

CYFROWY POLSAT S.A.

CAPITAL GROUP

**Annual Report
for the financial year ended
December 31, 2014**

Place and date of publication: Warsaw, March 4, 2015



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LETTER OF THE CHAIRMAN OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

2014 was a breakthrough year and one of the most important years in the history of Cyfrowy Polsat. Polkomtel, the operator of Plus network, joined the Group, thus leading to the creation of the biggest media and telecommunication group in Poland, as well as in the region. Thanks to this, we have created a solid foundation for the future development and successful operations of the entire Cyfrowy Polsat Group, consisting of Cyfrowy Polsat, Polkomtel, Telewizja Polsat and IPLA platform.

The Group has acquired new possibilities of development in the dynamically changing and very competitive market environment. I am pleased that the Companies' Management Boards acted promptly in seizing the opportunity coming from the cooperation of Cyfrowy Polsat and Polkomtel. Thanks to this, we managed to introduce a pioneer and unique offer of integrated services – the smartDOM program – addressing new market conditions and consumer expectations and building the competitive advantage of the Group.

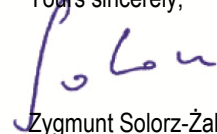
I truly appreciate the pace of operational integration within the Group – thanks to this, we may now focus all our activities on the accomplishment of the basic objective, that is building of a leading position on the multimedia entertainment and telecommunication market in Poland. I believe that Cyfrowy Polsat Group will continue to effectively implement its goals and strategy, which will allow for continuing its development, thus gaining a permanent advantage over all the competitors. Undoubtedly, one of the key strengths of the Group is a broad offer of new services, including financial services – prepared in cooperation with PlusBank, electricity supply services – sold by Plus network and subsequent, new services from other areas which will bring additional benefits both for the individual and corporate customers.

Cyfrowy Polsat Group together with Polkomtel has also strengthened its leading position on state-of-the-art technology market. The Group is the provider of the fastest Internet access in Poland in LTE technology and offers the broadest coverage of LTE in terms of population. The Group was the first operator in Poland to carry out successful tests of LTE-Advanced technology, through the combination of two carrier frequencies - 1800 MHz and 2600 MHz, VoLTE (Voice over LTE) and LTE Broadcast.

I am pleased with both operating and financial performance of the Group last year, including effectively pursued objectives in all of its key operating segments – on pay TV and television broadcasting, telecommunication and online services markets. It is worth mentioning that the excellent performance of the Group was delivered in an extremely challenging market environment, with the Group effectively competing in all important areas of its operations.

I would like to thank our Shareholders, as well as the Subscribers and Customers of Cyfrowy Polsat Group for the confidence they have placed in us. I would like to offer particular thanks to the Group's Management Boards and Employees for their effective work and commitment, which has significantly contributed to the achievements of our goals and objectives. I am convinced that Cyfrowy Polsat Group will continue its effective operations, which will translate into consistent building of Group's value for the benefit of its Shareholders.

Yours sincerely,



Zygmunt Solorz-Żak

Chairman of the Supervisory Board

Cyfrowy Polsat S.A.

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

Ladies and Gentlemen,

It is with great pleasure that I present to you the 2014 Annual Report of Cyfrowy Polsat Capital Group.

As a result of the transaction, finalized on May 7, 2014, of the acquisition by Cyfrowy Polsat of Metelem, indirectly controlling 100% of Polkomtel's shares, last year was marked by the integration of Cyfrowy Polsat and Polkomtel, which is also reflected in this report comprehensively describing our Group in the new shape, both from the operating and financial perspective.

By adding the operator of Plus network to Cyfrowy Polsat Group, it has become the biggest media and telecommunication group in the region, servicing 6.1 million contract customers and providing a total of 16.5 million pay television, mobile telephony and LTE Internet services, as well as one of the biggest private Polish enterprises with the capitalisation of ca. PLN 15 billion. Total consolidated revenue of Cyfrowy Polsat Group in 2014 amounted to PLN 7.4 billion, with EBITDA standing at PLN 2.7 billion, and profit at PLN 292.5 million.

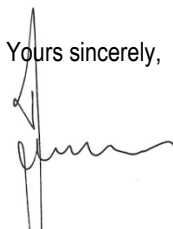
Operational integration was the natural consequence of our acquisition of Polkomtel. The process was completed last year with respect to the Group's business areas. At the same time we have started numerous joint projects in the area of marketing, sales, customer service and retention, IT and finance, in order to achieve the announced revenue, cost and financial synergies. All projects related to revenue synergies (ca. PLN 2 billion in the years 2014-2019) and cost synergies (ca. PLN 1.5 billion in the years 2014-2019) proceeded as planned. Whereas already in August last year, as a result of the successful process of partial refinancing of the Group's indebtedness, we increased our expectations regarding financial synergies – up to the amount of PLN 700 million until the end of 2019.

Thanks to the integration, carried out in accordance with our multi-play strategy, we have created a unique offer of integrated services – the smartDOM program – which is our response to the dynamically changing market environment and customer expectations and which builds our competitive advantage. This offer, under which the customer may, among others, purchase the second product with a 50% discount, and the third one for as little as PLN 1, has been very well received by the customers and proved to be a commercial success already during the first few months. 569 thousand customers joined the smartDOM program last year and the total number of services held by this group of customers amounted to 1.753 million.

Cyfrowy Polsat Group also includes the segment of television broadcasting and production as well as the biggest Polish online television service, IPLA, where we have been consistently strengthening our leading position. Our flagship channel POLSAT maintained its high audience share at the level of 13.3%, and the audience share of our thematic channels amounted to 10.4%, which translated into a total market share of 23.7%. We saw the Group's share in the TV advertising and sponsorship market rise to 25.1%, and our revenue in this area, thanks to the carefully selected programming schedule and optimal investments in programming content, showed growth dynamics exceeding the market average. Our online television service, IPLA, saw significant development of its content and functionality, which contributed to the growth of revenue of the services, as well as its user base.

The strategy of our Group remains unchanged. We will continue activities aimed at maintaining the leading position on the multimedia entertainment and telecommunication markets. Using the best and state-of-the-art technology we will create and deliver superior quality programming content and telecommunication products which will be offered by us under attractive packages of integrated services addressing the evolving needs of customers and improving their satisfaction with the cooperation. We still believe that investments in the LTE high speed Internet, of which we are the pioneer and leader in terms of development on the Polish market, is very important for the development of the Group in the future. We expect that the aforementioned activities will contribute to a systematic increase in the number of customers, their loyalty and ARPU per customer. Successful fulfilment of these objectives, combined with effective financial management, will have a positive impact on creating value for our Shareholders.

Yours sincerely,



Tomasz Gillner-Gorywoda
President of the Management Board
Cyfrowy Polsat S.A.

**REPORT OF THE MANAGEMENT BOARD
ON THE ACTIVITIES OF CYFROWY POLSAT S.A. CAPITAL GROUP
IN THE FINANCIAL YEAR ENDED DECEMBER 31, 2014**

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CYFROWY POLSAT GROUP AT A GLANCE

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

- Pay digital TV services offered by Cyfrowy Polsat – the largest pay TV provider in Poland and one of the leading satellite platforms in Europe. We offer our customers access to over 140 Polish language TV channels, including 40 channels in high definition standard, as well as additional services such as PPV, VOD Home Movie Rental, TV online, catch-up TV and Multiroom. We also provide online video services through IPLA – the leader on Poland's online video market.
- Mobile telecommunication services, including voice and data transmission services, which we provide mainly through our subsidiary Polkomtel – one of Poland's leading telecommunications operators;
- Mobile broadband Internet, offered under two alternative brands: Cyfrowy Polsat and Plus. We also provide these services in the state-of-the-art LTE technology. We offer the largest LTE coverage in Poland and our customers attain the highest data transmission speed among offers provided by national mobile network operators technologies;
- Broadcasting and television production through Telewizja Polsat, leading commercial TV broadcaster on the Polish market, offering 26 popular TV channels, including 5 in HD standard.
- Wholesale services to other operators, including i.a. network interconnection, national and international roaming shared access to network assets and lease of network infrastructure.

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

Our consolidated revenue from services, products, goods and materials sold in 2014 increased to PLN 7,409.9 million while our net profit amounted to PLN 292.5 million. EBITDA profit amounted to PLN 2,738.3 million with EBITDA margin of 37.0%.

DISCLAIMERS

Presentation of financial and other information

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

Financial and operating data

This Report contains financial statements and financial information relating to the Company and the Group. In particular, this Report contains our consolidated financial statements for the financial year ended December 31, 2014 and interim condensed consolidated financial statements for the 3 and 12-month periods ended December 31, 2014. The financial statements for the 3 and 12-month periods ended December 31, 2014 attached to this Report have been prepared in accordance with International Accounting Standard no. 34 'Interim Financial Reporting' ('IAS 34') and are presented in millions of zlotys. Unless otherwise indicated, financial information presented in this Report was prepared pursuant to the International Financial Reporting Standards as approved for use in the European Union ('IFRS').

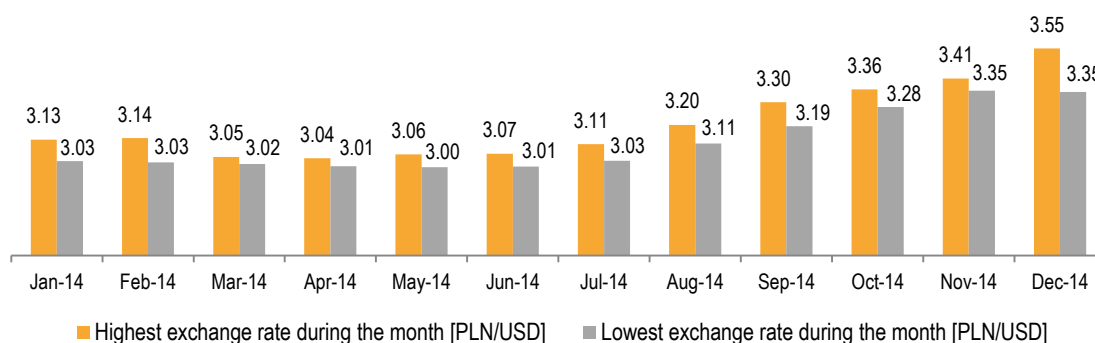
Certain arithmetical data contained in this Report, including financial and operating information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this Report may not conform exactly to the total figure given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

Currency presentation

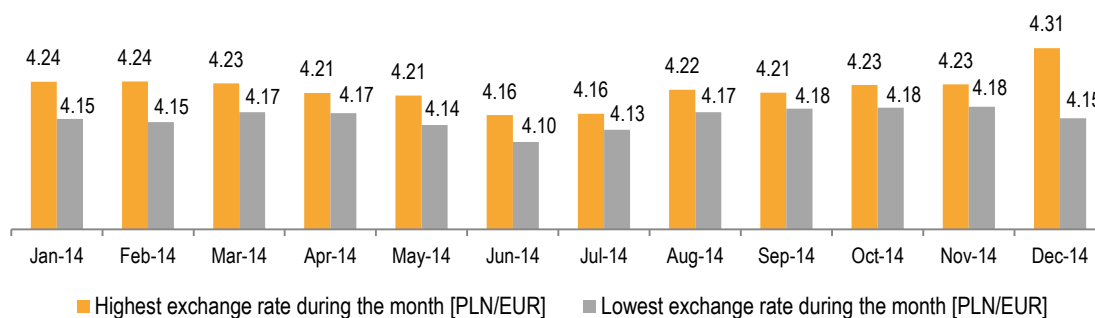
Unless otherwise indicated, in this Report all references to 'PLN' or 'zloty' are to the lawful currency of the Republic of Poland; all references to 'USD' or 'US dollars' are to the lawful currency of the United States; and all references to 'EUR' or the 'euro' are to the lawful currency of the member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

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

Year [zlotys per USD 1.00]	2010	2011	2012	2013	2014
Exchange rate at end of period	2.9641	3.4174	3.0996	3.0120	3.5072
Yearly average exchange rate	3.0157	2.9634	3.2570	3.1608	3.1551
Highest exchange rate during period	3.4916	3.5066	3.5777	3.3724	3.5458
Lowest exchange rate during period	2.7449	2.6458	3.0690	3.0105	3.0042



Year [zlotys per EUR 1.00]	2010	2011	2012	2013	2014
Exchange rate at end of period	3.9603	4.4168	4.0882	4.1472	4.2623
Yearly average exchange rate	3.9946	4.1198	4.1850	4.1975	4.1852
Highest exchange rate during period	4.1770	4.5642	4.5135	4.3432	4.3138
Lowest exchange rate during period	3.8356	3.8403	4.0465	4.0671	4.0998



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

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

We disclose important risk factors that could cause our actual results to differ materially from our expectations under item 4 – *Review of the operating and financial situation of Cyfrowy Polsat Group* – and under item 5 - *Key risk and threat factors*, and elsewhere in this Report. These cautionary statements qualify to all forward looking statements attributable to us or persons acting on our behalf. When we indicate that an event, condition or circumstance could or would have an adverse effect on us, we mean to include effects upon our business, financial situation and results of operations.

Industry and market data

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

- Eurostat, for data relating to the Polish economy and GDP growth;
- Polish Chamber of Electronic Communication;
- Office of Electronic Communications (UKE);
- Central Statistical Office of Poland (GUS);
- Body of European Regulators for Electronic Communications (BEREC);
- European Commission (Digital Agenda Scoreboard);
- Nielsen Audience Measurement;
- Starlink;

- IAB AdEX;
- PwC (Global entertainment and media outlook: 2014-2018);
- ZenithOptimedia;
- Megapanel PBI/Gemius;
- PMR;
- IQS;
- GFK Polonia;
- e-marketer;
- Ericsson Mobility Report; and
- Operators functioning on the Polish market.

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

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

FINANCIAL DATA OVERVIEW

The following tables set out selected consolidated financial data for the 3 and 12-month periods ended December 31, 2014 and December 31, 2013. The selected financial data presented in the tables below is expressed in millions of PLN, unless otherwise stated. This information should be read in conjunction with consolidated financial statements for the financial year ended December 31, 2014 (including the notes thereto) and interim condensed consolidated financial statements for 3 and 12 month periods ended December 31, 2014 attached to this Report, as well as the information included in item 4 of this Report - *Review of the operating and financial situation of Cyfrowy Polsat Group*.

Following the acquisition of Metelem Holding Company Limited on May 7, 2014, the consolidated financial statements for the financial year ended December 31, 2014 and the interim condensed consolidated financial statements for the 3 and 12-month periods ended December 31, 2014 of Cyfrowy Polsat Group consolidate the results of Metelem Holding Company Limited and its subsidiaries, including the telecommunications operator Polkomtel. In connection with the above we have modified the presentation of operating revenue and operating costs in the consolidated income statement. None of the introduced modifications have affected the amounts of revenue, costs, net profit for the period, EBITDA or total equity, presented by Cyfrowy Polsat Capital Group in previous periods.

Selected financial data:

- from the consolidated income statement for the 3-month period ended December 31, 2014 and December 31, 2013 have been converted into euro at a rate of PLN 4.2133 per EUR 1.00, being the average of monthly average exchange rates announced by the NBP in the reporting period i.e. from October 1 to December 31, 2014;
- from the consolidated income statement and the consolidated cash flow statement for the 12-month period ended December 31, 2014 and December 31, 2013 have been converted into euro at a rate of PLN 4.1852 per EUR 1.00, being the average of monthly average exchange rates announced by the NBP in the reporting period i.e. from January 1 to December 31, 2014;
- from the consolidated balance sheet data as at December 31, 2014 and December 31, 2013 have been converted into euro at a rate of PLN 4.2623 per EUR 1.00 (average exchange rate published by NBP on December 31, 2014).

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

It should be noted that data for the periods of 3 and 12- months ended December 31, 2014 are not fully comparable to data for the periods of 3 and 12-months ended December 31, 2013 due to the sale of shares in RS TV S.A. in August 2013 as well as the acquisition of shares of Metelem Holding Company Limited, the indirect parent of Polkomtel, on May 7, 2014. Furthermore, it should be noted that the consolidated income statements and the consolidated cash flow statements prepared by the Group for the 3 and 12-month periods ended December 31, 2014 consolidate the results of Metelem Group for the period from May 7, 2014 to December 31, 2014, thus they do not present a complete and up to date picture of the scale of activity of Cyfrowy Polsat Group. Furthermore, in 2013 the results of the company Polskie Media S.A., acquired on August 30, 2013, were consolidated since September 1, 2013. Given the formal merger of Polskie Media S.A. and Telewizja Polsat Sp. z o.o. on December 31, 2013, the elimination of the effect of consolidation of Polskie Media is not possible.

	December 31, 2014		December 31, 2013	
	mPLN	mEUR	mPLN	mEUR
Consolidated balance sheet				
Cash and cash equivalents*	1,747.9	410.1	342.2	80.3
Assets	27,381.2	6,424.0	5,676.2	1,331.7
Non-current liabilities	14,072.4	3,301.6	1,700.2	398.9
Current liabilities	4,167.2	977.7	974.8	228.7
Equity	9,141.6	2,144.8	3,001.2	704.1
Share capital	25.6	6.0	13.9	3.3

* Includes cash and cash equivalents and restricted cash.

	For the 12-month period ended			
	December 31, 2014		December 31, 2013	
	mPLN	mEUR	mPLN	mEUR
Consolidated cash flow statement				
Net cash from operating activities	1,973.9	471.6	802.7	191.8
Net cash from/(used in) investment activities	972.8	232.4	(133.8)	(32.0)
Net cash used in financial activities	(1,542.9)	(368.7)	(596.5)	(142.5)
Net increase in cash and cash equivalents	1,403.8	335.4	72.4	17.3

	for the 3-month period ended December 31				for the 12-month period ended December 31			
	2014		2013		2014		2013	
	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR
Consolidated income statement								
Retail revenue	1,701.7	403.9	466.1	110.6	5,084.7	1,214.9	1,830.1	437.3
Wholesale revenue	641.1	152.2	317.2	75.3	1,954.0	466.9	1,010.2	241.4
Sale of equipment	159.9	38.0	9.7	2.3	327.3	78.2	41.7	10.0
Other sales revenue	18.4	4.4	7.5	1.8	43.9	10.5	28.8	6.9
Revenue	2,521.1	598.4	800.5	190.0	7,409.9	1,770.5	2,910.8	695.5
Content costs	(295.6)	(70.2)	(260.7)	(61.9)	(1,029.5)	(246.0)	(927.0)	(221.5)
Distribution, marketing, customer relation management and retention costs	(218.3)	(51.8)	(92.4)	(21.9)	(612.7)	(146.4)	(332.0)	(79.3)
Depreciation, amortization, impairment and liquidation	(443.8)	(105.3)	(68.6)	(16.3)	(1,295.9)	(309.6)	(256.4)	(61.3)
Technical costs and cost of settlements with mobile network operators	(557.2)	(132.2)	(71.4)	(16.9)	(1,412.4)	(337.5)	(256.3)	(61.2)
Salaries and employee-related costs	(150.9)	(35.8)	(53.2)	(12.6)	(421.7)	(100.8)	(178.6)	(42.7)
Cost of equipment sold	(376.6)	(89.4)	(10.6)	(2.5)	(925.2)	(221.1)	(63.9)	(15.3)
Cost of debt collection services and bad debt allowance and receivables written off	(27.5)	(6.5)	(7.2)	(1.7)	(67.6)	(16.2)	(28.2)	(6.7)
Other costs	(55.5)	(13.2)	(27.6)	(6.6)	(212.1)	(50.7)	(115.3)	(27.5)
Total operating cost	(2,125.4)	(504.5)	(591.7)	(140.4)	(5,977.1)	(1,428.2)	(2,157.7)	(515.6)
Other operating income, net	(2.2)	(0.5)	(2.0)	(0.5)	9.6	2.3	36.8	8.8
Profit from operating activities	393.5	93.4	206.8	49.1	1,442.4	344.6	789.9	188.7
Gain/(loss) on investment activities, net	(11.4)	(2.7)	4.1	1.0	15.2	3.6	16.1	3.8
Financial costs	(379.2)	(90.0)	(22.8)	(5.4)	(1,146.0)	(273.8)	(216.0)	(51.6)
Share of the profit of a joint venture accounted for using the equity method	0.6	0.1	0.6	0.1	2.6	0.6	2.9	0.7
Gross profit for the period	3.5	0.8	188.7	44.8	314.2	75.1	592.9	141.7
Income tax	10.5	2.5	(15.5)	(3.7)	(21.7)	(5.2)	(67.4)	(16.1)
Net profit for the period	14.0	3.3	173.2	41.1	292.5	69.9	525.5	125.6
Basic and diluted earnings per share (not in millions)	0.02	0.01	0.50	0.12	0.54	0.13	1.51	0.36
Weighted number of issued shares in PLN	639,546,016		348,352,836		539,024,535		348,352,836	
Other consolidated financial data								
EBITDA ⁽¹⁾	837.3	198.7	275.4	65.4	2,738.3	654.3	1,046.3	250.0
EBITDA margin	33.2%	33.2%	34.4%	34.4%	37.0%	37.0%	35.9%	35.9%
Operating margin	15.6%	15.6%	25.8%	25.8%	19.5%	19.5%	27.1%	27.1%
Capital expenditures, net ⁽²⁾	97.9	23.2	24.0	5.7	331.3	79.2	120.7	28.8

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

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

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

1. CHARACTERISTICS OF CYFROWY POLSAT GROUP

1.1. Structure of Cyfrowy Polsat S.A. Capital Group

The following table and graph below present the organizational structure of Cyfrowy Polsat S.A. Capital Group as at December 31, 2014, indicating the consolidation method.

Company name	Registered office	Activity	Share in voting rights (%) as at	
			December 31, 2014	December 31, 2013
Parent Company				
Cyfrowy Polsat S.A.	Łubinowa 4a, Warsaw	radio, TV and telecommunication activities	n/a	n/a
Subsidiaries consolidated using the full consolidation method				
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, Warsaw	non-current assets and intellectual property rights management	100%	100%
Cyfrowy Polsat Finance AB	Stureplan 4C, 4 TR 114 35 Stockholm, Sweden	financial transactions	100%	100%
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, Warsaw	broadcasting and television production	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o. Sp. k.	Ostrobramska 77, Warsaw	advertising activities	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o.	Ostrobramska 77, Warsaw	media	100%	100%
Nord License AS	Vollsvseien 13B, Lysaker Norway	trade of programming licenses	100%	100%
Polsat License Ltd.	Poststrasse 9,6300 Zug Switzerland	trade of programming licenses	100%	100%
Polsat Ltd.	238A King Street, London W6 0RF, Great Britain	television broadcasting	100%	-
Telewizja Polsat Holdings Sp. z o.o.	Ostrobramska 77, Warsaw	holding activities	100%	100%
Media-Biznes Sp. z o.o.	Ostrobramska 77, Warsaw	television activities	100%	100%
Polsat Brands (einfache Gesellschaft)	Poststrasse 9, 6300 Zug Switzerland	intellectual property rights management	100%	100%
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, Warsaw	radio and TV activities	100%	100%
Redefine Sp. z o.o.	Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%	100%
Poszkole.pl Sp. z o.o.	Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%	100%
Gery.pl Sp. z o.o.	Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%	100%
Frazpc.pl Sp. z o.o.	Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%	100%
Netshare Sp. z o.o.	Stanów Zjednoczonych 61 A, Warsaw	electronic media (Internet) advertising broker	100%	100%
CPSPV1 Sp. z o.o.	Łubinowa 4a, Warsaw	technical services	100%	99%
CPSPV2 Sp. z o.o.	Łubinowa 4a, Warsaw	technical services	100%	99%
PL 2014 Sp. z o.o.	Stanów Zjednoczonych 53, Warsaw	other activity related to sports	100%	60%

Company name	Registered office	Activity	Share in voting rights (%) as at	
			December 31, 2014	December 31, 2013
Polsat Futbol Ltd. ⁽¹⁾	Office 1D, 238-246 King Street London W6 0RF, UK	television activities	-	100%
Metelem Holding Company Limited ⁽²⁾	Kostakis Pantelidi 1, 1010 Nicosia, Cyprus	holding and financial activities	100%	-
Eileme 1 AB (publ) ⁽²⁾	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	-
Eileme 2 AB (publ) ⁽²⁾	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	-
Eileme 3 AB (publ) ⁽²⁾	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	-
Eileme 4 AB (publ) ⁽²⁾	Stureplan 4C, 114 35 Stockholm, Sweden	holding activities	100%	-
Polkomtel Sp. z o.o. ⁽²⁾	Postępu 3, 02-676 Warsaw	telecommunication activities	100%	-
Nordisk Polska Sp. z o.o. ⁽²⁾	Postępu 3, 02-676 Warsaw	telecommunication activities	100%	-
Polkomtel Finance AB (publ) ⁽²⁾	Norrandsgatan 18, 111 43 Stockholm, Sweden	financial activities	100%	-
Liberty Poland S.A. ⁽²⁾	Katowicka 47, 41-500 Chorzów	telecommunication activities	100%	-
Polkomtel Business Development Sp. z o.o. ⁽²⁾	Postępu 3, 02-676 Warsaw	other activities supporting financial services	100%	-
Plus TM Management Sp. z o.o. ⁽²⁾	Postępu 3, 02-676 Warsaw	telecommunication activities	100%	-
LTE Holdings Limited ⁽²⁾	Kostakis Pantelidi 1, 1010 Nicosia, Cyprus	holding activities	100%	-
Plus TM Group Sp. z o.o. S.K.A. ⁽²⁾	Postępu 3, 02-676 Warsaw	intellectual properties and similar items rental	100%	-
Plus TM Group Sp. z o.o. ⁽²⁾	Postępu 3, 02-676 Warsaw	holding activities	100%	-
Subsidiaries consolidated using the equity method				
Polsat JimJam Ltd.	105-109 Salusbury Road London NW6 6RG, Great Britain	television activities	50%	50%
Polski Operator Telewizyjny Sp. z o.o. ⁽³⁾	Huculska 6, Warsaw	radio communications and radio diffusion	50%	50%
New Media Ventures Sp. z o.o. ⁽²⁾	Wolaska 18, 02-675 Warsaw	maintenance of loyalty programs	49.97%	-
Paszport Korzyści Sp. z o.o. ⁽²⁾	Postępu 3, 02-676 Warsaw	maintenance of loyalty programs	49%	-

(1) Polsat Futbol Ltd. was dissolved on January 21, 2014

(2) Company consolidated since May 7, 2014

(3) The company has suspended operations

Additionally, the following entities were included in the consolidated financial statements for the 3 and 12-month periods ended December 31, 2014:

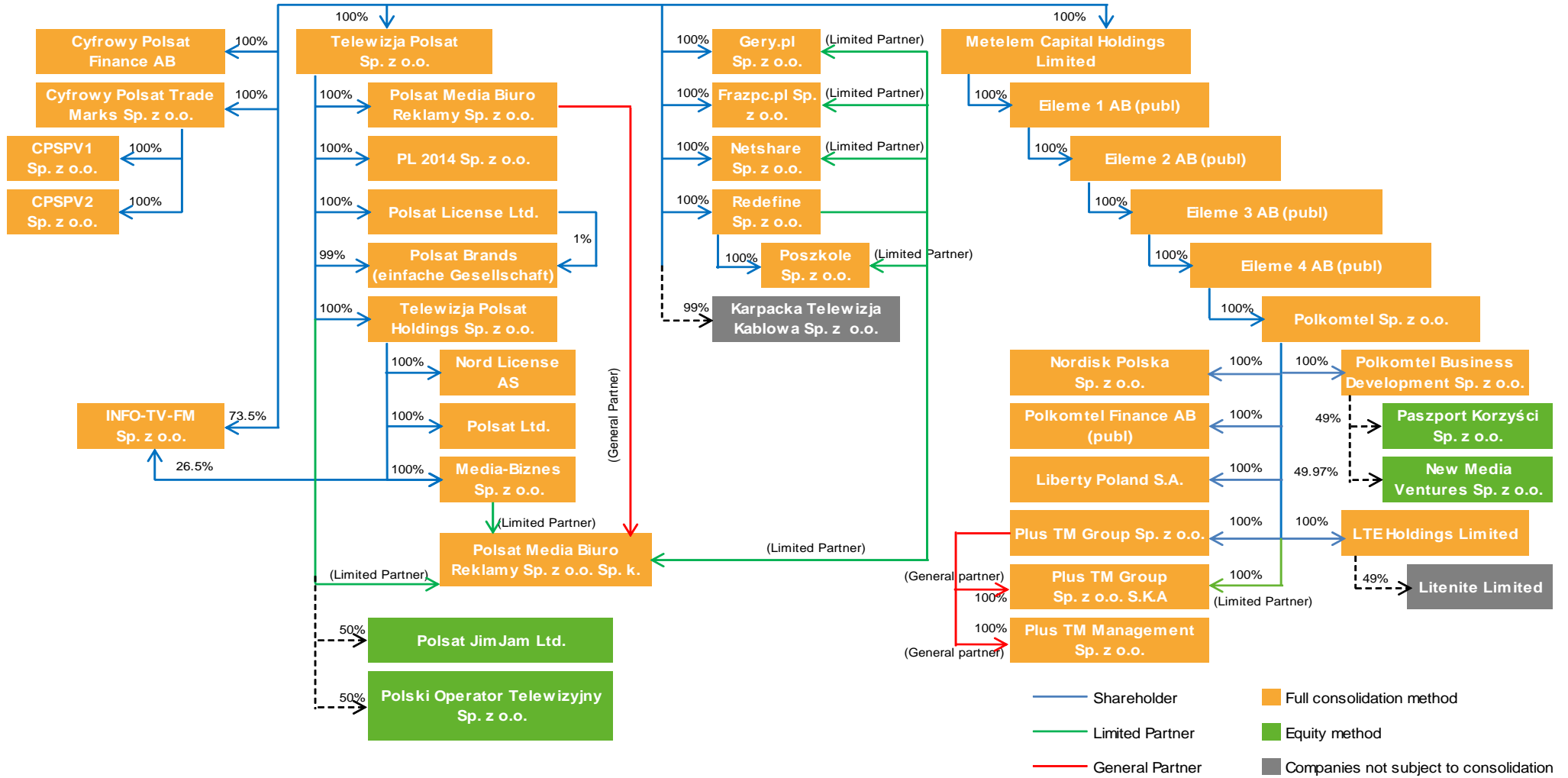
	Registered office	Activity	Share in voting rights (%) as at	
			December 31, 2014	December 31, 2013
Karpacka Telewizja Kablowa Sp. z o.o. ⁽¹⁾	Chorzowska 3, Radom	dormant	99%	85%
Litenite Limited ⁽²⁾	Kostakis Pantelidi 1, 1010 Nicosia, Cyprus	holding company	49%	-

(1) Investment accounted for at cost less any accumulated impairment losses

(2) Shares in Litenite Limited have been recognized as an investment in an affiliate without accounting for changes in results and net assets.

Structure of Cyfrowy Polsat Group as at December 31, 2014.

CYFROWY POLSAT S.A.



Changes in the organizational structure of Cyfrowy Polsat S.A. Capital Group and their effects

In 2014, the following changes were implemented to the structure of Cyfrowy Polsat Capital Group. These changes are the effect of acquisition as well as part of the process of optimizing the structure and processes realized within the Capital Group.

Date	Change
January 21, 2014	Dissolution of Polsat Futbol Ltd.
May 7, 2014	Acquisition of 100% of shares in Metelem Capital Holding Limited, indirect parent of Polkomtel.
May 14, 2014	Increase of the share capital of Polkomtel's subsidiary – Plus TM Group SKA on the grounds of the resolution of the Extraordinary Meeting of Shareholders of the company on the increase of the share capital to the amount of PLN 1.050 m, adopted on December 23, 2013. As at the date of the publication of this report the Company holds indirectly, through Polkomtel and its subsidiaries 21,000 shares in the share capital of Plus TM Group SKA with the nominal value of PLN 50 each and the total nominal value of PLN 1.050 m constituting 100% of the share capital of Plus TM Group SKA.
May 22, 2014	Acquisition of 1% of shares in CPSPV1 Sp. z o.o. and 1% of shares in CPSPV2 Sp. z o.o. by Cyfrowy Polsat Trade Marks. In consequence of these transactions CPTM currently holds 100% shares in both CPSPV1 and CPSPV2.
May 23, 2014	Increase of the share capital in Metelem and acquisition by Cyfrowy Polsat of 212,000 new, ordinary shares in Metelem, of the nominal value of EUR 1.00 (i.e. approx. PLN 4.15 at the average exchange rate of the Polish National Bank as at May 23, 2014) per share and the issue price of EUR 1,000 (i.e. approx. PLN 4.152 at the average exchange rate of the Polish National Bank as at May 23, 2014) per share. Prior to the share capital increase in Metelem, the Company held 2,000,325 shares in Metelem with the nominal value of EUR 1.00 per share and the total nominal value of EUR 2,000,325 (i.e. approx. PLN 8,306,149.53 at the average exchange rate of the Polish National Bank as at May 23, 2014), representing 100% of the share capital of Metelem. At the date of this report, the Company holds 2,212,325 shares in Metelem with the nominal value of EUR 1.00 per share and the total nominal value of EUR 2,212,325 (i.e. approx. PLN 9,186,458.33 at the average exchange rate of the Polish National Bank as at May 23, 2014), which still represent 100% of the share capital of Metelem.
May, 26 2014	Acquisition of shares in a subsidiary – Karpacka Telewizja Kablowa Sp. z o.o. – by Cyfrowy Polsat. In consequence of this transaction Cyfrowy Polsat currently holds 99% shares in Karpacka Telewizja Kablowa Sp. z o.o.
May 27, 2014	Dissolution of LTE 6 Sp. z o.o., a subsidiary of Polkomtel, and its removal from the National Court Register.
July 27, 2014	Acquisition of the remaining 50% of shares in the share capital of PL 2014 Sp. z o.o. by Telewizja Polsat, thereby increasing its share in the total number of votes in the company to 100%.
August 6, 2014	Acquisition of 100% of shares in the share capital of Polsat Ltd. with its registered office in London, by Telewizja Polsat Holdings Sp. z o.o.

Furthermore, on February 27, 2015 Telewizja Polsat acquired 100% of shares in the company Radio PIN S.A.

1.2. Who we are

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

We operate in two business segments: segment of services to individual and business customers which relates to the provision of services to the general public and broadcasting and television production. In the segment of services to individual and business customers we provide services including digital television transmission signal, Internet access services, mobile TV services, online TV services, mobile services, wholesale services for other telecommunications operators as well as sales of telecommunication equipment and production of set-top boxes. As at December 31, 2014 we had 6.1 million contract customers, and companies from our Group provided a total of almost 16.5 million RGUs both contract and prepaid. Our broadcasting and television production segment consists mainly of production, acquisition and

broadcasting of information, sports and entertainment programs as well as TV series and feature films broadcast on television channels in Poland.

1.2.1. Segment of services to individual and business customers

Pay TV

We are the largest pay TV provider in Poland and a leading satellite platform in Europe in terms of the number of customers. Since 2006 we are the leader on the Polish market in terms of the number of active services as well as market share. As at December 31, 2014 we provided nearly 4.4 million active pay TV services (including almost 845 thousand Multiroom services).

Our offer includes mainly digital pay TV services distributed directly to end-users via satellite through set-top boxes and satellite antennas. Our programming strategy is to offer a wide range of channels that appeal to the whole family, at attractive prices. At present we provide access to over 140 Polish language 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 40 HD channels and also provide VOD/PPV, online TV, catch-up TV and Multiroom HD services.

Online video

The IPLA service offered by our Group is the leader of the Polish video online streaming market, both in terms of compatibility with a broad range of end-user devices (including computers, tablets, smartphones, TV sets with Internet access, set-top boxes, and game consoles) and in terms of content volume. IPLA also enjoys a leading position in terms of the number of users and the average time spent by a single user on watching streamed content. According to our data, in 2014 the average number of unique users of the IPLA website/application was approximately 4.3 million per month.

Mobile telephony

We provide mobile telephony services mainly through our subsidiary Polkomtel, Plus network operator. Polkomtel is one of the leading Polish mobile telecommunications network operators and the 2013 market leader in terms of revenue (according to the 'Report on the telecommunications market in Poland in 2013', published by UKE in June 2014). As at December 31, 2014 we provided almost 10.4 million mobile telephony services under both the post-paid and pre-paid models.

We offer a comprehensive array of telecommunications services under the established umbrella brand 'Plus' and our additional brand 'Plush'. Our offer includes retail services, comprising contract and prepaid voice services as well as data transmission services encompassing basic mobile broadband services, MMS, as well as a Wireless Application Protocol portal (providing multimedia, localization and social networks) and comprehensive convergent telecommunication services for large businesses.

Our retail mobile telephony offering is addressed to individual and business customers, including major corporate accounts, small and medium-sized enterprises, and the SOHO (Small Office/Home Office) segment. The offering is complemented by a range of value-added services, including entertainment and information. Additionally, our mobile telephony offer is complemented with a wide portfolio of handsets and smartphones, including devices which support the LTE technology.

Broadband Internet

In 2011, we were the first commercial service provider in Poland to launch an LTE-based broadband Internet access service, offering technical features and quality parameters which allows to compete effectively with fixed-line Internet services, thus meeting the increasing demand of consumers. In addition, LTE-based broadband access offers mobility, which is a feature that has been increasingly more popular among consumers. Currently LTE Internet and HSPA/HSPA+ Internet cover ca. 80% and nearly 100% of Poland's population, respectively.

We offer broadband Internet in the contractual model under two alternative brands: Cyfrowy Polsat and Plus. In addition, we offer broadband Internet in the prepaid model. Our offering is complemented by a portfolio of dedicated devices (modems, routers, tablets, laptops, installation sets which allow better reception and distribution of signal via Wi-Fi within the house, etc.), including equipment, which supports the LTE technology. Such a wide offering allows us to address the needs of customers, who are interested in using mobile broadband Internet for its mobility as well as those customers, who want to substitute fixed-line Internet access at home or in the office.

As at December 31, 2014 we provided almost 1.6 million broadband Internet access services.

Bundled services

In keeping with the rapidly changing market environment and consumer expectations, we offer a complete and unique service package based on pay TV, mobile telephony and broadband Internet access. Those services can be combined freely on an as-needed basis. Our broad range of bundled services is offered through a diverse array of digital distribution platforms, such as television sets, mobile handsets, computers and tablets.

smartDOM

As part of our strategy of integrating modern home products and services, Cyfrowy Polsat and Polkomtel launched smartDOM (smartHOME), a joint program which enables bundling of innovative services offered by both operators to the benefit of their customers. Under the new program, customers can combine, in a flexible way, such products as satellite TV, broadband LTE Internet, telephone, electricity and banking services, and make savings for each service added to their package. The program was launched in order to achieve revenue synergies expected in connection with the incorporation of Polkomtel into Cyfrowy Polsat Group.

smartFIRMA

On October 27, 2014 we launched a similar program addressed to business clients under the name smartFIRMA (smartCOMPANY), which allows to combine mobile telephony, LTE Internet and fixed-line voice services. The program also includes PlusBank products, electric energy from Plus, as well as a wide portfolio of supplementary services which support and enhance business.

Wholesale business

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

Network interconnection

Our telecommunications infrastructure used in interconnection cooperation enables us to effectively manage telecommunications traffic routing to all operators domestically and abroad. As at December 31, 2014 we were party to 25 interconnection agreements with national and international operators.

Shared access to network assets and lease of telecommunications infrastructure

As a consequence of significant capital expenditures in the past our subsidiary, Polkomtel, has an extensive telecommunications infrastructure, which allows to handle constantly increasing usage of telecommunication products and services. In order to optimize costs of maintenance of our infrastructure, we share access to network assets and lease components of our network infrastructure from and/or to other telecommunication providers on the Polish market. In particular, we cooperate with companies from Group Midas by providing mutual services, i.a. in the scope of sharing selected base stations, lease of area on their respective network installations and transmission of traffic by the party using the network from the base station to its core network.

International roaming

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

National roaming and mobile virtual network operators (MVNOs)

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

1.2.2. Broadcasting and television production segment

Production and sale of television channels

Our portfolio comprises 26 channels, including our flagship POLSAT, available in SD and HD formats and 24 thematic channels. 5 channels are available in HD standard.

POLSAT, broadcast since December 5, 1992, is the first commercial channel in Poland to obtain the nationwide license for analogue broadcasting. POLSAT is the leader among Polish TV channels in terms of share in the commercial audience, aged 16-49, totaling 13.65% in the fourth quarter of 2014. Telewizja Polsat broadcasts daily, 24/7. The channel is available via digital terrestrial TV on the second multiplex (MUX-2). Apart from terrestrial signal, POLSAT is also available in SD and HD formats from most cable networks and satellite platforms. The channel features a broad range of films (a significant share of which are produced by major American film studios), entertainment shows, news and commentaries, Polish and foreign TV series, as well as popular sporting events.

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

Sale of TV channel advertising airtime and sponsoring

Within our wholesale business we sell advertising and sponsoring time on our own channels as well as third-party channels. Based on data from Starlink, we estimate that in the fourth quarter of 2014 we captured 24.8% of the Polish TV advertising market worth approximately PLN 1.15 billion in that period. Based on the same estimates, in 2014 our share in the Polish TV advertising market was 25.1%, while the whole market was estimated at PLN 3.8 billion in that period.

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

Sale of channel broadcasting rights

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

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

1.3. Strategy

Our strategy assumes that we will create and deliver the most attractive TV content, telecommunication products and other services for the home, 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.

Our superior goal is to become the number one player on the Polish entertainment and telecoms markets. To achieve this objective we will continue to provide high quality products and services to all our customers as well as acquire and produce superior quality content and deliver it to Polish households and individual users.

The key elements of our strategy include:

- building the value of our customer base by increasing the number of users as well as maximizing the number of services offered to each customer while simultaneously increasing average revenue per user (ARPU) and maintaining high levels of customer satisfaction,

- maximizing revenue from produced and purchased content by expanding its distribution, maintaining the audience shares of our channels and improving our viewer profile, and
- effective management of the cost base of our integrated media and telecoms group by exploiting its inherent synergies.

Building the value of our customer base by increasing the number of users as well as maximizing the number of services offered to each customer while simultaneously increasing average revenue per user (ARPU) and maintaining high levels of customer satisfaction

Since the beginning of our operations, we have seen substantial growth in revenue from our services provided to our customers and we intend to further improve this result, as well as our market share, by running marketing campaigns targeted at current and prospective customers.

The principal goal of our strategy is to effectively build revenue from the sale of 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 products and services to both current and potential customers of Cyfrowy Polsat and Polkomtel. Together with Polkomtel we create a unique portfolio of services which is simultaneously targeted at clients of both operators. 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). What is more, while exploiting our combined customer bases, we will continue to maximize the number of additional services for the home or residential customer that we will be able to offer to our customers as we extend our product portfolio.

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 products and services portfolio, 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 sale 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 the areas where most of our customers live, 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 – 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 Cyfrowy Polsat's services will be delivered through a variety of reliable distribution channels – via satellite (DTH), within digital terrestrial television (DVB-T), through mobile technologies: 3G and LTE – to all consumer devices, from TV sets to PCs to tablets and smartphones.

Maximizing 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. With our current portfolio we broadcast 26 channels, programmed to appeal to most target groups within the Polish audience. Our goal here 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/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 numerous competitive advantages. To this end, we have identified more areas in which costs can be managed at the Group level: (i) customer acquisition, retention and day-to-day service – where certain business units and processes can be integrated; (ii) technology, and IT in particular, where information processes and systems, serving both business and operational areas throughout the Group can be consolidated; (iii) administrative infrastructure – where we can unlock benefits arising from the scale of combined businesses and the ability to share solutions, and (iv) back-office functions – where synergies can be unlocked that will better support the business.

1.4. Competitive advantages

We are a leading integrated media and telecommunications group in the region. We operate a diversified business comprising DTH, mobile telephony, broadband Internet as well as TV broadcasting and production and mobile TV.

We are the largest provider of pay TV services in Poland and a leading DTH provider in Europe in terms of customers. Since 2006, Cyfrowy Polsat has been the leader of the Polish DTH market in terms of number of active services and market share. Our subsidiary, Polkomtel, which focuses on provision of mobile telecommunication services under Plus brand, is one of the leading telecommunication operators in terms of the value of generated revenues and the size of the contract base of mobile telephony and the mobile broadband Internet access services. At the same time, in 2014, we were one of the two leading private television groups in Poland in terms of audience share and share in the advertising market, whereas our main channel was the leader in terms of audience share in that period.

Our pay TV, telephony and Internet access services are sold through the biggest distribution network among the Polish operators, including the total of 1,451 stationary points of sale. We simultaneously offer our services in alternative telemarketing, door-to-door channels as well as online in our Internet Store. Furthermore, Polkomtel has its own separate business customers sales and service channels, dedicated to the service of specific groups of customers, depending on the scale of their operations and revenue potential, as well as an extensive prepaid distribution network.

We have strong brand recognition and enjoy good reputation among our customers and viewers. Cyfrowy Polsat, Polkomtel, Telewizja Polsat, IPLA as well as TV4 and TV6 brands 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 GFK Polonia, we have the highest top of the mind brand awareness (87%) of the pay DTH satellite operators in Poland (the percentage of customers in the target group, that without being prompted by the interviewer are able to quote the brand name, based on "Image of Pay TV Operators" realized by GFK Polonia, October 2013, N=700). Plus is the best recognized brand among the mobile operators on the voice services market. Furthermore, Plus is the most liked brand among the main operators on the market, most frequently mentioned as trustworthy and having the fastest mobile Internet access (including the best coverage, best offer of the LTE Mobile Internet), (IQS Group, October-November 2013, Brand Condition Tracking in VOICE and INTERNET segments, N=3,150, N=4,950).

Our advertising sales office Polsat Media Biuro Reklamy, was elected the best TV advertising broker among the leading nationwide broadcasters in 2014. Polsat Media earned the highest scores in categories such as: rapid and effective reaction to customer needs, guarantee of high quality services by sales representatives, accurate settlements after the end of the campaign. In the 5-point scale applied by the editorial M&MP, where 5 points is the maximum score, Polsat Media Biuro Reklamy achieved 4.03 points (for comparison: TVP – 3.72; IDMnet – 3.62; Atmedia – 3.50; TVN Media – 3.48). The respondents included employees of media houses or advertising agencies responsible for media.

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 the biggest customer base in Poland to which we can up-sell a broad portfolio of services. As a result of acquisition of Polkomtel, Cyfrowy Polsat Group has the biggest base of unique customers, consisting of the individual customers of Cyfrowy Polsat and Plus, business and corporate customers as well as prepaid users. This base includes 6.1 million of unique customers, bound by contracts for definite or indefinite periods of time, which entails generation of regular monthly revenues. Our strategy assumes up-selling to this base of an extensive portfolio of telecommunication, television and other services by our companies independently or in partnership with other entities, in order to increase the amount of revenues generated by unique customers. We believe that up-selling of services to our own base will enable us to increase the revenue in a cost-effective way, while simultaneously offering to our customers attractive price terms, which should improve the satisfaction and loyalty of our customers.

We provide integrated services. Since June 2010, we provide multi-play services combining pay DTH offer, Internet and telecommunication services. We are the only pay DTH operator in Poland, that provides full multi-play services, which is a significant competitive advantage on pay DTH market in Poland. At the same time we are a telecommunication operator, which ensures for us a higher price elasticity and more effective operating activities on the competitive market.

The provision of services in an integrated model enables us to offer attractive price terms to the customers, while simultaneously simplifying the process of customer service, which should translate into the improvement of customer satisfaction and loyalty, thus decreasing the churn rate. We believe that, similarly to highly developed European countries, preferences of the Polish population 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, in the third quarter of 2011, we started to provide broadband Internet access service in LTE technology. 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 online games, video communication and HD TV through Internet.

Internet access services in LTE technology offered by us are provided based on the unique, continuous 20 MHz block of 1800 MHz frequency band. None of our competitors in Poland has access to a similar (in terms of width) continuous block of 1800 MHz band, thanks to which we are the only operator in Poland that is able to provide LTE transmission at the maximum speed of 150 Mb/s. The quality of LTE services provided by us has been confirmed by numerous independent surveys and consumer tests, which indicated that our customers are using the fastest mobile Internet Access in Poland.

We have frequencies enabling us to provide services in DVB-T technology. Through our subsidiary INFO-TV-FM Sp. z o.o. we own the rights to use frequencies from 470-790 MHz band assigned to provide mobile audio-visual media services in DVB-T technology. These frequencies enable us to offer pay TV services in another field of delivering entertainment to customers, being mobile television service, that is available in our offer on the most popular mobile devices, as well as on the latest in-house produced DVB-T set-top-box. Currently, there are around 5 million households and 15 million people within the technical reach of the multiplex.

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

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

We control the process of production of set-top boxes. As the only operator on the Polish market we produce our own set-top boxes. In November 2007, we launched own production of SD set-top boxes, in April 2010 we began to produce HD set-top boxes, in 2012 we started to produce DVB-T set-top-boxes, and in 2013 we began the production of PVR set-top-boxes. By the end of 2014, more than six million high technology equipment left our production line, out of which over 4.4 million were HD set-top boxes. We control the entire process of production of set-top boxes, from the hardware and software design phase to the production in our own factory as well as in our subcontractors' facilities. This enables us to produce high quality set-top boxes while incurring manufacturing costs which are noticeably lower than the price of purchasing such equipment from third-party providers. The functionalities of our set-top boxes are designed in line with the customers' expectations as analyzed by the surveys, so that we can be sure the equipment will meet their needs. The fact that software installed on our set-top boxes is developed by in-house engineers, enabling us to rapidly respond to emerging customer needs.

We own the biggest portfolio of TV channels in Poland. TV Polsat Group channels' portfolio consists of 26 channels including 5 in HD quality. We broadcast general entertainment, sports, news, business, lifestyle, movie and children's channels. This is the largest and most diversified channels' portfolio on the Polish market, that gives us the leading position in terms of audience share among private television groups in Poland. We believe that attractive content of our channels is a significant competitive advantage. We have contracts with major film studios, such as Sony Pictures Television, International 20th Century Fox, The Walt Disney Company or Warner Bros International TV Distribution assuring us with wide selection of the most attractive films and series. Our direct production covers mainly shows and series based on international formats as well as solely created concepts. We also offer wide selection of sport transmission, including among others qualifying matches of European Championships France 2016, the final match of Euro 2016, qualifying matches of the World Championships in 2018, volleyball tournaments and many other sport disciplines.

We have a high quality telecommunication infrastructure and broad frequency bands. We provide telecommunication services through the high quality, state-of-the-art mobile network. Our network is an integrated 2G/3G network based on GSM/GPRS/EDGE/UMTS/HSPA/HSPA+/HSPA DC as well as CDMA technologies, based on which we provide voice services, data transmission, wholesale services and a broad portfolio of Value Added Services. We have the reservations related to an extensive portfolio of telecommunication frequencies, including 420, 900, 1800 and 2100 MHz bands. We additionally cooperate with Midas capital group, with which we are jointly developing the services in LTE and HSPA+ technology, based on the frequency and infrastructure belonging to Midas capital group. As a result, at the end of January 2015 the coverage of our mobile services provided in 2G and 3G technology (including data transmission in HSPA+ technology) extended over nearly the entire population of Poland, while ca. 80% of Poles may use the LTE technology.

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

New entrants must overcome significant regulatory and operational barriers and acquire access to radio spectrum to compete effectively in the markets in which we operate. We believe that we benefit from significant market entry barriers that will aid us in maintaining our leadership positions in the competitive Polish pay TV, telecommunication and TV broadcasting markets. Unlike potential entrants to the Polish pay TV market, we benefit from economies of scale and a loyal customer base, and we can spread the relatively high cost of the necessary technology over our large customer base and leverage the stronger bargaining power that comes with a leading market position. On the other hand, the entry to the mobile telephony 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 spectrum of frequency bands allocated to mobile technologies have 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 on the paid access to the existing mobile networks so far have failed to achieve the scale of business in Poland which could create a significant competitive threat to us.

We have strong, stable and diversified cash flows. We generate revenue through two distinct revenue streams: (i) the services to individual and business customers segment and (ii) the broadcasting and television production segment. In the segment of services to individual and business customers segment, our large customer base, monthly subscription revenue and relatively 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 case of our cost base we focus on initiatives to develop in-house services and systems in order to improve quality and efficiency. The examples are: own set-top-boxes factory, own IT solutions, or centralization of selected back-office processes within the entire Capital Group.

We have a strong management team. Our management team consists of executives that have been members of the management boards or served in other managerial positions within the media, TV and telecommunications industries and have extensive experience in these industries. In addition, our operations in both business segments are managed by teams of experienced senior managers who provide expertise and a deep understanding of the markets in which we operate, especially with respect to marketing and sales, customer relations management and retention, technology and finance. 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. We present the key reasons below.

Penetration rate of multi-play services, in particular in low-urbanized areas. Integrated services in Poland are provided by cable TV operators and selected telecommunications operators and offered mainly in large and medium-sized cities, which results from the geographical coverage of their infrastructure and the quality of telecommunications infrastructure.

According to European Commission („E-Communications Household Survey”, June 2014) the penetration rate of multi-play services (defined as more than one service within the offer of one operator) in Poland in January 2014 amounted to 21% while in European Union reached 46%, with a penetration rate in Belgium and the Netherlands even over 70%. 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 Internet market in Poland. In 2014, 74.8% of households in Poland had access to the Internet, and approximately 71.1% - broadband access (according to Central Statistical Office, “Information society in Poland in 2014”), while in 28 EU members the average amounted to 78% (broadband Internet according to Eurostat). The percentage of household with broadband Internet access varied depending, among others, on the place of living – in big cities, it amounted to 77.5%, while in the rural areas 66.7%. According to PMR estimates (‘Telecommunication market in Poland 2014, Development forecast in the years 2014-2018’, August 2014), in 2014, there were nearly 12.5 million users of broadband Internet, out of which 40% used mobile connections. According to PMR, until 2018, the number of broadband users is supposed to grow by 19%, with the number of mobile broadband users growing by approximately 34% (data concerning mobile Internet include exclusively customers using modems and PCs). The main drivers for growth in the number of mobile Internet users in the long term will include: increased speeds of data transmission, increase in the number of mobile devices i.e. laptops, smartphones, tablets, as well as relatively low cost of mobile infrastructure covering low urbanized areas.

Growing market for new technologies and equipment and the resultant increase in access to and consumption of audiovisual content. As the market for innovative technologies is growing at a fast pace, the number of mobile devices (notebooks, tablets, smartphones or Smart TV sets) owned by consumers is on the rise as well. This has spurred a sharp increase in access to video content, and hence in video viewership. According to Ericsson Mobile Report, video content is the biggest and fastest growing segment of the mobile data transmission. It is expected that by 2020 the use of data related to watching video content will grow by 45% per year on average, reaching ca. 55% of the entire mobile data traffic in 2020. Consumers expect service providers to offer them the possibility to watch 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 monetization of our audiovisual content. At the same time, the above mentioned trend will translate into the increased demand from our customers on the 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 the 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. According to our data, the share of smartphones in the total volume of handsets sold to Plus customers increased from 61% in Q4 2012 to 84% in Q4 2014, thus leading to the increase of percentage of smartphone users in Plus network from 26% at the end of 2012 to 44%, estimated at the end of 2014. At the same time, according to the forecasts of emarketer.com from December 2014, the number of smartphones used in Poland will grow by ca. 64% between 2014 and 2018 (from 12.7 million to 20.8 million units). The continuous growth of popularity of smartphones, along with their technological development, will

drive the growing demand for the mobile data transmission packs purchased by the users of our network, which in turn should have a positive impact on the level of ARPU generated by our customers.

Development of advertising market in Poland. Demand for advertising air-time is highly correlated with the macro-economic situation. ZenithOptimedia Media House forecasts that the total net TV advertising expenditure will increase by 3.4% in 2015. Given that TV is a highly effective advertising medium, and given the relatively low level of advertising expenditures in Poland as a percentage of GDP and per capita in comparison to other European markets, there is still a substantial growth potential for TV advertising in Poland in the long term. It is worth noticing, that despite the growing importance of new media, it is forecasted that watching television will remain an attractive and popular activity, primarily thanks to new technical opportunities, including: increasing number of HD channels and VoD, as well as thanks to growing number of smart-TVs with Internet access.

According to IAB AdEX report Internet advertising market shows a dynamic growth, with the advertising expenditures of PLN 2.4 billion (not in thousands) in 2013, an increase of 10.2% y-o-y. The expenditures on the video advertising segment, in which we directly generate our revenue, increased in 2013 by 33% and represented 6.9% of the total expenditures on online advertising (increase by 1.1 pp. compared to 2012). According to PwC forecasts (Global entertainment and media outlook: 2014-2018) the online video advertising in Poland will grow by an average 45,1% (CAGR) in the years 2013-2018. We believe that thanks to the leading position on the online video market (through IPLA internet television) we may benefit from the growth of this promising advertising market segment.

Growing importance of thematic channels. A key trend emerging on TV market in Poland over the past several years is the increasing importance of thematic TV channels. Thematic channels are TV channels distributed mainly through cable and satellite platforms (pay) and terrestrial multiplexes (free), that specialize in a particular genre of programming, such as children's programming, films, sports, lifestyle, news or weather. Thematic channels market segment in Poland reached 46.7% audience share in 2014 compared to 44.3% in 2013 (NAM, all 16-49, full day, all channels except the following channels: Polsat, TVP1, TVP2, TVN, TV4, TV Puls, TVN7). Broadcasters with access to thematic channels and integrated media platforms (such as Cyfrowy Polsat Group) can potentially leverage the niche programming content with targeted and optimized advertising.

1.6. Development prospects

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

We are the largest media-telecommunications group in Poland and we have a unique product and services portfolio which includes pay TV, mobile telephony, data transmission and broadband mobile Internet, as well as a wide array of complementary services such as VOD, PPV, Multiroom, online video services and mobile television. In line with our strategy, we focus on marketing and sales activities aimed at cross-selling stand-alone products and services to the joined customer bases of Cyfrowy Polsat and Polkomtel and at selling our integrated services offer.

The Polish bundled services market is characterized by a low level of development. According to research conducted by the European Commission, saturation with bundled services in Poland is lower by a half compared to the average saturation in the European Union. Concurrently, our customers are increasingly interested in bundled services, which is reflected in excellent sales results of our integrated offer smartDOM. We are convinced that our unique combination of satellite TV and telecommunication services, mobile broadband Internet access in LTE in particular, 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 provided by us is considered to be the future of mobile broadband Internet and the successor of the commonly used UMTS standard. We consistently develop our infrastructure in order to expand the coverage of our LTE network and increase transfer speed. According to independent rankings of transfer speed offered by Internet access providers, our mobile Internet is the fastest on the market. Due to its technical characteristics and quality parameters, mobile LTE Internet can eventually replace fixed-line connections and satisfy increasingly demanding customers while enabling them to profit from growing capabilities of the Internet. In addition, it has the advantage of mobility, which is increasingly more desired by consumers. We strongly believe that over the long term, as the necessary radio infrastructure and LTE-enabled devices develop, the technology will revolutionize not only the broadband Internet market but also content distribution. We believe, our broadband LTE Internet services, including data transmission services, will help us to further increase our customer base both of stand-alone and integrated services.

We consistently strive to strengthen our position as aggregator and distributor of content. Currently, the attractive content and the wide range of Cyfrowy Polsat's services are delivered through a variety of reliable distribution channels – via satellite

(DTH), within digital terrestrial television (DVB-T), through mobile technologies: 3G, 4G and LTE – to all consumer devices, from TV sets to PCs to tablets and smartphones. We closely study the evolution of our clients' 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. With the development of the market and technologies, the choice of devices, for which we can produce and distribute television content, has grown 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 the market growth in the group of Polish households equipped in more than one TV set as well as in the low ARPU market segment.

Development prospects in the broadcasting and television production segment

In TV broadcasting, we are one of the two leading private TV groups and the third largest broadcaster in Poland in terms of audience share, revenue and advertising market share. Based on data from Starlink, we estimate that in 2014, we captured a 25.1% share (y-o-y increase by 1.5 p.p.) of the approximately PLN 3.81 billion Polish TV advertising market.

As the audience share of thematic channels has been continually growing together with the progressing fragmentation of the Polish television market, we have focused on launching thematic channels in order to maintain total audience share and ensure continued sufficient growth in advertising revenue. We believe that we can profit from this fragmentation by strengthening our wide portfolio of channels targeted to entire family, extending and strengthening distribution network on cable and satellite platforms including also our segment of services to individual and business customers, within which we manage the largest pay TV platform in Poland. We believe that our presence on all significant satellite platforms and our distribution by cable TV operators will result in further increase in the audience share of our thematic channels, and, consequently, give us the opportunity to grow at least in line with the TV advertising market, and increase subscription fee revenue. Currently our thematic channels portfolio includes 26 channels (10 new channels in the Group in the last five years), and their audience share is in an upward trend.

Following the global trends of changes in media consumption, dynamic development and increasing popularity of mobile devices, we realize our strategy aiming at the widest distribution of content using the best and latest devices and technologies. That is why we want to monetize our content also through distribution in our internet television IPLA, which is the leader on online video market in Poland both in terms of availability on different devices (computers/laptops, tablets, smartphones, Smart-TVs, set-top-boxes, game consoles) and in terms of content offered. IPLA is also the leader in terms of the number of users and the time spent by one user on watching video content.

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

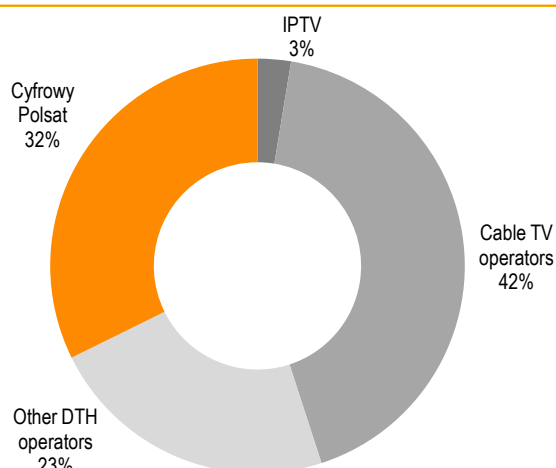
2. BUSINESS OVERVIEW OF CYFROWY POLSAT CAPITAL GROUP

2.1. Activities on the pay TV market

2.1.1. Pay TV market in Poland

Pay TV services in Poland are offered by DTH operators, cable TV operators and IPTV providers. At the end of 2014 the operators of satellite TV platforms had the dominant share (55%) in the pay TV market, followed by cable TV operators (over 42%). The significance of IPTV was minor, with market share of less than 3%. The graph below presents the pay TV market in Poland in 2014 in terms of subscriber base.

Pay TV market in Poland in 2014 in terms of subscriber base



Source: Based on own estimates and data published by operators

Historically, cable TV has been the principal pay TV platform in Poland. Although the DTH market has been growing more rapidly over the past few years, DTH providers compete with cable TV operators only to a limited extent. In particular, 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, whereas DTH providers are able to provide their services, at no extra cost, to customers residing in both, urban areas as well as in less densely populated areas with no or limited cable TV infrastructure.

In recent years, the growth dynamics of cable TV customers has been decreasing systematically, among others due to the migration of cable TV users from analogue services towards digital services. The other reason is an already high penetration rate of cable TV in urban areas as well as reluctance of cable TV operators to make significant investments in cable TV infrastructure in the less-densely populated and

rural areas of Poland. As a result, inhabitants of those areas currently have access only to a limited number of Polish terrestrial channels and alternative providers of broadband Internet and mobile telephony services. Polish towns with up to 50,000 inhabitants, suburban and rural areas 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.

The IPTV market is developing at a relatively slow rate in Poland, mainly due to technological constraints resulting from the lack of modern infrastructure with sufficient capacity to enable a high-quality and effective IPTV service. We believe that the introduction of IPTV services by fixed-line telecommunications service providers such as Orange Polska S.A. may have a negative impact on cable TV operators in Poland, since these providers plan to launch IPTV services primarily in urban areas, while having less significant effect on DTH providers who are less dependent on customers living in densely populated areas. It is difficult to assess 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.

The process of digitization of terrestrial TV in Poland, completed in July 2013, has been an important milestone in the development of the Polish pay TV market. Initially competition from digital terrestrial TV led to an outflow of pay TV customers, which was particularly visible in the case of low-end programming packages. Currently, customers are gradually returning to pay TV operators, which is associated with the limited number of channels available in DTT as well the low quality of these channels.

According to PMR forecasts, in the years to come the number of pay TV customers in Poland will remain stable mainly due to high market penetration and high saturation of the target group for terrestrial TV services with DVB-T standard services. To attract DVB-T users, pay TV operators will be forced to increase their competitiveness and to propose a unique offer to such users. According to PMR experts, bundled offers, containing telecommunication and content services combined with

sales of equipment (tablets, smartphones, laptops, TV sets) and supplementary services will be of great importance in own customer base retention.

PMR expects the market value to grow in the years 2014-2018, however growth dynamics will remain low. The forecasts assume ARPU growth. According to PMR, in the years 2014-2018 digital platforms will continue to be the biggest segment of pay TV market in Poland, reaching a market share of 52% (in terms of market value) at the end of the forecast period. Cable TV operators will remain the other major segment, with a market share of 39%. Significance of IPTV will remain marginal.

DTH

In 2014, there were two main DTH platforms operating in Poland: Cyfrowy Polsat, and nc+.

Since 2006, Cyfrowy Polsat has been the market leader in terms of the number of customers and market share. At the end of 2014 we were providing nearly 4.4 million pay TV services, including almost 845 thousand Multiroom services.

nc+ platform was created by merging Cyfra+ and 'n' platforms in March 2013, in accordance with the strategic partnership agreement between Canal+ Cyfrowy and TVN. According to the information presented by TVN group, at the end of 2014 the n+ platform had approximately 2.15 million customers. Additionally, we estimate that in 2014 about 300 thousand customers used pre-paid television (Telewizja na Kartę, TNK). Orange cooperates with nc+ platform, offering pay DTH TV based on nc+ programming offer as an element of its integrated packages.

Cable TV

At the end of 2014 Polish cable TV market was dominated by three major operators with a combined market share of approximately 69%. In 2014 the three major Polish cable TV operators were: UPC Polska Sp. z o.o., Vectra Capital Group and Multimedia Polska S.A. In addition, according to our estimates, there are more than 500 small cable TV operators in Poland.

IPTV

The leading IPTV providers in Poland, offering fixed-line telephony services, are Orange Polska S.A. and Netia S.A., who acquired Telefonía Dialog Sp. z o.o. in 2011. The remaining part of the IPTV market is divided among Multimedia Polska S.A. and local ISP's.

2.1.2. Polsat Group's DTH offer

We build the loyalty of our customers by offering a wide array of channels at competitive prices. Currently, our set-top boxes enable the reception of over 140 Polish-language TV channels, including over 40 HD standard. Our offer includes general, sports, movie, news/information, education, lifestyle, music and children's channels. A number of channels are available exclusively via satellite from Cyfrowy Polsat, such as Polsat sports channels, Polsat Viasat channels, Polsat Food Networks and many others.

It is worth emphasizing that our offer includes popular sports channels: Polsat Sport, Polsat Sport News and Polsat Sport Extra, Polsat Sport being the most widely viewed sports channel in Poland in 2014 in the commercial group 16-49 (Nielsen Audience Measurement).

Programming packages

We offer our customers three basic packages:

- Rodzinny HD which provides access to 54 encoded channels (including 8 HD channels);
- Familijny HD which provides access to 79 encoded channels (including 13 HD channels);
- Familijny Max HD which provides access to 103 encoded channels (including 24 HD channels).

Monthly subscription fees for the basic packages range from PLN 19.90 to PLN 49.90.

Moreover, we offer 5 additional packages, VOD rental on television, and access to popular on-line services HBO GO and IPLA. This approach allows our customers to construct an offer tailored to their specific needs.

In order to help our customers make their choice, we have prepared attractive package sets:

- Familijny Max HD with the Sport HD package (113 channels, including 28 HD)
- Familijny Max HD combined with the Sport HD, Film HD and Cinemax HD channels (133 channels, including 36 HD);
- Familijny Max HD combined with the Cinemax HD and HBO HD packages (108 channels, including 29 HD) as well as the HBO GO service;
- Addressed to our most demanding customers is the Premium offer comprised of the packages Familijny Max HD, Sport HD, Film HD, Cinemax HD, HBO HD (136 channels, including 39 HD) as well as online services: HBO GO and IPLA.

The described above sets come with a benefit – the monthly subscription fee is lower than the sum of standard fees for each packages separately, eg. the subscription fee for our Premium offering is only PLN 99.90 per month.

Multiroom HD

As of 2011, we offer the Multiroom HD service to our customers, which provides access to the same range of TV channels through two or more set-top boxes in one household, for a single subscription fee. Customers who decide to purchase the Familijny HD Package and higher are offered the possibility to purchase the Multiroom HD service as well, allowing them to view all the channels available in the package on up to 4 TV sets. The promotional price for the service varies from PLN 5 to PLN 15 per month, depending on the purchased programming package.

Flexible offer

In order to provide our customers with the possibility to better acquaint themselves with our programming offer, each client choosing any programming package receives, free-of-charge, access to additional channels, online services or our VOD package for the first 6 months of the subscription period (eg. customers who subscribe to Familijny Max HD Package can get access to Film HD and Sport HD).

Set-top boxes

Our customers can either buy or lease their set-top boxes. The price of a set-top box depends on the selected programming package. As a rule, the higher the price of the programming package, the lower the price of the set-top box (and the higher the subsidy on our part). We believe that subsidizing set-top boxes is a necessary measure in order to attract new customers.

The software of set-top boxes manufactured by Cyfrowy Polsat is being developed on an on-going basis. In 2014, our set-top boxes gained a new functionality, which allows for wireless connection between the set-top box and the home Wi-Fi network making it easier to use online services.

Free-to-air channels

In addition to pay TV programming packages, customers using our set-top boxes have access to over 500 free-to-air TV and radio channels available via Hotbird satellite in Poland, including a dozen additional Polish-language channels and wide-known foreign channels, such as: TVP Info, CNBC, Bloomberg, ZDF, Rai News 24 and nine leading radio channels.

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

In June 2012, we expanded our service portfolio to include the Mobile TV service in the DVB-T standard. The Mobile TV service enables the reception of real-time television on mobile devices. TV programs are received via a DVB-T set-top box, connecting through the radio network with the user's terminal mobile device, such as a smartphone, tablet or laptop; as a result, no Internet connection is necessary to use the service, which means that it generates no data transmission and no related fees.

Under the Mobile TV service, we offer the Extra Package which includes 8 TV channels grouped in 4 thematic categories (sports, movies, news, children's channels) and 12 radio channels. This package, including a set-top box for the reception of digital terrestrial TV, is provided either on a subscription or a prepayment basis.

2.1.4. IPLA online TV and video on demand offer

The largest Polish online television IPLA is available to our customers since 2012. The IPLA online TV service offers access to over 1,600 feature films and over 100 TV series, more than 35 TV channels, about 200 hours per month of live sports coverage in the HD format, and Poland's largest authorized library of television content, comprising approximately 48 thousand items. IPLA television also comprises a vast library of content available free of charge with commercials (90% of the entire resources).

Access to programming content via Internet is based on one of three settlement models. The first is a fixed monthly payment for the right to broadcast a given program, the second – settlement according to the audience share of the given programming content and the third – the percentage share in the advertising revenue generated by advertisements broadcast in proximity to the material. In the case of the IPLA service, about 75% of total revenue is generated by sales of advertisements, and about 25% is derived from content purchases by the service users.

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

Access to IPLA resources is available to users of computers running Windows through the www.ipla.tv website and dedicated applications, mobile devices powered by iOS, Android and Windows Phone, TV sets with internet connections (Samsung, LG, Sony, Panasonic, Philips, Sharp, Ikea, Loewe, Thomson, TCL), set-top boxes (Cyfrowy Polsat, cable TV TOYA, Netia) and game consoles (PlayStation 3).

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

VOD - Home Video Rental is based on 18 satellite channels, with over 50 films available per month. Our customers may usually choose from a selection of about 18 titles per day, which are updated on a regular basis and can be rented for up to 24 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 flat fees under the VOD monthly Movie Catalogue service, which offers unlimited access to movies within a given catalogue category. In selected programming packages we provide access to the VOD package within the subscription fee for the first 6 months of the entire term of the contract, depending on the package.

2.1.5. Technology and infrastructure pay TV services

Conditional access system

Access to TV channels offered in our pay programming packages is secured with a conditional access system that we leased from the company Nagravision. We use this system to control access to particular pay programming packages. Upon signing a contract for our services, the customers receive a set-top box together with an access card, which allows them to receive the pay programming offer. We routinely identify unauthorized access to our service because of the significant risks unauthorized access poses to our business and revenue. According to our agreement with Nagravision, in the event of a breach of our systems, which cannot be cured, 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 Irdeto to secure the 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 entered into Hot Bird satellite capacity contracts with Eutelsat. The contracts involve three transponders dedicated to SD and two transponders dedicated to HD signal. The contracts expire in 2017, however we have the right to extend the

agreements for additional successive periods. Since May 2012 we use part of the transponder on the Eutelsat satellite for mobile television purposes.

Broadcasting center

Our broadcasting center is located in Warsaw, Poland 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. We believe our broadcasting center, which was built in 2006 and expanded in 2009, is one of the largest broadcasting centers in Poland. In 2012 we conducted a further modernization of the emission systems, which enables the playout of even up to 100 channels. It is equipped with up-to-date integrated video, audio and information systems and is used to broadcast SD and HD TV channels.

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 will provide us with a backup transponder if necessary. In 2014 we activated a backup broadcasting center located in Radom.

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.

Services provided in DVB-T technology

Our Mobile TV services are provided in DVB-T technology within 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 Romford Investments Sp. z o.o., currently owned by Emitel Sp. z o.o., that comprises a network of radio transmitters in 31 largest cities in Poland. Currently, there are around 5 million households and 15 million people within the technical reach of the multiplex.

Set-top boxes

To reduce our costs, we began manufacturing our own SD set-top boxes in November 2007 and HD set-top boxes in April 2010. Control over the 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 save approximately 20% of the cost of a single device in comparison to equipment purchased from foreign suppliers. Additionally, it has allowed us to unify the software and interface of the set-top boxes, which is convenient to our customers if they switch between set-top box models. In addition, we have control over set-top box software and we have the flexibility to adapt the software to meet customer requirements.

We believe we can adjust production levels through our partnerships with third parties and believe we can adapt to future equipment needs and production demands. In manufacturing our set-top boxes, we rely on mature solutions and do not experiment with untested technologies. Thus far, we have not experienced any major post-manufacturing problems that would have led to the recall and replacement of set-top boxes manufactured by us.

During its 7 years of functioning, our manufacturing plant has produced 13 different models of set-top boxes. Currently, to meet our needs we produce HD set-top boxes, including PVR with a built-in hard drive (HD 5000, HD 5500s, HD 6000, MINI HD 2000, HD 3000, PVR HD 7000) and three models in DVB-T standard (T-HD 1000, T-HD 210 and T-HD 200) as well as a 320 GB USB hard drive (DTU 320). Thanks to the fact that our own experts design the equipment and the software, we adapt our set-top boxes to meet the changing expectations of our customers.

We also provide services to other operators interested in modern, functional devices at attractive prices. During last year's SAT KRAK 2014 Digital Television Fair and the accompanying SAT Kurier Awards 2014 gala the HD 6000 set-top box manufactured by Cyfrowy Polsat was awarded the first prize in the 'Best Polish sat-tv product' category.

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

In 2014 set-top boxes manufactured in-house represented over 95% of overall set-top boxes sold or leased. As of the end of 2014, we produced a total of over 6 million set-top boxes, including over 4 million HD set-top boxes. We still cooperate with external providers of set-top boxes, mainly Samsung, EchoStar, Thomson and Sagem, but since 2010 we limited the purchases from external providers only to newly developed technology, such as PVR set-top boxes.

Our customers can either buy or lease set-top boxes from us. The price of a purchased set-top box depends on the package of pay TV programs purchased by the customer. Typically, the higher-priced the package purchased, the lower the price of the set-top box and the higher set-top box subsidy incurred by us. We view the subsidizing of set-top boxes as a necessary component of acquiring new customers. Changes in set-top box prices and the size of the subsidy available for customers are linked to market conditions. We have a warranty service designed to help ensure customer satisfaction with the performance and operation of set-top boxes. Leased set-top boxes remain our property, and we update them on regular basis.

Internet content distribution

Within IPLA internet television, we use our own technology 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. In this way, we may offer services of higher quality compared to widely used solutions. For instance, our system of HD video stream encoding in IPLA helps to significantly reduce the broadband required to deliver the signal as compared with the solutions implemented by other operators on the Polish market. It also enables us to offer multi-camera broadcasts live, which is a unique service on the Polish Internet market. The protection system (DRM), additionally applied in IPLA, enables us to offer pay content on mobile devices and smartTVs. Consequently, our platform meets current trends and accommodates all the needs of our customers regarding access to on-line video irrespectively of location, time and the device used.

2.2. Activities on the telecommunications market

2.2.1. Mobile telephony market in Poland

The Polish mobile telephony market is a mature one. Based on data published by the Central Statistical Office of Poland (GUS), the number of mobile telephony cards as at December 31, 2014 reached 57.6 million, which translates into a 150% penetration rate of the population of Poland. Concurrently however, during 2014 Polish mobile operators reported to the Central Statistical Office of Poland an increase in their SIM card bases of nearly 1.1 million new SIM cards.

PMR expects further growth in the number of SIM cards used in Poland to 64.3 million in 2018, though the growth dynamics will be much lower than in previous years. As a result, the mobile penetration rate in Poland will increase to 167.5% in 2018.

In 2013, mobile telephony continued to be the most important segment of the Polish telecommunications market, with a revenue share of nearly 46.3% in the total market. According to data published by UKE in the 'Report on the telecommunications market in Poland in 2013' (hereinafter 'UKE report'), the estimated value of mobile market in Poland in 2013, expressed as the sum of the operators' retail service revenues, was PLN 18.6 billion and it was lower by around 1.5% compared to 2012. According to the UKE report over 81% of revenue was generated by post-paid customers. At the same time, however, 54.2% of the SIM cards reported by Polish mobile operators constituted pre-paid cards. In our opinion, this discrepancy in statistical data results mainly from the relatively long period of including pre-paid cards in their reported bases by domestic operators, even after end-users have stopped using those cards.

In recent years, average revenue per customer of mobile voice services (ARPU) decreases systematically as a result of competitive pressure stimulated by regulatory reductions of wholesale voice and SMS termination rates (MTR). Since July 1, 2013 the MTR rate per minute of voice connection is stable at the level of PLN 0.0429, which according to a BEREC report from December 2014 is below the European Union average. As at the date of publication of this Report, no plans concerning further potential reductions of MTR rates in Poland are known.

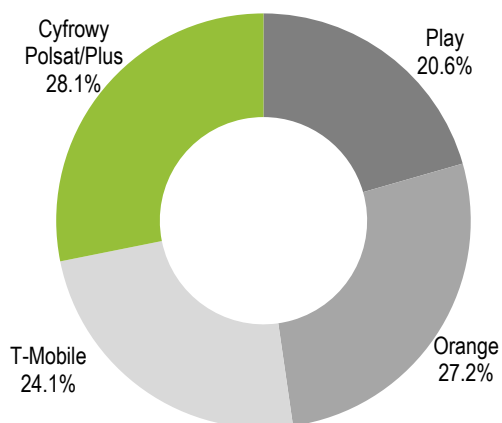
Assuming no further MTR reductions, PMR estimates that the market will stabilize in the next four years and will continue to grow at an average rate of 0.9% (CAGR 2013-2017) until 2017 while its value will reach PLN 24.56 billion in 2018.

The Polish mobile telephony market is highly competitive and relatively polarized. In Poland, there are four leading infrastructural operators: Polkomtel (Plus network), Orange Polska (Orange network), T-Mobile Polska (T-Mobile network) and P4 (Play network), as well as two smaller operators: Mobyland and Aero2, who concentrate their operations on

wholesale activities. There are also as dozen or so mobile virtual network operators, but their market share in terms of revenue and customer base is very low.

The graph below presents market shares of the major MNOs in terms of number of contract SIM cards at the end of 2014.

Market shares in 2014 in terms of number of contract SIM cards



Source: Based on own estimates and data published by operators

Infrastructure operators (MNOs)

At the date of this Report, there were six MNOs operating commercially in Poland based on their own allocated frequency bands and infrastructure necessary to provide mobile telephony services on their own. This group included Polkomtel, Orange, T-Mobile, P4, and Midas Group (including Aero2 and Mobyland).

