolving Facility depends on the ratio of net consolidated indebtedness to consolidated EBITDA in such a way that the lower the ratio – the lower the margin. As at 31 December 2017 the CP Term Facility and the CP Revolving Facility are to be repaid in quarterly installments of variable value with the final repayment date for each of these facilities set at 21 September 2020.

The CP Revolving Facility as at 31 December 2017 was utilized. The CP Revolving Facility as at 31 December 2016 was not utilized.

The Company used the CP Term Facility in particular to:

- (i) repay the indebtedness under the Senior Facilities Agreement of 11 April 2014 between the Company (as the borrower) and a consortium of financial institutions, and
- (ii) fund general corporate needs of the Group.

In accordance with the provisions of the Amendment, Restatement and Consolidation Deed, the Company may incur additional facilities. The terms of such additional facilities will be established individually in separate additional facility accession deeds and their terms will have to satisfy certain criteria.

Liabilities related to the CP Facilities Agreement are secured by collaterals established by the Company. A detailed description of the established securities is presented in the Management Report in note 4.6.5.

Agreement with Bank Pekao S.A.

On 7 May 2009 the Company signed an agreement with Bank Pekao S.A. defining rights and obligations of the parties should the Company order the bank to issue a guarantee or a letter of credit. Bank's total commitment regarding the issued guarantees and letters of credit may not exceed PLN 12.0. As at 31 December 2017 the bank issued guarantees in the total amount of PLN 2.1 and EUR 1.7.

29. Issued bonds

	31 December 2017	31 December 2016
Short-term liabilities	42.5	42.4
Long-term liabilities	975.7	975.5
Total	1,018.2	1,017.9

Change in issued bonds payable

	2017	2016
Issued bonds payable as at 1 January	1,017.9	1,017.7
Repayment of interest and commissions	(43.0)	(42.9)
Interest accrued	43.3	43.1
Issued bonds payable as at 31 December	1,018.2	1,017.9

On 21 July 2015, the Company registered 1.000.000 unsecured series A bearer bonds with a nominal value of PLN 1.000 each (not in million) and a total nominal value of PLN 1.000.000.000 (not in million) (the "Bonds") in the securities depository maintained by the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.). The Bonds mature in 6 years. The redemption date for the Bonds is 21 July 2021. The interest rate is floating and is based on the WIBOR 6M rate, increased by a margin which depends on the Leverage Ratio level (defined in the terms and conditions of the Bonds' issuance).

30. Company as a lessor and as a lessee

a) Company as a lessor

Operating leases

The Company entered into contracts with third parties, which are classified as operating leases due to their economic substance. The contracts relate to rental of digital satellite reception equipment, lease of TV production studio, garage and lease of premises. Assets connected with such contracts are presented as property, plant and equipment.

Lease contracts for set-top boxes are concluded for a basic contractual period ranging from 12 to 29 months. After the basic period, the contracts are converted into contracts with indefinite terms, unless terminated by subscribers or new contracts are signed.

Future minimum lease payments under operating lease are as follows:

	31 December 2017	31 December 2016
within 1 year	37.6	33.1
between 1 and 5 years	26.0	14.2
in more than 5 years	11.6	-
Total	75.2	47.3

b) Company as a lessee

Operating leases

The Company entered into agreements, which are classified as operating lease contracts based on their economic substance. Assets leased under these contracts are not recorded in the financial statements. The contracts comprise *inter alia* leases of office, lease of satellite transponders capacity, and other equipment.

Future minimum lease payments under operating leases are as follows:

	31 December 2017	31 December 2016
within 1 year	107.6	109.8
between 1 and 5 years	369.2	83.4
in more than 5 years	254.9	5.9
Total	731.7	199.1

In 2017 the Company incurred costs related to operating lease agreements amounting to PLN 99.3 and in 2016 the costs of the Company amounted to PLN 123.1.

Finance leases

There were no agreements classified as finance lease at 31 December 2017 and 31 December 2016.

31. Other non-current liabilities and provisions

	31 December 2017	31 December 2016
Deposits	0.6	9.5
Other provisions	0.8	0.5
Total	1.4	10.0

32. Trade and other payables

	31 December 2017	31 December 2016
Trade payables to related parties	95.8	85.7
Trade payables to non-related parties	58.5	32.2
Taxation and social security payables	10.7	10.4
Payables relating to purchases of non-current assets	1.6	1.5
Accruals	157.7	161.6
Short term provisions	16.7	23.1
Derivative instruments (IRS) liabilities (see note 35)	0.5	-
Other	10.0	70.7
Total	351.5	385.2

As at 31 December 2016 the line Other comprised the advance payment on dividend received from Telewizja Polsat in the amount of PLN 60.

Accruals

	31 December 2017	31 December 2016
Salaries	19.5	23.1
Licence fees and royalties for copyright management organizations	83.3	86.2
Distribution costs	10.8	7.4
Other	44.1	44.9
Total	157.7	161.6

Short-term and long-term provisions

	2017	2016
Opening balance as at 1 January	23.6	23.3
Increases	0.5	5.2
Reversal	(6.6)	(4.9)
Closing balance as at 31 December	17.5	23.6
<i>Of which:</i>		
<i>Short-term</i>	16.7	23.1
<i>Long-term</i>	0.8	0.5

Provisions comprise mainly of provisions for license fees, litigation and disputes, warranty provision.