According to the UKE report, Polkomtel, Orange, T-Mobile and P4 together accounted for approximately 99.6% of the revenue generated on the Polish mobile telephony market in 2013. The remaining revenue was generated by MVNOs and other MNOs.

- *Polkomtel* – Polkomtel operates under the umbrella Plus brand, it also owns an alternative brand Plush. On May 7, 2014 Polkomtel was incorporated in Polsat Group. Activities of Polsat Group on the telecommunications market are described in following chapters;
- *Orange* – owned by Orange Polska S.A. is a leading Polish fixed-line telephony operator, who operates under the umbrella Orange brand and also has an alternative brand nju.mobile. As at December 31, 2014 Orange reported ca. 15.6 million SIM cards;
- *T-Mobile* – T-Mobile operates under the umbrella T-Mobile brand and also uses additional brands such as Heyah, Blueconnect and Tu Biedronka. According to the data provided by the operator, at December 31, 2014 T-Mobile had ca. 15.7 million SIM cards. T-Mobile is currently expanding its offer by fixed-line telephony services addressed to business customers based on the infrastructure acquired together with the company GTS Poland in 2014;
- *P4* – P4 operates under the umbrella Play brand, and also has an additional brand Red Bull Mobile. According to the data provided by the operator, at December 31, 2014 P4 had ca. 12.3 million SIM cards. P4 operates solely on the mobile services market relying on purchased access to mobile networks of its competitors, Polkomtel included;
- *Midas Group* – Midas Group operates on the wholesale market through companies Aero2 and Mobyland, providing wholesale access to its network mainly to Cyfrowy Polsat group. At the same time, Aero2 operates on the residential market, where it offers free broadband Internet access and provides residential services mainly in the prepaid model based on the 'wRodzinie' brand.

Frequency allocations

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

MNO	Frequency band	Size of allocated band	Sum of allocated band	Date of issue of first allocation decision	Allocation decision expiry date
Polkomtel	900 MHz	2x9 MHz	176 MHz	February 23, 1996	February 24, 2026
	1800 MHz ⁽¹⁾	2x9.6 MHz		September 13, 1999	September 14, 2029
	2100 MHz	2x14.8 MHz + 1x5 MHz		December 20, 2000	January 1, 2023
	410-430 MHz ⁽²⁾	2x2.5 MHz		May 25, 2006	December 31, 2020
CenterNet.....	1800 MHz	2x9.8 MHz + 1x200 kHz	76 MHz	November 30, 2007	December 31, 2022
Mobyland	1800 MHz	2x9.8 MHz + 1x200 kHz		November 30, 2007	December 31, 2022
Aero2	900 MHz	2x5 MHz		December 9, 2008	December 31, 2026
	2570-2620 MHz	1x50 MHz		November 10, 2009	December 31, 2024
Orange	900 MHz	2x6.8 MHz	92 MHz	July 5, 1999	July 6, 2029
	1800 MHz ⁽¹⁾	2x9.6 MHz		August 21, 1997	August 22, 2027
	2100 MHz	2x14.8 MHz + 1x5 MHz		December 20, 2000	January 1, 2023
	450-470 MHz	2x4.5 MHz		December 16, 1991	December 31, 2016
T-Mobile	900 MHz	2x9 MHz	75 MHz	February 23, 1996	February 24, 2026
	1800 MHz	2x9.6 MHz		August 11, 1999	August 12, 2029
	1800 MHz	2x10 MHz		June 14, 2013	December 31, 2027
	2100 MHz	2x14.8 MHz + 1x5 MHz		December 20, 2000	January 1, 2023
P4.....	900 MHz	2x5 MHz	75 MHz	December 9, 2008	December 31, 2023
	1800 MHz	2x15 MHz		June 14, 2013	December 31, 2027
	2100 MHz	2x14.8 MHz + 1x5 MHz		August 23, 2005	December 31, 2022

Source: Own analysis based on UKE

- (1) According to the allocation decision regarding the 1800 MHz band issued by the President of UKE to Polkomtel on September 8, 2014.
(2) By Nordisk Polska Sp. z o.o.

For the purpose of planning, building and maintaining a new mobile telecommunications network, and participating in related tenders, Orange Poland and T-Mobile formed a joint venture in 2011 under the name NetWorks! Recently the operators have extended their cooperation by declaring that Orange will be able to provide LTE services while also using the 1800 MHz spectrum owned by T-Mobile. It is expected that in the future this cooperation may be extended to other frequency bands. The agreement related to sharing of RAN resources was signed for a period of 15 years with an option for further extension.

Following the analogue TV switch-off in 2013, certain frequency resources became available within what is known as 'digital dividend'. In February 2013, following an auction for frequencies in the 1800 MHz band, the frequencies were allocated to T-Mobile and P4. The frequencies were finally allocated in July 2013. In addition, on October 10, 2014, the auction for frequency allocation in the 800 MHz and 2600 MHz bands was announced once again. According to information provided by UKE six entities submitted preliminary bids and were qualified to the next stage of the auction. The entities were: Polkomtel, Orange Polska, T-Mobile Polska, P4, Hubb Investments Sp. z o.o. and NetNet Sp. z o.o. As at the date of publication of this Report, the auction was still in progress.

Virtual operators (MVNOs)

MVNOs are those operators who provide mobile telephony and/or mobile data transmission services, but do not hold any frequency allocations on their own and do not need to have their own infrastructure to provide such services. Under the MVNO business model, existing MNOs provide frequency resources and the necessary infrastructure to MVNOs. According to the UKE report, 19 operators provided mobile services under the MVNO model in 2013.

Although the number of MVNOs is on the increase, none of them has significant market power. According to the UKE report, the joint share of all MVNOs (including CenterNet and Mobyland) in the mobile customers market was 2.5% in 2013. However, the combined revenue of all MVNOs, including MNOs (CenterNet, Mobyland and Aero2), accounted for only 0.4% of the total value of the Polish mobile telephony market in 2013.

2.2.2. 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, and WLAN, or mobile technologies such as mobile modems or routers operating in the GPRS, EDGE, UMTS, HSPA or LTE technologies. In Poland broadband Internet access is provided through fixed-line and wireless networks.

Broadband Internet penetration has been increasing systematically in Poland over the past few years. According to the UKE report, 87.7% of Polish households had broadband Internet access in 2013, and the penetration rate was 30.8% per 100 inhabitants which means that there were ca. 12 million broadband Internet access services in Poland, up by over 11% compared to 2012. 7.6 million Poles had fixed-line broadband Internet access (an increase of 7.1% on 2012) and more than 4.2 million used mobile Internet services (an increase of 19.5% on 2012).

At the same time, however, according to data published by Eurostat in December 2014, as many as 28% of Poles have never accessed Internet, with the European Union average at the level of 18% and corresponding indicators for chosen countries (the Netherlands, Great Britain and Scandinavian countries) in the range 3-6%.

The relatively low saturation of the Polish broadband market and the advancing development of mobile technologies make mobile data transmission the fastest-growing segment of today's telecommunications market.

According to the UKE report, the value of the Polish broadband market, measured in terms of revenue from sale of services, was PLN 4.57 billion in 2013, up by 3.7% on 2012. 2013 saw growth of revenue from mobile services by 15.1% Y-o-Y, while the revenue from fixed-line offers, relying on xDSL lines and cable modems, witnessed a downward trend at that time. According to the UKE report, the average monthly revenue per user of Internet services (ARPU) decreased by PLN 2.21 in 2013, down to PLN 32.1.

Fixed broadband Internet access in Poland

In Poland, availability of fixed-line broadband services is limited mainly to urban areas. Outside urban areas, fixed-line broadband services are offered only to a limited extent, which is due to historical underinvestment resulting from the high cost of build-out of local loops. According to the UKE report, access to xDSL technology remains the most popular form of fixed-line Internet access. Orange Group is the dominant player operating this technology, with 75.3% share in the total number of xDSL customers.

Cable modems, offered by cable TV operators, are the second most popular fixed-line access technology. Based on the UKE report, UPC Polska (with 39.8% share in user base), Vectra (18.8%) and Multimedia (15.6%) were the major operators on this market. Due to the high cost of cable network construction in less urbanized areas, cable networks' growth potential in the field of Internet access is limited.

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 main providers of those services (Polkomtel, T-Mobile, Orange and P4), who according to the UKE report jointly held 92.1% of the market in 2013.

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

In 2013, according to the UKE report, revenue from mobile technologies grew at the fastest rate in 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 39.4%, up from 34.8% in 2012). The success of mobile broadband can be attributed to broad availability and the ease of installation of this form of broadband access, the growing HSPA+ and LTE network coverage, and increasing data transmission speeds. The mobility feature constitutes an advantage of this form of broadband access to a group of customers.

The continuing development of HSPA+, LTE and LTE Advanced technologies, offering high-quality mobile broadband Internet access to the majority of the population of Poland, combined with the provision of new services and products (such as those based on video streaming), will make this form of broadband Internet access even more popular among Polish

users. As network investments by fixed-line operators in suburban and rural areas are limited, mobile broadband technologies will be also the key factor contributing to further increase in the penetration of Internet access services in Poland. In addition, the high quality of LTE-based services will lead to increased data usage by customers, which will improve ARPU, reduce churn, and increase the market share of those operators who have access to the frequencies and the infrastructure necessary to provide such services.

According to PMR forecasts, the Data Transmission, Line Rental and Internet Services Provision (DLISP) market will remain the fastest growing segment of the telecommunication market. Further investments into broadband network roll out as well as further development of LTE technology will be the most significant factors. According to PMR forecasts, the mean annual growth rate of the value of the DLISP market in the period 2014-2018 will be 2.0% (CAGR) while the market value will reach PLN 7 billion in 2018.

In accordance with the PMR forecasts, in 2018 the number of broadband Internet access users in Poland will increase to 14.9 million. In the years 2013-2018 the base of mobile broadband Internet users will continue to increase faster than the number of fixed-line access users, which will be the result of competitive pricing of mobile services as well as growth of 3G network coverage, which will directly translate to improved quality and continuity of the service. The fast development of LTE network coverage is an additional factor stimulating development of mobile Internet services and reduction of their prices. LTE standard enables mobile services to be provided at transmission rates and network throughput levels which have so far been unachievable for radio access technologies.

2.2.3. Mobile telephony offer

We provide mobile telephony services mainly through our subsidiary Polkomtel, Plus network operator. We offer mobile voice telephony services to business and residential customers. Mobile voice telephony services are available over both GSM and UMTS networks.

Residential mobile voice services

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

'Plus Abonament' ('Plus Subscription'), our postpaid residential offer, is based on a monthly subscription fee which includes a specified number of minutes and frequently other services (e.g. text messaging). Currently, offers of all operators functioning on the Polish market are dominated by unlimited tariffs which allow the customer to make unlimited calls, send unlimited text messages and sometimes also multimedia messages (MMS). The extent of services available in unlimited tariffs, including the direction of voice calls (only within a given network, to all mobile networks or to fixed-line networks as well) depends on the subscription fee. Moreover, the higher the fee the larger the data package available without additional costs. The 'Plus Abonament' offer is constructed in this manner. Customers who choose to pay a lower subscription fee can purchase services not included in the subscription, such as unlimited text messages, unlimited voice call to fixed-line networks, data packages or roaming packages. The contracts are for fixed term, typically 24 months in the case of contracts with subsidized handsets. Contract plans allow customers to either choose from a broad selection of subsidized handsets or to select a tariff without a handset.

The 'Plus Mix' and 'Plush Mix' offers combine the characteristics of a prepaid and contract offer. In exchange for a subsidized handset, customers undertake to make a specified number of top-ups of specified values. Unlike traditional contract plans, the period for providing services is not fixed and the customer is only required to make one top-up in the specified value at least once every 30 days.

Prepaid offerings allow customers to gain access to our mobile network upon the purchase of a starter pack (SIM card with a fixed amount of credits to be used for mobile services). In general, there are no monthly subscription fees or obligations to top-up in a prepaid offer. All prepaid plans provide that the top-up can be made at any time with the use of a prepaid top-up available from agents, dealers and other sales channels. Prepaid voice services are offered under two brands: 'Plus na Kartę' and 'Plush na kartę'. Both allow the customer to adjust the offer to meet his specific needs by choosing among available packages and additional options, such as data packages or unlimited voice calls or SMS, and adequately managing the value of top-ups.

Mobile voice services for business customers

Business customers are mainly offered contract solutions, often on the basis of solicited tenders for their mobile requirements on a competitive basis. We also offer fixed telephony services, LAN (local area network)/WAN (wide area

network) solutions, mobile broadband and other dedicated solutions. Business contracts specify the tariff, contract duration and the value of the monthly subscription fee. The contract may provide for a subsidized handset that can be chosen from a broad selection.

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

International roaming

In the segment of services to individual and business customers, we provide international roaming services to our customers, who can use telecommunications services (including voice calls, text messaging and data transmission) while being abroad and logged into foreign networks.

The majority of roaming calls made by our customers are directed through European networks. Vodafone is Polkomtel's key partner in retail international roaming.

The retail offering of international roaming services is determined by the maximum level of retail prices in European Union and EEA countries. These regulations determine a schedule for reduction of maximum retail prices for the voice calls and SMS in the international roaming in the European Union and the EEA countries.

2.2.4. Internet access offer

We provide a comprehensive array of data services to both residential and business customers under two alternative brands: 'Plus' and 'Cyfrowy Polsat'. Data transmission services encompass pure mobile broadband services and a MMS, as well as a Wireless Application Protocol portal (providing multimedia, localization and social networks) and business-focused services such as Virtual Private Networks.

We offer our mobile broadband Internet services through the use of third generation technologies: HSPA+ and HSPA+ Dual Carrier and since 2011 also the world's latest, cutting edge LTE technology. Our broadband Internet offering is universal, and provides broadband Internet access via all supported technology platforms, for a single monthly fee. Thanks to this solution today 99% of Poles live on area covered by Cyfrowy Polsat's Internet service and 80% of the populace is covered by our LTE Internet.

We offer several data plans with different allowances and price tiers, tailored to customers' individual needs. Customers deciding to use our data services may choose between (i) a contract plan; (ii) a prepaid plan; or (iii) limited data packs offered as an addition to the voice offering and (iv) *pay as you go* services.

Dedicated mobile broadband Internet access is offered in contract tariffs. These contract plans are based on a monthly access fee and allow for a defined data transmission limit or unlimited data transmission in the LTE network. After exceeding a limit of data, determined by the subscription fee data is transmitted at reduced speed, but the customer does not incur additional costs for continued transmission. In order to regain full transmission speed additional data packages may be purchased. Under our contract plans customers may purchase subsidized access devices (including dongle modems, fixed and mobile routers). In addition, our offer includes a wide array of tablets and laptops which can be purchased in an installment plan, as well as an offer without equipment 'SIM only'.

For customers who prefer prepaid services we have the offer Plus Internet na Kartę. This is a prepaid tariff dedicated to data transmission allowing customers to receive a specific extra data pack with each top-up, with the amount of additional data allowance and the grace period depending on the top-up value.

Under *pay as you go* services customers (both contract and prepaid) are charged on a per-kilobyte basis at a standard rate.

On June 3, 2014 as the first in Poland, together with Polkomtel we introduced an offer of unlimited internet access in the LTE technology throughout the entire term of the contract, addressed to both our individual and business customers, marketed under the name Power LTE. Currently, this offer constitutes the basis of our offering of broadband Internet access. The size of packages available in this offer vary from 5 to 35 GB. After having used up the basic data package the customer still has access to the Internet thanks to the service unlimited LTE, however, with limited transmission speed dependent on the subscription fee. The customer is exempt from payments for the unlimited LTE service for the first 6 months of the contract,

after which he can either decide not to use the service and return to the basic package or continue using it for an additional monthly fee of PLN 10.

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

Additionally, anyone, who intends to buy LTE Internet from Cyfrowy Polsat or Plus Internet may profit from '7 trail days' enabling to try out a service and resign without additional costs after returning the modem.

2.2.5. Technology and infrastructure of telecommunication services

Network

Our broadband Internet access services are based on a radio infrastructure provided by Polkomtel and companies of Midas S.A. capital group (Mobyland, Aero2).

Polkomtel operates an integrated 2G and 3G mobile communication network. Polkomtel's network supports GSM/GPRS/EDGE (2G) and UMTS/HSPA+/HSPA+ Dual Carrier (3G) technologies. Polkomtel also has an extensive CDMA network. Under our agreement with Mobyland we have access to mobile data transmission service on 900 MHz and 2100 MHz frequencies in LTE and HSPA+ technologies.

As in mobile telecommunications networks it is possible to automatically switch between technologies, uninterrupted service functionality for end users is ensured, while the parameters (e.g. data transmission rate) improve when the user comes within the coverage of a more technologically advanced network.

As at December 31, 2014, excluding the transmitters operating based on the frequencies held by LTE Group, Polkomtel's 2G access network consisted of 6,729 base stations, while the 3G network consisted of 3,642 NodeB stations, a majority of which supported the HSPA technology (including 2,903 HSPA Dual Carrier). The CDMA network included 548 base transceiver stations. As at December 31, 2014, the LTE/HSPA+ network operated by LTE Group and being developed jointly with Polkomtel, consisted of 4,896 HSPA+ base stations and 4,141 LTE base stations.

Polkomtel's access network is supported by an appropriate transmission network using mainly packet data transmission technologies. The network is divided into the access layer (180 Mb/s and 360 Mb/s microwave links, and fibre optic links), an aggregation network (mainly fiber optic, using Carrier Ethernet Transport MPLS-TP technology, mainly 10 Gb/s), and a backbone network (solely fiber optic, using the IP/MPLS technology, with bit rates being multiples of 10 Gb/s, and since 2014, also of 100 Gb/s).

The backhaul microwave network is composed of 7,814 PHD links. The aggregation layer of the backhaul network is composed of 549 nodes with high-capacity CET switches, and the backbone layer has 10 nodes with redundant IP/MPLS routers. In the physical layer, 67 DWDM nodes operate, equipped with facilities enabling traffic transmission at the multiple of the 100 Gb/s bit rate (the multiple is adjusted to current needs of a given node). The transport network is used to provide dedicated services to the business segment, such as virtual private network (with broadband Internet access), PBX switchboards and leased lines.

Polkomtel's fiber optic network comprises 3,293 km of Polkomtel's own fiber optic cables and 3,937 km of leased fiber optic cables.

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

Network upgrade and maintenance

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

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

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

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

Development of the LTE technology

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 150 Mb/s. We provide a service through the LTE network on 1800 MHz frequencies, that has been constructed since 2010 by Mobyland in cooperation with CenterNet. Compared to HSPA+ or UMTS, LTE is characterized by much lower latency and has the capacity to support a greater number of users. The potential of the LTE technology is based on greater capacity and transmission speed with lower latency, which enables LTE Internet service customers to use interactive and multimedia applications requiring high bandwidth and transmission in real time, such as online games, video communication and HD TV through Internet. Devices offered for customers of Cyfrowy Polsat LTE service enable the speeds of up to 150 Mb/s for data received from the Internet and 50 Mb/s for data sent by a user.

Internet equipment

Most of the terminals offered by us for Internet access relies on LTE data transmission technology. We sell modems, portable mobile routers, fixed-line routers, tablets as well as sets including laptops. At present we have a choice of equipment supporting maximum LTE download rates of up to 100 Mbps and 150 Mbps.

Nearly half of the contracts sold with equipment involve mobile routers or fixed-line routers. Among the available devices it is the ODU-IDU set that 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 signal at home. Such a solution provides much better signal power than traditional routers.

The growth rate of sales of LTE tablets is the strongest among all hardware categories. Until recently, this category of equipment was reserved for high-end brands and models. Today, apart from prestigious models, such as Samsung Galaxy Tab S or iPad Air, we also offer cheaper, mass market models, e.g. LG G-Pad, Huawei MediaPad M1, Lenovo S8.

Modems and routers are subsidized. The price of a device depends on the amount of the monthly fee paid for services – the higher the fee, the lower the price of the equipment. The amount of the subscription fee also determines the size of data packages available for use in a given month.

Tablets or sets with laptops are sold in installment plans. An installment for the purchased equipment is added to the monthly fee for a data pack each month. The offer features the possibility of dividing the product price into 24 or 36 installments.

Offer of handsets

Currently, smartphones constitute the majority of the handsets sold. The share of classic handsets continues to decrease and currently does not exceed a dozen or so percent. One out of every two smartphones sold supports LTE technology for data transmission. What is more, LTE technology is offered in increasingly lower-end terminals. So far it have been the products of renowned producers brands but now popular brands are also joining the race. Today an LTE phone can be bought for the proverbial one zloty with a monthly commitment of PLN 50. This limit will continue to decrease with time.

Handsets are sold under two sales models: the subsidized model, where the price of equipment paid by the customer decreases as the subscription fee increases, and the installment plan model, where an installment for equipment purchased by a customer is added to the monthly fee. Bundled data packages, also for use in LTE technology, are now offered for all monthly commitment levels.

Based on our data, the share of smartphones in total number of handsets sold to Plus customers increased from 74% in the fourth quarter of 2013 to 84% in fourth quarter of 2014 and hence the share of smartphone users increased in Plus network from 33% at the end of 2013 to ca. 44% at the end of 2014.

2.3. Activities on the multi-play market

2.3.1. Bundled services market in Poland

The Polish media and telecommunications sector has been converging as customers are increasingly seeking to receive their media and communications services from one provider at affordable prices. In response, service providers are providing TV, broadband Internet access and telephony services bundled into multi-play offerings enabling customers to purchase all these services under one contract, one subscription fee and one invoice. Offering bundled services allows media and telecommunications service providers to meet customers' needs and, we believe, increase customer loyalty, favorably impacting churn rates. Concurrently, 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 and maintaining APRU.

Multi-play services in Poland are typically provided by cable TV operators and telecommunications service providers. Both cable TV operators and telecommunications service providers offer their services mainly in large and medium sized cities, due in part to the geographical limitations of their infrastructure and the quality of the overall telecommunications infrastructure in Poland. The multi-play services market in Poland is underdeveloped in less densely populated areas and therefore has the potential to grow rapidly in suburbs, small towns and rural areas where these services are currently practically non-existent. In addition to the low penetration rate of multi-play services in less densely populated areas, Internet services provided by fixed line operators typically suffer in quality of service due to the severe limitations of the established infrastructure throughout Poland. This creates an opportunity for pay TV providers, such as Cyfrowy Polsat, who do not have the same geographic and fixed network infrastructure limitations as cable TV operators and fixed-line telecommunications service providers, to become the principal 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 Household Survey' dated June 2014, the penetration rate of multi-play services market (defined as more than one service within an offer of one operator) in Poland as at the end of 2013 amounted to 21%, while in European Union it reached 46%, and in the Netherlands and Belgium even exceeded 70%.

Currently, triple-play services, that include TV, Internet and telephone services, are offered by cable-TV operators, such as UPC Polska Sp. z o.o., Multimedia Polska S.A. and Vectra S.A., telecommunications operators, such as Orange Group, Netia S.A. and among DTH operators – Cyfrowy Polsat.

Consolidation trends, observed on the media and telecommunications market, indicate that large groups emerge on the market and will provide customers with packages of services developing the multi-play services market. Since 2011 TVN S.A. and Orange Polska cooperate within offering their services – Internet (Orange) and TV packages (formerly 'n' platform). At the end of 2012, TVN S.A. Group and Canal+ Cyfrowy Sp. z o.o. finalized the agreement concerning the merger of their DTH platforms, which took place in March 2013, and the cooperation with Orange was maintained and extended to joint nc+ platform. In response to market trends Cyfrowy Polsat also develops its bundled offer. Following the indirect acquisition of Polkomtel in 2014, both companies currently offer both existing customers as well as newcomers a joined program of bundled services, comprising mainly satellite television, mobile telephony and broadband Internet access.

2.3.2. Multi-play offer

We view our bundled services offer as a tool to expand our customer base and increase revenue, as well as to increase 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.

In keeping with the strategy of integrating modern home products and services, Cyfrowy Polsat and Polkomtel launched smartDOM (smartHOME), a joint program, which enables bundling of innovative services offered by both operators to the benefit of their customers. Under the new program customers can combine, in a flexible way, such products as satellite TV, broadband LTE Internet, telephone, electricity and banking services, and make savings for each service purchased added to their package.

In May 2014, Cyfrowy Polsat and Plus launched a special smartDOM offer for their existing customers, marketed under the slogan 'Second product half off, third product for PLN 1'. The promotional program was based on a simple and flexible mechanism – the second product is available for half the price and the price of the third product starts from even PLN 1. A customer subscribed to one service with a minimum subscription fee of PLN 49.90, who purchases additional products of our Group, obtains attractive discounts throughout the entire term of the contract. This way every customer has the possibility to create an optimal set of service for the family consisting of satellite TV, Power LTE Internet and telephony services.

Since September 30, 2014 the promotion 'Second product half off, third product for PLN 1' is also available to new customers, who purchase a product from Cyfrowy Polsat or Plus or Cyfrowy Polsat with a minimum subscription fee of PLN 39.90 (SIM only) or PLN 59.90 (including equipment). On the same day or at any point during the term of the promotion they can purchase a second service with a 50% rebate on the subscription fee for the whole duration of the contract and, within the next 10 days, a third service for as little as PLN 1. The maximum discount on the third product available in the 'Second product half off, third product for PLN 1' promotion for both existing and new customers was PLN 38.90.

On October 27, 2014 we launched a program addressed to business customers under the name smartFIRMA (smartCOMPANY), which allows to combine mobile telephony, LTE Internet and fixed-line voice services. The program also includes Plus Bank products, electric energy from Plus, as well as a wide portfolio of supplementary services which support and enhance business.

In the program smartFIRMA, the customer can choose up to 5 products. The first and second product are always mobile telephony and Internet services (interchangeable) and a 50% discount is offered on the second product. The third product is fixed-line telephony starting from PLN 1. Additional mobile telephony cards (fourth and fifth products) can be purchased with discounts of PLN 10 and PLN 20.

smartFIRMA is addressed to existing customers, who own a product (Internet or mobile telephony) with a minimum net subscription fee of PLN 39.0 and to new customers who purchase at least one mobile telephony activation or Internet for firms with a minimum net subscription fee of PLN 39.0 (without equipment) or PLN 49.0 (with equipment).

2.4. Sales and marketing

Marketing and branding

Purchasing decisions of a majority of our customers are driven by image and brand loyalty. Cyfrowy Polsat is currently the strongest and most recognizable brand among digital satellite pay TV operators, with the spontaneous awareness ratio of as much as 87% reached in 2013, according to a GFK Polonia survey. Association with a favorable offering (understood as low subscription rates and best quality at reasonable price) is an important element of our brand's perception, which sets it apart from the competition.

For years Polkomtel has engaged in marketing activities aimed at building a consistent image of the 'Plus' brand in line with the company's strategy. We also strive to further increase satisfaction of users of Polkomtel's services, especially with respect to the available range of products and services, quality, usefulness, availability of customer service, usability of self-information and self-service channels.

In 2014, apart from promoting the 'Plus' brand, Polkomtel introduced a new communication platform smartDOM (joint communication for both Cyfrowy Polsat and Plus aimed at promoting bundled services) as well as new brand Plush ('powered by Plus') addressed to young people. As a result of those (and other) activities, 'Plus' is currently one of the best known telecommunications brands in Poland. According to a study of Poland's telecommunications market carried out by

IQS Group in November and December 2013, aided awareness of the 'Plus' brand reached 99% in the voice segment and 96% in the data transmission segment.

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

At authorized points of sale, we promote our offerings using BLT advertising formats. Cyfrowy Polsat's and Polkomtel's commercial websites are also 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 Centre.

Sales network

We sell our services through sales network covering the entire territory of Poland.

As part of cooperation between Cyfrowy Polsat and Polkomtel customers of Cyfrowy Polsat can benefit from Polkomtel's all-inclusive offering, and Polkomtel's customers can use dedicated television services offered by Cyfrowy Polsat. At December 31, 2014, the combined sales network of Cyfrowy Polsat and Polkomtel covered 1,451 points of sale. Both our Cyfrowy Polsat's pay TV and Internet offers and Polkomtel's telecommunications offer are available at a majority of those points. All points of sale offer additional benefits to all customers of Cyfrowy Polsat and Polkomtel. Polkomtel and Cyfrowy Polsat introduced the smartDOM customer loyalty scheme, under which customers who purchase another service of Cyfrowy Polsat or Polkomtel can benefit from discounts.

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. As at December 31, 2014, Cyfrowy Polsat had 16 D2D sales offices.

The sales of prepaid telecommunication services is effected using different channels of distribution. At December 31, 2014, Polkomtel had 26 agreements with non-exclusive independent dealers of its prepaid services, with a total of approximately 75 thousand outlets selling starter kits and scratch cards and approximately 120 thousand outlets selling electronic top-ups.

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

Currently, a project aimed at fully integrating Cyfrowy Polsat's and Polkomtel's sales networks intone is underway. The total number of points of sale will be reduced and process within a point of sales – unified. Plans include building common logistics and warehousing systems as well as joint training and education. The above measures are designed to improve the efficiency of sales and to achieve announced operating synergies. The finalization of the project is expected in 2016.

Call center

We provide Cyfrowy Polsat and Polkomtel's sales call center number in advertisements of our products and services placed in various media and our promotional materials to enable potential customers to obtain information about our services, place orders or ask for directions to the nearest point of sale.

Cyfrowy Polsat's call center currently has over 600 operator stands as well as approximately 320 back-office stands handling written requests (including faxes and e-mails), while Polkomtel's call center consists of 820 operator stands and about 350 back-office stands. Our call center services are available to our present and potential customers 24 hours a day, seven days a week, and are responsible for providing comprehensive and professional customer service. The call service operators provide information on our services, enter into service agreements with customers, accept customer complaints and provide information on payments and other support for customers. For Cyfrowy Polsat customers willing to have access to their

account through the Internet we propose in addition the Internet Customer Service Center, where, after logging in, customers can check the status of purchased services, payments, subscribed packages, dates of payments and much more.

In order to achieve announced operating synergies, expected following the acquisition of Polkomtel by Cyfrowy Polsat in May 2014, we are currently creating one, joint call center for both companies. The finalization of the project is expected in 2016.

Polkomtel also has a telemarketing channel which has low customers' connection cost. It is divided into internal and external telemarketing function. The internal function is aimed at reducing the level of potential churn and build around the call centre facility, with dedicated teams within the call centre who take care of customers who have a high propensity to churn. The external telemarketing function is based on our cooperation with six external partners, focused mainly on saturation of the customer base with new activations as well as customer retention.

Online

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 Cyfrowy Polsat Capital Group, order selected equipment together with a package of their choice or locate our nearest point of sale.

We also provide the users of our website with a daily updated TV guide with the programming of over 420 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.

Customers may also use Cyfrowy Polsat's website (<http://www.cyfrowypolsat.pl/>) in order to find information about the current VOD offer and purchase access to the selected programming. Moreover, our website contains details on the offer and most interesting content available in our online TV IPLA as well as HBO GO and Filmbox Live services with links which transfer the user directly to the webpage of the chosen service.

Access to IPLA resources is available to users of computers running Windows through the www.ipla.tv website and dedicated applications, mobile devices powered by iOS, Android and Windows Phone, TV sets with internet connections (Samsung, LG, Sony, Panasonic, Philips, Sharp, Ikea, Loewe, Thomson, TCL), set-top boxes (Cyfrowy Polsat, cable TV TOYA, Netia) and game consoles (PlayStation 3).

In July 2014 we launched Polkomtel's renew commercial website (www.plus.pl), fully designed in accordance with RWD (Responsive Web Design) guidelines. The presentation, functionality and layout of individual pages automatically adjust to fit the monitor of the device, making it easier to browse the portal on mobile devices. The service is divided into three sections:

- *Telephones and devices* – this section presents the offer for telephones and internet equipment (tablets, laptops, routers, game consoles),
- *Offer* – this section presents the telecommunications offering as well as promotions available in the smartDOM program, it also contains links redirecting to websites presenting the pay TV offering of Cyfrowy Polsat, Plus Bank's offer and electric energy offer,
- *Customer Zone* – this section contains information related to additional services as well as advice and help for users.

Polkomtel also operates its own e-shop with products and services available to both existing and new customers.

Central warehouse

To support our distribution channels, Cyfrowy Polsat has organized its own central warehouse and logistics system. The central warehouse has a total area of approximately 9,500 m² and stores set-top boxes, modems, accessories, parts and materials necessary to ensure efficient logistics and sales operations including promotional materials and packaging. Together with our logistics system, our warehouse enables us to prepare 15,000 pre-activated set-top boxes per day for delivery and allows us to store up to 900,000 pieces of equipment. We believe our central warehouse is large enough to satisfy anticipated storage needs of the Company.

Polkomtel's central warehouse is managed by the logistics operator Arvato Polska, Centrum Usługowo-Logistyczne in Blonie, who provides services to Polkomtel in the scope of reception, distribution, returns of goods, packaging, assembly, archiving, purchase of consumables and sending packages within all existing channels of sales. The total area of the

warehouse owned by Arvato Polska and used by Polkomtel is 4,500 m² currently offering 2,500 pallet holding spaces with the possibility of increasing this number by 1,000. This central warehouse stores telephones, modems, laptops, routers, television sets, SIM cards, prepaid phonecards, printing materials, gadgets, accessories, prepaid sets as well as equipment of Cyfrowy Polsat (set-top boxes, discs and antennas).

2.5. Customer Relations and Retention Management

Customer Relations Management

We seek to consistently improve the quality of our customer service using the latest, cutting edge technology. Our customer service department is managed by experienced and committed staff with a highly flexible approach supported by a quick decision making process.

We use an advanced customer relationship management IT system developed by our specialists based on an integrated platform handling telephone, fax, e-mail, SMS and 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.

In the beginning of 2014 we launched a new, improved Internet Customer Service Center (ICSC). ICSC is an advanced tool which provides our customers with secure and free of charge access to back-office resources and on-line technical support. Through 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 our new ICSC can modify their contact data, print postal or bank orders, check technical specifications of the equipment owned, print the relevant user manual, restore signal transmission, restore the factory PIN settings of their set-top box, as well as contact us through our contact form.

Polkomtel's call centre, which handled approximately 6.9 million calls in 2014, is the core of the company's customer service. This system comprises of four operating call centers in various locations (two in Łódź, one in Warsaw and one in Toruń) that act as one call centre 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.

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

In 2000, Polkomtel received an ISO 9001 certificate. In addition, in 2011 Polkomtel received a certificate for meeting the requirements of the European Standard EN 15838:2009—the 'Customer Contact Centers—Requirements for Service Provision', issued by the Austrian Standards plus Certification (AS+C). This certificate is valid for six years and covers inbound customer care services and outbound up-sales activities. In October 2013, Polkomtel was successfully audited by DEKRA Certification Sp. z o.o. for compliance with quality management standards.

Retention management

We place high importance on customer retention. We are constantly developing our retention programs to tailor our services to our customers. We have dedicated a department in Cyfrowy Polsat's and Polkomtel's joined organization specifically to retention management in order to optimize retention activities and therefore minimize quantitative and qualitative churn rates and secure the value of the joined customer base. We conduct reactive and proactive customer retention programs.

Our reactive retention programs are aimed mainly at customers who have already delivered their termination notices. These programs are being handled by our anti-churn department, which contacts such clients and provides them with offers aimed at encouraging them to continue their subscription.

In our proactive retention programs, we begin the retention efforts well before the end of the initial period of the subscription agreement. Using a variety of communication channels, we communicate our offers to customers extending contracts by suggesting services adjusted to meet the customer's needs and including the possibility of up-selling additional products.

Our multi-play offer supports our customer retention efforts. Customers can extend their package of services by adding broadband Internet or mobile telephony services to their already purchased TV package at any time during the term of their agreement. All customers can also upgrade their TV package or buy additional telecommunications packages.

The introduction of our retention programs and the offering of multi-play services will help us to manage our churn rate as an increasing part of our customer base is maintained on fixed-term (loyalty) agreements and increases the number of services.

2.6. Wholesale business

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

Exchange of traffic between operators (network interconnection)

Polkomtel's telecommunications infrastructure used in interconnection cooperation enables us to effectively manage telecommunications traffic routing to all operators domestically and abroad. As at December 31, 2014, Polkomtel was party to 25 interconnection agreements with national and international operators. Such a number of interconnection relations allows for optimizing the costs of call termination in the networks of other operators, while maintaining the highest quality of interconnect traffic, both initiated and terminated in our network.

As part of interconnection cooperation with other operators, in 2014, as in previous years, active steps were taken in relations with domestic and foreign operators in order to reduce the incurred costs of wholesale call termination and increase wholesale revenue from the service of interconnection traffic transit carried out by Polkomtel. Cooperation with the biggest international operators and active management of traffic routing enabled us to immediately benefit from the reduction of wholesale termination rates in the networks of foreign operators (in particular foreign MTRs), introduced as a result of decisions of market regulators abroad, which translated directly into an improvement of Polkomtel's financial results. Active trade negotiations and effective traffic management in 2014 allowed to keep a downward trend of the costs of call termination in the networks of other operators in Poland and abroad.

International roaming

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

Cooperation with roaming partners represents a significant part of sales in the wholesale segment. We consistently develop our international roaming services by offering roaming services over our own network to subscribers of foreign operators who are currently staying in Poland. In addition, we offer the wholesale roaming service over our own network to foreign operators under discount agreements in exchange for favorable terms offered by foreign partners for the handling of roaming traffic generated by our clients who use roaming services abroad. This helps reduce costs of wholesale international roaming services incurred by us and enables the provision of competitive international roaming services (in terms of their price and quality) to our customers. Low wholesale costs negotiated with foreign operators enabled us to create a revolutionary – in Poland and across Europe – promotion of calls in international roaming within the EU countries, where Plus users may make unlimited calls to the entire European Union at the rate of PLN 0.29 per minute - the offer is available not only to contract customers but for the first time such an attractive offer has been also addressed to prepaid and mix customers.

Thanks to the active policy of acquisition of new partners for discount agreements, mainly outside of the EU, i.e. in the areas in which the costs of wholesale international roaming have been quite high so far, we are constantly reducing the costs of roaming, and in particular the costs of data transmission, which allows for extending an offer of data packs in roaming in the forthcoming years, while making the offer even more attractive. In 2014, we were the first operator in Poland to set the new trends in telecommunications by allowing the customers of Plus network to use data transmission in roaming in LTE technology, which – together with offering attractive (in terms of price) data packages to be used abroad - has strengthened our position in Poland as the leader of LTE technology.

As at December 31, 2014, via Polkomtel we offered international roaming services for voice calls in 481 networks in 206 countries and designated areas. In addition, the international roaming service offers packet data transmission to our customers in 367 networks in 158 countries and designated areas.

National roaming and virtual operators (MVNOs)

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

National roaming

As a part of the wholesale national roaming service, we offer voice calls, text messaging and packet data transmission services (including MMS) to P4, the operator of Play network. P4's subscribers have used Polkomtel's mobile telecommunications network since the beginning of P4's operations. Under these activities, Polkomtel also provides wholesale services to Cyfrowy Polsat and CenterNet (currently Aero2).

Virtual operators (MVNOs)

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

As part of the cooperation with MVNOs, we provide wholesale services including voice calls, text messaging and packet data transmission (including MMS), premium rate services, value-added services, international roaming services, services provided to specific governmental authorities and agencies, hosting services on Polkomtel's billing platform, customer support, access to SIM cards and terminals' buying channels and to Plus' reloading channels as well as other services, depending on the needs and selected technical model of cooperation with MVNO.

Polkomtel was Poland's first mobile operator to open its network to MVNOs (in 2006). In December 2014, we cooperated with a dozen or so MVNOs operating in different sectors, mainly the telecommunications. We continue to actively develop the sale of services in the wholesale channel by actively seeking subsequent domestic and foreign partners and developing the cooperation with the existing wholesale partners under continuous development of the MVNO market.

Our broad scope of services and creation of dedicated solutions for the needs of our wholesale partners, allows us to cooperate under various wholesale models, from technologically advanced models for partners who have their own telecommunications infrastructure (for instance, their own points of interconnect with operators and IT platforms), through interim models to models that require only marketing and sales channels from MVNO partners.

2.7. Broadcasting and television production segment

2.7.1. Market overview

The Polish TV broadcasting market consists of state-owned and private commercial broadcasters airing both at the regional and national levels, significant number of stations offer pay-channels (through cable and DTH platforms).

TV broadcasting in Poland was started in the 1950s by the state-owned TV broadcaster TVP, which was the sole Polish TV broadcaster until 1992. Since the opening of the Polish TV market to private commercial broadcasters in 1992, the number of TV channels has increased substantially. On July 23, 2013 the process of implementing digital terrestrial television (DTT – Digital Terrestrial Television) ended. Currently DTT offers free access to 24 channels and the outreach of the multiplexes exceeds 99% of Poland's population.

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

Polish TV advertising market

According to ZenithOptimedia estimates, in 2014 Poland was the third largest advertising market in Central-Eastern Europe (after Russia and Turkey) with a total net advertising expenditure of PLN 6.5 billion (after discounts or rebates) with growth of 2.4% compared to 2013. The value of TV advertising amounted to over PLN 3.4 billion (by 3.0% more compared to 2013). ZenithOptimedia forecasts an increase in the value of TV advertising market by 3.4% in 2015 and by 2.4% in 2016.

In 2014, TV was the dominant advertising medium in Poland with 53% share in the total advertising expenditure. According to ZenithOptimedia forecasts, this share is expected to remain stable in the upcoming years. The significant increase in Internet as an advertising medium has not resulted in a substantial change in TV's share of advertising spending but it has had a significant adverse impact on print advertising.

Advertising expenditure by medium from 2010 to 2017:

	2010	2011	2012	2013	2014	2015P	2016P	2017P
TV	53%	52%	52%	52%	53%	53%	53%	52%
Print	18%	16%	14%	12%	9%	8%	6%	5%
Outdoor	8%	8%	7%	7%	7%	7%	6%	6%
Radio	7%	7%	7%	7%	7%	7%	7%	7%
Internet	14%	16%	18%	20%	22%	24%	26%	28%
Cinema	1%	2%	2%	2%	2%	2%	2%	2%

Source: ZenithOptimedia, Advertising Expenditure Forecasts - December 2014

The Polish TV market is characterized by high average daily TV viewing time, which was approximately 260 minutes in 2014, an increase of 13 minutes compared to 2013. Considering such a high average TV viewing time, it is justified to assume that the TV market will continue to be an attractive communications platform for advertisers.

Based on data from Starlink, we estimate that in 2014, Polsat Group had a 25.1% share of the PLN 3.8 billion Polish TV advertising market and an advertising power ratio, which is a ratio of advertising market share to total individual audience share in the group All 4+, of 1.17.

ZenithOptimedia forecasts that in 2015, the TV advertising market in Poland will increase by 3.4% net. We believe TV is a highly effective advertising medium, and given the relatively low level of advertising expenditures in Poland as a percentage of GDP and per capita in comparison to other European markets that there is still substantial growth potential for TV advertising in Poland. The Polish advertising market constitutes 0.38% of GDP, representing a substantially lower value as a percentage of GDP than in certain other European markets such as the United Kingdom (0.85%), Germany (0.66%) and the Czech Republic (0.57%).

Key TV channels

The Polish TV market is dominated by the four largest terrestrial channels: TVP1, TVP2, TVN and POLSAT, which collectively had 43.6% of the aggregate audience share in the commercial group in 2014. In 2014, further significant fragmentation of the TV market was observed. The importance of smaller broadcasters available on the multiplexes was growing, mainly at the expense of the abovementioned four largest TV channels available earlier in analogue terrestrial television.

In 2014, our main channel, POLSAT, had 13.3% all day audience share, which was the best result on the market. Average annual technical coverage was over 99%. Our thematic channels had a 10.4% combined audience share. We broadcast 24 thematic channels with competitive offers on each important market segment (including sport, information, music and channels dedicated to female and male audience). They include channels distributed by cable and satellite networks as well as four channels available through DTT on MUX-2 (POLSAT, Polsat Sport News, TV4 and TV6). POLSAT, the main channel of the Group, competes with the nationwide channels: TVN, TVP1, TVP2 and smaller channels available on digital terrestrial television.

In 2014, POLSAT's main competitor, TVN achieved a 13% all day audience share and had over 98% average annual technical coverage. The TVN channel, launched in 1997, is transmitted by TVN, which is controlled by ITI Group. TVN Group thematic channels achieved a 9.1% combined all day audience share in 2014.

TVP broadcasts 12 channels, including two nationwide, historically available in the analogue signal distribution: TVP1 and TVP2, and is one of the main players on the Polish TV advertising market. In 2014, the main channels of TVP Group had 9.1% (TVP1) and 8.2% (TVP2) all day audience share. The technical reach of both channels reaches almost 100% of TV households in Poland. TVP's thematic channels had 6.9% audience share. Except advertising revenue, as the national state-owned broadcaster, TVP receives additional revenue from license fees mandatorily charged to Polish citizens owning TV or radio sets under the License Fees Act of April 21, 2005 (Journal of Laws of 2005 No. 85 Item 728). Despite regulation preventing TVP from interrupting programs to broadcast advertising, which lessens its advertising inventory, in 2013, TVP group generated only 18.7% of its income from license fees.

Digital Terrestrial TV

Poland finished the conversion from analogue terrestrial broadcasting TV to DTT based on Digital Video Broadcasting – Terrestrial ('DVB-T') standards on July 23, 2013. The switch to digital broadcasting allowed to improve picture and sound quality and eliminated the interference that accompanied analogue broadcasting. Digital TV systems use an electronic program guide, which enables viewers to compile their own sets of favorite programs and exercise parental control. Digital TV systems also allowed broadcasters to introduce additional multimedia services such as additional soundtracks for individual channels (ex. additional narratives) as well as the ability to view programs with subtitles in various languages. DVB-T provides users with a new option of recording programs (PVR).

Digital transmission systems differ from analogue systems in their bandwidth requirements. DTT requires TV-sets equipped with a tuner or a special adapter for older devices. Thanks to the application of DVB-T broadcasting standard with MPEG-4 compression and encryption, it is estimated that viewers will be able to view up to seven - eight channels in one multiplex.

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

Until April 27, 2014, the first multiplex, MUX-1, was shared between three public TV broadcasters' core channels (TVP1, TVP2, TVP Info) and four commercial channels. After that date TVP was to release space held on this multiplex in order to allocate it to broadcasters selected in a competition. New channels available on MUX-1 include: Telewizja Trwam (socio-religious channel), STOPKLATKA TV (film channel), Fokus TV (educational channel) and TVP ABC (channel for children aged 4 to 12). The Office of Electronic Communications (UKE) estimated the reach of MUX-1 at 98.8% of the population in Poland on the date of the final switch-off of analogue terrestrial television broadcasting. MUX-2 is reserved for the commercial broadcasters including TV POLSAT. Regular digital transmissions of POLSAT started on September 30, 2010. On the date of the final switch-off of analogue terrestrial television broadcasting the coverage of MUX-2 was estimated at 98.8%. MUX-3 is reserved solely for the public TV broadcaster. It had the widest coverage, that was estimated at 99.5% on the date of the final switch-off of analogue terrestrial television broadcasting, due to the fact that its signal is transmitted from a larger number of objects than signals of the remaining multiplexes. MUX-4 is currently reserved for INFO-TV-FM (subsidiary of Cyfrowy Polsat) that has launched on it the broadcasting of television on mobile devices.

On November 6, 2013 the Office of Electronic Communications announced the availability of new frequency resources, which are to be used to activate another multiplex (MUX-8). A total of 18 entities have declared their interest in the new resources (2 of which submitted their declarations past the deadline), therefore the process of preparing procedures to elect those entities, who will receive frequency reservations, was initiated. In October 2014, the National Broadcasting Council made a decision regarding the allocation of space available on MUX-8. According to its resolution, TVP will be able to launch three SD channels or one SD and one HD channel on MUX-8. The remaining four channels will be selected in a competition. An earlier decision, stating that the new multiplex will be available free of charge, was sustained.

In addition to nationwide multiplexes, channels can be broadcast through local multiplexes. Currently three such multiplexes have been activated. The first began functioning on December 19, 2013 (L3) in the area of Radomsko, where it broadcasts the programming of the local television NTL Radomsko and four commercial channels. The second multiplex (L2) was activated on December 20, 2013. It broadcasts the programming of the local television TVT and five nationwide channels in the area of Rybnik. The third multiplex (L1) is located in Luban and was activated on September 12, 2014. It broadcasts the local TV Łużyce. As a result of a competition announced by the Office of Electronic Communications on August 29, 2014 regarding the allocation of five frequencies dedicated to digital signal transmission on the territory of Lower Silesia (L4, L5, L6, L7, L8), on December 5, 2014 two entities were selected and granted the right to reserve two out of the five offered frequencies (L4 and L7).

2.7.2. Offer

Channels

We believe we have a portfolio of channels that appeal to the important audience segments and that we will maintain the leading position in sports programming and we will strengthen our position in news programming. Our portfolio of channels addresses the entire family.

Channels portfolio of Polsat Group

Channel	Start date	Thematic group	Signal distribution	Availability	Household coverage ⁽¹⁾
POLSAT	December 5, 1992	General interest	Terrestrial/cable/satellite	FTA	99.8%
Polsat Sport	August 11, 2000	Sport	Cable/satellite	non-FTA	49.5%
Polsat Sport Extra	October 15, 2005	Sport	Cable/satellite	non-FTA	35.3%
Polsat Film	October 2, 2009	Movie	Cable/satellite	non-FTA	50.9%
Polsat Café	October 6, 2008	Lifestyle	Cable/satellite	non-FTA	54.6%
Polsat Play	October 6, 2008	Lifestyle	Cable/satellite	non-FTA	46.9%
Polsat2	March 1, 1997	General interest	Cable/satellite	non-FTA	63.7%
Polsat News	June 7, 2008	News	Cable/satellite	non-FTA	55.9%
Polsat News 2 ⁽²⁾	February 8, 2007	Business	Cable/satellite	non-FTA	55.2%
Polsat Jim Jam	August 2, 2010	Children	Cable/satellite	non-FTA	42.7%
Polsat Sport News	June 1, 2011	Sport	Terrestrial /cable/satellite	FTA	90.3%
CI Polsat	November 24, 2011	Criminal	Cable/satellite	non-FTA	37.7%
Polsat Food ⁽³⁾	November 22, 2012	Lifestyle	Satellite	non-FTA	20.9%
Polsat Viasat Explore ⁽⁴⁾	March 1, 2013	Lifestyle	Satellite	non-FTA	25.0%
Polsat Viasat Nature ⁽⁴⁾	March 1, 2013	Nature	Satellite	non-FTA	23.6%
Polsat Viasat History ⁽⁴⁾	March 1, 2013	History	Satellite	non-FTA	35.0%
TV4 ⁽⁵⁾	April 1, 2000	General Interest	Terrestrial /cable/satellite	FTA	99.6%
TV6 ⁽⁵⁾	May 30, 2011	Entertainment	Terrestrial /cable/satellite	FTA	90.4%
Polsat Romans ⁽⁶⁾	September 1, 2013	Women's	Cable/satellite	non-FTA	37.8%
Disco Polo Music ⁽⁷⁾	May 1, 2014	Music	Cable/satellite	non-FTA	39.3%
MUZO.TV ⁽⁸⁾	September 26, 2014	Music	Cable/satellite	non-FTA	33.8%

(1) NAM, average TV household coverage, arithmetic average of monthly coverage in 2014.

(2) Until February 2013, the channel was broadcast under TV Biznes, until June 9, 2014 - Polsat Biznes, currently – Polsat News 2.

(3) Channel included in Polsat Group's portfolio since November 2012.

(4) Channel included in Polsat Group's portfolio since March 2013.

(5) Channel included in Polsat Group's portfolio since August 30, 2013.

(6) Channel included in Polsat Group's portfolio since September 2013, data concerning household coverage relate to period of broadcasting

(7) Channel included in Polsat Group's portfolio since May 2014, data concerning household coverage relate to period of broadcasting

(8) Channel included in Polsat Group's portfolio since September 2014, data concerning household coverage relate to period of broadcasting

POLSAT

POLSAT, our main channel, is the number one channel in Poland in terms of audience share in the commercial group (all, ages 16-49), that amounted to 13.3% in 2014. The channel broadcasts 24 hours a day, seven days a week. The channel is available on the digital terrestrial television on the second multiplex (MUX-2). Apart from terrestrial broadcasting, POLSAT is also provided in SD and HD by all the major Polish cable TV operators as well as DTH platforms. POLSAT airs a broad variety of movies, Polish and foreign series as well as talent shows realized based on license agreements. Sports offer has also an important place in our programming.

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

Thematic channels of the Group

Channel	Target audience segment	Average audience share in the target audience segment in 2014	Core programming	Additional information
Polsat Sport	Men Age 16-59	0.75%	The first sport channel in the Group's offer. It airs sports events and thematic programs. The most important sports are: (i) volleyball (World Championships, World League, World Grand Prix, Plus League, Orlen League), (ii) athletics (e.g. Diamond League), (iii) football, qualifying competition for UEFA Euro 2016 (iv) handball, (v) world class boxing and (vi) MMA (Mixed Martial Arts) and KSW (Martial Arts Confrontation) contests.	The number one sports channel in Poland in 2014, both in commercial group and its target group. The channel is available in SD and HD.
Polsat Sport Extra	Men Age 16-44	0.17%	Premium sport events, primarily the largest international tennis tournaments such as Wimbledon and handball Champions League.	Broadcast since 2009, the channel is available in SD and HD.
Polsat Sport News	Men Age 16-44	0.42%	FTA channel broadcast on DTT. The programming includes sport news, sport events transmissions and journalistic materials.	The number four sports channel in 2014 in the 'Men Aged 16-44' segment. Channel broadcast since May 2011, audience share data available since November 2012.
Polsat Film	All Age 16-49 cable TV/satellite viewer	0.80%	Wide offer of movies. Hit movies, top box-office productions and non mainstream movies. The offer based to a large extent on productions of Sony Pictures Television International and 20th Century Fox TV.	The channel is available in SD and HD.
Polsat Café	Women Age 16-44	0.51%	Lifestyle, fashion, health and beauty, cooking. The offer includes own productions as well as foreign editions of various shows.	
Polsat Play	Men Age 16-44	0.82%	Male hobbies, including fishing, automotive industry, documentary and guide series, lifestyle and trendy consumer gadgets.	
Polsat2	All Ages 16-49	1.73%	Reruns of programs that premiered on our other channels.	Ranked 10 in terms of audience share in Poland in 2014. The channel is also available via satellite in other countries (eg. USA).
Polsat News	All Ages 16-49	0.91%	24-hour news channel mainly broadcasting live and covering primarily news from Poland and key international events.	The channel is available in SD and since February 2013 in HD
Polsat News 2	Top management	0.14%	The latest news on the economy and financial markets.	Channel acquired by TV Polsat Group in February 2007. Until June 9, 2014 broadcast under Polsat Biznes, currently Polsat News 2.

Channel	Target audience segment	Average audience share in the target audience segment in 2014	Core programming	Additional information
Polsat Jim Jam	Children Age 4-6	2.79%	Entertainment for children.	Polsat Jim Jam is a joint venture launched by TV Polsat and ChelloZone.
CI Polsat	Age 16-49, users of cable and DTH TV	0.15%	Criminal programs based on true stories. Documentaries presenting the work of police, detectives and criminal laboratories.	Joint project of Polsat Group and A+E Networks UK. The channel is aired since the end of November 2011.
Polsat Food	Women Age 16-49	0.11%	Culinary channel. Based mainly on Food Network's content.	Joint project of Polsat Group and Scripps Networks Interactive. The channel broadcast since November 22, 2012.
Polsat Viasat Explore	Men Age 16-49	0.07%	Channel dedicated to men, it offers programs featuring extreme jobs, sports, journeys to places that are hard to reach.	Joint project of Polsat Group and Viasat Broadcasting.
Polsat Viasat Nature	All Ages 16-49	0.02%	Offers nature programs for the entire family about wild animals as well as pets.	Joint project of Polsat Group and Viasat Broadcasting.
Polsat Viasat History	All Ages 16-49	0.13%	Offers various programs presenting the history of different times.	Joint project of Polsat Group and Viasat Broadcasting.
TV4	All Ages 16-49	2.88%	Programming offer includes films, series, intelligent entertainment.	Channel included in Polsat Group's portfolio since August 30, 2013. Ranked 8 in terms of audience share in 2014.
TV6	All Ages 16-49	1.09%	Offers drama series, animated movies, soap operas, reality shows and television quiz shows.	Channel included in Polsat Group's portfolio since August 30, 2013.
Polsat Romans	Women Age 16-49	0.16%	Channel dedicated to women, broadcasts both Polish and foreign drama films and series.	Broadcasts since September 1, 2013.
Disco Polo Music	All Ages 16-49	0.23%	Channel presents disco polo, dance and festive music.	Started broadcasting on May 1, 2014.
MUZO.TV	All Ages 16-49	0.03%	Entertainment channel dedicated to pop and rock music.	Started broadcasting on September 26, 2014.

Audience share for our channels standardized to the 'All Day 16-49' audience segment for 2012-2014:

Channel	Audience share (SHR%)		
	2012	2013	2014
POLSAT	15.71	13.51	13.3
Polsat2	1.49	1.82	1.73
Polsat News	0.74	0.81	0.91
Polsat Sport	0.67	0.79	0.50
Polsat Film	0.42	0.53	0.72
Polsat Play	0.39	0.57	0.67
Polsat JimJam [JimJam]	0.38	0.33	0.20
Polsat Cafe	0.36	0.39	0.40
Polsat Sport Extra	0.17	0.21	0.12
CI Polsat ⁽¹⁾	0.12	0.11	0.09
Polsat Sport News ⁽²⁾	0.28	0.33	0.29
Polsat News 2 ⁽³⁾	0.02	0.06	0.07
Polsat Food	-	0.08	0.08
Polsat Viasat Explore ⁽⁴⁾	0.01	0.06	0.05
Polsat Viasat History ⁽⁴⁾	0.02	0.16	0.13
Polsat Viasat Nature ⁽⁴⁾	-	0.02	0.02
TV4 ⁽⁵⁾	2.74	2.92	2.88
TV6 ^{(5) (6)}	0.23	0.68	1.09
Polsat Romans ⁽⁷⁾	-	0.08	0.13
Disco Polo Music ⁽⁸⁾	-	-	0.23
Polsat Volleyball ⁽⁹⁾	-	-	2.43
MUZO.TV ⁽¹⁰⁾	-	-	0.03

Source: NAM, target All Day 16-49

- (1) Included in the telemetric panel since January 2012.
(2) Included in the telemetric panel since November 2012 (data for that period).
(3) Until February 2013 the channel broadcast under TV Biznes, until June 9, 2014 - Polsat Biznes, currently – Polsat News 2.
(4) Channel included in Polsat Group's portfolio in March 2013.
(5) Channel included in Polsat Group's portfolio on August 30, 2013.
(6) Included in the telemetric panel since June 2011 (data for that period).
(7) Included in the telemetric panel since September 2013 (data for that period).
(8) Included in the telemetric panel since May 1, 2014 (data for that period).
(9) Channel broadcast since August 30, 2014 until September 21, 2014 (data for that period).
(10) Included in the telemetric panel since September 26, 2014 (data for that period).

Scheduling

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

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

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

Sources of Polish programming

We aim at having diversified sources of Polish content, enabling us to efficiently manage production costs. We are able to choose from a wide offering to select attractive and cost-effective programs to fit successful scheduling. In addition, for formats owned by us, we organize pitches in order to select the most cost-effective producers that ensure high quality. Polish programs are primarily commissioned to independent external producers. However, we also create programs in-house.

Approximately 60% of our programming hours consist of Polish content (data for the following channels: Polsat, Polsat HD, Polsat2, Polsat Play, Polsat Cafe, Polsat Film, Polsat News, Polsat Sport, Polsat Sport Extra, Polsat Sport HD, Polsat Sport News, Polsat News 2, TV4, TV6, Polsat Romans, Disco Polo Music, MUZO.TV).

Commissioned programs, are sub-contracted when necessary to third-party production companies to provide us with additional production capacity, thereby reducing overhead costs related to production employees, facilities and equipment. Our external producers include approximately 30 Polish and foreign producers such as: ATM Group S.A., Akson Studio Sp. z o.o., Tako Media Sp. z o.o., Constantin Entertainment Polska Sp. z o.o., Rochstar Sp. z o.o., Endemol Polska Sp. z o.o., Baltmedia Sp. z o.o. and Jake Vision Sp. z o.o. To provide content for Polsat Play and Polsat Café, we use the services of smaller local production companies. Polsat News relies mainly on its own production resources. Sport channels rely mainly on acquired transmissions licenses supported by strong in-house production focused on Polish sports.

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

Programs produced in-house include sports, information and reporters' programs as well as special events.

Sources of foreign programming

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

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

Purchase of rights to broadcast sports

Sports strategic programming licenses are required for FIVB Volleyball (World League until 2014, World Grand Prix, World Cup) and Infront/CEV (European championships in volleyball) as well as Polish Volleyball Federation (World League from 2015, Wagner's Memorial, matches of the national team played in Poland). These contracts usually relate to playing seasons and have terms of three to five years. These contracts are generally denominated in euro. Once we have obtained the required programming licenses for certain sports events, we provide our viewers with locally-customized programming either in the form of complete productions or studio commentary. In 2012, we acquired broadcasting rights for paid, encoded channels to Polish national football team matches qualifying to World Cup in Brazil in 2014 and friendly meetings of the team. In 2013 we acquired exclusive, on all fields of exploitation, broadcasting rights to matches in the eliminations to European football championships in 2016 as well as final matches of the European football championships in 2016. We also acquired broadcasting rights to matches in the eliminations to World football championships in 2018 in Russia. Furthermore, since 2010 we hold broadcasting rights purchased from PLPS (Polish Professional Volleyball League) to Plus League and Orlen League matches. In 2014 we extended this contract for another five seasons 2015-2020.

Sale of advertising and sponsoring

Advertising options

There are two main forms of advertising in the TV market: (a) advertisements broadcast in advertising breaks and (b) sponsoring broadcast before and after selected programs and trailers or in advertising breaks in-between sponsored programs.

Advertising

Broadcasters use two forms of sale of advertising time in advertising breaks: (i) GRP sales and (ii) monthly rate-card sales.

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

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

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

Sponsoring

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

Pricing of commercials

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

In order to provide flexibility to advertising customers, we offer advertising priced on (i) a rate card basis and (ii) cost per GRP.

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

GRP prices are established for the channel or group of channels each month during a calendar year by Polsat Media Biuro Reklamy advertising sales team and GRP delivery is guaranteed. Advertising sold on a cost per GRP basis is scheduled by Polsat Media on the basis of available resources after the booking of sales based on rate-cards. We believe this sales model to be the most profitable way to sell our advertising breaks. In 2014, rate-card sales accounted for 37% of all advertising sales on our main channel, POLSAT.

Pricing of sponsoring

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

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

2.7.3. Sales

The key source of revenue for our broadcasting and television production segment is advertising and sponsorship revenue (approximately 80% in 2014). Almost all of our advertising revenue is collected through TV Polsat Group's advertising sales house Polsat Media Biuro Reklamy, which acts as an advertising agent (sales house) for us under the terms of a Framework Agreement, dated December 27, 2003. Polsat Media Biuro Reklamy is responsible for the sale of advertisements, sponsoring services and contracts connected therewith. Polsat Media Biuro Reklamy is responsible for the sale of advertising services (advertising time) for our channels.

In 2014, Polsat Media Biuro Reklamy carried out the sale of advertising time for twenty of our TV channels and twenty five other broadcasters outside our Group. Polsat Media Biuro Reklamy often works with international media buying agencies that operate as intermediaries, negotiating purchase conditions and conducting campaigns for their customers. The sale of advertising time is carried out both through annual contracts entered into with media buying agencies, as well as individual direct customers. In 2014, our ten largest media buying agencies collectively accounted for approximately 65% of our net advertising and sponsorship revenue with no single advertiser accounting for more than 1% of our net advertising and

sponsorship revenue. Like the other nationwide broadcasters in Poland, we have a relatively stable group of advertisers that we work with.

According to the Media&Marketing Polska report, in 2014, Polsat Media Biuro Reklamy was once again the highest-rated nation-wide TV advertising sales office in Poland. Similar evaluation was also given in the previous year as well as in 2009 and 2010. Polsat's TV advertising sales office is appreciated for high standards of service and business relations with partners, which are evaluated as excellent. It is worth noting that Polsat Media Biuro Reklamy is the leader in quality of cooperation among all TV advertising offices for the third year running.

The second largest source of our revenue in our broadcasting and television production segment after commercials and sponsoring, are agreements with cable TV networks and satellite TV operators to broadcast our channels, which comprised 18% of total revenue in this business segment in 2014. Our agreements with cable TV networks and satellite TV operators are generally non-exclusive licenses for the broadcasting of our channels. Under typical licenses, operators agree to pay us a monthly license fee, the amount of which generally depends on the number of customers to individual packages and set rates for the package or channel customers.

Sale of content via Internet

Sale of content via Internet is another source of revenue of TV Polsat Group. The main partner of TV Polsat Group in this field is Redefine Sp. z o.o., a company belonging to the media Group Cyfrowy Polsat. Redefine Sp. z o.o. is the operator of IPLA internet television, the leader on online video market in Poland both in terms of availability on different devices (computers/laptops, tablets, smartphones, Smart-TVs, set-top-boxes, game consoles) and in terms of content offered. Online access to our programming is based on three settlement models. The first is a fixed monthly payment for the right to broadcast a given program, the second – settlement according to the audience share of the given programming content and the third – the percentage share in the advertising revenue generated by advertisements broadcast in proximity to the material.

IPLA revenues consist in approximately 75% of revenue generated from advertising, the other 25% is generated by end users purchasing the content.

Sales team

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

In 2009, Polsat Media Biuro Reklamy implemented PROVYS Sales, a new sales and optimization software compatible with our fully-integrated ERP system, PROVYS TV Office, used by the Group to manage i.a. programming broadcasting. PROVYS Sales enables to simultaneously sell airtime on 45 channels serviced by Polsat Media Biuro Reklamy in 2014 with fully automated broadcasts of commercial airtime as well as campaign results verification based on daily uploaded NAM data. The number of channels serviced by Polsat Media Biuro Reklamy increased to 48 in January 2015.

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

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

2.7.4. Technology and infrastructure

Broadcasting of TV channels

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

Terrestrial transmission

POLSAT, our main channel, and channels Polsat Sport News, TV4 and TV6 are broadcast via the nation-wide network of digital terrestrial transmitters within the MUX-2 operated by Emitel (unrelated entity). We have agreements with Emitel for transmission, uplinking, multiplexing and monitoring of the four mentioned channels in digital network. The remaining channels of Telewizja POLSAT are broadcast exclusively via cable TV networks and satellite TV.

Satellite transmission

We have several agreements for the use of satellite transponders belonging to Eutelsat S.A. These are contribution agreements: (i) two 5-year agreements, entered into in 2012, providing the right to use two slots on the Eutelsat 12 West A (AB 1) satellite, (ii) a 5-year agreement, entered into in 2012 for access to Eutelsat 33A satellite transmission capacity, and one seven-year distribution agreement, entered into in 2010, to provide us with the right to use the entire transponder on Eutelsat HB 13C satellite until the end of 2017 with the right to extend the agreement for additional successive seven-year periods. In addition, through Cyfrowy Polsat, TV Polsat has access to four other Eutelsat transponders.

Technology and infrastructure

Our core technical infrastructure is comprised of: (i) four digital TV studios - one HD studio used by the Polsat News channel and the main information program - 'Wydarzenia', HD-compliant studio for sport programs, studio of Polsat Biznes and a virtual HD studio designated for short-form TV shows (all studios are equipped with modern, or recently modernized, equipment fully HD-compliant); (ii) five digital outside broadcast vans, including four modern HD vans and a small SD van for the rapid production of short programs; (iii) a two-camera Slow Motion HD van for slow down effects, (iv) 13 digital satellite news gathering trucks ensuring on-site signal feed; five of which are HD-capable, the rest operate in SD; (v) a multiplex system ensuring the effective transmission of eleven of our channels; (vi) a multi-channel automatic TV broadcasting system; (vii) a digital audio visual routing system; (viii) an IT network capable of handling technological tasks; (ix) network production systems; (x) more than 80 SD and HD camera units; (xi) digital program archive with a modern system MAM and (xii) technological systems for signal exchange between head office and regional offices; (xiii) EC-135 helicopter used for the needs of POLSAT and Polsat News (twin-engine multipurpose helicopter approved for IFR (instrument flight rules) - flights on instruments only, with zero visibility, fit up with specialized audio-video equipment, being able to transmit HD signal up to 100 km and SD signal up to 200 km).

2.8. Other aspects of our business

Frequency reservations

Polkomtel holds a license to provide mobile telephony services in Poland, with frequencies allocated in the 900 MHz band (issued in 1996), a license to provide mobile telephony services, with frequencies allocated in the 1800 MHz band (issued in 1999) a license to provide mobile telephony services in the 2100 MHz band (issued in 2000). Currently, there is no regulatory requirement to hold a license to provide telecommunications services and the right to use frequencies results from issued frequency allocation decisions and can be extended for further periods by the President of UKE in the basis of an application for the extension of the frequency allocation (which, in accordance with the Telecommunications Law, must be submitted within 12 to 6 months before the expiry of a given allocation). Currently, based on frequency allocations issued by the President of UKE Polkomtel is entitled to use frequencies in the 900 MHz band until February 24, 2026, in the 1800 MHz band until September 14, 2029, and in the 2100 MHz band until January 1, 2023. All frequency allocations are technology neutral and can also be used to provide services in each of the technologies currently in use (including GSM, UMTS, LTE). Nordisk Polska, a subsidiary of Polkomtel, holds a frequency allocation for provision of services in the CDMA technology which entitles to use the frequency until December 31, 2020. In addition, Polkomtel has a number of radio licences for equipment constituting the components of Polkomtel's radio network.

Broadcasting licenses

In our broadcasting and television production segment we currently dispose of 34 broadcasting licenses, including 6 universal broadcasting licenses and 28 broadcasting licenses for thematic TV channels. One broadcasting license is for terrestrial broadcasting DTT only (POLSAT channel), 5 broadcasting licenses are for terrestrial broadcasting DTT and

satellite broadcasting (channels Polsat Sport News, TV4 and TV6), 23 broadcasting licenses are for satellite broadcasting only and 5 are local broadcasting licenses (TV Odra). Our current broadcasting licenses were granted by the KRRiT.

The list comprises licenses acquired by the Group in connection with the merger of Telewizja Polsat and Polskie Media. Since 2013 TV Polsat disposes of licenses for the distribution of nation-wide TV channels already in its possession (POLSAT, Polsat2, Polsat Sport, Polsat Café, Polsat Sport Extra, Polsat Play, Polsat HD, Polsat Sport HD, Polsat News, Polsat Film, Polsat News 2, TV4 and TV6) for a consecutive 10-year period after the expiry of the licenses currently in force.

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

Channel	License holder	Type of license	Licensing body	Date of expiration
POLSAT	TV Polsat	Terrestrial broadcast license (digital)	KRRiT	March 2, 2024
Polsat Sport News	TV Polsat	Satellite broadcast license /Terrestrial broadcast license (digital)	KRRiT	August 29, 2020
Polsat2	TV Polsat	Satellite broadcast license	KRRiT	January 18, 2024
Polsat Sport	TV Polsat	Satellite broadcast license	KRRiT	January 18, 2024
Polsat Café	TV Polsat	Satellite broadcast license	KRRiT	July 28, 2024
Polsat Sport Extra	TV Polsat	Satellite broadcast license	KRRiT	October 26, 2025
Polsat Play	TV Polsat	Satellite broadcast license	KRRiT	November 15, 2025
Polsat HD	TV Polsat	Satellite broadcast license	KRRiT	May 18, 2028
Polsat Sport HD	TV Polsat	Satellite broadcast license	KRRiT	May 18, 2028
Polsat News	TV Polsat	Satellite broadcast license	KRRiT	May 18, 2028
Polsat Film	TV Polsat	Satellite broadcast license	KRRiT	June 4, 2029
Polsat News 2 ⁽¹⁾	Media-Biznes	Satellite broadcast license	KRRiT	October 5, 2024
TV4	TV Polsat	Satellite broadcast license/Digital terrestrial broadcast license	KRRiT	February 2, 2029
TV6	TV Polsat	Satellite broadcast license/Digital terrestrial broadcast license	KRRiT	July 22, 2030
Polsat Romans	TV Polsat	Satellite broadcast license	KRRiT	October 15, 2023
Polsat Sport Weekend ⁽²⁾	TV Polsat	Satellite broadcast license	KRRiT	October 15, 2023
TV ODRA – Jelenia Góra ⁽³⁾	TV Polsat	Local broadcast license	KRRiT	April 13, 2015
TV ODRA – Zielona Góra ⁽³⁾	TV Polsat	Local broadcast license	KRRiT	April 13, 2015
TV ODRA – Wrocław ⁽³⁾	TV Polsat	Local broadcast license	KRRiT	April 13, 2015
TV ODRA – Lubin ⁽³⁾	TV Polsat	Local broadcast license	KRRiT	April 13, 2015
TV ODRA – Gorzów Wielkopolski ⁽³⁾	TV Polsat	Local broadcast license	KRRiT	April 13, 2015
Disco Polo Music	TV Polsat	Satellite broadcast license	KRRiT	April 24, 2024
Muzo.tv	TV Polsat	Satellite broadcast license	KRRiT	April 24, 2024
Polsat Film 2 ⁽⁴⁾	TV Polsat	Satellite broadcast license	KRRiT	April 24, 2024

⁽¹⁾ Until June 2014 the channel operated under 'Polsat Biznes'.

⁽²⁾ License acquired in October 2013, the channel had not yet began broadcasting.

⁽³⁾ These are regional channels, that are currently not broadcasting. There is a possibility to create local multiplexes for them in time.

⁽⁴⁾ The license was obtained in April 2014 but the channel had not began broadcasting yet.

Furthermore, Polsat JimJam Ltd., a jointly controlled entity established by Telewizja Polsat at JimJam CEE Limited, in which we hold 50%, has a license granted by Ofcom for an unlimited period for satellite broadcasting of the programming Polsat JimJam.

Restrictions on programming and advertising

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

- minimum daily TV program broadcasting time;
- minimum percentage share of individual categories of programs in the monthly and daily broadcasting time;

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

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


- TV advertising and teleshopping spots must be readily recognizable and distinguishable from editorial content;
- advertising and teleshopping spots shall not exceed 12 minutes in any given clock hour, however, this limitation does not apply to announcements made by the broadcaster in connection with its own programs and ancillary products directly derived from those programs (these announcements are not to exceed two minutes in any given clock hour) as well as to announcements required by the provisions of law (in particular, the sponsorship announcements);
- broadcasts of advertising and teleshopping spots shall be inserted between programs, however, transmission of movies made for TV (excluding series, serials and documentaries) as well as cinematographic works may be interrupted by advertising and/or teleshopping spots only once for each period of full 45 minutes of the program and provided that at least 20 minutes in a TV program service has elapsed between each successive break in the program; with respect to transmission of sport events, which by their nature, are interrupted by breaks, advertising and teleshopping spots can only be transmitted during such natural breaks; news and current affairs programs, programs with religious content, commentaries and documentaries, the duration of which is less than 30 minutes, and programs intended for children, cannot be interrupted with advertising spots at any time;
- teleshopping spots must contain explicit visual and audio disclaimers and must be broadcast continuously for at least 15 minutes; and
- product-specific advertising restrictions including restrictions related to:
 - alcohol, which as a general rule is prohibited with the exception of beer, the advertising of which is allowed between 8 p.m. and 6 a.m.;
 - tobacco and gambling, the advertising of which is strictly prohibited at all times;
 - prohibition of advertising pharmaceutical products, with the exception of pharmaceuticals available without a prescription (OTC pharmaceuticals), the advertising of which must meet certain strict requirements (in particular it must not be misleading and it must inform the recipients of the reasonable use of the medication);
 - prohibition of advertising of health care services, as defined in the regulations on medical activity, available exclusively on the basis of a referral;
 - strict prohibition of advertising of psychotropic substances and/or intoxicating substances as well as foodstuff and other products, within the scope regulated by Act of July 29, 2005 on prevention of drug abuse (Journal of Laws No. 179, item 1485, as amended) (the 'Anti-drug Abuse Act').

Moreover, the Amendment, imposes on broadcasters the duty to ensure that their media services are accessible to people with visual or hearing disabilities, in particular, by introducing appropriate amenities (such as audio description, subtitles for the hearing-impaired and sign language translation), so that at least 5% of the quarterly broadcasting time (excluding advertising and teleshopping spots) contained such amenities.

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

Trademarks

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

As at December 31, 2014, Polkomtel Group owned the protection rights to 676 trademarks, granted by the Patent Office of the Republic of Poland (including to the 'Plus' trademark), the right in registration of a Community Trade Mark (CTM)  granted by the Office for Harmonization in the Internal Market (OHIM), the right in registration of an industrial design granted by the Patent Office, the right in trademark applications in the Patent Office, and author's economic rights to individual trademarks and industrial designs.

In our broadcasting and television production segment, we hold protection rights to 39 trademarks (including the word and device 'POLSAT' trademark).

Furthermore, as at December 31, 2014 Cyfrowy Polsat Group held protection rights to 71 trademarks granted by the Patent Office and the rights in registration of 16 community trademarks granted by OHIM (including the 'Cyfrowy Polsat' trademark). We are also entitled to the rights in registration of 31 community industrial designs. We have applied for registration of another 46 domestic trademarks and 19 community trademarks (including trademarks submitted for registration jointly by companies from Cyfrowy Polsat Group). We have applied for one European patent.

Research and development

Our research and development activities are focused on intensive development work with respect to information technology systems and systems dedicated to our in-house manufactured set-top boxes. We also conduct research work activities in the scope of construction of those set-top boxes.

In September 2014, Polkomtel, Plus network operator and leader of LTE technology, together with Huawei conducted the first in Poland, successful trial of making voice calls using the LTE technology (Voice over LTE - VoLTE). Trials with the participation of chosen users (Friendly User Tests – FUT) were executed on elements of the commercial network. During the trials we achieved our goal and users could make voice calls and send text messages in the VoLTE technology, over the LTE network. The voice calls were conducted in HD Voice standard.

In December 2014 Plus introduced the HD Voice technology for its customers, which will enhance the quality of connections and improve the comfort of calls. HD Voice ensures perfect sound quality during a telephone conversation. The sound is crystal clear and the voice over the speaker is natural and sharp, giving users of HD Voice telephones the impression that the person they are talking to is standing next to them having a direct conversation.

On August 30, 2014, for the first time in Poland the revolutionary video transmission via wireless networks using the LTE Broadcast technology (eMBMS) was demonstrated on the National Stadium in Warsaw. The trial demonstration prepared by Polkomtel, Ericsson and Samsung is until now the largest in Europe demonstration of broadcasting via LTE. It took place during the opening ceremony of the FIVB Volleyball Men's World Championship Poland 2014 as well as the opening match of the tournament. For the first time the LTE Broadcast system was available everywhere in the stadium and no other demonstration had such a large number of recipients. Broadcast transmission in this technology is realized to all recipients simultaneously and its quality is independent of the number of viewers, making it similar to TV broadcasting in this respect. Using this technology is similar to watching television.

On August 30, 2014, users of the largest Polish online television IPLA had the possibility to watch the opening match of the FIVB Volleyball Men's World Championship Poland 2014 using a unique solution – the multi-camera service. Used in Poland for the first time, this service allows for the simultaneous transmission of the signal from numerous cameras recording the same event. Consequently, the viewer has the possibility to observe the match from different perspectives. When viewing the match, the user clicks on a camera icon and chooses 1 of the 3 additional cameras, which transfers him to the chosen part of the field.

IT systems

In the segment of services to individual and business customers we use IT systems facilitating effective and efficient management of our customer base. The systems include a customer relationship management system, sales support system, the Internet Customer Service Centre, and a transaction support system. Within our systems designed for set-top boxes, we also use applications and software enabling us to offer our products as efficiently as possible. These are our proprietary, internally developed systems. As the owner of the systems and holder of intellectual property rights related to

them, we are able to respond quickly and successfully to any customer needs. Moreover, in our segment of services 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 channel packages.