Trade payables and payables relating to purchases of non-current assets by currency

Currency	31 December 2017	31 December 2016
PLN	131.0	111.4
EUR	15.7	0.9
USD	9.2	7.1
Total	155.9	119.4

Accruals by currency

Currency	31 December 2017	31 December 2016
PLN	139.7	143.3
EUR	17.0	16.7
USD	0.7	1.6
CHF	0.3	-
Total	157.7	161.6

33. Deposits for equipment

	31 December 2017	31 December 2016
Subscribers	2.4	1.9
Total	2.4	1.9

Deposits received comprise amounts paid by subscribers under agreements for rental of reception equipment. Deposits are returned to customers or offset against receivables from subscribers upon contract termination.

34. Deferred income

	31 December 2017	31 December 2016
Deferred income	233.1	236.5
<i>Of which: Short-term</i>	229.9	232.3
<i>Long-term</i>	3.2	4.2

Deferred income comprises mainly subscription fees paid in advance and rental fees for reception equipment.

Other notes

35. Financial instruments

Overview

Cyfrowy Polsat S.A. is exposed to the following financial risks:

- credit risk,
- liquidity risk,
- market risk:
 - a. currency risk,
 - b. interest rate risk.

The Company's risk management policies are designed to reduce the impact of adverse conditions on the Company's results.

The Management Board is responsible for oversight and management of each of the risks faced by the Company. Therefore, the Management Board has established an overall risk management framework as well as risk management policies on market, credit and liquidity risks.

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are also included throughout these financial statements.

Bank loans, bonds, cash, interest rate swaps and short-term bank deposits are the main financial instruments used by the Company, with the intention of securing the financing for the Company's activities. The Company also holds other financial instruments including trade receivables and payables and payables relating to purchases of tangible and intangible assets which arise in the course of its business activities.

Financial assets	Carrying amount	
	31 December 2017	31 December 2016
Loans and receivables, including:	310.1	581.5
Loans granted	2.5	12.8
Trade and other receivables from related parties	32.8	29.2
Trade and other receivables from non-related parties	224.0	245.2
Share in the profits of partnerships receivables	21.3	15.5
Cash and cash equivalents	29.5	278.8
Hedging derivative instruments:	0.6	1.5
Interest rate swaps	0.6	1.5

Financial liabilities	Carrying amount	
	31 December 2017	31 December 2016
Other financial liabilities valued at amortised cost, including:	2,259.7	2,402.1
Borrowings and loans	914.9	1,021.1
Issued bonds	1,018.2	1,017.9
Trade payables and other payables to third parties and deposits	72.6	54.6
Trade and other payables to related parties	96.3	146.9
Accruals	157.7	161.6
Hedging derivative instruments:	0.5	-
Interest rate swaps	0.5	-

Credit risk

Credit risk is defined as the risk that counterparties of the Company will not be able to meet their contractual obligations.

Exposure to credit risk is related to three main areas: it relates to

- the creditworthiness of the customers with whom physical sale transactions are undertaken,
- the creditworthiness of the financial institutions (banks/brokers) with whom, or through whom, hedging or other derivative transactions are undertaken,
- the creditworthiness of the entities in which investments are made, or whose securities are purchased.

Credit risk arises mainly on trade receivables. In the financial year ended 31 December 2017, the Company was not materially exposed to credit risk arising from sales on credit. The Company's customer base includes a large number of individual subscribers dispersed geographically over the country who prepay subscription fees. Receivables from subscribers are constantly monitored and recovery actions are taken, including blocking of the signal transferred to subscribers or termination of services to a MVNO and Internet client.

The Company pursues a credit policy under which credit risk exposure is constantly monitored.

Due to diversification of risk in terms of the nature of individual entities, their geographical location and cooperation with highly-rated financial institutions, also taking into consideration the fair value of liabilities arising from derivative transactions, the Company is not materially exposed to credit risk as a result of derivative transactions entered into.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at the reporting date was as follows:

Maximum exposure to credit risk

	Carrying amount	
	31 December 2017	31 December 2016
Loans granted	2.5	12.8
Trade and other receivables from related parties	32.8	29.2
Trade and other receivables from non-related parties	224.0	245.2
Share in the profits of partnerships receivables	21.3	15.5
Cash and cash equivalents	29.5	278.8
Total	310.1	581.5

The maximum exposure to credit risk for trade and other receivables, by type of customer, was:

	Carrying amount	
	31 December 2017	31 December 2016
Receivables from subscribers	192.7	216.5
Receivables from distributors	1.3	3.5
Receivables from media companies	19.8	15.9
Receivables and loans granted to related parties, including share in the profits of partnerships receivables	56.4	57.3
Other receivables and loans granted to non-related parties	10.4	9.5
Total	280.6	302.7

The ageing of trade and other receivables at the reporting date was:

	31 December 2017			31 December 2016		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	231.5	6.7	224.8	250.1	6.5	243.6
Past due 0-30 days	27.4	0.5	26.9	21.0	0.9	20.1
Past due 31-60 days	6.5	0.5	6.0	6.5	0.6	5.9
Past due more than 60 days	34.9	14.5	20.4	38.2	17.9	20.3
Total	300.3	22.2	278.1	315.8	25.9	289.9

Credit quality of such not overdue receivables that are not impaired is very good.