IT systems are critical to our operations in the field of telecommunication. In network management, we manage all network infrastructure elements with respect to their availability, performance and security to control traffic and plan capacity of the network in line with expected business needs. With regard to customer activation and billing, we use systems that allow for flexible billing for different contract and prepaid plans. Our customer service systems enable us to address the needs of our customers through different communication channels (such as call centres, e-mail, Interactive Voice Response, SMS, POS and Internet). Moreover, we use a wide range of applications that support customer segmentation, product definition and the selection of sales channel and communication methodology.

In addition, our subsidiary, Polkomtel, uses management systems that include, among other things, financial control, revenue assurance, anti-fraud, rating and scoring systems and those that support reporting process for internal and regulatory purposes. Apart from the main data centre, Polkomtel maintains an off-site back-up facility in a disaster recovery centre to ensure that, in the event of a disaster, it can switch to such a centre and continue to provide critical services.

We use a wide range of systems, applications and specialized software solutions developed in-house and by leading local and international vendors. 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.

In pursuit of the integration of Polkomtel and Cyfrowy Polsat and relying on the Group's existing IT solutions, Polsat Group launched 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.

In our broadcasting and television production segment, we rely on a number of IT systems to assist us with the management of programs production, file storage, generation of transmission graphics, and the maintenance of our program library and licenses. We rely on licenses with third-party suppliers for all the systems we use.

Real estate property

Cyfrowy Polsat owns the majority of the real estate property on which our DTH satellite TV infrastructure, office 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, 2014, there was a mortgage registered on the entire real estate property owned by us, established in respect to the Term Loan. Some insignificant parts of Cyfrowy Polsat's real estate property are encumbered with typical easement rights for electricity cable conservation. We lease part of our real estate property from third parties that are not material to our business.

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

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

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

In order to secure our liabilities resulting from the PLK Term Loan and PLK Senior Notes, a mortgage was registered in favor of the Security Agent on real estate property owned by Polkomtel, that is on the real estate located on Pulawska street in Warsaw and the real estate located on LG street in Biskupice Podgórne.

In our Television and broadcasting business segment, our basic production and TV broadcasting operations are carried out in leased premises in the office-industrial building located at 77 Ostrobramska Street in Warsaw, owned by Inwestycje Polskie.

Environmental matters

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

Mobile network operators, including Polkomtel, are obliged to comply with environmental laws, in particular the regulations governing waste management, waste electrical and electronic equipment, as well as protection from electromagnetic fields.

As an entity using the environment, Polkomtel is obliged to submit appropriate notifications to relevant public administration authorities. However, in its operations Polkomtel is not required to obtain any permits for waste management, handling of waste equipment or protection from electromagnetic fields, as its field generation does not exceed the legally permitted levels.

In the course of its operations, Polkomtel has undergone numerous inspections of compliance with environmental regulations, which did not reveal any material breach or negligence. Polkomtel holds ISO 14001:2004 Environmental Management System certification in the scope of sale of telecommunication products and services and sale of electric energy, customer service and retention¹.

At the date of publication of this Report, no proceedings regarding breach of such environmental regulations were pending against us.

Insurance agreements

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

We have third-party liability insurance, damage and personal auto insurance agreements, insurance policies concerning property and electronic equipment, insurance against all risks, as well as third party liability insurance on business operations and professional liability insurance on broadcasting activity, liability on business interruption, third-party liability insurance of a lessor and lessee of real estate property and chattels, third-party liability insurance of an employer against accidents at work, as well as third-party liability insurance against damage caused by a sudden and accidental environmental pollution. We also have third-party liability insurance for members of management and supervisory boards.

In 2014 Cyfrowy Polsat Capital Group signed insurance agreements described below.

In the scope of property insurance general agreements were concluded for the years 2014-2017 with TUIR Warta S.A. in co-insurance with STU Ergo Hestia S.A. and PZU S.A. regarding the insurance of assets against all risks, electronic equipment insurance, insurance of machinery against damages, loss-of-profit insurance, insurance of assets in domestic and international transport (cargo). In the scope of property and profit insurance against all risks, Polkomtel had an agreement with PZU S.A. until May 31, 2014. For the next period Polkomtel signed an agreement with two parties acting as co-insurers: PZU S.A. and TUIR Allianz S.A.

In the scope of third-party liability insurance a general agreement was concluded for the years 2014-2017 with TUIR Warta S.A. in co-insurance with STU Ergo Hestia S.A. and PZU S.A. regarding third-party liability insurance, including professional liability insurance. Furthermore, an agreement regarding bookkeeping liability insurance was concluded with PZU S.A. and Directors and Management Board liability insurance with TUIR Allianz Polska S.A.

Until November 30, 2014, Polkomtel was covered by third-party liability insurance offered by AIG Europe Limited Sp. z o.o. Branch in Poland. For the next period Polkomtel concluded an agreement with TUIR Warta S.A. PZU S.A. covers Polkomtel's bookkeeping liability insurance. Polkomtel has Directors and Management Board liability insurance agreements with TUIR

Allianz S.A., AIG Branch in Poland, ACE Branch in Poland, TU Generali S.A., TUiR Warta S.A., Sopockie TU Ergo Hestia S.A. and PZU S.A.

In 2014 Cyfrowy Polsat Group purchased fleet motor insurance and assistance insurance with STU Ergo Hestia S.A. Polkomtel held fleet motor insurance and assistance insurance agreements with Compensa Towarzystwo Ubezpieczeń S.A. and Vienna Insurance Group.

The agreement concluded in 2008 with AIG Europe Limited Sp. z o.o. Branch in Poland (former Chartis Europe S.A. and AIG Europe S.A. Branch in Poland) concerning third-party liability insurance relating to public securities offering was still in force in 2014.

Moreover, international business travel health insurance was concluded with ACE European Group Limited Sp. z o.o. Branch in Poland and personal injury insurance with TUiR Warta S.A.

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

3. SIGNIFICANT EVENTS AND AGREEMENTS SIGNED IN 2014

3.1. Corporate events

In 2013 Cyfrowy Polsat decided to acquire Metelem Holding Company Limited, a special-purpose vehicle organized under the laws of Cyprus, which holds indirectly 100% of voting rights at Polkomtel ('Transaction').

On November 14, 2013 and December 19, 2013, the Company and Metelem Shareholders: Argumenol, Karswell, Sensor and the European Bank for Reconstruction and Development executed two Investment Agreements related to the Transaction. Under the Investment Agreements, Metelem Shareholders agreed to contribute Metelem shares to the Company as payment for new shares, which were issued as part of a conditional share capital increase and acquired in exercise of rights under subscription warrants. Upon completion of the Transaction, the Company acquired all Metelem shares, and indirectly all Polkomtel shares.

Execution of the Transaction required prior satisfaction of a number of conditions precedent, set out in detail in the Investment Agreements, including: (i) passing by the General Meeting of certain resolutions and registration by the competent court of the conditional increase of the Company's share capital; (ii) the Company obtaining refinancing, which would enable it to repay its debt under the Senior Facilities Agreement dated March 31, 2011 related to the acquisition of shares in Telewizja Polsat and Senior Notes issued on May 20, 2011; (iii) the approval by the Polish Financial Supervision Authority of the prospectus for the New Shares for the purpose of applying for their admission to trading on a regulated market operated by the Warsaw Stock Exchange; and (iv) the execution by the EBRD and the Company of a framework agreement on or before the day of acquisition of New Shares.

Conditional increase of the Company's share capital

In connection with the Investment Agreements, on January 16 and 24, 2014 the Extraordinary General Meeting adopted resolutions necessary for the execution of the agreements on the conditional share capital increase and on the issue of subscription warrants. Pursuant to the resolution on the conditional share capital increase, the Company's share capital was conditionally increased by up to PLN 11,647,727.20 through the issue of up to 291,193,180 new shares, that is up to 47,260,690 series I shares and up to 243,932,490 series J shares. Only the persons who subscribed for warrants issued under the resolution on the issue of subscription warrants were entitled to subscribe for the new shares. Each warrant carried the right to subscribe for one new share. Pursuant to the provisions of the resolution on the issue of subscription warrants, 47,260,690 series I warrants were offered to the EBRD, while 243,932,490 series J warrants were offered to the remaining shareholders of Metelem.

The conditional share capital increase was entered in the register of entrepreneurs of the National Court Register on April 2, 2014. The increase in the Company's share capital, in accordance with Article 452 § 1 of the Commercial Companies Code, was carried out on 14 May 2014 when the new shares were registered on the securities accounts of the acquirers. Following the increase, the Company's share capital amounts to PLN 25,581,840.64 and is divided into 639,546,016 shares. The total number of votes at the General Meeting amounts to 818,963,517.

Refinancing of the debt of Cyfrowy Polsat Group

Pursuant to the provisions of the Investment Agreements one of the conditions precedent of the transaction of acquisition of 100% shares of Metelem required the Company to obtain refinancing, which would enable it to repay its debt under the Senior Facilities Agreement of March 31, 2011, as amended and the Senior Secured Notes issued pursuant to the Indenture of May 20, 2011 ('Refinancing').

Conclusion of the Senior Facilities Agreement

On April 11, 2014 a Senior Facilities Agreement was executed by the Company, Telewizja Polsat, CPTM, Polsat License Ltd. and Polsat Media Biuro Reklamy with a syndicate of Polish and foreign banks.

The Senior Facilities Agreement provides for a Term Facility Loan of up to PLN 2,500 million and a multi-currency Revolving Facility Loan of up to the equivalent of PLN 500 million. Concurrently with the Senior Facilities Agreement, an intercreditor agreement whose parties included the facility agents, the Company and its related parties was executed on April 11, 2014. The purpose of the agreement was to determine seniority of claims under the Senior Facilities Agreement.

For more details on bank loans see item 4.6.5. - *Liquidity and capital resources*, and item 4.6.6. - *Information on guarantees granted by the Company or subsidiaries* of this Report.

Redemption of Senior Secured Notes

On April 8, 2014 Cyfrowy Polsat Finance AB (publ) filed a notice of redemption of all the EUR 350 million 7.125% Senior Secured Notes due in 2018 issued by Cyfrowy Polsat Finance under the Indenture of May 20, 2011.

In connection with the refinancing of debt under the described above Senior Notes, the Company executed forward currency transactions with the following banks: ING Bank Śląski S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Société Générale Spółka Akcyjna Branch in Poland; following execution of the last transaction on April 17, 2014, the total amount of the transactions was EUR 383 million (PLN 1,607.8 million). The transactions were settled on May 6, 2014 at the average PLN/EUR exchange rate of 4.1979. Following the settlement of this transaction the Group recognized a profit of PLN 2.9 million.

Debt repayment

On May 7, 2014, the Company's entire indebtedness under the senior facility granted to the Company on the basis of the Senior Facilities Agreement of March 31, 2011 and the Senior Secured Notes issued on May 20, 2011 was repaid. The repayment of the Notes referred to above was related to the Company's repayment of Series A unsecured registered notes acquired fully by Cyfrowy Polsat Finance AB (publ), issued in 2011.

The funds for repayment of the loan facilities and the notes referred to above have been derived from a new term facility issued to the company pursuant to the Senior Facilities Agreement of April 11, 2014.

Establishment of security for the debt

On May 7, 2014, the Company, other members of the Company's group and UniCredit Bank AG, London Branch executed and concluded certain agreements and further documents in relation to establishing security interests related to the Senior Facilities Agreement concluded by the Company on April 11, 2014.

Additionally, the Company, Cyfrowy Polsat Trade Marks, Polsat Media Biuro Reklamy, Telewizja Polsat, and Polsat License granted certain guarantees to each party of the Facilities Agreement and other finance documents executed in relation to the Facilities Agreement, governed by the English law, with respect to the following:

- (i) timely performance of the obligations under the Senior Facilities Agreement and other finance documents executed in relation to the Senior Facilities Agreement;
- (ii) payment of any amounts due under the Senior Facilities Agreement and other finance documents executed in relation to the Senior Facilities Agreement; and
- (iii) indemnifying the financing parties referred to above against any costs and losses that they may incur in relation to the unenforceability, ineffectiveness or invalidity of any obligation secured by the said guarantees.

For further details on established securities see item 4.6.6. of this Report - *Information on guarantees granted by the Company or subsidiaries.*

Approval of prospectus

On April 28, 2014 the Polish Financial Supervision Authority approved the prospectus of the Company's Series I and Series J shares prepared for the purposes of applying for the admission of these shares to trading on a regulated market operated by the Warsaw Stock Exchange. The issuance of Series I and Series J shares by the Company took place within the framework of the conditional increase of the Company's share capital approved by the Extraordinary General Meeting of the Company on January 16, 2014. The issue of Series I and Series J shares was effected for the purposes of the takeover by the Company of all the shares in Metelem and the shares were acquired by Metelem shareholders in exchange for a non-cash contribution in the form of Metelem shares.

Adoption of a resolution on dividend distribution for the year 2013 by the Annual General Meeting

On April 29, 2014 the Annual General Meeting of the Company adopted the resolution on distribution of net profit of the Company for the financial year of 2013 in the amount of PLN 429,012,674.99 so that PLN 102,859,516.76 was allocated to dividends payable to the shareholders of the Company, while the remaining portion of net profit, i.e. PLN 326,153,158.23 was allocated to other reserves.

The dividend day and the dividend payment day were scheduled for May 22, 2014 and June 6, 2014, respectively.

Satisfaction of conditions of a material agreement

On May 7, 2014 the last conditions referred to in the investment agreement concluded between the Company and the EBRD on December 19, 2013 (the 'EBRD Investment Agreement') were satisfied thus triggering the parties' obligations to perform the transaction.

Pursuant to the EBRD Investment Agreement, on May 7, 2014 the Company executed with the EBRD the Framework Agreement, in which the Company undertook to act in compliance with EBRD's Designated Performance Requirements and Anti-Corruption Guidelines. The Framework Agreement sets out certain obligations of the Company, in particular with respect to environment protection, related to an EBRD's acquisition of Company' shares in consideration for non-cash contribution in the form of Metelem shares. The Framework Agreement will remain in force as long as the EBRD holds no less than 67.6% of the block of the Company shares acquired by the EBRD through the Transaction. Additionally, on May 7, 2014 the EBRD received a legal opinion concerning certain matters of the Polish law, which constituted another condition precedent for the performance of the EBRD Investment Agreement.

With all conditions precedent set out in the EBRD Investment Agreement and in an investment agreement concluded with other Metelem shareholders having been satisfied on May 7, 2014, in particular the Refinancing of the entire debt, the parties to the Investment Agreements proceeded to closing the Transaction on May 7, 2014.

Issuance of subscription warrants, Series I and Series J shares and acquisition of Metelem shares by the Company

As part of the closing of the Transaction on May 7, 2014 the Company concluded subscription agreements concerning the acquisition of subscription warrants with Metelem Shareholders. In these agreements the Company offered registered subscription warrants to the Metelem Shareholders in such way that:

- (i) EBRD acquired 47,260,690 Series I registered subscription warrants;
- (ii) Karswell acquired 157,988,268 Series J registered subscription warrants;
- (iii) Sensor acquired 27,880,274 Series J registered subscription warrants; and
- (iv) Argumenol acquired 58,063,948 Series J registered subscription warrants.

The subscription warrants represent rights to acquire shares of the Company in the course of a conditional share capital increase of the Company approved by the Company's Extraordinary General Meeting on January 16, 2014.

In executing the rights attached to the subscription warrants referred to above, on May 7, 2014 the shareholders of Metelem made statements on the acquisition of Series I and Series J shares, respectively, and paid up the new shares with non-cash contribution in the form of Metelem shares held by each of the shareholders (the issue price per share so paid up was PLN 20.46). In consequence, the Company acquired the ownership of 2,000,325 shares of Metelem, representing 100% of the capital and votes in that company.

Acquired in consideration for the non-cash contribution in the form of Metelem shares were 291,193,180 ordinary bearer shares with the nominal value of PLN 0.04 each, including:

- (i) 47,260,690 Series I shares acquired by the EBRD; and
- (ii) in aggregate 243,932,490 Series J shares acquired by Karswell (157,988,268 Series J shares), Sensor (27,880,274 Series J shares) and Argumenol (58,063,948 Series J shares), respectively.

The total issue price for the shares acquired by the Metelem shareholders was PLN 5,957.8 million. The Series I and Series J shares were delivered to the respective shareholders of Metelem upon the registration of the shares acquired by those shareholder on their securities accounts, i.e. on May 14, 2014.

Mr. Zygmunt Solorz-Żak, who is the ultimate dominant entity of the Company, is the entity controlling Karswell and Argumenol. At the date of acquisition of Series I shares Mr. Heronim Ruta was the entity controlling Sensor.

Admission and introduction of series I shares to stock exchange trading and admission of series J shares to stock exchange trading

On May 12, 2014, the Management Board of the Warsaw Stock Exchange (the 'WSE') declared the admission to stock exchange trading on the main market of 47,260,690 ordinary series I bearer shares of the Company with a nominal value of

PLN 0.04 each. The WSE Management Board also resolved to introduce the said shares to trading on the main market, effective May 14, 2014, subject to the registration of the shares and the assignment of the code PLCFRPT00013 to them by the National Depository for Securities on May 14, 2014.

Furthermore, the WSE Management Board resolved to admit to trading on the main market of 243,932,490 ordinary series J bearer shares of the Company with a nominal value of PLN 0.04 each.

Due to the fact that the Company's Series J shares are not shares of the same type as the Company's shares introduced to trading on WSE in terms of the rights to dividend and interim dividend incorporated in them, according to information contained in the Company's prospectus approved by the PFSA on April 28, 2014, it is the Company's intention to introduce its series J shares to trading on the WSE not earlier than the rights vested in series J shares of the Company are made identical to the rights vested in the Company's shares listed on WSE, i.e., not earlier than in the second quarter of 2015.

On May 14, 2014 47,260,690 Series I shares marked with ISIN code PLCFRPT00013 and 243,932,490 Series J shares marked with ISIN code PLCFRPT00021 were registered in the depository of securities pursuant to the resolution of the Management Board of the National Depository of Securities no. 454/14 of May 7, 2014.

Rating issued by Standard&Poor's Rating Services

On April 30, 2014 Standard & Poor's Rating Services ('S&P') affirmed its 'BB' long-term corporate credit rating on Cyfrowy Polsat with a stable outlook. At the same time S&P also assigned the long-term issue rating at 'BB' to Cyfrowy Polsat's term facility loan denominated in Polish zloty up to the maximum amount of PLN 2,500 million and multicurrency revolving facility loan up to a maximum amount of the equivalent of PLN 500 million. Furthermore S&P raised its long-term corporate rating on Metelem from BB- to BB with a stable outlook.

S&P agency justified its decisions by the fact that Cyfrowy Polsat has made meaningful progress toward the completion of its acquisition of Metelem, including obtaining funds for refinancing of existing debt, thus meeting the main conditions precedent of the conditional investment agreements regarding the acquisition of shares in Metelem.

In the agency's view, the integration of Poland's leading direct-to-home pay-TV and one of the largest mobile telecom operators on the domestic market materially increases the diversity and scale of operation of Cyfrowy Polsat Capital Group. Therefore S&P revised its assessment of both Cyfrowy Polsat's and Metelem's business risk profile upward to 'satisfactory' from 'fair'.

Rating actions taken by Moody's Investors Service

Following the closing of the Transaction, on May 13, 2014 Moody's Investors Service ('Moody's') changed the rating of Cyfrowy Polsat and assigned a rating to Eileme 2, indirectly controlling 100% shares of Polkomtel.

In line with earlier announcements, Moody's downgraded Cyfrowy Polsat's corporate family rating (CFR) to Ba3 with a stable outlook.

The Ba3 rating reflects the substantial increase in the Company's leverage following the acquisition of Polkomtel and the combined group's exposure to foreign currency fluctuations as part of Polkomtel's debt is denominated in foreign currency. The rating also accounts for the benefits for the Company's business profile resulting from the acquisition, comprising i.a. a material increase in size, as well as potential ARPU growth through bundling and cross-selling to an enlarged customer base. The rating was also positively affected by the Company's strong position on the market and its good liquidity with high free cash flow generation.

Concurrently, Moody's assigned a corporate family rating (CFR) to Eileme 2 at the level of Ba3 with a stable outlook.

The rating assigned to Eileme 2 reflects the expectation that Polkomtel's credit quality will improve following its incorporation into the financing structure of Cyfrowy Polsat, as well as benefits for the operator's business risk profile after the integration, which include ARPU growth and lower churn through bundling and cross-selling to an enlarged customer base. In its justification Moody's emphasized Polkomtel's leading position in the Polish mobile market, as well as its track record of generating solid profitability, its strong liquidity profile and systematic debt reduction.

Increase in the share of capital of Metelem

On May 23, 2014 the Company acquired 212,000 new ordinary shares in the increased share capital of its subsidiary - Metelem, representing approx. 9.6% of the share capital of Metelem and carrying approx. 9.6% of the voting rights at the Shareholders' Meeting of Metelem, with the nominal value of EUR 1.00 (i.e. approx. PLN 4.15 at the average exchange rate of the Polish National Bank as at May 23, 2014) per share and the issue price of EUR 1,000 (i.e. approx. PLN 4,152 at the average exchange rate of the Polish National Banks as at 23 May 2014) per share. The total issue price for the new shares amounted to EUR 212 million (i.e. approx. PLN 883.5 million at the average exchange rate of the Polish National Bank as at May 23, 2014).

Prior to the share capital increase in Metelem, the Company held 2,000,325 shares in Metelem with the nominal value of EUR 1.00 per share and the total nominal value of EUR 2,000,325 (i.e. PLN 8,306,149.53, at the average exchange rate of the Polish National Bank as at May 23, 2014), representing 100% of the share capital of Metelem. At the date of this Report, the Company holds 2,212,325 shares in Metelem with the nominal value of EUR 1.00 per share and the total nominal value of EUR 2,212,325 (i.e. PLN 9,186,458.33 at the average exchange rate of the Polish National Bank as at May 23, 2014), which still represent 100% of the share capital of Metelem.

Issue of a promissory note by Eileme 1

On May 27, 2014 an indirect subsidiary of the Company, Eileme 1, issued a promissory note (sw. *löpande skuldebrev*) in favor of the Company's subsidiary, Metelem, issued under Swedish law in connection with the transfer of USD 283,436,543 (i.e. PLN 865,388,453.10 at the average exchange rate of the Polish National Bank as at May 27, 2014) from Metelem to Eileme 1 for the purposes of the repayment by Eileme 1 of its total indebtedness and the redemption of PIK Notes due in 2020, bearing interest at 14.25%. The funds transferred from Metelem to Eileme 1 came from the share capital increase in Metelem.

Redemption of PIK Notes by Eileme 1

On May 30, 2014 Eileme 1 repaid its total indebtedness under the 14.25% PIK Notes, denominated in USD. The PIK Notes were redeemed for a price equal to 103% of the nominal value increased by accrued and unpaid interest as at May 30, 2014.

The repayment of indebtedness under the PIK Notes was made from the funds obtained by Eileme 1 in connection with the issuance of a promissory in favor of Metelem on May 27, 2014.

Pledge over Metelem shares

On May 29, 2014 the Company concluded a Deed of Shares Pledge and Charge with UniCredit Bank AG, London Branch, based on which the Company established a pledge (governed by Cypriot law) over 2,212,325 shares of its subsidiary Metelem, with the total nominal value of EUR 2,212,325 (i.e. approx. PLN 9,155,707.01 at the average exchange rate of the Polish National Bank as at May 29, 2014), in favor of UniCredit Bank AG, London Branch, acting as security agent. The establishment of the pledge over Metelem shares was a subsequent action of establishing security interests related to the Senior Facilities Agreement concluded by the Company on April 11, 2014.

Increase in the share capital of Plus TM Group SKA

Acting on the basis of the resolution of the Extraordinary General Meeting of Shareholders of Plus TM Group SKA dated December 23, 2013 the share capital of Plus TM Group SKA was increased from PLN 0.05 million to PLN 1.050 million by way of issue of 20,000 new, non-privileged registered series B shares of the nominal value of PLN 50 each.

Acquisition of bonds by Plus TM Group SKA

On July 7, 2014 an indirect subsidiary of the Company, Plus TM Group SKA, acquired 29 unsecured, interest-bearing bearer bonds of series 1/2014 issued in favor of Plus TM by Polkomtel, with the nominal value of PLN 10 million each. The interest rate of the bonds is determined based on the interest rate being the sum of the WIBOR 6M base rate and the margin. The maturity date of the Bonds is December 31, 2020. The acquisition of Bonds was financed by Plus TM Group SKA with its own funds.

Pledge over assets carrying significant value

In connection with the PLK Senior Facilities Agreement concluded on June 17, 2013 by Eileme 2, Eileme 3, Eileme 4 and Polkomtel, on July 10, 2014 securities were established by indirect subsidiaries of Cyfrowy Polsat over assets carrying a

significant value (according to the criterion of constituting at least 10% of the value of the revenues of the Cyfrowy Polsat Capital Group for the last four financial quarters).

An indirect subsidiary of the Company, Plus TM Group SKA concluded a Bonds Pledge Agreement with Citicorp Trustee Company Limited, based on which a pledge was established in favor of Citicorp, acting as security agent of the PLK Senior Facilities Agreement, over 29 bearer, unsecured bonds of series 1/2014, of the nominal value of PLN 10 million, issued in favor of Plus TM Group SKA by Polkomtel on July 7, 2014.

Moreover, Polkomtel concluded an Agreement For The Financial and Registered Pledges over Shares with Citicorp Trustee Company Limited, based on which Polkomtel established a financial and registered pledge over 20,000 registered series B shares of its subsidiary Plus TM Group SKA with the nominal value of PLN 50 each, constituting 95.24% of the share capital of Plus TM Group SKA in favor of Citicorp, acting as security agent of the PLK Senior Facilities Agreement.

Changes in the management board of the Company

On July 30, 2014 the Supervisory Board of Cyfrowy Polsat adopted a resolution appointing Tobias Solorz to the position of Member of the Management Board as of September 1, 2014. Following the registration of amendments to the Articles of association of the Company by the adequate Court in December 2014, Tobias Solorz took up the position of Vice-president of the Management Board of Cyfrowy Polsat.

On October 28, 2014 Dominik Libicki resigned from the position of President of the Management Board of the Company and Vice-President of the Management Board of Polkomtel, effective immediately. On the same day the Supervisory Board accepted the resignation placed by Dominik Libicki and appointed Tomasz Gillner-Gorywoda as President of the Management Board of the Company.

Furthermore, on November 4, 2014 the Supervisory Board adopted a resolution appointing Maciej Stec to the position of Member of the Management Board as of November 4, 2014.

Conclusion of hedging transactions

On July 31, 2014 and August 1, 2014 we executed Interest Rate Swap (IRS) transactions consisting in exchanging interest payments based on the floating rate WIBOR 3M for interest payments based on an average fixed rate of 2.50% with the following banks: ING Bank Śląski S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Société Générale Spółka Akcyjna, Branch in Poland, Bank Zachodni WBK S.A., BNP Paribas S.A. and Bank Polska Kasa Opieki S.A. These transactions were concluded to hedge the Company's liabilities relating to the term facility loan granted to the Company pursuant to the Senior Facilities Agreement of April 11, 2014.

The transactions were concluded for the period from September 30, 2014 until December 31, 2016 and the total nominal value of the loan being hedged is PLN 1,136.5 million.

Acquisition of Polsat Ltd.

On August 6, 2014 Telewizja Polsat Holdings Sp. z o.o. acquired 100% shares in the share capital of Polsat Ltd. with its registered office in London, UK.

Acquisition of Radio PIN

On October 17, 2014 Telewizja Polsat signed a preliminary agreement to purchase a 100% stake in the company Radio PIN S.A., the broadcaster of the radio station Muzo.fm, for the price of PLN 4.3 million. The transaction was finalized on February 27, 2015.

Early prepayment of a part of the term loan

On December 17, 2014, Polkomtel made an early prepayment of part of the PLK Term Loan in the amount of PLN 200 million. The prepayment, along with the allocation to individual credit tranches, was effected on December 29, 2014. The effected early prepayment of has no impact on the provisions of the Senior Facilities Agreement. The final repayment date for the entire facility is June 24, 2019.

Bond Issue program

On January 16, 2015, the Extraordinary General Meeting of the Company adopted resolution no. 6 thereby giving its approval for the Company to issue bonds with a total nominal value of up to PLN 1 billion under a bond issue program, in the

period from January 16, 2015 until July 15, 2015. According to the provisions of the aforesaid resolution, the bonds will be denominated in Polish zlotys and may be issued in one or several series, as registered or bearer bonds. Furthermore, the bonds may be issued as non-secured or secured bonds. The Extraordinary General Meeting authorized the Management Board of the Company to set forth the detailed terms of the bond issue program.

3.2. Business related events

Purchase of data transmission services by the Company

On March 27, 2014 the Company signed a subsequent Memorandum of Understanding ('Memorandum') to the agreement concluded between the Company and Mobyland in December 2010 on the provision of data transmission services. Under the Memorandum, the parties set a new, lower price per 1 MB of data transmission in the net amount of PLN 0.00477 and decided that the unused as at the end of 2013, but already paid for data package will be recalculated in accordance with this new price.

A framework agreement was signed on March 27, 2014 between the Company and Polkomtel, concerning the terms of cooperation between parties as regards the provision of data transmission services by Polkomtel for the Company ('Framework Agreement'). The parties agreed that the date of validity and moment of commercial start, following from the provisions of the abovementioned agreement, will be January 1, 2014.

Under the Framework Agreement Polkomtel provides the Company with access to wireless data transmission, realized on the basis of LTE, HSPA+, HSPA and EDGE technologies. The maturity of the agreement is unlimited and its value will be defined based on separate orders placed by the Company, regarding the purchase of data transmission services, expressed as a quantity of GB.

On the date of concluding the Framework Agreement, the Company placed Order No. 1 with Polkomtel, regarding the purchase of 61 million GB of data transmission services with the guaranteed validity period of this order until December 31, 2016 and net price of PLN 0.00477 per 1 MB. The total value of Order No. 1 amounted to PLN 297,95 million.

Furthermore, as a result of negotiations with companies belonging to Midas Group, initialized in November 2014, on March 3, 2015 a memorandum of understanding was concluded between the Company and Polkomtel under the Framework Agreement. The memorandum determines new terms of cooperation in the scope of telecommunication services related to data transmission, in particular:

- a new unit price per 1 GB in relation to telecommunication services related to data transmission in the net amount of PLN 2.40 (two zloty forty groszy);
- the new price will be applicable to both newly ordered data packages as well as unused data packages already partially paid for under previous orders;
- the new terms of cooperation will be effective as of January 1, 2015 and the placed order for data transmission will be valid for a period of 4 years;
- that in the event when Mobyland introduces services based on other own frequencies or frequencies to which it acquires usage rights, Mobyland will extend the scope of services related to data transmission provided to Polkomtel.

Concurrently, on March 3, 2015 the Company placed Order No. 2 with Polkomtel under the Framework Agreement for the purchase of a data package of 600.91 million GB. The parties agreed that aside from the newly ordered data package, Order No. 2 will also include the data package unused but already partially paid for by Cyfrowy Polsat as at December 31, 2014, purchased under Order No. 1 of March 27, 2014. The unused data package will be recalculated in accordance with the new price of PLN 2.40 net per 1GB.

The total value of Order No. 2 amounts to PLN 1,442.19 million net and the surplus payments made for the previous order placed by the Company with Polkomtel, in relation to the actual usage, in the amount of PLN 19.63 million shall be credited towards payments for Order No. 2. Payments for the CP Order will be made in favor of Polkomtel according to the following schedule:

- PLN 48.82 million, net – for the first quarter of 2015 in three equal monthly installments,
- PLN 53.94 million, net – for the second quarter of 2015 in three equal monthly installments,
- PLN 98.17 million, net – for the third quarter of 2015 in three equal monthly installments,

- PLN 140.14 million, net – for the fourth quarter of 2015 in three equal monthly installments,
- PLN 385.48 million, net – for the year 2016 in twelve equal monthly installments,
- PLN 342.78 million, net – for the year 2017 in twelve equal monthly installments, and
- PLN 353.23 million, net – for the year 2018 in twelve equal monthly installments.

Purchase of data transmission services by Polkomtel

On March 27, 2014, Polkomtel and Mobyland executed a memorandum of understanding to the agreement of March 9, 2012, on the provision of wholesale telecommunications services. Prior to its execution date, Polkomtel placed two orders under the Agreement, for the purchase of data transmission services for an aggregate of 33 million GB for a total net price of PLN 222 million.

On March 27, 2014 Polkomtel placed order no. 3 under the Agreement, for the purchase of 306 million GB in data transmission which included data transmission services unused by Polkomtel at December 31, 2013 (approximately 8 million GB), covered by order no. 2 under the Agreement placed in 2012, and data transmission purchase order placed by Polkomtel with Mobyland in connection with the order placed by Cyfrowy Polsat with Polkomtel under framework agreement described in the point above. The total net value of order no. 3 was PLN 1,442.3 million, and the average unit net price under order No. 3 is PLN 0.0046031 per 1 MB, including the discount granted to Polkomtel. Polkomtel will be entitled to receive further discounts on its subsequent orders, however no greater than 25% of the unit net price of PLN 0.00477 per 1 MB, once the amount of data purchased under order no. 3 has been used up. The parties agreed that order No. 3 is to be used within 36 months from January 1, 2014.

Furthermore, as a result of negotiations with companies belonging to Midas Group, initialized in November 2014, on March 3, 2015 a memorandum of understanding was concluded between Polkomtel and Mobyland under the agreement on the provision of wholesale telecommunications services concluded between Mobyland and Polkomtel on March 9, 2012. The memorandum determines new terms of cooperation in the scope of telecommunication services related to data transmission, in particular:

- a new unit price per 1 GB in relation to telecommunication services related to data transmission in the net amount of PLN 2.40 (two zloty forty groszy);
- the new price will be applicable to both newly ordered data packages as well as unused data packages already partially paid for under previous orders;
- the new terms of cooperation will be effective as of January 1, 2015 and the placed order for data transmission will be valid for a period of 4 years;
- that in the event when Mobyland introduces services based on other own frequencies or frequencies to which it acquires usage rights, Mobyland will extend the scope of services related to data transmission provided to Polkomtel.

Pursuant to the new memorandum, on March 3, 2015 Polkomtel placed order no. 4 with Mobyland for the purchase of a data package of 1,571.68 million GB. The parties agreed that aside from the newly ordered data package, order no. 4 will also include the data package unused but already partially paid for by Polkomtel as at December 31, 2014 under order no. 3 placed on March 27, 2014. The unused data package will be recalculated in accordance with the new price of PLN 2.40 net per 1GB.

The total value of order no. 4 amounts to PLN 3,772.04 million net and the surplus payments made for order no. 3, in relation to the actual usage, in the amount of PLN 144.56 million shall be credited towards payments for order no. 4. Payments for order no. 4 will be made in favor of Mobyland according to the following schedule:

- PLN 119.25 million, net – for the first quarter of 2015 in three equal monthly installments,
- PLN 132.00 million, net – for the second quarter of 2015 in three equal monthly installments,
- PLN 245.00 million, net – for the third quarter of 2015 in three equal monthly installments,
- PLN 354.00 million, net – for the fourth quarter of 2015 in three equal monthly installments,
- PLN 989.31 million, net – for the year 2016 in twelve equal monthly installments,
- PLN 880.00 million, net – for the year 2017 in twelve equal monthly installments, and
- PLN 907.92 million, net – for the year 2018 in twelve equal monthly installments.

Multiplay offer from Cyfrowy Polsat and Plus

In keeping with the strategy of integrating modern home products and services, Cyfrowy Polsat and Plus mobile network launched smartDOM, a joint program, which enables bundling of innovative services offered by both operators to the benefit of their customers. Under the new program customers can combine, in a flexible way, such products as satellite TV, broadband LTE Internet, telephone, electricity and banking services, and make savings for each service purchased added to their package.

On October 27, 2014 we launched a program addressed to business customers under the name smartFIRMA (smartCOMPANY), which allows to combine mobile telephony, LTE Internet and fixed-line voice services. The program also includes Plus Bank products, electric energy from Plus, as well as a wide portfolio of supplementary services which support and enhance business.

For details on the smartDOM and smartFIRMA programs, see item 2.3.2. - *Multiplay offer*.

Expansion of our telecommunications offer

In order to satisfy the needs of our customers, who are considering the purchase of mobile broadband LTE Internet access services as a substitute for fixed-line Internet access, in June 2014 we introduced an offer of unlimited internet access in the LTE technology throughout the entire term of the contract, addressed to both our individual and business customers, marketed under the name Power LTE.

Moreover, in September 2014 we introduced a new brand of telecommunication services: 'Plush'. The brand addresses the expectations of young people, which is emphasized by the slogan 'Without consequences'. The offers 'Card Plush' and 'Plush Mix' are comprised of ready, best-priced combinations of services including unlimited short text messages and calls to all mobile networks, and packages of data transmission. Additionally, Plush Mix offers smartphones at attractive prices.

In December 2014 Polkomtel introduced the HD Voice technology for its customers, which enhances the quality of connections and improves the comfort of calls. In the first stage the HD Voice service was introduced in Warsaw and part of the Mazovian voivodship as well as the Lublin and Podlaskie voivodships in Eastern Poland. In the first quarter of 2015 the service will be available on the territory of the entire country. HD Voice is the next stage in the preparation to introduce the innovative VoLTE, which was successfully tested by Plus, the only operator to do so in Poland so far, in October 2014. VoLTE (Voice over LTE) allows to connect voice calls over the LTE network, which makes it the next leap in quality after HD Voice.

Expansion of our pay TV programming offer

In 2014 Cyfrowy Polsat expanded its programming offer by 7 new channels: FilmBox Arthouse, Polsat News HD, TVP Sport HD, Stopklatka TV, ID HD, H2 HD and Lifetime HD. The programming offer of FilmBox Arthouse includes world cinema classics, as well as the works of less known directors, which can be seen mainly during film festivals. Polsat News HD is the twin of the information channel Polsat News broadcast in high definition. TVP Sport HD broadcasts football world championships, Olympic games and other popular sport disciplines. The programming schedule of Stopklatka TV includes European productions, world cinema and Polish movies. ID HD from Discovery Networks is a thematic channel dedicated to engrossing investigations and crimes, as well as moving stories, dramas and mysteries. H2 HD complements the HISTORY channel with a wide offer of programs on warfare, ancient and modern history, ending with science, motorization and engineering. Lifetime HD is available in over 100 countries to over 150 million households. Its offer includes awarded series, several dozens of high quality feature films annually (the so called Lifetime Original Movies) and entertainment documentary productions.

Customers of Cyfrowy Polsat's satellite platform had the possibility to watch the FIVB Volleyball Men's World Championship Poland 2014 within the paid subscription fee on TV channels dedicated to the tournament – Polsat Volleyball. Customers using voice services from Plus with access to LTE Internet and users of LTE Internet from Plus and Cyfrowy Polsat were also granted access to the tournament via a special internet service. IPLA users had the possibility to order access to a package of 4 Polsat Volleyball channels for PLN 99.

In 2014 Cyfrowy Polsat customers and IPLA users could watch several KSW Galas live as well as the Polsat Boxing Night via our pay-per-view system.

In December 2014, Cyfrowy Polsat and TVN S.A. signed agreements extending the current cooperation regarding the distribution of paid and FTA channels broadcast by TVN. The agreements concern the nine channels of TVN Group, which were thus far broadcast by Poland's largest satellite platform Cyfrowy Polsat: TVN, TVN7, TTV, TVN24, TVN Meteo, TVN

Style, TVN Turbo, TVN 24 Biznes i Świat and Mango24 as well as their HD versions. Thanks to the new terms of the agreements soon Cyfrowy Polsat's offer will be expanded to include the stations TVN24, TVN Turbo and TVN Style in HD standard.

Acquisition of sports rights

In March 2014, TV Polsat concluded an agreement regarding the acquisition of rights to the transmission of Grand Prix Formula 1 races on its channels. Starting with the Australian Grand Prix, races will be broadcast in 2014 on Polsat Sport and Polsat Sport Extra, as well as on Polsat Sport HD and Polsat Sport Extra HD in high definition. Additionally, we provide our viewers with a coverage of all Grand Prix including Friday and Saturday training sessions, Saturday qualifications and the most important event of each weekend with Formula 1 – the Sunday race.

In December 2014, TV Polsat acquired broadcasting rights to Polish volleyball. Polsat Sport, Polsat Sport Extra and Polsat Sport News will broadcast the most interesting matches of the world champions league – PlusLiga, as well as the Orlen Liga. Apart from league play-offs Polsat sports channels will also broadcast matches of the Poland Cup as well as the men's and women's matches for the SuperCup of Poland.

Furthermore, in January 2015, TV Polsat acquired broadcasting rights to the most prestigious rallies with the participation of the best drivers i.e. the World Rally Championship (WRC) for the two coming seasons. The event will be broadcasted by Polsat Sport Extra.

New channels under the Polsat brand

Starting on February 3, 2014 the information channel Polsat News is also available in High Definition. Similarly to Polsat News, Polsat News HD is a channel dedicated to viewers who value quick and reliable information. Each day the channel provides top stories from all over the world. The programming of the channel, broadcast in 16:9 format, is transmitted from one of the largest news studios in Europe.

Since May 1, 2014 Polsat Group offers its viewers a new music channel. Disco Polo Music presents disco polo, dance and festive music. Alongside lists of greatest hits and music clips, the channel also offers shows, during which artists and fans of this music genre will recommend their favorites, programs with the latest news from the music industry: announcements of concerts, records, behind-the-scenes of clips, accounts of concerts and meetings with artists, interviews and rankings.

On June 9, 2014 Polsat Biznes was replaced by a news channel, which offers debates on politics, business and world economy, as well as programs on culture, society and international matters. The channel is called Polsat News 2 and complements and broadens the content delivered by our channel Polsat News, the most dynamically expanding news station in Poland.

On August 30, 2014 Telewizja Polsat launched four channels dedicated to the FIVB Volleyball Men's World Championship Poland 2014. Polsat Volleyball 1 and three additional channels were broadcast only during the tournament, i.e. until September 21, 2014. The channels showed all matches involving the Polish Team, as well as many other meetings of the tournament. Polsat Volleyball 1 offered advertising airtime (like other thematic channels) and was included in the sports package. All the above channels were available free of charge to all customers of Cyfrowy Polsat. Within the framework of agreements with Polsat other platforms and cable networks, including Vectra, Netia, Inea and UPC Polska, offered paid access to these channels. The opening and final matches of the tournament were also broadcast on our open channel POLSAT and achieved record high viewership results. The total audience share of the opening match was 39.44%, while that of the final match – during which the Polish team won the title of world champion – was 59.16%.

On September 26, 2014 TV Polsat launched a new music channel MUZO.TV. The channel broadcasts rock and pop music as well as the best video clips, both the classics and the novelties. MUZO.TV is the second music channel in Polsat's programming offer, after Disco Polo Music.

Extension of frequency assignment decision regarding the 1800 MHz band

On September 8, 2014, the President of UKE assigned 1757.5-1759.9 MHz and 1852.5-1854.9 MHz as well as 1777.7-1784.9 MHz and 1872.7-1879.9 MHz frequency blocks in the 1800 MHz band to Polkomtel, who currently uses them to provide 2G services. The assignment is nationwide, technology-neutral, and valid until September 14, 2029, i.e. for the next 15 years. Under this assignment decision we are required to cover 90% of the territory of Poland with telecommunication services provided using these frequencies, calculated together with the frequencies in 900 MHz band assigned by the President of UKE on January 11, 2011. In September 2014 Polkomtel made one-time payment in the amount of PLN 365.4 million for the frequency assignment.

Submission of an offer in the auction for frequency licenses in the 800 MHz and 2600 MHz bands

On November 24, 2014, Polkomtel submitted an initial bid in the auction for frequency licenses in the 791-816 MHz and 832-857 MHz bands, and the 2500-2570 MHz and 2620-2690 MHz bands, each on the territory of the entire country, allocated for the provision of telecommunications services in the mobile or fixed radio-communication service ('LTE Auction'), announced by the President of the Office of Electronic Communications in accordance with the auction documentation at the seat of the Office of Electronic Communications on October 10, 2014.

The decision regarding the submission of an offer in the LTE Auction results from Polkomtel's aim to acquire access to key frequencies allowing to improve the quality of telecommunication services provided in the LTE technology and to expand the coverage of its LTE network.

Apart from Polkomtel, Orange Polska, P4 Sp. z o.o., Hubb Investments Sp. o.o., T-Mobile Polska and NetNet Sp. z o.o. also placed initial bids in the LTE Auction. All the above entities were qualified to the second stage of the auction. As at the date of publication of this Report, the auction was still in progress.

4. FINANCIAL AND OPERATING REVIEW OF CYFROWY POLSAT GROUP

4.1. Key factors impacting our operating activities and financial results

4.1.1. Factors related to social-economic environment

Economic situation in Poland

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

In the sluggish world economy of 2011-2013, Poland continued to record one of the highest real GDP growth rates in the EU. According to Eurostat, Poland's real GDP growth in 2011, 2012 and 2013 was 4.8%, 1.8% and 1.7%, respectively, with the corresponding figures for the EU 28 at 1.7%, -0.4% and 0.0%, respectively. Despite the Polish economy's relatively good condition, the downturn on the global markets in 2011-2013 adversely impacted the volume of advertising spending in Poland, including on TV advertising.

Based on Eurostat data, a slight recovery of economies both of Poland and other EU countries took place in 2014. The forecasted GDP growth for Poland in 2014 is 3.3%, in 2015 – 3.2% and in 2016 – 3.4%. GDP growth in 28 EU countries is estimated at 1.3% in 2014, 1.7% in 2015 and 2.1% in 2016.

We believe that average consumer spending, including spending on pay TV, mobile telephony, Internet access and bundle services generally will grow in line with the overall GDP growth in Poland, and will support our future revenue growth. We expect, that the economic recovery, anticipated in 2015-2016, will also have a positive impact on the advertising expenditures in Poland.

Situation on the pay TV market in Poland

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

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

Currently, we consider our programming packages to offer the best value-for-money on the Polish DTH market. We believe, that it gives us a chance to attract a significant portion of migrating customers to our platform. Moreover, our proactive approach to customer retention contributes to maintaining a relatively low churn rate.

Dynamic growth of non-linear distribution of content, delivered by video on demand and OTT (over-the-top) services is a global trend. This market is still small in Poland (according to data presented by PwC, its value was estimated at ca. 7 million USD in 2013, while in Great Britain and Germany at 485 million USD and 134 million USD, respectively) and in our opinion has significant growth prospects. We consequently develop our services which provide our customers with content on demand – our VOD rental service and the leading online television in Poland, IPLA. These products are complementary to our core business in the field of pay TV and allow us to broaden our content distribution channels.

Development of advertising market in Poland

Part of our wholesale revenue comes from the sale of advertising airtime and sponsoring slots on TV channels.

Demand for advertising air-time is highly correlated with the macro-economic situation. ZenithOptimedia Media House forecasts a 3% growth Y-o-Y of total net TV advertising expenditure in 2014, while in 2015 this segment will increase by 3.4%. Given that TV is a highly effective advertising medium, and given the relatively low level of advertising expenditures in Poland as a percentage of GDP and per capita in comparison to other European markets, we believe there is still a substantial growth potential for TV advertising in Poland in the long term, and the expected economic recovery in 2015 will positively influence the level of advertising expenditure in Poland. It is worth noticing, that despite the growing importance of new media, it is forecasted that television will remain an attractive and popular pastime, primarily thanks to new technical

opportunities, which include an increasing number of HD channels and VOD, as well as thanks to a growing number of smart-TVs.

The Internet advertising market is characterized by dynamic growth. According to the IAB AdEx report, online advertising expenditures increased at a rate of 6.6% in the first three quarters of 2014 compared to the corresponding period of 2013, while expenditures on the video advertising segment, in which we generate our revenue, increased by 18% during this period and represented 6.9% of the total expenditures on online advertising. According to PwC forecasts (Global entertainment and media outlook: 2014-2018) the online video advertising in Poland will grow by an average 45.1% (CAGR) in the years 2013-2018. We believe that thanks to the leading position on the online video market (through IPLA internet television) we may benefit from the growth of this promising advertising market segment.

Seasonality of advertising market

Our advertising revenue tends to be lowest during the third quarter of each calendar year due to the summer holiday period and highest during the fourth quarter of each calendar year due to the increased consumer spending during the Christmas season. In the year ended December 31, 2014, TV Polsat Group generated approximately 21.6% of advertising revenue in the first quarter, 28.0% in the second quarter, 20.7% in the third quarter and 29.7% in the fourth quarter.

Seasonality of the telecommunication market

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

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

Growing importance of thematic channels

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

Fixed-mobile substitution and growth of mobile broadband Internet saturation

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

In Poland the fixed-mobile substitution has a larger scale than in most of the EU countries. Based on the UKE data, in 2013 the volume of voice traffic in fixed networks – which amounted to 11.5 billion minutes, was already 6.5 times lower than the voice traffic volume in mobile networks – which amounted to 75.5 billion minutes.

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

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

Growing demand for smartphones and data transmission

Popularity and sales of smartphones in Poland has been gradually growing. At the end of 2014 85% of handsets sold by us to our telecommunication service customers were smartphones and this share is systematically growing. At the same time,

we estimate that at the end of December 2014 ca. 44% of phones used by our customers were smartphones. This disproportion shows that the smartphones' penetration among our mobile services customers will grow consistently in the next years.

Popularization of smartphones translates into growing sales of data transmission products in the segment of small screen devices. According to data presented in the Ericsson Mobility Report dated November 2014, the volume of transmitted data will increase 9 times in the years 2014-2020. We offer data transmission mainly under primary subscriptions and additional data packs. Customers who do not purchase a recurring data pack may use the data transmission in the so-called 'pay-as-you-go' model (i.e. charged per every MB used).

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

4.1.2. Factors related to the operations of the Group

The growing importance of integrated services

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

In this context, the acquisition of Polkomtel, one of the largest mobile operators on the Polish market, is significant. Together with Polkomtel we create a unique portfolio of products which are simultaneously targeted at customers of both operators. Our programs smartDOM (addressed to individual customers) and smartFIRMA (addressed to business customers) allow our customers to combine in a flexible way products into packages, on which we offer attractive discounts. The program smartDOM, launched in mid-February 2014, yields excellent sales results. The possibility to sell additional products and services (cross-selling) to current customers of Cyfrowy Polsat and Plus network has a positive impact both on our revenue and the level of ARPU per contract client.

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

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

Providing Internet access services in LTE technology

We provide broadband Internet access services in numerous available mobile technologies, including mainly HSPA/HSPA+ and the latest LTE technology. LTE Internet is considered to be the future of mobile broadband Internet and successor of commonly used UMTS standard. Due to its technical characteristics and quality parameters, mobile LTE Internet can eventually replace fixed-line connections and satisfy increasingly demanding customers. In addition it has the advantage of mobility, which is more desired by consumers. We strongly believe that over the long term, as the necessary radio infrastructure and LTE-enabled devices develop, the technology will revolutionize not only the broadband Internet market but also content distribution. We believe our LTE Internet service constitutes a significant competitive advantage and it will help us to further increase our customer base both of stand-alone and integrated services.

LTE network coverage is growing systematically and with its expansion we can expect the growth in the number of customers to our service, that translates to growth in revenue from telecommunication services. According to data presented by Polkomtel, at the end of January 2015 LTE and HSPA/HSPA+ networks covered approximately ca. 80% and almost 100% of the population of Poland, respectively.

New terms of provision of data transmission services

We provide telecommunication services in LTE/HSPA+ technologies, data transmission in particular, based on the network infrastructure of Midas Group. On March 3, 2015, we concluded memoranda of understanding with Midas Group (for details see item 3.2 – *Significant events and agreements signed in 2014 – Business related events*) determining new terms of cooperation between the Group and Polkomtel in the scope of telecommunication services related to data transmission. In particular, a new, lower unit price of PLN 2.40 net per 1 GB was established, which will be applied to both newly ordered data packages as well as unused data packages already partially paid for under previous orders. Concurrently, Polkomtel placed an order with Mobyland for the purchase of a data package of ca. 1.6 billion GB and the Company placed an order with Polkomtel for the purchase of a data package of ca. 601 million GB.

The new terms of cooperation between Cyfrowy Polsat Group and Midas Group constitute an important element of the implementation of our strategy to provide our customers with multi-play services, a significant component of which is LTE Internet access. The commercial success of the integrated services program smartDOM and unlimited access to LTE Internet services triggered the dynamic growth rate of the number of users of mobile Internet services offered by Cyfrowy Polsat Group, which translates into growing costs of data transmission services. In our opinion, the data package purchased from Midas Group meets the Group's business needs over the medium term, while a lower unit price per 1 GB of data transmission allows to present a more attractive offer to customers, which may help to maintain a high dynamic of customer acquisition or improve margins generated from services in the future. At the same time, a significantly lower unit price will contribute to better control of incurred data transmission costs given the growing volume of used data in the coming quarters, which will be reflected in the Group's financial results.

Development of IPLA

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

Mobile video traffic is the fastest growing segment of global mobile data traffic. According to estimates presented in Ericsson Mobility Report dated November 2014, mobile video traffic is expected to grow at an average annual rate of 45% between 2014 and 2020. Bearing this in mind, we believe that IPLA online television will make an increasingly significant element of our business in the future.

Integration of Cyfrowy Polsat and Polkomtel

The incorporation of Polkomtel in Cyfrowy Polsat Group provides new opportunities for distribution of TV content, as well as for further development of telecommunications services. 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: 2G, 3G and LTE – to all consumer devices, from TV sets and PCs to tablets and smartphones.

The unique portfolio of services is simultaneously targeted to customers of Cyfrowy Polsat and Polkomtel. Proper addressing of this potential may significantly boost sales of additional services to an individual user, thus increasing the average revenue per customer (ARPU).

Attractive content of our TV channels

We offer the biggest and most versatile portfolio of TV channels on the Polish market which ensures for us the leading position in terms of audience among private television groups in Poland, which translates into our share in the advertising market in Poland. Our direct production covers mainly news programs, documentaries, shows and series based on international formats as well as solely created concepts. Moreover, we have contracts with major film studios, such as Sony Pictures Television International, Sony Pictures Entertainment Inc., 20th Century Fox International Television, Inc., The Walt Disney Company, Warner Bros International TV Distribution or Monolith Films Sp. z o.o., which provide access to a wide selection of the most attractive films and series. We also offer a wide selection of sports transmissions, including UEFA European Championships 2016 qualifying stage, UEFA Euro 2016 final tournament, FIFA World Championships 2018 qualifying stage, volleyball games, boxing and mixed martial arts galas, Formula 1 races and many others. We believe that attractive content, including content which is not available in the offer of other pay-TV operators is a significant competitive advantage over other pay-TV operators in Poland.

4.1.3. Factors related to the regulatory environment

Level of Mobile Termination Rates (MTR)

Providers of publicly available telecommunications services may determine service prices at will, subject to exceptions provided for in the Telecommunications Law, including restrictions imposed by the President of UKE on telecommunications providers holding significant market power, concerning introduction of a price cap on services.

As a part of regulation of the Polish market, in the past the President of UKE has issued numerous decisions that decreased mobile termination rates or introduced other modifications to existing interconnection agreements between telecommunications companies. In previous years, regulations of MTR rates resulted in a substantial asymmetry of those rates in favor of new market entrants and operators who have a small market share.

The current system of rates applied by all operators was established under the decision of the President of UKE dated December 14, 2012 on identifying entities with significant power over the market for services related to voice call termination to public mobile telecommunications networks, as well as on imposing, maintaining and amending regulatory obligations for mobile telephony operators. The new rules governing interconnect settlements introduced a unified (symmetrical) system of termination rates. Pursuant to the aforementioned decision, the current MTR rate for voice call termination is PLN 0.0429 per minute.

The SMS termination services market is also regulated by the President of UKE. The timeline for subsequent SMS termination rates reductions was agreed by mobile operators without the participation of the President of UKE, based on bilateral agreements executed as annexes to relevant interconnect agreements. Starting from January 1, 2011, the wholesale rate for SMS termination in a mobile telecommunications network in Poland was reduced a few times, and as of July 1, 2012 it decreased to the level of PLN 0.05 per SMS, which is the currently applicable rate.

Possible subsequent regulations of MTR's resulting from the decision of the President of UKE or reductions as a result of agreements between the operators may have an impact on the level of revenue from our telecommunication operations, at the same time however reducing the costs of these operations.

International roaming in mobile networks

International roaming rates in the EU are regulated by the Regulation of the European Parliament and the Council of the European Union. The Regulation covers retail and wholesale charges for voice (outbound and inbound calls), SMS, MMS and data roaming services, by determining average wholesale rates and maximum retail charges for the services. Starting from July 1, 2014, the Regulation led to a further reduction of rates applied by the operators within the EU, as specified in the table below.

	Maximum retail prices (excluding VAT)		Average wholesale prices (settlements between operators)	
	from July 1, 2013 to June 30, 2014	from July 1, 2014	from July 1, 2013 to June 30, 2014	from July 1, 2014
Data transmission (1 MB)	45 euro cents	20 euro cents	15 euro cents	8 euro cents
Outbound voice calls (minute)	24 euro cents	19 euro cents	10 euro cents	5 euro cents
Inbound voice calls (minute)	7 euro cents	5 euro cents	10 euro cents	5 euro cents
SMS (1 SMS)	8 euro cents	6 euro cents	2 euro cents	2 euro cents

Under the proposal of the Telecommunications Single Market Regulation, the possibility of complete elimination of roaming charges within EU is debated, starting from the turn of 2015 and 2016. As at the date of publication this Report there are no detailed guidelines regarding this proposal.

Reservation of frequencies

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

A frequency license may be amended or withdrawn if, among other things, the licensed entity does not fulfill its commitments under the license, alters use of the frequency band, or fails to utilize the frequency band within six months of the date of allocation or for any continuous six month period.

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

As a result of switching off analogue television in 2013, certain frequency resources have become available under the so-called Digital Dividend. An announcement about the auction for the reservation of frequencies in 800 MHz and 2600 MHz bands was published on December, 30, 2013. On February 11, 2014 the President of UKE decided to cancel the auction, and on April 4, 2014 announced the next stage of consultations regarding a new auction for the reservation of the aforementioned frequency. Following the publication of opinions of interested parties, on October 10, 2014 the President of UKE once again announced the auction on 5 blocks in the 800 MHz band and 14 blocks in the 2600 MHz band. The opening bid for one block in the 800 MHz band is set at PLN 250 million and for one in the 2600 MHz band – at PLN 25 million. The auction documentation determines, i.a. detailed conditions of conducting the auction, limitations regarding joining frequency blocks by entities, who receive frequency allocations through the auction and conditions of use of allocated frequencies. Six entities submitted initial bids: Orange Polska, P4, Hubb Investments Sp. z o.o., T-Mobile Polska, Polkomtel and NetNet Sp. z o.o., all of which qualified to the second stage of the auction. The auction began on February 10, 2015 and at the date of publication of this Report had not ended.

The result of the auction will determine whether we obtain access to the frequency band and whether the size and location of fragments of the band, which we would potentially use, will be sufficient and adequate to allow us to provide telecommunications services of sufficient quality to successfully compete with the mobile telecommunications network operators who obtain access to the remaining frequencies.

4.1.4. Financial factors

Exchange rates fluctuations

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

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

In addition, we may be exposed to currency risk in relation to the PLK Senior Notes, multi-currency Revolving Facility Loan and multi-currency PLK Revolving Facility Loan, since movements in the exchange rate of the euro, dollar or any other currency provided for in the PLK Senior Notes Indentures, Senior Facilities Agreement or PLK Senior Facilities Agreement against the zloty may increase the amounts expressed in Polish zloty required to service principal and interest payments under the PLK Senior Notes, Revolving Facility Loan or PLK Revolving Facility Loan.

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

Consolidation of Metelem Group and the Group's debt service costs

In consequence of the transaction of acquisition of shares in Metelem, the company and its capital group is consolidated within the consolidated financial statements of Cyfrowy Polsat Group from May 7, 2014.

The obligation to service substantial debt of group Metelem, in particular the debt under the PLK Senior Facilities Agreement and PLK Senior Notes, will increase financial costs incurred by us related to capital and interest payments, and therefore it will have a material effect on the level of net profit generated by our Group. The Company has already undertaken measures aimed at reducing costs related to Metelem Group's significant level of indebtedness, which include the restructuring of the debt of the acquired company and the redemption of PIK Notes, as well as early prepayments of the loan.

Additionally, in order to refinance the debt under the Term Loan related to the acquisition of Telewizja Polsat and Senior Notes, both incurred in 2011, the Company concluded in April 2014 a new Term Loan maturing in 2019. In consequence we will continue to incur interest costs on debt financing.

The Term Loan and PLK Term Loans have a built-in mechanism of bank margin reduction parallel to the decrease in the net debt to EBITDA ratio defined in both agreements, which means that by generating cash from operating and investing activities and by maintaining a high level of EBITDA, we are able to decrease interest costs and payments.

Furthermore, the Term Loan and PLK Term Loans are based on a floating market interest rate, therefore fluctuations of interest rates in Poland will have an effect on value of current debt costs related to those loans.

4.2. Key market trends impacting our business

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

- dynamic development of non-linear video content, distributed via VOD and OTT services;
- increasing sales of smart-TVs - television sets with integrated Internet access;
- development of the programming offer of digital terrestrial TV;
- bundling of television and telecommunications services;
- development of the data transmission market, both in the fixed-line and mobile segments, reflected in the number of users of data transmission services;
- gradual growth in smartphone penetration among mobile network users;
- growing demand for data transmission and high-speed broadband connectivity, driven by the growing sophistication of data transmission-based services;
- growing number of mobile customers and users, driven by, inter alia, gradual fixed-to-mobile substitution, and the growing popularity of *machine-to-machine* solutions;
- pressure on revenue from traditional mobile telecommunications services caused by the intensifying competition on the mobile services market, and by traditional mobile telecommunications services being driven out by data transmission communication;
- pressure on revenue from roaming services, resulting from a potential next stage of regulation of roaming charges.
- revival on the TV advertising market;
- further fragmentation of the television market (growing share of thematic channels in audience and advertising revenue); and
- growing spending on video advertising on the Internet.

4.3. Major investments in 2014

Acquisition of shares in Metelem Holding Company Limited holding indirectly 100% of the share capital of Polkomtel Sp. z o.o.

On May 7, 2014, all conditions precedent referred to in the conditional investment agreements concerning the acquisition of shares in Metelem Holding Company Limited, concluded on November 14, 2013 and December 19, 2013 between the Company and shareholders of Metelem: Argumenol, Karswell, Sensor and the EBRD were satisfied (see item 3.1 – *Significant events and agreements signed in 2014 – Corporate events*). In consequence, the Company acquired the ownership of 2,000,325 shares of Metelem, representing 100% of the capital and votes in that company. In consideration for the non-cash contribution in the form of Metelem shares, Metelem shareholders acquired 291,193,180 ordinary bearer shares with the nominal value of PLN 0.04 each were, issued by the Company within the conditional increase of its share capital approved by the Extraordinary General Meeting in resolutions dated January 16 and 24, 2014. The total issue price for the shares acquired by the Metelem shareholders was PLN 5,957.8 million.

Through the acquisition of shares in Metelem, Cyfrowy Polsat also acquired indirectly 100% shares in Polkomtel's share capital. The incorporation of Polkomtel to Cyfrowy Polsat Group provides new opportunities for distribution of TV content, as well as for further development of telecommunications services, launched in 2008. Thanks to this combination, the attractive content and the wide range of Cyfrowy Polsat's services will be delivered through a variety of reliable distribution channels – via satellite (DTH), within digital terrestrial television (DVB-T), through mobile technologies: 3G, 4G and LTE – to all consumer devices, from TV sets to PCs to tablets and smartphones.

Acquisition of Polsat Ltd.

On August 6, 2014 Telewizja Polsat Holdings Sp. z o.o. acquired 100% shares in the share capital of Polsat Ltd. with its registered office in London, UK.

Acquisition of Radio PIN

On October 17, 2014 Telewizja Polsat signed a preliminary agreement to purchase a 100% stake in the company Radio PIN S.A., the broadcaster of the radio station Muzo.fm, for the price of PLN 4.3 million. The transaction was finalized on February 27, 2015.

4.4. Operating review

In connection with the consolidation of the results of Metelem Holding Company Limited, indirectly controlling Polkomtel, started on May 7, 2014, the Company decided to adjust the method of presentation of certain operational data to the new structure and the mode of operations of our Group. The new layout of key performance indicators (KPI) relating to our segment of services to individual and business customers, comprising in particular mobile telephony services, Internet access and pay TV are presented below.

It must be emphasized that the key performance indicators presented below for the 3 and 12-month periods ended December 31, 2013 have been prepared for information purposes only to present the potential effect that the performance of Metelem, and Polkomtel in particular, would have had on the Group's operating results if Metelem had been part of our Capital Group in the compared periods. These key performance indicators have been prepared for illustrative purposes only and because of their nature they present a hypothetical situation rather than the actual performance of the Group for the given periods.

Key performance indicators relating to our broadcasting and television production segment have not been modified.

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.

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

	for the 3-month period ended December 31			for the 12-month period ended December 31		
	2014	2013	change / %	2014	2013	change / %
Total number of RGUs (contract + prepaid)	16,482,031	16,447,334	0.2%	16,482,031	16,447,334	0.2%
CONTRACT SERVICES						
Total number of RGUs, including:	12,347,828	11,978,807	3.1%	12,347,828	11,978,807	3.1%
Pay TV, including:	4,391,702	4,212,323	4.3%	4,391,702	4,212,323	4.3%
<i>Multiroom</i>	844,809	719,935	17.3%	844,809	719,935	17.3%
Mobile telephony	6,587,915	6,778,675	-2.8%	6,587,915	6,778,675	-2.8%
Internet	1,368,211	987,809	38.5%	1,368,211	987,809	38.5%
Number of customers	6,137,531	6,287,658	-2.4%	6,137,531	6,287,658	-2.4%
ARPU per customer [PLN]	87.2	87.1	0.1%	85.9	88.5	-2.9%
Churn per customer	9.1%	9.2%		9.1%	9.2%	
RGU saturation per one customer	2.01	1.91	5.2%	2.01	1.91	5.2%
Average number of RGUs, including:	12,272,311	11,924,710	2.9%	12,091,316	11,857,027	2.0%
Pay TV, including:	4,361,890	4,175,145	4.5%	4,283,695	4,108,908	4.3%
<i>Multiroom</i>	822,568	697,978	17.9%	776,635	623,034	24.7%
Mobile telephony	6,597,742	6,801,845	-3.0%	6,661,539	6,886,650	-3.3%
Internet	1,312,679	947,720	38.5%	1,146,082	861,469	33.0%
Average number of customers	6,159,903	6,279,979	-1.9%	6,219,660	6,301,765	-1.3%
PREPAID SERVICES						
Total number of RGUs, including:	4,134,203	4,468,527	-7.5%	4,134,203	4,468,527	-7.5%
Pay TV	122,787	77,771	57.9%	122,787	77,771	57.9%
Mobile telephony	3,792,978	4,171,810	-9.1%	3,792,978	4,171,810	-9.1%
Internet	218,438	218,946	-0.2%	218,438	218,946	-0.2%
ARPU per total prepaid RGU [PLN]	18.2	17.5	4.0%	17.7	18.2	-2.7%
Average number of RGUs, including:	4,172,129	4,599,374	-9.3%	4,267,047	4,578,919	-6.8%
Pay TV	129,021	77,953	65.5%	88,894	74,807	18.8%
Mobile telephony	3,798,701	4,338,987	-12.5%	3,939,774	4,384,573	-10.1%
Internet	244,407	182,434	34.0%	238,379	119,539	99.4%

4.4.1. Segment of services to individual and business customers

As at December 31, 2014, in the segment of services to individual and business customers, our Group provided a total of 16,482,031 active services, both in the contract and prepaid models, which constitutes an increase of 0.2% compared to 16,447,334 active services provided as at December 31, 2013. This change was due to a rapidly growing number of provided Internet access services and a higher number of provided pay TV services (including Multiroom).

As at December 31, 2014, the share of contract services in the total number of provided services was 74.9%. This indicator increased from 72.8% as at December 31, 2013.

Contract services

As at December 31, 2014, we provided contract services to a total of 6,137,531 customers, i.e. by 2.4% less compared to the number of customers, which the Group would have had as at December 31, 2013, if Polkomtel had been part of the Group at the time. The main drivers behind this decrease are the merging of contracts under one common contract for the household and a decrease in the number of customers of mobile voice services.

The number of active contract services provided by us increased by 369,021, that is 3.1%, to 12,347,828 as at December 31, 2014 from 11,978,807 as at December 31, 2013. This change is primarily the effect of an increase of the number of broadband Internet access services by 38.5% due to our strategy of actively promoting sales of services provided in the LTE/HSPA+ technologies, for example by introducing the Internet PowerLTE offer, as well as the dynamically growing number of Internet users in Poland. The total number of pay TV services provided in the contract model increased by 4.3% in the fourth quarter of 2014 to 4,391,702 as at December 31, 2014 from 4,212,323 as at December 31, 2013 due to a significant increase in the number of Multiroom services provided. Concurrently, the number of provided mobile telephony services decreased from 6,778,675 as at December 31, 2013 to 6,587,915 as at December 31, 2014 due to the fact that the Polish mobile telephony market is highly competitive and mature. We believe that further saturation of our customer base with integrated services, including our product smartDOM, will positively influence the growth of the number of contract RGUs provided by us as well as the loyalty of our customers in the future.

In the fourth quarter of 2014 ARPU per customer was equal to PLN 87.2 and remained at a similar level compared to the corresponding period of 2013. We conduct active cross-selling activities to the joined customer bases of Cyfrowy Polsat and Polkomtel within the scope of our integrated offer smartDOM, which has a positive effect on ARPU. From the moment of introducing the offer smartDOM in February 2014 we have observed a successively increasing ARPU from PLN 84.8 at the end of the first quarter of 2014 to the present level of PLN 87.2.

In 2014, ARPU per customer fell by 2.9% to PLN 85.9 compared to PLN 88.5 in 2013. This decrease was triggered primarily by lower interconnect revenue related to the regulatory reduction of MTR rates on voice services by 48.1% from PLN 0.0826 in the first half of 2013 to PLN 0.0429 in the first half of 2014 as well as lower prices on the mobile telephony market due to price pressure from our main competitors.

Thanks to our efficient customer retention programs, our churn rate was equal to 9.1% in the twelve-month period ended December 31, 2014 compared to 9.2% in the twelve-month period ended December 31, 2013.

As at December 31, 2014, each customer from our customer base had 2.01 active contract services, which constitutes an increase of 5.2% compared to 1.91 active contract services per customer as at December 31, 2013. The increase in RGU saturation per one customer is the result of our marketing and sales activities aimed at maximizing the sale of products and services to one customer.

Our product smartDOM has excellent sales results and has a positive effect on both the level of RGU saturation per one customer and ARPU per contract customer. Since its launch in mid-February 2014 until the end of 2014 569 thousand customers joined the program and bought a total of over 1.75 million RGUs. In the fourth quarter of 2014 the number of RGUs provided within the smartDOM program increased by ca. 394 thousand. RGU saturation per one customer in this group was 3.1 as at December 31, 2014. Bearing in mind the long-term goal of our Group, which is to maximize revenue per contract customer through sales of additional products and services, the smartDOM program is perfectly in line with the implementation of our strategy.

Prepaid services

The number of prepaid services provided by us as at December 31, 2014 decreased by 334,324, that is 7.5%, to 4,134,203 from 4,468,527 as at December 31, 2013. This change was caused by a decrease in the number of provided prepaid mobile telephony services, adjusted by a strong increase in the number of pay TV services provided in the prepaid model.

ARPU per prepaid RGU amounted to PLN 18.2 in the fourth quarter of 2014, which constitutes an increase of 4.0% compared to PLN 17.5 in 2013. In 2014, ARPU per prepaid RGU decreased by 2.7% to PLN 17.7 from PLN 18.2 in the corresponding period of 2013. The main reason behind the decrease in 2014 was the fall in revenue from network interconnection caused by the regulatory reduction of MTR rates on voice services by 48.1% from PLN 0.0826 in the first half of 2013 to PLN 0.0429 in the first half of 2014, as well as lower prices on the mobile telephony market due to price pressure from our main competitors.

4.4.2. Broadcasting and television production segment

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

Audience share

	3 months ended December 31			12 months ended December 31		
	2014	2013	change [%]	2014	2013	change [%]
Audience share⁽¹⁾ (7), including:	24.50%	23.06%	6.24%	23.67%	21.14%	11.97%
POLSAT (main channel)	13.65%	12.83%	6.39%	13.30%	13.51%	-1.55%
Thematic channels⁽⁷⁾	10.85%	10.23%	6.06%	10.37%	7.63%	35.91%
Polsat2	1.64%	1.77%	-7.34%	1.73%	1.82%	-4.95%
Polsat News	0.78%	0.77%	1.30%	0.91%	0.81%	12.35%
Polsat Sport	0.50%	0.63%	-20.63%	0.50%	0.79%	-36.71%
Polsat Sport Extra	0.11%	0.20%	-45.00%	0.12%	0.21%	-42.86%
Polsat Sport News	0.31%	0.31%	0.00%	0.29%	0.33%	-12.12%
Polsat Film	0.81%	0.62%	30.65%	0.72%	0.53%	35.85%
Polsat JimJam [JimJam]	0.17%	0.34%	-50.00%	0.20%	0.33%	-39.39%
Polsat Cafe	0.39%	0.38%	2.63%	0.40%	0.39%	2.56%
Polsat Play	0.72%	0.62%	16.13%	0.67%	0.57%	17.54%
CI Polsat	0.08%	0.10%	-20.00%	0.09%	0.11%	-18.18%
Polsat News 2 ⁽²⁾	0.06%	0.05%	20.00%	0.07%	0.06%	16.67%
Polsat Food	0.08%	0.08%	0.00%	0.08%	0.09%	11.11%
Polsat Viasat Explore ⁽³⁾	0.06%	0.06%	0.00%	0.05%	0.06%	-16.67%
Polsat Viasat History ⁽³⁾	0.13%	0.14%	-7.14%	0.13%	0.16%	-18.75%
Polsat Viasat Nature ⁽³⁾	0.03%	0.03%	0.00%	0.02%	0.02%	0.00%
Polsat Romans ⁽⁵⁾	0.11%	0.08%	37.50%	0.13%	0.08%	62.50%
Disco Polo Music ⁽⁸⁾	0.20%	n/a	--	0.23%	n/a	--
TV4 ⁽⁶⁾	3.38%	3.13%	7.99%	2.88%	2.92%	-1.37%
TV6 ⁽⁶⁾	1.27%	0.91%	39.56%	1.09%	0.68%	60.29%
MUZO.TV ⁽⁹⁾	0.03%	n/a	--	0.03%	n/a	--
Polsat Volleyball 1 ⁽¹⁰⁾	n/a	n/a	--	2.43%	n/a	--
Advertising market share⁽⁴⁾	24.8%	25.4%	-2.5%	25.1%	23.6%	6.3%

1) Nielsen Audience Measurement, All day ages 16-49 audience share.

2) Until February 2013 the channel operated under 'TV Biznes', until June 9, 2014 as 'Polsat Biznes', currently as 'Polsat News 2'.

3) The channels operate under the Polsat brand since March 2013, data for three quarters of 2013 include the period March - September 2013.

4) Our estimates based on Starlink data.

5) Channel broadcast since September 2013, data for the period of broadcasting.

6) Channel included in Polsat Group since September 2013, data relate to full periods indicated in the table above.

7) When calculating the total audience share of Polsat Group and audience share of thematic channels, we take into account the moment of including the channel into our portfolio (audience share of Polsat Viasat channels is included since March 2013, and audience share of Polsat Romans, TV4 and TV6 are included since September 2013, other months are calculated as zero audience share).

8) Channel broadcast since May 2014, data for the period of broadcasting.

9) Channel launched on September 26, 2014, data for the period of broadcasting.

10) Channel broadcast from August 30 until September 21, 2014, data for the period of broadcasting.

In the fourth quarter of 2014 viewers were attracted by the fixed slots on Polsat, such as Monday's cycle Mega Hit, that gathered on average 1.28 million viewers, which translated into a 20.5% audience share, as well as the series *First Love*, which gathered an average of 0.85 million viewers (18.95% audience share).

The results of the fourth quarter were significantly influenced by novelties included in the autumn scheduling. A large audience was gathered by the show *Must be the Music. Tylko Muzyka*, which attracted an average of 1.06 million viewers (14.86% audience share). Another position in our autumn scheduling, *Dancing with the Stars*, gathered on average 1.15 million viewers and had an 18.61% audience share. An important programming position was the continuation of the talent show *Your Face Sounds Familiar*. The Saturday slots dedicated to this show had, on average, 1.12 million viewers with an audience share of 21.4%.

When analyzing the entire year 2014, one of the most significant positions of the programming schedule was consequently the Monday Mega Hit slot (1.23 million viewers and 20.6% audience share). Another fixed slot, the series *First Love*, gathered 0.94 million viewers (22.2% audience share).

In 2014, novelties of both the spring and autumn schedules were the driver behind high viewership results. The show *Your Face Sounds Familiar* attracted an average of 1.24 million viewers (24.35% audience share). Another programming position, *Dancing with the Stars*, gathered an average of 1.1 million viewers and reached a 18.6% audience share. *Hell's Kitchen* was a significant new position in this year's schedule with an average of 1.07 million viewers, which translated to an 17.5% audience share. The continuation of the talent show *Must be the Music* was also a key position in both the spring and autumn schedules. The Sunday slots dedicated to this show had, on average, 1.11 million viewers with an audience share of 15.9%.

Also the cabaret *Śmiechosteron, czyli 10-lecie Kabaretu Skeczów Mężczych* broadcast in January 2014 gained a significant audience of 2.1 million viewers and 27.7% audience share. In February the cabaret *Sex, Alcohol and Books* was very popular with 1.4 million viewers and a 19.0% audience share.

The most popular broadcast of the *Festiwal Top Trendy* was the *Cabaret Night* of June 1, which gathered an average of 1.6 million viewers, translating in to a 30.3% audience share.

The *IV Cabaret Night in Zielonagóra*, broadcast on August 9, 2014 gained over 1.08 million viewers and a 24.5% audience share. *Disco Polo under the Stars*, broadcast on August 16, 2014 gathered a similar number of viewers but with an audience share of 21.1%. The concert *Disco under the Stars*, which took place on August 15, 2014 was viewed by 1.2 million people (21.7% audience share).

High viewership results of the opening match of the FIVB Volleyball Men's World Championship Poland 2014 aired by Telewizja Polsat on August 30, 2014, are worth notice. The match gathered over 1.3 million viewers, which translated into a 24.5% audience share. The simultaneous broadcast on Polsat Sport channel had 614 thousand viewers (11.3% audience share). Almost 200 thousand viewers saw the same broadcast on Polsat Volleyball 1 channel, which had an audience share of 3.64%. A total of 2.1 million viewers saw the opening match of the FIVB Volleyball Men's World Championship Poland 2014 on three channels of Telewizja Polsat, translating into an audience share of 39.44%.

The final match of the FIVB Volleyball Men's World Championship Poland 2014 had record high viewership results. On September 21, 2014 almost 4 million viewers (50.36% audience share) watched the match, during which the Polish team won the title of world champion. The simultaneous broadcast on Polsat Volleyball 1 channel gathered over 700 thousand viewers and had an 8.8% audience share. A total of 4.7 million viewers saw the opening match of the FIVB Volleyball Men's World Championship Poland 2014 on Telewizja Polsat channels, translating into an audience share of 59.16%.

Matches of the qualifiers to the European Football Championship gained record viewership results. This position gained popularity with every match. The first meeting, played on September 7, 2014 between Poland and Gibraltar, gathered 0.98 million viewers on the Polsat channel, which translated into a 15.5% audience share. Additionally, all the matches in the qualifying competition were broadcast simultaneously on Polsat Sport, on which the opening match Poland – Gibraltar was viewed by 270 thousand people, translating into a 4.2% audience share. The second match, played on October 11 2014 by the Polish national team against Germany, gathered an audience of 2.9 million with 44.6% audience share for Polsat. At the same time 434 thousand people saw this match on Polsat Sport (6.7% audience share). The match Poland – Scotland of October 14 gathered 3.6 million viewers, giving Polsat a 48.5% audience share (simultaneously 475 thousand viewers and a 6.4% audience share of Polsat Sport). The last of this year's qualifying matches, Poland – Georgia, gathered 2 million viewers of Polsat, translating into a 35.9% audience share. The results for the simultaneous broadcast on Polsat Sport were 284 thousand viewers and 4.9% audience share.