Trade and other receivables with recognized impairment include not past due and past due trade and other receivables where partial recoverability is estimated. Usually impairment is recognized for trade and other receivables past due for more than 90 days or for trade and other receivables for which impairment indicator exists.

Liquidity risk

The Company's objective in liquidity management is to ensure that it always has sufficient funds to meet its liabilities when due. Surplus cash is invested in bank deposits.

The Company prepares, on an ongoing basis, analyses and forecasts of cash requirements based on projected cash flows.

The following are the contractual maturities of the Company's financial liabilities.

	31 December 2017						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	more than 5 years
Loans and borrowings	914.9	961.8*	240.5*	145.8*	318.0*	257.5*	-
Issued bonds	1,018.2	1,172.5	21.7	21.4	43.1	1,086.3	-
Trade and other payables to non-related parties and deposits	72.6	72.6	72.6	-	-	-	-
Trade and other payables to related parties	96.3	96.3	96.3	-	-	-	-
Accruals	157.7	157.7	157.7	-	-	-	-
Hedging derivative instruments:							
IRS**	0.5	0.5	0.3	0.2	-	-	-
	2,260,2	2,461,4	589,1	167,4	361,1	1,343,8	-

* loan agreements' contractual cash flows changed pursuant to the new agreement entered into on 2 March 2018 (see note 45 for details)

** pursuant to the agreements settlements shall be on a net basis

	31 December 2016						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	more than 5 years
Loans and borrowings	1,021.1	1,102.8	117.3	127.3	282.6	575.6	-
Issued bonds	1,017.9	1,215.5	21.6	21.4	43.1	1,129.4	-
Trade and other payables to non-related parties and deposits	54.6	54.6	54.6	-	-	-	-
Trade and other payables to related parties	146.9	146.9	146.9	-	-	-	-
Accruals	161.6	161.6	161.6	-	-	-	-
	2,402.1	2,681.4	502.0	148.7	325.7	1,705.0	-

The Company may utilize revolving facility line of credit up to the amount of 1.000 PLN. As at 31 December 2017 the final maturity date was set on 21 September 2020. As at 31 December 2017 the revolving facility was utilized. As at 31 December 2016 the revolving facility was not utilized.

Market risk

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

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

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

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

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

It is permitted to use the following types of instruments:

- Swaps (IRS/CIRS),
- Forwards and futures,
- Options.

Currency risk

One of the main risks to which the Company is exposed is currency risk related to fluctuations in the exchange rate between the Polish zloty and other currencies. The revenues generated by the Company are denominated mainly in Polish zloty, however, a portion of operating costs and capital expenditures are incurred in foreign currencies. The Company's currency risk is related to royalties for TV and radio broadcasters (USD and EUR), transponder capacity leases (EUR), fees for conditional access system (EUR) and purchases of reception equipment and accessories for reception equipment (USD and EUR).

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

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

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

	31 December 2017		31 December 2016	
	EUR	USD	EUR	USD
Trade receivables	4.3	0.3	4.2	0.2
Cash and cash equivalents	0.1	2.4	0.3	0.1
Trade payables	(3.8)	(2.6)	(0.2)	(1.7)
Gross balance sheet exposure	0.6	0.1	4.3	(1.4)
Net exposure	0.6	0.1	4.3	(1.4)

Following foreign exchange rates were applied in the presented periods:

(in PLN)	Average rate		Rates at the balance sheet date	
	2017	2016	31 December 2017	31 December 2016
1 EUR	4.2576	4.3625	4.1709	4.4240
1 USD	3.7777	3.9431	3.4813	4.1793

For the purposes of exchange rate volatility sensitivity analysis as at 31 December 2017 and 31 December 2016 it was assumed that probable volatility will be in the +/- 5% band. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2017					2016					
	As at 31 December 2017		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at 31 December 2016		Estimate d change in exchang e rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	
	in currency	in PLN				in currency	in PLN				
Trade receivables											
EUR	4.3	17.9	5%	0.9	-	-	4.2	18.7	5%	0.9	-
USD	0.3	0.9	5%	-	-	-	0.2	0.7	5%	-	-
Cash and cash equivalents											
EUR	0.1	0.6	5%	-	-	-	0.3	1.5	5%	0.1	-
USD	2.4	8.5	5%	0.4	-	-	0.1	0.5	5%	-	-
Trade payables											
EUR	(3.8)	(15.7)	5%	(0.8)	-	-	(0.2)	(0.9)	5%	-	-
USD	(2.6)	(9.2)	5%	(0.5)	-	-	(1.7)	(7.1)	5%	(0.4)	-
Change in operating profit				-	-					0.6	-
Income tax				-	-					(0.1)	-
Change in net profit				-	-					0.5	-