This year's *Sylwestrowa Moc Przebojów (New Year Greatest Hits)* broadcast on Polsat gathered an average of almost 1.4 million viewers, translating into a 22.6% audience share. The show was broadcast simultaneously on Polsat2, where it gathered 124 thousand viewers, i.e. 2% audience share.

Growing audience shares of all the Group's channels, as well as of thematic channels are still due to the incorporation of TV4 and TV6 channels into Telewizja Polsat Group. In terms of the Group's thematic channels, the highest audience shares in the 3 and 12-month periods ended December 31, 2014 were recorded by TV4, TV6 and Polsat 2. The thematic channels with the highest audience growth dynamics (compared to the 12 months of 2013) were Polsat Romans (launched in September 2013), TV6, Polsat Film. The annual audience results of Polsat Group also include the audience of the channel

Disco Polo Music, which began broadcasting in May 2014, MUZO.TV launched on September 26, 2014 and Polsat Volleyball 1 (broadcast from August 30 until September 21, 2014).

Distribution and technical reach

Technical reach ⁽¹⁾	3 months ended December 31			12 months ended December 31		
	2014	2013	Change / %	2014	2013	Change / %
Polsat	99.9%	99.4%	0.50%	99.8%	98.8%	1.11%
Polsat2	62.1%	63.5%	-2.20%	63.7%	63.0%	1.11%
Polsat News	55.3%	54.9%	0.73%	55.9%	54.4%	2.76%
Polsat Sport	48.6%	50.2%	-3.19%	49.5%	49.4%	0.20%
Polsat Sport Extra	35.1%	34.9%	0.57%	35.3%	34.0%	3.82%
Polsat Sport News	92.1%	86.0%	7.09%	90.3%	78.0%	15.77%
Polsat Film	50.1%	49.8%	0.60%	50.9%	48.1%	5.82%
Polsat JimJam [JimJam]	42.4%	40.9%	3.67%	42.7%	39.7%	7.56%
Polsat Cafe	53.7%	54.0%	-0.56%	54.6%	53.3%	2.44%
Polsat Play	46.2%	45.7%	1.09%	46.9%	43.1%	8.82%
CI Polsat	37.0%	36.5%	1.37%	37.7%	35.3%	6.80%
Polsat News 2 ⁽²⁾	55.3%	55.3%	0.00%	55.2%	54.5%	1.28%
Polsat Food	21.4%	21.4%	0.00%	20.9%	20.8%	0.48%
Polsat Viasat Explore ⁽³⁾	24.6%	24.3%	1.23%	25.0%	22.2%	12.61%
Polsat Viasat History ⁽³⁾	34.1%	34.3%	-0.58%	35.0%	31.5%	11.11%
Polsat Viasat Nature ⁽³⁾	23.4%	21.9%	6.85%	23.6%	19.2%	22.92%
Polsat Romans ⁽⁴⁾	37.5%	25.8%	45.35%	37.8%	24.7%	53.04%
Disco Polo Music ⁽⁶⁾	40.9%	n/a	--	39.3%	n/a	--
TV4 ⁽⁵⁾	99.7%	99.3%	0.40%	99.6%	97.0%	2.68%
TV6 ⁽⁵⁾	91.7%	87.3%	5.04%	90.4%	81.6%	10.78%
MUZO.TV ⁽⁷⁾	36.2%	n/a	--	33.8%	n/a	--
Polsat Volleyball ⁽⁸⁾	n/a	n/a	--	27.8%	n/a	--

- 1) Nielsen Audience Measurement, percentage of TV households able to receive a given channel; arithmetical average of monthly technical reach.
- 2) Until February 2013 the channel operated under 'TV Biznes', then until June 9, 2014 as 'Polsat Biznes', currently as 'Polsat News 2'.
- 3) Channel broadcast based on cooperation of TV Polsat and Viasat Broadcasting since March 2013 (data for prior periods relate to the technical reach before the cooperation with TV Polsat).
- 4) Channel broadcast since September 2013.
- 5) Channel included in Polsat Group since September 2013, data relate to full periods indicated in the table above.
- 6) Channel broadcast since May 2014, data for the period of broadcasting.
- 7) Channel launched on September 26, 2014.
- 8) Channel broadcast from August 30 until September 21, 2014.

Thematic channels of Polsat Group are currently available on all significant cable and satellite platforms. Comparing data for both the fourth quarter and 12 months of 2014 with corresponding periods of 2013, the highest growth in technical reach was recorded by Polsat Romans. The dynamics of channels created in cooperation with Viasat Broadcasting are worth emphasizing. Recently the distribution of the channels Polsat Viasat Explore, Polsat Viasat History and Polsat Viasat Nature was expanded. To sum up, all channels belonging to Polsat Group had positive dynamics Y-o-Y in both analyzed periods. This result was due i.a. to increased distribution of digital terrestrial television. New channels include Disco Polo Music (launched on May 1, 2014) and MUZO.TV, broadcast since September 26, 2014.

Advertising and sponsoring market share

According to Starlink media house estimates, expenditures on TV advertising and sponsoring in the fourth quarter of 2014 amounted to PLN 1.15 billion and increased year-on-year by 4.1%. Based on these data, we estimate that, in the fourth quarter of 2014 our TV advertising market share amounted to 24.8%. In 2014, expenditures on TV advertising and sponsoring increased to PLN 3.8 billion, which constitutes a year-on-year increase of 5.6%. In the analyzed period our TV advertising market share increased year-on-year to 25.1% from 23.6%.

If we compare the portfolio of Polsat Group's channels, we generated 9.79% more GRPs in the fourth quarter of 2014 compared to the corresponding period of 2013. The introduction of channels TV4 and TV6 to TV Polsat Group, as well as better results of TV stations and new channels – Disco Polo Music and MUZO.TV – continue to affect results achieved in the fourth quarter of 2014.

4.5. Key positions in the consolidated income statement

Following the acquisition of Metelem Holding Company Limited on May 7, 2014, the consolidated financial statements of Cyfrowy Polsat Capital Group consolidate the results of Metelem and its subsidiaries, including the telecommunications operator Polkomtel. In connection with the above we have modified the presentation of operating revenue and operating costs in the consolidated income statement in order to better reflect the business model and strategy of our Group. None of the introduced modifications have affected the amounts of revenue, costs, net profit for the period, EBITDA or total equity, presented earlier. For a detailed description of the changes made in the presentation of financial data refer to Note 9 in the consolidated financial statements for the financial year ended December 31, 2014.

Revenue

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

Retail revenue

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

Wholesale revenue

Our wholesale revenue comprises:

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

Sale of equipment

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

Other revenue

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

Operating costs

Operating costs consist of:

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

(viii) other costs.

Content costs

Content costs consist of:

- (i) programming license costs;
- (ii) amortization of purchased film licenses;
- (iii) costs of internal and external production and amortization of sport rights; and
- (iv) other content costs.

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

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

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

Distribution, marketing, customer relation management and retention cost

Distribution costs consist of (i) commissions due to our distributors and retail points of sale when they conclude sale or retention agreements with our customers for pay television and telecommunication services and (ii) costs of courier services, distribution of reception equipment and costs associated with services of our regional agents. 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 centre costs and other customer relation management costs.

Depreciation, amortization, impairment and liquidation

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

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with telecommunication operators comprise:

- (i) telecommunications and IT infrastructure lease costs;
- (ii) electric energy costs connected with the functioning of our telecommunications network;
- (iii) telecommunication network maintenance costs and fees;
- (iv) IT systems maintenance costs;
- (v) payments for the lease of satellite transponder capacity;
- (vi) payments for the use of conditional access system based on the number of access cards;
- (vii) TV broadcasting costs (digital terrestrial transmission and DVB-T, in 2013 also analogue);
- (viii) cost of settlements with mobile network operators and interconnection charge; and
- (ix) other costs.

Salaries and employee-related costs

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

Cost of equipment sold

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

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

In this group of costs we present:

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

Other costs

Key items of other costs include:

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

Other operating income/costs, net

Other operating income/costs consist of:

- (i) inventory impairment write-downs/reversals;
- (ii) and 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 expense on borrowings (including bank loans and bonds), foreign exchange gains/losses on bonds, realization and valuation costs of hedging instruments and instruments not under hedge accounting related to finance activities, bank and other charges on borrowings as well as guarantee fees resulting from the indebtedness. Borrowing costs are recognized in profit or loss using the effective interest method.

4.6. Review of our financial situation

The following review of results for the 3-month period ended December 31, 2014 was prepared based on the interim condensed consolidated financial statements for the 3- and 12-month periods ended December 31, 2014 prepared in accordance with International Financial Reporting Standard no. 34 and internal analysis.

The following review of results for the 12-month period ended on December 31, 2014 was prepared based on the consolidated financial statements for the financial year ended on December 31, 2014 prepared in accordance with International Financial Reporting Standards as approved for use by the European Union and internal analyses.

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

In 2014 the results of the Metelem and its subsidiaries ('Metelem Group'), acquired on May 7, 2014, were consolidated since the date of acquisition, therefore our results for 3 and 12-month periods ended December 31, 2014 are not fully comparable with the results for the corresponding period of 2013. For comparability reasons, in the following comparison of results for the 3 and 12-month periods ended December 31, 2014 with results for the corresponding period of 2013 we exclude, where possible, the effect of consolidation of the results of Metelem Group. Additionally, it should be noted that the consolidated income statement as well as the consolidated cash flow statement prepared by Cyfrowy Polsat Group for the 3 and 12-month periods ended December 31, 2014 comprise the results of Metelem Group for the period from May 7, 2014 until December 31, 2014, therefore they do not fully present the current scale of operations of the Group.

Furthermore, on August 30, 2013 shares in RS TV S.A. were sold and the results of the company Polskie Media S.A., acquired on August 30, 2013, were consolidated from September 1, 2013. In consequence, data for the 3 and 12-month periods ended December 31, 2014 and 2013 are not fully comparable. Given the formal merger of Polskie Media S.A. and Telewizja Polsat Sp. z o.o. on December 31, 2013, the elimination of the effect of consolidation of Polskie Media is not possible.

Discussion of the difference of the Group's results to published forecasts for the year

Cyfrowy Polsat Group did not publish any financial forecasts for 2014.

4.6.1. Income statement analysis

Review of financial results for the 3-month period ended December 31, 2014 compared with the corresponding period of the prior year

Revenue

Our total revenue increased by PLN 1,720.6, or 214.9%, to PLN 2,521.1 in the fourth quarter of 2014 from PLN 800.5 in the fourth quarter of 2013. Excluding the effect of consolidation of the results of Metelem Group, our total revenue increased by PLN 67.7, or 8.5%, to PLN 868.2 in the fourth quarter of 2014 from PLN 800.5 in the fourth quarter of 2013. Revenue grew for the reasons set forth below.

	Results including Metelem Group		Results excluding Metelem Group			
	for the 3-month period ended December 31, 2014		for the 3 month period ended December 31		change	
			2014	2013	[mPLN]	[%]
Retail revenue	1,701.7		496.2	466.1	30.1	6.5%
Wholesale revenue	641.1		331.1	317.2	13.9	4.4%
Sale of equipment	159.9		26.0	9.7	16.3	168.0%
Other revenue	18.4		14.9	7.5	7.4	98.7%
Revenue	2,521.1		868.2	800.5	67.7	8.5%

Retail revenue

Retail revenue increased by PLN 1,235.6, or 265.1%, to PLN 1,701.7 in the fourth quarter of 2014 from PLN 466.1 in the fourth quarter of 2013. Excluding the effect of consolidation of the results of Metelem Group, retail revenue increased by PLN 30.1, or 6.5%, to PLN 496.2 in the fourth quarter of 2014 from PLN 466.1 in the fourth quarter of 2013. This change was

primarily due to an increase in revenue from telecommunication services, mainly mobile Internet services, and an increase in revenue from pay TV services, especially the Multiroom service.

Wholesale revenue

Wholesale revenue increased by PLN 323.9, or 102.1%, to PLN 641.1 in the fourth quarter of 2014 from PLN 317.2 in the fourth quarter of 2013. Excluding the effect of consolidation of the results of Metelem Group, wholesale revenue increased by PLN 13.9, or 4.4%, to PLN 331.1 in the fourth quarter of 2014 from PLN 317.2 in the fourth quarter of 2013. This increase is primarily due to higher revenue from advertising and sponsorship generated by TV Polsat Group and recognition of revenue from sales of broadcasting rights to events in the pay-per-view system to other operators.

Sale of equipment

Revenue from the sale of equipment increased by PLN 150.2, or 1,548.5%, to PLN 159.9 in the fourth quarter of 2014 from PLN 9.7 in the fourth quarter of 2013. Excluding the effect of consolidation of the results of Metelem Group, revenue from the sale of equipment increased by PLN 16.3, or 168.0%, to PLN 26.0 in the fourth quarter of 2014 from PLN 9.7 in the fourth quarter of 2013. This increase was due to mainly to the recognition of revenue from sales of television sets set-top boxes and laptops, realized to a significant extent in the installment plan sales model.

Other revenue

Other revenue increased by PLN 10.9, or 145.3%, to PLN 18.4 in the fourth quarter of 2014 from PLN 7.5 the fourth quarter of 2013. Excluding the effect of consolidation of the results of Metelem Group, other revenue increased by PLN 7.4, or 98.7%, to PLN 14.9 in the fourth quarter of 2014 from PLN 7.5 in the fourth quarter of 2013, i.a. due to an increase in revenue from the lease of premises and equipment.

Operating costs

Our total operating costs increased by PLN 1,533.7, or 259.2%, to PLN 2,125.4 in the fourth quarter of 2014 from PLN 591.7 in the fourth quarter of 2013. Excluding the effect of consolidation of the results of Metelem Group, our total operating costs increased by PLN 107.1, or 18.1%, to PLN 698.8 in the fourth quarter of 2014 from PLN 591.7 in the fourth quarter of 2013. Operating costs grew for the reasons set forth below.

	Results including Metelem Group	Results excluding Metelem Group			
	for the 3-month period ended December 31, 2014	for the 3 month period ended December 31		change	
		2014	2013	[mPLN]	[%]
Content costs	295.6	290.4	260.7	29.7	11.4%
Distribution, marketing, customer relation management and retention costs	218.3	94.8	92.4	2.4	2.6%
Depreciation, amortization, impairment and liquidation	443.8	69.8	68.6	1.2	1.7%
Technical costs and cost of settlements with telecommunication operators	557.2	118.9	71.4	47.5	66.5%
Salaries and employee-related costs	150.9	55.9	53.2	2.7	5.1%
Cost of equipment sold	376.6	31.9	10.6	21.3	200.9%
Cost of debt collection services and bad debt allowance and receivables written off	27.5	9.8	7.2	2.6	36.1%
Other costs	55.5	27.3	27.6	(0.3)	(1.1%)
Operating costs	2,125.4	698.8	591.7	107.1	18.1%

Content costs

Content costs increased by PLN 34.9, or 13.4%, to PLN 295.6 in the fourth quarter of 2014 from PLN 260.7 in the fourth quarter of 2013. Excluding the effect of consolidation of the results of Metelem Group, content costs increased by PLN 29.7, or 11.4%, to PLN 290.4 in the fourth quarter of 2014 from PLN 260.7 in the fourth quarter of 2013. This increase is due to higher internal TV production costs resulting from the expansion of our scheduling both on the main channel and on thematic channels, as well as the exploitation of new sport licenses, including those relating to Qualifiers to the UEFA European

Football Championship France 2016 and higher costs of programming licenses resulting from a higher number of purchased premium pay TV packages, which should increase customer satisfaction in the future.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs increased by PLN 125.9, or 136.3%, to PLN 218.3 in the fourth quarter of 2014 from PLN 92.4 in the fourth quarter of 2013. Excluding the effect of consolidation of the results of Metelem Group, distribution, marketing, customer relation management and retention costs increased slightly by PLN 2.4, or 2.6%, to PLN 94.8 in the fourth quarter of 2014 from PLN 92.4 in the fourth quarter of 2013, mainly due to marketing actions related to customer acquisition in the smartDOM program.

Depreciation, amortization, impairment and liquidation

Depreciation, amortization, impairment and liquidation costs increased by PLN 375.2, or 546.9%, to PLN 443.8 in the fourth quarter of 2014 from PLN 68.6 in the fourth quarter of 2013. Excluding the effect of consolidation of the results of Metelem Group, depreciation, amortization, impairment and liquidation costs amounted to PLN 69.8 in the fourth quarter of 2014 and remained at a similar level compared to PLN 68.6 in the fourth quarter of 2013.

The presented amortization costs include the costs of amortization of the 'Plus' trademark for the period from May 7 until December 31, 2014 in the amount PLN 34.9.

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with mobile network operators increased by PLN 485.8, or 680.4%, to PLN 557.2 in the fourth quarter 2014 from PLN 71.4 in the fourth quarter 2013. Excluding the effect of consolidation of the results of Metelem Group, technical costs and cost of settlements increased by PLN 47.5, or 66.5%, to PLN 118.9 in the fourth quarter 2014 from PLN 71.4 in the fourth quarter 2013. This increase is primarily due to higher costs of data transmission within our broadband Internet access service, which result from the dynamic growth of our Internet user base, especially in the smartDOM program, and consequently a rapidly increasing volume of transmitted data.

Salaries and employee-related costs

Salaries and employee-related costs increased by PLN 97.7, or 183.6%, to PLN 150.9 in the fourth quarter of 2014 from PLN 53.2 in the fourth quarter of 2013. Excluding the effect of consolidation of the results of Metelem Group, salaries and employee related costs increased by PLN 2.7, or 45.1%, to PLN 55.9 in the fourth quarter of 2014 from PLN 53.2 in the fourth quarter of 2013, among others as a result of higher average employment at Cyfrowy Polsat due to organic growth of business.

Cost of equipment sold

Cost of equipment sold increased by PLN 366.0, or 3,452.8%, to PLN 376.6 in the fourth quarter of 2014 from PLN 10.6 in the fourth quarter of 2013. Excluding the effect of consolidation of the results of Metelem Group, the cost of equipment sold increased by PLN 21.3, or 200.9%, to PLN 31.9 in the fourth quarter of 2014 from PLN 10.6 in the fourth quarter of 2013. This increase is mainly due to the introduction in the fourth quarter of 2014 of television sets into sales as well as dynamically growing sales of tablets, laptops and modems related to the rapidly increasing number of users of our broadband Internet access service.

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

The cost of debt collection services and bad debt allowance and receivables written off increased by PLN 20.3, or 281.9%, to PLN 27.5 in the fourth quarter of 2014 from PLN 7.2 in the fourth quarter of 2013. Excluding the effect of consolidation of the results of Metelem Group, the cost of debt collection services and bad debt allowance and receivables written off increased by PLN 2.6, or 36.1%, to PLN 9.8 in the fourth quarter of 2014 from PLN 7.2 in the fourth quarter of 2013.

Other costs

Other costs increased by PLN 27.9, or 101.1%, to PLN 55.5 in the fourth quarter of 2014 from PLN 27.6 in the fourth quarter of 2013. Excluding the effect of consolidation of the results of Metelem Group, other costs remained at a practically unchanged level and were equal to PLN 27.3 in the fourth quarter of 2014.

Other operating income and costs, net

Other operating costs, net increased by PLN 0.2, or 10.0%, to PLN 2.2 in the fourth quarter of 2014 from PLN 2.0 in the fourth quarter of 2013. Excluding the effect of consolidation of the results of Metelem Group, in the fourth quarter of 2014 other operating income, net amounted to PLN 19.2, compared to other operating costs net of PLN 2.0 in the fourth quarter of 2013.

Gains/losses on investment activities, net

Net losses on investment activities amounted to PLN 11.4 in the fourth quarter of 2014, which constitutes a decrease of PLN 15.5, or 378.0%, compared to net gains on investment activities in the amount PLN 4.1 in the fourth quarter of 2013. Excluding the effect of consolidation of the results of Metelem Group, net losses on investment activities amounted to PLN 2.8 in the fourth quarter of 2014 compared to net gains on investment activities equal to PLN 4.1 in the fourth quarter of 2013, mainly due to the recognition of foreign exchange costs in the fourth quarter of 2014 compared to foreign exchange profits in the corresponding period of 2013.

Finance costs

Finance costs amounted to PLN 379.2 in the fourth quarter of 2014 and increased by PLN 356.4, or 1,563.2%, compared to PLN 22.8 in the fourth quarter of 2013. Excluding the effect of consolidation of the results of Metelem Group, finance costs increased by PLN 4.3, or 18.9%, to PLN 27.1 in the fourth quarter of 2014 from PLN 22.8 in the fourth quarter of 2013. This increase is the net effect of: (i) higher interest costs on the Term Loan and Revolving Facility Loan under the Senior Facilities Agreement concluded in April 2014; (ii) elimination of interest costs on our previous term loan granted under the Senior Facilities Agreement concluded in 2011 due to premature repayment of the debt in April 2014, and (iii) the lack of interest costs on Senior Notes and foreign exchange gains on the valuation of Senior Notes (redeemed in total in May 2014), which were recognized in the corresponding period of 2013.

Net profit

Net profit decreased by PLN 159.2, or 91.9%, to PLN 14.0 in the fourth quarter of 2014 from PLN 173.2 in the fourth quarter of 2013. Excluding the effect of consolidation of the results of Metelem Group net profit decreased by PLN 37.3, or 21.5%, to PLN 135.9 in the fourth quarter of 2014 from PLN 173.2 in the fourth quarter of 2013 due to higher operating and finance costs described above.

EBITDA & EBITDA margin

EBITDA increased by PLN 562.9, or 204.0%, to PLN 837.3 in the fourth quarter of 2014 from PLN 275.4 in the fourth quarter of 2013. EBITDA margin decreased to 33.2% in the fourth quarter of 2014 from 34.4% in the fourth quarter of 2013. Excluding the effect of consolidation of the results of Metelem Group EBITDA decreased by PLN 17.1, or 6.2%, to PLN 258.3 in the fourth quarter of 2014 from PLN 275.4 in the fourth quarter of 2013. EBITDA margin decreased to 29.8% in the fourth quarter of 2014 from 34.4% in the fourth quarter of 2013.

Employment

The average employment of permanent workers not engaged in production in Cyfrowy Polsat Group, excluding workers who did not perform work in the reporting period due to long-term absences, was 5,025 full-time equivalents in the fourth quarter of 2014, as compared to 1,443 full-time equivalents in the corresponding period of 2013. The increase in employment was due to the acquisition of Metelem and its subsidiaries, Polkomtel in particular, in the second quarter of 2014, as well as an organic growth of employment in the Company.

Comparison of financial results for the 12-month period ended December 31, 2014 with the results for the corresponding period of 2013

Revenue

Our total revenue increased by PLN 4,499.1, or 154.6%, to PLN 7,409.9 in 2014 from PLN 2,910.8 in 2013. Excluding the effect of consolidation of the results of Metelem Group, our total revenue increased by PLN 249.3, or 8.6%, to PLN 3,160.1 in 2014 from PLN 2,910.8 in 2013. Revenue grew for the reasons set forth below.

	Results including Metelem Group		Results excluding Metelem Group			
	for the 12-month period ended December 31, 2014	for the 12 month period ended December 31		change		
		2014	2013	[mPLN]	[%]	
Retail revenue	5,084.7	1,912.9	1,830.1	82.8	4.5%	
Wholesale revenue	1,954.0	1,155.5	1,010.2	145.3	14.4%	
Sale of equipment	327.3	54.5	41.7	12.8	30.7%	
Other revenue	43.9	37.2	28.8	8.4	29.2%	
Revenue	7,409.9	3,160.1	2,910.8	249.3	8.6%	

Retail revenue

Retail revenue increased by PLN 3,254.6, or 177.8%, to PLN 5,084.7 in 2014 from PLN 1,830.1 in 2013. Excluding the effect of consolidation of the results of Metelem Group, retail revenue increased by PLN 82.8 or 4.5%, to PLN 1,912.9 in 2014 from PLN 1,830.1 in 2013. This change was primarily due to an increase in revenue from telecommunication services, mainly mobile Internet services, and an increase in revenue from pay TV services, especially the Multiroom service.

Wholesale revenue

Wholesale revenue increased by PLN 943.8, or 93.4%, to PLN 1,954.0 in 2014 from PLN 1,010.2 in 2013. Excluding the effect of consolidation of the results of Metelem Group, wholesale revenue increased by PLN 145.3, or 14.4%, to PLN 1,155.5 in 2014 from PLN 1,010.2 in 2013. This increase is primarily due to (i) significantly higher advertising revenue of TV Polsat Group compared to the growth dynamics of the television advertising market, (ii) the recognition by TV Polsat Group of revenue from the sale of rights to the FIVB Volleyball Men's World Championship Poland 2014 partially eliminated by a decrease in revenue from the sale of signal transmission and broadcasting services related to the sale of RS TV in August 2013, (iii) higher revenue from cable and satellite operators mainly from paid access to the broadcasts of the FIVB Volleyball Men's World Championship Poland 2014, and (iv) revenue generated by TV4 and TV6 channels (consolidated since September 1, 2013) recognized in 2014.

Sale of equipment

Revenue from the sale of equipment increased by PLN 285.6, or 684.9%, to PLN 327.3 in 2014 from PLN 41.7 in 2013. Excluding the effect of consolidation of the results of Metelem Group, revenue from the sale of equipment decreased by PLN 12.8, or 30.7%, to PLN 54.5 in 2014 from PLN 41.7 in 2013. This increase was the effect of the recognition of revenue from sales of television sets, laptops, tablets and set-top boxes, realized to a significant extent in the installment plan sales model, partially eliminated by a fall in revenue from sales of devices for the reception of Mobile TV in the DVB-T technology.

Other revenue

Other revenue increased by PLN 15.1, or 52.4%, to PLN 43.9 in 2014 from PLN 28.8 in 2013. Excluding the effect of consolidation of the results of Metelem Group, other revenue increased by PLN 8.4, or 29.2%, to PLN 37.2 in 2014 from PLN 28.8 in 2013, in particular due to an increase in revenue from the lease of premises and equipment, which was partially eliminated by a decrease in revenue resulting from the sale of RS TV on August 30, 2013.

Operating costs

Our total operating costs increased by PLN 3,819.4, or 177.0%, to PLN 5,977.1 in 2014 from PLN 2,157.7 in 2013. Excluding the effect of consolidation of the results of Metelem Group, our total operating costs increased by PLN 265.9, or 12.3%, to PLN 2,423.6 in 2014 from PLN 2,157.7 in 2013. Operating costs grew for the reasons set forth below.

	Results including Metelem Group for the 12 month period ended December 31, 2014	Results excluding Metelem Group			
		for the 12 month period ended December 31		change	
		2014	2013	[mPLN]	[%]
Content costs	1,029.5	1,017.6	927.0	90.6	9.8%
Distribution, marketing, customer relation management and retention costs	612.7	330.4	332.0	(1.6)	(0.5%)
Depreciation, amortization, impairment and liquidation	1,295.9	263.4	256.4	7.0	2.7%
Technical costs and cost of settlements with mobile network operators	1,412.4	361.6	256.3	105.3	41.1%
Salaries and employee-related costs	421.7	191.2	178.6	12.6	7.1%
Cost of equipment sold	925.2	71.3	63.9	7.4	11.6%
Cost of debt collection services and bad debt allowance and receivables written off	67.6	38.9	28.2	10.7	37.9%
Other costs	212.1	149.2	115.3	33.9	29.4%
Operating costs	5,977.1	2,423.6	2,157.7	265.9	12.3%

Content costs

Content costs increased by PLN 102.5, or 11.1%, to PLN 1,029.5 in 2014 from PLN 927.0 in 2013. Excluding the effect of consolidation of the results of Metelem Group, content costs increased by PLN 90.6, or 9.8%, to PLN 1,017.6 in 2014 from PLN 927.0 in 2013. This increase is the net effect of: (i) higher internal TV production costs resulting from the expansion of our scheduling both on the main channel and on thematic channels, (ii) exploitation of new sport licenses, including those relating to FIVB Volleyball Men's World Championship Poland 2014 and Qualifiers to the UEFA European Football Championship France 2016, (iii) higher internal production costs of TV4 and TV6 channels; (iv) recognition of amortization of purchased film licenses on TV4 and TV6 channels (consolidated since September 1, 2013), (iv) lower cost of amortization of film licenses, and (v) higher costs of programming licenses resulting from a higher number of purchased premium pay TV packages, which should increase customer satisfaction in the future.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs increased by PLN 280.7, or 84.5%, to PLN 612.7 in 2014 from PLN 332.0 in 2013. Excluding the effect of consolidation of the results of Metelem Group, distribution, marketing, customer relation management and retention costs decreased by PLN 1.6 or 0.5%, to PLN 330.4 in 2014 from PLN 332.0 in 2013. This decrease was due, among other things, to increased efficiency of distribution and allocation of advertising budgets as well as effective cost control in the area of customer relations and retention and was partially compensated by increasing costs related to marketing actions related to customer acquisition in the smartDOM program.

Depreciation, amortization, impairment and liquidation

Depreciation, amortization, impairment and liquidation costs increased by PLN 1,039.5, or 405.4%, to PLN 1,295.9 in 2014 from PLN 256.4 in 2013. Excluding the effect of consolidation of the results of Metelem Group, depreciation, amortization, impairment and liquidation costs increased by PLN 7.0 or 2.7%, to PLN 263.4 in 2014 from PLN 256.4 in 2013, i.a. due to the migration of our satellite platform customers to the MPEG4 technology.

The presented amortization costs include the costs of amortization of the 'Plus' trademark for the period from May 7 until December 31, 2014 in the amount PLN 34.9.

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with mobile network operators increased by PLN 1,156.1 or 451.1%, to PLN 1,412.4 in 2014 from PLN 256.3 in 2013. Excluding the effect of consolidation of the results of Metelem Group, technical costs and cost of settlements increased by PLN 105.3, or 41.1%, to PLN 361.6 in 2014 from PLN 256.3 in 2013. This increase is due to higher costs of data transmission within our broadband Internet access service, which result from the dynamic growth of our Internet user base, especially in the smartDOM program, and consequently a rapidly increasing volume of transmitted data, as well as costs of lease of additional capacity on satellite transponders in July 2013.

Salaries and employee-related costs

Salaries and employee-related costs increased by PLN 243.1, or 136.1%, to PLN 421.7 in 2014 from PLN 178.6 in 2013. Excluding the effect of consolidation of the results of Metelem Group, salaries and employee-related costs increased by PLN 12.6 or 7.1%, to PLN 191.2 in 2014 from PLN 178.6 in 2013 as a result of higher average employment at Cyfrowy Polsat due to organic growth of business and additional costs related to the conclusion of the transaction of acquisition of shares in Metelem.

Cost of equipment sold

Cost of equipment sold increased by PLN 861.3, or 1,347.9%, to PLN 925.2 in 2014 from PLN 63.9 in 2013. Excluding the effect of consolidation of the results of Metelem Group, the cost of equipment sold decreased by PLN 7.4, or 11.6%, to PLN 71.3 in 2014 from PLN 63.9 in 2013. This increase is mainly due to the introduction in 2014 of television sets into sales as well as dynamically growing sales of tablets, laptops, routers and Wi-Fi modules related to the rapidly increasing number of users of our broadband Internet access service. This increase was partially eliminated by lower costs of sold equipment for the reception of Mobile TV in DVB-T standard. In the corresponding period, the large volume of sales of these devices was the result of the gradual process of switching off of the analogue TV signal and replacing it with the digital signal in DVB-T technology.

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

The cost of debt collection services and bad debt allowance and receivables written off increased by PLN 39.4 or 139.7%, to PLN 67.6 in 2014 from PLN 28.2 in 2013. Excluding the effect of consolidation of the results of Metelem Group, the cost of debt collection services and bad debt allowance and receivables written off increased by PLN 10.7 or 37.9%, to PLN 38.9 in 2014 from PLN 28.2 in 2013.

Other costs

Other costs increased by PLN 96.8, or 84.0%, to PLN 212.1 in 2014 from PLN 115.3 in 2013. Excluding the effect of consolidation of the results of Metelem Group, other costs increased by PLN 33.9 or 29.4%, to PLN 149.2 in 2014 from PLN 115.3 in 2013. This change is mainly the result of a higher value of licenses sold due to the sale of marketing and broadcasting rights to the FIVB Volleyball Men's World Championship Poland 2014, which were partially compensated by a fall in the cost of SMART cards delivered to our customers.

Other operating income/costs, net

Other operating income, net decreased by PLN 27.2 or 73.9%, to PLN 9.6 in 2014 from PLN 36.8 in 2013. Excluding the effect of consolidation of the results of Metelem Group, other operating income net decreased by PLN 13.3, or 36.1%, to PLN 23.5 in 2014 from PLN 36.8 in 2013 mainly due to the one-time recognition of profit from the sale of RS TV S.A. in 2013.

Gains/losses on investment activities, net

Net gains on investment activities decreased by PLN 0.9, or 5.6%, to PLN 15.2 in 2014 from PLN 16.1 in 2013. Excluding the effect of consolidation of the results of Metelem Group, net gains on investment activities decreased by PLN 10.7, or 66.5%, to PLN 5.4 in 2014 from PLN 16.1 in 2013, mainly due to the recognition of foreign exchange costs in 2014 compared to foreign exchange profits in 2013, which were partially compensated by profit recognized from USD forward transactions and higher interest revenue.

Finance costs

Finance costs amounted to PLN 1,146.0 in 2014 and increased by PLN 930.0, or 430.6%, compared to PLN 216.0 in 2013. Excluding the effect of consolidation of the results of Metelem Group, finance costs increased by PLN 78.3, or 36.3%, to PLN 294.3 in 2014 from PLN 216.0 in 2013. This increase is the net effect of: (i) incurred bank charges in the amount of PLN 82.1 related to the premature redemption of the EUR 350 million Senior Notes, issued in 2011; (ii) higher interest costs on the Term Loan and Revolving Facility Loan under the Senior Facilities Agreement concluded in April 2014; (iii) lower interest costs on our previous term loan granted under the Senior Facilities Agreement concluded in 2011 due to lower principal pursuant to the scheduled and additional payments, interest payments at a lower WIBOR rate and premature repayment of the debt, (iv) lower interest costs on Senior Notes compared to 2013; and (v) recognition of lower costs of valuation and settlement of hedging instruments.

Net profit

Net profit decreased by PLN 233.0, or 44.3%, to PLN 292.5 in 2014 from PLN 525.5 in 2013. Excluding the effect of consolidation of the results of Metelem Group, net profit decreased by PLN 113.8, or 21.7%, to PLN 411.7 in 2014 from PLN 525.5 in 2013 due to higher operating and financial costs, described above.

EBITDA & EBITDA margin

EBITDA increased by PLN 1,692.0 or 161.7%, to PLN 2,738.3 in 2014 from PLN 1,046.3 in 2013. EBITDA margin increased to 37.0% in 2014 from 35.9% in 2013. Excluding the effect of consolidation of the results of Metelem Group, EBITDA decreased by PLN 22.9, or 2.2%, to PLN 1,023.4 in 2014 from PLN 1,046.3 in 2013. EBITDA margin decreased to 32.8% in 2014 from 35.9% in 2013.

Employment

The average employment of permanent workers not engaged in production in Cyfrowy Polsat Group, excluding workers who did not perform work in the reporting period due to long-term absences, was 3,830 full-time equivalents in 2014, as compared to 1,413 full-time equivalents in the corresponding period of 2013. The increase in employment in 2014 was due to the acquisition of Metelem and its subsidiaries, Polkomtel in particular, as well as organic growth of business.

4.6.2. Operating segments

The Group operates in the following two segments:

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

The Group conducts its operating activities primarily in Poland.

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

Services to individual and business customers segment includes:

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

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

Management evaluates the operating segments' results based on EBITDA. The EBITDA reflects the Group's ability to generate cash in a stable environment. The Group defines EBITDA as profit from operating activities increased by

depreciation, amortization, impairment and liquidation. The EBITDA is not an EU IFRS measure and thus its calculations may differ among the entities.

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the year ended December 31, 2014:

the year ended December 31, 2014	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	6,289.8	1,120.1	-	7,409.9
Inter-segment revenues	36.3	138.0	(174.3)	-
Revenues	6,326.1	1,258.1	(174.3)	7,409.9
EBITDA (unaudited)	2,334.0	404.3	-	2,738.3
Depreciation, amortization, impairment and liquidation	1,259.3	36.6	-	1,295.9
Profit from operating activities	1,074.7	367.7	-	1,442.4
Acquisition of property, plant and equipment, reception equipment and other intangible assets	488.6*	41.8	-	530.4
Balance as at December 31, 2014				
Assets, including:	23,202.3	4,233.8**	(54.9)	27,381.2
Investments in joint ventures	-	3.2	-	3.2

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

** Includes non-current assets located outside of Poland in the amount of PLN 40.5.

All material revenues are generated in Poland.

It should be noted that the year ended December 31, 2014 is not comparable to the year ended December 31, 2013 as Polskie Media was acquired and RS TV was disposed on August 30, 2013 (both allocated to the Broadcasting and television production segment) and Metelem Holding Company Limited was acquired on May 7, 2014 (allocated to the Services to individual and business customers segment).

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the year ended December 31, 2013:

the year ended December 31, 2013	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	1,914.6	996.2	-	2,910.8
Inter-segment revenues	26.1	98.2	(124.3)	-
Revenues	1,940.7	1,094.4	(124.3)	2,910.8
EBITDA (unaudited)	667.9	378.4	-	1,046.3
Depreciation, amortization, impairment and liquidation	221.2	32.3	2.9	256.4
Profit/(loss) from operating activities	446.7	346.1	(2.9)	789.9
Acquisition of property, plant and equipment, reception equipment and other intangible assets	244.4*	39.9	-	284.3
Balance as at December 31, 2013				
Assets, including:	1,641.8	4,083.4**	(49.0)	5,676.2
Investments in joint ventures	-	3.2	-	3.2

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

** Includes non-current assets located outside of Poland in amount of PLN 46.8

Reconciliation of EBITDA and net profit for the period:

	for the year ended	
	December 31, 2014	December 31, 2013
EBITDA (unaudited)	2,738.3	1,046.3
Depreciation, amortization, impairment and liquidation	(1,295.9)	(256.4)
Profit from operating activities	1,442.4	789.9
Other foreign exchange rate differences, net	(23.8)	8.4
Interest income	50.8	10.5
Share of the profit of a joint venture accounted for using the equity method	2.6	2.9
Interest costs	(693.3)	(194.6)
Foreign exchange differences on issued bonds	(360.8)	(20.1)
Early redemption costs	(82.1)	-
Other	(21.6)	(4.1)
Gross profit for the period	314.2	592.9
Income tax	(21.7)	(67.4)
Net profit for the period	292.5	525.5

4.6.3. Balance sheet analysis

As at December 31, 2014 and December 31, 2013, our balance sheet amounted to PLN 27,381.2 and PLN 5,676.2 respectively.

Assets

As at December 31, 2014 and December 31, 2013, our non-current assets were PLN 23,398.6 and PLN 4,455.8, respectively, and accounted for 85.5% and 78.5% of the total assets respectively.

As at December 31, 2014 and December 31, 2013, our current assets amounted to PLN 3,982.6 and PLN 1,220.4, respectively, and accounted for 14.5% and 21.5% of the total assets respectively.

The value of reception equipment amounted to PLN 421.1 as at December 31, 2014 and increased by PLN 13.5, or 3.3%, compared to PLN 407.6 as at December 31, 2013 in consequence of the increase in the number of devices for TV reception, internet sets and routers provided to our customers under operational leasing.

The value of other property, plant and equipment amounted to PLN 2,961.6 as at December 31, 2014 compared to PLN 251.1 as at December 31, 2013, which constitutes an increase of PLN 2,710.5, or 1,079.5%. Excluding the effect of consolidation of Metelem Group, the value of other property, plant and equipment increased by PLN 13.3, or 5.3%, to PLN 264.4 as at December 31, 2014 from PLN 251.1 as at December 31, 2013, mainly as a result of capital expenditure in TV Polsat Group on property, plant and equipment, in particular television and broadcasting equipment, and the purchase of technical equipment within the scope of the IT systems development project conducted at Cyfrowy Polsat.

The value of goodwill increased by PLN 8,224.0, or 316.0%, to PLN 10,826.8 as at December 31, 2014 from PLN 2,602.8 as at December 31, 2013, as a result of the acquisition of shares in Metelem.

The value of customer relationships amounted to PLN 4,145.8 as at December 31, 2014 compared to PLN 0 as at December 31, 2013. The key component of this position are Polkomtel's relationships with individual and business customers, who have signed term agreements with the operator as well as customers of prepaid services.

As at December 31, 2014, the value of brands increased by PLN 906.3, or 101.7%, to PLN 1,797.1 as at December 31, 2014 from PLN 890.8 as at December 31, 2013. This increase results from the determination and recognition of the value of the 'Plus' brand.

The value of other intangible assets amounted to PLN 2,591.4 as at December 31, 2014 which constitutes an increase of PLN 2,454.0 compared to PLN 137.4 as at December 31, 2013. Excluding the effect of consolidation of Metelem Group, the

value of other intangible assets amounted to PLN 139.2 as at December 31, 2014 and remained at a relatively unchanged level compared to the balance as at December 31, 2013.

The value of non-current and current programming assets increased by PLN 35.0, or 13.8%, to 287.9 as at December 31, 2014 from PLN 252.9 as at December 31, 2013. The increase was mainly due to the purchase of additional sports and film rights, which translates into higher attractiveness of our programming offer and therefore has a positive impact on the viewership results of our channels.

Investment property amounted to PLN 5.3 as at December 31, 2014 and remained almost unchanged compared to the balance as at December 31, 2013. This position concerns only investment property belonging to TV Polsat.

The value of non-current and current deferred distribution fees increased by PLN 123.1, or by 123.6%, to PLN 222.7 as at December 31, 2014 from PLN 99.6 as at December 31, 2013. Excluding the effect of consolidation of Metelem Group, the value of non-current and current deferred distribution fees increased by PLN 10.1 to PLN 109.7 as at December 31, 2014 from PLN 99.6 as at December 31, 2013.

The value of other non-current assets amounted to PLN 198.5 as at December 31, 2014 and increased by PLN 177.7, or 854.3%, compared to PLN 20.8 as at December 31, 2013. Excluding the effect of consolidation of Metelem Group, the value of other non-current assets amounted to PLN 43.9 as at December 31, 2014 and increased by PLN 23.1, or 111.1%, compared to PLN 20.8 as at December 31, 2013.

The value of deferred tax assets amounted to PLN 234.2 as at December 31, 2014, which constitutes an increase of PLN 195.3 or 502.1%, compared to PLN 38.9 as at December 31, 2013. This increase is primarily the result of recognition of deferred tax on the valuation to fair value of the PLK Senior Notes in connection with the acquisition of Metelem Group.

The value of inventories was PLN 301.4 as at December 31, 2014 and increased by PLN 154.6, or 105.3%, from PLN 146.8 as at December 31, 2013, mainly due to the increase in the stock of telephones and modems following the acquisition of Metelem Group.

The value of trade and other receivables increased by PLN 1,079.0, or 288.2%, to PLN 1,453.4 as at December 31, 2014 from PLN 374.4 as at December 31, 2013, which was mainly due to the acquisition of Metelem Group. Excluding the effect of consolidation of Metelem Group, the change resulted from higher trade receivables from third parties in TV Polsat Group for advertising, sponsorship and distribution of thematic channels as well as higher public receivables.

The value of other current assets amounted to PLN 160.1 as at December 31, 2014, which constitutes an increase of PLN 54.7, or 51.9%, compared to PLN 105.4 as at December 31, 2013. Excluding the effect of consolidation of Metelem Group, the value of other current assets decreased by PLN 101.1, or 95.9%, to PLN 4.3 as at December 31, 2014 from PLN 105.4 as at December 31, 2013, primarily due to the consumption of a significant part of data packages acquired in accordance with agreements with Mobyland concluded in September 2012 and March 2014.

The value of cash and cash equivalents, restricted cash and short-term deposits increased by PLN 1,405.7, or 410.8%, to PLN 1,747.9 as at December 31, 2014 from PLN 342.2 as at December 31, 2013. This increase is the result of including the cash of Metelem Group in the amount of PLN 1,622.7 (including restricted cash in the amount of PLN 12.6).

Equity and liabilities

Equity increased by PLN 6,140.4, or by 204.6%, to PLN 9,141.6 as at December 31, 2014 from PLN 3,001.2 as at December 31, 2013. This change is mainly the result of: (i) the increase of the share capital of the Company by PLN 11.7 by way of issue of 291,193,180 shares and the share premium adjusted by the cost of issue in the amount of PLN 5,942.3, (ii) profit generated for the period ended December 31, 2014 in the amount of PLN 292.5, (iii) dividend payment in the amount of PLN 102.9, and (iv) a change in the valuation of hedging instruments by PLN -3.2.

As at December 31, 2014 and December 31, 2013 the value of our non-current liabilities amounted to PLN 14,072.4 and PLN 1,700.2, which constituted 77.2% and 63.6% of the Group's total liabilities, respectively.

As at December 31, 2014 and December 31, 2013 the value of our current liabilities amounted to PLN 4,167.2 and PLN 974.8, which constituted 22.8% and 36.4% of the Group's total liabilities, respectively.

Loans and borrowings (long and short-term) increased by PLN 8,520.2 to PLN 9,006.1 as at December 31, 2014 from PLN 485.9 as at December 31, 2013. Excluding the effect of consolidation of Metelem Group, the value of long and short-term loans and borrowings increased by PLN 1,907.4 to PLN 2,393.3 as at December 31, 2014 from PLN 485.9 as at December 31, 2013, mainly due to the new Term Loan granted pursuant to the Senior Facilities Agreement of April 11, 2014, which was partially used to repay the debt under the senior facility agreement of 2011.

Senior Notes liabilities (long and short-term) increased by PLN 3,575.9 or by 248.6%, to PLN 5,014.6 as at December 31, 2014 from PLN 1,438.7 as at December 31, 2013 due to the take-over of Metelem Group's liabilities under Senior Notes agreements. Concurrently, Senior Notes issued in 2011 by Polsat Group were redeemed in the analyzed period.

Finance lease liabilities (long and short-term) increased by PLN 18.1 to PLN 18.5 as at December 31, 2014 from PLN 0.4 as at December 31, 2013. Excluding the effect of consolidation of Metelem Group, finance lease liabilities (long and short-term) remained at a relatively unchanged level compared to the state as at December 31, 2014.

UMTS license liabilities (long and short-term) amounted to PLN 867.4 as at December 31, 2014 compared to PLN 0 as at December 31, 2013. This item applies only to Metelem Group.

Deferred income tax liabilities increased by PLN 779.7 to PLN 887.8 as at December 31, 2014 from PLN 108.1 as at December 31, 2013, primarily due to the consolidation of Metelem Group and concerned mainly deferred income tax liabilities resulting from including Polkomtel's customer relationships in the Group's balance sheet.

Non-current and current deferred income increased by PLN 475.0, or by 222.4%, to PLN 688.6 as at December 31, 2014 from PLN 213.6 as at December 31, 2013 primarily due to the consolidation of Metelem Group. Excluding the effect of consolidation of Metelem Group, non-current and current deferred income increased slightly as at December 31, 2014 due to advance payments for subscription fees.

The value of other non-current liabilities and provisions amounted to PLN 184.2 as at December 31, 2014, which constitutes an increase of PLN 176.3, or 2,231.6%, compared to PLN 7.9 as at December 31, 2013. Excluding the effect of consolidation of Metelem Group, the value of other non-current liabilities and provisions increased by PLN 12.1, or 153.2%, to PLN 20.0 as at December 31, 2014 from PLN 7.9 as at December 31, 2013, primarily due to an increase in the value of deposits made by distributors.

The value of trade and other payables amounted to PLN 1,523.0 as at December 31, 2014 which constitutes an increase of PLN 1,109.8, or 268.6%, compared to PLN 413.2 as at December 31, 2013, primarily due to the consolidation of Metelem Group.

Income tax liabilities increased by PLN 43.5 to PLN 48.0 as at December 31, 2014 from PLN 4.5 as at December 31, 2013.

4.6.4. Cash flow analysis

The table below presents selected data from the consolidated cash flow statement for the 12-month periods ended December 31, 2014 as well as 2013. All data is expressed in millions PLN.

	Data including group Metelem for the 12-month period ended December 31		Data excluding group Metelem for the 12-month period ended December 31	
	2014	2013	2014	2013
Net cash from operating activities	1,973.9	802.7	705.9	802.7
Net cash from/(used in) investing activities	972.8	(133.8)	(996.6)	(133.8)
Net cash (used in)/from financing activities	(1,542.9)	(596.5)	72.6	(596.5)
Net increase/(decrease) in cash and cash equivalents	1,403.8	72.4	(218.1)	72.4

Net cash from operating activities

Net cash from operating activities amounted PLN 1,973.9 in 2014, which constitutes an increase of PLN 1,171.2, or 145.9%, compared to PLN 802.7 in 2013.

Excluding the effect of consolidation of Metelem Group, net cash from operating activities amounted PLN 705.9 in 2014 and decreased by PLN 96.8 compared to net cash from operating activities generated in 2013. The decrease in net cash from operating activities was mainly the result of lower net profit in the amount of PLN 411.7 generated in 2014 adjusted by a series of factors, the most significant being:

- higher payments for film licenses and sport broadcasting rights;
- higher costs of depreciation, amortization, impairment and liquidation related to increased costs of depreciation of reception equipment leased to our customers;
- amortization of film licenses and sport broadcasting rights;
- an increase of net additions of reception equipment provided under operating lease;
- lower interest costs;
- an increase in liabilities, provisions and deferred income in 2014 compared to a decrease in liabilities, provisions and deferred income in 2013;
- an increase in receivables and other assets in 2014 compared to a decrease in receivables and other assets in 2013;
- lower income tax and higher value of income tax paid;
- higher value of programming assets sold;
- greater decrease of inventories in 2014 compared to the decrease in inventories in 2013;
- lower costs related to foreign exchange differences recognized in 2014 compared to 2013, primarily due to valuation of senior notes;
- lower gains on sale of property, plant and equipment and intangible assets due to the recognition of profit from the sale of RS TV S.A. in 2013.

Net cash from/(used in) investing activities

Net cash from investing activities amounted to PLN 972.8 in 2014 and comprises primarily cash in the amount of PLN 1,800.4 taken over in consequence of the acquisition of Metelem, adjusted by a one-time payment by Polkomtel in the amount of PLN 365.4 related to the extension of a reservation decision in the 1800 MHz frequency band for the next 15 years and by expenditure on the purchase of property, plant and equipment, and intangible assets (in the amount of PLN 335.4).

Excluding the effect of consolidation of Metelem Group, net cash from investing activities amounted to PLN 996.6 in 2014, which constitutes an increase of PLN 862.8 compared to PLN 133.8 in 2013. This position concerns mainly the expenditure related to the acquisition of shares in Metelem as well as expenditure on the purchase of property, plant and equipment, and intangible assets (in the amount of PLN 115.4).

Net cash used in finance activities

Net cash used in financing activities amounted to PLN 1,542.9 in 2014 compared to PLN 596.5 in 2013, and primarily resulted from:

- the Term Loan and Revolving Facility Loan granted pursuant to the Senior Facilities Agreement of April 11, 2014;
- the redemption of the Senior Notes issued in 2011 and PIK Notes;
- the repayment of the term loan granted under the Senior Facilities Agreement of 2011;
- repayments according to schedule of the Term Loan under the Senior Facilities Agreement of 2014;
- the partial repayment of the Revolving Facility Loan under the Senior Facilities Agreement of 2014;
- partial early prepayment of the PLK Term Loan;
- the payment of interest on loans, bonds, Cash Pool, financial leasing and paid fees; and
- dividend payment.

Capital expenditure on the purchase of property, plant and equipment and intangible assets, and payments for telecommunication concessions

In 2014 cash expenditures of Cyfrowy Polsat Group on the purchase of property, plant and equipment and intangible assets increased by PLN 212.6, or 173.1%, to PLN 335.4 from PLN 122.8 in 2013. Excluding the effect of consolidation of the results of Metelem Group, our cash expenditures on the purchase of property, plant and equipment and intangible assets amounted to PLN 115.3 in 2014 and remained at a similar level compared to 2013.

Cash expenditures on the purchase of property, plant and equipment and intangible assets in Cyfrowy Polsat Group, Metelem Group included, comprised among others, the continued extension of telecommunications networks, those based on LTE/HSPA+ technologies in particular in order to accommodate the increasing volume of data transmission and to ensure the highest quality of services, expected by our customers, investments related to the development of our offer, sales and customer service process and the purchase of additional equipment to meet the needs of TV Polsat.

Additionally, in 2014 the Group incurred cash expenditure in connection with payments for telecommunication concessions in the amounts of:

- PLN 365.4 as a one-off payment for the extension of the validity of the concession to use the 1800 MHz band for the next 15 years;
- PLN 116.9 (equivalent of EUR 28) related to the annual installment for the concession to use the 2100 MHz band (UMTS), purchased by Polkomtel in 2001.

4.6.5. Liquidity and capital resources

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

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

The table below presents a summary of the indebtedness of the Group as at December 31, 2014.

	Balance value [mPLN]	Nominal value [mPLN]	Coupon / interest	Maturity date
CP Term Facility (PLN)	2,293.3	2,330.0	WIBOR + margin	2019
CP Revolving Facility Loan	100.0	100.0	WIBOR + margin	2019
PLK Term Loan – Tranche A(PLN)	1,937.0	1,944.3	WIBOR + margin	2017
PLK Term Loan – Tranche B (PLN)	3,077.2	3,095.6	WIBOR + margin	2018
PLK Term Loan – Tranche C (PLN)	1,598.6	1,610.1	WIBOR + margin	2019
PLK Revolving Facility Loan	-	-	WIBOR + margin	2017
PLK Senior Notes (EUR) ¹⁾	2,859.5	2,312.3	11.75%	2020
PLK Senior Notes (USD) ²⁾	2,155.1	1,753.6	11.63%	2020
Leasing	18.5	18.5	-	-
Cash and cash equivalents ³⁾	1,747.9	1,747.9	-	-
Net debt	12,291.3	11,416.5	-	-
EBITDA LTM, pro-forma ⁴⁾	3,787.2	3,787.2	-	-
Net debt / EBITDA 12M	3.2	3.0	-	-

1) Equivalent of the nominal value of EUR 542.5m, translated at the average PLN/EUR foreign exchange rate of the Polish National Bank of 4.2623 as at December 31, 2014. Balance value estimated to fair value at the moment of purchase of Metelem.

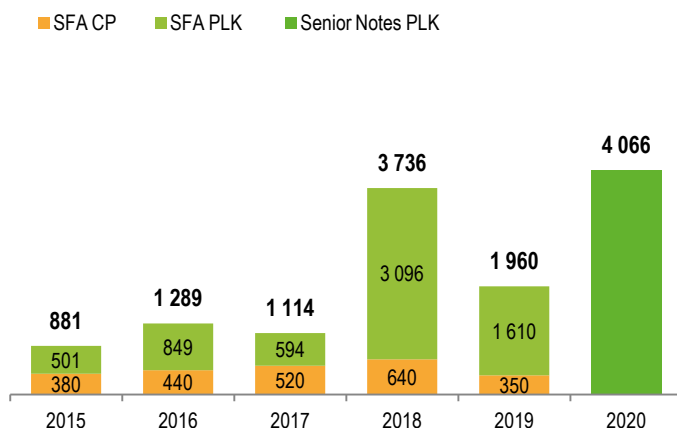
2) Equivalent of the nominal value of USD 500m, translated at the average PLN/USD foreign exchange rate of the Polish National Bank of 3.5072 as at December 31, 2014. Balance value estimated to fair value at the moment of purchase of Metelem.

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

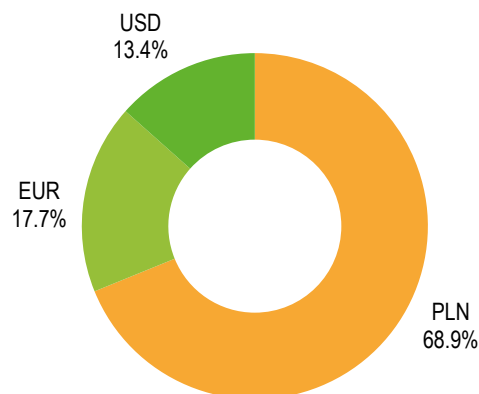
4) EBITDA LTM, pro-forma, including the consolidated pro-forma EBITDA of Cyfrowy Polsat Group assuming the consolidation of Metelem Group results over the period of the last 12 months.

The graphs below present the aging balance of the Group's debt and its currency composition, expressed in nominal values, as at December 31, 2014 (excluding the debt stemming from the Revolving Facility Loan).

Aging balance of our debt [mPLN]



Currency composition of our indebtedness



Senior Facilities Agreement executed by Cyfrowy Polsat

On April 11, 2014 the Company, acting as the borrower, together with Telewizja Polsat, Cyfrowy Polsat Trade Marks, Polsat License Ltd. and Polsat Media Biuro Reklamy entered into a Senior Facilities Agreement with a syndicate of Polish and foreign banks.

The Senior Facilities Agreement envisages granting a term facility loan up to a maximum amount of PLN 2,500.0 ('Term Facility') and a multicurrency Revolving Facility Loan up to a maximum amount of the equivalent of PLN 500.0 ('Revolving Facility Loan').

The Term Facility bears interest at a variable rate being the sum of the WIBOR rate for an appropriate interest period and the applicable margin, whereas the Revolving Facility Loan bears interest at a variable rate being the sum of, depending on currency of the debt, the WIBOR, EURIBOR or LIBOR rate for the appropriate interest period and the applicable margin. The margin on the Term Facility and the Revolving Facility Loan will depend on the level of the 'total leverage' ratio in such way that the lower it is, the lower the margin. The Term Facility will be repaid in quarterly installments of variable value, starting on June 30, 2014, with the final debt repayment date being April 11, 2019. The final date for the repayment of the full amount of the Revolving Facility Loan will also be April 11, 2019.

As at December 31, 2014, we used PLN 100.0 from the Revolving Facility Loan.

The receivables of the Company and the remaining debtors under the aforementioned facilities are secured by security interests established by the Company and other entities. In particular, such security interests include registered pledges over a collection of movables and property rights of a variable composition, constituting elements of the business enterprise of the Company and other appropriate entities, registered and financial pledges over shares in the Company's subsidiaries, the assignment of rights as security, mortgages, notarial representations on submission to enforcement and similar securities established upon shares in or assets of the Company's subsidiaries which are governed by foreign law. A detailed description of established securities is provided in item 4.6.6 - *Information on guarantees granted by the Company or subsidiaries*.

The Term Facility and the Revolving Facility Loan were used by the Company in particular:

- (i) for repaying the whole indebtedness arising from or referred to in the following documents: (i) the senior facilities agreement of March 31, 2011, as amended, entered into between the Company (as the borrower) and certain

financing parties; and (ii) the Indenture of May 20, 2011 concerning the issuance of debt securities and relating to Senior Secured Notes;

(ii) for repaying the whole indebtedness arising from or referred to in the PIK Notes Indenture of February 17, 2012; and

(iii) for the purpose of financing current operations of the Group.

The Senior Facilities Agreement provides, inter alia, for a possibility of: (i) the utilization of the aforementioned Facilities for the repayment of indebtedness under an Indenture of February 17, 2012 relating to PIK Notes (pay-in-kind notes) issued by Eileme 1; and (ii) the financing of acquisitions and other distributions permitted by the Senior Facilities Agreement.

Under the terms of the Senior Facilities Agreement, if the total leverage ratio stays below the threshold defined in the agreement, the Company will have the right to contract further facilities. Terms of such further facilities will be determined each time in an additional facility accession deed executed to contract such facility, but the repayment date of the additional facility may not be shorter than six months of the final repayment of the Term Facility Loan and the Revolving Facility Loan.

The sale of all or a substantial part of the Group companies or the Group's assets will also accelerate the existing debt.

The Senior Facilities Agreement is governed by English law, and any disputes arising in connection with the agreement are to be resolved within the exclusive jurisdiction of English courts. However, the governing law clause permits creditors to instigate proceedings before any court having relevant jurisdiction.

PLK Senior Facilities Agreement

On June 17, 2013 Polkomtel, Eileme 2, Eileme 3, and Eileme 4 executed the PLK Senior Facilities Agreement with a consortium of Polish and international banks and financial institutions, including Bank Polska Kasa Opieki S.A., Bank Zachodni WBK S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Powszechny Zakład Ubezpieczeń S.A.; the agreement was subsequently joined by certain subsidiaries of Polkomtel.

The PLK Senior Facilities Agreement provides for PLK Term Loans A, B and C of up to PLN 2,650.0, PLN 3,300.0 and PLN 1,700.0, respectively, as well as a revolving loan facility (PLK Revolving Facility Loan) of up to PLN 300.0. Interest rates of the PLK Term Loans and the PLK Revolving Facility Loan are variable rates being the sum of: WIBOR rate for the respective interest periods (and in the case of the PLK Revolving Facility Loan – also EURIBOR or LIBOR, depending on the currency in which the debt under the revolving facility was contracted) and a margin. Term Loan Facility A should be repaid in varying quarterly installments, starting on March 31, 2014. Term Loan Facility B and C should be repaid on June 24, 2018 and June 24, 2019, respectively. The final repayment date for Term Loan Facility A and the PLK Revolving Facility Loan is November 30, 2017. As at December 31, 2014, no amounts had been drawn under the PLK Revolving Facility Loan.

The PLK Senior Facilities Agreement provides for a mandatory prepayment of the debt in the amount of: (i) 50%-75% of the funds obtained as a result of admission of specific companies' shares to trading on a regulated market (if net debt/EBITDA is equal to or greater than 2.25); (ii) 25%-75% of the generated cash flow surplus in a given financial year (if net debt/EBITDA is equal to or greater than 3.0); (iii) certain proceeds from the sale of assets in transactions in excess of PLN 50.0 for all transactions combined (in a given financial year of Eileme 2); and (iv) certain proceeds from insurance policies.

Furthermore, pursuant to the PLK Senior Facilities Agreement, voluntary repayment of debt under the PLK Senior Notes, if the net debt/EBITDA ratio for the preceding quarter is above 2.25:1, can only proceed concurrently with the repayment of debt under the term facilities, using exclusively the surplus cash flows which have not been allocated to the mandatory debt prepayment. The company is authorized to make voluntary prepayments in the minimum amount determined in the PLK Senior Facilities Agreement.

On December 29, 2014 Polkomtel made an early prepayment of part of the PLK Term Loan in the amount of PLN 200.

The PLK Senior Facilities Agreement imposes on subsidiaries of Metelem, which are parties to the agreement, restrictions in respect of: (i) acquiring or subscribing for shares (or other participation units), in particular as part of mergers and acquisitions or joint-venture investments, (ii) selling or encumbering assets, (iii) issuing guarantees or sureties, (iv) advancing loans or other debt instruments, (v) significantly changing the principal business activity, (vi) incurring new debt and issuing shares, and (vii) distributing funds (including the payment of dividend, redemption or repurchase of own shares, other cash transfers, payment of certain debt and interest, payment of remuneration for management or advisory services, prepayments

and other payments to related parties); and (viii) repayment of the debt under the PLK Senior Notes and amendments to the terms of the related documents.

In addition, the PLK Senior Facilities Agreement imposes additional obligations on subsidiaries of Metelem, which are parties to the agreement, such as the obligation to hedge interest rate and currency exchange risks in respect of a specific part of the debt under the PLK Senior Facilities Agreement and the PLK Senior Notes issue, the obligation to maintain specific insurance policies, or the obligation to provide intellectual property protection. Under the PLK Senior Facilities Agreement, change of control of Polkomtel, understood as the change of control within the meaning of the PLK Senior Notes Indenture, or the PIK Notes Indenture, disruption in continuity of the full control between Eileme 1 and Polkomtel, the loss of holding, under various conditions, of from 30% to 50% of the share capital of Eileme 2, or the overall number of votes at Eileme 2 shareholders meeting by Mr. Zygmunt Solorz-Żak (or a person related to him), or acquisition by another entity of a greater share in the share capital, or the overall number of votes at Eileme 2 shareholders meeting, will result in the debt under the PLK Senior Facilities Agreement, including the accruing interest, becoming immediately due and payable. The sale of all or a substantial part of Metelem's subsidiaries or assets of Metelem or its subsidiaries will also result in the necessity of immediate repayment of the existing debt.

Metelem and its subsidiaries issued guarantees and established a number of encumbrances over assets belonging to Metelem and its subsidiaries in favor of the Security Agent of the PLK Senior Facilities Agreement in order to secure the repayment of claims under the PLK Senior Facilities Agreement (for a detailed description of established securities see item 4.6.6 - *Information on guarantees granted by the Company or subsidiaries*).

The PLK Senior Facilities Agreement is governed by English law, and any disputes arising in connection with the agreement are resolved within the exclusive jurisdiction of English courts. However, the governing law clause permits creditors to instigate proceedings before any court having relevant jurisdiction.

PLK Senior Notes

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

On or after January 31, 2016, Eileme 2 AB publ may redeem all or a part of the Senior Notes EURO and/or Senior Notes USD at the redemption price (expressed as percentages of principal amount) set out below plus accrued and unpaid interest on the notes redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on January 31 of the years indicated below, subject to the rights of holders of notes on the relevant record date to receive interest on the relevant interest payment date: (i) in 2016 the redemption price is 105.875% for Senior Notes EURO and 105.813% for Senior Notes USD, (ii) in 2017 the redemption price is 102.938% for Senior Notes EURO and 102.906% for Senior Notes USD and (iii) thereafter the redemption price is 100.000% both for Senior Notes EURO and Senior Notes USD. Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on the notes (or portions thereof) called for redemption on the applicable redemption date.

Pursuant to the PLK Senior Notes Indenture, the interest on the PLK Senior Notes accrues on the assumption that a year is 360 days, or 12 months of 30 days each. The interest on the PLK Senior Notes is 11.75% (EUR tranche) and 11.625% (USD tranche) per year, paid semi-annually, in arrears, on January 31 and July 31.

To hedge future cash flows on scheduled interest payments under EUR-denominated PLK Senior Notes, Metelem and its subsidiaries executed cross currency interest rate swap (CIRS) and forward transactions.

The PLK Notes Indentures restrict i.a. the right of Eileme 1 and Eileme 2 (and their subsidiaries covered by the restriction) to: (i) contract additional debt; (ii) make certain reserved payments (e.g. payments in favor of related parties as dividend or for repurchase of their shares); (iii) transfer or sell assets; (iv) execute transactions with related parties; (v) establish certain encumbrances or take actions which could materially and adversely affect the security established in favor of the PLK Senior Notes holders; (vi) impose restrictions on the right to pay the dividend, and make other payments by subsidiaries covered by the restriction; (vii) issue guarantees by subsidiaries covered by the restriction; (viii) combine with other entities.

In addition, under the PLK Senior Notes Indenture, additional obligations are binding on Eileme 2 (and its subsidiaries covered by the restriction), i.a. regarding the maintenance of corporate existence, and maintenance of the PLK Senior Notes listing on the Luxembourg Stock Exchange.

In the event of change of control (as defined in the agreement), Eileme 2 is required to make a repurchase offer for all PLK Senior Notes on the terms set forth in the PLK Senior Notes Indenture. In the event of change of control Eileme 2 will offer cash payment equal to 101% of the total nominal amount of the repurchased PLK Senior Notes, inclusive of interest, due but not paid until the repurchase date, on the repurchased PLK Senior Notes (subject to the rights of the PLK Senior Notes holders, inuring to them at the date of determining those rights, to receive interest at the relevant interest payment date).

Metelem and its subsidiaries issued guarantees and established a number of encumbrances over their assets in favor of the Security Agent of the PLK Senior Notes Indenture in order to secure the repayment of claims under the PLK Senior Notes Indenture (for a detailed description of established securities see item 4.6.6 - *Information on guarantees granted by the Company or subsidiaries*).

The PLK Senior Notes are listed on the Luxembourg Stock Exchange.

The PLK Senior Notes and the PLK Senior Notes Indenture are governed by the law of the state of New York in the United States of America, while any disputes arising in connection with the agreement or the PLK Senior Notes are resolved within the non-exclusive jurisdiction of the courts in Manhattan, New York

Contractual obligations

Commitments to purchase programming assets

As at December 31, 2014 the Group had outstanding contractual commitments in relation to purchases of programming assets. The table below presents a maturity analysis for such commitments:

	December 31, 2014	December 31, 2013
within one year	117.0	190.3
between 1 to 5 years	104.4	80.5
Total	221.4	270.8

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

	December 31, 2014	December 31, 2013
within one year	13.6	18.2
Total	13.6	18.2

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of property, plant and equipment was PLN 203.7 as at December 31, 2014 (PLN 5.4 as at December 31, 2013). Total amount of contractual liabilities resulting from agreements for the purchases of intangible assets as at December 31, 2014 was PLN 72.1 (PLN 26.8 as at December 31, 2013).

Ratings

The table below presents a summary of ratings assigned to certain companies of our Capital Group as at the date of publication of this Report.

	Moody's Investor Services			Standard & Poor's Rating Services		
	Rating / perspective	Previous rating/ perspective	Update	Rating / perspective	Previous rating/ perspective	Update
CYFROWY POLSAT						
Corporate rating	Ba3 /stable	Ba2/stable	13.05.2014	BB/stable	BB/stable	30.04.2014
Term Facility Revolving Facility Loan	-	-	-	BB/stable	-	30.04.2014
METELEM						
Corporate rating	-	-	-	BB/stable	BB-/stable	30.04.2014

	Moody's Investor Services			Standard & Poor's Rating Services		
	Rating / perspective	Previous rating/ perspective	Update	Rating / perspective	Previous rating/ perspective	Update
EILEME 2						
Corporate rating	Ba3/stable	B1/stable	13.05.2014	-	-	-
PLK Senior Notes (EUR 542.2m)	B2/stable	B3/stable	13.05.2014	B+/ stable	B/ stable	30.04.2014
PLK Senior Notes (USD 500m)	B2/stable	B3/stable	13.05.2014	B+/ stable	B/ stable	30.04.2014

4.6.6. Information on guarantees granted by the Company or subsidiaries

Securities related to the Senior Facilities Agreement executed by Cyfrowy Polsat

A number of encumbrances over assets of the Group were established by the Group companies in favor of UniCredit Bank AG, London Branch, acting as Security Agent, to secure the repayment of claims under the Senior Facilities Agreement of April 11, 2014.

- (i) registered pledges over variable collections of movable property and rights comprised in enterprises of the Company, Cyfrowy Polsat Trade Marks, Polsat Media Biuro Reklamy and Telewizja Polsat;
- (ii) financial and registered pledges on shares of Metelem, governed by Cypriot law, as well as on shares of Cyfrowy Polsat Trade Marks and Telewizja Polsat, governed by Polish law, with power of proxy to exercise corporate rights attached to shares in those companies;
- (iii) financial and registered pledges over receivables under bank account agreements of the Company, Cyfrowy Polsat Trade Marks, Polsat Media Biuro Reklamy and Telewizja Polsat, governed by Polish law;
- (iv) powers of attorney to bank accounts of the Company, Cyfrowy Polsat Trade Marks, Polsat Media Biuro Reklamy and Telewizja Polsat, governed by the Polish law;
- (v) ordinary and registered pledges on protective rights on trademarks vested in Polsat Brands (*einfache Gesellschaft*), governed by the Polish law;
- (vi) assignment by way of security of property rights in Polsat Media Biuro Reklamy, governed by Polish law;
- (vii) joint contractual mortgage under the Polish law on real properties owned by the Company;
- (viii) assignment by way of security of receivables under hedging agreements payable to the Company, governed by English law;
- (ix) assignment by way of security of rights under insurance of the assets referred to in item (i) and (vii) above;
- (x) pledge over shares in Polsat Licence Ltd., governed by Swiss law;
- (xi) assignment by way of security of (a) receivables due from various debtors; (b) receivables and rights under bank account agreements; and (c) rights under insurance contracts for the benefit of Polsat License Ltd, governed by Swiss law;
- (xii) assignment by way of security of receivables under the license agreement executed by Polsat Brands (*einfache Gesellschaft*) and Polsat License Ltd., and rights under bank account agreements, governed by Swiss law;
- (xiii) pledge over rights attached to the shares and property rights in Polsat Brands (*einfache Gesellschaft*), governed by Swiss law; and
- (xiv) representations on submission to enforcement under a notarial deed, made by the Company, Cyfrowy Polsat Trade Marks, Polsat Media Biuro Reklamy and Telewizja Polsat, governed by Polish law;

Additionally, the Company, Cyfrowy Polsat Trade Marks, Polsat Media Biuro Reklamy, Telewizja Polsat and Polsat License Ltd. granted certain guarantees to each party of the Senior Facilities Agreement and other finance documents executed in relation to the Senior Facilities Agreement, governed by the English law, with respect to the following:

- (i) timely performance of the obligations under the Senior Facilities Agreement and other finance documents executed in relation to the Senior Facilities Agreement;
- (ii) payment of any monies due under the Senior Facilities Agreement and other finance documents executed in relation to the Senior Facilities Agreement; and
- (iii) indemnifying the financing parties referred to above against any costs and losses that they may incur in relation to the unenforceability, ineffectiveness or invalidity of any obligation secured by the said guarantees.

Securities related to the PLK Senior Facilities Agreement and PLK Senior Notes

A number of encumbrances over assets of Metelem and its subsidiaries were established by Polkomtel and its related parties in favor of Citicorp Trustee Company Limited, acting as security agent, to secure the repayment of debt under the PLK Facilities Agreement and the PLK Senior Notes. The following security over assets of Metelem and its subsidiaries was established as at the date of publication of this Report:

- (i) financial and registered pledges over shares of Polkomtel, Polkomtel Business Development, Nordisk Polska, Plus TM Group, Plus TM Management and shares of Liberty Poland S.A., Plus TM Group SKA, New Media Ventures Sp. z o.o. and Paszport Korzyści Sp. z o.o. governed by Polish laws;
- (ii) pledges over shares of LTE Holdings, Polkomtel Finance, Eileme 2, Eileme 3 and Eileme 4, governed by the laws of the companies' respective jurisdictions;
- (iii) registered pledges over various objects and rights comprising corporate assets of the following companies: Polkomtel, Plus TM Group SKA, Plus TM Group and Plus TM Management, governed by Polish laws;
- (iv) registered pledges and civil-law pledges over rights to trademarks owned by Plus TM Group SKA, governed by Polish laws;
- (v) financial pledges and registered pledges over receivables under bank account agreements of the following companies: Polkomtel, Eileme 3, Eileme 4, Plus TM Group SKA, Plus TM Group, Plus TM Management, governed by Polish laws;
- (vi) pledges over receivables under bank account agreements of the following companies: Eileme 3, Eileme 4, governed by Swedish laws;
- (vii) financial and registered pledges over Series D and E, as well as Series F Notes (intragroup bonds issued by Metelem subsidiaries), governed by Polish laws;
- (viii) financial and registered pledges over series 1/2014 Notes, issued on July 7, 2014 by Polkomtel in favor of Plus TM Group SKA;
- (ix) pledges and letters of confirmation for pledges over Eileme 2 Promissory Notes and Eileme 3 Promissory Notes (intragroup bonds issued by Metelem subsidiaries), governed by Swedish laws;
- (x) authorizations to administer bank accounts of the following companies: Polkomtel, Eileme 3, Eileme 4, Plus TM Group SKA, Plus TM Group, Plus TM Management, governed by Polish laws;
- (xi) assignment by way of security of receivables under insurance contracts payable to Polkomtel, governed by Polish laws;
- (xii) assignment by way of security of Polkomtel's rights under currency and exchange rate risk hedging agreements, governed by English laws;
- (xiii) assignment by way of security of the rights of Polkomtel and LTE Holdings under the Additional LTE Agreement (agreement concluded on November 9, 2011 between Spartan (whose legal successor is Polkomtel), Ortholuck, Litenite, Eileme Companies and PLK Senior Facilities Agreement Security Agent), the agreement on the option to purchase 51% of Litenite shares, pledge over those shares, and pledge over LTE Holdings shares, governed by English laws;
- (xiv) assignment by way of security of Plus TM Group rights as the general partner of Plus TM Group SKA, governed by Polish laws;
- (xv) assignment by way of security of rights under licensing agreements executed by Plus TM Group SKA, governed by Polish law;
- (xvi) assignment by way of security of rights under managerial contracts executed by Plus TM Management, governed by Polish laws;

- (xvii) contractual mortgage over properties owned by Polkomtel, governed by Polish laws;
- (xviii) declarations by Polkomtel, Plus TM Group, Plus TM Group SKA and Plus TM Management on compliance with enforcement action in respect of the duty to pay, governed by Polish laws;
- (xix) declarations by Eileme 3 on compliance with enforcement action in respect of the duty to deliver Notes documents, governed by Polish laws;
- (xx) declarations by Polkomtel on compliance with enforcement action in respect of the duty to deliver shares of Liberty S.A. and PLUS TM Group SKA, governed by Polish laws; and
- (xxi) guarantees provided by Polkomtel, Eileme 3, Eileme 4, Plus TM Group SKA, Plus TM Group and Plus TM Management under the PLK Senior Facilities Agreement and the PLK Senior Notes Indenture, governed by the respective applicable laws of the financing agreements.

4.7. Information on market risks

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

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

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

The Group applies an integrated approach to market risk management. This means a comprehensive approach to the whole spectrum of identified market risks, rather than to each of them individually. The Company applies a consistent and step-by-step approach to market risk management. The primary technique for market risk management is the use in the Group of hedging strategies involving derivatives. Apart from this, natural hedging is also used to the extent available

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

It is permitted to use the following types of instruments:

- swaps,
- forwards and futures,
- options.

Currency risk

One of the main risks that the Group is exposed to is currency risk resulting from fluctuations in exchange rate of the Polish zloty against other currencies. Revenues generated by the Group are denominated primarily in the Polish zloty, while a portion of operating costs and capital expenditures are incurred in foreign currencies. The Parent's currency risk is associated mainly to royalties to TV and radio broadcasters (USD and EUR), transponder capacity leases (EUR), fees for conditional access system (EUR) and purchases of reception equipment and accessories for reception equipment (USD and EUR). After the purchase of Telewizja Polsat Sp. z o.o. currency risk exposure is also associated to purchases of foreign programming licenses (USD). After the purchase of Metelem Holding Company Ltd. currency risk exposure is also associated to UMTS license liabilities (EUR), agreements with suppliers of stock, mainly mobile phones, and suppliers of telecommunication network equipment (EUR), roaming and interconnect agreements and some agreements concerning rental of space required for network locations and rental of office space (various currencies). Furthermore, acquisition of Metelem Holding Company Ltd. resulted in risk exposure related to EUR- and USD-denominated bonds.

In respect of license fees and transponder capacity leases, the Group partly reduces its currency risk exposure by means of an economic hedge as it denominates receivables from signal broadcast and marketing services in foreign currencies. Some currency risk related to operational and interest payments is hedged by forwards and cross-currency interest rate swaps.

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

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

	December 31, 2014						
	EUR	USD	CHF	GBP	SEK	NOK	XDR
Trade receivables	6.3	1.0	-	-	0.4	-	0.3
Cash and cash equivalents	10.0	11.4	1.3	0.1	-	-	-
Senior Notes	(670.9)	(614.5)	-	-	-	-	-
UMTS license liabilities	(203.5)	-	-	-	-	-	-
Trade payables	(5.8)	(12.8)	(0.2)	-	-	-	(0.7)
Gross balance sheet exposure	(863.9)	(614.9)	1.1	0.1	0.4	-	(0.4)
Forward transactions	62.9	41.4	-	-	-	-	-
CIRS	31.9	23.4	-	-	-	-	-
Net exposure	(769.1)	(550.1)	1.1	0.1	0.4	-	(0.4)

	December 31, 2013						
	EUR	USD	CHF	GBP	SEK	NOK	XDR
Trade receivables	2.7	1.1	-	-	-	-	-
Cash and cash equivalents	16.0	1.3	0.2	-	0.1	1.0	-
Senior Notes	(346.9)	-	-	-	-	-	-
Trade payables	(3.4)	(11.7)	(0.1)	-	(0.1)	-	-
Gross balance sheet exposure	(331.6)	(9.3)	0.1	-	-	1.0	-
CIRS	12.4	-	-	-	-	-	-
Net exposure	(319.2)	(9.3)	0.1	-	-	1.0	-

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

(in PLN)	Average rate		Rates at the reporting date	
	2014	2013	December 31, 2014	December 31, 2013
1 EUR	4.1852	4.1975	4.2623	4.1472
1 USD	3.1551	3.1608	3.5072	3.0120
1 GBP	5.1934	4.9432	5.4648	4.9828
1 CHF	3.4460	3.4101	3.5447	3.3816
1 XDR	4.7898	4.8053	5.0768	4.6337
1 SEK	0.4601	0.4854	0.4532	0.4694
1 NOK	0.5009	0.5385	0.4735	0.4953
1 AUD	2.8437	3.0600	2.8735	2.6864

For the purposes of the exchange rate sensitivity analysis as at December 31, 2014 and December 31, 2013, exchange rate volatility in the +/- 5% range was assumed as probable. This analysis assumes that all other variables, in particular interest rates, remain constant. The sensitivity analysis below is performed on the same basis for 2013.

	2014					2013				
	as at December 31, 2014		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehen sive income in PLN	as at December 31, 2013		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehen sive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	6.3	27.0	5%	1.2	-	2.7	11.3	5%	0.6	-
USD	1.0	3.6	5%	0.1	-	1.1	3.3	5%	0.2	-
XDR	0.3	1.6	5%	-	-	-	-	5%	-	-
SEK	0.4	0.2	5%	-	-	-	-	5%	-	-
AUD	-	-	5%	-	-	-	0.1	5%	-	-
Cash and cash equivalents										
EUR	10.0	42.8	5%	2.0	-	16.0	66.4	5%	3.3	-
USD	11.4	39.9	5%	2.1	-	1.3	4.0	5%	0.2	-
CHF	1.3	4.7	5%	0.1	-	0.2	0.6	5%	-	-
GBP	0.1	0.3	5%	-	-	-	0.2	5%	-	-
SEK	-	-	5%	-	-	0.1	0.1	5%	-	-
NOK	-	-	5%	-	-	1.0	0.5	5%	-	-
Senior Notes										
EUR	(670.9)	(2,859.5)	5%	(143.1)	-	(346.9)	(1,438.7)	5%	(71.9)	-
USD	(614.5)	(2,155.1)	5%	(107.8)	-	-	-	5%	-	-
UMTS license liabilities										
EUR	(203.5)	(867.4)	5%	(43.4)	-	-	-	5%	-	-
Trade payables										
EUR	(5.8)	(24.7)	5%	(1.3)	-	(3.4)	(14.4)	5%	(0.7)	-
USD	(12.8)	(44.8)	5%	(2.1)	-	(11.7)	(35.3)	5%	(1.8)	-
XDR	(0.7)	(3.4)	5%	(0.2)	-	-	-	-	-	-
CHF	(0.2)	(0.7)	5%	-	-	(0.1)	(0.3)	5%	-	-
SEK	-	-	5%	-	-	(0.1)	(0.1)	5%	-	-
Change in operating profit				(292.4)	-				(70.1)	-
Forward transactions										
EUR	62.9	268.0	5%	13.4	-	-	-	5%	-	-
USD	41.4	145.2	5%	7.3	-	-	-	5%	-	-
CIRS										
EUR	31.9	135.8	5%	6.8	-	12.5	51.7	5%	0.6	2.0
USD	23.4	82.2	5%	4.1	-	-	-	5%	-	-
Income tax				49.6	-				13.2	(0.4)
Change in net profit				(211.2)	-				(56.3)	1.6

	2014					2013				
	as at December 31, 2014		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehen sive income in PLN	as at December 31, 2013		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehen sive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	6.3	27.0	-5%	(1.2)	-	2.7	11.3	-5%	(0.6)	-
USD	1.0	3.6	-5%	(0.1)	-	1.1	3.3	-5%	(0.2)	-
XDR	0.3	1.6	-5%	-	-	-	-	-5%	-	-
SEK	0.4	0.2	-5%	-	-	-	-	-5%	-	-
AUD	-	-	-5%	-	-	-	0.1	-5%	-	-
Cash and cash equivalents										
EUR	10.0	42.8	-5%	(2.0)	-	16.0	66.4	-5%	(3.3)	-
USD	11.4	39.9	-5%	(2.1)	-	1.3	4.0	-5%	(0.2)	-
CHF	1.3	4.7	-5%	(0.1)	-	0.2	0.6	-5%	-	-
GBP	0.1	0.3	-5%	-	-	-	0.2	-5%	-	-
SEK	-	-	-5%	-	-	0.1	0.1	-5%	-	-
NOK	-	-	-5%	-	-	1.0	0.5	-5%	-	-
Senior Notes										
EUR	(670.9)	(2,859.5)	-5%	143.1	-	(346.9)	(1,438.7)	-5%	71.9	-
USD	(614.5)	(2,155.1)	-5%	107.8	-	-	-	-5%	-	-
UMTS license liabilities										
EUR	(203.5)	(867.4)	-5%	43.4	-	-	-	-5%	-	-
Trade payables										
EUR	(5.8)	(24.7)	-5%	1.3	-	(3.4)	(14.4)	-5%	0.7	-
USD	(12.8)	(44.8)	-5%	2.1	-	(11.7)	(35.3)	-5%	1.8	-
XDR	(0.7)	(3.4)	5%	0.2	-	-	-	-	-	-
CHF	(0.2)	(0.7)	-5%	-	-	(0.1)	(0.3)	-5%	-	-
SEK	-	-	-5%	-	-	(0.1)	(0.1)	-5%	-	-
Change in operating profit				292,4	-				70,1	-
Forward transactions										
EUR	62.9	268.0	-5%	(13.4)	-	-	-	-5%	-	-
USD	41.4	145.2	-5%	(7.3)	-	-	-	-5%	-	-
CIRS										
EUR	31.9	135.8	-5%	(6.8)	-	12.5	51.7	-5%	(0.6)	(2.0)
USD	23.4	82.2	-5%	(4.1)	-	-	-	-5%	-	-
Income tax										
				(49.6)	-				(13.2)	0.4
Change in net profit				211.2	-				56.3	(1.6)

	2014		2013	
	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	(133.1)	-	(55.2)	1.6
USD	(76.3)	-	(1.1)	-
CHF	(1.6)	-	-	-
GBP	-	-	-	-
SEK	(0.2)	-	-	-
XDR	-	-	-	-
CAD	-	-	-	-
AUD	-	-	-	-
NOK	-	-	-	-
Estimated change in exchange rate by -5 %				
EUR	133.1	-	55.2	(1.6)
USD	76.3	-	1.1	-
CHF	1.6	-	-	-
GBP	-	-	-	-
SEK	0.2	-	-	-
XDR	-	-	-	-
CAD	-	-	-	-
AUD	-	-	-	-
NOK	-	-	-	-

Had the Polish zloty weakened 5% against the basket of currencies as at December 31, 2014 and December 31, 2013, the Group's net profit would have decreased by PLN 211.2 and decreased by PLN 56.3, respectively and other comprehensive income would have been unchanged in 2014 and increased by PLN 1.6 in 2013. Had the Polish zloty strengthened 5%, the Group's net profit would have correspondingly increased by PLN 211.2 in 2014 and increased by PLN 56.3 in 2013 and other comprehensive income would have been unchanged in 2014 and decreased by PLN 1.6 in 2013, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

Interest rate risk

Changes in market interest rates have no direct effect on the Group's revenues, however, they do have an effect on net cash from operating activities due to interest earned on overnight bank deposits and current accounts, and on net cash from financing activities due to interest charged on bank loans.

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

In order to reduce interest rate risk exposure resulting from Parent's interest payments on floating rate senior facility, the Group stipulated interest rate swaps for which hedge accounting was adopted. In order to reduce interest rate risk exposure resulting from Metelem Holding Company Ltd. group interest payments on floating rate senior facilities the Group also uses interest rate swaps and for them hedge accounting was not adopted.

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

	Carrying amount	
	December 31, 2014	December 31, 2013
Fixed rate instruments		
Financial assets	1,663.5	-
Financial liabilities*	(4,084.4)	(1,452.0)
Variable rate instruments		
Financial assets	110.0	342.0
Financial liabilities*	(9,080.0)	(517.1)
Net interest exposure	(8,970.0)	(175.1)

*Nominal debt

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
December 31, 2014						
Variable rate instruments*	(48.8)	48.8	17.0	(17.0)	(31.8)	31.8
Cash flow sensitivity (net)	(48.8)	48.8	17.0	(17.0)	(31.8)	31.8
December 31, 2013						
Variable rate instruments*	(1.8)	1.8	3.1	(3.1)	1.3	(1.3)
Cash flow sensitivity (net)	(1.8)	1.8	3.1	(3.1)	1.3	(1.3)

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

For some instruments the Group applies cash flow hedge model under IAS 39 for interest rate exposure from floating rate interest payments in PLN on senior facility hedged by interest rate swap.

Information regarding financial instruments related to:

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

are described in Note 39 of the consolidated financial statements for the financial year ended December 31, 2014.

5. RISK FACTORS

5.1. Risks related to market environment and economic situation

We are exposed to the effects of the regional and global economic slowdown being felt on the Polish advertising market and affecting consumer spending in Poland

The Group derives almost all of its revenue from telecommunication services customers, pay-TV customers and TV advertisers in Poland. Our revenue depends on the amount of cash our existing and potential customers can spend on entertainment, recreation and telecommunications services. If the economic conditions in Poland deteriorate, consumers may be willing to spend less on entertainment, recreation and telecommunications services, which may have an adverse effect on the number of our customers or on our customers' spending on our services. Lower consumer spending caused by economic recession may also lead existing and potential customers to choose cheaper versions of our service packages or to discontinue using the services, which in turn may have a material adverse effect on results of our operations, financial condition, and growth prospects.

Lower advertising spending in Poland may have a material adverse effect on our revenue and the growth prospects of our television production and broadcasting segment. Slower GDP growth in Poland usually negatively impacts advertising spending. Moreover, as many customers of our TV production and broadcasting segment are global companies, the global economic downturn, even if it has no direct effect on Poland or its effect on the Polish economy is not as significant as in other countries, as well as economic slowdown in Poland, may force customers to cut their advertising budgets in Poland, which will have a negative impact on the demand for advertising services in Poland. A decrease in our advertising revenue may force us to adjust the level of our costs to lower revenues. As adjustments of the cost base to market conditions are not generally sufficient to fully offset the effect of lower revenue, the consequences of such risk factors may include a reduced EBITDA margin, lower quality of our programmes, or limited number of programmes broadcast by us, both our own productions and content purchased from third parties. Any constraints on the quality or quantity of our programming may result in the loss of audience share both to our competitors and to alternative forms of entertainment and recreation, which in turn may affect the attractiveness of our offering to potential advertisers and sponsors.

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

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

The Polish mobile telecommunications industry is highly competitive

The Group faces strong competition in all of its core business areas, especially from telecommunication operators such as: Orange, T-Mobile and P4. There can be no assurance that customers will not find the offerings of those operators more attractive.

A shift in the business model of mobile telecommunications network operators in Poland, whereby competing providers of telecommunications services would form joint ventures or strategic alliances, or launch of new types of services, products and technologies may additionally intensify competition on the telecommunications services market. The situation on the telecommunications market in Poland may also change significantly as a result of potential acquisitions or if new mobile telecommunications operators enter the market or broadband services are offered by entities other than mobile telecommunications operators.

Moreover, we face growing competition from entities offering non-traditional voice and data transmission services which rely on the VoIP technology, such as Skype or Viber, through which customers who use only mobile data transmission services can be provided with mobile voice and video services, and users with fixed broadband access can be provided with voice and video services over fixed-line networks, usually at prices lower than traditional voice and data transmission services. To this end, such entities use, among other things, the possibility to provide services via existing infrastructure, belonging to telecommunication operators, so as to avoid having to implement capital-intensive business model themselves. Continued growing popularity of these services may lead to a decrease in ARPU per customer and the customer base of telecommunications operators, including the Group's one. It can be expected that in the future the Group will also have to compete with providers of services supported by communication technologies which at the date of this report are at an early stage of development or which will be developed in the future. The Group's existing competitors as well as new players on the Polish market may introduce different new services or telecommunications services based on better technologies than

those currently used by the Group before such services are introduced by the Group, or may offer such services at more competitive prices. Mobile virtual network operators (MVNO) also compete with traditional mobile telecommunications network operators.

The Group's ability to effectively develop its operations on the Polish telecommunications services market may be also adversely affected by the imposition of new regulatory requirements on entities operating in Poland, further legal changes, or the regulator's policy designed to increase the competitiveness of the telecommunications services market.

Moreover, the high rate of mobile voice penetration and the highly consolidated nature of the Polish mobile telephony market may result in increased pricing pressure and our ability to compete effectively will depend on our ability to introduce new technologies, convergent services and attractive bundled products at competitive prices. It cannot be ruled out that we will be forced to reduce prices for certain products and services in response to the pricing policies of its major competitors, which may have an adverse effect on our future revenue and profitability.

Group's reduced competitiveness and increased pricing pressures could have a material adverse effect on the Group's financial condition, results of operations or prospects.

The Group faces competition from entities offering alternative forms of entertainment and leisure

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

Operating results of our TV production and broadcasting segment depend on the importance of television as an advertising media

In 2014, ca. 80% of the revenue generated by our TV production and broadcasting segment came from sale of advertising time and sponsored time slots on our TV channels. The Polish advertising market sees television competing with other advertising media, such as the Internet, newspapers, magazines, radio, and outdoor advertising. There can be no guarantee that TV commercials will maintain their position on the Polish advertising market, or that changes in the regulatory regime will not favor other advertising media or other broadcasters. The growing competitive pressure among advertising media, driven by the increasing prominence of Internet advertising in Poland, significantly higher spending on thematic channels, and the development of new forms of advertising may have an adverse effect on advertising revenue generated by our TV production and broadcasting segment, and thus on our operations, financial condition, performance, and cash flows.

Our potential advertising revenue depends on several factors, including the demand for and prices of advertising time. No assurance can be given that we will be able to respond successfully to the changing preferences of our viewers, which means that our audience share may decrease, which may adversely affect demand for our advertising time and our advertising revenue. The diminishing appeal of TV as a whole, and our own channels in particular, attributable both to higher interest in other forms of entertainment and to the declining importance of television as an advertising medium, may have an adverse effect on our business, financial condition, results of operations or prospects.

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

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

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

Following completion of the terrestrial television digital switchover process in Poland in July 2013, there are currently 24 TV channels broadcasted terrestrially. According to Nielsen Audience Measurement, in 2014 the audience shares of all DTT channels in the 16-49 age group reached 66.1% (compared to 64.8% in 2013). The aggregate audience share in this age group of the main four channels (POLSAT, TVN, TVP1 and TVP2) was 43.5% in 2014 (2013: 45.9%). The aggregate audience share of the other DTT channels was 22.6% in 2014 vs. 18.9% in 2013, which reflects the growing market fragmentation, to a large extent at the expense of the leading TV channels (including POLSAT, whose audience share decreased from 13.5% in 2013 to 13.3% in 2014); this may have a material adverse effect on our performance and financial condition. Our main competitors on the TV advertising markets are other broadcasters, such as TVN – a leading commercial broadcaster, and TVP – the broadcaster financed partly from public funds, which provides public service. Because TVP is the public broadcaster, it cannot interrupt programmes and films with commercial breaks. Any changes in this respect may contribute to the strengthening of TVP's competitive position, reducing our advertising revenue. Furthermore, we will be forced to compete with current and future market participants for terrestrial and satellite broadcasting licences in Poland. Such participants may include major broadcasters with greater resources and more recognisable brands. This is especially true in the case of companies from other EU countries, which may find the Polish TV market attractive for various reasons, including its current regulatory environment (which allows TV stations to broadcast more advertising during programmes and films than in other countries), as well as the increasing extent of other permitted advertising activities. And lastly, continued growth of cable TV, DTH and DDT providers in Poland may lead to further market and audience fragmentation, which may make advertisers reluctant to buy air-time on our channels. Losing customers and advertisers to our competitors may have a material adverse effect on our business, financial condition, results of operations or prospects.

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

The analogue to digital switchover in Poland has resulted in a substantial rise in the number of competitive TV providers. It is also probable that the current limits on awarding licences for DTT frequency bands will be lifted. This would be likely to bring about a growth in the number of digital channels available on the Polish TV market and would lead to a corresponding loss of our audience share. Following completion of the digital switchover process in July 2013, the number of terrestrial FTA TV channels has risen considerably, and their programming is becoming increasingly more attractive, which may reduce the demand for our DTH and DVB-T pay TV services, leading to a loss of the audience share and strong customer churn. This may have a material adverse effect on our business, financial condition, results of operations or prospects.

We are exposed to currency risks

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. Significant components of costs, including costs of purchase of handsets, UMTS license fees, costs of purchase of network equipment and IT systems, roaming, as well as the costs of lease of certain office areas and locations of elements of our mobile network infrastructure are denominated in foreign currency, in particular in EUR. 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.

Polkomtel's Senior Notes are denominated in the US dollars and euro, whereas the majority of cash flows of our Group is denominated in Polish zloty. Therefore, a substantial change in the value of Polish zloty vs. euro and US dollars may have a material adverse or positive impact on the Group's financial standing and its ability to service principal and interest payments denominated in foreign currencies.

We may be exposed to currency risk in relation to the multi-currency Revolving Facility Loan, since movements in the exchange rate of the euro, dollar or any other currency provided for in the Senior Facilities Agreement dated 11 April 2014 against the zloty may increase the zloty-denominated amounts required to service principal and interest payments under the Revolving Facility Loan.

We are exposed to interest rate risk

Market interest rate fluctuations do not impact the Group's revenue directly, but they do affect our cash flows from operating activities through the amount of interest on current bank accounts and deposits, and also cash flows from financing activities through the Group's costs of servicing debt. In particular, our liabilities under the Senior Facilities Agreement and PLK Senior

Facilities Agreement are calculated based on variable WIBOR, EURIBOR or LIBOR interest rates subject to periodical changes, increased by a relevant margin.

Despite the fact that the Group intends to maintain certain hedging positions the goal of which is to hedge against WIBOR fluctuations, there is no certainty that such a hedging will be still possible or whether it will be available on acceptable terms. The Group analyzes its interest rate risk on an on-going basis, including the refinancing and risk hedging scenarios, which are used to estimate the impact of the specific interest rate fluctuations on our financial result. Interest rate fluctuations may affect our ability to meet our current liabilities, which may have a material adverse effect on our business, financial condition, results of operations or prospects.

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

The results of our operations in the telecommunications sector depend on the ability to effectively encourage the existing customers to use a wider range of our services, win customers from competitive mobile and fixed-line operators, as well as the ability to reduce churn

It is expected that further growth of our operations on the maturing Polish mobile telephony market will chiefly depend on the ability to effectively encourage the existing customers to use a wider range of services offered by us, win customers from competitive mobile and fixed-line operators, as well as the ability to reduce the churn rate. The Group cannot give any assurance that the measures it is undertaking will encourage its existing customers to use a wider range of services or attract customers from competitive mobile and fixed-line operators, or that the measures we are undertaking to increase customer loyalty will reduce the rate of churn or allow the Group to maintain the current churn rate. If we are unable to successfully manage the churn rate, we may be forced to significantly reduce our costs to maintain satisfactory profit margins, or to take alternative steps, which could in turn result in higher costs of customer acquisition and retention.

In addition, the mobile telecommunications industry is characterised by frequent developments in product offerings, as well as by advances in network and handset technology. If we are unable to maintain and upgrade our network and provide customers with an attractive portfolio of products and services, we may not be able to retain customers or the customers' retention costs may increase. Likewise, if we fail to effectively advertise our products and services, acquisition of new customers may be impossible or very difficult.

Additionally, competing mobile operators may improve their ability to attract new customers, or offer their products or services at lower prices, improve their attractiveness for customers, which could make it more difficult for us to retain the current customer base, and the cost of retaining and acquiring new customers could increase.

All such events could have a material adverse effect on the results of our operations, financial condition and prospects.

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

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

Our ability to generate advertising revenue in the TV production and broadcasting segment depends almost entirely on viewers' demand for our programmes. Audience shares achieved by programmes we broadcast directly affect both the attractiveness of our television channels to existing and potential advertisers and rates we are able to charge for advertising time. In the TV broadcasting and production segment we also generate revenue from production and sale of television programmes to third parties operating in Poland and, to a lesser extent, abroad. Prices which we are able to receive from potential buyers of our own productions are directly linked to the audience for those programmes, as third-party buyers, interested in generating advertising revenue, look for programming contents with highest viewership numbers.

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

To some extent, the profitability of our operations depends on our ability to produce or obtain broadcasting rights to the most attractive programmes in a cost-effective manner. While costs of in-house productions of television content are usually higher than costs of purchasing third-party programmes, we believe that a larger number of Polish programmes broadcast on our channels will increase viewers' demand and consequently increase the demand from advertisers. However, there can be no assurance that financial outlays we have made or will make in the future on Polish programming production will be fully recovered or that we will be able to generate revenue high enough to offset those costs.

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

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

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

We may lose the revenues generated pursuant to its national roaming agreement with P4 or such revenues may be materially lower than anticipated

In 2006 Polkomtel entered into, and renegotiated several times, a national roaming agreement with P4, under which Polkomtel renders domestic roaming services allowing P4 to offer mobile telecommunications services to its customers in areas where it does not have its own radio network coverage. According to this agreement, Polkomtel is required to sell and P4 is required to buy, in 2010-2015, domestic roaming services with a total minimum value of over PLN 600 million. As in certain circumstances P4 has the right to terminate the agreement, there can be no assurance that P4 will not terminate the agreement before the end of 2015. Moreover, there can be no assurance that the agreement will be renewed after its current term or that P4 will comply with all of its provisions. On March 25, 2014, P4 announced in a press release its plans to gradually introduce T-Mobile as its main roaming partner in the areas not covered by its own network.

Moreover, if P4 becomes insolvent or goes into liquidation, P4 may not be able to continue performing under the National Roaming Agreement and Polkomtel may not be able to collect any of P4's payables under the agreement.

If Polkomtel loses the revenue generated pursuant to its National Roaming Agreement with P4 or if such revenue is materially lower than anticipated, due to, for example, Polkomtel's failure to perform its obligations under the agreement, P4 migrating a significant portion of the traffic to its own network or other operators' networks, P4's strategy or financial condition or any other factors outside Polkomtel's control, the financial condition, results of operations or prospects of the Group may be adversely affected.

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

We operate an organised and specialised Poland-wide sales network, which distributes products and services offered by our Group. Because of growing competition with other pay TV providers and telecommunications services providers, 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

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

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

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

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

Our ability to grow our customer base depends on our ability to provide high-quality, reliable services and products. In offering products and services, we rely on a number of third-party providers of network, services, equipment and content over whom we have no control. If such third-party providers do not perform their contractual obligations towards us or do not adjust to changes in requirements of the Group's companies, our customers may experience service interruptions, which could adversely affect the perceived quality of our services and products, therefore, adversely impact the brand and reputation of the Group's companies, thus affecting our business, financial condition, results of operations or prospects.

A possibility of provision of telecommunications services depend to a large degree on our ability to interconnect with the telecommunications networks and services of other telecommunications operators, including those of Polkomtel's direct competitors. We also rely on third-party operators for the provision of international roaming services to our mobile customers. While Polkomtel has interconnection and roaming agreements in place with other operators, we do not have direct control over the quality of their networks and the interconnections and roaming services they provide, due to the fact that we do not have direct control over availability or quality of networks of such operators or interconnect and roaming services, there can be no assurance that availability and quality of services provided by such other operators will be in accordance with contract. Any difficulties or delays in interconnecting with other networks and services, the failure of any operator to provide reliable interconnections or roaming services on a consistent basis or early termination of any of material interconnection or roaming agreements could result in an inability or limited ability to provide services to our customers or in a deterioration of quality of the services, which in turn can lead to loss of customers or decreased usage of our services, and consequently have a material adverse effect on our performance, financial condition and growth prospects.

In addition, we rely on continued maintenance and supply services rendered by manufacturers of telecommunications equipment, including Nokia Solutions and Networks and Ericsson. Continued cooperation with some of them is important for us to maintain our operations without disruption. We also rely on agreements with external suppliers of handsets and modems (including Sony, Samsung, LG and Huawei) and providers of IT services (including Intec Billing). We do not have any control over our key suppliers and have limited influence on the manner in which these key suppliers perform their obligations under concluded contracts. In addition, there can be no assurance that these providers will not terminate their contracts with us, extend them upon expiry, extend them on the same or more favorable terms, or that we will be able to acquire the necessary equipment and services in the future from these or other suppliers, in required amounts and at the right time, or at all. Accordingly, due to dependence on third-party suppliers, we are exposed to the risk of delayed provision of necessary services or equipment or lack of such provision.

If any of the third parties that we rely on becomes unable to or refuses to provide the services, facilities and equipment that we depend on in a timely and commercially reasonable manner or at all, we may not be able to offer our customers such services, facilities or equipment or may experience temporary service interruptions or service quality problems, which would

significantly impact our reputation and customer confidence and lead to a decrease in revenue from sales of such services, facilities and equipment and in consequence have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

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

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

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

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

A substantial increase in data volumes transmitted by our customers as part of their packages may result in higher-than-expected increase in national roaming costs

Under PLK Wholesale Agreement, concluded on March 9, 2012 by and between Mobyland and Polkomtel, we purchased from LTE Group a data transmission service at agreed rates per GB of transmitted data. Under the retail data transmission service model prevailing on the Polish market, customers sign contracts for a defined number of months, under which we provide individual and business customers with predefined data allowances or with packages without data transmission

limits, where bandwidth is reduced after a specified amount of transmitted data is exceeded, or without any limitations. In the face of market competition, we may be forced to offer our individual and business customers more attractive solutions by increasing contract data allowances or removing limits altogether, or individual and business customers may use the data transmission service under their existing packages to a greater extent than originally anticipated by us, which may result in higher costs of the wholesale data transmission service provided to us by LTE Group under the aforementioned PLK Wholesale Agreement. There can be no assurance that in such a situation we will be able to effectively renegotiate the terms of this agreement. Consequently, this may substantially reduce the profitability of our data transmission services, and have a material adverse effect on our business, financial condition, results of operations or prospects.

Alleged health risks of wireless communications devices could lead to decreased wireless communications usage or increased difficulty in obtaining sites for base stations

In the past, reports have been published alleging that there may be health risks associated with the effects of electromagnetic signals from antenna sites and from mobile handsets and other mobile telecommunications devices. There can be no assurance that further medical research and studies will not prove that there are health risks associated with the effects of electromagnetic signals.

The actual or perceived risk of mobile telecommunications devices, press reports about risks posed by such devices or consumer litigation relating to such risks could result in decreased mobile usage, reduction in the number of customers, increased difficulty in obtaining sites for base stations and exposure to potential litigation or other liabilities. In addition, these health concerns may cause authorities to impose stricter regulations on the construction of the components mobile telecommunications networks, such as base transceiver stations or other telecommunications network infrastructure, which may lead to an increase in our operating costs in the segment of services to individual and business customers, and may hinder the completion of network deployment and the commercial availability of new services, or may increase costs of such development. Such events may have a material adverse effect on our business, financial condition, results of operations or prospects.

We are exposed to the risk of fraudulent activities by customers

Given the nature of the telecommunications market stemming from the manner of making interconnect settlements related to the exchange of domestic and international telecommunications traffic and fees for sold premium services, some of our customers use telecommunications services in a way that differs from the standard method of their use by the end user in order, for example, to terminate mass traffic in the network of another operator while bypassing wholesale interconnect settlements. We prevent such behaviour, for example, by analysing any abnormal traffic patterns on individual SIM cards. If such traffic patterns are identified, the card can be immediately deactivated, in accordance with the service provision regulations. However, there can be no assurance that we will be sufficiently effective in preventing this type of fraud. If we do not identify a fraud or identifies a fraud with a delay, we may be exposed to additional costs or lose some revenue due to us, which can have a material adverse effect on our business, financial condition and growth prospects.

We might be unable to maintain good name of the Cyfrowy Polsat, Plus, Telewizja Polsat, IPLA, TV4 and TV6 brands

The good name of the 'Cyfrowy Polsat', 'Plus', 'Telewizja Polsat', 'IPLA', 'TV4' and 'TV6' brands is a significant component of Group's value. Maintaining their good name is fundamental for acquiring new and retaining existing customers and advertisers. Our reputation may suffer if we are unable to provide existing products and services or implement new products and services due to technical faults, a lack of necessary equipment, or other circumstances. Also, the quality of our products and services depends on the quality of third-party infrastructure and services, over which we have little control. If our partners fail to observe relevant performance standards or supply faulty products or services, the quality of our products and services, as well as our good name may suffer. There can be no assurance that these or other risks, which would compromise the good name of the 'Cyfrowy Polsat', 'Plus', 'Telewizja Polsat', 'IPLA', 'TV4' and 'TV6' 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 value may be impaired

Following the acquisition of mPunkt S.A., Telewizja Polsat, Info-TV-FM, IPLA companies (Redefine together with Poszkole.pl sp. z o.o., Stat24 sp. z o.o., Netshare sp. z o.o., Frazpc.pl sp. z o.o. and Gery.pl Sp. z o.o.), Polskie Media (TV4 and TV6 channels) and Metelem Holding Company Limited we have carried considerable amounts of goodwill and intangible assets, representing brand value, on our balance sheet. We test the goodwill and brand value allocated to our business segments for impairment on an annual basis, by measuring the recoverable amounts of cash-generating units, based on value in use. Any adverse changes to the key assumptions we apply in impairment testing may have a material adverse effect on our business, financial condition, results of operations.

We may lose our management staff and key employees

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

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

To reduce acquisition costs of satellite TV reception equipment and to be able to offer our pay TV customers the option to purchase or lease set-top boxes at lower prices, we are currently producing most of the set-top boxes we offer to our customers at our own production facility in Poland. At the end of 2014, our set-top boxes accounted for more than 95% of all the set-top boxes sold or otherwise made available to our pay TV customers. 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 and to cover (potentially considerable) costs of replacing or repairing any set-top boxes we have sold on the market. Furthermore, the withdrawal of reception equipment due to its defectiveness could be harmful to our reputation. Any problems with production of set-top boxes would force us to acquire larger numbers of set-top boxes from third-party suppliers. There can be no assurance that we will be able to purchase a sufficient number of set-top boxes from third-party suppliers when required. Furthermore, the cost of acquiring from third-party suppliers of the vast majority of set-top box models we offer would be much higher than the cost of manufacturing them at our own plant. If we were unable to obtain set-top boxes from third-party suppliers on satisfactory pricing terms, we might have to raise the prices for our customers to cover our increased depreciation expense. Moreover, if the deliveries of set-top boxes we managed to procure were insufficient to meet the demand, our reputation among our current and potential customers would suffer. As our production of set-top boxes is based on components purchased from third-party contractors, there is a risk that we lose access to such components, for instance due to discontinuation of their production or changes in technologies or products. Losing access to certain components would force us to redesign our set-top boxes, which could affect continuity of their production and supplies to our customers. Any difficulties in the production of most of our set-top boxes at our own production plant could lead to a loss of our current customers or adversely affect our ability to acquire new customers for our pay TV services. Any disruption to our set-top box production and subsequent necessity to procure more set-top boxes from third-party suppliers could adversely affect our reputation and lead to erosion of our brand value, which could have a material adverse effect on our business, financial condition, results of operations or prospects.

Network infrastructure, including information and telecommunications technology systems, may be vulnerable to circumstances beyond the Group control that may disrupt service provision

The mobile telecommunications business depends on providing customers with both reliable service, network capacity and security. The services Polkomtel provides may encounter disruptions from many sources, including power outages, acts of terrorism and vandalism and human error, as well as fire, flood, or other natural disasters.

Base transceiver stations, where radio equipment is installed, form a crucial element of Polkomtel's network infrastructure. The stations are erected at various, often remote locations, in scarcely populated areas. Such location of certain stations poses a greater risk of theft or acts of vandalism, including by persons objecting to base transceiver stations being erected at particular locations.

In addition, part of Polkomtel's network infrastructure is located on the premises of third parties. Furthermore, in the course of cooperation with LTE Group, Polkomtel utilises LTE Group's network infrastructure, some of which is also located on the premises of other third parties. Disputes between these third parties and Polkomtel or LTE Group or disputes between Polkomtel and LTE Group, failure of third parties or LTE Group to properly perform their contractual obligations, as well as a number of other factors and events may cause part of Polkomtel's or LTE Group's network infrastructure to be inaccessible, which could adversely affect Polkomtel's ability to efficiently operate, maintain and upgrade its network or to utilise LTE Group's network infrastructure. In addition, we could experience interruptions of our services due to, among other things, software bugs, computer virus attacks, or unauthorised access. Any interruptions in our ability to provide services could seriously harm the Group's reputation and reduce customer confidence, which could materially impair our ability to attract and retain customers in both the retail and wholesale segments. In addition, such interruptions could result in an obligation to pay contractual penalties or cause our customers to terminate their agreements with Polkomtel or the imposition of regulatory

penalties due to violations of the terms of frequency allocation. They might also result in a need to incur significant expenditure to restore the functionality of the telecommunications network and guarantee reliable services to customers.

In order to provide pay TV services to our customers, we rely primarily on our satellite centre, as well as satellite transponders, customer management system, reporting systems, sales support system, and customer relationship management system. Any failure of the individual components of our satellite centre, including failure of satellite transponders or any intermediate link, may result in serious disruption or even suspension of our activities for a certain period. In the TV production and broadcasting segment, the IT systems are used primarily for management of advertising scheduling, programme broadcasting, and maintaining relations with advertisers. Failure of any of our IT systems may prevent us from carrying out our operations successfully, while restoring them to full working condition may require significant financial outlays. Such events may have a material adverse effect on our business, financial condition, results of operations and prospects.

Our further effective cooperation with LTE Group may prove impossible in the future

Polkomtel's ability to efficiently roll-out the LTE/HSPA+ network and offer large-scale LTE/HSPA+ services, and thus a possibility to capitalise on the early entrant advantage in LTE combined with its broad coverage, depends to a significant extent on Polkomtel's effective cooperation with LTE Group under Network Sharing Agreement, concluded on March 30, 2012 between Aero2 Sp. z o.o and Polkomtel, and PLK Wholesale Agreement, concluded on March 9, 2012 between Mobyland and Polkomtel. There can be no assurance that these agreements are not terminated before their expiry, are renewed for subsequent periods on the current terms or on terms more favorable to us or that LTE Group companies perform their contractual obligations towards Polkomtel, including when faced with events and factors outside LTE Group's control. There can be no assurance, either, that the scale of Polkomtel's cooperation with LTE Group is sufficient to support further effective extension of the LTE/HSPA+ network. Moreover, there can be no assurance that under PLK Wholesale Agreement, we will be able to secure sufficient wholesale access to LTE Group's LTE/HSPA+ network, or that it will be able to secure the access on acceptable terms. If any of these occurs, Polkomtel may have to develop the LTE/HSPA+ network independently, which may prove an extremely time- and money-consuming process, and thus may have a material adverse effect on our business, financial condition, results of operations and prospects.

LTE Group may lose the spectrum reservations it uses for LTE/HSPA+ network roll-out carried out jointly with Polkomtel Group

LTE Group companies currently hold frequency allocations in the 900 MHz, 1800 MHz and 2570-2620 MHz. These allocations are fundamental for the joint roll-out of the LTE/HSPA+ network by Polkomtel and LTE Group. LTE Group's competitors have taken a number of steps, some of which may lead to retraction of the decisions regarding frequency allocations granted to LTE Group, including the 1800 MHz band frequency allocation, which is currently integral to the offering of LTE services.

No assurance can be given that as a result of the pending proceedings LTE Group will not lose its 1,800 MHz frequency allocation, which could have a material effect on the ability to provide LTE services. Proceedings to invalidate the 1,800 MHz frequency allocation tender have been instigated by T-Mobile and Orange. Supreme Administrative Court (NSA), in its ruling dated May 8, 2014, sustained the decision of the Court of First Instance and repealed the decision issued by the President of the Office of Electronic Communications (UKE) on September 23, 2011 which partially invalidated the above mentioned tender. Following the decision of the Supreme Administrative Court, UKE informed that 'the decisions regarding re-running the tender will be taken by the Office upon careful analysis of the written justification of NSA's rulings and the Court's guidelines regarding further procedure as well as upon analysis of the legal situation'. UKE also stated that the 'reservation decisions issued by UKE President remained valid while the operators could continue providing their services while using these frequencies'. Until the date of publication of this Report we have not become aware of further new information regarding these proceedings.

No assurance can be given that if LTE Group lost certain frequency allocations on the basis of which Polkomtel provides services which rely on the LTE/HSPA+ technologies, Polkomtel would be able to gain access to sufficient alternative frequency band resources on satisfactory terms or at all, and failure to obtain access to such resources could have a negative impact on the implementation of business strategies and consequently a material adverse effect on our financial condition, results of operations and prospects.

The necessity to obtain building permits may delay or prevent roll-out of the telecommunication networks

Roll-out of Polkomtel's network infrastructure, including in particular the construction and installation of base transceiver stations, might require obtaining building permits. No assurance can be given that all the necessary building permits will be obtained or that they will be obtained when originally anticipated, which would pose the risk that work on development of the

network infrastructure may have to be discontinued, or may be considerably delayed. Furthermore, any building permit that is obtained may in certain circumstances be revoked, even after a given component of network infrastructure is put into operation, which may in certain circumstances lead to suspension of the operation of the network component and require a legalisation procedure to be carried out or, if such procedure is not possible, the infrastructure component to be disassembled.

The necessity to limit expansion of Polkomtel's network infrastructure due to its failure to obtain the required building permits, delays in infrastructure development or – when a building permit is revoked – the obligation to discontinue operation or to disassemble an infrastructure component, may have a material adverse effect on our business, financial condition, results of operations or prospects.

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

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

Two trade unions are active at Polkomtel: Niezależny Samorządny Związek Zawodowy Solidarność (the Solidarity Independent Self-Governing Trade Union) and Ogólnopolskie Porozumienie Związków Zawodowych (All-Poland Alliance of Trade Unions). At December 31, 2014, 181 employees (expressed as full-time equivalents), or 5.2% of the total workforce of Polkomtel Group, were trade union members. At the date of this Report, we had no knowledge of any disputes with trade unions or any other collective disputes at Polkomtel. However, involvement in lengthy negotiations with the trade unions or in collective disputes cannot be ruled out; strikes, work interruptions or other industrial action (triggered, for example, by an attempt to optimise the employment level or labour costs or the need to restructure the workforce), as well as employees' pay rise demands may also be experienced. The occurrence of strikes, significant disputes with the trade unions active at Polkomtel or increase in employment costs may disrupt Polkomtel's operations, preventing it from timely or cost-effective provision of services to its customers, which can have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

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

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

related to absence or infringement of intellectual property rights, may have a material adverse effect on our business, financial condition, results of operations or prospects.

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

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

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

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

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

The President of UKE supervises both our telecommunication operations as well as TV broadcasting and production. As part of our telecommunications services, we mainly provide mobile voice services, broadband Internet access as well as certain wholesale services to other operators. Telecommunications undertakings operating in Poland are subject to a number of legal and administrative requirements having a direct impact on their business, both in relations with individual and business customers (for instance, by specifying the scope of customers' rights or the content of standard terms and conditions for the provision of telecommunications services, setting caps for pricing of international roaming services, or restricting the maximum time for which contracts can be concluded with customers) and wholesale customers (for instance, by imposing MTR caps or defining caps for rates used in roaming traffic settlements). Our TV production and broadcasting segment is in turn overseen by the President of UKE for compliance with the terms of licences and frequency allocations assigned by the President of UKE for the purposes of TV broadcasting services. We cannot give any assurance that we will be able to meet the multiple requirements imposed on us by the Polish Telecommunications Law. In the event of our non-compliance with any provisions of the Telecommunications Law, we may face a fine from the President of UKE of up to 3% of our revenue generated in the year preceding the year in which such fine is imposed.

The KRRiT regulations also pertain to both our business segments, although they have a more direct effect on our TV production and broadcasting segment. As a TV broadcaster operating in Poland, we have to observe a number of legal and administrative requirements related to such matters as broadcasting time, programming content, and advertisements. Furthermore, KRRiT undertakes regular checks to ensure that our operations conform to the terms of our broadcasting licences, provisions of the Polish Act on Television and Radio Broadcasting, and its own internal guidelines. There can be no assurance that we will be able to satisfy the multiple regulatory requirements imposed on our TV production and broadcasting segment under the relevant licences. In the event of our non-compliance with any applicable regulations, we may face a fine from KRRiT of up to 50% of the annual fee for the right to use a given frequency.

The regulatory regime for the broadcasting industry is subject to frequent changes, and so there can be no assurance that such future changes will not have an adverse effect on our channel mix, ability to attract advertisers or the way in which our business is run.

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

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

Polkomtel's operations are subject to a number of legal regulations and requirements of awarded frequency allocations which could be amended in the future

As a mobile telecommunications network operator, Polkomtel is subject to a number of laws and regulations, in particular those regulating maximum rates charged for specific telecommunication services, those related to ensuring effective competition, non-discrimination, transparency in telecommunication services prices, reporting, data protection and national security. Any potential breach of the applicable laws or terms of frequency allocations may in certain cases result in imposition of penalties on Polkomtel, loss of reputation, inability to obtain new frequency allocations or even loss of current frequency allocations. Furthermore, future changes in Polkomtel's regulatory environment may be disadvantageous to Polkomtel's business, for instance by increasing its costs.

An important and active role in ensuring the observance of telecommunications laws and regulations by entities operating in the telecommunications market in Poland is played by the regulators of the Polish telecommunications market, including in particular the President of the Office of Electronic Communications (UKE). The President of UKE has a number of regulatory and supervisory powers, including with respect to provision of electronic communications services and managing radio frequency and orbital slot resources. If the President of UKE determines that a relevant market is not sufficiently competitive, the President may designate one or more telecommunications providers as a provider with significant market power (SMP) in such market and impose on such provider(s) certain regulatory obligations, such as an obligation to accept requests from other telecommunications providers for the provision of telecommunications access and the obligation to prepare and submit a draft framework offer for telecommunications access to serve as a basis for cooperation between a provider with SMP and its competitors. Polkomtel has been designated as holding SMP in certain relevant markets at the wholesale level. As a result, Polkomtel is required to meet strict regulatory obligations in the following markets: (i) call termination to a public mobile telecommunications network; (ii) SMS termination to a public mobile telecommunications network; and (iii) call termination to a public fixed line network. As part of its continued provision of telecommunications services in Poland, Polkomtel is also regularly reviewed by the President of UKE to ensure that it has complied with the terms of the licences and frequency allocations granted to by the President of UKE. If the President of UKE was to declare that Polkomtel breached a provision of the Telecommunications Law, the company could be forced to pay a fine of up to 3% of the revenue it generated in the year prior to the imposition of the fine and it could be prohibited from providing further telecommunications services in Poland.

In addition, the President of UKE may also designate one or more network operators to guarantee the provision of universal services (including voice and broadband access, and customer network access) which may then apply to the President of UKE to be compensated by the other telecommunications operators, including Polkomtel, on the justified net costs basis.

The Minister of Administration and Digital Technology, responsible for telecommunications, also exercises broad regulatory authority over the telecommunication market in Poland. The powers of the Minister of Administration and Digital Technology include the power to issue regulations concerning, among other things, tenders and contests for the allocation of frequencies, charges for using the domestic numbering plan, the telecommunications charge, specific requirements for the provision of telecommunications access and regulatory accounting and calculations of costs of services, as well as the quality of telecommunications services and the complaint process therefore. Polkomtel's operations are also supervised by the President of the Office of Competition and Consumer Protection, General Inspector for the Protection of Personal Data, and other agencies.

No assurance can be given that Polkomtel will be able to meet all the requirements that have been or might be imposed on it under the Polish or EU laws or regulations, or all the terms and conditions of the frequency allocations granted to Polkomtel, or that it will be able to comply with all the laws or terms of frequency allocations applicable to its business, and that it will not be exposed to costs, penalties, sanctions or claims as a result of potential violation of such requirements or laws that, in turn, could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

We use third-party suppliers and cooperates 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, results of operations or prospects.

Our broadcasting licences may be revoked or may not be renewed

Our business requires that we obtain licences issued by the National Broadcasting Council (KRRiT). These licences may be revoked or may not be renewed. In our segment of services to individual and business customers, broadcasting of TV programmes by DTH service providers requires no licence, only registration by the Chairperson of KRRiT. At the date of this report, we hold six terrestrial broadcasting licences and over twenty satellite broadcasting licences. All TV broadcasting licences issued by KRRiT are issued for definite periods. Our terrestrial TV broadcasting licences and satellite broadcasting licences will expire at various times between 2015 and 2030.

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

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

To keep our TV broadcasting licences, we must comply with the applicable laws and the terms and conditions of the licences. Failure to comply with the applicable laws or breach of the terms and conditions of a broadcasting licence, especially with respect to the period within which we must commence broadcasting of a channel, could lead to the licence being revoked or a fine being imposed on us. Our broadcasting licences may also be revoked if we are found to be conducting activities in violation of the applicable laws or the terms and conditions of our broadcasting licences, or we fail to remedy such violation within the applicable grace period. In addition to licence revocation, there is also a risk that licences granted by KRRiT will not be renewed.

If any of our broadcasting licences or the Group's frequency allocation are not extended, are revoked or extended on unfavorable conditions, the Group may be forced to suspend the provision of some services temporarily or permanently, may be unable to offer services based on a particular technology or may have to incur substantial expenditure, all of which may have a material adverse effect on our business, financial condition, results of operations or prospects.

Polkomtel's current frequency allocations may be revoked or may not be renewed on acceptable terms or at all

All frequency allocations have been issued to Polkomtel for a definite term. There can be no assurance that Polkomtel's frequency allocations will be extended prior to their expiry. In particular, pursuant to the Telecommunications Law, Polkomtel's frequency allocation may not be extended or may be revoked by the President of UKE in case of a substantial breach of the terms of its use, or if revocation of the frequency allocation follows from the necessity to ensure equal and effective competition or substantially better use of frequencies, especially if the extension of the allocation would lead to excessive frequency concentration at Polkomtel or within the group to which Polkomtel belongs.

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

If any of Polkomtel's frequency allocations is not extended, is revoked or extended on unfavorable conditions, Polkomtel may be forced to suspend the provision of some services temporarily or permanently, may be unable to offer services based on a particular technology or may have to incur substantial expenditure, all of which may have a material adverse effect on our business, financial condition, results of operations or prospects.

The spectrum of radio frequencies available to the mobile phone industry is limited and therefore Polkomtel may not be able to obtain new frequency allocations

The ability to maintain existing and implement new or improved mobile technologies and Polkomtel's ability to successfully compete on the telecommunications services market partly depends on Polkomtel's ability to obtain further radio frequency resources. The size of the spectrum of radio frequencies available for allocation in Poland is limited, and the process of obtaining allocations is long and very competitive.

Following the analogue TV switch-off in 2013, certain frequency resources became available within the 'digital dividend'; in February 2013, following an auction for frequencies in the 1800 MHz band, the frequencies were allocated to T-Mobile and P4. In addition, on December 30, 2013, a notice on auction for frequency allocation in the 800 MHz and 2600 MHz bands was published. On February 11, 2014, the President of UKE cancelled the auction; on April 4, 2014, the President of UKE opened a new stage of consultations on a new auction for those frequencies. Following the publication of opinions of interested parties, on October 10, 2014 the President of UKE once again announced the auction of 5 blocks in the 800 MHz band and 14 blocks in the 2600 MHz band. The opening bid for one block in the 800 MHz band is set at PLN 250 million and for one in the 2600 MHz band – at PLN 25 million. The auction documentation specifies, i.a. detailed conditions of conducting the auction, limitations regarding aggregating frequency blocks by entities, who may receive frequency allocations through the auction and conditions of use of allocated frequencies. Six entities submitted initial bids: Orange Polska, P4, Hubb Investments Sp. z o.o., T-Mobile Polska, Polkomtel and NetNet Sp. z o.o., all of which qualified to the second stage of the auction. The auction began on February 10, 2015. As at the date of this Report, the auction was still in process.

There can be no assurance that Polkomtel will be able to obtain access to sufficient additional radio frequencies or that it will obtain such access on favorable terms. In particular, there can be no assurance that Polkomtel will obtain access to any additional radio frequencies in the upcoming auction for frequency allocation in the 800 MHz and 2600 MHz bands, or that as a result of that auction Polkomtel will obtain access to a sufficient portion of the frequency band allowing it to provide telecommunications services of sufficient quality to successfully compete with the mobile telecommunications network operators that obtain access to the remaining frequencies.

Polkomtel's inability, or limited ability, to obtain access to frequency bands important for further development of Polkomtel's operations (on favorable terms or at all), including maintaining the existing or implementing new or improved mobile technologies, or obtaining such access by competitors can have a material adverse effect on Polkomtel's business, financial condition, results of operations and prospects.

We may not be able to realize the benefits expected from acquisition of Metelem Holding Company Limited or from future acquisitions

The success of the acquisition of Metelem Holding Company Limited, a company which indirectly controls Polkomtel, will depend, inter alia, on our ability to successfully implement our strategy which assumes integration of our business processes to achieve significant cost and revenue synergies. The transaction will result in significant expansion of our operations, and therefore we intend to take steps to integrate business processes of Metelem's subsidiaries within our enlarged capital group. If we are unable to achieve all or some of our objectives, the benefits of the Transaction, including the expected revenue and cost synergies, might differ from what has been originally planned, may not be fully realised, may not be realised at all, or may take longer to be fully realised.

We cannot rule out that the post-Transaction integration of our business processes may lead to the loss of our key staff, interruption of day-to-day operations in our current business segments, or inconsistencies in our standards, procedures and policies, which could affect our ability to continue good relations with our employees and third parties or to fully realise the

potential benefits of the Transaction. In particular, in order to achieve the expected objectives of the transaction, we must identify and optimise certain areas of our business and certain assets across our organisation. Our inability to realise the expected benefits of the transaction fully or at all, or any delays in the integration process may have a significant adverse effect on our business. The integration process may also bring about additional unexpected expenses, while the expected benefits of the integration process may not be achieved. This may have a material adverse effect on our business, financial condition, results of operations or prospects.

5.3. Risk factors associated with the Group's financial profile

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

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

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

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

Our facility agreements and notes indentures provide for a number of restrictions and obligations (including maintaining specified financial ratios), limiting the Group's ability to incur new debt for financing future operations or to pursue business opportunities and activities that may be in our interest.

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

Moreover, we may need to incur a significant amount of new debt in the future. In particular, the terms and conditions of the Senior Facilities Agreement 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 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 Senior Facilities Agreement and PLK Senior Facilities Agreement, we are under the obligation to repay our liabilities under both agreements. Moreover, if a change of control takes place, our ability to repay our debt will be limited by the level of available funds at the time. There can be no assurance that those funds will be sufficient to repay outstanding debts. In view of the above, we believe that in the case of change of control over the Company, we would require additional financing in order to repay the debt.

Furthermore, 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.

5.4. Risk factors associated with the legal and regulatory environment

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

Tax laws in Poland are complex, unclear and subject to frequent and unpredictable changes. Therefore, the application of tax regulations by taxpayers and tax authorities gives rise to controversies and disputes, which are usually finally settled by administrative courts.

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

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

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

Tax authorities may question the accuracy of intra-Group and related-party settlements under applicable transfer pricing regulations

In the course of their business, the Group companies enter into transactions with their related parties within the meaning of the Corporate Income Tax Act. Related-party transactions, which guarantee that the Group's business is run efficiently, include inter-company rendering of services and sale of goods. When entering into and performing related-party transactions, the Group companies take steps to ensure that terms and conditions of such transactions are consistent with the applicable transfer pricing regulations. At the same time, no assurance can be given that the Group companies will not be subjected to audits and other inspections by tax authorities and tax inspection bodies with respect to the foregoing. The nature and diversity of transactions with related-parties, the complexity and ambiguity of the regulations governing methods of verifying the prices applied, dynamic changes in market conditions affecting the calculation of prices applied in such transactions, as well as the difficulty in identifying comparable transactions, the risk that the methodology used to determine arm's-length terms for the purpose of such transactions is questioned by tax authorities cannot be excluded, and therefore tax authorities

may question the accuracy of settlements between the Group companies and their related parties under applicable transfer pricing regulations, which may have material adverse effect on our business, financial condition, results of operations or prospects.

Assessment of tax effects of the Group's restructuring activities by Polish tax authorities may differ from assessment of such activities by the Group

The current composition of the Group is a result of consolidation, restructuring and other transactions involving assets of considerable value, implemented over the recent years by and between the Group's companies. Those activities had an effect on the tax settlements not only of the companies directly involved in such consolidation, restructuring and other transactions involving assets of considerable value, but also of their respective members or shareholders.

Despite monitoring the risk in individual business areas, with respect to completed and planned restructuring activities, no assurance can be given that Polish tax authorities will not have a different assessment of tax effects of individual restructuring events and transactions, both completed and planned, in particular with respect to the possibility, manner, and timing of the recognition of income and tax-deductible expenses by entities participating in such events and transactions, or that financial terms of such activities will not be questioned, which may have a material adverse effect on our business, financial condition, results of operations or prospects.

Tax regime applicable to our operations and the sector in which we operate create numerous uncertainties

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

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

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

Property tax laws give rise to numerous interpretation uncertainties

Polkomtel uses a significant number of telecommunications infrastructure facilities located on real property. Property tax laws give rise to numerous interpretation uncertainties, in particular with respect to the tax base and the determination of items subject to tax. The definition of a structure and its practical use under the Local Taxes and Charges Act might lead to disputes with tax authorities. Therefore, no assurance can be given that there will be no disputes between Polkomtel and tax authorities as to the amount of the property tax payable, as well as unfavorable rulings in this respect.

The ongoing work on amendments to the Local Taxes and Charges Act aim in particular at clarifying the definitions of a building and of a structure under the act. Given the early stage of the legislative process, the final amendments remain unknown. Please note, however, that the intended amendments to the act (in particular with respect to the tax base and the determination of items subject to property tax) may affect the amount of property tax payable for the telecommunications infrastructure facilities used by Polkomtel. Such circumstance may have a material adverse effect on Polkomtel's business, financial condition, results of operations and prospects.

The Group's companies are subject to legal regulations (including tax legislation) in force in the countries in which they operate

Given the international character of the Group, its companies are governed by legal regulations (including tax legislation) in force in the countries in which they operate. Therefore, in view of such dissimilar legal frameworks, there is a risk that the Group will interpret local legal regulations (including tax legislation) in a way which is divergent from their construction by the country's tax authorities. The diversity of legal regulations by which individual companies are bound may give rise to internal problems within the Group, including with respect to the law governing legal relations between the Group's entities. Another aspect of the relationship between Polsat Group companies which may raise doubts is the application and interpretation of double-tax treaties concluded between countries in which the companies operate.

At the same time, in many cases the legal regulations (including tax legislation) in countries where the Group conducts its business are frequently ambiguous and there is no single or uniform interpretation or practice followed by local tax authorities. Additionally, such countries' tax legislation (including the provisions of applicable double-tax treaties) may be subject to change. The practice adopted by tax authorities in respect of particular tax regulations may change as well, even retroactively.

Therefore, no assurance can be given that there will be no disputes with tax authorities in countries where the Group conducts its business, and consequently that the tax authorities will not question the correctness of the Group companies' tax settlements on non-statute-barred tax liabilities, and will not determine the existence of tax arrears of such Group companies, which may have an adverse effect on our business, financial condition, results of operations or prospects.

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

Our operations are reviewed by UOKiK to ensure that we comply with Polish laws prohibiting practices that limit competition or violate the collective interests of consumers, including providing inaccurate information to customers, dishonest market practices or use of abusive contract clauses. In addition, the President of UOKiK and natural persons can bring court actions against us to determine whether our standard consumer contracts contain any abusive clauses. If a court finds any of our practices or contract terms to be misleading or in conflict with Polish 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 by UOKiK, 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. 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. In addition to proceedings pending before the President of UOKiK, consumers can bring court actions against us, claiming that certain provisions of our standard customer contracts violate consumer protection laws. 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, including a newly introduced act that allows for 'group claims', could increase the scope or scale of our potential liability or the scope of consumer rights. For example, there has been an extension of the range of situations in which customers are entitled to terminate their agreements without obligation to pay any contractual penalty. This may happen, among others, in the event of changes in the terms and conditions of agreements even if such amendment is in customers' favor. Such early terminations of agreements with our customers may result in a significant increase in our customer retention costs and churn rate. Such events may have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be adversely affected by changes in Polish and European Union regulation of the levels of MTR and roaming charges

As part of telecommunications market regulation in Poland, the President of UKE may determine MTR between telecommunications operators. In recent years, the regulator has used this power several times, and reduced MTR's. As a result of decisions of the President of UKE, voice MTRs were reduced by 74% in the period from January 2010 to July 2013. There can be no assurance that there will not be any further MTR reductions in the future, which may directly affect our financial performance.

Polkomtel's roaming rates are also regulated. European Union regulators have also imposed price restrictions applicable to all operators in the European Union (both at the retail and wholesale level). At present, the roaming rates in the EU are regulated by the Regulation (EU) No. 531/2012 of June 13, 2012, which foresees further cuts in roaming rates as of July 1, 2014. The proposal for regulation on unified telecommunications market foresees complete removal of roaming charges in the EU. On April 3, 2014, the European Parliament approved the draft regulation. In line with the schedule adopted by the European Parliament, the final draft of the proposal should have been approved by the Member States by the end of 2014. The new regulations are expected to take effect in December 2015. Reduction or removal of roaming charges in the EU may have an adverse effect on our revenue, and consequently on its performance and financial standing.

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

6.1. Material transactions concluded by the Company or its subsidiaries with related parties on conditions other than market conditions

Transactions concluded in 2014 by us or our subsidiaries with entities related to Cyfrowy Polsat Capital Group have all been concluded on market conditions and are described in Note 43 of the consolidated financial statements for the financial year ended December 31, 2014.

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

Management believes that the provisions for litigations as at December 31, 2014 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

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

On February 24, 2011 the President of UOKiK imposed penalty on Polkomtel in the amount of PLN 130.7 million for the alleged lack of cooperation during an inspection carried out by UOKiK in Polkomtel. Polkomtel appealed against the decision of the President of UOKiK to the Consumer and Competition Protection Court ('SOKiK'). According to management, during the inspection the Company had fully and at all times cooperated with UOKiK within the scope provided by the law. On June 18, 2014 the decision of the President of UOKiK has been changed by SOKiK, reducing the penalty to PLN 4 million (i.e. EUR 1 million). The verdict is non-binding and was appealed against by both parties. In management's opinion it is more likely than not that the ultimate outcome of the proceedings will be favorable to Polkomtel.

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

On December 27, 2012 the President of UOKiK issued a decision ending investigations related to Polkomtel's alleged practices which infringed upon the collective interests of consumers by presenting misleading slogans in advertising campaigns. Pursuant to the decision of the President of UOKiK, Polkomtel was charged with a penalty in the amount of PLN 4.5 million. The Company appealed to SOKiK against the decision. On October 15, 2014, SOKiK issued a decision where the penalty has been reduced to PLN 1.5 million. The judgment is not final.

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

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

On December 15, 2014, Polkomtel received a claim from Orange for the total amount of PLN 21 million related to the actions allegedly contrary to the obligations arising under the agreement for the transfer of rights to radio frequencies. On January 13, 2015 the company filed an answer to the claim. In management's opinion the claim is groundless.

In addition to the matters described above, there are also other proceedings, for which provisions have been made according to the best estimates of the management board members as to potential future outflows of the economic benefits required for their settlement.

6.3. Changes to the principle rules of management of our Company and the Capital Group

There were no changes to the principle rules of management of our Company and the Capital Group in the year 2014.

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

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

6.5. Trade unions

Two trade unions are active at Polkomtel Group: Niezależny Samorządny Związek Zawodowy Solidarność (the Solidarity Independent Self-Governing Trade Union) and Ogólnopolskie Porozumienie Związków Zawodowych (All-Poland Alliance of Trade Unions). At December 31, 2014, 181 employees (expressed as full-time equivalents), or 5.2% of the total workforce of Polkomtel Group, were trade union members. At the date of publication of this Report, we are not involved in, or aware of, any dispute with trade unions or any form of collective bargaining.

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, 2014:

Series	Number of shares	Type of shares	Number of votes at the General Meeting	Face value /PLN
A	2,500,000	Preference shares (2 voting rights)	5,000,000	100,000.00
B	2,500,000	Preference shares (2 voting rights)	5,000,000	100,000.00
C	7,500,000	Preference shares (2 voting rights)	15,000,000	300,000.00
D	166,917,501	Preference shares (2 voting rights)	333,835,002	6,676,700.04
D	8,082,499	Ordinary bearer shares	8,082,499	323,299.96
E	75,000,000	Ordinary bearer shares	75,000,000	3,000,000.00
F	5,825,000	Ordinary bearer shares	5,825,000	233,000.00
H	80,027,836	Ordinary bearer shares	80,027,836	3,201,113.44
I	47,260,690	Ordinary bearer shares	47,260,690	1,890,427.60
J	243,932,490	Ordinary bearer shares	243,932,490	9,757,299.60
Total	639,546,016		818,963,517	25,581,840.64
including:	179,417,501	Registered	358,835,002	7,176,700.04
	216,196,025	Floating	216,196,025	8,647,841.00

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

The shareholding structure as at the date of publication 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 8.5 – *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, WIG30, WIG-MEDIA
market	main
quotation system	continuous
sector	media

International Securities Identification Number (ISIN)	PLCFRPT00013 ⁽¹⁾
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Cyfrowy Polsat's identification codes

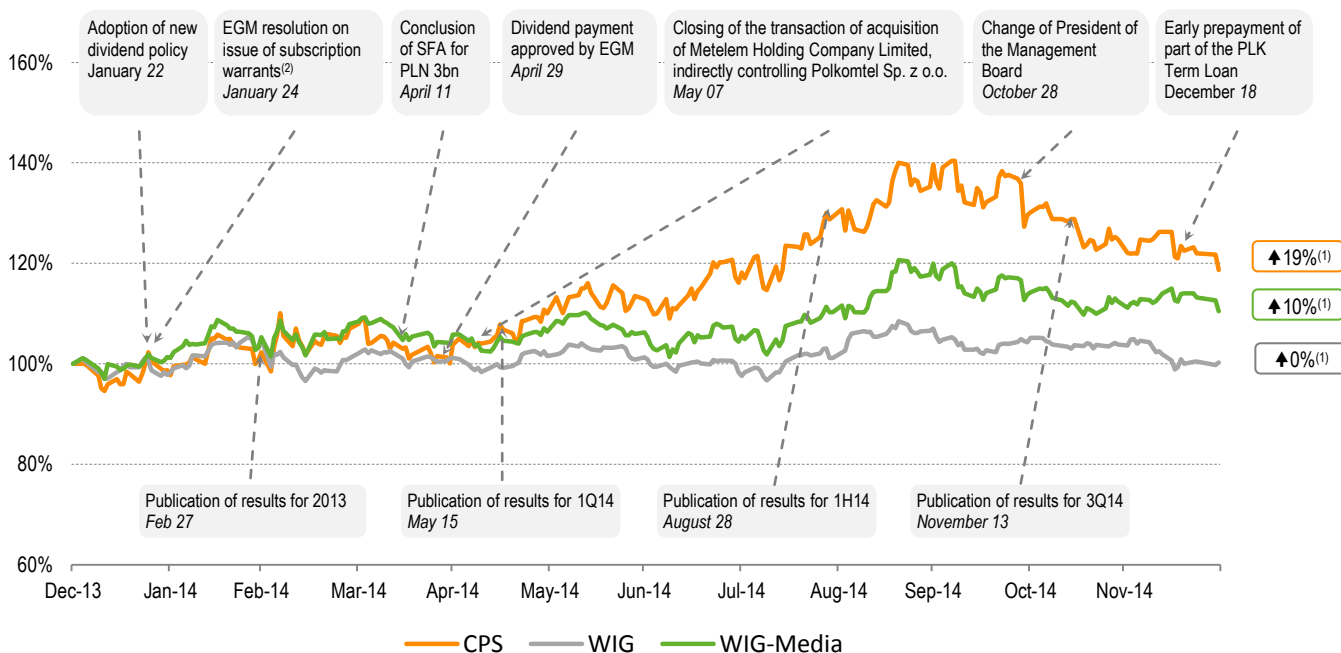
WSE	CPS
Reuters	CYFWF.PK
Bloomberg	CPS:PW

(1) Shares admitted to trading on the WSE.

7.2. Shares quotes

Performance of Cyfrowy Polsat shares in 2014

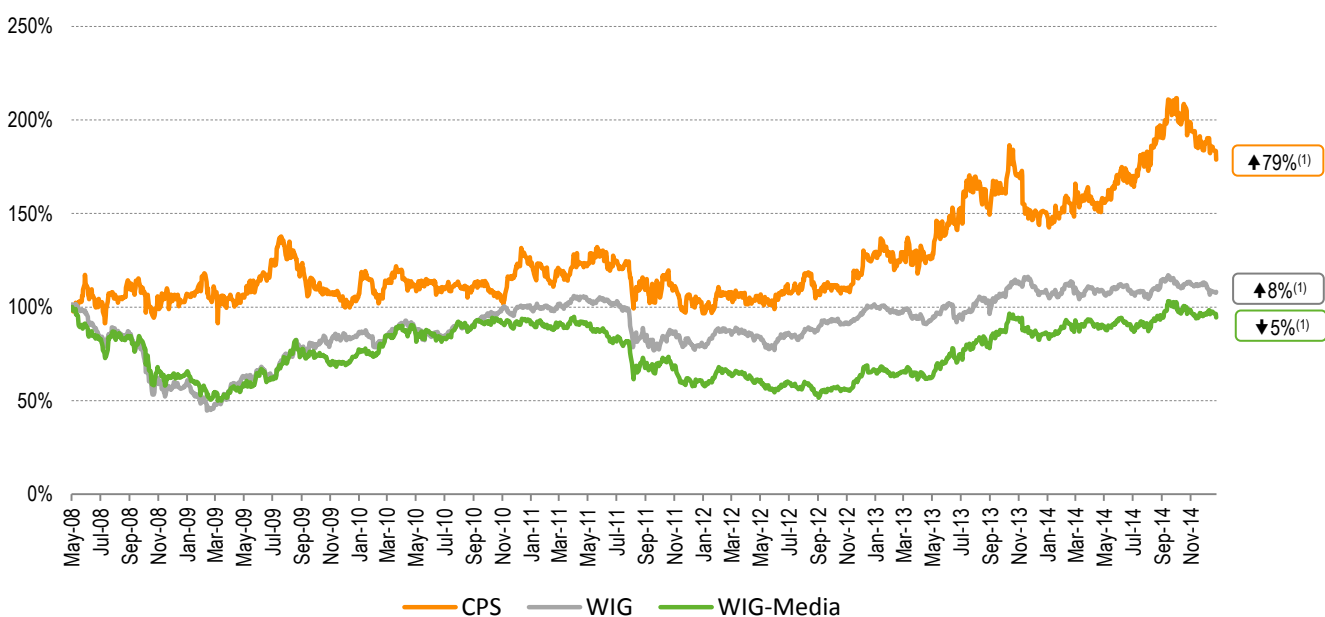
(indexed; 100 = closing price on December 30, 2013)



⁽¹⁾ change Dec. 30, 2014 vs Dec. 30, 2013

Performance of Cyfrowy Polsat shares since the debut on the WSE in May 2008 until the end of 2014 compared to WSE indexes

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



⁽¹⁾ change Dec. 30, 2014 vs May 6, 2008

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



(1) share price on October 6-7, 2014

(2) share price on July 15-16, 2008, March 12, 2009

(3) On April 20, 2011, the Company issued 80,027,836 ordinary bearer H Series shares with a nominal value of four grosz (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

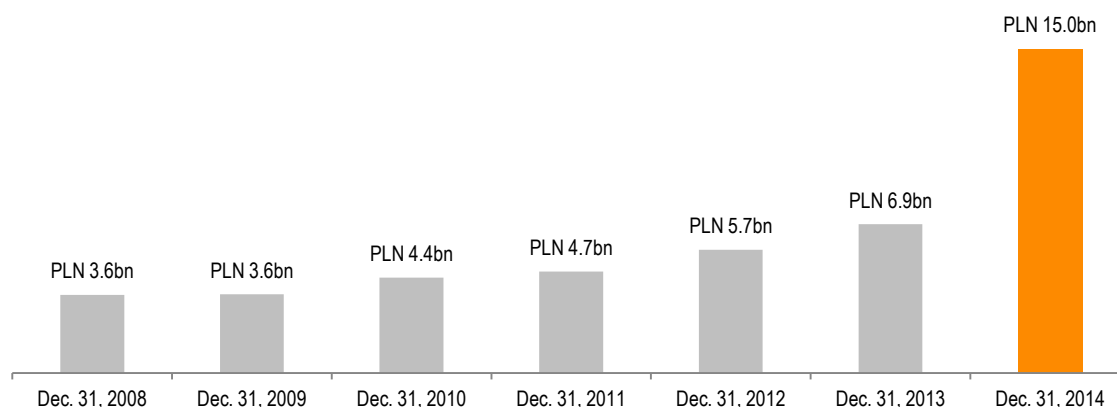
(4) On May 7, 2014 the Company issued 47,260,690 Series I shares and 243,932,490 Series J shares with the nominal value of PLN 0.04 each. On May 14, 2014 these shares were registered in the Central Securities Depository of Poland with ISIN codes PLCFRPT00013 and PLCFRPT00021, respectively. Series I shares were admitted to trading on May 12, 2014 pursuant to the resolution 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 2014

		2014	2013
Year-end price	PLN	23.50	19.80
High for the year	PLN	27.80	24.50
Low for the year	PLN	18.73	15.50
Average for the year	PLN	22.86	19.28
Average daily turnover	PLN '000	9,966	6,694
Average daily trading volume	shares	439,978	347,301
Number of shares (as at year-end)	shares	639,546,016	348,352,836
Bearer shares	shares	216,196,025	168,935,335
Market capitalization (as at year-end)	PLN '000	15,029,331	6,897,386

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

In terms of market capitalization, that amounted to PLN 15.0 billion as of the end of 2014, Cyfrowy Polsat is the largest media and telecommunications company quoted on the Warsaw Stock Exchange and in Central Eastern Europe.



7.3. Recommendations

Brokers covering the Company:

Local

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

International

- Banco Espírito Santo de Investimento, S.A.
- Deutsche Bank Securities S.A.
- ERSTE Group Research
- Goldman Sachs
- ING Securities S.A.
- Raiffeisen Centrobank AG
- UBS Investment Bank

Recommendations for the shares of Cyfrowy Polsat published in 2014

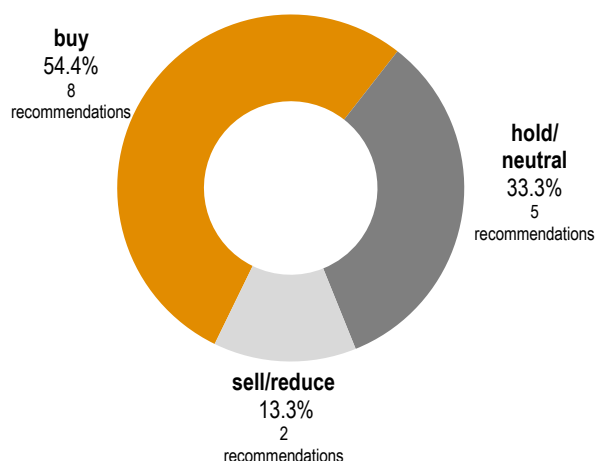
Issue date	Insitution	Target price	Recommendation [PLN]
December	ING Securities S.A.	↑ Buy	29.10
December 15	DM mBanku S.A.	↓ Reduce	22.00
December 11	Banco Espírito Santo de Investimento, S.A.	↑ Buy	29.10
December 10	Pekao Investment Banking S.A.	– Hold	26.00
December 8	Trigon Dom Maklerski S.A.	↑ Buy	29.40
December 4	DM PKO BP S.A.	↑ Buy	28.40
October 24	Deutsche Bank Securities S.A.	– Hold	28.00
October 20	Dom Maklerski BZ WBK S.A.	↑ Buy	32.20
October 13	UBS Investment Bank	↑ Buy	30.00
September 16	ING Securities S.A.	↑ Buy	29.90
September 1	Dom Maklerski BOŚ S.A.	– Hold	26.50
August 4	Dom Maklerski BZ WBK S.A.	↑ Buy	31.40
July 22	Banco Espírito Santo de Investimento, S.A.	↑ Buy	27.10
July 21	Raiffeisen CENTROBANK	↑ Buy	26.50
July 21	Goldman Sachs	– Neutral	25.90
July 17	Dom Maklerski BOŚ S.A.	↑ Buy	26.50
July 10	Deutsche Bank Securities S.A.	↑ Buy	27.00
June 23	DM PKO BP S.A.	– Hold	23.60
June 26	Pekao Investment Banking S.A.	↑ Buy	26.00

Issue date	Institution	Target price	Recommendation [PLN]
June 25	UBS Investment Bank	↑ Buy	27.00
May 23	ING Securities S.A.	↑ Buy	24.70
April 30	Trigon Dom Maklerski S.A.	↑ Buy	26.40
March 27	Deutsche Bank Securities S.A.	– Hold	22.60
March 17	Raiffeisen Centrobank AG	– Hold	23.20
February 11	ING Securities S.A.	– Hold	21.20
January 13	Raiffeisen Centrobank AG	↑ Buy	23.20
January 10	DM mBanku S.A.	↑ Buy	24.10

Recommendations issued in 2015 published after the reporting date

February 18	Raiffeisen Centrobank AG	↑ Buy	29.00
February 17	Goldman Sachs	– Neutral	27.30
February 11	Dom Maklerski BZ WBK S.A.	↑ Buy	31.10
February 10	ERSTE Group Research	– Hold	26.00
February 2	Trigon Dom Maklerski S.A.	↑ Buy	28.80
January 19	IPOPEMA Securities S.A.	↑ Buy	26.70
January 19	Dom Maklerski BDM S.A.	↓ Reduce	20.11
January 16	Deutsche Bank Securities S.A.	– Hold	26.00

Recommendations structure as at March 3, 2015



Target price as at March 3, 2015 [PLN]

minimum	20.11
maximum	31.10
average	27.07

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 events have an open character.

In 2014, we participated in over 180 meetings and teleconferences with 220 representatives of the capital market.

In communication 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.

Moreover, in our communications we use such tools as website dedicated to investors (<http://www.cyfrowypolsat.pl/inwestor>), electronic newsletters, 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.

7.5. Dividend policy

In accordance with the dividend policy adopted by the Management Board on January 22, 2014, the Company intends to provide its shareholders with a share in the generated profit through the payment of dividends. When recommending the Company's profit distribution scenario for a given financial year to which the new dividend policy will apply, the Management Board of the Company shall submit a proposal to the General Meeting for the distribution of dividends representing from 33% to 66% of the standalone net profit of the Company, provided that the total indebtedness ratio of the Company's capital group, i.e. net debt to EBITDA as at the end of the financial year to which the profit distribution refers is less than 2.5x.

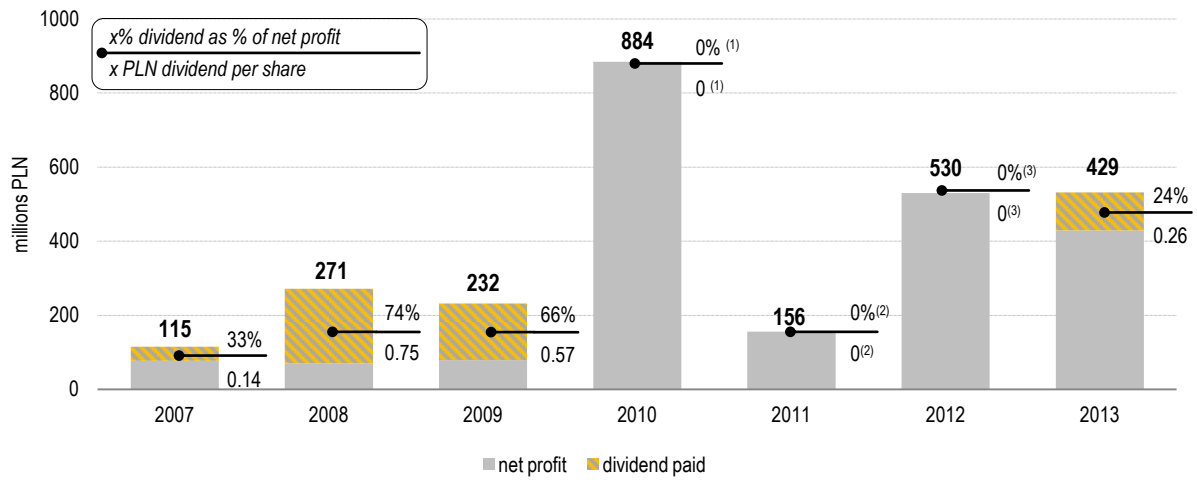
When preparing the recommendation for the distribution of the Company's profit and the dividend payment, the Management Board will also take into consideration: the amount of standalone net profit achieved by the Company, the financial condition of the Company's capital group, existing obligations (including any restrictions arising from financing agreements and indebtedness of the Company and other members of its group), the ability to use and manage capital reserves, the Management and Supervisory Boards' assessment of the prospects of the Company and its capital group in a particular market situation, as well as the need to make expenditures in pursuit of the overriding goal of the Company, that is its continued growth, in particular through acquisitions and engaging in new projects. According to the resolution of the Management Board, the new dividend policy shall come into effect as of and first apply to the standalone net profit for the financial year ending December 31, 2014.

Acting in accordance with resolution no. 20 of the Ordinary General Meeting, held on April 29, 2014, regarding profit distribution, the Company's total standalone net profit for the financial year ended December 31, 2013 in the amount of PLN 429 million was appropriated as follows:

- PLN 102.9 million to dividends payable to the shareholders of the Company;
- PLN 326.1 million to the supplementary capital;

The number of shares carrying the right to dividend was 395,613,526, of which 348,352,836 were Series A to Series H shares of the Company and 47,260,690 were Series I shares, which were issued by the Company under conditional increase in the share capital approved by the Extraordinary General Meeting of 16 January 2014. The dividend payment day was June 6, 2014.

History of profit sharing



⁽¹⁾ net profit allocated entirely to reserve capital according to the resolution of the General Meeting on May 19, 2011 adopted based on the recommendation of the Management Board, justified by the need of future service of the debt incurred by the Company to purchase 100% shares of Telewizja Polsat.

⁽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, adopted based on the recommendation of the Management Board, justified by the need of future service of the debt incurred by the Company to purchase 100% shares of Telewizja Polsat.

⁽³⁾ net profit distributed in total to reserve capital according to the resolution of the General Meeting on June 11, 2013

8. CORPORATE GOVERNANCE STATEMENT

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

The Company is subject to the set of principles of the corporate governance for joint-stock companies issuing shares, convertible bonds, or senior bonds that are admitted to trade on the stock exchange. The principles of corporate governance in the form of the Best Practices of WSE Listed Companies, constitute an appendix to the Resolution No. 12/1170/2007 of the Council of WSE of July 4, 2007, amended by the following resolutions of WSE Council: no. 17/1249/2010 dated May 19, 2010, no. 15/1282/2011 dated August 31, 2011, no. 20/1287/2011 dated October 19, 2011 and no. 19/1307/2012 dated November 21, 2012 (amendments introduced in 2012 came into force on January 1, 2013).

The content of the document, prepared by the WSE, is publicly available at the seat of the Warsaw Stock Exchange (WSE) and on the website of WSE dedicated to those issues at <http://corp-gov.gpw.pl>.

8.2. Principles of corporate governance that the Company has waived

We make every possible effort to employ the corporate governance principles, set out in the above document, trying to execute all the recommendations regarding best practices of WSE Listed Companies and all recommendations directed to the management boards, supervisory boards and shareholders in all areas of our business.

In 2014, as a principle, we employed all the rules in force included in Parts: II, III and IV, to which the principle 'comply or explain' applies.