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

	2017					2016				
	As at 31 December 2017		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at 31 December 2016		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	4.3	17.9	-5%	(0.9)	-	4.2	18.7	-5%	(0.9)	-
USD	0.3	0.9	-5%	-	-	0.2	0.7	-5%	-	-
Cash and cash equivalents										
EUR	0.1	0.6	-5%	-	-	0.3	1.5	-5%	(0.1)	-
USD	2.4	8.5	-5%	(0.4)	-	0.1	0.5	-5%	-	-
Trade payables										
EUR	(3.8)	(15.7)	-5%	0.8	-	(0.2)	(0.9)	-5%	-	-
USD	(2.6)	(9.2)	-5%	0.5	-	(1.7)	(7.1)	-5%	0.4	-
Change in operating profit				-	-				(0.6)	-
Income tax				-	-				0.1	-
Change in net profit				-	-				(0.5)	-

	2017		2016	
	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
Estimated change in exchange rate by 5 %				
EUR	0.1	-	0.8	-
USD	(0.1)	-	(0.3)	-
Estimated change in exchange rate by -5 %				
EUR	(0.1)	-	(0.8)	-
USD	0.1	-	0.3	-

Had the Polish zloty strengthened 5% against the basket of currencies as at 31 December 2017 or there would be a depreciation of the Polish zloty by 5%, the Company's net profit and other comprehensive income would have been unchanged in 2017. Had the Polish zloty strengthened 5% against the basket of currencies as at 31 December 2016, the Company's net profit would have increased by PLN 0.5 and other comprehensive income would have been unchanged in 2016. Had the Polish zloty weakened 5%, the Company's net profit would have decreased by PLN 0.5 in 2016 and other comprehensive income would have been unchanged in 2016, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

Interest rate risk

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

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

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

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

	Carrying amount	
	31 December 2017	31 December 2016
Fixed rate instruments		
Financial assets*	2.3	10.0
Variable rate instruments		
Financial assets*	29.7	281.6
Financial liabilities*	(1,919.7)	(2,029.5)
Net interest exposure	(1,887.7)	(1,737.9)

* nominal values

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

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

	Income statement		Other comprehensive income		Equity	
	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp
31 December 2017						
Variable rate instruments*	(18.9)	18.9	3.1	(3.1)	(15.8)	15.8
Cash flow sensitivity (net)	(18.9)	18.9	3.1	(3.1)	(15.8)	15.8
31 December 2016						
Variable rate instruments*	(17.5)	17.5	3.7	(3.7)	(13.8)	13.8
Cash flow sensitivity (net)	(17.5)	17.5	3.7	(3.7)	(13.8)	13.8

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

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

Fair value vs. carrying amount

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

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

	Category according to IAS 39	Level of the fair value hierarchy	31 December 2017		31 December 2016	
			Fair value	Carrying amount	Fair value	Carrying amount
Loans granted	A	2	2.5	2.5	12.3	12.8
Trade and other receivables	A	*	278.1	278.1	289.9	289.9
Cash and cash equivalents	A	*	29.5	29.5	278.8	278.8
Loans and borrowings	C	2	(918.7)	(914.9)	(1,024.2)	(1,021.1)
Issued bonds	C	1	(1,036.7)	(1,018.2)	(1,045.2)	(1,017.9)
Accruals	C	*	(157.7)	(157.7)	(161.6)	(161.6)
Trade and other payables and deposits	C	*	(168.9)	(168.9)	(201.5)	(201.5)
Total			(1,971.9)	(1,949.6)	(1,851.5)	(1,820.6)
Unrecognized gain/(loss)				(22.3)		(30.9)

A – loans and receivables

B – hedges

C – other liabilities

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

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

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

As at 31 December 2017 loans and borrowings comprised term facility loan and cash from the Cash Management System Agreement with interest paid. As at 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 December 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 the Cash Management System Agreement is set as the nominal value, which is equal to carrying amount.

The fair value of bonds as at 31 December 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.

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

Assets measured at fair value				
	31 December 2017	Level 1	Level 2	Level 3
IRS			0.6	
Total		-	0.6	-
Liabilities measured at fair value				
	31 December 2017	Level 1	Level 2	Level 3
IRS			(0.5)	
Total		-	(0.5)	-

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

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

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

Items of income, costs, profit and losses recognized in profit or loss generated by loans and issued bonds (including hedging transactions)

**For the period from 1 January 2017
to 31 December 2017**

	Loans and borrowings	Issued bonds	Hedging instruments	Total
Interest expense on loans and borrowings	(34.6)	-	0.2	(34.4)
Interest expense on issued bonds	-	(43.3)	-	(43.3)
Total finance costs	(34.6)	(43.3)	0.2	(77.7)
Total gross profit/(loss)	(34.6)	(43.3)	0.2	(77.7)
Hedge valuation reserve	-	-	1.3	1.3

**For the period from 1 January 2016
to 31 December 2016**

	Loans and borrowings	Issued bonds	Hedging instruments	Total
Interest expense on loans and borrowings	(43.0)	-	(7.2)	(50.2)
Interest expense on issued bonds	-	(43.1)	-	(43.1)
Total finance costs	(43.0)	(43.1)	(7.2)	(93.3)
Total gross profit/(loss)	(43.0)	(43.1)	(7.2)	(93.3)
Hedge valuation reserve	-	-	(9.8)	(9.8)

Hedge accounting and derivativesCash Flow Hedge of interest rate risk of interest payments

At 31 December 2017, the Company held a number of interest rate swaps, designated as hedges of floating interest payments on senior facility denominated in PLN. The interest rate swaps are being used to hedge the interest rate risk of the Company's floating rate financing in PLN.

The terms of the interest rate swaps have been negotiated to match the terms of the floating rate financing in PLN. There were no highly probable transactions for which hedge accounting has been claimed that have not occurred and no significant element of hedge ineffectiveness requiring recognition in the income statement.

Table below presents the basic parameters of IRS designated as hedging instruments, including the periods in which cash flows occur due to cash flow hedges, periods they will affect the financial results and fair value in PLN of hedging instruments as at the balance sheet date.

	31 December 2017	31 December 2016
Type of instrument	Interest rate swap	Interest rate swap
Exposure	Floating rate interest payments in PLN	Floating rate interest payments in PLN
Hedged risk	Interest rate risk	Interest rate risk
Notional value of hedging instrument (PLN)	375.0	250.0
Fair value of hedging instruments	0.1	1.5
Hedge accounting approach	Cash Flow Hedge	Cash Flow Hedge
Expected period the hedge item affect income statement	Until 30 September 2019	Until 30 September 2018

Change in fair value of cash flow hedges recognized in equity is presented below (pre-tax):

	2017	2016
Opening Balance	1.5	(8.3)
Effective part of gains or losses on the hedging instrument	(1.2)	1.5
Amounts recognized in equity transferred to the profit and loss statement, of which:	(0.2)	8.3
- adjustment of interest costs	(0.2)	8.3
Closing Balance	0.1	1.5

36. Capital management

This note presents information about the Company's management of capital. Further quantitative disclosures are also included throughout these financial statements.

The goal of capital management is to maintain the Company's ability to operate as a going concern in order to provide the shareholders return on investment as well as benefits for other stakeholders. The Company might issue shares, increase debt or sell assets in order to maintain or improve the equity structure.

The Company monitors capital on the basis of leverage ratio, which is calculated as a ratio of net debt to sum of equity and net debt. Net debt represents interest-bearing loans and borrowings and issued bonds less cash and cash equivalents (including restricted cash).

	Carrying amount	
	31 December 2017	31 December 2016
Loans	914.9	1,021.1
Issued bonds	1,018.2	1,017.9
Cash and cash equivalents	(29.5)	(278.8)
Net debt	1,903.6	1,760.2
Equity	10,912.4	10,512.2
Equity and net debt	12,816.0	12,272.4
Leverage ratio	0.15	0.14

37. Barter transactions

The Company is a party to barter transactions. The table below presents revenues and costs of barter transactions executed on an arm's-length basis. Revenue comprise revenue from services, goods and materials sold, costs comprise costs of sales.

	for the year ended	
	31 December 2017	31 December 2016
Revenues from barter transactions	3.1	4.5
Cost of barter transactions	2.5	4.9
	31 December 2017	31 December 2016
Barter receivables	1.1	0.6
Barter payables	-	-

38. The impact of merger with Metelem Holding Company Limited on assets, equity and liabilities

On 7 April 2017 the District Court for the Capital City of Warsaw in Warsaw, XIII Business Division for the National Court Register registered the cross-border merger of the Company with its subsidiary, Metelem Holding Company Limited ('Metelem') seated in Cyprus.

The merger was effected by:

- i. transferring to Company, as the sole shareholder of Metelem, all the assets of Metelem by the way of universal succession, and
- ii. dissolving of Metelem without liquidation.

As a result of the merger, Cyfrowy Polsat assumed all rights and obligations of Metelem, effective on the date of the merger. Given that the Company held all the shares of Metelem the merger was effected without increasing the share capital of the Company.

The detailed terms of the merger are specified in the Merger Plan prepared on 19 December 2016 and made publicly available, free of charge, on the Company's website. The merger was performed in order to optimize costs of operations and simplify the organizational structure of Cyfrowy Polsat Group.

The merger between the Company and Metelem was accounted for as an acquisition of cash assets (Metelem's cash and cash equivalents and other smaller amounts of net assets, i.e. receivables and liabilities) and non-cash assets (shares in Metelem's subsidiary) in an exchange for non-cash item (i.e. shares in Metelem).

The merger's effects on the Company's assets and liabilities were as follows:

	Change resulting from the merger as at 7 April 2017
Shares in Metelem	(6,778.0)
Shares in Eileme 1 AB (publ)	6,723.5
Receivables and other current assets	0.8
Cash and cash equivalents	53.8
Current liabilities	(0.1)
Total	-

As a result of the merger, net assets of Cyfrowy Polsat remain unchanged.

39. Transactions with related parties

Receivables

	31 December 2017	31 December 2016
Subsidiaries	53.3	42.6
Joint ventures	0.4	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 reporting entity	1.0	1.1
Total	54.7	44.7

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

Other assets

	31 December 2017	31 December 2016
Subsidiaries	131.4	219.9
Total	131.4	219.9

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

Liabilities

	31 December 2017	31 December 2016
Subsidiaries	113.4	158.0
Joint ventures	0.4	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 reporting entity	5.7	2.5
Total	119.5	161.0

A significant portion of liabilities is represented by programming licence fees, Polkomtel services, commissions on sales and fees for using "Cyfrowy Polsat" trade mark.