However, the Company has not implemented changes in the organization of the General Meeting so as to comply with principles – included until the end of 2012 in Part I, since January 2013 transferred to the principles laid down in Parts IV and II – regarding direct transmission and providing two-way communication as well as publication of audio or video recording of the General Meeting on the Company website. Thus the Company has violated the principle set out in Part IV section 10 and in Part II section I point 9a on the occasion of the General Meetings of the Company held in 2014. At the moment, the Management Board does not plan to make changes to the organization of the General Meeting. Ensuring the smooth running and the validity of the resolutions adopted by the General Meeting, as well as cost optimization are the priorities of the Management Board. Considering the small spread of the practice of conducting General Meetings using electronic means of communication and incomplete readiness of the market, and thus an increased risk of organizational and technical disturbances, the Management Board decided to postpone the consideration of the implementation of the rules in question. Concerning the recommendations stated in Part I, we need to comment on three issues.

Recommendation 1.12. We have waived the recommendation 1.12 enabling shareholders to exercise their right to vote in person or through a plenipotentiary from a location other than the General Meeting using electronic means of communication given the legal questions concerning this issue. Ensuring the smooth running and the validity of the resolutions adopted by the General Meeting are the priorities of the Management Board and at present the Management Board does not plan to make changes to the organization of the General Meeting.

Recommendation 1.5. The Company does not comply with the recommendation in relation to setting policy of remuneration of members of managing and supervising bodies. The rules of remuneration of the members of managing and supervising bodies were not developed based on provisions of directives of the European Commission and thus, not all the recommendations are applied. 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 members 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. The remuneration of the Management Board members is set by the Supervisory Board and reflects the duties and responsibilities appointed to them.

Recommendation 1.9 'Warsaw Stock Exchange recommends public companies and their shareholders to ensure the balanced participation of men and women in performing management and supervision functions in the enterprises, thus enhancing creativity and innovations in their businesses'. In Cyfrowy Polsat, members of the Supervisory Board and the Management Board are appointed by the General Meeting and the Supervisory Board, respectively, based on qualifications, experience and competencies of the candidates. Factors such as gender are not considered when choosing the members of

the Company's bodies. Company authorities believe that this approach guarantees the selection of the best persons to perform functions of management and supervision.

8.3. 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 of 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 connected/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 is 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 the 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 an 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 Supervisory Board, 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 ensuring the accuracy of the audit.

An audit committee, appointed within the Company's Supervisory Board, supervises the financial reporting process in the Company. The Audit Committee oversees the financial reporting process, in order to ensure sustainability, transparency and integrity of financial information. The audit committee includes two members of the Supervisory Board, who meet the independence criteria set out in the Best Practices of WSE Listed Companies in Chapter III, Section 6 and the requirements

of the Act of May 7, 2009 'On chartered auditors and their governing bodies, entities entitled to audit financial statements and on public supervision' in article 86 item 4.

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

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

On November 14, 2014, the Company entered into an agreement with PricewaterhouseCoopers Sp. z o.o., with registered office in Warsaw at 14 Al. Armii Ludowej, for the performance of an audit of standalone financial statements for the financial year ended December 31, 2014 of Cyfrowy Polsat S.A. and the consolidated financial statements of Cyfrowy Polsat Group for the financial year ended December 31, 2014.

The following summary presents a list of services provided by the certified auditor and remuneration for the services (expressed in millions PLN) in the twelve month period ended on December 31, 2014 and December 31, 2013.

	For the year ended	
	December 31, 2014 [mPLN]	December 31, 2013 [mPLN]
Remuneration for audit of the financial statements for the year and other certifying services, including the review of financial statements	1.8	1.0
Other services	2.0	0.4
Total	3.8	1.4

8.5. Share capital and shareholding structure of Cyfrowy Polsat

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

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

Shareholder	Number of shares	% of shares	Number of votes	% of votes
Reddev Investments Limited ⁽¹⁾, including:	154,204,296	24.11%	306,709,172	37.45%
- privileged registered shares	152,504,876	23.85%	305,009,752	37.24%
- ordinary bearer shares	1,699,420	0.27%	1,699,420	0.21%
Argumenol Investment Company Limited ⁽²⁾	28,415,173	4.44%	28,415,173	3.47%
Embud Sp. z o.o. ⁽²⁾	29,648,775	4.64%	29,648,775	3.62%
Karswell Limited ⁽²⁾	157,988,268	24.70%	157,988,268	19.29%
Sensor Overseas Limited ⁽³⁾, including:	54,921,546	8.59%	81,662,921	9.97%
- privileged registered shares	26,741,375	4.18%	53,482,750	6.53%
- ordinary bearer shares	28,180,171	4.41%	28,180,171	3.44%
Others	214,367,958	33.52%	214,539,208	26.20%
Total	639,546,016	100.00%	818,963,517	100.00%

(1) Reddev Investments Limited is a direct subsidiary of Pola Investments Limited controlled by TiVi Foundation, the dominant entity of which is Mr. Zygmunt Solorz-Żak.

(2) Entity controlled by Mr. Zygmunt Solorz-Żak.

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

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

On December 23, 2014, Sensor - the Company's shareholder - issued new shares (representing ca. 76% of Sensor's capital following its increase) which have been taken up by EVO Holding Ltd., seated in Road Town, Tortola, British Virgin Islands ('EVO'), being a subsidiary of EVO Foundation, seated in Vadus, Liechtenstein ('the Foundation'), which resulted in Sensor becoming an indirect subsidiary of the Foundation.

Prior to the above mentioned share issue by Sensor, the Foundation did not hold any shares in the Company, either directly or indirectly.

Following the above mentioned share issue by Sensor, the Foundation holds, via Sensor, for which EVO, a subsidiary of the Foundation, is a directly dominant entity, 54,921,546 shares in the Company, constituting 8.59% of the Company's share capital which represent 81,662,921 votes at the general meeting of the Company, which constitutes 9.97% of the total number of votes in the Company, including:

- a) 26,741,375 privileged registered shares constituting 4.18% of the Company's share capital, representing 53,482,750 votes at the general meeting of the Company, which constitutes 6.53% of the total number of votes in the Company, and
- b) 28,180,171 bearer shares constituting 4.41% of the Company's share capital, representing 28,180,171 votes at the general meeting of the Company, which constitutes 3.44% of the total number of votes in the Company.

The above mentioned issue of shares resulted in the loss by Mr. Heronim Ruta of his status of a dominant entity to Sensor. There exist no subsidiaries of Mr. Heronim Ruta which hold shares in the Company.

On December 30, 2014, Argumenol, entity controlled by Mr. Solorz-Żak, disposed to Embud Sp. z o.o. ('Embud') seated in Warsaw, Poland, entity also controlled by Mr. Solorz-Żak 29,648,775 ordinary series J bearer shares of the Company.

Before the above mentioned transaction, Argumenol held 58,063,948 shares of the Company, constituting 9.08 % of the Company's share capital, representing 58,063,948 votes at the general meeting of the Company, which constituted 7.09 % of the total number of votes in the Company.

As a result of the above mentioned transaction, Argumenol currently holds 28,415,173 shares of the Company, constituting 4.44 % of the Company's share capital, representing 28,415,173 votes at the general meeting of the Company, which constitutes 3.47 % of the total number of votes in the Company.

Embud did not hold any shares in the Company prior to the above mentioned acquisition of the Company's shares.

As a result of the above mentioned transaction, Embud currently holds 29,648,775 shares of the Company, constituting 4.64 % of the Company's share capital, representing 29,648,775 votes at the general meeting of the Company, which constitutes 3.62 % of the total number of votes at the General Meeting of the Company. Moreover, on December 31, 2014 Embud sent a lock-up letter to the Company, regarding the aforementioned shares, resulting from restriction of sale of the shares by which Argumenol is bound (for details see item 8.5.4. - *Limitations related to shares*).

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

On December 31, 2014 the Company received a notice from Embud, provided under article 69 of the Act dated July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies regarding the acquisition of the Company's shares by Embud on December 30, 2014 (for details see the previous item - *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*). According to this notice, Embud intends to increase the share in the total number of votes at the general meeting of the Company over a period of 12 months since submitting this information.

As at the date of publication of this Report the Company does not have any further information on agreements which can result in a change in the proportion of shares held by hitherto shareholders in the future.

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

The following table present information relating to shares held directly and indirectly by particular members of the Management Board as at date of the publication of this Report, i.e. March 4, 2015:

	Number of shares	Nominal value of shares [PLN]
Tomasz Gillner-Gorywoda	-	-
Tobias Solorz	-	-
Dariusz Dziakowski	-	-
Aneta Jaskólska	-	-
Maciej Stec	-	-
Tomasz Szelaĝ	-	-
Total	-	-

The following table present information relating to shares held directly and indirectly by particular members of the Supervisory Board as at date of the publication of this Report, i.e. March 4, 2015:

	Number of shares	Nominal value of shares [PLN]
Zygmunt Solorz-Żak ⁽¹⁾	370,256,512	14,810,260.48
Robert Gwiazdowski	-	-
Andrzej Papis	-	-
Leszek Reksa	-	-
Heronim Ruta ⁽²⁾	-	-
Total	370,256,512	14,810,260.48

(1) Mr. Zygmunt Solorz-Żak does not hold directly any shares in the Company. Information on entities controlled by Mr. Zygmunt Solorz-Żak that hold shares in the Company is presented in item 8.5.1 - *Shareholders holding, directly or indirectly, material bundles of shares*.

(2) In accordance with the statement received from Mr. Heronim Ruta on December 30, 2014, following the issue of new shares by Sensor Overseas Limited (detail in item 8.5.1 - *Shareholders holding, directly or indirectly, material bundles of shares*). Mr. Heronim Ruta lost his status of a dominant entity to Sensor.

8.5.3. 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, 2014 the shares of the A through D series are shares preferential as to the voting rights in the way that:

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

The holders of shares with special controlling rights are: Reddev Investments Ltd. (152,504,876 shares giving 305,009,752 voting rights on General Meeting), Sensor Overseas Ltd. (26,741,375 shares giving 53,482,750 voting rights on General Meeting) and Koma Fundusz Inwestycyjny Zamknięty (171,250 shares giving 342,500 voting rights on General Meeting).

8,082,499 D Series shares, numbered 166,917,502 -175,000,000; 75,000,000 E Series shares; 5,825,000 F Series shares, 80,027,836 H Series shares, 47,260,690 I Series shares and 243,932,490 J Series shares are ordinary bearer shares.

8.5.4. Limitations related to shares

There are no limitations to the exercise of voting rights.

Series J shares are subject to a lock-up, resulting from statements submitted on January 22, 2014 by Karswell Limited, Sensor Overseas Limited and Argumenol Investment Company Limited, of which the Company informed in current report no. 8/2014 dated January 23, 2014 ('Lock-up Statements').

Over a period of 360 days following the submission by each of the companies referred to above of a representation on the acquisition of Series J shares (i.e. since May 7, 2014), these companies shall not offer or sell any Series J shares or securities convertible or exchangeable into Series J shares or enabling the acquisition of the same through the exercise of rights attached to such securities, nor other rights that enable them to acquire Series J shares, nor other securities or financial instruments valued directly or indirectly with reference to the price of Series J shares being their underlying instruments, including share swaps, futures and options.

Furthermore, the companies referred to above declared that they shall not enter into any other transaction that may result in an offer or sale of Series J shares, except for transfer to the entities from the same capital group as the given company or entities established by the entities from the same capital group as the given company, provided that prior to the transfer to the entities referred to above, the given company will ensure that such an entity makes a representation to the Company with substantially the same content as the Lock-up Statements, covering the period from the date of acquisition of Series J shares by such an entity to a date falling 360 days after the submission of the representation on the acquisition of Series J shares by the given company.

For the avoidance of doubt, the restrictions referred to in the preceding paragraph do not exclude the right of the given company to encumber with any right *in rem* all, part or any of held Series J shares, or any other security interest, including, without limitation, pledge (in any form whatsoever) on all, part or any of held Series J shares.

As at the date of publication of this Report the following entities hold shares subject to the lock-up: Karswell Limited (157,988,268 Series J shares), Sensor Overseas Limited (27,880,274 Series J shares), Argumenol Investment Company Limited (28,415,173 Series J shares) and Embud Sp. z o.o. (29,648,775 Series J shares).

8.6. Articles of Association of the Company

An amendment to the Articles of Association requires a resolution of the General Shareholders' Meeting and an registry into the Court register. The general provisions of law and the Bylaws of the General Shareholders' Meeting and the Articles of Association govern the procedure for adopting resolutions regarding amendments to the Articles of Association.

Pursuant to the provisions of the Articles of Association, taking into account the provisions of art. 417 § 4 of the commercial companies code, an amendment to the Articles of Association may take place without a share buyback.

8.7. 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) issue of bonds,
- k) sale or lease of the Company and establishment of a right of use or sale of the Company's plant,
- l) all decisions regarding claims for damages upon establishment of the Company, or activities of management or supervision.

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 asked 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 majority of votes.

As at December 31, 2014 the shareholders participating in the General Meeting had the number of votes corresponding to the number of shares held, observing the fact that the registered shares Series A through C and in part Series D 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.

8.8. Management Board of the Company

8.8.1. Rules regarding appointment and dismissal of the management and their rights

Pursuant to art. 15 of the Articles of Association of the Company the Management Board consist of one or more members, including the President and Vice-president 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 asked during the General Shareholders' Meeting. Moreover, members of the Management Board invited by the Chairman of the Supervisory Board to a Meeting of the Supervisory Board participate in the Meeting with a right to voice their opinion on issues on the agenda.

The General Shareholders' Meeting makes decisions regarding an issue or buy back of our shares. The competencies of the Board in respect to the above are limited to execution of any resolutions adopted by the General Shareholders' Meeting.

8.8.2. Composition of the Management Board and changes in 2014

Currently, our Management Board has six members. The table below presents personal changes in the composition of the Management Board which took place in 2014.

Date	Change
July 30, 2014	The Supervisory Board appointed Tobias Solorz to the position of Member of the Management Board as of September 1, 2014.
October 28, 2014	Dominik Libicki resigned from the position of President of the Management Board, effective immediately.
October 28, 2014	The Supervisory Board appointed Tomasz Gillner-Gorywoda to the position of President of the Management Board.
November 4, 2014	The Supervisory Board appointed Maciej Stec to the position of Member of the Management Board.
December 10, 2014	Following the registration of changes to the Articles of Association of the Company, Tobias Solorz took up the position of Vice-president of the Management Board.

The following table presents names, surnames, functions, date of appointment and date of expiry of the current term of particular members of the Management Board as at December 31, 2014

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Tomasz Gillner-Gorywoda	President of the Management Board	2014	2014	2016
Tobias Solorz	Vice-president of the Management Board	2014	2014	2016
Dariusz Działkowski	Member of the Management Board	2007	2013	2016
Tomasz Szelaǳ	Member of the Management Board	2009	2013	2016
Aneta Jaskólska	Member of the Management Board	2010	2013	2016
Maciej Stec	Member of the Management Board	2014	2014	2016

Tomasz Gillner-Gorywoda has been the President of the Management Board of Cyfrowy Polsat since October 28, 2014. Concurrently, he holds the position of General Director and proxy at Polkomtel Sp. z o.o.

He began his professional career in 1979 in the operational department at LOT Polish Airlines, where he worked for almost 10 years. From 1988 to 2007 he worked abroad performing managerial functions in companies based in Canada (1988-1993) and Australia (1993-2007). After his return to Poland in 2008, he held managerial positions and acted as proxy for several companies. Notably, he was the President of the Management Board of Laris Investments Sp. z o.o. (2008-2013) and Apena S.A. (2011-2012). He has been vice-president of the Management Board of PRN Polska Sp. z o.o. since 2008. Additionally, he acted as proxy for SPV Grodzisk Sp. z o.o. (2012-2013), JK Project Sp. z o.o. (2010-2013) and 3G Sp. z o.o. (since 2011). Moreover, between 2011 and 2012 he held the position of member of the supervisory board of Tower-Service Sp. z o.o.

Mr. Tomasz Gillner-Gorywoda is a graduate of the Faculty of Law and Administration at the University of Warsaw and post-graduate studies in management at Monash University in Melbourne.

Tobias Solorz has been a Member of the Management Board of Cyfrowy Polsat since September 2014 and took up the position of Vice-president of the Management Board in December 2014. Mr. Solorz was first appointed to the Management Board of Polkomtel Sp. z o.o. in November 2011, where he holds the position of President of the Management Board since February 2014.

He has many years of professional experience in the telecommunications, financial and controlling sectors. He began his career in 2003 at Telewizja Polsat S.A. (currently Telewizja Polsat Sp. z o.o.). Between 2007 and 2008 he held the position of Promotion Manager at Cyfrowy Polsat S.A. Between 2008 and 2010 he was a Member of the Management Board of Sferia S.A., where he then continued as Marketing, Advertisement, Sales and Operations Director until March 2011.

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 responsible for technology since August 2007. From November 2001 Mr. Działkowski was the Technical Director of Cyfrowy Polsat S.A. He is also a Member of Management Boards of INFO-TV-FM Sp. z o.o., Redefine Sp. z o.o., Netshare Sp. z o.o., Gery.pl Sp. z o.o. and Frazpc.pl 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 got 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 at the radio and television specialization and has an MBA degree from the University of Maryland.

Aneta Jaskólska has been a Member of the Management Board of Cyfrowy Polsat S.A since July 2010. She is responsible for Legal Department, Administration Department, Personal Department and Safety Department. Mrs. 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., Redefine Sp. z o.o., Netshare Sp. z o.o., Gery.pl Sp. z o.o., Frazpc.pl Sp. z o.o. and Polkomtel Sp. z o.o. Since 2007 Mrs. Jaskólska has been Director of Legal and Regulatory Department of Cyfrowy Polsat S.A.

Between 2004 and 2007 Mrs. 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). Mrs. Jaskólska has many years of experience in the legal advisory and services to large business entities.

Mrs. Jaskólska graduated from the Faculty of Law and Administration of 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 Jagiellonian University.

Maciej Stec is 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 Sp. z o.o.

From the very beginning his professional career was connected with television market. Since 1998 he worked among others for OMD Poland media house, owned by Omnicom Group, where in the years 1998-2003 held a position of Managing Director of Brand&Media OMD. Since February 2003 he was Managing Director of Telewizja Polsat's advertisement office - Polsat Media (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.

Tomasz Szeląg is a Member of the Management Board and Chief Financial Officer since May 2009. Mr. Szeląg is also a Member of Management Board of Polkomtel Sp. z o.o., President of the Management Board of Telewizja Polsat Holdings Sp. z o.o., Cyfrowy Polsat Trade Marks Sp. z o.o., as well as Member of the Management Boards of Cyfrowy Polsat Finance AB, INFO-TV-FM Sp. z o.o., Redefine Sp. z o.o., Netshare Sp. z o.o., Gery.pl Sp. z o.o. and Frazpc.pl Sp. z o.o.

In 2000-2003 Mr. Szeląg was an assistant at Foreign Trade Faculty of the Economic Academy of Wrocław. In May 2003 Mr. Szeląg received PhD title for his thesis on hedging transaction used by world copper producers and went on to become a lecturer in the Faculty of International Economic Relations of the Economic Academy of Wrocław. Between 2003 and 2004 he also held a position of a lecturer in the Wrocław School of Banking - at the Faculty of International Economic Relations. Parallel to his academic career Mr. Szeląg also developed his professional career gaining experience in managerial positions in the area of finance and investment. From 2003, Mr. Szeląg was Chief Specialist in the Currency Risk Department of KGHM Polska Miedź S.A., and then of the Market Risk and Analysis Department. In September 2004, he became Director of the Department. In December 2004, he became Director of Hedging Department of KGHM and held the function until March 2007. From April 2007 to June 2008 he worked as Director of Branch of Société Générale Bank in Wrocław. In July 2008, Mr. Szeląg took the position of Vice-president for Finance in Telefonía Dialog S.A., which he held until March 2009. Mr. Szeląg was responsible for finance, accounting, controlling, and budgeting management, and also owner supervision and capital investment, logistics and purchases, project management and IT.

Mr. Szeląg graduated from the National Economy Faculty of the Economic Academy of Wrocław, with major in International Economic and Political Relations specializing in Foreign Trade.

8.8.3. Bylaws of the Management Board

Our Management Board acts pursuant to the provisions of the commercial companies code, the Company's Articles of Association and the Bylaws of Management Board approved by the Supervisory Board on 29 November 2007.

The Management Board runs our matters in a transparent and efficient way pursuant to the provisions of the law, our internal provisions and 'the Best Practices of WSE Listed Companies'. 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 two members of Management Board acting jointly, the Vice-president of the Management Board acting jointly with a proxy, or a member of the Management Board acting jointly with a proxy.

All issues related to our management, not restricted by the provisions of the law or the Articles of Association to the competence of the Supervisory Board or the General Meeting, are within the scope of competence of the Management Board.

Members of the Management Board participate in sessions of the General Meeting and provide substantive answers to questions asked during the General Meeting. Members of the Management Board invited to a meeting of the Supervisory Board by the Chairman of the Supervisory Board participate in the meeting with the right to take the floor regarding issues on the agenda. Members of the Management Board shall, within their scope of competence and the scope necessary to settle issues discussed by the Supervisory Board, submit explanation and information regarding Company affairs to the participants in the meeting of the Supervisory Board.

The Board adopts resolutions provided that at least a half of the members of the Board are present in the meeting and all members of the Board have been notified of the meeting. Resolutions are adopted by an absolute majority of votes of the members of the Board present in the meeting or participating in the voting. The establishment of a proxy requires consent of all the members of the Management Board. Each member of the Management Board may revoke the power of proxy. In the case of equality of votes upon adoption of resolutions by the Management Board the vote of the President of the Management Board shall prevail.

Resolutions are adopted in a meeting or in a manner set out below. The President of the Management Board, or a person they authorized, calls meetings of the Management Board. The meetings of the Management Board are held in our offices or another place indicated by the person calling the meeting.

The voting is open. A secret voting shall be administered upon a request of just one member of the Board present in the meeting.

Moreover, according to the Bylaws of the Management Board, the Management Board may adopt resolutions in writing, or in a manner enabling instantaneous communication of the members of the Management Board by means of audio-video communication (e.g. teleconferencing, videoconferencing).

8.8.4. Remuneration of the Members of the Management Board

Information regarding remuneration of members of the Management Board for the financial year ended December 31, 2014 is included in Note 45 of the consolidated financial statements for the financial year ended December 31, 2014.

8.8.5. Management contracts with members of the management board setting out severance packages payout as a result of their resignation or dismissal from the position without a material cause

The management contract with **Tomasz Gillner-Gorywoda** sets out the notice period at four months. In addition the non-competition agreement concluded with Tomasz Gillner-Gorywoda sets out a monthly payment of PLN 40,000 over the number of months specified in non-competition agreement.

In the case of termination of the management contract (including its expiry) Tomasz Gillner-Gorywoda will be entitled to a severance package ('Severance Package') in the amounts and on the conditions indicated below:

- in the case of expiry of the contract or the lack of its extension (failure to be reappointed by the entitled body of Cyfrowy Polsat as member of the Management Board of Cyfrowy Polsat for a subsequent term or lack of a new, subsequent management contract) due to reasons caused by Cyfrowy Polsat – in the net amount of PLN 240,000 paid by Cyfrowy Polsat on the date of the expiry of the contract or its discontinuation;
- in the case of the termination of the contract by Cyfrowy Polsat – in the net amount of PLN 240,000 paid by Cyfrowy Polsat on the last day of the notice period.

The management contract with **Dariusz Działkowski** sets out the notice period at four months. In addition the non-competition agreement concluded with Dariusz Działkowski sets out a monthly payment of PLN 40,000 over the number of months specified in non-competition agreement.

In the case of termination of the management contract (including its expiry) Dariusz Działkowski will be entitled to a severance package ('Severance Package') in the amounts and on the conditions indicated below:

- in the case of expiry of the contract or the lack of its extension (failure to be reappointed by the entitled body of Cyfrowy Polsat as member of the Management Board of Cyfrowy Polsat for a subsequent term or lack of a new, subsequent management contract) due to reasons caused by Cyfrowy Polsat – in the net amount of PLN 240,000 paid by Cyfrowy Polsat on the date of the expiry of the contract or its discontinuation;
- in the case of the termination of the contract by Cyfrowy Polsat – in the net amount of PLN 240,000, paid by Cyfrowy Polsat on the last day of the notice period.

The management contract with **Aneta Jaskólska** sets out the notice period at four months. In addition the non-competition agreement concluded with Aneta Jaskólska sets out a monthly payment of PLN 40,000 over the number of months specified in non-competition agreement.

In the case of termination of the management contract (including its expiry) Aneta Jaskólska will be entitled to a severance package ('Severance Package') in the amounts and on the conditions indicated below:

- in the case of expiry of the contract or the lack of its extension (failure to be reappointed by the entitled body of Cyfrowy Polsat as member of the Management Board of Cyfrowy Polsat for a subsequent term or lack of a new, subsequent management contract) due to reasons caused by Cyfrowy Polsat – in the net amount of PLN 240,000 paid by Cyfrowy Polsat on the date of the expiry of the contract or its discontinuation;
- in the case of the termination of the contract by Cyfrowy Polsat – in the net amount of PLN 240,000, paid by Cyfrowy Polsat on the last day of the notice period.

The management contract with **Tomasz Szelağ** sets out the notice period at four months. In addition the non-competition agreement concluded with Tomasz Szelağ sets out a monthly payment of PLN 40,000 over the number of months specified in non-competition agreement.

In the case of termination of the management contract (including its expiry) Tomasz Szelağ will be entitled to a severance package ('Severance Package') in the amounts and on the conditions indicated below:

- in the case of expiry of the contract or the lack of its extension (failure to be reappointed by the entitled body of Cyfrowy Polsat as member of the Management Board of Cyfrowy Polsat for a subsequent term or lack of a new, subsequent management contract) due to reasons caused by Cyfrowy Polsat – in the net amount of PLN 240,000 paid by Cyfrowy Polsat on the date of the expiry of the contract or its discontinuation;
- in the case of the termination of the contract by Cyfrowy Polsat – in the net amount of PLN 240,000, paid by Cyfrowy Polsat on the last day of the notice period.

8.9. The Supervisory Board

8.9.1. The Composition of the Supervisory Board

The Supervisory Board comprises five members. The Supervisory Board has acted in a stable composition throughout 2014.

The following persons were Members of the Supervisory Board:

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Zygmunt Solorz-Żak	Chairman of the Supervisory Board Member of the Remuneration Committee	2008	2012	2015
Robert Gwiazdowski	Independent ⁽¹⁾ member of the Supervisory Board Member of the Audit Committee	2008	2012	2015
Andrzej Papis	Member of the Supervisory Board	2007	2012	2015
Leszek Reksa	Independent ⁽¹⁾ member of the Supervisory Board Member of the Audit Committee	2008	2012	2015
Heronim Ruta	Member of the Supervisory Board Member of the Audit Committee Member of the Remuneration Committee	2001	2012	2015

(1) conforms with the independence criteria listed in the Best Practices of WSE listed Companies in Chapter III point 6

Zygmunt Solorz-Żak is active in various business sectors of Poland's economy. At the end of the 1980s, he founded Przedsiębiorstwo Zagraniczne SOLPOL, a foreign trade enterprise. At the beginning of the 1990s, Mr Solorz-Żak entered the media sector by investing in Kurier Polski Sp. z o.o., a daily newspaper. In 1993, he launched Polsat, the first private satellite television in Poland, which received a broadcasting license later that year and transformed into a nationwide television channel. Within the first few years of its operations, Telewizja Polsat became one of the leaders of the TV broadcasting market in Poland.

Currently, Mr. Solorz-Żak focuses his business activities on the media and telecommunication sectors, where he operates chiefly through such companies as Cyfrowy Polsat (being also its founder), Telewizja Polsat, Polkomtel and companies of Midas Group. Mr. Solorz-Żak has many years' experience in serving on the governing bodies of commercial-law companies, which includes positions on the Supervisory Boards of such companies as Telewizja Polsat, Polkomtel, Midas S.A., Plus Bank S.A. (formerly: Invest-Bank S.A.) and Zespół Elektrowni Pątnów-Adamów-Konin S.A.

Robert Gwiazdowski 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 and has served as President of Adam Smith Centre since 2004.

In 2006-2007, he served as Chairman of the Supervisory Board of the Polish Social Insurance Institution (Zakład Ubezpieczeń Społecznych). At present, Mr. Gwiazdowski serves as Member of the Supervisory Boards of the following listed companies: DGA S.A., SARE S.A., Dom Maklerski IDM S.A., and MNI S.A., which operates on the telephony and TV markets.

Andrzej Papis, who is a legal counsel, graduated from the Faculty of Law and Administration of the University of Warsaw and completed legal counsel training with the District Chamber of Legal Counsels in Warsaw.

In 1998-1999, he was an assistant in the team of Prof. Michał Kulesza in charge of Poland's administration reform and then an associate of the Government Plenipotentiary Office for Implementation of the General Health Insurance Programme. Since 2000, he has worked as a lawyer for Telewizja Polsat Sp. z o.o. and since 2001 – for Inwestycje Polskie Sp. z o.o., where he also serves as commercial proxy. He has served as Member of the Management Board of TFP Sp. z o.o. since 2004, becoming its President in 2013, and as Member of the Supervisory Board of Elektrim S.A. since 2004. Mr. Papis was also a Member of the Supervisory Board of Media-Biznes Sp. z o.o. in 2007-2010 and President of the Management Board of Market Sp. z o.o. in 2010-2013. He was appointed to the Supervisory Board of Polkomtel Sp. z o.o. in 2011, where he served until February 2014, and to the Supervisory Board of Teleaudio Dwa Sp. z o.o. S.K.A. in 2012. As a legal counsel, Mr. Papis specialises in commercial and copyright laws as well as construction and civil laws, with a particular focus on real property use.

Leszek Reksa 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.

Heronim Ruta graduated from the Electrical Faculty of the Warsaw University of Technology.

From 1978 to 1979, he was a specialist supervising the development of an experimental car for ultrasonic detection of cracks in rail tracks at the National Railway Technology Research Centre (Centralny Ośrodek Badań Techniki Kolejnictwa). In 1980-1987, he was head of Wytwórczo-Uslugowa Spółdzielnia Pracy (a production and services cooperative). In 1987, he founded Herom Sp. z o.o., where he was President until 1992. In 1992-1994, he was President of Ster Sp. z o.o. In 2002-2005, he was Member of the Management Board of Polaris Finance B.V., and from 2002 to 2004 – Member of the Supervisory Board of Uzdarzaji Akcine Bendrove 'Baltijos Televizija. Mr. Ruta serves on the Supervisory Boards of various companies, including Plus Bank S.A., PAI Media S.A. w likwidacji (in liquidation), Dolnośląskie Centrum Aktywności Gospodarczej S.A. (formerly: Gurex S.A.), Cyfrowy Polsat and Telewizja Polsat. From November 2011 to February 2014, he was also Chairman of the Supervisory Board of Polkomtel, where he now serves as Deputy Chairman.

8.9.2. Competences and by-laws of the Supervisory Board

The Supervisory Board acts pursuant to the commercial companies code and also pursuant to the Articles of Association of the Company and the Bylaws of the Supervisory Board of 3 December 2007.

Pursuant to the Articles of Association of the Company the Supervisory Board performs constant supervision over activities of the enterprise. Within the scope of supervision performance the Supervisory Board may demand any information and documents regarding our business from the Management Board.

Members of the Supervisory Board shall take necessary steps to receive regular and full information from the Management Board regarding material matters concerning our business and risks involved in the business and the strategies of risk management. The Supervisory Board may - not infringing the competencies of other bodies of the Company - express their opinion on all the issues related to our proceedings, including forwarding motions and proposals to the Board.

The competencies of the Supervisory Board also include matters restricted by the commercial companies code, in particular:

- a) assessment of the financial statements both as to their compliance with books and documents and also the factual state, assessment of the interim and annual reports of the Management Board, or Management Board's motions regarding allocation of profit or covering debts and presenting written reports with results of the audits before the General Shareholders Meeting,
- b) once a year, prepare and present a concise evaluation of the situation of the Company to the General Meeting, considering the evaluation of the internal control system and the management system of risks that are important 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 Management Board's performance before the General Shareholders' Meeting,
- b) analysis and issuing of an opinion on matters that may be the subject of a resolution of the General Meeting,
- c) approval of one-year and long-term programs for the Company developed by the Management Board,
- d) determination of the remuneration level of the Supervisory Board delegated to temporary performance of duties of a member of the Management Board,
- e) granting consent for participation in other companies,
- f) granting consent for appointing, dismissing and suspending members of authorities of the subsidiaries,
- g) granting consent for entering into a material agreement with a related entity,
- h) granting consent for performance of activities resulting in the Company incurring a liability, with the exception of:
 - activities projected or set out in the annual program for the Company approved by the Supervisory Board, or
 - activities resulting in incurring a liability of the value up to PLN 10,000,000 (ten million zlotys, not in thousands), including guarantees or issuing or guaranteeing bills of exchange done in the scope of daily business, in particular the business of pay digital television, Internet service or the business of MVNO.
- i) issuing, upon the Management Board's request, opinion on all issues material for the Company.

The Supervisory Board consists of five to nine members including the Chairman of the Supervisory Board, appointed by the General Shareholders' Meeting. The General Shareholders' Meeting, prior to appointment of members of the Supervisory Board for a new term, determines the number of members of the Supervisory Board. The term of office of the Supervisory Board is three years and is a joint one.

The Supervisory Board may consist of two members meeting the criteria of an independent member of the Supervisory Board as set out in the corporate governance regulations included in the Best Practices of WSE listed Companies.

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 their absence by a member of the Supervisory Board indicated by the Chairman in writing, or another member of the Supervisory Board elected by the members present in the meeting.

The Chairman calls a meeting of the Supervisory Board also upon request of a member of the Management Board, or a member of the Supervisory Board, or upon a motion of a shareholder representing at least 1/10 (one tenth) of the share capital. A Meeting of the Supervisory Board shall take place at least within 14 days of the date of filing a written application to the Chairman.

Resolutions of the Supervisory Board are passed by majority of votes cast. In the case of equality the vote of the Chairman prevails. A resolution of the Supervisory Board requires inviting all the members of the Supervisory Board and presence of at least half of the members of the Supervisory Board to be valid.

The Supervisory Board may pass resolutions via means of direct, remote communication and also a member of the Supervisory Board may cast their vote in writing via other member of the Supervisory Board.

Members of the Supervisory Board execute their rights and perform their duties in person. Members of the Supervisory Board participate in General Meetings.

Moreover, within the performance of their duties, the Supervisory Board shall:

- a) once a year prepare and present before the General Meeting a concise evaluation of the situation of the Company, considering the evaluation of the internal control system and the management system of risks that are important for the Company.
- b) once a year prepare and present before the Annual General Meeting an evaluation of its own performance,
- c) discuss and issue opinions about matters to be subjects of resolutions of the General Meeting.

8.9.3. Committees of the Supervisory Board

Pursuant to the Bylaws of the Supervisory Board the Supervisory Board may appoint permanent committees, in particular the Audit Committee, or the Remuneration Committee, or ad hoc committees to investigate certain issues remaining in the competence of the Supervisory Board or acting as advisory and opinion bodies of the Supervisory Board.

The Audit Committee, as at December 31, 2014 comprised the following members of the Supervisory Board:

- Heronim Ruta,
- Robert Gwiazdowski, an independent member of the Supervisory Board,
- Leszek Rekxa, an independent member of the Supervisory Board.

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

The Remuneration Committee, as at December 31, 2014, comprised the following members of the Supervisory Board:

- Zygmunt Solorz – Żak,
- Heronim Ruta.

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

A committee is appointed by the Supervisory Board from among its members by means of a resolution. The committee appoints, by means of a resolution, the Chairman of the particular committee from among its members. The mandate of a member of a particular committee expires upon expiry of the mandate of the member of the Supervisory Board. The Supervisory Board may, by means of a resolution, resolve to dismiss a member from the composition of a particular committee before the expiry of the mandate of the member of the Supervisory Board. Dismissal from membership in a committee is not tantamount to dismissal from the Supervisory Board.

The first meeting of a committee is convened by the Chairman of the Supervisory Board or other member of the Supervisory Board they indicate. Meetings of the committees are convened as needs arise, ensuring thorough delivery of duties assigned with a particular committee. Minutes of committee's meetings and adopted resolutions are made available to the members of the Supervisory Board not being members of the committee. The Chairman of a given committee chairs its proceedings. The Chairman also performs supervision over preparation of the agenda, distribution of documents, and preparation of minutes of the meetings of the committee.

8.9.4. Remuneration of the Members of the Supervisory Board

Information regarding remuneration of members of the Supervisory Board for the financial year ended December 31, 2014 is included in Note 46 of the consolidated financial statements for the financial year ended December 31, 2014.

Tomasz Gillner-Gorywoda
President of the Management Board

Tobias Solorz
Vice-president of the Management Board

Dariusz Działkowski
Member of the Management Board

Aneta Jaskólska
Member of the Management Board

Maciej Stec
Member of the Management Board

Tomasz Szelaż
Member of the Management Board

Warsaw, March 3, 2015

GLOSSARY

General terms

Term	Definition
Argumenol	Argumenol Investment Company Limited, a company under Cypriot law with its registered office in Nicosia, Cyprus
B2B	Business to Business, a transaction between businesses.
B2C	Business to Consumer, a transaction between a business and a consumer.
Copyright Law	Copyright and Neighboring Rights Act of February 4, 1994 (consolidated text in Dz. U. of 2006, No. 90, item 631, as amended).
CP Finance, Cyfrowy Polsat Finance	Cyfrowy Polsat Finance AB (publ), a company under Swedish law, registered under No. 556842-4435.
CPT	Cyfrowy Polsat Technology spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. 0000254220. Deleted from the register following its acquisition by Cyfrowy Polsat.
Cyfrowy Polsat, the Company	Cyfrowy Polsat Spółka Akcyjna, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000010078.
Cyfrowy Polsat Trade Marks CPTM	Cyfrowy Polsat Trade Marks spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. 0000373011.
EBRD	European Bank for Reconstruction and Development, an international organization established by virtue of a treaty signed on May 29, 1990 in Paris, having its registered office in the United Kingdom of Great Britain and Northern Ireland.
Eileme 1	Eileme 1 AB (publ), a company under Swedish law, registered under No. 556854-5668.
Eileme 2	Eileme 2 AB (publ), a company under Swedish law, registered under No. 556854-5676.
Eileme 3	Eileme 3 AB (publ), a company under Swedish law, registered under No. 556854-5692.
Eileme 4	Eileme 4 AB (publ), a company under Swedish law, registered under No. 556854-5684.
Eileme Companies	Jointly Eileme 1, Eileme 2, Eileme 3 and Eileme 4.
Environmental Protection Law	Environmental Protection Law of April 27, 2001 (consolidated text in: Dz. U. of 2008, No. 25, item 150, as amended).
the Group, Polsat Group, Cyfrowy Polsat Group	Cyfrowy Polsat and the indirect and direct subsidiaries of the Company.
IFRS	The International Accounting Standards, International Financial Reporting Standards and the related Interpretations by the Standing Interpretations Committee and International Financial Reporting Interpretations Committee, adopted pursuant to Commission Regulation (EC) No. 1126/2008 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).
Investment Agreements	Jointly the Investment Agreement of November 14, 2013 made by Cyfrowy Polsat with Argumenol Investment Company Limited, Karswell Limited and Sensor Overseas Limited and Investment Agreement of December 19, 2013 made by Cyfrowy Polsat with Argumenol Investment Company Limited, Karswell Limited Sensor Overseas Limited, and the EBRD.
Karswell	Karswell Limited, a company under Cypriot law with its registered office in Nicosia, Cyprus
KRRiT	Krajowa Rada Radiofonii i Telewizji, National Broadcasting Council.
LTE Group	Litenite Limited, a company under Cypriot law, registered under No. 240249 and the indirect and direct subsidiaries of Litenite.
Metelem	Metelem Holding Company Limited, a company under Cypriot law, registered under No. 286591, indirectly controlling 100% shares in Polkomtel.
Metelem Group	Metelem jointly with the following companies: Eileme 1, Eileme 2, Eileme 3, Eileme 4, Polkomtel, Nordisk Polska, Liberty Poland, Polkomtel Finance, Polkomtel Business Development, Plus TM Group SKA, Plus TM Group, LTE Holdings, and Plus TM Management.

Term	Definition
Metelem Shareholders	Karswell Limited of Cyprus, Sensor Overseas Limited of Cyprus, Argumenol Investment Company Limited of Cyprus and the EBRD.
Midas Group	Midas S.A., entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000025704 and the indirect and direct subsidiaries of Midas S.A.
Mobyland	Mobyland spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000269979.
Orange	Orange Polska Spółka Akcyjna, entered in the register of entrepreneurs of the National Court register under entry No. KRS 0000010681, previously operating under the name of Telekomunikacja Polska Spółka Akcyjna.
P4	P4 spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000217207.
PIK Notes Indenture	The PIK Notes Indenture of February 17, 2012, between Eileme 1, Ortholuck, Citibank, N.A., London Branch, Citibank, N.A., New York Branch, and Citigroup Global Markets Deutschland.
PIK Notes	Pay-in-kind notes with a total initial nominal amount of USD 201.0 million, maturing in 2020, issued by Eileme 1, redeemed in full in 2014.
PLK Senior Notes Indenture	PLK Senior Notes Indenture of January 26, 2012 between Eileme 2, Eileme 3, Eileme 4, Spartan, Ortholuck, Citibank, N.A., London Branch, Citibank, N.A., New York Branch, and Citigroup Global Markets Deutschland.
PLK Senior Notes	Senior notes with a total nominal amount of EUR 542.5 million and USD 500.0 million, maturing in 2020, issued by Eileme 2.
PLK Senior Facilities Agreement	The Senior Facilities Agreement of June 17, 2013 between Eileme 2, Eileme 3, Eileme 4, Polkomtel and subsidiaries, and a syndicate of banks.
PLK Term Loans	The Term Facility Loans A, B and C issued under the PLK Senior Facilities Agreement of up to PLN 2.65 billion, PLN 3.3 billion and PLN 1.7 billion with maturity dates 2017, 2018 and 2019, respectively.
PLK Revolving Facility Loan	The multicurrency revolving facility loan of up to PLN 300 million, issued under the PLK Senior Facilities Agreement, whose final repayment date is 2017.
Plus Bank	Plus Bank Spółka Akcyjna entered in the register of entrepreneurs of the National Court Register under entry No. 0000096937.
Plus TM Group	Plus TM Group spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 373023, previously operating under the name of Once 2 spółka z ograniczoną odpowiedzialnością.
Plus TM Group SKA	Plus TM Group spółka z ograniczoną odpowiedzialnością spółka komandytowo-akcyjna, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 474497, previously operating under the name of Cinco spółka z ograniczoną odpowiedzialnością – XXI – spółka komandytowo-akcyjna.
Plus TM Management	Plus TM Management spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 378997.
Pola	Pola Investments Limited, a company under Cypriot law, with its registered office in Nicosia, Cyprus.
Polish Energy Law	Polish Energy Law of April 10th 1997 (consolidated text in Dz. U. of 2012, item 1059).
Polkomtel	Polkomtel spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. 0000419430. The company was established following the transformation of Polkomtel Spółka Akcyjna, which was entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000020908.
Polkomtel Business Development	Polkomtel Business Development spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 377416.
Polkomtel Finance	Polkomtel Finance AB (publ), a company under Swedish law, registered under No. 556807-4594.
Polkomtel Group	Polkomtel jointly with the following companies: Nordisk Polska, Liberty Poland, Polkomtel Finance, Polkomtel Business Development, Plus TM Group SKA, Plus TM Group, LTE Holdings, and Plus TM Management.
Polsat Media Biuro Reklamy	Polsat Media Biuro Reklamy spółka z ograniczoną odpowiedzialnością sp.k. entered in the register of entrepreneurs of the National Court Register under entry No. 0000467579.

Term	Definition
Polskie Media	Polskie Media Spółka Akcyjna, previously entered in the register of entrepreneurs of the National Court Register under entry No. 0000049216. On December 31, 2013 Polskie Media merged with Telewizja Polsat.
Redefine	Redefine spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. 0000287684.
Revolving Facility Loan	The multi-currency revolving facility loan of up to the equivalent of PLN 500 million, issued under the New Senior Facilities Agreement, whose final repayment date is April 11, 2019.
Shares	Shares of Cyfrowy Polsat S.A. admitted to trading on the Warsaw Stock Exchange in Warsaw S.A.
Senior Facilities Agreement	The Senior Facilities Agreement of April 11, 2014 between the Company, Telewizja Polsat, CPTM, Polsat License Ltd. and Polsat Media, and a syndicate of Polish and foreign banks, covering the Term Facility Loan and the Revolving Facility Loan.
Senior Notes	Senior secured notes with a value of EUR 350 million, bearing interest at a rate of 7.125%, issued by Cyfrowy Polsat Finance in 2011, redeemed in full in 2014.
Sensor	Sensor Overseas Limited, a company under Cypriot law, with its registered office in Nicosia, Cyprus.
Telecommunications Law	Telecommunications Law of July 16, 2004 (Dz. U. of 2004, No. 171, item 1800, as amended).
Telewizja Polsat, TV Polsat	Telewizja Polsat spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000388899. The company was established following the transformation of Telewizja Polsat Spółka Akcyjna, which was entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000046163.
Telewizja Polsat Group, TV Polsat Group	Telewizja Polsat together with its direct and indirect subsidiaries.
Term Loan	The term facility loan of up to PLN 2.5 billion, issued under the Senior Facilities Agreement, whose final repayment date is April 11, 2019.
TiVi Foundation	TiVi Foundation, a family foundation of Kirchstrasse 12, 9490 Vaduz, Liechtenstein.
T-Mobile	T-Mobile Polska Spółka Akcyjna, entered in the register of entrepreneurs of the National Court register under entry No. KRS 0000391193, previously operating under the name of Polska Telefonia Cyfrowa Spółka Akcyjna.

Technical terms

Term	Definition
2G	Second-generation cellular telecommunications networks commercially launched on the GSM standard in Europe.
3G	Third-generation cellular telecommunications networks that allow simultaneous use of voice and data services.
4G	Fourth-generation cellular telecommunications networks.
Add-on sales	Sales technique combining cross-selling and up-selling.
Advertising market share	The Group's revenue from advertising and sponsoring in the overall revenue from TV advertising in Poland (market data according to Starlink).
Audience share	Percentage of TV viewers watching a channel at a given time, expressed as the percentage of all TV viewers at a given time (based on Nielsen Audience Measurement (NAM), in the "from 16 to 49 years old" demographics throughout the day).

Term	Definition
CAGR	<p>Compounded Annual Growth Rate – the average annual growth rate calculated for a given value using the following formula:</p> $CAGR = \left(\frac{W_{rk}}{W_{rp}} \right)^{\left(\frac{1}{rk-rp} \right)} - 1$ <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.
CDMA	A family of mobile telecommunications standards developed by the 3rd Generation Partnership Project 2, comprising e.g. CDMAOne and CDMA2000. CDMA is mainly used for data transmission services in rural areas. Its maximum transmission speed is 3.1 MB/s. CDMA also supports direct communication between user terminals and restriction of access to selected devices, and the technology is therefore used for digital trunked communications.
Churn	<p>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.</p> <p>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.</p>
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	Natural person, legal entity or an organizational unit without legal personality who has at least one active service provided in a contract model.
DTH	Satellite pay TV services provided by us in Poland from 2001.
DTT	Digital Terrestrial Television.
DVB-T	Digital Video Broadcasting – Terrestrial technology.
DVR	Set-top boxes equipped with a hard drive enabling the recording of TV programs (Digital Video Recorder)
EDGE	Cellular telecommunications technology supporting faster data transmission as a backward-compatible extension of the 2G network. EDGE increases the capacity of the radio interface and ensures more convenient use of data transmission services. Its maximum design speed is nearly 1 Mb/s (Enhanced Data rates for GSM Evolution).
ERP	A family of IT systems supporting enterprise management or shared operation of a group of collaborating enterprises through data collection and enabling transactions on the collected data (enterprise resource planning).
GB	Gigabyte – a measure of digital information, comprising one billion bytes, or 1024 ³ bytes, depending on the interpretation – decimal or binary, respectively.
GPRS	Mobile data transmission service for GSM users (General Packet Radio Service).
GRP	A rating point defined as the overall number of persons viewing a given advertising spot over a specific time, expressed as a percentage share of the target group. In Poland, one GRP equals 0.2 million residents in the primary target group for advertisers aged 16-49 (Gross Rating Point).
GSM	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols, in particular regarding access to voice services (Global System for Mobile Communications).

Term	Definition
GSM-1800	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols in the 1800 MHz bands, in particular regarding access to voice services.
GSM-900	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols in the 900 MHz bands, in particular regarding access to voice services.
HD	Above-standard resolution signal (High Definition).
HSPA/HSPA+	Radio data transmission technology for wireless networks, increasing the capacity of the UMTS network (High Speed Packet Access/High Speed Packet Access Plus). It also covers the HSPA+ Dual Carrier technology (Evolved High Speed Packet Access Dual Carrier). It supports transmission speeds of up to 42 Mb/s for download and up to 5.7 Mb/s for upload.
Interconnect revenue	Wholesale revenue for terminating voice and non-voice traffic on Polkomtel's network from other network operators based on interconnect agreements as well as revenue from transit of traffic.
IPLA	Internet platform providing access to video content, operated by Redefine Group, Frazpc.pl Sp. z o.o., Gery.pl Sp. z o.o. and Netshare Sp. z o.o.
IPTV	Technology enabling transfer of a television signal over IP broadband networks (Internet Protocol Television).
IVR	A telecommunications system enabling human-computer interaction using voice or tone signals (Interactive Voice Response).
LTE	A standard for faster data transmission for wireless networks (Long Term Evolution). It supports the maximum design transmission speed of 326.4 Mb/s.
Mb/s	A unit of telecommunications channel capacity, being one million or 1024 ² bytes (Megabyte) per second, depending on the interpretation – decimal or binary, respectively.
Mobile TV	Our pay mobile TV service rendered in DVB-T technology;
MTR	A wholesale charge for call termination in another operator's mobile telecommunications network (Mobile Termination Rate).
Multiroom	Our service providing access to the same range of TV channels on two television sets in one household for a single subscription fee.
MUX, Multiplex	A package of TV and radio channels and additional services, simultaneously transmitted digitally to the user over a single frequency channel.
MVNO	Mobile Virtual Network Operator.
Node B	A device for wireless connection between a mobile terminal and a fixed part of the third-generation telecommunications network.
PPV	Services providing paid access to selected TV content (pay-per-view).
Prepaid ARPU	Average monthly revenue per prepaid RGU generated in a given settlement period (including interconnect revenue)
PVR	Electronic commodity hardware for digital recording of TV programs on its hard drive (Personal Video Recorder).
real users	An estimated number of persons who visit a website or open an Internet application at least once in a given month (Real Users).
RGU (Revenue Generating Unit)	Single, active service of pay TV, Internet Access or mobile telephony provided in contract or prepaid model.
SD	Standard-resolution television signal (Standard Definition).
SMS	Service enabling the sending of short text messages over telecommunications networks (Short Message Service).
streaming	A technical process initiated by the user, enabling the replaying (of video or audio/video content) of material available on the Internet on the user's terminal device, without it being necessary to download the entire content. The process involves the sending of digital data streams, being sections of the entire content spread over time, instead of the entire material.
Technical coverage	Percentage of households in Poland capable of receiving the broadcast of a given channel by Telewizja Polsat.

Term	Definition
UMTS	Globally-used European 3G telecommunications standard based on GSM, enabling the provision of data transmission services with a maximum speed of 384 kb/s (Universal Mobile Telecommunications System).
Usage definition (90-day for prepaid RGU)	Number of reported RGUs of prepaid services of mobile telephony and Internet access refers to the number of SIM cards which received or answered calls, sent or received SMS/MMS or used data transmission services within the last 90 days.
USSD	A protocol used in GSM networks, which enables communication between a mobile phone and a network operator's computer.
Value-added services, VAS	Services offered by telecommunications undertakings and including entertainment, news, location and financial services.
Virtual private network	Network enabling a private connection over a public network (e.g. Internet).
VOD - Home Movie Rental	Our video on demand services
WCDMA	Network access technology developed by 3rd Generation Partnership Project from 1999, and used in UMTS-standard 3G networks (Wideband Code Division Multiple Access).
WiFi	A set of standards for the development of wireless computer networks.

Management Board's representations

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

Tomasz Gillner-Gorywoda, President of the Management Board,
Tobias Solorz, Vice-president of the Management Board,
Dariusz Działkowski, Member of the Management Board,
Aneta Jaskólska, Member of the Management Board,
Maciej Stec, Member of the Management Board,
Tomasz Szelaąg, Member of the Management Board

hereby represents that:

- to the best of its knowledge the annual consolidated financial statements and the comparative information were prepared in accordance with the current effective accounting principles, and they truly and fairly present the financial position of the Group as well as its financial performance, and the Management Board's report on activities contains a true image of the Group's development, achievements, and standing, including description of basic risks and threats;
- the entity authorised to audit the financial statements, which has audited the annual consolidated financial statements, was selected in accordance with the regulations of law. That entity as well as the registered auditor who has carried out the audit fulfilled the conditions for expressing an unbiased and independent opinion about the consolidated financial statements pursuant to relevant provisions of the national law and industry norms.

Tomasz Gillner-Gorywoda
President of the Management Board

Tobias Solorz
Vice-president of the Management Board

Tomasz Szelaąg
Member of the Management Board

Dariusz Działkowski
Member of the Management Board

Aneta Jaskólska
Member of the Management Board

Maciej Stec
Member of the Management Board

Warsaw, 3 March 2015



Independent auditor's report

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

We have audited the accompanying consolidated financial statements of Cyfrowy Polsat S.A. and its subsidiaries (the "Cyfrowy Polsat Group"), which comprise the consolidated balance sheet as at 31 December 2014 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flows statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Cyfrowy Polsat Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

PricewaterhouseCoopers Sp. z o.o.

PricewaterhouseCoopers Sp. z o.o.

3 March 2015

Warsaw, Poland

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CYFROWY POLSAT S.A. GROUP

**Consolidated Financial Statements
for the year ended 31 December 2014**

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

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APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

On 3 March 2015, the Management Board of Cyfrowy Polsat S.A. approved the consolidated financial statements of Cyfrowy Polsat S.A. Group prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which include:

Consolidated Income Statement for the period

from 1 January 2014 to 31 December 2014 showing a net profit for the period of: PLN 292.5

Consolidated Statement of Comprehensive Income for the period

from 1 January 2014 to 31 December 2014 showing a total comprehensive income for the period of: PLN 289.3

Consolidated Balance Sheet as at

31 December 2014 showing total assets and total equity and liabilities of: PLN 27,381.2

Consolidated Cash Flow Statement for the period

from 1 January 2014 to 31 December 2014 showing a net increase in cash and cash equivalents amounting to: PLN 1,403.8

Consolidated Statement of Changes in Equity for the period

from 1 January 2014 to 31 December 2014 showing an increase in equity of: PLN 6,140.4

Notes to the Consolidated Financial Statements

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

Tomasz Gillner-Gorywoda
President of the Management Board

Tobias Solorz
Vice-President of the Management
Board

Tomasz Szeląg
Member of the Management Board

Dariusz Działkowski
Member of the Management Board

Aneta Jaskólska
Member of the Management Board

Maciej Stec
Member of the Management Board

Warsaw, 3 March 2015

Consolidated Income Statement

	for the year ended		
	Note	31 December 2014	31 December 2013
Continuing operations			
Revenue	10	7,409.9	2,910.8
Operating costs	11	(5,977.1)	(2,157.7)
Other operating income, net		9.6	36.8
Profit from operating activities		1,442.4	789.9
Gain/loss on investment activities, net	12	15.2	16.1
Finance costs	13	(1,146.0)	(216.0)
Share of the profit of joint venture accounted for using the equity method		2.6	2.9
Gross profit for the period		314.2	592.9
Income tax	14	(21.7)	(67.4)
Net profit for the period		292.5	525.5
Net profit attributable to equity holders of the Parent		292.5	525.5
Basic and diluted earnings per share (in PLN)	16	0.54	1.51

Consolidated Statement of Comprehensive Income

	for the year ended		
	Note	31 December 2014	31 December 2013
Net profit for the period		292.5	525.5
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Valuation of hedging instruments	30	(3.9)	14.4
Income tax relating to hedge valuation	30	0.7	(2.8)
Currency translation adjustment		-	(4.3)
Items that may be reclassified subsequently to profit or loss		(3.2)	7.3
Other comprehensive income, net of tax		(3.2)	7.3
Total comprehensive income for the period		289.3	532.8
Total comprehensive income attributable to equity holders of the Parent		289.3	532.8

Consolidated Balance Sheet - Assets

	Note	31 December 2014	31 December 2013
Reception equipment	17	421.1	407.6
Other property, plant and equipment	17	2,961.6	251.1
Goodwill	18	10,826.8	2,602.8
Customer relationships	21	4,145.8	-
Brands	19	1,797.1	890.8
Other intangible assets	21	2,591.4	137.4
Non-current programming assets	22	135.8	71.6
Investment property		5.3	5.3
Non-current deferred distribution fees	23	81.0	29.5
Other non-current assets	24	198.5	20.8
<i>includes derivative instruments assets</i>		1.2	-
Deferred tax assets	14	234.2	38.9
Total non-current assets		23,398.6	4,455.8
Current programming assets	22	152.1	181.3
Inventories	25	301.4	146.8
Trade and other receivables	26	1,453.4	374.4
Income tax receivable		26.0	0.2
Current deferred distribution fees	23	141.7	70.1
Other current assets	27	160.1	105.4
<i>includes derivative instruments assets</i>		22.2	-
Cash and cash equivalents	28	1,735.3	342.2
Restricted cash	28	12.6	-
Total current assets		3,982.6	1,220.4
Total assets		27,381.2	5,676.2

Consolidated Balance Sheet - Equity and Liabilities

	Note	31 December 2014	31 December 2013
Share capital	29	25.6	13.9
Share premium	29	7,237.4	1,295.1
Other reserves	30	(12.2)	(9.0)
Retained earnings		1,890.8	1,701.2
Equity attributable to equity holders of the Parent		9,141.6	3,001.2
Non-controlling interests		-	-
Total equity		9,141.6	3,001.2
Loans and borrowings	31	7,683.5	239.9
Issued bonds	32	4,550.2	1,340.0
Finance lease liabilities	33	11.7	0.2
UMTS license liabilities	34	750.3	-
Deferred tax liabilities	14	887.8	108.1
Deferred income	37	4.7	4.1
Other non-current liabilities and provisions	35	184.2	7.9
<i>includes derivative instruments liabilities</i>		<i>40.1</i>	<i>0.1</i>
Total non-current liabilities		14,072.4	1,700.2
Loans and borrowings	31	1,322.6	246.0
Issued bonds	32	464.4	98.7
Finance lease liabilities	33	6.8	0.2
UMTS license liabilities	34	117.1	-
Trade and other payables	36	1,523.0	413.2
<i>includes derivative instruments liabilities</i>		<i>87.0</i>	<i>12.0</i>
Income tax liability		48.0	4.5
Deposits for equipment		1.4	2.7
Deferred income	37	683.9	209.5
Total current liabilities		4,167.2	974.8
Total liabilities		18,239.6	2,675.0
Total equity and liabilities		27,381.2	5,676.2

Consolidated Cash Flow Statement

	for the year ended		
	Note	31 December 2014	31 December 2013
Net profit		292.5	525.5
Adjustments for:		1,825.3	334.3
Depreciation, amortization, impairment and liquidation	11	1,295.9	256.4
Payments for film licenses and sports rights		(306.8)	(222.4)
Amortization of film licenses and sports rights		224.4	220.4
Gain on sale of property, plant and equipment and intangible assets		(2.9)	(35.8)
Cost of programming rights sold		30.5	6.4
Interest expense		603.7	183.8
Change in inventories		0.5	14.8
Change in receivables and other assets		(191.9)	60.9
Change in liabilities, provisions and deferred income		(195.6)	(104.9)
Change in internal production and advance payments		(4.9)	6.5
Valuation of hedging instruments		(3.9)	14.4
Share of the profit of joint venture accounted for using the equity method		(2.6)	(2.9)
Foreign exchange losses, net		369.9	16.3
Income tax	14	21.7	67.4
Net additions of reception equipment provided under operating lease		(193.1)	(158.9)
Net loss on derivatives		84.3	-
Other adjustments		96.1	11.9
Cash from operating activities		2,117.8	859.8
Income tax paid		(189.1)	(67.5)
Interest received from operating activities		45.2	10.4
Net cash from operating activities		1,973.9	802.7
Acquisition of property, plant and equipment		(263.6)	(60.8)
Acquisition of intangible assets		(71.8)	(62.0)
Concessions payments		(482.3)	-
Acquisition of subsidiaries, net of cash acquired		1,800.4	(64.3)
Proceeds from disposal of related entity, net		-	48.7
Proceeds from sale of property, plant and equipment		4.1	2.1
Granted loans		(23.1)	-
Other investing activities - derivatives		6.6	-
Dividends received		2.5	2.5
Net cash from/(used in) investing activities		972.8	(133.8)

Cyfrowy Polsat S.A. Group

Consolidated Financial Statements for the year ended 31 December 2014

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

Repayment of loans and borrowings	31	(1,087.1)	(431.1)
Loans and borrowings inflows	31	2,800.0	-
Bonds repayment	32	(2,275.9)	-
Finance lease – principal repayments		(0.9)	(0.4)
Payment of interest on loans, borrowings, bonds, Cash Pool, finance lease and commissions*		(872.2)	(165.0)
Dividends paid		(102.9)	-
Payment of share issuance-related consulting costs		(3.9)	-
Net cash used in financing activities		(1,542.9)	(596.5)
Net increase in cash and cash equivalents		1,403.8	72.4
Cash and cash equivalents at the beginning of the period		342.2	270.3
Effect of exchange rate fluctuations on cash and cash equivalents		1.9	(0.5)
Cash and cash equivalents at the end of the period		1,747.9**	342.2

* Includes impact of hedging instruments, premiums paid for early bonds' repayment and amount paid for costs related to the new financing

** Includes restricted cash amounting to PLN 12.6

Consolidated Statement of Changes in Equity for the year ended 31 December 2014

	Note	Number of shares	Share capital	Share premium	Other reserves	Retained earnings*	Equity attributable to equity holders of the Parent	Non-controlling interests	Total equity
Balance as at 1 January 2014		348,352,836	13.9	1,295.1	(9.0)	1,701.2	3,001.2	-	3,001.2
Issue of shares	29	291,193,180	11.7	5,942.3	-	-	5,954.0	-	5,954.0
Dividend declared and paid	29	-	-	-	-	(102.9)	(102.9)	-	(102.9)
Total comprehensive income		-	-	-	(3.2)	292.5	289.3	-	289.3
<i>Hedge valuation reserve</i>		-	-	-	(3.2)	-	(3.2)	-	(3.2)
<i>Net profit for the period</i>		-	-	-	-	292.5	292.5	-	292.5
Balance as at 31 December 2014		639,546,016	25.6	7,237.4	(12.2)	1,890.8	9,141.6	-	9,141.6

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

Consolidated Statement of Changes in Equity for the year ended 31 December 2013

	Number of shares	Share capital	Share premium	Other reserves	Retained earnings*	Equity attributable to equity holders of the Parent	Non-controlling interests	Total equity
Balance as at 1 January 2013	348,352,836	13.9	1,295.1	(16.3)	1,175.7	2,468.4	-	2,468.4
Total comprehensive income	-	-	-	7.3	525.5	532.8	-	532.8
<i>Hedge valuation reserve</i>	-	-	-	11.6	-	11.6	-	11.6
<i>Currency translation adjustment</i>	-	-	-	(4.3)	-	(4.3)	-	(4.3)
<i>Net profit for the period</i>	-	-	-	-	525.5	525.5	-	525.5
Balance as at 31 December 2013	348,352,836	13.9	1,295.1	(9.0)	1,701.2	3,001.2	-	3,001.2

* The capital excluded from distribution amounts to PLN 4.6. In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital.

Notes to the Consolidated Financial Statements

1. The Parent Company

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

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

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

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

2. Composition of the Management Board of the Company

- Tomasz Gillner-Gorywoda	President of the Management Board (from 28 October 2014),
- Dominik Libicki	President of the Management Board (until 28 October 2014),
- Tobiasz Solorz	Vice-President of the Management Board (from 10 December 2014), Member of the Management Board (from 1 September 2014 to 9 December 2014),
- Dariusz Działkowski	Member of the Management Board,
- Aneta Jaskólska	Member of the Management Board,
- Maciej Stec	Member of the Management Board (from 4 November 2014),
- Tomasz Szelaż	Member of the Management Board.

3. Composition of the Supervisory Board of the Company

- Zygmunt Solorz-Żak	President of the Supervisory Board,
- Robert Gwiazdowski	Member of the Supervisory Board,
- Andrzej Papis	Member of the Supervisory Board,
- Leszek Reksa	Member of the Supervisory Board,
- Heronim Ruta	Member of the Supervisory Board.

4. Basis of preparation of the consolidated financial statements

Statement of compliance

These consolidated financial statements for the year ended 31 December 2014 have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU (IFRS EU). The Group applied the same accounting policies in the preparation of the financial data for the year ended 31 December 2014 and the consolidated financial statements for the year 2013, presented in the consolidated annual report, except for the EU-endorsed standards and interpretations which are effective for the reporting periods beginning on 1 January 2014 and changes to the accounting policies presented in note 6.

During the year ended 31 December 2014 the following became effective:

- (i) IFRS 10 *Consolidated financial statements*, IAS 27 *Separate financial statements*
- (ii) IFRS 11 *Joint arrangements*, IAS 28 *Associates and joint ventures*
- (iii) IFRS 12 *Disclosures of interests in other entities*
- (iv) amendment to IFRSs 10, 11 and 12 *on transition guidance*
- (v) amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*
- (vi) amendments to IFRSs 10, 12 and 27 *on investment entities*
- (vii) amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*

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

Standards published but not yet effective:

- (i) IFRS 9 *Financial instruments: Classification and measurement and Hedge accounting*
- (ii) IFRS 15 *Revenue from Contracts with Customers*
- (iii) amendments to IAS 1 *Disclosure Initiative*
- (iv) amendments to IAS 27 *Equity Method in Separate Financial Statements*
- (v) amendments to IAS 10 and IAS 28 *Sale or contribution of assets between an investor and its associate or joint venture*
- (vi) amendments to IAS 10, IAS 12 and IAS 28 *Investment entities: Applying the Consolidation Exception*
- (vii) amendments to IAS 11 *Accounting for acquisitions of interests in joint operations*
- (viii) amendments to IAS 19 *Employee Benefits*
- (ix) IFRIC 21 *Levies*
- (x) annual improvements – 2010-2012 reporting cycle
- (xi) annual improvements – 2011-2013 reporting cycle
- (xii) annual improvements – 2012-2014 reporting cycle

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

The Group assesses that IFRS 15 will have a significant impact on the financial statements due to the change in the recognition model of revenue from customer contracts. As at the date of publication of these consolidated financial statements the Group has not completed the analysis of the impact of the new standards, IFRS 15 and IFRS 9.

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

5. Group structure

These consolidated financial statements for the year ended 31 December 2014 include the following entities:

	Entity's registered office	Activity	Share in voting rights (%)	
			31 December 2014	31 December 2013
Parent Company				
Cyfrowy Polsat S.A.	Łubinowa 4a, Warsaw	radio, TV and telecommunication activities	n/a	n/a
Subsidiaries accounted for using full consolidation method:				
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, Warsaw	non-current assets and intellectual property rights management	100%	100%
Cyfrowy Polsat Finance AB	Stureplan 4C, 4 TR 114 35 Stockholm, Sweden	financial transactions	100%	100%
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, Warsaw	broadcasting and television production	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o. Sp. k. (former Polsat Media Sp. z o.o.)	Ostrobramska 77, Warsaw	advertising activities	100%	100%
Media-Biznes Sp. z o.o.	Ostrobramska 77, Warsaw	television activities	100%	100%
Polsat Futbol Ltd. *	Office 1D 238-246 King Street London W6 0RF UK	television activities	-	100%
Nord License AS	Vollsvseien 13B Lysaker Norway	trade of programming licences	100%	100%
Polsat License Ltd.	Poststrasse 9 6300 Zug Switzerland	trade of programming licences	100%	100%

	Entity's registered office	Activity	Share in voting rights (%)	
			31 December 2014	31 December 2013
Subsidiaries accounted for using full consolidation method (cont.)				
Telewizja Polsat Holdings Sp. z o.o.	Ostrobramska 77, Warsaw	holding activities	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o.	Ostrobramska 77, Warsaw	media	100%	100%
PL 2014 Sp. z o.o.**	Al. Stanów Zjednoczonych 53, Warsaw	other sport relating activities	100%	60%
Polsat Brands (einfache Gesellschaft)	Poststrasse 9 6300 Zug Switzerland	intellectual property rights management	100%	100%
Polsat Ltd.*****	238A King Street, W6 0RF London UK	television broadcasting	100%	-
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, Warsaw	radio and TV activities	100%	100%
CPSPV1 Sp. z o.o.***	Łubinowa 4a, Warsaw	technical services	100%	99%
CPSPV2 Sp. z o.o.***	Łubinowa 4a, Warsaw	technical services	100%	99%
Redefine Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warsaw	web portals activities	100%	100%
Poszkole.pl Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warsaw	web portals activities	100%	100%
Gery.pl Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warsaw	web portals activities	100%	100%
Frazpc.pl Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warsaw	web portals activities	100%	100%
Netshare Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warsaw	electronic media (Internet) advertising broker	100%	100%

	Entity's registered office	Activity	Share in voting rights (%)	
			31 December 2014	31 December 2013
Subsidiaries accounted for using full consolidation method (cont.)				
Metelem Holding Company Limited ****	1. Kostakis Pantelides 1010, Nicosia Cyprus	holding and financial activities	100%	-
Eileme 1 AB (publ) ****	Stureplan 4C 114 35 Stockholm Sweden	holding and financial activities	100%	-
Eileme 2 AB (publ) ****	Stureplan 4C 114 35 Stockholm Sweden	holding and financial activities	100%	-
Eileme 3 AB (publ) ****	Stureplan 4C 114 35 Stockholm Sweden	holding and financial activities	100%	-
Eileme 4 AB (publ) ****	Stureplan 4C 114 35 Stockholm Sweden	holding activities	100%	-
Polkomtel Sp. z o.o. ****	Postępu 3 02-676 Warsaw	telecommunication activities	100%	-
Nordisk Polska Sp. z o.o. ****	Postępu 3 02-676 Warsaw	telecommunication activities	100%	-
Polkomtel Finance AB (publ) ****	Norlandsgatan 18 111 43 Stockholm Sweden	financial activities	100%	-
Liberty Poland S.A. ****	Katowicka 47 41-500 Chorzów	telecommunication activities	100%	-
Polkomtel Business Development Sp. z o.o. ****	Postępu 3 02-676 Warsaw	other activities supporting financial services	100%	-
Plus TM Management Sp. z o.o. ****	Postępu 3 02-676 Warsaw	telecommunication activities	100%	-
LTE Holdings Limited ****	Kostaki Pantelidi 1 1010, Nicosia Cyprus	holding activities	100%	-
Plus TM Group Spółka z ograniczoną odpowiedzialnością Spółka Komandytowo-Akcyjna ****	Postępu 3 02-676 Warsaw	intellectual properties and similar items rental	100%	-

		Share in voting rights (%)	
		31 December 2014	31 December 2013
Entity's registered office	Activity		
Subsidiaries accounted for using full consolidation method (cont.)			
Plus TM Group Sp. z o.o. ****	Postępu 3 02-676 Warsaw	holding activities	100% -

* Polsat Futbol Ltd. was dissolved on 21 January 2014

** On 27 July 2014 Telewizja Polsat Sp. z o.o. acquired the remaining 50% shares of PL 2014 Sp. z o.o., increasing the total number of votes to 100%

*** On 22 May 2014 Cyfrowy Polsat Trade Marks Sp. z o.o. acquired 1% shares of CPSPV1 Sp. z o.o. and 1% shares of CPSPV2 Sp. z o.o.

**** Companies consolidated from 7 May 2014

***** On 6 August 2014 Telewizja Polsat Holdings Sp. z o.o. acquired 100% shares of Polsat Ltd.

Investments accounted for under the equity method:

		Share in voting rights (%)	
		31 December 2014	31 December 2013
Entity's registered office	Activity		
Polsat JimJam Ltd.	105-109 Salusbury Road London NW6 6RG UK	television activities	50% 50%
Polski Operator Telewizyjny Sp. z o.o.*	Huculska 6, Warsaw	radio communications and radio diffusion	50% 50%
New Media Ventures Sp. z o.o.	Wołoska 18 02-675 Warsaw	maintenance of loyalty programs	49.97% -
Paszport Korzyści Sp. z o.o.	Postępu 3 02-676 Warsaw	maintenance of loyalty programs	49% -

* The company has suspended operations

Additionally, the following entities were included in these consolidated financial statements for the year ended 31 December 2014 :

	Entity's registered office	Activity	Share in voting rights (%)	
			31 December 2014	31 December 2013
Karpacka Telewizja Kablowa Sp. z o.o.*	Chorzowska 3, Radom	dormant	99%	85%
Litenite Limited**	Kostakis Pantelidi Avenue 1 1010, Nicosia Cyprus	holding activities	49%	-

* Investment accounted for at cost less any accumulated impairment losses

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

The Group entered into series of agreements establishing collateral under facilities agreements and issued bonds (see notes 31, 32 i 49).

6. Accounting and consolidation policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements by all entities within the Group.

a) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments, which are stated at fair value.

b) Going concern

These consolidated financial statements have been prepared assuming that the Group's entities will continue as a going concern in the foreseeable future, not shorter than 12 months from 31 December 2014.

c) Functional and presentation currency

These consolidated financial statements are presented in the Polish zloty, rounded to million. The functional currency of the Company and its subsidiaries.

d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with EU IFRS requires the Management Board to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and costs. Estimates and underlying assumptions are based on historical data and other factors

considered as reliable under the circumstances, and their results provide grounds for an assessment of the carrying amounts of assets and liabilities which cannot be based directly on any other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about critical estimates and judgments in applying accounting policies is included in note 50.

e) Comparative financial information

Comparative financial information or financial information included in previously published financial statements have been updated, if necessary, so that they reflect the presentation 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 2014 may not be comparable to the year ended 31 December 2013 as Metelem Group was acquired on 7 May 2014, Polskie Media S.A. was acquired and RS TV S.A. was disposed of on 30 August 2013.

f) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Parent. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The financial statements of subsidiaries are prepared for the same period as the financial statements of the Company and using the accounting policies that are consistent with those of the Company for like transactions and events.

(ii) Joint arrangements

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint ventures equals or exceeds its interests in the joint ventures (which includes any long term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates and joint ventures are eliminated against the investment to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iv) Entities acquired under common control

Business combinations are governed by IFRS 3 "Business Combinations". However, this standard excludes from its scope transactions between entities under common control. According to IAS 8 par. 10-12, in the absence of an IFRS that specifically applies to a transaction, management shall use its judgment in developing and applying accounting policy that shall be consistently used for similar transactions.

Accordingly, the Group has chosen the acquisition method for entities acquired under common control in accordance with IFRS 3.

g) Foreign currency transactions

Foreign currency transactions

Transactions in foreign currencies are translated to the Polish zloty at exchange rates in effect one day prior to the recording of these transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Polish zloty at the average exchange rate quoted by the National Bank of Poland ("NBP") for that date. The foreign currency exchange differences arising on translation of transactions denominated in foreign currencies and from the reporting date retranslation of monetary assets and liabilities denominated in foreign currencies are recognized in profit and loss. Non-monetary assets and liabilities in a foreign currency that are measured in terms of historical cost are translated using the average NBP exchange rate in effect at the date of the initial recognition. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated at the average NBP foreign exchange rate in effect at the date the fair value was determined.

h) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other liabilities.

Non-derivative financial instruments, other than investments recognized at fair value through profit and loss, are recognized initially at fair value plus any directly attributable transaction costs (with certain exceptions as described below).

A financial instrument is recognized when the Group becomes a party to the contractual obligations of the instrument. The Group derecognises a financial asset when contractual rights to the cash flows from the financial assets expire, or it transfers the financial asset to another party in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Standardised transactions for sale or purchase of financial assets are recognized at the transaction date i.e. on the date the Group assumes an obligation to acquire or sell the asset. Financial liabilities are derecognized when the Group's obligations specified in the contract expire or are discharged or cancelled.

Principles for recognition of gains and losses on investment activities and costs are presented in note 6v.

Loans and receivables and other financial liabilities

Loans and receivables which are not derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses. Other non-derivative financial liabilities are measured at amortized cost using the effective interest method.

Cash and cash equivalents comprise cash on hand and call deposits. The cash and cash equivalents balance presented in the consolidated cash flow statement comprises the above mentioned elements of cash and cash equivalents.

(ii) Derivative financial instruments

Hedge accounting

The Group may use derivative financial instruments such as forward currency contracts, foreign exchange call options, interest rate swaps and cross-currency interest rate swaps to hedge its foreign currency and interest rate risks. The Group may use forward currency contracts, foreign exchange call options and cross-currency interest rate swaps as cash flow hedges of its exposure to foreign currency risk in forecasted EUR denominated fixed coupon payments on Eurobonds as well as interest rate swaps for its exposure to volatility in the interest payments on floating rate debt.

For the purpose of hedge accounting, the Group's hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

For cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the hedge valuation reserve, while any ineffective portion is recognized immediately in the income statement.

The amounts recognized within other comprehensive income are transferred from equity to the income statement when the hedged transaction affects profit or loss, such as when the related gain or loss is recognized in Finance costs or when a forecast sale occurs.

Gains and losses from the settlement of derivative instruments that are designated as, and are effective hedging instruments, are presented in the same position as the impact of the hedged item. The derivative instrument is divided into a current portion and a non-current portion only if a reliable allocation can be made.

Other derivatives not designated for hedge accounting

Derivative instruments that are not designated for hedge accounting are recognized initially at fair value, attributable transaction costs are recognized in the profit or loss as incurred. Subsequent to initial recognition, the Group measures those derivative financial instruments at fair value, and changes therein are recognized in profit or loss.

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or divided into a current and non-current portion based on an assessment of the relevant facts and circumstances (i.e., the underlying contracted cash flows):

- Where the Group intends to hold a derivative instrument considered an economic hedge (for which hedge accounting is not applied) for a period exceeding 12 months after the reporting date, such derivative instrument is classified as non-current (or divided into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

i) Equity

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity.

Preference share capital

Preference share capital is classified as equity, if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity.

Costs attributable to issue and public offering of shares

Costs attributable to a new issue of shares are recognized in equity while costs attributable to a public offering of existing shares are recognized directly in finance costs. These costs relating to both new issue and sale of existing shares are recognized on a pro-rata basis in equity and finance costs.

Share premium

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

Retained earnings

In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital. This capital is excluded from distribution, however, it can be utilised to cover accumulated losses.

j) Property, plant and equipment

(i) Property, plant and equipment owned by the Group

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes purchase price of the asset and other expenditure that is directly attributable to the acquisition and bringing the asset to a working condition for its intended use, including initial delivery as well as handling and storage costs. The cost of purchased assets is reduced by the amounts of vendor discounts, rebates and other similar reductions received.

The cost of self-constructed assets and assets under construction includes all costs incurred for their construction, installation, adoption, and improvement as well as borrowing costs incurred until the date they are accepted for use (or until the reporting date for an asset not yet accepted for use). The above cost also may include, if necessary, the estimated cost of dismantling and removing the asset and restoring the site. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

Subsequent cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group and the amount of the cost can be measured reliably. Replaced item is derecognized. Other property, plant and equipment related costs are recognized in profit and loss as incurred.

(iii) Depreciation

Depreciation expense is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The following are estimated useful lives of respective group of property, plant and equipment:

Reception equipment	3 or 5	years
Buildings and structures	2 - 61	years
Technical equipment and machinery	2 - 58	years
Vehicles	2 - 16	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.

(iv) Leased assets

Assets used under lease, tenancy, rental or similar contracts which meet finance lease criteria, are classified as non-current assets and measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Set-top boxes, modems and routers that are provided to customers under operating lease agreements are recognized within property, plant and equipment (Reception equipment in the balance sheet).

Assets subject to the lease are depreciated in a manner that is consistent with the policies applied to similar Group-owned assets. Depreciation is based on the principles of IAS 16 *Property, plant and equipment*. Where it is not reasonably certain that the lessee will obtain ownership of the asset before the lease term ends, the asset is depreciated over its useful life or the lease term, if shorter.

Carrying amounts of reception equipment and other items of property, plant and equipment may be reduced by impairment losses whenever there is any indication that an asset may be impaired or there is uncertainty as to those assets' revenue generating potential or their future use in the Group's operations.

k) Intangible assets

(i) Goodwill

Goodwill represents the excess of the sum of consideration transferred and payable, the amount of non-controlling interest in the acquiree and the fair value as at the date of acquisition of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired.

Goodwill is presented at purchase price less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if possible impairment is indicated. Goodwill is allocated to acquirer's cash-generating units for the purpose

of testing for impairment. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Customer relationships

Customer relationships acquired as a result of the acquisition of subsidiaries are amortized on a straight-line basis over their useful lives.

(iii) Brands

Brands acquired as a result of the acquisition of subsidiaries are amortized on a straight-line basis over their useful lives, except where an indefinite period of use is justified. Brands with an indefinite useful life are tested annually for impairment or more frequently if impairment indicators exist. The estimated useful lives for respective brands are as follows:

- Polsat, TV4, TV6 and Ipla brands: indefinite useful life
- Plus brand: 17 years (based on provisional purchase price allocation).

(iv) Other intangible assets

The Group capitalises costs of IT software internally generated, including employee-related expenses, directly resulting from generation and preparing asset to be capable of operating, if the Group is able to measure reliably the expenditure attributable to such development and when it can reliably establish the commencement as well as the completion date of the software development activities.

Other intangible assets acquired by the Group are measured at cost less accumulated amortization and impairment losses.

Subsequent expenditure on existing intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in the profit or loss as incurred.

Amortization expense is based on the cost of an asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The recoverable amounts of intangible assets which are not yet available for use are measured as at each balance sheet date.

The estimated useful lives for respective intangible assets groups are as follows:

- Computer software: 2 – 15 years,
- Customer relationships: 3 – 13 years,
- Concessions: period resulting from an administrative decision,
- Other: 2 – 7 years.

I) Programming assets

Programming assets comprise acquired formats, licences and copyrights for broadcasting feature films, series, news and shows, capitalised costs of commissioned external productions ordered by the Group, capitalised sports rights and advance payments made (including advance payments for sports rights).

(i) Initial recognition

Programming rights, other than sports rights, are recognized at cost as programming assets when the legally enforceable licence period begins and all of the following conditions have been met:

- the cost of each program is known or reasonably determinable,
- the program material has been accepted by the Group in accordance with the conditions of the licence agreement,
- the program is available for its first showing.

Capitalised costs of productions include costs of programs ordered by the Group, including productions made based on licences purchased from third parties. Capitalised costs of productions are measured individually for each program at their respective production or acquisition costs, not to exceed their recoverable amounts.

Sports rights are recognized at cost at broadcast date. The rights to broadcast seasonal sports events, acquired in long term contracts (often for multiple seasons), are capitalised at cost based on a relative value assigned to a given season of the sport event as estimated by Group's internal experts.

Advance payments for acquired programming assets, prior to licence begin date, are recognized as prepayments for programming assets.

Signed and binding contracts for purchase of programming, which do not meet recognition criteria for programming assets are not recognized in the balance sheet and are instead disclosed as contractual commitments in the amount of the outstanding contract liability at the reporting date.

Programming assets are classified as non-current or current based on the estimate timing of the broadcast. A programming asset is recognized as current when the expected broadcast falls within 1 year from the reporting date. Sport rights and prepayments for sport rights are classified as current or non-current based on dates of related sport events.

(ii) Amortization

Programming assets are amortized using the method reflecting the manner of consuming the economic benefits embodied in the licenses acquired within their estimated useful lives limited by the term of the respective license agreements.

Since 1 January 2014, the Group has changed the estimates used for the profile outlining how the economic benefits of film licenses purchased will be achieved.

Since 1 January 2014, the following amortization method and rates are applied dependant on the category of programming assets and the number of broadcasts permitted:

- Feature films and series – amortization starts at the first broadcast. Consumption of the economic benefits is measured using a declining balance method according to a standardised rate matrix and depends on the number of showings permitted or planned, primarily as described below:

Number of depreciable runs	Feature films			
	Rate per run			
	I	II	III	IV
1	100%			
2	60%	40%		
3	40%	30%	30%	
4 and more	35%	25%	25%	15%

Number of depreciable runs	TV series		
	Rate per run		
	I	II	III
1	100%		
2	80%	20%	

- Feature films and series broadcasted on thematic channels are mainly amortized in four or five runs using the rates of 25% and 20%. respectively.
- Sport rights – 100% of the cost is recognized in profit or loss on the first broadcast or, where seasonal rights or rights for multiple seasons or competitions are acquired, such rights are principally amortized on a straight-line basis over the seasons or competitions.
- Commissioned external productions intended for only one run are fully amortized on their first broadcast.
- News programming is fully amortized at its first broadcast.
- General entertainment shows are fully amortized at their first broadcast.

Amortization of programming assets is presented in Content costs line in the operating costs of the income statement.

(iii) Impairment

Programming assets are reviewed for impairment at least annually and whenever there is any indication that the carrying amount may not be recoverable. Impairment losses are recognized on each license in case of withdrawal from broadcasting an item in the expected future (resulting from changes in strategic program scheduling, changing audience tastes, media law restrictions on the usability of films) and expected future losses anticipated on disposal of the rights.

Impairment write downs on programming assets are recognized as part of the cost of sales. Impairment of programming assets is reversed if the reason for the original impairment ceases to exist. The reversals are recorded as cost of sales reductions.

m) Inventories

Inventories are measured at the lower of cost and net realizable value. Till the end of year 2013 cost of acquisition or production cost of inventories was based on the first-in first-out principle. From 1 January 2014 cost of acquisition or production cost of inventories is determined by using the weighted average cost of acquisition or production cost of inventory. Retrospective estimation of the amount of the above mentioned change is impracticable.

The cost of inventories includes expenditure incurred in acquiring the inventories and other costs incurred in making them available for use or sale. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads determined based on normal operating capacity.

Net realisable value is the current market price in the ordinary course of business, less the estimated costs of completion and selling expenses. In the case of set-top boxes, mobile phones, modems and tablets, which under the business model applied by the Group are sold below cost, the loss on the sale is recorded when the set-top box is transferred to the customer.

The Group creates an allowance for slow-moving or obsolete inventories.

n) Prepayments

Prepayments are recognized in the nominal value upon payments made. The costs are recognized in the income statement based on the actual usage of data transmission and contractual fees.

o) Impairment of assets

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis at each reporting date. The remaining financial assets are assessed for impairment collectively in groups that share similar credit risk characteristics.

Receivables are reduced by an allowance based on the likelihood of future debt collection. The allowance is charged to the cost of debt collection services and bad debt allowance and receivables written off. An allowance for receivables from individuals is estimated based on the historical pattern for overdue receivables collection.

All impairment losses are recognized in profit or loss.

Impairment losses are reversed if a subsequent increase in the recoverable amount of a financial asset can be objectively attributed to an event occurring after the impairment losses were recognized.

(ii) Non-financial assets

The carrying amounts of non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated by the Group. The recoverable amount of intangible assets which are not yet available for use as well as of goodwill and brands with indefinite useful life is estimated at each reporting date.

An impairment loss is recognized when the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. A cash-generating unit represents the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of thereof. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of a cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units), and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In the case of assets that do not generate independent cash inflows, the value in use is estimated for the smallest identifiable cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recorded in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

p) Employee benefits

(i) Defined contribution plan

All Group entities that act as employers have an obligation, under applicable legislation, to collect and remit contributions to the state pension fund. According to IAS 19 *Employee Benefits* such benefits represent state plans that are classified as defined contribution plans. Therefore, the Group's obligations for a given period are estimated as the amount of contributions to be remitted for that period.

(ii) Defined benefit plan – retirement benefits

The Group entities have an obligation, under applicable legislation, to pay retirement benefits calculated in accordance with the relevant provisions of the Polish 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 turnover is estimated based on historical experience and expected future employment levels.

Changes in the amount of the retirement benefits liability are recognized in the income statement. Actuarial gains and losses are recognized in the equity, in other comprehensive income in full in the period they originated.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are recognized as an expense as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term bonus or profit sharing plans, if the Group has a present legal or constructive obligation to make such payments as a result of past services provided by the employees and the obligation can be estimated reliably.

q) Provisions

A provision is recognized if, as a result of past event, the Group has a present obligation, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Certain disclosures may not be included in these consolidated financial statements as they relate to sensitive information.

(i) Warranties

A provision for warranties is recognized when the underlying products or goods are sold. The amount of the provision is based on historical warranty data and a weighting of all possible outflows against their associated probabilities.

(ii) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of fulfilling the contract. Before a provision is established, the Group recognises any impairment loss on the assets dedicated to that contract.

r) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group or a present obligation that arises from past events, but its amount cannot be estimated reliably or it is not probable that there will be an outflow of resources embodying economic benefits.

The Group does not recognize a contingent liability, except for contingent liability assumed in a business combination.

Unless the possibility of any outflow in settlement is remote, the Group discloses for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practice able:

- an estimate of its financial effect;
- an indication of the uncertainties relating to the amount or timing of any outflow; and
- the possibility of any reimbursement.

s) Revenue

Revenue is measured at the fair value of the consideration received or receivable, representing the gross inflow of economic benefit from Group's operating activities, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists that recovery of the consideration is probable, the associated costs can be estimated reliably and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then such discounts are recognized as a reduction of revenue when it is recognized.

The Group's main sources of revenue are recognized as follows:

- (a) Retail revenue consists primarily of monthly subscription fees paid by our pay digital television contract customers for programming packages, subscription fees paid by our contract customers for telecommunication services, fees for telecommunication services provided to our contract customers, which are not included in the subscription fee, payments for telecommunication services paid by our prepaid and mix customers, fees for the lease of set-top boxes, activation fees, penalties, and fees for additional services.

Services revenues are recognized in profit and loss in the period when related services are rendered.

Revenues from prepaid mobile telephone services are recognized in profit or loss once the prepaid credit is utilised or forfeited.

Revenue from the rental of reception equipment and activation fees are recognized on a straight-line basis over the minimum base period of the subscription contract.

- (b) Wholesale revenue comprises advertising and sponsorship revenue, revenue from cable and satellite operator fees, revenue from the lease of infrastructure, interconnect revenue, revenue from roaming, revenue from the sale of broadcasting and signal transmission services and revenue from the sale of licenses, sublicenses and property rights.

Advertising and sponsorship revenue is derived primarily from broadcasting of advertising content and is recognized in the period when the advertising is broadcast. Revenue is recognized in profit or loss in the amount due from customers net of value added tax, taxes on revenue from advertising of alcohol beverages and any rebates granted. Advertising and sponsorship revenue also comprises revenue on commissions on sales of commercial airtime when the Group acts as an agent on behalf of third parties. The commissions are recognized at amounts due from the buyers of advertising airtime or sponsorship services, less of any amounts due to television broadcasters. Revenue from commissions on sales of commercial airtime and from sponsorship is recognized in the consolidated income statement when these services are rendered.

Revenue from charges made to cable and satellite operators includes fees from cable and satellite operators for reemission (rebroadcasting) of programs produced by the Group. Revenue is recognized when the related programs are broadcast.

Services revenues are recognized in profit and loss in the period when related services are rendered, net of any discount given.

- (c) Revenue from sale of equipment is measured at the fair value of the consideration received or receivable, net of discounts, rebates and returns. Revenue from the sale of goods is recognized in profit or loss when the significant risks and rewards of ownership have been transferred to the customer.
- (d) Other revenue is recognized, net of any discount given, when the relevant goods or service are provided.
Other revenue includes primarily revenue from the lease of premises and facilities, revenue from interest on installment plan purchase and other sales revenue.

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

t) Distribution fees

Commissions payable to distributors for registering new subscribers and for retention of existing subscribers are recognized over the minimum base period of the subscription agreement.

Commissions for distributors which will be settled within 12 months of the reporting date are classified as other current assets, while the commissions, which will be settled more than 12-months after the reporting date, are classified as non-current assets.

u) Barter revenue and cost

Barter revenue is recognized when the services are rendered or goods delivered. Programming licences, products and services received are expensed or capitalised when received or used. The Group recognises barter transactions at the estimated fair value of the programming licences, products or services received. When products or services are received before related advertising is broadcast, a liability is recognized by the Group. Conversely, when advertising is broadcast before products or services are received, a receivable is recognized by the Group.

v) Gains and losses on investment activities and finance costs

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

Interest income and expense (other than interest expense on borrowings) is recognized as it accrues in profit or loss using the effective interest method. Dividends income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings (including bank loans and bonds), foreign exchange gains/losses on bonds, realization and valuation costs of hedging instruments and instruments not under hedge accounting related to finance

activities, bank and other charges on borrowings as well as guarantee fees resulting from the indebtedness. Borrowing costs are recognized in profit or loss using the effective interest method.

w) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

x) Income tax

Income tax expense/benefit comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet approach, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are measured based on the expected manner of recovery or settlement of the carrying amounts of assets and liabilities, respectively, using tax rates that are enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. An amount of deferred tax assets is reduced to the extent that it is no longer probable that the related tax benefit will be partly or wholly realised. When not recognized deferred tax asset becomes recoverable, it is recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are offset by the Group companies.

y) Earnings per share

The Group presents basic and diluted earnings per share for its ordinary and preference shares. Basic earnings per share are calculated by dividing the period's profit or loss from continuing operations attributable to ordinary and preference shareholders of the Company by the weighted average number of ordinary and preference shares outstanding during the period. Diluted earnings per share are calculated by dividing the period's profit or loss from the continuing operations attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares, adjusted by the effects of all dilutive potential ordinary and preference shares.

z) Segment reporting

An operating segment is a component of the Group that is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

The Group presents operating segments according to its internal management accounting principles applied in the preparation of periodical management reports which are regularly analysed by the Management Board of Cyfrowy Polsat S.A. These reports are analyzed on regular basis by management which was identified as the chief operating decision maker.

aa) Cash flows statement

Cash and cash equivalents in the cash flow statement are equal to cash and cash equivalents presented in the consolidated balance sheet.

Purchases of set-top boxes to be provided to customers under operating lease contracts are classified in the cash flows statement within operating activities. The purchases and disposals of these set-top boxes are classified in the cash flows statement within operating activities and presented as "Net disposals/(additions) in reception equipment provided under operating lease".

Acquisition of items of property, plant and equipment or intangible assets are presented in their net amount (net of related value added tax).

Payments for film licences and sport rights are presented on a net basis (net of related value added tax) within operating activities. Expenditures on the acquisition of programming assets also include the amount of withholding tax paid to the relevant tax authorities.

7. Determination of fair values

A number of accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. The methods for determining fair values are described below. When applicable further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Derivatives

The fair value of derivatives is calculated based on their quoted closing bid price at the balance sheet date or, in the lack thereof, other inputs that are observable for the asset or liability, either directly (i. e. as prices) or indirectly (i. e. derived from prices). In the second case, the fair value of derivatives is estimated as the present value of future cash flows, discounted using the market interest rate at the reporting date. Information on the structure of Polish and eurozone interest rates and Polish 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 the market rate of 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 Group's credit risk. A market interest rate for a finance lease contract is estimated based on interest rates for similar lease contracts.

8. Approval of the Consolidated Financial Statements

These consolidated financial statements were approved for publication by the Management Board of Cyfrowy Polsat S.A. on 3 March 2015.

9. Change in presentation

The Group has changed presentation of revenue and operating costs in the consolidated income statement in order to present more relevant information concerning business activity of the Group after the acquisition of Metelem Holding Company Limited. None of the introduced changes affected the previously reported amounts of revenue, costs, net profit for the period, EBITDA, or equity.

Change in presentation of revenue presentation involves presentation of advertising and sponsorship revenue as well as revenue from cable and satellite operator fees together as wholesale revenue. Pursuant to the new presentation, wholesale revenue also contains transmission services revenue and sales of licenses, sublicenses and property rights (presented within Other revenue in previous periods).

Change in presentation of operating costs involved grouping of cost items within new cost categories: content costs and technical costs and cost of settlements with telecommunication operators. Content costs contain programming cost, cost of internal and external TV production and amortization of sport rights and amortization of purchased film licenses. Technical costs and cost of settlements with telecommunication operators contain broadcasting and signal transmission costs, cost of settlements with telecommunication operators and interconnection charges, infrastructure rental costs (presented within Other costs in previous periods) and IT services costs (presented within Other costs in previous periods).

Comparable results for the year ended 31 December 2013 have been reclassified to conform to the current period presentation as presented in the table below. Reclassifications have also been made in the notes to the consolidated financial statements.

	31 December 2013 (reported)	Change in presentation Restated data for the year ended 31 December 2013			
		Retail revenue	Wholesale revenue	Sale of equipment	Other revenue
Retail revenue	1,831.7	1,830.1	1.6	-	-
Advertising and sponsorship revenue	869.9	-	869.9	-	-
Revenue from cable and satellite operator fees	97.3	-	97.3	-	-
Sale of equipment	41.7	-	-	41.7	-
Other revenue	70.2	-	41.4	-	28.8
Total	2,910.8	1,830.1	1,010.2	41.7	28.8

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

	Change in presentation								
	Restated data for the year ended 31 December 2013								
31 December 2013 <i>(reported)</i>	Content costs	Distribution, marketing, customer relation management and retention costs	Depreciation, amortization, impairment and liquidation	Technical costs and cost of settlements with telecommu- nication operators	Salaries and employee- related costs	Cost of equipment sold	Cost of debt collection services and bad debt allowance and receivables written off	Other costs	
Programming costs	407.8	407.8	-	-	-	-	-	-	
Distribution, marketing, customer relation management and retention costs	332.0	-	332.0	-	-	-	-	-	
Cost of internal and external TV production and amortization of sport rights	385.2	385.2	-	-	-	-	-	-	
Depreciation, amortization, impairment and liquidation	256.4	-	-	256.4	-	-	-	-	
Salaries and employee-related costs	178.6	-	-	-	178.6	-	-	-	
Broadcasting and signal transmission costs	153.3	-	-	-	153.3	-	-	-	
Amortization of purchased film licenses	134.0	134.0	-	-	-	-	-	-	
Cost of equipment sold	63.9	-	-	-	-	63.9	-	-	
Cost of settlements with mobile network operators and interconnection charges	77.9	-	-	-	77.9	-	-	-	
Cost of debt collection services and bad debt allowance and receivables written off	28.2	-	-	-	-	-	28.2	-	
Other costs	140.4	-	-	-	25.1	-	-	115.3	
Total	2,157.7	927.0	332.0	256.4	256.3	178.6	63.9	28.2	115.3

10. Revenue

	for the year ended	
	31 December 2014	31 December 2013
Retail revenue	5,084.7	1,830.1
Wholesale revenue	1,954.0	1,010.2
Sale of equipment	327.3	41.7
Other revenue	43.9	28.8
Total	7,409.9	2,910.8

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

Wholesale revenue mainly consists of advertising and sponsorship revenue, settlements with mobile network operators, revenue from rental of infrastructure, roaming revenues, revenue from cable and satellite operator fees, sales of broadcasting and signal transmission services and sales of licenses, sublicenses and property rights.

11. Operating costs

	Note	for the year ended	
		31 December 2014	31 December 2013
Content costs		1,029.5	927.0
Distribution, marketing, customer relation management and retention costs		612.7	332.0
Depreciation, amortization, impairment and liquidation		1,295.9	256.4
Technical costs and cost of settlements with telecommunication operators		1,412.4	256.3
Salaries and employee-related costs	a	421.7	178.6
Cost of equipment sold		925.2	63.9
Cost of debt collection services and bad debt allowance and receivables written off		67.6	28.2
Other costs		212.1	115.3
Total		5,977.1	2,157.7

a) Salaries and employee-related costs

	for the year ended	
	31 December 2014	31 December 2013
Salaries	358.4	152.9
Social security contributions	50.9	20.1
Other employee-related costs	12.4	5.6
Total	421.7	178.6

Average headcount of non-production employees*

	for the year ended	
	31 December 2014	31 December 2013
Employment contracts (full-time equivalents)	3,830	1,413

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

12. Gain/loss on investment activities, net

	for the year ended	
	31 December 2014	31 December 2013
Interest income	50.8	10.5
Other interest expense	(3.3)	(2.7)
Other foreign exchange gains/(losses)	(23.8)	8.4
Other investment income	10.0	0.5
Other costs	(18.5)	(0.6)
Total	15.2	16.1

13. Finance costs

	for the year ended	
	31 December 2014	31 December 2013
Interest expense on loans and borrowings	343.5	64.6
Interest expense on issued bonds	291.1	109.1
Early redemption costs (see note 32)	82.1	-
Foreign exchange differences on issued bonds	360.8	20.1
Valuation and realization of hedging instruments	4.9	18.2
Valuation and realization of derivatives not used in hedge accounting	50.5	-
Guarantee fees, bank and other charges	13.1	4.0
Total	1,146.0	216.0

14. Income tax

(i) Income tax expense

	for the year ended	
	31 December 2014	31 December 2013
Current tax expense	161.8	63.4
Change in deferred tax	(139.9)	0.3
Correction of income tax returns of previous years	(0.2)	3.7
Income tax expense in the income statement	21.7	67.4

	for the year ended	
	31 December 2014	31 December 2013
Change in deferred income tax		
Tax losses carried forward	(0.8)	5.3
Receivables and other assets	(29.8)	6.3
Liabilities	(43.4)	(14.1)
Hedge valuation	0.1	(0.1)
Valuation of instruments not under hedge accounting	9.8	-
Deferred distribution fees	23.4	1.4
Other property, plant and equipment and intangible assets	(85.3)	(0.8)
Programming assets	(13.9)	2.3
Change in deferred tax recognized in income statement – total	(139.9)	0.3

(ii) Income tax recognized in the statement of other comprehensive income

	for the year ended	
	31 December 2014	31 December 2013
Change in deferred income tax on hedge valuation	(0.7)	2.8
Change in deferred income tax recognized on currency translation adjustment – foreign operations	-	(1.0)
Income tax expense recognized in other comprehensive income - total	(0.7)	1.8

(iii) Effective tax rate reconciliation

	for the year ended	
	31 December 2014	31 December 2013
Gross profit	314,2	592.9
Income tax at applicable statutory tax rate of 19%	59,7	112.6
Tax amortization of intangible assets	(21.3)	(19.8)
Effect of tax rates in foreign jurisdictions (*)	(14.1)	(1.0)
Gain on disposal of subsidiary	-	(7.2)
Technology tax relief	(1,7)	(4.5)
Deferred tax unrecognized in previous periods	(3.1)	(10.8)
Other non-taxable revenue and non-tax deductible costs. net. at 19% tax	2.2	(1.9)
Tax expense for the year	21.7	67.4
Effective tax rate	6.9%	11.4%

(*) The Group's entities measure current and deferred income tax applying tax rates enacted in countries in which they are domiciled:

- 9.56% in the period of January 2013 – 11 December 2014, 14.3% in the period of 12 December 2014 – 31 December 2014 for entities domiciled in Switzerland,
- 12.5% for entities domiciled in Cyprus
- 19% for entities domiciled in the Republic of Poland,
- 22% for entities domiciled in Sweden,
- 24% in the period of January – March 2013, 23% in the period of April 2013 – March 2014 and 21% in the period April – December 2014 for entities domiciled in the United Kingdom,
- 28% for entities domiciled in Norway.

(iv) Deferred tax assets

	31 December 2014	31 December 2013
Tax losses carried forward	32.2	16.0
Liabilities	525.0	63.4
Hedge valuation	2.9	2.3
Valuation of instruments not under hedge accounting	16.8	-
Tangible assets	19.7	22.0
Programming assets	8.8	1.5
Receivables and other assets	36.6	15.6
Total deferred tax assets	642.0	120.8
Set off of deferred tax assets and liabilities	(407.8)	(81.9)
Deferred tax assets in the balance sheet	234.2	38.9

(v) Tax loss

	31 December 2014	31 December 2013
2014 tax loss carried forward	87.3	-
2013 tax loss carried forward	3.3	6.9
2012 tax loss carried forward	38.0	31.0
2011 tax loss carried forward	44.8	58.5
2010 tax loss carried forward	46.6	47.7
2009 tax loss carried forward	-	20.1
Tax losses carried forward – total	220.0	164.2

(vi) Tax losses recognized

	31 December 2014	31 December 2013
2014 tax loss carried forward	87.3	-
2013 tax loss carried forward	1.7	5.3
2012 tax loss carried forward	38.0	21.3
2011 tax loss carried forward	32.3	36.5
2010 tax loss carried forward	11.0	8.5
2009 tax loss carried forward	-	13.7
Tax losses carried forward – total	170.3	85.3

As at 31 December 2014 the Group recognized deferred tax asset on tax losses to the extent that it was probable that they would be utilised in the future.

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

(vii) Deferred tax liabilities

	31 December 2014	31 December 2013
Receivables and other assets	68.3	63.0
Liabilities	61.9	0.4
Deferred distribution fees	42.3	18.9
Tangible and intangible assets	1,121.9	99.8
Programming assets	1.2	7.9
Total deferred tax liabilities	1,295.6	190.0
Set off of deferred tax assets and liabilities	(407.8)	(81.9)
Deferred tax liabilities in the balance sheet	887.8	108.1

15. EBITDA (unaudited)

EBITDA (earnings before interest, taxes, depreciation, amortization, impairment and liquidation) presents the Group's key measure of earnings performance. The level of EBITDA measures the Group's ability to generate cash from recurring operations. The Group defines EBITDA as operating profit adjusted by depreciation, amortization, impairment and liquidation. EBITDA is not an IFRS EU measure, and as such can be calculated differently by other entities.

	for the year ended	
	31 December 2014	31 December 2013
Net profit for the period	292.5	525.5
Income tax	21.7	67.4
Gain/loss on investment activities. net	(15.2)	(16.1)
Finance costs	1,146.0	216.0
Share of the profit of joint venture accounted for using the equity method	(2.6)	(2.9)
Depreciation, amortization, impairment and liquidation*	1,295.9	256.4
EBITDA (unaudited)	2,738.3	1,046.3

* Depreciation, amortisation, impairment and liquidation comprise depreciation and impairment of property, plant and equipment, amortisation and impairment of intangible assets and net book value of disposed property, plant, equipment and intangible assets (excluding amortization of programming assets)

16. Basic and diluted earnings per share

At the reporting date, the Company did not have any financial instruments that could have a dilutive effect, therefore the diluted earnings per share are equal to basic earnings per share.

	for the year ended	
	31 December 2014	31 December 2013
Net profit	292.5	525.5
Weighted average number of ordinary and preference shares in the period	539,024,535	348,352,836
Earnings per share in PLN (not in millions)	0.54	1.51

17. Property, plant and equipment

	Reception equipment	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Tangible assets under construction	Other property, plant and equipment
Cost as at 1 January 2014	823.1	6.9	105.9	245.0	40.4	28.7	7.8	434.7
Additions	194.9	-	10.7	219.5	14.2	9.3	84.9	338.6
Acquisition of subsidiary (see note 38)	-	26.3	86.4	2,356.0	10.9	36.0	281.7	2,797.3
Transfer from assets under construction	-	-	1.3	83.0	-	-	(84.3)	-
Disposals	(57.5)	-	(0.8)	(33.3)	(8.0)	(1.5)	(2.4)	(46.0)
Transfer from investment property	-	-	(0.1)	0.6	-	0.1	1.0	1.6
Cost as at 31 December 2014	960.5	33.2	203.4	2,870.8	57.5	72.6	288.7	3,526.2
Accumulated impairment losses as at 1 January 2014	(17.5)	-	-	-	-	(0.1)	-	(0.1)
Recognition	(2.4)	-	-	(1.2)	-	-	(4.2)	(5.4)
Reversal	0.4	-	-	-	-	-	0.1	0.1
Utilisation	3.0	-	-	0.7	-	-	3.7	4.4
Accumulated impairment losses as at 31 December 2014	(16.5)	-	-	(0.5)	-	(0.1)	(0.4)	(1.0)
Accumulated depreciation as at 1 January 2014	398.0	-	25.5	124.5	15.8	17.7	-	183.5
Additions	171.8	-	12.3	377.1	8.2	15.4	-	413.0
Additions (depreciation in the value of produced equipment)	-	-	-	1.2	-	0.1	-	1.3
Disposals	(46.9)	-	(0.7)	(25.1)	(7.1)	(1.3)	-	(34.2)
Transfer from investment property	-	-	(0.1)	-	-	0.1	-	-
Accumulated depreciation as at 31 December 2014	522.9	-	37.0	477.7	16.9	32.0	-	563.6
Carrying amount as at 1 January 2014	407.6	6.9	80.4	120.5	24.6	10.9	7.8	251.1
Carrying amount as at 31 December 2014	421.1	33.2	166.4	2,392.6	40.6	40.5	288.3	2,961.6

The Group recognized an impairment loss on items of property, plant and equipment whose carrying amounts exceeded their recoverable amounts. The impairment provision is recognized in 'depreciation, amortization, impairment and liquidation'.

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Notes to the consolidated financial statements for the year ended 31 December 2014

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

	Reception equipment	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Tangible assets under construction	Other property, plant and equipment
Cost as at 1 January 2013	717.4	8.2	97.8	238.3	41.2	28.0	34.1	447.6
Additions	161.7	0.2	5.5	27.9	1.2	3.5	7.7	46.0
Acquisition of subsidiary	-	-	0.1	1.6	0.2	0.1	-	2.0
Transfer from assets under construction	-	-	8.9	20.2	0.4	1.4	(30.9)	-
Disposals	(56.0)	-	(0.5)	(29.2)	(2.0)	(4.0)	(2.8)	(38.5)
Disposal of a subsidiary	-	(1.5)	(8.4)	(13.8)	(0.6)	(0.3)	(0.3)	(24.9)
Transfer from investment property	-	-	2.5	-	-	-	-	2.5
Cost as at 31 December 2013	823.1	6.9	105.9	245.0	40.4	28.7	7.8	434.7
Accumulated impairment losses as at 1 January 2013	(28.0)	-	-	(2.1)	-	(0.3)	0.5	(1.9)
Recognition	(2.5)	-	-	-	-	-	(0.5)	(0.5)
Reversal	-	-	-	2.1	-	0.2	-	2.3
Utilisation	13.0	-	-	-	-	-	-	-
Accumulated impairment losses as at 31 December 2013	(17.5)	-	-	-	-	(0.1)	-	(0.1)
Accumulated depreciation as at 1 January 2013	269.3	-	22.6	117.2	12.3	17.2	-	169.3
Additions	168.8	-	6.1	40.2	5.7	4.5	-	56.5
Additions (depreciation in the value of produced equipment)	-	-	-	2.1	-	0.1	-	2.2
Disposals	(40.1)	-	(0.2)	(28.1)	(1.8)	(3.8)	-	(33.9)
Disposal of a subsidiary	-	-	(3.3)	(6.9)	(0.4)	(0.3)	-	(10.9)
Transfer from investment property	-	-	0.3	-	-	-	-	0.3
Accumulated depreciation as at 31 December 2013	398.0	-	25.5	124.5	15.8	17.7	-	183.5
Carrying amount as at 1 January 2013	420.1	8.2	75.2	119.0	28.9	10.5	34.6	276.4
Carrying amount as at 31 December 2013	407.6	6.9	80.4	120.5	24.6	10.9	7.8	251.1

The Group recognized an impairment loss on items of property, plant and equipment whose carrying amounts exceeded their recoverable amounts. The impairment increase for reception equipment relates to the equipment that is under vindication. The impairment provision is recognized in 'depreciation, amortization, impairment and liquidation'.

18. Goodwill

	2014	2013
Balance as at 1 January	2,602.8	2,568.0
Acquisition of 100% shares of Metelem Holding Company Limited (see note 38)	8,224.0	-
Acquisition of 100% shares of Polskie Media S.A.	-	34.8
Balance as at 31 December	10,826.8	2,602.8

	31 December 2014	31 December 2013
Goodwill recognized on the acquisition of Metelem Holding Company Ltd.	8,224.0	-
Goodwill recognized on the acquisition of Telewizja Polsat S.A.	2,360.2	2,360.2
Goodwill recognized on the acquisition of entities comprising Ipla platform	145.1	145.1
Goodwill recognized on the acquisition of M.Punkt Holdings Ltd.	52.0	52.0
Goodwill recognized on the acquisition of Polskie Media S.A.	34.8	34.8
Goodwill recognized on the acquisition of Info-TV-FM	10.7	10.7
Total	10,826.8	2,602.8

Impairment tests performed on goodwill balances as at 31 December 2014 did not indicate impairment (see note 20 for impairment test assumptions).

19. Brands

	2014	2013
Balance as at 1 January	890.8	847.8
Acquisition of subsidiary – accounting for Plus brand (see note 38)	941.1	-
Amortization of Plus brand	(34.8)	-
Acquisition of subsidiary – accounting for TV4 brand	-	33.7
Acquisition of subsidiary – accounting for TV6 brand	-	9.3
Balance as at 31 December	1,797.1	890.8

	31 December 2014	31 December 2013
Plus	906.3	-
Polsat	840.0	840.0
TV4 brand	33.7	33.7
TV6 brand	9.3	9.3
Ipla	7.8	7.8
Total	1,797.1	890.8

Plus

Following the acquisition of Metelem Holding Company Ltd., the Group recognized a provisional value of the Plus brand. The brand is amortized over its useful life which is provisionally estimated until the end of 2031. A valuation of the brand to fair value has not been completed as at the date of preparation of these consolidated financial statements.

The carrying amount of the brand was allocated to "Services to individual and business customers" cash-generating unit.

Polsat

The value of the Polsat brand is recognized following the acquisition of Telewizja Polsat S.A. (currently Telewizja Polsat Sp. z o.o.).

The Polsat brand is not amortized as it is considered to have an indefinite useful life. The carrying amount of the brand was allocated to "Broadcasting and television production" cash-generating unit for the impairment testing purposes (see note 20). Impairment test performed on Polsat brand balance as at 31 December 2014 did not indicate impairment (see note 20 for impairment test assumptions).

IPLA

In the consolidated financial statements, as a result of acquisition of entities comprising IPLA platform, the Group has recognized in 2012 among others goodwill and IPLA brand. Value of IPLA brand as at 31 December 2014 amounted to PLN 7.8. The IPLA brand is not amortized as it is considered to have an indefinite useful life. The carrying amount of the brand was allocated to "Services to individual and business customers" cash-generating unit for the impairment testing purposes (see note 20).

Impairment test performed on Ipla brand balance as at 31 December 2014 did not indicate impairment (see note 20 for impairment test assumptions).

TV4 and TV6

In the consolidated financial statements, as a result of acquisition of Polskie Media S.A., the Group has recognized in 2013 among others goodwill and TV4 and TV6 brands. Value of TV4 and TV6 brands as at 31 December 2014 amounted to PLN 43.0.

The fair value of the brands, as at the date of acquisition of Polskie Media S.A., was estimated on the basis of relief from royalty method and profit split analysis. The relief from royalty method is based on the assumption that the benefits of owning a brand are equivalent to the hypothetical costs the owner of the brand would have to incur, should the brand be licensed from another entity based on market rates. The profit split analysis is based on the assumption that there is a possibility of determining or separating intangible assets from other assets controlled by a company and subsequently allocating a specific part of operating profit to such separated intangible assets.

The TV4 and TV6 brands were valued based on the forecasted revenues, forecasted operating profits and the royalty fee rate which was estimated based on the license agreements concluded by the companies with comparable business profile.

The discount rate which reflects the time value of money and the risks associated with anticipated future cash flows was established at 13.7%.

The TV4 and TV6 brands are not amortized as they are considered to have an indefinite useful life. The carrying amount of the brand was allocated to "Broadcasting and television production" cash-generating unit for the impairment testing purposes (see note 20). Impairment test performed on TV4 and TV6 brands balance as at 31 December 2014 did not indicate impairment (see note 20 for impairment test assumptions).

20. Goodwill and intangible assets with indefinite useful life

The Group recognized goodwill and brands with indefinite useful life in the consolidated financial statements. Their carrying amounts were allocated to the cash generating units which also represent the Group's operating segments.

Goodwill and brands with indefinite useful life are tested for impairment annually or more frequently if possible impairment is indicated. Goodwill and brands are allocated to the below cash-generating units for the purpose of testing for impairment. The allocation was made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose and the brands were identified.

The Group tests the total carrying amount of the cash-generating units and any impairment identified is recognized in the profit or loss immediately with respect to goodwill first and is not subsequently reversed. If goodwill is fully impaired the remaining amount of the impairment loss is allocated to the brands and other assets of the cash-generating unit on a pro rata basis.

	2014	2013
"Services to individual and business customers" cash-generating unit	8,439.6	215.6
Goodwill recognized on the acquisition of Metelem Holding Company Ltd.	8,224.0	-
Goodwill recognized on the acquisition of entities comprising Ipla platform	145.1	145.1
Goodwill recognized on the acquisition of M.Punkt Holdings Ltd.	52.0	52.0
Goodwill recognized on the acquisition of Info-TV-FM	10.7	10.7
Ipla brand	7.8	7.8
"Broadcasting and television production" cash-generating unit	3,278.0	3,278.0
Goodwill recognized on the acquisition of Telewizja Polsat S.A.	2,360.2	2,360.2
Goodwill recognized on the acquisition of Polskie Media S.A.	34.8	34.8
Polsat brand	840.0	840.0
TV4 brand	33.7	33.7
TV6 brand	9.3	9.3

The recoverable amounts of all the cash generating units has been determined based on the value-in-use calculations. These calculations were based on discounted free cash flows and involved the use of estimates related to cash flow before tax projections based on actual financial business plans covering the 5-year period until 2019. Cash flow projections after 5-year forecast period are estimated using the terminal growth. Terminal growth rate does not exceed the long-term average growth rate for the country in which the Group operates.

The key financial assumptions used in the value-in-use calculations

The most sensitive key financial assumptions used in the value-in-use calculations of “Broadcasting and television production” cash-generating unit and “Services to individual and business customers” cash-generating unit were as follows:

- discount rate
- terminal growth rate used for estimating the cash flows beyond the period of financial plans.

Discount rate – the discount rate reflects the estimate made by the management of the risks specific to each cash-generating unit, taking into account the time value of money and risks specific to the asset. The discount rate was estimated on the basis of weighted average cost of capital method (WACC) and considered Group’s and its operating segments’ business environment. WACC considers both debt and equity. Cost of equity is based on the return on investment expected by the Group’s investors while cost of debt is based on the interest bearing debt instruments. Operating segment- specific risk is considered by the estimation of beta. Beta is estimated annually and is based on the market data.

Terminal growth rate – growth rates are based on widely available published market data such as IMF publications.

The key financial assumptions used for value-in-use calculations in 2014 and 2013 are as follows:

	Broadcasting and television production		Retail	
	2014	2013	2014	2013
Terminal growth	3%	3%	3%	3%
Discount rate before tax	9.3%	11.1%	6.7%	8.6%

The impairment tests for goodwill and brands allocated to “Broadcasting and television production” and “Services to individual and business customers” cash-generating units did not indicate impairment as at 31 December 2014.

Sensitivity analysis of key financial assumptions

The Group believes that the key assumptions made in testing for impairment of the “Broadcasting and television production” and “Services to individual and business customers” cash-generating units as at 31 December 2014 are reasonable and are based on our experience and market forecasts that are published by the industry experts. Management believes that any reasonably possible change in the key assumptions on which the above mentioned cash-generating units’ recoverable amounts are based would not cause the impairment charge to be recognized.

21. Customer relationships and other intangible assets

	31 December 2014	31 December 2013
Customer relationships	4,145.8	-
Customer relationships total	4,145.8	-
Software and licenses	640.7	50.3
Concessions	1,831.0	25.4
Other	13.8	17.0
Other intangible assets under development	105.9	44.7
Other intangible assets total	2,591.4	137.4

The customer relationships and telecommunication concessions (900 MHz, 1800 MHz oraz 2100 MHz) were recognized in the balance sheets following the acquisition of Metelem Holding Company Limited based on the Group's acquisition accounting. The carrying amount of the customer relationships and concessions was allocated to "Services to individual and business customers" cash-generating unit.

Customer relationships as at 31 December 2014 include the following:

	Amortization period
Customer relationships with retail clients	10 lat
Customer relationships – infrastructure lease	3 lata
Customer relationships - roaming	13 lat
Customer relationships with wholesale clients (MVNO)	3 lata

Concessions as at 31 December 2014 include the following:

	Expiry date
Concession GSM 900	24.02.2026
Concession GSM 1800	14.09.2029
Concession UMTS	01.01.2023
Concession (fixed-line telecommunication network)	01.02.2026

	Customer relationships	Software and licenses	Concessions for broadcasting television programs	Other	Other intangible assets under development	Other intangible assets
Cost						
Cost as at 1 January 2014	-	138.2	36.0	26.7	44.7	245.6
Additions	-	29.7	368.5	0.2	55.7	454.1
Acquisition of subsidiary (see note 38)	4,530.0	627.7	1,600.0	-	60.5	2,288.2
Transfer from intangible assets under development	-	40.9	13.0	0.1	(54.0)	-
Disposals	-	(2.9)	(7.4)	-	-	(10.3)
Transfer between groups	-	(0.6)	-	-	(1.0)	(1.6)
Cost as at 31 December 2014	4,530.0	833.0	2,010.1	27.0	105.9	2,976.0
Accumulated amortization as at 1 January 2014						
	-	87.9	10.6	9.7	-	108.2
Additions	384.2	106.5	175.9	1.7	-	284.1
Additions (amortization included in the value of produced equipment)	-	-	-	1.8	-	1.8
Disposals	-	(2.1)	(7.4)	-	-	(9.5)
Accumulated amortization as at 31 December 2014	384.2	192.3	179.1	13.2	-	384.6
Carrying amounts						
As at 1 January 2014	-	50.3	25.4	17.0	44.7	137.4
As at 31 December 2014	4,145.8	640.7	1,831.0	13.8	105.9	2,591.4

	Software and licenses	Concessions for broadcasting television programs	Other	Other intangible assets under development	Total
Cost					
Cost as at 1 January 2013	106.8	16.6	23.9	15.9	163.2
Additions	29.3	0.7	1.2	38.4	69.6
Acquisition of subsidiary	-	18.7	-	-	18.7
Transfer from intangible assets under development	8.0	-	1.6	(9.6)	-
Disposals	(5.8)	-	-	-	(5.8)
Disposal of a subsidiary	(0.1)	-	-	-	(0.1)
Cost as at 31 December 2013	138.2	36.0	26.7	44.7	245.6
Accumulated amortization as at 1 January 2013					
Additions	23.3	5.0	1.2	-	29.5
Additions (amortization included in the value of produced equipment)	-	-	1.8	-	1.8
Disposals	(4.8)	-	-	-	(4.8)
Disposal of a subsidiary	(0.1)	-	-	-	(0.1)
Accumulated amortization as at 31 December 2013	87.9	10.6	9.7	-	108.2
Carrying amounts					
As at 1 January 2013	37.3	11.0	17.2	15.9	81.4
As at 31 December 2013	50.3	25.4	17.0	44.7	137.4

22. Programming assets

	31 December 2014	31 December 2013
Acquired film licenses	163.9	153.5
Capitalised cost of external production and sports rights	45.6	19.8
Co-productions	0.7	1.3
Prepayments	77.7	78.3
Total	287.9	252.9
<i>Current programming assets</i>	<i>152.1</i>	<i>181.3</i>
<i>Non-current programming assets</i>	<i>135.8</i>	<i>71.6</i>

	2014	2013
Change in programming assets		
Net carrying amount as at 1 January	252.9	239.6
Increase*:	294.2	246.6
<i>Acquisition of Polskie Media S.A.</i>	-	11.4
<i>Acquisition of film licenses</i>	147.1	146.6
<i>Capitalized costs of sports rights</i>	147.1	88.6
Change in impairment losses:	(5.0)	2.8
<i>Film licenses</i>	(4.7)	1.2
<i>Capitalized cost of external production and sports rights</i>	(0.3)	1.6
Change in internal production*	2.8	(8.1)
Amortization of film licenses	(111.9)	(135.4)
Amortization of capitalized cost of sports rights	(107.5)	(86.1)
Disposals:	(30.5)	(6.4)
<i>Sale of film licenses</i>	(0.4)	(6.4)
<i>Capitalized costs of sports rights</i>	(30.1)	-
Other	(7.1)	(0.1)
Net carrying amount as at 31 December	287.9	252.9

* includes change in prepayments

In 2014 impairment losses were recognized on programming assets to the extent carrying amounts of these assets exceeded their expected discounted recoverable amounts.

Commitments related to acquisition of programming assets by the Group are presented in note 49.

23. Deferred distribution fees

	31 December 2014	31 December 2013
Deferred distribution fees	222.7	99.6
<i>Of which: Current</i>	141.7	70.1
<i>Non-current</i>	81.0	29.5

Deferred distribution fees include commissions for distributors for contracts effectively concluded with subscribers. These costs are expensed by the Group to profit or loss over the minimum base period of the subscription contracts.

As at 31 December 2014, 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 221.1 (as at 31 December 2013: 99.1 PLN).

24. Other non-current assets

	31 December 2014	31 December 2013
Deferred costs	3.0	2.8
Non-current trade receivables	156.9	9.1
Loans granted to related parties	28.9	-
Shares	2.4	2.2
Investment in joint ventures	3.2	3.2
Deposits paid	2.8	3.4
Derivative instruments IRS/CIRS (note 39)	1.2	-
Other non-current receivables	0.1	0.1
Total	198.5	20.8

As at 31 December 2014 99% shares in Karpacka Telewizja Kablowa Sp. z o.o. ("KTK Sp. z o.o.") and 49% shares in Litenite Limited were included in "Shares". As at 31 December 2013 85% shares in KTK Sp. z o.o. were included in "Shares".

Investment in key joint ventures

The Group accounted for the following investments in a joint ventures using the equity method:

As at 31 December 2014:

Entity	Carrying amount	Country	Assets	Liabilities	Revenues	Profit / loss for the period	Share in voting rights
Polsat JimJam Ltd.	3.2	UK	12.7	6.1	11.8	5.2	50%
Total	3.2		12.7	6.1	11.8	5.2	`

As at 31 December 2013:

Entity	Carrying amount	Country	Assets	Liabilities	Revenues	Profit / loss for the period	Share in voting rights
Polsat JimJam Ltd.	3.2	UK	10.5	4.2	13.2	5.8	50%
Total	3.2		10.5	4.2	13.2	5.8	

In 2013 and 2014, the Group has received from Polsat JimJam a dividend in the amount of EUR 0.6 (equivalent of PLN 2.5) and EUR 0.6 (equivalent of PLN 2.5) respectively.

25. Inventories

Types of inventories	31 December 2014	31 December 2013
Mobile phones	108.6	-
Laptops, tablets and modems	75.3	23.6
Set-top boxes and disc drives – merchandise	3.5	12.5
Set-top boxes and disc drives – finished goods	39.0	61.6
Digital Video Broadcasting – Terrestrial units – merchandise	1.2	3.7
Digital Video Broadcasting – Terrestrial units – finished goods	7.6	5.1
SMART and SIM cards	5.8	9.2
Sets	8.5	-
Antennas and converters	4.3	2.8
Other inventories	47.6	28.3
Total net book value	301.4	146.8

Other inventories comprise primarily of raw materials used in the production of set-top boxes.

Write-downs of inventories	2014	2013
Opening balance	4.5	8.3
Increase	19.1	4.2
Utilisation	(0.2)	(3.3)
Decrease	(2.0)	(4.7)
Closing balance	21.4	4.5

26. Trade and other receivables

	31 December 2014	31 December 2013
Trade receivables from related parties	103.7	12.3
Trade receivables from third parties	1,267.0	347.1
Tax and social security receivables	45.9	13.5
Other receivables	36.8	1.5
Total	1,453.4	374.4

Trade receivables from third parties include primarily receivables from individual customers, media houses and distributors.

Trade receivables by currency

Currency	31 December 2014	31 December 2013
PLN	1,338.4	344.7
EUR	27.0	11.3
USD	3.6	3.3
XDR	1.6	-
SEK	0.2	-
AUD	-	0.1
Total	1,370.8	359.4

Movements in the allowance for impairment of accounts receivable

	2014	2013
Opening balance	33.9	43.4
Increase	58.1	14.3
Reversal	(4.4)	(4.9)
Utilisation	(12.6)	(18.9)
Closing balance	75.0	33.9

27. Other current assets

	31 December 2014	31 December 2013
Derivative instruments forward/IRS/CIRS (note 39)	22.2	-
Other deferred income	0.3	2.2
Other deferred costs	137.6	103.2
Total	160.1	105.4

Other deferred costs in the amount of PLN 107.1 related to the agreement with Mobyland Sp. z o.o. (see note 43).

28. Cash and cash equivalents

	31 December 2014	31 December 2013
Cash on hand	0.9	0.2
Current accounts	61.2	103.7
Deposits	1,673.2	238.3
Total	1,735.3	342.2

Currency	31 December 2014	31 December 2013
PLN	1,647.6	270.4
EUR	42.8	66.4
USD	39.9	4.0
CHF	4.7	0.6
GBP	0.3	0.2
SEK	-	0.1
NOK	-	0.5
Total	1,735.3	342.2

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

Restricted cash in the amount of PLN 12.6 includes mainly guarantee deposits.

29. Equity

(i) Share capital

Presented below is the structure of the Company's share capital as at 31 December 2014:

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

Presented below is the structure of the Company's share capital as at 31 December 2013:

Share series	Number of shares	Nominal value of shares	Type of shares
Series A	2,500,000	0.1	preference shares (2 voting rights)
Series B	2,500,000	0.1	preference shares (2 voting rights)
Series C	7,500,000	0.3	preference shares (2 voting rights)
Series D	166,917,501	6.7	preference shares (2 voting rights)
Series D	8,082,499	0.3	ordinary bearer shares
Series E	75,000,000	3.0	ordinary bearer shares
Series F	5,825,000	0.2	ordinary bearer shares
Series H	80,027,836	3.2	ordinary bearer shares
Total	348,352,836	13.9	

The shareholders' structure as at 31 December 2014 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%
Argumenol Investment Company Ltd. ¹	28,415,173	1.1	4.44%	28,415,173	3.47%
Sensor Overseas Ltd. ³	54,921,546	2.2	8.59%	81,662,921	9.97%
Embud Sp. z o.o. ¹	29,648,775	1.2	4.64%	29,648,775	3.62%
Other	214,367,958	8.6	33.52%	214,539,208	26.20%
Total	639,546,016	25.6	100%	818,963,517	100%

¹ Entity is controlled by Mr. Zygmunt Solorz-Żak

² Reddev Investments Ltd. is a direct subsidiary of Pola Investments Ltd., an entity controlled by the TiVi Foundation, the parent entity of which is Mr. Zygmunt Solorz-Żak

³ Sensor Overseas Ltd. is controlled by EVO Foundation

The shareholders' structure as at 31 December 2013 was as follows:

	Number of shares	Nominal value of shares	% of share capital held	Number of votes	% of voting rights
Pola Investments Ltd. ¹	154,204,296	6.2	44.27%	306,709,172	58.11%
Sensor Overseas Ltd. ²	25,341,272	1.0	7.27%	50,382,647	9.55%
Other	168,807,268	6.7	48.46%	170,678,518	32.34%
Total	348,352,836	13.9	100%	527,770,337	100%

¹ Pola Investments Ltd. is controlled by the TiVi Foundation, the parent entity of which is Mr. Zygmunt Solorz-Żak

² Sensor Overseas Ltd. is controlled by EVO Foundation

On 16 January 2014 the Extraordinary General Meeting of Cyfrowy Polsat adopted resolution concerning conditional increase in the share capital by the amount not exceeding PLN 11.7 by the issue of up to 291,193,180 ordinary bearer shares.

On 24 January 2014 the Extraordinary General Meeting of Cyfrowy Polsat adopted resolution concerning the issuance of 291.193.180 registered subscription warrants. The warrants entitle their holders to acquire ordinary bearer shares and were offered to the vendors of shares in Metelem.

On 2 April 2014 the registration of a conditional increase of the Company's share capital for the purposes of the transaction of the takeover of Metelem by the Company took place.

On 28 April 2014 the Polish Financial Supervision Authority approved the prospectus of the Company's Series I and Series J shares prepared for the purposes of applying for the admission of these shares to trading on a regulated market operated by the Warsaw Stock Exchange (the "WSE").

On 12 May 2014 the Management Board of the WSE declared the admission to stock exchange trading on the main market of 47,260,690 ordinary series I bearer shares of the Company with a nominal value of PLN 0.04 (not in millions) each. The WSE Management Board also resolved to introduce the said shares to trading on the main market, effective 14 May 2014, subject to the registration of the shares and the assignment of the code PLCFRPT00013 to them by the National Depository for Securities on 14 May 2014.

Furthermore on 12 May 2014 the WSE Management Board resolved to admit to trading on the main market of 243,932,490 ordinary series J bearer shares of the Company with a nominal value of PLN 0.04 (not in millions) each.

Due to the fact that the Company's Series J shares are not shares of the same type as the Company's shares introduced to trading on WSE in terms of the rights to dividend and interim dividend incorporated in them. it is the Company's intention to introduce its series J shares to trading on the WSE not earlier than the rights vested in series J shares of the Company are made identical to the rights vested in the Company's shares listed on WSE. i.e., not earlier than in the 2nd quarter of 2015.

Series J shares are subject to disposal restrictions (a lock-up), resulting from statements submitted on 22 January 2014 by Karswell Limited, Sensor Overseas Limited and Argumenol Investment Company Limited.

(ii) Share premium

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

(iii) Retained earnings

On 29 April 2014 the Annual General Meeting of the Company adopted resolution on distribution of profit of the Company for the financial year of 2013. Pursuant to the provisions of the resolution the net profit earned by the Company in the financial year of 2013 in the amount of PLN 429.0 is appropriated as follows: (i) PLN 102.9 to dividends payable to the shareholders of the Company (PLN 0.26 (not in million) per share), (ii) the remaining portion of the net profit. i.e. PLN 326.1 to the supplementary capital.

(iv) Other reserves

Other reserves include hedge valuation effect.

30. Hedge valuation reserve

On 31 July 2014 and 1 August 2014 the Company executed Interest Rate Swap (IRS) transactions ("Transactions") consisting in exchanging interest payments based on the floating rate WIBOR 3M for interest payments based on an average fixed rate of 2.50% with the following banks: ING Bank Śląski S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Société Générale Spółka Akcyjna, Oddział w Polsce, Bank Zachodni WBK S.A., BNP Paribas SA and Bank Polska Kasa Opieki SA.

The Transactions were concluded for the period from 30 September 2014 until 31 December 2016 and the total nominal value of the loan being hedged by Transactions mentioned above is PLN 1,136.5.

In 2013 the Company did not conclude any IRS (interest rate swap) or CIRS (cross-currency interest rate swap) transactions.

Impact of hedging instruments valuation on assets and liabilities as at 31 December 2014

	IRS	CIRS	Total
Liabilities			
Long-term	(7.0)	-	(7.0)
Short-term	(8.4)	-	(8.4)
Total	(15.4)	-	(15.4)

Impact of hedging instruments valuation on assets and liabilities as at 31 December 2013

	IRS	CIRS	Total
Liabilities			
Long-term	(0.1)	-	(0.1)
Short-term	(7.9)	(4.1)	(12.0)
Total	(8.0)	(4.1)	(12.1)

Impact of hedging instruments valuation on other reserves

	2014	2013
Balance as at 1 January	(9.0)	(20.6)
Valuation of cash flow hedges	-	13.9
Amount transferred to income statement	11.1	0.5
Deferred tax	(2.1)	(2.8)
Change for the period (old credit facility)	9.0	11.6
Hedging relationship designation	(15.0)	-
Deferred tax	2.8	-
Change for the period (new credit facility)	(12.2)	-
Balance as at 31 December	(12.2)	(9,0)

Due to the repayment of existing debt and its replacement with new credit facility (see note 31) the hedge of existing debt was ended and the amounts presented in hedge valuation reserve were transferred to profit and loss.

31. Loans and borrowings

Loans and borrowings	31 December 2014	31 December 2013
Short-term liabilities	1,322.6	246.0
Long-term liabilities	7,683.5	239.9
Total	9,006.1	485.9

Change in loans and borrowings liabilities:

	2014	2013
Loans and borrowings as at 1 January	485.9	867.6
Loans and borrowings on acquisition of entities (see note 38)	6,815.6	24.8
Facilities agreement	2,800.0	-
Repayment of capital	(1,087.1)	(431.1)
Repayment of interest and commissions	(351.8)*	(40.0)
Interest accrued	343.5	64.6
Loans and borrowings as at 31 December	9,006.1	485.9

* Includes amount paid for costs related to the new financing

On 11 April 2014 Cyfrowy Polsat S.A. as the borrower, together 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. entered into a facilities agreement ("Senior Facilities Agreement") with a syndicate of Polish and foreign banks led by ING Bank Śląski S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Société Générale Corporate and Investment Banking ("Global Banking Coordinators") and comprising Société Générale Bank & Trust S.A., HSBC Bank plc, Bank Millennium S.A., Bank Pekao S.A., Bank Zachodni WBK S.A., BNP Paribas Fortis SA/NV, Credit Agricole Bank Polska S.A., Credit Agricole Corporate & Investment Banking, DNB Bank ASA, DNB Bank Polska S.A., Erste Group Bank AG, mBank S.A., PZU FIZ AN BIS 1, Raiffeisen Bank Polska S.A., RBS Bank (Polska) S.A., Société Générale S.A., Oddział w Polsce, The Bank of Tokyo-

Mitsubishi UFJ, Ltd., The Bank of Tokyo-Mitsubishi UFJ (Holland) N.V., as well as UniCredit Bank AG, London Branch, acting as the Agent and the Security Agent.

The Senior Facilities Agreement provides the granting of a term facility loan ("Term Facility Loan") up to the maximum amount of PLN 2,500 ("Term Facility") and a multicurrency Revolving Facility Loan up to a maximum amount of the equivalent of PLN 500 ("Revolving Facility Loan").

The Term Facility bears interest at a variable rate being the sum of the WIBOR rate for appropriate interest period and the applicable margin, whereas the Revolving Facility Loan bears interest at a variable rate being the sum of, depending on currency of indebtedness, the WIBOR rate (for indebtedness in PLN) or EURIBOR (for indebtedness in EUR) or LIBOR (for indebtedness in another currency permitted under the Senior Facilities Agreement) for the appropriate interest period and the applicable margin. The margin on the Term Facility and the Revolving Facility Loan is dependent on the level of the "total leverage" ratio in such way that the lower it is, the lower the margin will also be. The Term Facility is repaid in quarterly installments of variable value, starting on 30 June 2014, with the final debt repayment date being 11 April 2019. The final date for the repayment of the full amount of the Revolving Facility Loan will also be 11 April 2019.

The receivables from the Company and the remaining debtors under the aforementioned facilities are secured by collaterals established by the Company and other entities. In particular, such collaterals include registered pledges over a collection of movables and property rights of a variable composition, constituting elements of the business enterprise of the Company and other appropriate entities, registered and financial pledges over share in the Company's subsidiaries, the assignment of rights as security, mortgages, notarial representations on submission to enforcement and similar securities established upon shares in or assets of the Company's subsidiaries which are governed by foreign law.

The Term Facility and the Revolving Facility Loan was used by the Company in particular for repaying the whole indebtedness arising from or referred to in the following documents:

- a) the Senior Facilities Agreement of 31 March 2011, as amended, entered into between the Company (as the borrower) and certain finance parties; and
- b) the Indenture of 20 May 2011 concerning the issuance of debt securities and relating to Senior Secured Notes (see note 32); and
- c) the Indenture of 17 February 2012 relating to pay-in-kind notes ("PIK Notes") issued by Eileme 1 AB (publ), a company incorporated under the laws of Sweden and a subsidiary of Metelem Holding Company Limited, which in turn is the parent company of Polkomtel Sp. z o.o.

In accordance with the provisions of the Senior Facilities Agreement, if the total leverage ratio is maintained below a level designated in that Agreement, the Company may incur additional facilities. The terms of such additional facilities will on each occasion be set out in an additional facility accession deed, executed in connection with the incurring of such additional facility, provided that the termination date of such additional facility shall be no earlier than 6 months after the last termination date of the Term Facility Loan and the Revolving Facility Loan.

Loans and borrowings on acquisition as at 7 May 2014 comprise the Senior Facilities Agreement ('SFA Agreement') concluded on 17 June 2013 by Eileme 2 AB publ, Eileme 3 AB publ, Eileme 4 AB publ and Polkomtel Sp. z o.o. (subsidiaries of the Company) with the Consortium of Polish and foreign banks and financial institutions led by Bank Polska Kasa Opieki S.A, Powszechna Kasa Oszczędności Bank Polski S.A. (acting as 'Global Coordinators'), Bank Polska Kasa Opieki S.A.,

Bank Zachodni WBK S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Powszechny Zakład Ubezpieczeń S.A. (acting as 'Senior Mandated Lead Arrangers'), Bank DnB NORD Polska S.A., Bank Millennium S.A., BNP Paribas Bank Polska S.A., BNP Paribas Fortis S.A./N.V., BRE Bank S.A., Credit Agricole Bank Polska S.A., DNB Bank ASA, HSBC Bank PLC, HSBC Bank Polska S.A., ING Bank N.V., Nordea Bank Polska S.A., PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 1, Raiffeisen Bank International AG, Raiffeisen Bank Polska S.A., Societe Generale, London Branch, The Royal Bank of Scotland PLC (acting as 'Mandated Lead Arrangers'), Unicredit Bank AG, London Branch (acting as 'Agent') and Citicorp Trustee Company Limited (acting as 'Security Agent').

The SFA Agreement includes the following loans granted to Polkomtel Sp. z o.o.: the Senior Facilities Term Loan A ('SFA A') in the amount of PLN 2,650.0, the Senior Facilities Term Loan B ('SFA B') in the amount of PLN 3,300.0, the Senior Facilities Term Loan C ('SFA C') in the amount of PLN 1,700.0 and multicurrency revolving loan facility of up to PLN 300.0 ('New RCF').

The term facilities granted to Polkomtel Sp. z o.o. bear interest at a variable rate being the sum of the WIBOR rate for appropriate interest period and the applicable margin. The margin is dependent on the level of the leverage ratio in such way that the lower it is, the lower the margin will also be.

The SFA A loan is scheduled for repayment in quarterly uneven installments of which final installment is due in November 2017. The SFA B loan is scheduled for full repayment in June 2018. The SFA C loan is scheduled for full repayment in June 2019. The final repayment of the New RCF is scheduled to be in November 2017. Until 30 September 2014 the New RCF was not utilized.

On 29 December 2014 Polkomtel Sp. z o.o. made the early prepayment of part of the term loan in the amount of PLN 200.0.

The receivables from Polkomtel Sp. z o.o. are secured by security interests established by the Company and other entities. In particular, such security interests include guarantees, pledges on the assets and other collaterals.

Moreover the SFA Agreement imposes a number of restrictions, disclosure requirements, covenants and other obligations. The SFA Agreement obliges the Group to enter into cash flow hedge transactions relating to the Senior Notes EUR and Senior Notes USD interest payments in foreign currencies.

Agreement with Bank Pekao S.A.

On 7 May 2009 the Company signed an agreement with Bank Pekao S.A. defining rights and obligations of the parties should the Company order the bank to issue a guarantee or a letter of credit. Bank's total commitment regarding the issued guarantees and letters of credit may not exceed PLN 20,0. As at 31 December 2014 the bank issued guarantees in the total amount of PLN 3.2 and EUR 1.3.

Agreement with mBank

On 14 June 2007 the Company signed an agreement with mBank 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 4.0. As at 31 December 2014 the bank issued guarantees in the total amount of PLN 30 thousand (not in million) and EUR 47 thousand (not in million).

Agreement with PKO BP

On 29 November 2012 Company's indirect subsidiary signed a framework agreement with PKO BP S.A. defining rights and obligations of the parties should the company order the bank to issue a guarantee. Bank's total commitment regarding issued guarantees relating to tenders and trade agreements may not exceed PLN 25.0. As at 31 December 2014 the bank issued guarantees in the total amount of PLN 11.5 and EUR 1.7.

On 28 February 2014 Company's indirect subsidiary signed an annex to a framework agreement with PKO BP S.A. defining rights and obligations of the parties should the company order the bank to issue a guarantee. Bank's total commitment regarding issued guarantees relating to tenders and trade agreements may not exceed PLN 2.0. As at 31 December 2014 the bank issued guarantees in the total amount of PLN 0.7 and EUR 0.2.

Agreement with ING Bank Śląski S.A.

On 12 February 2014 the Company's indirect subsidiary signed an agreement with ING Bank Śląski S.A. defining rights and obligations of the parties should the company order the bank to issue a guarantee. Bank's total commitment regarding the issued guarantees may not exceed PLN 2,5. As at 31 December 2014 the bank issued guarantees in the total amount of PLN 0.25.

32. Issued bonds

	31 December 2014	31 December 2013
Short-term liabilities	464.4	98.7
Long-term liabilities	4,550.2	1,340.0
Total	5,014.6	1,438.7

Change in issued bonds:

	2014	2013
Issued bonds as at 1 January	1,438.7	1,413.7
Bonds on acquisition as at 7 May 2014 (see note 38)	5,528.5	-
Foreign exchange losses	360.8	20.1
Early redemption costs	82.1	-
Bonds redemption	(2,275.9)	-
Repayment of interest and commission	(410.7)*	(104.2)
Interest accrued	291.1	109.1
Issued bonds payable as at 31 December	5,014.6	1,438.7

* - Includes payment of the early redemption costs

Issued bonds payable as at 31 December 2013 comprised the Senior Notes due in 2018 issued by the Company's subsidiary Cyfrowy Polsat Finance AB with aggregate principal amount of EUR 350.0 ("Senior Secured Notes").

Bonds on acquisition as at 7 May 2014 comprised the Senior Notes due in 2020 issued by Eileme 2 AB publ and PIK Notes issued by Eileme 1 AB publ. Eileme 2 AB publ and Eileme 1 AB publ are the Company's subsidiaries since 7 May 2014.

On 26 January 2012 Eileme 2 AB publ, subsidiary of the Company since 7 May 2014, as the issuer and Citibank N.A. as the Agent, the Guarantors (Eileme 3 AB publ, Eileme 4 AB publ, Spartan Capital Holdings Sp. z o.o.) and Ortholuck Limited entered into an indenture ('HY Indenture Agreement') for the issuance of Senior Notes due in 2020. Pursuant to the HY Indenture Agreement on 26 January 2012 Eileme 2 AB publ issued, in two separate tranches within one prospectus, EUR 542.5 11.75% ('Senior Notes EURO') and USD 500.0 11.625 % Senior Notes ('Senior Notes USD') due in 2020. Polkomtel Sp. z o.o., Spartan Capital Holdings Sp. z o.o. and Eileme 4 AB publ guaranteed redemption of the Senior Notes as well as repayment of other liabilities of Eileme 2 AB publ related thereto.

On or after 31 January 2016, Eileme 2 AB publ may redeem all or a part of the Senior Notes EURO and/or Senior Notes USD at the redemption price (expressed as percentages of principal amount) set out below plus accrued and unpaid interest on the notes redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on January 31 of the years indicated below, subject to the rights of holders of notes on the relevant record date to receive interest on the relevant interest payment date: (i) in 2016 the redemption price is 105.875% for Senior Notes EURO and 105.813% for Senior Notes USD, (ii) in 2017 the redemption price is 102.938% for Senior Notes EURO and 102.906% for Senior Notes USD and (iii) thereafter the redemption price is 100.000% both for Senior Notes EURO and Senior Notes USD. Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on the notes (or portions thereof) called for redemption on the applicable redemption date.

Interest coupons on the Senior Notes are due semi-annually on 31 January and 31 July each year.

On 17 February 2012 Eileme 1 AB publ, subsidiary of the Company since 7 May 2014, as the issuer and Citibank N.A. as the Agent and Ortholuck Limite entered into an indenture ('PIK Indenture Agreement') for the issuance of Pay-in-Kind notes due in 2020 with aggregate principal amount of USD 201.0 ('PIK Notes').

Pursuant to the PIK Indenture Agreement on 17 February 2012 Eileme 1 AB publ issued USD 201.0 14,25% PIK Notes due in year 2020.

On 7 May 2014 Cyfrowy Polsat Finance AB repaid its total indebtedness under the Senior Secured Notes.

On 30 May 2014 an indirect subsidiary of the Company repaid its total indebtedness under the PIK Notes. The PIK Notes were redeemed for a price equal to 103% of the nominal value of the PIK Notes increased by accrued and unpaid interest as at 30 May 2014.

The funds for repayment of the bonds mainly have been derived from a term facility issued to the Company on 11 April 2014. For details, please refer to note 31.

Issued bonds payable as at 31 December 2014 comprise the Senior Notes due in 2020 issued by Eileme 2 AB publ in the nominal amount of EUR 542.5 and USD 500.0.

33. Group as a lessor and as a lessee

a) Group as a lessor

Operating lease

The Group entered into contracts with third parties, which are classified as operating leases based on their economic substance. The contracts relate to the rental of reception equipment, lease of premises and call center equipment as well as vehicles. Reception equipment and call center equipment connected with such contracts are presented as part of property, plant and equipment. The premises is classified as operating lease and vehicles are recognized as financial leasing.

Lease contracts for set-top boxes are concluded for a base contractual period ranging from 12 to 29 months. After each base period, the contracts are converted into contracts with either indefinite or definite terms, unless terminated by the subscribers.

Future minimum lease payments with respect to operating lease are as follows:

	31 December 2014	31 December 2013
less than 1 year	7.8	7.9
between 1 and 5 years	1.3	2.0
Total	9.1	9.9

b) Group as a lessee

Operating leases

The Group entered into agreements, which are classified as operating lease contracts based on their economic substance. Assets leased under these contracts are not recorded in the financial statements. The contracts comprise leases of premises, lease of satellite transponders capacity, vehicles and other equipment as well as lease of land for network locations.

The table below presents a maturity analysis for such commitments:

	31 December 2014	31 December 2013
within one year	452.4	166.9
between 1 to 5 years	1,148.7	536.4
more than 5 years	415.9	146.9
Total	2,017.0	850.2

The table below presents future minimum payments relating to operating lease agreements to related parties:

	31 December 2014	31 December 2013
within one year	22.8	17.9
between 1 to 5 years	80.5	67.7
more than 5 years	69.9	76.0
Total	173.2	161.6

In 2014 the Group incurred costs related to operating lease agreements amounting to PLN 371.2 and in 2013 PLN 167.6.

Finance leases

The total carrying amount of equipment used under finance lease contracts amounted to PLN 15.7 as at 31 December 2014 and PLN 0.7 as at 31 December 2013.

The lease term is 1 year with respect to conditional access equipment and up to 5 years with respect to vehicles and other equipment.

Future minimum lease payments under finance leases are as follows:

	31 December 2014	31 December 2013
less than 1 year	7.4	0.2
between 1 and 5 years	12.8	0.2
Total	20.2	0.4

The present value of minimum lease payments amounted to PLN 0,4 as at 31 December 2013 and PLN 18.5 as at 31 December 2014.

34. UMTS license liabilities

Future payments	31 December 2014	31 December 2013
30 September 2015	119.4	-
30 September 2016	119.4	-
30 September 2017	119.4	-
30 September 2018	119.4	-
30 September 2019	119.4	-
subsequent years	370.7	-
Total payments	967.7	-
Amounts representing discount	-100.3	-
Discounted minimum payments	867.4	-
<i>Of which:</i>		
<i>Short-term</i>	117.1	-
<i>Long-term</i>	750.3	-

As a result of acquisition of shares in Metelem Holding Company Limited (see note 38) UMTS license liability has been recognized. The liability is denominated in EUR. The value of the liability is a subject to annual reduction due to subsequent installments paid to the regulator. UMTS license liability is due in 2022.

35. Other non-current liabilities and provisions

	31 December 2014	31 December 2013
Derivative instruments (IRS/CIRS) liabilities (note 39)	40.1	0.1
Provisions	131.9	1.0
Other	12.2	6.8
Total	184.2	7.9

36. Trade and other payables

	31 December 2014	31 December 2013
Trade payables to related parties	62.2	4.5
Trade payables to third parties	370.6	105.6
Taxation and social security payables	98.6	37.0
Payables relating to purchase of programming rights to related parties	1.4	0.1
Payables relating to purchase of programming rights to third parties	40.9	41.3
Payables relating to purchases of tangible and intangible assets	168.5	20.5
Accruals	531.7	136.0
Short-term provisions	127.9	42.5
Derivative instruments (IRS/CIRS) liabilities (note 39)	87.0	12.0
Other	34.2	13.7
Total	1.523.0	413.2

Accruals

	31 December 2014	31 December 2013
Salaries	76.6	26.4
Royalties for copyright management organizations	5.4	3.8
License fees	45.5	43.0
Distribution costs	137.4	11.5
Costs of settlements with telecommunication operators	100.5	-
Other	166.3	51.3
Total	531.7	136.0

Short-term and long-term provisions

	2014	2013
Opening balance as at 1 January	43.5	39.5
Acquisition of subsidiary (see note 38)	186.2	6.0
Increases	47.5	2.9
Reversal	(11.4)	(2.6)
Utilisation	(6.0)	-
Disposal of a subsidiary	-	(2.3)
Closing balance as at 31 December	259.8	43.5
<i>Of which:</i>		
<i>Short-term</i>	127.9	42.5
<i>Long-term</i>	131.9	1.0

Provisions comprise *inter alia* of provision for license fees, litigation and disputes, warranty provision, provision for dismantling and onerous contracts.

Provisions acquired through acquisition of shares of related entity include primarily a provision for dismantling costs and provisions for legal proceedings.

Trade payables and payables relating to purchases of programming rights and non-current assets by currency

Currency	31 December 2014	31 December 2013
PLN	570.0	121.9
EUR	24.7	14.4
USD	44.8	35.3
CHF	0.7	0.3
XDR	3.4	-
SEK	-	0.1
Total	643.6	172.0

Accruals by currency

Currency	31 December 2014	31 December 2013
PLN	460.0	107.7
EUR	60.5	19.0
XDR	7.8	-
USD	3.4	9.2
SEK	-	0.1
Total	531.7	136.0

37. Deferred income

	31 December 2014	31 December 2013
Deferred income	688.6	213.6
Of which: <i>Short-term</i>	683.9	209.5
<i>Long-term</i>	4.7	4.1

Deferred income comprises mainly subscription fees paid in advance, prepaid services and rental fees for set-top boxes. Deferred income also include prepaid advertising broadcasts.

38. Acquisition of a subsidiary

Acquisition of shares in Metelem Holding Company Limited

On 7 May 2014 the Company concluded subscription agreements concerning the acquisition of subscription warrants individually with all of Metelem's shareholders. that is the European Bank for Reconstruction and Development ("EBRD"), Karswell Limited ("Karswell"), Sensor Overseas Limited ("Sensor") and Argumenol Investment Company Limited ("Argumenol"). In these agreements the Company offered registered subscription warrants to the Metelem Shareholders and each of the shareholders accepted the offer of the Company and acquired free registered subscription warrants in such way that: (a) the EBRD acquired 47,260,690 Series I registered subscription warrants; (b) Karswell acquired 157,988,268 Series J registered subscription warrants; (c) Sensor acquired 27,880,274 Series J registered subscription warrants; and (d) Argumenol acquired 58,063,948 Series J registered subscription warrants. The subscription warrants represent rights to acquire shares of the Company in the course of a conditional share capital increase of the Company approved by the Company's Extraordinary General Meeting on 16 January 2014.

In executing the rights attached to the subscription warrants referred to above, on 7 May 2014 the shareholders of Metelem made statements on the acquisition of Series I and Series J shares, respectively, and paid up the new shares with non-cash contribution in the form of Metelem shares held by each of the shareholders. In consequence, the Company acquired the ownership of 2,000,325 shares of Metelem, representing 100% of the capital and votes in that company.

Acquired in consideration for the non-cash contribution in the form of Metelem shares were 291,193,180 ordinary bearer shares with the nominal value of PLN 0.04 (not in millions) each.

Karswell and Argumenol are controlled by Mr. Zygmunt Solorz-Żak, ultimate controlling party of the Company. Sensor is controlled by Mr. Heronim Ruta. The Group uses the purchase accounting method for entities acquired under common control.

The acquisition date is 7 May 2014, when the title to the shares of the acquired company was transferred to Cyfrowy Polsat (that day were fulfilled all conditions included in the conditional investment agreements signed on 14 November 2013 and 19 December 2013). Following the acquisition the Group assumed control over Metelem Holding Company Limited and its subsidiaries, including telecommunication operator Polkomtel Sp. z o.o. (operator of 'Plus' mobile network).

a) Provisional consideration transferred

	2014
Shares I and J series issued on 7 May 2014	5,957.8
Total as at 7 May 2014	5,957.8

The fair value of shares issued was established based on the closing price of PLN 20.46 (not in millions) as per the stock exchange quotation as at 7 May 2014.

b) Reconciliation of transactional cash flow

Cash transferred	-
Cash and cash equivalents received	1,800.6
Cash increase in the period of 12 months ended 31 December 2014	1,800.6

c) Provisional fair value valuation of net assets as at acquisition date

The table below provisionally estimated presents fair values of identified assets and liabilities of the acquired companies, as at the acquisition date, and goodwill accounted for an acquisition.

Provisional fair values of assets and liabilities acquired as at 7 May 2014:

	fair value as at the acquisition date (7 May 2014)
Net assets:	
Property, plant and equipment	2,797.3
Land	26.3
Buildings	86.4
Network systems and equipment	2,356.0
Vehicles	10.9
Other fixed assets	36.0
Assets under construction	281.7
Customer relationships	4,530.0
Concessions	1,600.0
Plus brand	941.1
Other intangible assets	688.2
Other non-current assets	7.9
Deferred tax assets	202.7
Inventory	155.2
Trade receivables and other receivables	1,070.0
Other current assets	129.3
Cash and equivalents	1,800.6
Loans and borrowings	(6,815.6)
Issued bonds	(5,528.5)
UMTS license liabilities	(957.9)
Finance lease liabilities	(9.2)
Deferred tax liabilities	(927.9)
Other non-current liabilities and provisions	(122.3)
Trade liabilities and other liabilities	(1,311.0)
Income tax liabilities	(39.4)
Deferred income	(476.7)
Total net assets	(2,266.2)
Consideration transferred	5,957.8
Provisional value of goodwill	8,224.0

During the provisional purchase price allocation the Group identified and provisionally fair valued intangible assets of marketing nature, (i.e. customer relationships), key telecommunication concessions and senior notes liabilities. The provisional fair value of other items of assets (including an umbrella brand 'Plus') and liabilities is estimated at book value as at the acquisition date. As the process of fair valuation has not yet been completed, the fair value of all identifiable acquired assets and liabilities is provisional and is applicable up to final valuation of assets and liabilities will be obtained.

The provisional fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method (MEEM). This method allows valuation of relationships with retail and wholesale customers based on an analysis of expected cash flows derived from those relationships. In order to determine the market value of the relationship, forecasted cash flows are discounted using the expected return/discount rate determined for the asset assuming a given period of economic usefulness of the relationship.

The provisional fair value of key telecommunication concessions (900 MHz, 1800 MHz and 2100 MHz) is estimated based on the market approach and income approach (greenfield scenario).

The provisional fair value of senior notes liabilities in amount PLN 5,528.5 is estimated based on the market quotation as at the acquisition date. The book value of senior notes liabilities presented in balance sheet of Metelem group as at acquisition date was equal to PLN 4,574.1, and the difference between this amount and fair value of senior notes liabilities is a result of purchase price allocation.

During the provisional purchase price allocation the Group identified an umbrella brand 'Plus' which was provisionally recognized at book value. A valuation of the brand to fair value has not been completed as at the date of preparation of these consolidated financial statements.

The goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations and the value of 'Plus' brand. Goodwill is allocated to the "Services to individual and business customers" operating segment.

The provisional fair value of trade and other receivables is PLN 1,070 and includes trade receivables with a provisional fair value of PLN 1,023. The gross contractual amount for trade receivables due is PLN 1,089, of which PLN 66 is expected to be uncollectible.

Acquisition-related consulting cost in the amount of PLN 5,5 have been recognized in the income statement for the 12 month period ended 31 December 2014 within the other costs category. Share issuance-related consulting costs in amount of PLN 3,9 have been recognized as a reduction of the share premium.