Loans granted

	31 December 2017	31 December 2016
Subsidiaries	2.3	1.4
Joint ventures	-	11.2
Total	2.3	12.6

Revenues

	for the year ended	
	31 December 2017	31 December 2016
Subsidiaries	85.0	97.5
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 reporting entity	0.9	1.3
Total	86.0	99.2

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

Expenses

	for the year ended	
	31 December 2017	31 December 2016
Subsidiaries	850.6	691.2
Joint ventures	0.1	0.8
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	26.9	19.4
Total	877.6	711.4

The most significant transactions include data transfer services.

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

Gains on investment activities, net

	for the year ended	
	31 December 2017	31 December 2016
Subsidiaries	450.9	422.0
Joint ventures	-	0.5
Total	450.9	422.5

Gains and losses on investment activities comprises of dividends, income from share of the profits of partnerships and guarantees granted by the Company in respect to Polkomtel's term facilities.

Finance costs

	for the year ended	
	31 December 2017	31 December 2016
Subsidiaries	4.9	5.7
Total	4.9	5.7

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

40. Litigations

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

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

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

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

Other proceedings

On 28 April 2017, ZASP filed a lawsuit against Cyfrowy Polsat for payment of PLN 20.3. The Company issued an objection in the writ-of-payment proceedings and filed for its dismissal entirety. On 10 January 2018 the Court issued a decision to refer the case to mediation proceedings.

41. Other disclosures

Security relating to loans and borrowings

Establishment of collateral for loan facilities

The Company entered into a series of agreements establishing collateral under the SFA. Detailed information in respect to the agreements is presented in the Management Report in note 4.6.5.

Other securities

The Company provided guarantees to its subsidiaries in respect to purchase contracts. Information regarding the amounts of guarantees provided was not separately disclosed, as in the opinion of the Group's Management, such disclosure could have a negative impact on the relations with the third parties.

Contractual liabilities related to purchases of non-current assets

Total amount of capital commitments resulting from agreements on property construction and improvements was PLN 0.4 as at 31 December 2017 (PLN 0.0 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 December 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 December 2017 was PLN 353.2 (PLN 696.0 as at 31 December 2016).

42. Remuneration of the Management Board

The table below presents the remuneration of the Management Board members of the Company in 2017 and 2016.

Name	Function	2017	2016
Tobias Solorz	President of the Management Board	0.2	0.2
Dariusz Działkowski	Member of the Management Board	0.6	0.6
Tomasz Gillner-Gorywoda	Member of the Management Board	0.7	0.7
Aneta Jaskólska	Member of the Management Board	0.6	0.6
Agnieszka Odorowicz	Member of the Management Board (from 1 March 2016)	0.6	0.5
Katarzyna Ostap-Tomann	Member of the Management Board (from 1 October 2016)	0.5	0.1
Maciej Stec	Member of the Management Board	0.1	0.1
Tomasz Szelaż	Member of the Management Board (until 30 September 2016)	-	0.5
Total		3.3	3.3

The bonuses payable to each member of the Management Board of the Company for years 2017 and 2016 from the Company and subsidiaries are presented below:

Name	Function	2017	2016
Tobias Solorz	President of the Management Board	1.5	5.0
Dariusz Działkowski	Member of the Management Board	1.1	1.0
Tomasz Gillner-Gorywoda	Member of the Management Board	1.4	1.5
Aneta Jaskólska	Member of the Management Board	1.3	1.8
Agnieszka Odorowicz	Member of the Management Board (from 1 March 2016)	0.6	0.5
Katarzyna Ostap-Tomann	Member of the Management Board (from 1 October 2016)	1.4	1.2
Maciej Stec	Member of the Management Board	1.5	1.6
Tomasz Szelaż	Member of the Management Board (until 30 September 2016)	-	4.1
Total		8.8	16.7

The table below presents the remuneration of the Management Board of Cyfrowy Polsat S.A. in 2017 and 2016 from other related companies:

Name	Function	2017	2016
Tobias Solorz	President of the Management Board	1.2	1.2
Dariusz Działkowski	Member of the Management Board	0.1	0.0
Tomasz Gillner-Gorywoda	Member of the Management Board	0.5	0.5
Aneta Jaskólska	Member of the Management Board	0.3	0.3
Katarzyna Ostap-Tomann	Member of the Management Board (from 1 October 2016)	0.5	0.1
Maciej Stec	Member of the Management Board	0.8	0.8
Tomasz Szelaż	Member of the Management Board (until 30 September 2016)	-	0.3
Total		3.4	3.2

43. The Supervisory Board remuneration

The Supervisory Board receives remuneration based on the resolution of the Extraordinary General Shareholders' Meeting of Cyfrowy Polsat S.A. dated 5 September 2007. On 29 June 2016 the Annual General Meeting adapted the resolution concerning changes in remuneration of members of the Supervisory Board.