The revenue and net loss included in the consolidated income statement for the reporting period since 7 May 2014 contributed by Metelem Group amounted to PLN 4,360.1 and PLN 112.9, respectively. Had it been acquired on 1 January 2014 the proforma revenue and net income included in the consolidated income statement for would have amounted to PLN 9,705 and PLN 259, respectively. These amounts include the effect of provisional valuation to fair value of the described above selected net assets acquired on 7 May 2014.

39. Financial instruments

Overview

Cyfrowy Polsat S.A. Group has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risk:
 - (i) currency risk,
 - (ii) interest rate risk.

The Group's risk management policies are designed to reduce the impact of any adverse conditions on the Group's results.

The Management Board has overall responsibility for the oversight and management of the risks that the Group is subjected to in its activities. Therefore, the Management Board has established an overall risk management framework as well as specific risk management policies with respect to market, credit and liquidity risks.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are also included throughout these consolidated financial statements.

Bank loans, bonds, cash, foreign exchange call options, forwards, interest rate swaps, cross-currency interest rate swaps and short-term bank deposits are the main financial instruments used by the Group, with the intention of securing the financing for the Group's activities. The Group also holds other financial instruments including trade receivables and payables, payables relating to purchases of programming rights and payables relating to purchases of tangible and intangible assets which arise in the course of its business activities.

Financial assets	Carrying amount	
	31 December 2014	31 December 2013
Loans and receivables, including:	3,341.2	712.2
Loans granted to third parties	0.1	0.1
Loans granted to related parties	30.4	-
Trade and other receivables from related parties	103.7	12.9
Trade and other receivables from third parties	1,459.1	357.0
Cash and cash equivalents	1,735.3	342.2
Restricted cash	12.6	-
Derivative instruments not designated as hedging instruments	23.4	-
Forward transactions	20.3	-
Cross-currency interest rate swaps	3.1	-

Financial liabilities	Carrying amount	
	31 December 2014	31 December 2013
Other financial liabilities measured at amortized cost, including:	16,129.6	2,256.2
Finance lease liabilities	18.5	0.4
Loans and borrowings	9,006.1	485.9
Senior Notes	5,014.6	1,438.7
UMTS license liabilities	867.4	-
Trade and other payables to third parties and deposits	599.7	190.6
Trade and other payables to related parties	91.6	4.6
Accruals	531.7	136.0
Hedging derivative instruments	15.4	12.1
Interest rate swaps	15.4	8.0
Cross-currency interest rate swaps	-	4.1
Derivative instruments not designated as hedging instruments	111.7	-
Interest rate swaps	105.6	-
Cross-currency interest rate swaps	6.1	-

Credit risk

Credit risk is defined as the risk that counterparties of the Group will not be able to meet their contractual obligations. Exposure to credit risk is related to three main areas:

- the creditworthiness of the customers with whom physical sale transactions are undertaken,
- the creditworthiness of the financial institutions (banks/brokers) with whom, or through whom, hedging or other derivative transactions are undertaken,
- the creditworthiness of the entities in which investments are made, or whose securities are purchased.

The Group's exposure to credit risk is associated primarily with trade receivables. The Parent's customer base includes a large number of individual subscribers who are dispersed geographically over the entire country, and who are required to prepay their subscription fees. Receivables from Parent's sales network are covered with commission liabilities or deposits. Receivables from subscribers are continuously monitored and recovery actions are taken, including blocking of the signal transferred to subscribers or termination of services to a telephony client and Internet customer. Telewizja Polsat and its subsidiaries provide services with deferred payment which may cause the risk of delays. Assessment of the creditworthiness of the counterparties is regularly carried out and in principle the company does not require security in relation to the financial assets. Polkomtel's customer base is dispersed geographically over the entire country. In case of important postpaid clients services are rendered following positive credit approval while in case of individual retail clients the verification process is automatized and based on IT-supported customer relationship management system and characteristics of the billing systems. Receivables from Polkomtel's sales network are continuously monitored; sales limits and utilization limits are used.

The Group pursues a credit policy under which credit risk exposure is constantly monitored.

Due to diversification of risk in terms of the nature of individual entities, their geographical location and cooperation with highly-rated financial institutions, also taking into consideration the fair value of liabilities arising from derivative transactions, the Group is not materially exposed to credit risk as a result of derivative transactions entered into.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at the reporting date was as follows:

Maximum exposure to credit risk

	Carrying amount	
	31 December 2014	31 December 2013
Loans granted to third parties	0.1	0.1
Loans granted to related parties	30.4	-
Trade and other receivables from third parties	103.7	12.9
Trade and other receivables from related parties	1,459.1	357.0
Cash and cash equivalents	1,735.3	342.2
Restricted cash	12.6	-
Derivative instruments not designated as hedging instruments:	23.4	-
Forward transactions	3.1	-
CIRS	20.3	-
Total	3,364.6	712.2

The concentration of credit risk for trade and other receivables is presented in the tables below:

	Carrying amount	
	31 December 2014	31 December 2013
Receivables from subscribers	726.1	174.4
Receivables from media companies	153.2	139.4
Receivables from satellite and cable operators	24.7	15.5
Roaming and interconnect receivables	159.0	-
Receivables from distributors	186.4	2.6
Receivables and loans granted to related parties	134.1	12.9
Other receivables and loans granted to third parties	209.8	25.2
Total	1,593.3	370.0

	Carrying amount	
	31 December 2014	31 December 2013
Company A	81.3	29.5
Company B	34.9	23.5
Company C	26.1	21.3
Company D	21.9	14.1
Company E	21.0	9.1
Other	1,408.1	272.5
Total	1,593.3	370.0

Note: for each year 5 largest debtors are presented, not necessarily the same entities in both periods.

The ageing of trade and other receivables at the reporting date was:

	31 December 2014			31 December 2013		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	1,300.3	26.3	1,274.0	330.7	3.6	327.1
Past due 0-30 days	168.8	4.2	164.6	18.9	1.1	17.8
Past due 31-60 days	57.3	2.6	54.7	6.1	1.2	4.9
Past due more than 60 days	141.9	41.9	100.0	48.2	28.0	20.2
Total	1,668.3	75.0	1,593.3	403.9	33.9	370.0

Credit quality of such not overdue receivables that are not impaired is very good.

Trade and other receivables with recognized impairment include not past due and past due trade and other receivables where partial recoverability is estimated. Usually impairment is recognized for trade and other receivables past due for more than 60 days or for trade and other receivables for which impairment indicator exists.

Liquidity risk

The Group's objective in liquidity management is to ensure that it always has sufficient funds to meet its liabilities when due. Any surplus cash is invested mainly into bank deposits.

The Group prepares, on an ongoing basis, analyses and forecasts of its cash requirements based on projected cash flows.

The following are the contractual maturities of the Group's financial liabilities.

	31 December 2014						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	Over 5 years
Loans and borrowings	9,006.1	10,289.4	606.0	751.6	1,620.2	7,311.6	-
Senior Notes	5,014.6	6,681.4	237.7	237.7	475.6	1,426.7	4,303.7
UMTS license liabilities	867.4	967.5	-	119.3	119.3	358.0	370.9
Finance lease liabilities	18.5	20.2	3.7	3.7	2.6	10.2	-
Trade and other payables to third parties and deposits	599.7	599.7	599.7	-	-	-	-
Trade and other payables to related parties	91.6	91.6	91.6	-	-	-	-
Accruals	531.7	531.7	531.7	-	-	-	-
Hedging derivative instruments:							
IRS*	15.4	15.7	3.7	4.8	7.2	-	-
Derivative instruments not designated as hedging instruments:							
IRS*	105.6	92.4	16.6	47.8	28.0	-	-
CIRS	6.1						-
– inflows	-	(135.8)	(135.8)	-	-	-	-
– outflows	-	142.1	142.1	-	-	-	-
	16,256.7	19,295.9	2,097.0	1,164.9	2,252.9	9,106.5	4,674.6

*Pursuant to the agreements settlements shall be on a net basis

	31 December 2013						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	Over 5 years
Loans and borrowings	485.9	545.7	94.0	168.9	282.8	-	-
Senior Notes	1,438.7	1,916.9	51.7	51.7	103.4	1,710.1	-
Finance lease liabilities	0.4	0.4	0.1	0.1	0.2	-	-
Trade and other payables to third parties and deposits	190.6	190.6	190.6	-	-	-	-
Trade and other payables to related parties	4.6	4.6	4.6	-	-	-	-
Accruals	136.0	136.0	136.0	-	-	-	-
Hedging derivative instruments:							
IRS*	8.0	8.8	5.1	2.9	0.8	-	-
CIRS	4.1						
– inflows		(51.7)	(51.7)	-	-	-	-
– outflows		56.2	56.2	-	-	-	-
	2,268.3	2,807.5	486.6	223.7	387.1	1,710.1	-

*Pursuant to the agreements settlements shall be on a net basis

The Group may utilize revolving facility line of credit up to the amount of PLN 500 with a final maturity date on 11 April 2019 and revolving loan facility up to the amount of PLN 300. As at 31 December 2014 the unused amount relating to both above mentioned facilities amounted to PLN 700. As at December 2013 the amount of unused revolving facility amounted to PLN 200.

Market risk

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

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

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

The Group applies an integrated approach to market risk management. This means a comprehensive approach to the whole spectrum of identified market risks, rather than to each of them individually. The primary technique for market risk management is the use in the Group of hedging strategies involving derivatives. Apart from this, natural hedging is also used to the extent available.

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

It is permitted to use the following types of instruments:

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

Currency risk

One of the main risks that the Group is exposed to is currency risk resulting from fluctuations in exchange rate of the Polish zloty against other currencies. Revenues generated by the Group are denominated primarily in the Polish zloty, while a portion of operating costs and capital expenditures are incurred in foreign currencies. The Parent's currency risk is associated mainly to royalties to TV and radio broadcasters (USD and EUR), transponder capacity leases (EUR), fees for conditional access system (EUR) and purchases of reception equipment and accessories for reception equipment (USD and EUR). After the purchase of Telewizja Polsat Sp. z o.o. currency risk exposure is also associated to purchases of foreign programming licences (USD). After the purchase of Metelem Holding Company Ltd. currency risk exposure is also associated to UMTS license liabilities (EUR), agreements with suppliers of stock, mainly mobile phones, and suppliers of telecommunication network equipment (EUR), roaming and interconnect agreements and some agreements concerning rental of space required for network locations and rental of office space (various currencies). Furthermore, acquisition of Metelem Holding Company Ltd. resulted in risk exposure related to EUR- and USD-denominated bonds.

In respect of licence fees and transponder capacity leases, the Group partly reduces its currency risk exposure by means of an economic hedge as it denominates receivables from signal broadcast and marketing services in foreign currencies. Some currency risk related to operational and interest payments is hedged by forwards and cross-currency interest rate swaps.

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

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

	EUR	USD	CHF	GBP	SEK	NOK	XDR
Trade receivables	6.3	1.0	-	-	0.4	-	0.3
Cash and cash equivalents	10.0	11.4	1.3	0.1	-	-	-
Senior Notes	(670.9)	(614.5)	-	-	-	-	-
UMTS license liabilities	(203.5)	-	-	-	-	-	-
Trade payables	(5.8)	(12.8)	(0.2)	-	-	-	(0.7)
Gross balance sheet exposure	(863.9)	(614.9)	(1.1)	0.1	0.4	-	(0.4)
Forward transactions	62.9	41.4	-	-	-	-	-
CIRS	31.9	23.4	-	-	-	-	-
Net exposure	(769.1)	(550.1)	(1.1)	0.1	0.4	-	(0.4)

	EUR	USD	CHF	GBP	SEK	NOK	XDR
Trade receivables	2.7	1.1	-	-	-	-	-
Cash and cash equivalents	16.0	1.3	0.2	-	0.1	1.0	-
Senior Notes	(346.9)	-	-	-	-	-	-
Trade payables	(3.4)	(11.7)	(0.1)	-	(0.1)	-	-
Gross balance sheet exposure	(331.6)	(9.3)	0.1	-	-	1.0	-
CIRS	12.4	-	-	-	-	-	-
Net exposure	(319.2)	(9.3)	0.1	-	-	1.0	-

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

(in PLN)	Average rate		Rates at the reporting date	
	2014	2013	31 December 2014	31 December 2013
1 EUR	4.1852	4.1975	4.2623	4.1472
1 USD	3.1551	3.1608	3.5072	3.0120
1 GBP	5.1934	4.9432	5.4648	4.9828
1 CHF	3.4460	3.4101	3.5447	3.3816
1 XDR	4.7898	4.8053	5.0768	4.6337
1 SEK	0.4601	0.4854	0.4532	0.4694
1 NOK	0.5009	0.5385	0.4735	0.4953
1 AUD	2.8437	3.0600	2.8735	2.6864

For the purposes of the exchange rate sensitivity analysis as at 31 December 2014 and 31 December 2013, exchange rate volatility in the +/- 5% range was assumed as probable. This analysis assumes that all other variables, in particular interest rates, remain constant. The sensitivity analysis below is performed on the same basis for 2013.

	2014					2013				
	As at 31 December 2014		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at 31 December 2013		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	6.3	27.0	5%	1.2	-	2.7	11.3	5%	0.6	-
USD	1.0	3.6	5%	0.1	-	1.1	3.3	5%	0.2	-
XDR	0.3	1.6	5%	-	-	-	-	5%	-	-
SEK	0.4	0.2	5%	-	-	-	-	5%	-	-
AUD	-	-	5%	-	-	-	0.1	5%	-	-
Cash and cash equivalents										
EUR	10.0	42.8	5%	2.0	-	16.0	66.4	5%	3.3	-
USD	11.4	39.9	5%	2.1	-	1.3	4.0	5%	0.2	-
CHF	1.3	4.7	5%	0.1	-	0.2	0.6	5%	-	-
GBP	0.1	0.3	5%	-	-	-	0.2	5%	-	-
SEK	-	-	5%	-	-	0.1	0.1	5%	-	-
NOK	-	-	5%	-	-	1.0	0.5	5%	-	-
Senior Notes										
EUR	(670.9)	(2,859.5)	5%	(143.1)	-	(346.9)	(1,438.7)	5%	(71.9)	-
USD	(614.5)	(2,155.1)	5%	(107.8)	-	-	-	5%	-	-
UMTS license liabilities										
EUR	(203.5)	(867.4)	5%	(43.4)	-	-	-	5%	-	-

Cyfrowy Polsat S.A. Group

Notes to the consolidated financial statements for the year ended 31 December 2014

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

Trade payables											
EUR	(5.8)	(24.7)	5%	(1.3)	-	(3.4)	(14.4)	5%	(0.7)	-	-
USD	(12.8)	(44.8)	5%	(2.1)	-	(11.7)	(35.3)	5%	(1.8)	-	-
XDR	(0.7)	(3.4)	5%	(0.2)	-	-	-	5%	-	-	-
CHF	(0.2)	(0.7)	5%	-	-	(0.1)	(0.3)	5%	-	-	-
SEK	-	-	5%	-	-	(0.1)	(0.1)	5%	-	-	-
Change in operating profit				(292.4)	-				(70.1)	-	-
Forwards											
EUR	62.9	268.0	5%	13.4	-	-	-	5%	-	-	-
USD	41.4	145.2	5%	7.3	-	-	-	5%	-	-	-
CIRS											
EUR	31.9	135.8	5%	6.8	-	12.5	51.7	5%	0.6	2.0	-
EUR	23.4	82.2	5%	4.1	-	-	-	5%	-	-	-
Income tax				49.6	-				13.2	(0.4)	-
Change in net profit				(211.2)	-				(56.3)		1.6

	2014					2013				
	As at 31 December 2014		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at 31 December 2013		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	6.3	27.0	-5%	(1.2)	-	2.7	11.3	-5%	(0.6)	-
USD	1.0	3.6	-5%	(0.1)	-	1.1	3.3	-5%	(0.2)	-
XDR	0.3	1.6	-5%	-	-	-	-	-5%	-	-
SEK	0.4	0.2	-5%	-	-	-	-	-5%	-	-
AUD	-	-	-5%	-	-	-	0.1	-5%	-	-
Cash and cash equivalents										
EUR	10.0	42.8	-5%	(2.0)	-	16.0	66.4	-5%	(3.3)	-
USD	11.4	39.9	-5%	(2.1)	-	1.3	4.0	-5%	(0.2)	-
CHF	1.3	4.7	-5%	(0.1)	-	0.2	0.6	-5%	-	-
GBP	0.1	0.3	-5%	-	-	-	0.2	-5%	-	-
SEK	-	-	-5%	-	-	0.1	0.1	-5%	-	-
NOK	-	-	-5%	-	-	1.0	0.5	-5%	-	-
Senior Notes										
EUR	(670.9)	(2,859.5)	-5%	143.1	-	(346.9)	(1,438.7)	-5%	71.9	-
USD	(614.5)	(2,155.1)	-5%	107.8	-	-	-	-5%	-	-
UMTS license liabilities										
EUR	(203.5)	(867.4)	-5%	43.4	-	-	-	-5%	-	-

Cyfrowy Polsat S.A. Group

Notes to the consolidated financial statements for the year ended 31 December 2014

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

Trade payables											
EUR	(5.8)	(24.7)	-5%	1.3	-	(3.4)	(14.4)	-5%	0.7	-	-
USD	(12.8)	(44.8)	-5%	2.1	-	(11.7)	(35.3)	-5%	1.8	-	-
XDR	(0.7)	(3.4)	-5%	0.2	-	-	-	-5%	-	-	-
CHF	(0.2)	(0.7)	-5%	-	-	(0.1)	(0.3)	-5%	-	-	-
SEK	-	-	-5%	-	-	(0.1)	(0.1)	-5%	-	-	-
Change in operating profit				292.4	-				70.1	-	-
Forwards											
EUR	62.9	268.0	-5%	(13.4)	-	-	-	-5%	-	-	-
USD	41.4	145.2	-5%	(7.3)	-	-	-	-5%	-	-	-
CIRS											
EUR	31.9	135.8	-5%	(6.8)	-	12.5	51.7	-5%	(0.6)	(2.0)	-
USD	23.4	82.2	-5%	(4.1)	-	-	-	-5%	-	-	-
Income tax				(49.6)	-				(13.2)	0.4	-
Change in net profit				211.2	-				56.3	(1.6)	-

	2014		2013	
	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	(133.1)	-	(55.2)	1.6
USD	(78.0)	-	(1.1)	-
CHF	0.1	-	-	-
GBP	-	-	-	-
SEK	-	-	-	-
XDR	(0.2)	-	-	-
CAD	-	-	-	-
AUD	-	-	-	-
NOK	-	-	-	-
Estimated change in exchange rate by -5 %				
EUR	133.1	-	55.2	(1.6)
USD	78.0	-	1.1	-
CHF	(0.1)	-	-	-
GBP	-	-	-	-
SEK	-	-	-	-
XDR	0.2	-	-	-
CAD	-	-	-	-
AUD	-	-	-	-
NOK	-	-	-	-

Had Polish zloty weakened 5% against the basket of currencies as at 31 December 2014 and 31 December 2013, the Group's net profit would have decreased by PLN 211.2 and decreased by PLN 56.3, respectively and other comprehensive income would have been unchanged in 2014 and increased by PLN 1.6 in 2013. Had the Polish zloty strengthened 5%, the Group's net profit would have correspondingly increased by PLN 211.2 in 2014 and increased by PLN 56.3 in 2013 and other comprehensive income would have been unchanged in 2014 and decreased by PLN 1.6 in 2013, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

Interest rate risk

Changes in market interest rates have no direct effect on the Group's revenues, however, they do have an effect on net cash from operating activities due to interest earned on overnight bank deposits and current accounts, and on net cash from financing activities due to interest charged on bank loans.

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

In order to reduce interest rate risk exposure resulting from Parent's interest payments on floating rate senior facility, the Group stipulated interest rate swaps for which hedge accounting was adopted (see note 30). In order to reduce interest rate risk exposure resulting from Metelem Holding Company Ltd. group interest payments on floating rate senior facilities the Group also uses interest rate swaps and for them hedge accounting was not adopted.

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

	Carrying amount	
	31 December 2014	31 December 2013
Fixed rate instruments		
Financial assets	1,663.5	-
Financial liabilities*	(4,084.4)	(1,452.0)
Variable rate instruments		
Financial assets	110.0	342.0
Financial liabilities*	(9,080.0)	(517.1)
Net interest exposure	(8,970.0)	(175.1)

*nominal debt

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 2014						
Variable rate instruments*	(48.8)	48.8	17.0	(17.0)	(31.8)	31.8
Cash flow sensitivity (net)	(48.8)	48.8	17.0	(17.0)	(31.8)	31.8
31 December 2013						
Variable rate instruments*	(1.8)	1.8	3.1	(3.1)	1.3	(1.3)
Cash flow sensitivity (net)	(1.8)	1.8	3.1	(3.1)	1.3	(1.3)

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

For some instruments the Group applies cash flow hedge model under IAS 39 for interest rate exposure from floating rate interest payments in PLN on senior facility hedged by interest rate swap.

Fair value vs. carrying amount

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

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	The level of the fair value hierarchy	31 December 2014		31 December 2013	
			Fair value	Carrying amount	Fair value	Carrying amount
Loans granted to third parties	A	2	0.1	0.1	0.1	0.1
Loans granted to related parties	A	2	31.7	30.4	-	-
Trade and other receivables	A	2	1,562.8	1,562.8	369.9	369.9
Cash and cash equivalents and short-term deposits	A	*	1,735.3	1,735.3	342.2	342.2
Restricted cash	A	*	12.6	12.6	-	-
Loans and borrowings	C	2	(9,122.3)	(9,006.1)	(516.5)	(485.9)
Issued bonds	C	1	(4,840.8)	(5,014.6)	(1,553.1)	(1,438.7)
UMTS licence liabilities	C	2	(949.5)	(867.4)	-	-
Finance lease liabilities	C	2	(18.5)	(18.5)	(0.4)	(0.4)
Accruals	C	2	(531.7)	(531.7)	(136.0)	(136.0)
Trade and other payables and deposits	C	2	(691.3)	(691.3)	(195.2)	(195.2)
Total			(12,811.6)	(12,788.4)	(1,689.0)	(1,544.0)
Unrecognized gain/(loss)				(23.2)		(145.0)

A – loans and receivables

B – hedges

C – other liabilities

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

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

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

When determining the fair value of UMTS license liability, forecasted cash flows from the reporting date to September 2022 were discounted at EURIBOR market rate.

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

As at 31 December 2014 loans and borrowings comprised senior facilities and revolving facility loan and as at 31 December 2013 senior facility. The discount rate for each payment was calculated as a sum of implied WIBOR interest rate and a margin regarding the Group's credit risk. When determining the fair value of senior facilities as at 31 December 2014, forecasted cash flows from the reporting date to 30 November 2017, 22 June 2018, 24 June 2019 and 11 April 2019 (assumed dates of repayment of the loans) were analyzed. When determining the fair value of revolving facility as at 31 December 2014, forecasted cash flows from the reporting date to 31 March 2015 (assumed date of repayment of the loan) were analyzed. When determining the fair value of senior facility as at 31 December 2013, forecasted cash flows from the reporting date to 31 December 2015 (assumed date of repayment of the loan) were analyzed.

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

The fair value of bonds as at 31 December 2014 was calculated as their last transaction price as at the balance sheet date as quoted by Bloomberg multiplied by the EUR/PLN exchange rate or the USD/PLN rate respectively as at the balance sheet date. The fair value of bonds as at 31 December 2013 was calculated as their closing bid price as at the balance sheet date as quoted by Reuters multiplied by the EUR/PLN exchange rate as at the balance sheet date.

As at 31 December 2014, the Group held the following financial instruments carried at fair value on the statement of financial position.

Assets measured at fair value

	31 December 2014	Level 1	Level 2	Level 3
Derivative instruments not designated as hedging instruments:				
Forwards		-	20.3	-
Cross-currency interest rate swaps		-	3.1	-
Total		-	23.4	-

Liabilities measured at fair value

	31 December 2014	Level 1	Level 2	Level3
Derivative instruments not designated as hedging instruments:				
Interest rate swaps		-	(15.4)	-
Hedging derivative instruments:				
Interest rate swaps		-	(105.6)	-
Cross-currency interest rate swaps		-	(6.1)	-
Total		-	(127.1)	-

As at 31 December 2013, the Group held the following financial instruments measured at fair value:

Liabilities measured at fair value

	31 December 2013	Level 1	Level 2	Level3
Interest rate swaps			(8.0)	
Cross-currency interest rate swaps			(4.1)	
Total		-	(12.1)	-

Items of income, costs, profit and losses recognized in profit or loss generated by loans and Senior Notes (including hedging transactions)

For the period from 1 January 2014

to 31 December 2014	Loans and borrowings	Senior Notes	Hedging instruments	Total
Interest expense on loans and borrowings	(343.5)	-	(2.9)	(346.4)
Interest expense on Senior Notes	-	(291.1)	(2.0)	(293.1)
Early redemption costs	-	(82.1)	-	(82.1)
Foreign exchange rate differences	-	(360.8)	-	(360.8)
Total finance costs	(343.5)	(734.0)	(4.9)	(1,082.4)
Total gross profit/(loss)	(343.5)	(734.0)	(4.9)	(1,082.4)
Hedge valuation reserve	-	-	(3.9)	(3.9)

For the period from 1 January 2013

to 31 December 2013	Loans and borrowings	Senior Notes	Hedging instruments	Total
Interest expense on loans and borrowings	(64.6)	-	(10.1)	(74.7)
Interest expense on Senior Notes	-	(109.1)	(8.1)	(117.2)
Foreign exchange rate differences	-	(20.1)	-	(20.1)
Total finance costs	(64.6)	(129.2)	(18.2)	(212.0)
Total gross profit/(loss)	(64.6)	(129.2)	(18.2)	(212.0)
Hedge valuation reserve	-	-	14.4	14.4

Hedge accounting and derivatives

Cash Flow Hedge of interest rate risk of interest payments

At 31 December 2014, the Group held a number of interest rate swaps not designated as hedges in order to reduce the risk of floating interest payments on senior facilities denominated in PLN.

Table below presents the basic parameters of IRS not designated as hedging instruments, including the periods in which cash flows occur, periods they will affect the financial results and their fair value in PLN as at the balance sheet date.

	31 December 2014	31 December 2013
Type of instrument	Interest rate swap	Interest rate swap
Exposure	Floating rate interest payments in PLN	n/a
Hedged risk	Interest rate risk	n/a
Notional value of hedging instrument	4,517.5	n/a
Fair value of hedging instruments	(105.6)	n/a
Hedge accounting approach	Hedge accounting not adopted	n/a
Expected period the hedge item affect income statement	Until 30 June 2016	n/a

At 31 December 2014, the Group held a number of interest rate swaps designated as hedges of floating interest payments on senior facility denominated in PLN. The interest rate swaps are being used to hedge the interest rate risk of the Group's floating rate financing in PLN.

The terms of the interest rate swaps have been negotiated to match the terms of the floating rate financing in PLN. There were no highly probable transactions for which hedge accounting has been claimed that have not occurred and no significant element of hedge ineffectiveness requiring recognition in the income statement.

Table below presents the basic parameters of IRS designated as hedging instruments, including the periods in which cash flows occur due to cash flow hedges, periods they will affect the financial results and fair value in PLN of hedging instruments as at the balance sheet date.

	31 December 2014	31 December 2013
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	1,165.0	978.0
Fair value of hedging instruments	(15.4)	(8.0)
Hedge accounting approach	Cash Flow Hedge	Cash Flow Hedge
Expected period the hedge item affect income statement	Until 31 December 2016	Until 31 March 2015

Change in fair value of cash flow hedges is presented below (pre tax):

	2014	2013
Opening Balance	(8.0)	(15.3)
Effective part of gains or losses on the hedging instrument	(16.1)	(2.8)
Reclassification to instruments for which hedge accounting is not adopted	5.1	-
Early settlement	0.4	-
Amounts recognized in equity transferred to the profit and loss statement, of which:	3.2	10.1
- adjustment of interest costs	3.0	10.1
- adjustment due to inefficiency of the hedge relationships	0.2	-
Closing Balance	(15.4)	(8.0)

Cash Flow Hedge of foreign exchange risk of interest payments

At 31 December 2014 the Group held a number of forwards not designated as hedges in order to reduce the risk of interest payments on EUR- and USD-denominated bonds.

Tables below present the basic parameters of forwards not designated as hedging instruments, including the periods in which cash flows occur, periods they will affect the financial results and their fair value in PLN as at the balance sheet date.

	31 December 2014	31 December 2013
Type of instrument	Forward	Forward
Exposure	Interest payments in euro	n/a
Hedged risk	Foreign exchange risk	n/a
Notional value of hedging instrument (EUR)	36.9	n/a
Fair value of hedging instruments	2.6	n/a
Hedge accounting approach	Hedge accounting not adopted	n/a
Expected period the hedge item affect income statement	Until 27 January 2016	n/a

	31 December 2014	31 December 2013
Type of instrument	Forward	Forward
Exposure	Interest payments in American dollars	n/a
Hedged risk	Foreign exchange risk	n/a
Notional value of hedging instrument (EUR)	39.7	n/a
Fair value of hedging instruments	15.2	n/a
Hedge accounting approach	Hedge accounting not adopted	n/a
Expected period the hedge item affect income statement	Until 27 January 2016	n/a

At 31 December 2014 the Group held a number of cross-currency interest rate swaps not designated as hedges in order to reduce the risk of interest payments on EUR- and USD-denominated bonds.

Tables below present the basic parameters of CIRS not designated as hedging instruments, including the periods in which cash flows occur, periods they will affect the financial results and their fair value in PLN as at the balance sheet date.

	31 December 2014	31 December 2013
Type of instrument	Cross-currency interest rate swap	Cross-currency interest rate swap
Exposure	Interest payments in euro	n/a
Hedged risk	Foreign exchange risk	n/a
Notional value of hedging instrument (EUR)	542.5	n/a
Fair value of hedging instruments	(6.1)	n/a
Hedge accounting approach	Hedge accounting not adopted	n/a
Expected period the hedge item affect income statement	Until 30 January 2015	n/a

	31 December 2014	31 December 2013
Type of instrument	Cross-currency interest rate swap	Cross-currency interest rate swap
Exposure	Interest payments in American dollars	n/a
Hedged risk	Foreign exchange risk	n/a
Notional value of hedging instrument (EUR)	403.0	n/a
Fair value of hedging instruments	3.1	n/a
Hedge accounting approach	Hedge accounting not adopted	n/a
Expected period the hedge item affect income statement	Until 30 January 2015	n/a

At 31 December 2014 the Group held a number of cross-currency interest rate swaps designated as hedges of interest payments on senior facility denominated in euro. As at 31 December 2014 the Group held no such CIRS.

The terms of the cross-currency interest rate swaps have been negotiated to match the terms of the financing in euro. 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 CIRS designated as hedging instrument, 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 2014	31 December 2013
Type of instrument	Cross-currency interest rate swap	Cross-currency interest rate swap
Exposure	n/a	interest payments in euro
Hedged risk	n/a	Foreign exchange risk
Notional value of hedging instrument (EUR)	n/a	350.0
Fair value of hedging instruments	n/a	(4.1)
Hedge accounting approach	n/a	Cash Flow Hedge
Expected period the hedge item affect income statement	n/a	Until 20 May 2014

Change in fair value of cash flow hedges is presented below (pre tax):

	2014	2013
Opening Balance	(4.1)	(10.7)
Effective part of gains or losses on the hedging instrument	(2.0)	(1.5)
Reclassification to instruments for which hedge accounting is not applied	3.5	-
Early settlement	0.6	-
Amounts recognized in equity transferred to the profit and loss statement, of which:	2.0	8.1
- adjustment of interest costs	2.0	8.1
- adjustment due to inefficiency of the hedge relationships	-	-
Closing Balance	-	(4.1)

Cash Flow Hedge of foreign exchange risk of operational payments

At 31 December 2014 the Group held a number of forwards not designated as hedges in order to reduce the risk of operational payments in EUR and USD.

Tables below present the basic parameters of forwards not designated as hedging instruments, including the periods in which cash flows occur, periods they will affect the financial results and their fair value in PLN as at the balance sheet date.

	31 December 2014	31 December 2013
Type of instrument	Forward	Forward
Exposure	Operational payments in euro	n/a
Hedged risk	Foreign exchange risk	n/a
Notional value of hedging instrument (EUR)	26.0	n/a
Fair value of hedging instruments	2.3	n/a
Hedge accounting approach	Hedge accounting not adopted	n/a
Expected period the hedge item affect income statement	Until 27 March 2015	n/a

	31 December 2014	31 December 2013
Type of instrument	Forward	Forward
Exposure	Operational payments in American dollars	n/a
Hedged risk	Foreign exchange risk	n/a
Notional value of hedging instrument (EUR)	1.7	n/a
Fair value of hedging instruments	0.2	n/a
Hedge accounting approach	Hedge accounting not adopted	n/a
Expected period the hedge item affect income statement	Until 27 March 2015	n/a

40. Capital management

This note presents information about the Group's management of capital. Further quantitative disclosures are also included throughout these financial statements.

The goal of capital management is to maintain the Group's ability to operate as a going concern in order to provide the shareholders return on investment as well as benefits for other stakeholders. The Group might issue shares, increase debt or sell assets in order to maintain or improve the equity structure.

The Group monitors capital on the basis of leverage ratio, which is calculated as a ratio of net debt to sum of equity and net debt. Net debt represents interest-bearing loans and borrowings and issued bonds less cash and cash equivalents (including restricted cash).

	Carrying amount	
	31 December 2014	31 December 2013
Loans and borrowings	9,006.1	485.9
Senior Notes	5,014.6	1,438.7
Cash and cash equivalents and restricted cash	(1,747.9)	(342.2)
Net debt	12,272.8	1,582.4
Equity	9,141.6	3,001.2
Equity and net debt	21,414.4	4,583.6
Leverage ratio	0.57	0.35

41. Operating segments

The Group operates in the following two segments:

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

The Group conducts its operating activities primarily in Poland.

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

Services to individual and business customers segment includes:

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

Broadcasting and television production segment consists mainly of production, acquisition and broadcasting of information and entertainment programs as well as TV series and feature films broadcasted on television channel in Poland. The

revenues generated by the broadcasting and television production segment relate mainly to advertising and sponsorship revenues as well as revenues from cable and satellite operators.

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

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the year ended 31 December 2014:

The year ended 31 December 2014	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	6,289.8	1,120.1	-	7,409.9
Inter-segment revenues	36.3	138.0	(174.3)	-
Revenues	6,326.1	1,258.1	(174.3)	7,409.9
EBITDA (unaudited)	2,334.0	404.3	-	2,738.3
Depreciation, amortization, impairment and liquidation	1,259.3	36.6	-	1,295.9
Profit from operating activities	1,074.7	367.7	-	1,442.4
Acquisition of property, plant and equipment, reception equipment and other intangible assets	488.6*	41.8	-	530.4
Balance as at 30 June 2014 (unaudited)				
Assets, including:	23,202.3	4,233.8**	(54.9)	27,381.2
Investments in joint venture	-	3.2	-	3.2

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

** Includes non-current assets located outside of Poland in the amount of PLN 40.5.

All material revenues are generated in Poland.

It should be noted that the year ended 31 December 2014 is not comparable to the year ended 31 December 2013 as Polskie Media was acquired and RS TV was disposed on 30 August 2013 (both allocated to the Broadcasting and television production segment) and Metelem Holding Company Limited was acquired on 7 May 2014 (allocated to the Services to individual and business customers segment).

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the year ended 31 December 2013:

The year ended 31 December 2013	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	1,914.6	996.2	-	2,910.8
Inter-segment revenues	26.1	98.2	(124.3)	-
Revenues	1,940.7	1,094.4	(124.3)	2,910.8
EBITDA (unaudited)	667.9	378.4	-	1,046.3
Depreciation, amortization, impairment and liquidation	221.2	32.3	2.9	256.4
Profit from operating activities	446.7	346.1	(2.9)	789.9
Acquisition of property, plant and equipment, reception equipment and other intangible assets	244.4*	39.9	-	284.3
Balance as at 30 June 2013 (unaudited)				
Assets, including:	1,641.8	4,083.4**	(49.0)	5,676.2
Investments in joint venture	-	3.2	-	3.2

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

** Includes non-current assets located outside of Poland in amount of PLN 46.8

Reconciliation of EBITDA and Net profit for the period:

	for the year ended	
	31 December 2014	31 December 2013
EBITDA (unaudited)	2,738.3	1,046.3
Depreciation, amortization, impairment and liquidation (note 11)	(1,295.9)	(256.4)
Profit from operating activities	1,442.4	789.9
Other foreign exchange rate differences, net (note 12)	(23.8)	8.4
Interest income (note 12)	50.8	10.5
Share of the profit of joint venture accounted for using the equity method	2.6	2.9
Interest costs (note 12 and 13)	(693.3)	(194.6)
Foreign exchange differences on issued bonds (note 13)	(360.8)	(20.1)
Early redemption costs (note 13)	(82.1)	-
Other	(21.6)	(4.1)
Gross profit for the period	314.2	592.9
Income tax	(21.7)	(67.4)
Net profit for the period	292.5	525.5

42. Barter transactions

The Group is a party to barter transactions. The table below presents revenues and costs of barter transactions executed on an arm's-length basis. Revenue comprise revenue from services, products, goods and materials sold, costs comprise selling expenses.

	for the year ended	
	31 December 2014	31 December 2013
Revenues from barter transactions	41.0	27.4
Cost of barter transactions	37.3	21.9
	31 December 2014	31 December 2013
Barter receivables	16.3	4,4
Barter payables	5.0	0,6

43. Transactions with related parties

Receivables

	31 December 2014	31 December 2013
Joint ventures	4.7	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 Cyfrowy Polsat S.A.	99.0	12.1
Total*	103.7	12.9

*Amounts presented above do not include deposits paid (31 December 2014 – PLN 2.7, 31 December 2013 – PLN 2.6)

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

Other assets

	31 December 2014	31 December 2013
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	107.1	98.6
Total	107.1	98.6

Other current assets comprise mainly deferred costs related to the agreement with Mobyland Sp. z o.o. ("Mobyland") and Polkomtel S.A („Polkomtel”) – the latter referring only to 31 December 2013 as it is being eliminated on consolidation.

On 27 March 2014 Cyfrowy Polsat and Mobyland signed a memorandum of understanding to the data transfer services agreement dated 15 December 2010 under which the previously paid by the Company data package for use in future periods is set at 20.1 million GB as at 31 December 2013. As at 31 December 2014 the data package bought from Mobyland was used.

On 27 March 2014 Polkomtel and Mobyland signed a memorandum of understanding to the data transfer services agreement dated 9 March 2012 and placed an order for the purchase of 306 million GB which may be used up until 31 December 2016.

More details regarding the above-mentioned agreements are presented in note 47.

Liabilities

	31 December 2014	31 December 2013
Joint ventures	1.9	0.6
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	93.0	4.0
Total	94.9	4.6

Loans granted

	31 December 2014	31 December 2013
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	30.4	-
Total	30.4	-

Revenues

	for the year ended	
	31 December 2014	31 December 2013
Subsidiaries*	9.9	-
Joint ventures	13.8	0.4
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	244.9	38.5
Total	268.6	38.9

*Concerns transaction with subsidiaries executed prior to their acquisition

In the year ended 31 December 2014 the most significant transactions include revenues from sharing base transceiver stations and radio module, services relating to expansion of telecommunication network, revenues from sale of telecommunication equipment, sale of advertisements and revenues from audiotext services. In the year ended 31 December 2013 the most significant transactions include license fees on programming assets, transponder rental fees, sale of equipment and interconnect services, sale of advertisements and revenues from audiotext services.

Expenses and purchases of programming assets

	for the year ended	
	31 December 2014	31 December 2013
Subsidiaries*	11.4	-
Joint ventures	6.6	5.0
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	504.4	229.7
Total	522.4	234.7

*Concerns transaction with subsidiaries executed prior to their acquisition

In the year ended 31 December 2014 the most significant transactions include data transfer services, expenses for programming assets, advertising services, property rental, cost of electrical energy, telecommunication services with respect to the Group's customer call center and commission fees. In the year ended 31 December 2013 the most significant transactions include expenses for programming assets, data transfer services, advertising services, property rental, telecommunication services with respect to the Group's customer call center, IT services, license fees for broadcasting Polsat Jim Jam and rental of filming and lighting equipment.

Gain/loss on investment activities, net

	for the year ended	
	31 December 2014	31 December 2013
Joint ventures	1.0	
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.1	0.1
Total	1.1	0.1

The acquisition of shares in Metelem was presented in note 38.

44. Litigations

Management believes that the provisions as at 31 December 2014 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

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

On 24 February 2011 the President of UOKiK imposed penalty on Polkomtel (Company's indirect subsidiary) in the amount of PLN 130.7 for the alleged lack of cooperation during an inspection carried out by UOKiK in Polkomtel. Polkomtel appealed against the decision of the President of UOKiK to the Consumer and Competition Protection Court (“SOKiK”). According to management, during the inspection the company had fully and at all times cooperated with UOKiK within the scope provided by the law. On 18 June 2014 the decision of the President of UOKiK has been changed by SOKiK, reducing the penalty to PLN 4 (i.e. EUR 1). The verdict is non-binding and was appealed against by both parties. In management's opinion it is more likely than not that the ultimate outcome of the proceedings will be favorable to Polkomtel.

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

On 27 December 2012 the President of UOKiK issued a decision ending investigations related to Polkomtel's (Company's indirect subsidiary) alleged practices which infringed upon the collective interests of consumers by presenting misleading slogans in advertising campaigns. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty

in the amount of PLN 4.5. The company appealed to SOKiK against the decision. On 15 October 2014 SOKiK issued a decision where the penalty has been reduced to PLN 1.5. The judgment is not final.

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

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

On 15 December 2014 Polkomtel (Company's indirect subsidiary) received a claim from Orange for the total amount of PLN 21 related to the actions allegedly contrary to the obligations arising under the agreement for the transfer of rights to radio frequencies. On 13 January 2015 the company filed an answer to the claim. In management's opinion the claim is groundless.

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

45. Remuneration of the Management Board

The table below presents the Management Board's remuneration.

Name	Function	2014	2013
Tomasz Gillner-Gorywoda	President of the Management Board (from 28 October 2014)	0.2	-
Dominik Libicki	President of the Management Board (until 28 October 2014)	1.0	1.1
Tobias Solorz	Member of the Management Board (from 1 September 2014 to 9 December 2014), Vice-President of the Management Board (from 10 December 2014)	0.5	-
Dariusz Działkowski	Member of the Management Board	0.7	0.7
Maciej Stec	Member of the Management Board	0.7	-
Tomasz Szelaż	Member of the Management Board (from 4 November 2014)	0.1	0.7
Aneta Jaskólska	Member of the Management Board	0.7	0.7
Total		3.9	3.2

The amounts of bonuses and other remuneration payable to each member of the Management Board for 2014 and 2013 are presented below:

Name	Function	2014	2013
Tomasz Gillner-Gorywoda	President of the Management Board	0.6	-
Dominik Libicki	President of the Management Board	3.7	3.0
Tobias Solorz	Vice-President of the Management Board	1.4	-
Dariusz Działkowski	Member of the Management Board	0.9	0.4
Maciej Stec	Member of the Management Board	2.1	-
Tomasz Szelaĝ	Member of the Management Board	0.9	1.5
Aneta Jaskólska	Member of the Management Board	3.1	1.0
Total		12.7	5.9

46. Remuneration of the Supervisory Board

The Supervisory Board members receive remuneration based on the resolution of the Extraordinary General Shareholders' Meeting of Cyfrowy Polsat S.A. dated 5 September 2007.

Presented below total remuneration payable to the Supervisory Board members in 2014 and 2013:

Name	Function	2014	2013
Zygmunt Solorz-Żak	President of the Supervisory Board	0,2	0,2
Heronim Ruta	Member of the Supervisory Board	0,1	0,1
Andrzej Papis	Member of the Supervisory Board	0,1	0,1
Robert Gwiazdowski	Independent Member of the Supervisory Board	0,1	0,1
Leszek Rekxa	Independent Member of the Supervisory Board	0,1	0,1
Total		0.6	0.6

47. Important agreements and events

Agreements for the provision of data transfer services

On 27 March 2014 Cyfrowy Polsat S.A. signed a subsequent Memorandum of Understanding ("Memorandum") to the agreement concluded between the Company and Mobyland on the provision of data transfer services. The Memorandum defines in particular a new price per 1 MB and terms and conditions of settlement of the unused data packages resulting from previous orders, and also specifies the volume and conditions of the next order the Company placed through Polkomtel Sp. z o.o. ("Polkomtel").

Under the signed Memorandum, the parties set a new, lower price per 1 MB of data transfer in the amount of PLN 0.00477 net (not in millions) and decided that the unused as at the end of 2013, but already paid for data package will be recalculated in accordance with this new price. Thereby, as a result of the Memorandum, the volume of the unused, but already paid for

data package in the HSPA+ and LTE technology, remaining at the Company's disposal as at the end of 2013, amounts to approximately 20,1 million GB.

On 27 March 2014 a framework agreement ("Agreement") was signed between the Company and Polkomtel, concerning the terms of cooperation between parties as regards the provision of data transfer services by Polkomtel for the Company. The parties agreed that the date of validity and moment of commercial start of the Agreement will be 1 January 2014.

Within the framework of the aforesaid Agreement, Polkomtel will provide the Company with access to wireless data transfer, realized on the basis of LTE, HSPA+, HSPA and EDGE technologies. The maturity of the Agreement is unlimited and its value will be defined based on separate orders placed by the Company, regarding the purchase of Data Transfer Service, expressed as a number of GB.

On the Agreement date, the Company placed Order No. 1 with Polkomtel, regarding the purchase of 61 million GB of data transfer service with the guaranteed validity period of the Order until 31 December 2016 and net price of PLN 0.00477 (not in millions) per 1 MB. The total value of Order No. 1 amounts to PLN 298,0 net, and the payment will be settled in monthly installments, starting from January 2014, as follows:

- (i) for every month from January to December 2014 - in the net amount of PLN 6.7;
- (ii) for every month from January to December 2015 - in the net amount of PLN 10.0;
- (iii) for every month from January to December 2016 - in the net amount of PLN 8.2.

Execution of forward currency transactions

In connection with the indebtedness refinancing under the Senior Secured Notes issued pursuant to the Indenture dated 20 May 2011, Cyfrowy Polsat S.A. has executed forward currency transactions with the following banks: ING Bank Śląski S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Société Générale Spółka Akcyjna, Oddział w Polsce, the last of which was effected on 17 April 2014, as a result of which the aggregate value of these transactions reached EUR 383. The date of settlement of these transactions was defined as 6 May 2014, with the average PLN/EUR exchange rate at the level of 4.1979 PLN/EUR. As a result of settlement of these transactions the Company recognized a gain in amount PLN 2.9.

For the purposes of changing the structure of indebtedness of the Metelem Holding Company Limited group (after a takeover of Metelem by the Company) by way of increasing the capital of Metelem so as to facilitate partial repayment of indebtedness within the Metelem group through the repayment by Eileme 1 AB (publ), a subsidiary of Metelem, of its indebtedness under 14.25% PIK Notes due in 2020, the Company has executed forward currency transactions with the following banks: ING Bank Śląski S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Société Générale Spółka Akcyjna, Oddział w Polsce, the last of which was effected on 7 May 2014, as a result of which the aggregate value of these transactions reached USD 290. The date of settlement of these transactions was defined as 23 May 2014, with the average exchange rate at the level of 3.0247 PLN/USD. As a result of settlement of these transactions the Company recognized a gain in amount PLN 8.1.

Changes in the Management Board of the Company

On 30 July 2014 the Supervisory Board adopted a resolution appointing Mr. Tobias Solorz to the position of Member of the Management Board as of 1 September 2014. Following the registration of amendments to the Articles of association of the Company by the court, Mr. Tobias Solorz took up the position of Vice-president of the Management Board.

Mr Dominik Libicki, President of the Management Board, has resigned from his position in the Management Board of the Company, effective on 28 October 2014. On 28 October 2014 the Supervisory Board accepted the resignation placed by Mr Dominik Libicki, and appointed Mr Tomasz Gillner-Gorywoda for the position of a President of the Management Board of the Company.

On 4 November 2014 the Supervisory Board appointed Mr Maciej Stec for the position of a Member of the Management Board of the Company.

Acquisition of the remaining share in PL 2014 Sp. z o.o.

As a result of agreement with Polski Związek Piłki Siatkowej signed on 27 July 2014, Telewizja Polsat Sp. z o.o. acquired the remaining 50% shares of PL 2014 Sp. z o.o. for the amount of PLN 2,500 (not in millions).

Acquisition of the shares in Polsat Ltd.

On 6 August 2014 Telewizja Polsat Holdings Sp. z o.o. acquired 100% shares of Polsat Ltd. for the amount of GBP 100 (not in millions).

48. Events subsequent to the reporting date

Acquisition of the shares in Radio PIN S.A.

On 27 February 2015 Telewizja Polsat Sp. z o.o. acquired 100% shares of Radio PIN S.A. for the amount of PLN 4.3. Radio PIN S.A. is broadcaster of Muzo.fm radio station.

Repayment of the revolving loan

The Group has made two payments of a principal of the Revolving Facility Loan: on 30 January 2015 the Company has repaid a principal in the amount of PLN 50 and on 27 February 2015 has repaid a principal in the amount of PLN 50. The Group has also repaid the interest on the balance. The outstanding revolving loan liability amounts to zero as at the date of preparation of these consolidated financial statements. The repayment was executed using the cash generated from operations.

Agreements for the provision of data transfer services

On 3 March 2015 two memoranda of understanding determining new terms of cooperation in the scope of telecommunication services related to data transmission were concluded:

- a) PLK Memorandum – memorandum concluded between Polkomtel Sp. z o.o. ('Polkomtel'), a wholly owned subsidiary of the Company, and Mobyland Sp. z o.o. ("Mobyland") under the agreement on the provision of wholesale telecommunications services concluded between Mobyland and Polkomtel on 9 March 2012, and

- b) CP Memorandum - memorandum concluded between the Company and Polkomtel under the agreement on the provision of wholesale telecommunications services, concluded on 27 March 2014 ("Framework Agreement").

In accordance with the PLK Memorandum and CP Memorandum, the parties have established new terms of cooperation between Polkomtel and Mobyland, as well as between the Company and Polkomtel, in particular:

- a) a new unit price per 1 GB in relation to telecommunication services related to data transmission in the net amount of PLN 2.40 (not in millions);
- b) the new price will be applicable to both newly ordered data packages as well as unused data packages already partially paid for under previous orders;
- c) the new terms of cooperation will be effective as of 1 January 2015 and the placed orders for data transmission will be valid for a period of 4 years;
- d) in the event when Mobyland introduces services based on other own frequencies or frequencies to which it acquires usage rights, Mobyland will extend the scope of services related to data transmission provided to Polkomtel.

Pursuant to the PLK Memorandum, on 3 March 2015 Polkomtel placed an order with Mobyland for the purchase of a data package of 1,571.68 million GB (the "PLK Order"). The total value of the PLK Order amounts to PLN 3,772.0 (net) and the surplus payments made for the previous order placed by Polkomtel with Mobyland, in relation to the actual usage, in the amount of PLN 144.6 shall be credited towards payments for the PLK Order. Payments for the PLK Order will be made in favor of Mobyland according to the following schedule:

- i. PLN 119.3, net – for the first quarter of 2015 in three equal monthly installments,
- ii. PLN 132.0, net – for the second quarter of 2015 in three equal monthly installments,
- iii. PLN 245.0, net – for the third quarter of 2015 in three equal monthly installments,
- iv. PLN 354.0, net – for the fourth quarter of 2015 in three equal monthly installments,
- v. PLN 989.3, net – for the year 2016 in twelve equal monthly installments,
- vi. PLN 880.0, net – for the year 2017 in twelve equal monthly installments, and
- vii. PLN 907.9, net – for the year 2018 in twelve equal monthly installments.

In addition, pursuant to the CP Memorandum, on 3 March 2015 the Company placed the CP Order with Polkomtel for the purchase of a subsequent data package of 600.9 million GB (the "CP Order"). The total value of the CP Order amounts to PLN 1,442.2 (net) and the surplus payments made for the previous order placed by the Company with Polkomtel, in relation to the actual usage, in the amount of PLN 19.6 shall be credited towards payments for the CP Order. Payments for the CP Order will be made in favor of Polkomtel according to the following schedule:

- i. PLN 48.8, net – for the first quarter of 2015 in three equal monthly installments,
- ii. PLN 53.9, net – for the second quarter of 2015 in three equal monthly installments,
- iii. PLN 98.2, net – for the third quarter of 2015 in three equal monthly installments,
- iv. PLN 140.1, net – for the fourth quarter of 2015 in three equal monthly installments,
- v. PLN 385.5, net – for the year 2016 in twelve equal monthly installments,
- vi. PLN 342.8, net – for the year 2017 in twelve equal monthly installments, and

- vii. PLN 353.2, net – for the year 2018 in twelve equal monthly installments.

49. Other disclosures

Security relating to loans and borrowings

Establishment of security for loan facilities

The Group entered into a series of agreements establishing collateral under the Senior Facilities Agreement, SFA Agreement and Senior Notes (see note 31 and 32). Detailed information in respect to the agreements is presented in the Management Report in note 4.6.6.

Commitments to purchase programming assets

As at 31 December 2014 the Group had outstanding contractual commitments in relation to purchases of programming assets. The table below presents a maturity analysis for such commitments:

	31 December 2014	31 December 2013
within one year	117.0	190.3
between 1 to 5 years	104.4	80.5
Total	221.4	270.8

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

	31 December 2014	31 December 2013
within one year	13.6	18.2
Total	13.6	18.2

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of property, plant and equipment was PLN 203.7 as at 31 December 2014 (PLN 5.4 as at 31 December 2013). Total amount of contractual liabilities resulting from agreements for the purchases of intangible assets as at 31 December 2014 was PLN 72.1 (PLN 26.8 as at 31 December 2013).

50. Judgments, financial estimates and assumptions

The preparation of financial statements in conformity with IFRS EU requires the Management Board to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities,

revenues and costs. Estimates and underlying assumptions are based on historical data and other factors considered as reliable under the circumstances, and their results provide grounds for an assessment of the carrying amounts of assets and liabilities which cannot be based directly on any other sources. Actual results may differ from those estimates.

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

The most significant estimates and assumptions made primarily related to the following:

- *Classification of lease agreements*

The Group classifies leasing agreements as operating or financial based on the assessment as to what extent the risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The assessment is based on the economical substance of each transaction. The Group concludes agreements for the rental of reception equipment (set-top boxes, modems and routers) to its customers in the course of its business operations. These lease agreements are classified as operating leases as the Group holds substantially all the risks and rewards incidental to ownership of the reception equipment. The Group also provides vehicles under operating lease agreements which were initially leased from MLeasing and recognized as financial leasing.

As a part of its business activities the Group has concluded agreements with Eutelsat for the rental of transponder capacity as well as an agreement with Nagravision for the lease of conditional access system (including SMART cards). These agreements were classified as operating leases as Eutelsat and Nagravision hold substantially all the risks and rewards incidental to the ownership of the transponders and the conditional access system. The Group also entered into land lease agreements (locations for network infrastructure) and leases of office and other premises which are classified as operating leases. For more information see note 33.

- *Depreciation rates of property, plant and equipment and intangible assets with definite useful lives*

Depreciation rates are based on the expected economic useful lives of property, plant and equipment (including reception equipment provided to customers under lease agreements) and intangible assets (including customer relationships and Plus brand). The expected economic useful lives are reviewed on an annual basis based on the experience of the entity.

The economic useful lives of the set-top boxes rented to customers under operating lease agreements are estimated for 5 years, modems and routers 3 years. For information on the useful lives of property, plant and equipment, programming assets and other intangible assets with definite useful lives see notes 6j and 6k. For information on the depreciation charge for the period by the category of property, plant and equipment and intangible assets with definite useful lives see notes 17 and 21.

- *Economic useful lives and amortization method of programming assets*

Economic useful life of programming assets is based on the shorter of the expected consumption of future economic benefits embodied in an asset and the license period. Amortisation method of programming assets reflects how these economical benefits are consumed. The estimation of the useful life and the amortization method requires assessment of the timing during which the Group is expecting to obtain the income from the acquired programming assets and the percentage apportionment of this income in the given period. For more information about the amortization method and amortization charge for the period by programming assets category see notes 6l and 22.

- *Indefinite useful life of Polsat, TV4, TV6 and IPLA brands*

As at the reporting date, the Group has reviewed whether relevant factors continue to indicate indefinite useful life of Polsat, TV4, TV6 and IPLA brands recognised in 2011-2013 on the acquisition of Telewizja Polsat S.A., Polskie Media S.A. and entities comprising IPLA network.

The Group has reviewed the following factors which are essential for estimating the economic useful life of the Polsat, TV4, TV6 and IPLA brands:

- The expected usage of the asset by the entity and whether the asset could be managed more efficiently
- Technical, technological, commercial or other types of obsolescence
- The stability of the industry in which the asset operates and changes in the market demand for media services
- Expected actions by competitors or potential competitors
- The level of maintenance expenditure required to obtain the expected future economic benefits from the asset
- Whether the useful life of the asset is dependent on the useful life of other asset of the entity.

Having analyzed the above factors, the Group has concluded that there is no foreseeable limit to the period over which the Polsat, TV4, TV6 and IPLA brands are expected to generate net cash inflows for the Group and thus the indefinite useful life was assumed. This means that the above brands are not subject to amortization but rather are tested for impairment on annual basis. The Management believes that Polsat, TV4 and TV6 brands have a positive impact on the revenues from advertising and sponsorship and IPLA brand has a positive impact on acquisition of new customers as well as increase of ARPU among current customers of Cyfrowy Polsat. Furthermore, the Polsat brand is widely recognized by media and is highly appreciated in numerous rankings, for example "Rzeczpospolita" journal's rankings or BAV Consulting's rankings. Numerous awards for employees, individuals associated with the brand as well as high Power Ratio index also indicate a strong position of the brand.

As at the balance sheet date the Management states there are no plans to cease using or significantly modify Polsat, TV4, TV6 or IPLA brands. The value assigned to the brands relate to the name "Polsat", "TV4", "TV6" and "ipla" respectively and the related logotypes both of which are reserved trademarks. In case the Group decides about discontinuance of use or significant modification of the name or logotype the Management would review whether events and circumstances continue to support an indefinite useful life assessment of the Polsat, TV4, TV6 and IPLA brands and assess whether there are indicators of possible impairment.

- *Provisionally estimated fair value of assets and liabilities of Metelem Holding Company Limited*

The Group identified assets and liabilities and estimated their provisional fair value under the purchase price allocation process relating to the acquisition of Metelem Holding Company Limited. For more information see note 38.

- *The impairment of goodwill and intangible assets with indefinite useful lives*

The Group performed impairment test of a goodwill and of the intangible assets with indefinite useful lives (Polsat brand, TV4 and TV6 brands and Ipla brand). The impairment test was based on the value-in-use calculations of the cash-generating unit to which the goodwill and brands have been allocated on the initial recognition. Goodwill and brands with indefinite useful lives have been allocated to the following cash-generating units, which also represent the Group's business segments:

- "Services to individual and business customers" - goodwill recognized on the acquisition of M.Punkt Holdings, goodwill recognized on the acquisition of INFO-TVFM and the goodwill and IPLA brand recognized on the acquisition of entities comprising the IPLA platform;
- "Broadcasting and television production" - goodwill and Polsat brand recognized on the acquisition of TV Polsat and goodwill and TV4 and TV6 brands recognized on the acquisition of Polskie Media.

The value-in-use calculations included estimation of discounted cash flows for the given cash-generating unit and the relevant discount rate. The value of goodwill and brands tested at each cash-generating unit, the key assumptions used in the value-in-use calculations for each cash-generating unit, impairment test results and sensitivity analysis of reasonably possible changes in the key assumptions are presented in note 20.

The Group did not perform an impairment test of goodwill recognized on acquisition of Metelem (allocated to the 'services to individual and business customers' segment) due to the fact, that the acquisition took place during the financial year ended 31 December 2014 and the final price allocation has not been completed as at the date of preparation of these consolidated financial statements.

- *The impairment of non-financial non-current assets*

As at the reporting date the Group has assessed whether there are any indications that intangible and tangible assets with definite useful lives may be impaired. The impairment loss recognised equals the difference between net book value and recoverable amount. The impairment values are presented in note 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 6h, 26 and 39.

- *Impairment of inventories*

The Group provides for slow-moving or obsolete inventories based on inventory turnover ratios and current marketing plans. The purchase cost or production cost is determined based on weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses. For more information see notes 6m and 25.

- *Provisions for pending litigation*

During the normal course of its operations the Group participates in several court proceedings, usually typical and repeatable and which, on an individual basis, are not material for the Group, its financial standing and operations. The provisions are estimated based on the court documentation and the expertise of the Group's lawyers who participate in the current litigations and who estimate Group's possible future obligations taking the progress of litigation proceedings into account. The Group also recognizes provisions for potential unreported claims resulting from past events, should the Management Board find that the resulting outflow of economic benefits is likely. Provisions regarding probable claims are recognized as a result of Management Board's estimates based on accessible information regarding market rates for similar claims. Management believes that the provisions as at 31 December 2014 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

- *Provisions for dismantling*

The Group is required to dismantle equipment and restore sites. The provision is based on the best estimate of the amount required to settle the obligation. The provision for the cost of dismantling and removing the asset and restoring the site is

revised, when necessary, along with the value of the relevant asset. The provision is discounted by applying a discount rate that reflects the current market assessments of the time value of money and the risk specific to the liability. The discount rate used in calculating the provision for dismantling and removing the asset and restoring the site is 2.87% as at 31 December 2014. The discounting period reflects the management's best estimate regarding the expected time of dismantling the assets, taking into account the expiry dates of concessions held by the Group and the expected period of renewal.

- *Deferred tax*

Deferred taxes are recognised for all temporary differences, as well as for unused tax losses. The key assumption in relation to deferred tax accounting is the assessment of the expected timing and manner of realization or settlement of the carrying amounts of assets and liabilities held at the reporting date. In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deductible temporary differences can be utilized. At the end of the reporting period unrecognised deferred tax assets are re-assessed. A previously unrecognised deferred tax asset is recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. For further details refer to note 6x and 14.

- *Fair value of financial instruments*

Fair value of financial instruments for which there is no active market is estimated using appropriate techniques of measurements. The techniques are chosen based on the professional judgment. For more information about the method of establishing the fair value of financial instruments and key assumption made see note 6h.

CYFROWY POLSAT S.A. GROUP

**Interim Condensed Consolidated Financial Statements
for 3 and 12 months ended 31 December 2014**

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

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Interim Consolidated Income Statement

	Note	for the 3 months ended		for the 12 months ended	
		31 December 2014 unaudited	31 December 2013 unaudited	31 December 2014	31 December 2013
Continuing operations					
Revenue	7	2,521.1	800.5	7,409.9	2,910.8
Operating costs	8	(2,125.4)	(591.7)	(5,977.1)	(2,157.7)
Other operating income/(cost), net		(2.2)	(2.0)	9.6	36.8
Profit from operating activities		393.5	206.8	1,442.4	789.9
Gain/loss on investment activities, net		(11.4)	4.1	15.2	16.1
Finance costs		(379.2)	(22.8)	(1,146.0)	(216.0)
Share of the profit of jointly controlled entity accounted for using the equity method		0.6	0.6	2.6	2.9
Gross profit for the period		3.5	188.7	314.2	592.9
Income tax		10.5	(15.5)	(21.7)	(67.4)
Net profit for the period		14.0	173.2	292.5	525.5
Net profit attributable to equity holders of the Parent		14.0	173.2	292.5	525.5
Basic and diluted earnings per share (in PLN)		0.02	0.50	0.54	1.51

Interim Consolidated Statement of Comprehensive Income

	for the 3 months ended		for the 12 months ended	
	31 December 2014 unaudited	31 December 2013 unaudited	31 December 2014 unaudited	31 December 2013 unaudited
Net profit for the period	14,0	173.2	292,5	525.5
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Valuation of hedging instruments	(3,7)	3.1	(3,9)	14.4
Income tax relating to hedge valuation	0,7	(0.7)	0,7	(2.8)
Currency translation adjustment	-	-	-	(4.3)
Items that may be reclassified subsequently to profit or loss	(3,0)	2.4	(3,2)	7.3
Other comprehensive income, net of tax	(3,0)	2.4	(3,2)	7.3
Total comprehensive income for the period	11,0	175.6	289,3	532.8
Total comprehensive income attributable to equity holders of the Parent	11,0	175.6	289,3	532.8

Interim Consolidated Balance Sheet - Assets

	31 December 2014	31 December 2013
Reception equipment	421.1	407.6
Other property, plant and equipment	2,961.6	251.1
Goodwill	10,826.8	2,602.8
Customer relationships	4,145.8	-
Brands	1,797.1	890.8
Other intangible assets	2,591.4	137.4
Non-current programming assets	135.8	71.6
Investment property	5.3	5.3
Non-current deferred distribution fees	81.0	29.5
Other non-current assets	198.5	20.8
<i>includes derivative instruments assets</i>	1.2	-
Deferred tax assets	234.2	38.9
Total non-current assets	23,398.6	4,455.8
Current programming assets	152.1	181.3
Inventories	301.4	146.8
Trade and other receivables	1,453.4	374.4
Income tax receivable	26.0	0.2
Current deferred distribution fees	141.7	70.1
Other current assets	160.1	105.4
<i>includes derivative instruments assets</i>	22.2	-
Cash and cash equivalents	1,735.3	342.2
Restricted cash	12.6	-
Total current assets	3,982.6	1,220.4
Total assets	27,381.2	5,676.2

Interim Consolidated Balance Sheet - Equity and Liabilities

	31 December 2014	31 December 2013
Share capital	25.6	13.9
Share premium	7,237.4	1,295.1
Other reserves	(12.2)	(9.0)
Retained earnings	1,890.8	1,701.2
Equity attributable to equity holders of the Parent	9,141.6	3,001.2
Non-controlling interests	-	-
Total equity	9,141.6	3,001.2
Loans and borrowings	7,683.5	239.9
Issued bonds	4,550.2	1,340.0
Finance lease liabilities	11.7	0.2
UMTS license liabilities	750.3	-
Deferred tax liabilities	887.8	108.1
Deferred income	4.7	4.1
Other non-current liabilities and provisions	184.2	7.9
<i>includes derivative instruments liabilities</i>	40.1	0.1
Total non-current liabilities	14,072.4	1,700.2
Loans and borrowings	1,322.6	246.0
Issued bonds	464.4	98.7
Finance lease liabilities	6.8	0.2
UMTS license liabilities	117.1	-
Trade and other payables	1,523.0	413.2
<i>includes derivative instruments liabilities</i>	87.0	12.0
Income tax liability	48.0	4.5
Deposits for equipment	1.4	2.7
Deferred income	683.9	209.5
Total current liabilities	4,167.2	974.8
Total liabilities	18,239.6	2,675.0
Total equity and liabilities	27,381.2	5,676.2

Interim Consolidated Cash Flow Statement

	for the year ended	
	31 December 2014	31 December 2013
Net profit	292.5	525.5
Adjustments for:	1,825.3	334.3
Depreciation, amortization, impairment and liquidation	1,295.9	256.4
Payments for film licenses and sports rights	(306.8)	(222.4)
Amortization of film licenses and sports rights	224.4	220.4
Gain on sale of property, plant and equipment and intangible assets	(2.9)	(35.8)
Cost of programming rights sold	30.5	6.4
Interest expense	603.7	183.8
Change in inventories	0.5	14.8
Change in receivables and other assets	(191.9)	60.9
Change in liabilities, provisions and deferred income	(195.6)	(104.9)
Change in internal production and advance payments	(4.9)	6.5
Valuation of hedging instruments	(3.9)	14.4
Share of the profit of joint venture accounted for using the equity method	(2.6)	(2.9)
Foreign exchange losses, net	369.9	16.3
Income tax	21.7	67.4
Net additions of reception equipment provided under operating lease	(193.1)	(158.9)
Net loss on derivatives	84.3	-
Other adjustments	96.1	11.9
Cash from operating activities	2,117.8	859.8
Income tax paid	(189.1)	(67.5)
Interest received from operating activities	45.2	10.4
Net cash from operating activities	1,973.9	802.7
Acquisition of property, plant and equipment	(263.6)	(60.8)
Acquisition of intangible assets	(71.8)	(62.0)
Concessions payments	(482.3)	-
Acquisition of subsidiaries, net of cash acquired	1,800.4	(64.3)
Proceeds from disposal of related entity, net	-	48.7
Proceeds from sale of property, plant and equipment	4.1	2.1
Granted loans	(23.1)	-
Other investing activities - derivatives	6.6	-
Dividends received	2.5	2.5
Net cash from/(used in) investing activities	972.8	(133.8)

Cyfrowy Polsat S.A. Group

Interim Condensed Consolidated Financial Statements for 3 and 12 months ended 31 December 2014

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

Repayment of loans and borrowings	(1,087.1)	(431.1)
Loans and borrowings inflows	2,800.0	-
Bonds repayment	(2,275.9)	-
Finance lease – principal repayments	(0.9)	(0.4)
Payment of interest on loans, borrowings, bonds, Cash Pool, finance lease and commissions*	(872.2)	(165.0)
Dividends paid	(102.9)	-
Payment of share issuance-related consulting costs	(3.9)	-
Net cash used in financing activities	(1,542.9)	(596.5)
Net increase in cash and cash equivalents	1,403.8	72.4
Cash and cash equivalents at the beginning of the period	342.2	270.3
Effect of exchange rate fluctuations on cash and cash equivalents	1.9	(0.5)
Cash and cash equivalents at the end of the period	1,747.9**	342.2

* Includes impact of hedging instruments, premiums paid for early bonds' repayment and amount paid for costs related to the new financing

** Includes restricted cash amounting to PLN 12.6

Interim Consolidated Statement of Changes in Equity for the 12 months ended 31 December 2014

	Share capital	Share premium	Other reserves	Retained earnings*	Equity attributable to equity holders of the Parent	Non-controlling interests	Total equity
Balance as at 1 January 2014	13.9	1,295.1	(9.0)	1,701.2	3,001.2	-	3,001.2
Issue of shares	11.7	5,942.3	-	-	5,954.0	-	5,954.0
Dividend declared and paid	-	-	-	(102.9)	(102.9)	-	(102.9)
Total comprehensive income	-	-	(3.2)	292.5	289.3	-	289.3
<i>Hedge valuation reserve</i>	-	-	(3.2)	-	(3.2)	-	(3.2)
<i>Net profit for the period</i>	-	-	-	292.5	292.5	-	292.5
Balance as at 31 December 2014	25.6	7,237.4	(12.2)	1,890.8	9,141.6	-	9,141.6

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

Interim Consolidated Statement of Changes in Equity for the 12 months ended 31 December 2013

	Share capital	Share premium	Other reserves	Retained earnings*	Equity attributable to equity holders of the Parent	Non-controlling interests	Total equity
Balance as at 1 January 2013	13.9	1,295.1	(16.3)	1,175.7	2,468.4	-	2,468.4
Total comprehensive income	-	-	7.3	525.5	532.8	-	532.8
<i>Hedge valuation reserve</i>	-	-	11.6	-	11.6	-	11.6
<i>Currency translation adjustment</i>	-	-	(4.3)	-	(4.3)	-	(4.3)
<i>Net profit for the period</i>	-	-	-	525.5	525.5	-	525.5
Balance as at 31 December 2013	13.9	1,295.1	(9.0)	1,701.2	3,001.2	-	3,001.2

* The capital excluded from distribution amounts to PLN 4.6. In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital.

Notes to the Interim Condensed Consolidated Financial Statements

1. The Parent Company

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

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

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

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

2. Composition of the Management Board of the Company

- Tomasz Gillner-Gorywoda	President of the Management Board (from 28 October 2014),
- Dominik Libicki	President of the Management Board (until 28 October 2014),
- Tobiasz Solorz	Vice-President of the Management Board (from 10 December 2014), Member of the Management Board (from 1 September 2014 to 9 December 2014),
- Dariusz Działkowski	Member of the Management Board,
- Aneta Jaskólska	Member of the Management Board,
- Maciej Stec	Member of the Management Board (from 4 November 2014),
- Tomasz Szelaąg	Member of the Management Board.

3. Composition of the Supervisory Board of the Company

- Zygmunt Solorz-Żak	President of the Supervisory Board,
- Robert Gwiazdowski	Member of the Supervisory Board,
- Andrzej Papis	Member of the Supervisory Board,
- Leszek Reksa	Member of the Supervisory Board,
- Heronim Ruta	Member of the Supervisory Board.

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

Statement of compliance

These interim condensed consolidated financial statements for the 3 and 12 months ended 31 December 2014 have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting*. These interim condensed consolidated financial statements should be read together with the annual consolidated financial statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

The Group applied the same accounting policies in the preparation of the financial data for 3 and 12 months ended 31 December 2014 and the consolidated financial statements for the year 2013, presented in the consolidated annual report, except for the EU-endorsed Standards, amendments to Standards and Interpretations which are effective for the reporting periods beginning on 1 January 2014 and changes to the accounting policies presented in note 6. Standards, amendments to Standards and Interpretations which are effective for the reporting periods beginning on 1 January 2014 do not have a material impact on these interim condensed consolidated financial statements.

The most recent published annual consolidated financial statements were prepared and audited for the year ended 31 December 2014. Annual consolidated financial statements fully disclose accounting policies approved by the Group.

5. Information on Seasonality in the Group's Operations

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

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

6. Change in presentation

The Group has changed presentation of revenue and operating costs in the interim condensed consolidated income statement. None of the introduced changes affected the previously reported amounts of revenue, costs, net profit for the period, EBITDA, or equity.

Change in presentation of revenue presentation involves presentation of advertising and sponsorship revenue as well as revenue from cable and satellite operator fees together as wholesale revenue. Pursuant to the new presentation, wholesale revenue also contains transmission services revenue and sales of licenses, sublicenses and property rights (presented within Other revenue in previous periods).

Change in presentation of operating costs involved grouping of cost items within new cost categories: content costs and technical costs and cost of settlements with telecommunication operators. Content costs contain programming cost, cost of internal and external TV production and amortization of sport rights and amortization of purchased film licenses. Technical costs and cost of settlements with telecommunication operators contain broadcasting and signal transmission costs, cost of settlements with telecommunication operators and interconnection charges, infrastructure rental costs (presented within Other costs in previous periods) and IT services costs (presented within Other costs in previous periods).

Comparable results for 3 and 12 months ended 31 December 2013 have been reclassified to conform to the current period presentation as presented in the table below. Reclassifications have also been made in the notes to the interim condensed consolidated financial statements.

	Change in presentation				
	Restated data for the 3 months ended 31 December 2013				
31 December 2013 <i>(reported)</i>	Retail revenue	Wholesale revenue	Sale of equipment	Other revenue	
Retail revenue	466.4	466.1	0.3	-	-
Advertising and sponsorship revenue	287.3	-	287.3	-	-
Revenue from cable and satellite operator fees	25.1	-	25.1	-	-
Sale of equipment	9.7	-	-	9.7	-
Other revenue	12.0	-	4.5	-	7.5
Total	800.5	466.1	317.2	9.7	7.5

	Change in presentation				
	Restated data for the 12 months ended 31 December 2013				
31 December 2013 <i>(reported)</i>	Retail revenue	Wholesale revenue	Sale of equipment	Other revenue	
Retail revenue	1,831.7	1,830.1	1.6	-	-
Advertising and sponsorship revenue	869.9	-	869.9	-	-
Revenue from cable and satellite operator fees	97.3	-	97.3	-	-
Sale of equipment	41.7	-	-	41.7	-
Other revenue	70.2	-	41.4	-	28.8
Total	2,910.8	1,830.1	1,010.2	41.7	28.8

	Change in presentation								
	Restated data for the 3 months ended 31 December 2013								
31 December 2013 <i>(reported)</i>	Content costs	Distribution, marketing, customer relation management and retention costs	Depreciation, amortization, impairment and liquidation	Technical costs and cost of settlements with telecommu- nication operators	Salaries and employee- related costs	Cost of equipment sold	Cost of debt collection services and bad debt allowance and receivables written off	Other costs	
Programming costs	104.9	104.9	-	-	-	-	-	-	
Distribution, marketing, customer relation management and retention costs	92.4	-	92.4	-	-	-	-	-	
Cost of internal and external TV production and amortization of sport rights	119.0	119.0	-	-	-	-	-	-	
Depreciation, amortization, impairment and liquidation	68.6	-	-	68.6	-	-	-	-	
Salaries and employee-related costs	53.2	-	-	-	53.2	-	-	-	
Broadcasting and signal transmission costs	38.8	-	-	-	38.8	-	-	-	
Amortization of purchased film licenses	36.8	36.8	-	-	-	-	-	-	
Cost of equipment sold	10.6	-	-	-	-	10.6	-	-	
Cost of settlements with mobile network operators and interconnection charges	26.2	-	-	-	26.2	-	-	-	
Cost of debt collection services and bad debt allowance and receivables written off	7.2	-	-	-	-	-	7.2	-	
Other costs	34.0	-	-	-	6.4	-	-	27.6	
Total	591.7	260.7	92.4	68.6	71.4	53.2	10.6	7.2	27.6

	Change in presentation								
	Restated data for the 12 months ended 31 December 2013								
31 December 2013 <i>(reported)</i>	Content costs	Distribution, marketing, customer relation management and retention costs	Depreciation, amortization, impairment and liquidation	Technical costs and cost of settlements with telecommu- nication operators	Salaries and employee- related costs	Cost of equipment sold	Cost of debt collection services and bad debt allowance and receivables written off	Other costs	
Programming costs	407.8	407.8	-	-	-	-	-	-	-
Distribution, marketing, customer relation management and retention costs	332.0	-	332.0	-	-	-	-	-	-
Cost of internal and external TV production and amortization of sport rights	385.2	385.2	-	-	-	-	-	-	-
Depreciation, amortization, impairment and liquidation	256.4	-	-	256.4	-	-	-	-	-
Salaries and employee-related costs	178.6	-	-	-	178.6	-	-	-	-
Broadcasting and signal transmission costs	153.3	-	-	-	153.3	-	-	-	-
Amortization of purchased film licenses	134.0	134.0	-	-	-	-	-	-	-
Cost of equipment sold	63.9	-	-	-	-	63.9	-	-	-
Cost of settlements with mobile network operators and interconnection charges	77.9	-	-	-	77.9	-	-	-	-
Cost of debt collection services and bad debt allowance and receivables written off	28.2	-	-	-	-	-	28.2	-	-
Other costs	140.4	-	-	-	25.1	-	-	-	115.3
Total	2,157.7	927.0	332.0	256.4	256.3	178.6	63.9	28.2	115.3

7. Revenue

	for the 3 months ended		for the 12 months ended	
	31 December 2014 unaudited	31 December 2013 unaudited	31 December 2014	31 December 2013
Retail revenue	1,710.7	466.1	5,084.7	1,830.1
Wholesale revenue	641.1	317.2	1,954.0	1,010.2
Sale of equipment	159.9	9.7	327.3	41.7
Other revenue	18.4	7.5	43.9	28.8
Total	2,521.1	800.5	7,409.9	2,910.8

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

Wholesale revenue mainly consists of advertising and sponsorship revenue, settlements with mobile network operators, revenue from rental of infrastructure, roaming revenues, revenue from cable and satellite operator fees, sales of broadcasting and signal transmission services and sales of licenses, sublicenses and property rights.

8. Operating costs

	for the 3 months ended		for the 12 months ended	
	31 December 2014 unaudited	31 December 2013 unaudited	31 December 2014	31 December 2013
Content costs	295.6	260.7	1,029.5	927.0
Distribution, marketing, customer relation management and retention costs	218.3	92.4	612.7	332.0
Depreciation, amortization, impairment and liquidation	443.8	68.6	1,295.9	256.4
Technical costs and cost of settlements with telecommunication operators	557.2	71.4	1,412.4	256.3
Salaries and employee-related costs	150.9	53.2	421.7	178.6
Cost of equipment sold	376.6	10.6	925.2	63.9
Cost of debt collection services and bad debt allowance and receivables written off	27.5	7.2	67.6	28.2
Other costs	55.5	27.6	212.1	115.3
Total	2,125.4	591.7	5,977.1	2,157.7