The table below presents the total remuneration payable to the Supervisory Board members in 2017 and 2016:

Name	Function	2017	2016
Zygmunt Solorz	President of the Supervisory Board (until 30 September 2016)	-	0.15
Marek Kapuściński	President of the Supervisory Board (from 25 October 2016), Member of the Supervisory Board (from 1 October 2016 to 24 October 2016)	0.24	0.06
Józef Birka	Member of the Supervisory Board	0.18	0.15
Robert Gwiazdowski	Independent Member of the Supervisory Board	0.18	0.15
Aleksander Myszka	Member of the Supervisory Board	0.18	0.15
Leszek Reksa	Independent Member of the Supervisory Board	0.18	0.15
Heronim Ruta	Member of the Supervisory Board (until 30 November 2017)	0.17	0.15
Tomasz Szelaĝ	Member of the Supervisory Board (from 1 October 2016)	0.18	0.05
Total		1.31	1.01

44. Important agreements and events

Decision of the Head of the Mazovian Tax Office in Warsaw

On 25 May 2017 the Head of the Mazovian Tax Office in Warsaw ("Tax Office") issued the decision determining the value of tax obligation in relation to corporate income tax for the year 2011 at a higher level than the declared value, by PLN 40.6 plus accrued penalty.

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

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

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

45. Events subsequent to the reporting date

Cross-border merger

On 9 January 2018 the Extraordinary General Meeting of the Company adopted a resolution concerning the cross-border merger by acquisition of Cyfrowy Polsat (Acquiring Company) and Eileme 1 AB (Ceasing Company). The merger will be effected by transferring all of the assets and liabilities of the Ceasing Company to the Acquiring Company and dissolving the Ceasing Company without liquidation.

Amendments and restatement deed to the facilities agreement

On 2 March 2018 the Company (acting as the obligors' agent) and UniCredit Bank AG (acting as finance parties' agent) entered into Second Amendment and Restatement Deed to the Facilities Agreement dated 21 September 2015 and amended by the Amendment, Restatement and Consolidation Deed dated 21 September 2015. The Second Amendment and Restatement Deed amends *inter alia* the termination date of the CP Term Facility and the CP Revolving Facility to 30 September 2022 (originally set on 21 September 2020). Pursuant to the agreement the repayment schedule has been changed - for details please refer to consolidated financial statements for the year ended 31 December 2017 (note 47).

Decision of the Head of the Małopolska Tax Office in Cracow

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

In the issued decision the Tax Office contested the Company's right to an exemption from the obligation to withhold income tax on certain interest payments in 2012.

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

The Tax Office control activities in the aforesaid matter are in progress in relation to 2013 and 2014. If an unfavorable and, in the opinion of the Company, incorrect interpretation of tax regulations relating to disputed matter is upheld, additional Company's tax liabilities might amount to ca. PLN 35 increased by interest on tax arrears.

46. Judgments, financial estimates and assumptions

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

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

The most significant estimates and assumptions made primarily related to the following:

- *Classification of lease agreements*

The Company classifies leasing agreements as operating or financial based on the assessment as to what extent the risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The assessment is based on the economical substance of each transaction. The Company concludes agreements for the rental of reception equipment (set-top boxes, modems and routers) to its customers in the course of its business operations. These lease agreements are classified as operating leases as the Company holds substantially all the risks and rewards incidental to ownership of the reception equipment. As a part of its business activities the Company has concluded agreements with Eutelsat for the rental of transponder capacity as well as an agreement with Nagravision for the lease of conditional access system (including SMART cards). These agreements were classified as operating leases as Eutelsat and Nagravision hold substantially all the risks and rewards incidental to the ownership of the transponders and the conditional access system. For more information see note 30.

- *Depreciation rates of property, plant and equipment and intangible assets with definite useful lives*

Depreciation rates are based on the expected economic useful lives of property, plant and equipment (including reception equipment provided to customers under lease agreements) and intangible assets. The expected economic useful lives are reviewed on an annual basis based on the experience of the entity.

The economic useful lives of the set-top boxes rented to customers under operating lease agreements are estimated for 5 years, modems and routers 3 years. For information on the useful lives of property, plant and equipment, programming assets and other intangible assets with definite useful lives see notes 5i and 5j. For information on the depreciation charge for the period by the category of property, plant and equipment and intangible assets with definite useful lives see notes 15 and 17.

- *The impairment of goodwill*

The Company performed impairment test on goodwill arising on the acquisition of M.Punkt Holdings and Redefine. The impairment test was based on the value-in-use calculations of the "Services to individual and business customers" cash-generating unit to which the goodwill has been allocated on the initial recognition. The value-in-use calculations included estimation of discounted cash flows for the given cash-generating unit and the relevant discount rate. The value of goodwill tested at each cash-generating unit, the key assumptions used in the value-in-used calculations for each cash-generating unit, impairment test results and sensitivity analysis of reasonably possible changes in the key assumptions are presented in note 16.

- *The impairment of investment in subsidiaries*

The Company analyzed whether any indicators of potential impairment of investments in subsidiaries exist as at the balance sheet date. The analysis did not indicate such impairment indicators therefore the Company did not perform an impairment test for these assets.

- *The impairment of non-financial non-current assets*

As at the reporting date the Company has assessed whether there are any indications that intangible and tangible assets with definite useful lives may be impaired. The impairment loss recognised equals the difference between net book value and recoverable amount. The impairment values are presented in notes 15 and 17.

- *Impairment of receivables*

Judgment is required in evaluating the likelihood of collection of customer debt after revenue has been recognized. This evaluation requires estimates to be made including the level of bad debt allowance made for amounts with uncertain recovery profiles. Allowances are based on the probability of receivables collection, and on more detailed reviews of individually significant balances. Depending on the type of the customer and the source of the receivable, the assessment of the probability of receivable collection is done either based on the analysis of individual balances or based on the statistical probability of recoverability for each receivable's ageing profile. Recoverability rates are defined based on the analysis of the historical recoverability and the customers' behavior as well as other factors that, according to the Management Board, might influence the recoverability of the receivables. For more information see notes 5n, 23 and 35.

- *Provisions for pending litigation*

During the normal course of its operations the Company participates in several court proceedings, usually typical and repeatable and which, on an individual basis, are not material for the Company, its financial standing and operations. The provisions are estimated based on the court documentation and the expertise of the Company's lawyers who participate in the current litigations and who estimate Company's possible future obligations taking the progress of litigation proceedings into account. The Company also recognizes provisions for potential unreported claims resulting from past events, should the Management Board find that the resulting outflow of economic benefits is likely. Provisions regarding probable claims are recognized as a result of Management Board's estimates based on accessible information regarding market rates for similar claims. Management believes that the provisions as at 31 December 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.

- *Deferred tax*

Deferred taxes are recognised for all temporary differences, as well as for unused tax losses. The key assumption in relation to deferred tax accounting is the assessment of the expected timing and manner of realization or settlement of the carrying amounts of assets and liabilities held at the reporting date. In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deductible temporary differences can be utilized. At the end of the reporting period unrecognised deferred tax assets are re-assessed. A previously unrecognised deferred tax asset is recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. For further details refer to note 5w and 12.

- *Fair value of financial instruments*

Fair value of financial instruments for which there is no active market is estimated using appropriate techniques of measurements. The techniques are chosen based on the professional judgment. For more information about the method of establishing the fair value of financial instruments and key assumption made see note 5g.

- *Loan liabilities measured at amortised cost*

The CP Term Facility and the CP Revolving Facility bear interest at a variable rate equal to WIBOR for the relevant interest period plus margin. The margin on the CP Term Facility and the CP Revolving Facility depends on the ratio of net consolidated indebtedness to consolidated EBITDA. Accordingly, the Company's management classifies loan liabilities as variable rate instruments. The Company treats movements in both factors in accordance with IFRS 39 AG7 and the periodic re-estimation of cash flows alters the effective interest rate.

Financial results for the 3 months ended 31 December 2017 and 31 December 2016**47. Income Statement**

	for the 3 months ended	
	31 December 2017 unaudited	31 December 2016 unaudited
Revenue	589.5	573.1
Operating costs	(527.1)	(507.5)
Other operating costs, net	(1.8)	(1.4)
Profit from operating activities	60.6	64.2
Gain/loss on investment activities, net	18.5	146.1
Finance costs	(20.7)	(24.6)
Gross profit for the period	58.4	185.7
Income tax	(11.4)	(8.4)
Net profit for the period	47.0	177.3
Basic and diluted earnings per share (in PLN)	0.08	0.27

48. Statement of Comprehensive Income

	for the 3 months ended	
	31 December 2017 unaudited	31 December 2016 unaudited
Net profit for the period	47.0	177.3
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Valuation of hedging instruments	(0.1)	2.5
Income tax relating to hedge valuation	0.0	(0.5)
Items that may be reclassified subsequently to profit or loss	(0.1)	2.0
Other comprehensive income, net of tax	(0.1)	2.0
Total comprehensive income for the period	46.9	179.3

49. Revenue

	for the 3 months ended	
	31 December 2017 unaudited	31 December 2016 unaudited
Retail revenue	545.2	530.3
Wholesale revenue	21.4	19.6
Sale of equipment	11.1	16.5
Other revenue	11.8	6.7
Total	589.5	573.1

50. Operating costs

	Note	for the 3 months ended	
		31 December 2017 unaudited	31 December 2016 unaudited
Content costs		144.9	145.3
Technical costs and costs of settlements with network operators		160.2	131.8
Distribution, marketing, customer relation management and retention costs		82.4	89.6
Depreciation, amortization, impairment and liquidation		52.2	55.4
Salaries and employee-related costs	a	31.8	30.9
Cost of equipment sold		11.0	14.3
Cost of debt collection services and bad debt allowance and receivables written off		2.3	2.4
Other costs		42.3	37.8
Total		527.1	507.5

a) Salaries and employee-related costs

	for the 3 months ended	
	31 December 2017 unaudited	31 December 2016 unaudited
Salaries	27.8	27.9
Social security contributions	2.9	2.6
Other employee-related costs	1.1	0.4
Total	31.8	30.9

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

	for the 3 months ended	
	31 December 2017 unaudited	31 December 2016 unaudited
Dividends received	-	144.2
Share in the profits of partnerships	15.2	13.3
Other	3.3	(11.4)
Total	18.5	146.1

52. Finance costs

	for the 3 months ended	
	31 December 2017 unaudited	31 December 2016 unaudited
Interest expense on loans and borrowings	8.1	9.6
Interest expense on issued bonds	10.9	10.9
Valuation and realization of hedging instruments	-	1.6
Guarantee fees	1.1	1.5
Bank and other charges	0.6	1.0
Total	20.7	24.6