CYFROWY POLSAT S.A.

Annual Report
for the financial year ended
December 31, 2015

Place and date of publication: Warsaw, February 29, 2016
Place and date of preparation: Warsaw, February 26, 2016

CONTENT OF THE ANNUAL REPORT

LETTER OF THE CHAIRMAN OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

The year 2015 was a challenging time for our Group but simultaneously offered us many reasons for pride and satisfaction.

Most of all, I am glad that the process of consolidation of the Group advanced as planned and in line with our assumptions. The full operational, organizational and structural consolidation of Cyfrowy Polsat and Polkomtel is almost compete thus allowing the Group to focus entirely on the implementation of its strategy and the pursuit of its business goals. The media and telecommunications market continues to evolve and changes dynamically, which makes it one of the most competitive branches of the economy. I am happy that Cyfrowy Polsat Group, the largest media and telecommunications group in Poland, is successful on such a difficult and demanding market.

The Group pursues its business and sales goals in a systematic and effective manner, by developing its unique offer of integrated services – the smartDOM program, which responds to both contemporary trends and market conditions, and most of all to consumers' expectations. The growing number of customers of the program, as well as of the services they use, is the best proof of the Management Board's right choice of sales strategy. The results achieved by the program build not only the Company's value, but also its competitive edge.

Technological progress is an essential element of building one's position and competitiveness on the media and telecommunications market. For years Polkomtel and Cyfrowy Polsat have been developing their technological edge over their competitors by being actively involved in research and development, thanks to which they have been able to achieve and maintain the position of the LTE technology leader in Poland. Our leadership position is manifested above all by the broadest LTE coverage, the highest data transfer rates in LTE on the Polish market, as well as by the implementation of state-of-the-art technological solutions (such as Wi-Fi Calling), which enhance of the quality of services provided by Polkomtel and Cyfrowy Polsat.

The Group's advantage is its increasingly extensive portfolio of new services, including financial services (developed in cooperation with Plus Bank), electric energy supply and the recently introduced telemedicine services, as well as potential new services in other areas, which will offer additional benefits, both to residential and corporate customers.

A very important project, completed successfully on January 29 this year, was the process of refinancing of the Group's existing debt. It will generate interest savings in the amount of ca. PLN 400 million yearly and offer greater flexibility and security of operations, simpler debt structure, as well as good prospects for the Group's further growth.

I have welcomed with satisfaction last year's operational and financial results, including the effective accomplishment of the goals in all major segments of operations – on the pay TV, the TV broadcasting and telecommunications markets, as well as in the area of on-line services. It is worth stressing that the Group achieves these very good results in an extremely competitive environment, effectively competing in all major areas of its activities.

I would like to thank the Shareholders, as well as the Subscribers and Customers of Cyfrowy Polsat Group for the trust they have demonstrated. I address special thanks to the Group's Management and Employees, whose efficient work and commitment have contributed to the accomplishment of goals and fulfilment of tasks. I am convinced that Cyfrowy Polsat Group will continue its efficient operations, which will translate to consistent creation of the Group's value in a manner offering benefits to 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,

I would like to present to you the Annual Report of Cyfrowy Polsat S.A. Capital Group for the year 2015, the first report which consolidates operational and financial data of Polkomtel for the whole year.

Last year we continued the process of operational consolidation of Cyfrowy Polsat and Polkomtel, and we consistently pursued our business goals while strengthening our foothold on the integrated services market. As the biggest media and telecommunications group in the region, we served 5.9 million contract customers and provided 16.5 million TV, mobile telephony and LTE Internet access services. We have remained one of the largest private companies in Poland with capitalization of PLN 13.4 billion. In 2015 the total consolidated revenue of Cyfrowy Polsat Group amounted to PLN 9.8 billion, with EBITDA at PLN 3.7 billion and net profit of nearly PLN 1.2 billion.

We observed with satisfaction the growing results of sales of our unique offer of integrated services – the smartDOM program. We have achieved the announced goal of 1 million customers at the end of 2015 and the total number of services used by this group of customers was 3.04 million. Thus, I can make a clear claim that smartDOM works not only as our response to the dynamically changing market environment and consumer expectations, but it is also an important element which builds our competitive edge.

For us the year 2015 was also the continuation of very intensive development of mobile Internet access services relying on the LTE technology in which we are the leader on Polish market. Thanks to consistent network roll out we continue to provide the most extensive LTE coverage in Poland, covering a territory inhabited by 96.8% of the population, while LTE technology itself is an important element of our Group's future development. Our work and efforts have been recognized not only by the customers, thanks to whom the base of Internet access services offered by us increased by almost 227 thousand last year, but it was also reflected in the results of an independent survey of telecommunication services conducted by the Office of Electronic Communications, which demonstrated that our Group offers the fastest mobile Internet access on the market.

The past year was also extremely successful for us in terms of broadcasting and TV production. In the commercial group of viewers, which is most desired by advertisers, Polsat TV outpaced the competitive TVN and TVP stations. With a market share of 13.2%, it once again demonstrated that it is the market leader and the most popular TV station of the so-called "Big Four" among viewers. By achieving an audience share of 24.6%, Polsat Group also demonstrated that it was a definitive leader in the commercial group in 2015. Thanks to a great scheduling and a professional team we have also been able to record equally good results in terms of advertising revenue, while our share in the TV advertising market increased to 26%. What is important, once again we recorded revenue growth dynamics significantly exceeding that of the TV advertising market.

A project which was very important for us was associated with the long, successfully-completed process of refinancing of the Group's existing debt, finalized on January 29 this year. As a result of this exercise we expect to obtain interest-related savings in the amount of ca. PLN 400 million annually, as well as greater flexibility and security of our operations, a simpler debt structure and good prospects for the Group's further growth.

The Group's strategy, which has been consistently pursued for years, remains unchanged. Our superior goal, apart from the regular development of products and services in a manner aligned with market trends and users' new needs, is to maintain leadership on the entertainment and telecommunications markets. To accomplish our plans we intend to employ the best, state-of-the-art and the most efficient technologies in order to provide top quality content and telecommunication services to our customers, irrespectively of the rich array of devices used by them. Integrated services remain a very important area for us. Thanks to our internal resources, capabilities, technologies and distribution channels we will provide these services in an increasing scope. Unchangeably, it is our belief that investments in high speed LTE Internet access, in which we are the leader on the Polish market, are very important from the point of view of future development of our Group. In our view, these efforts will contribute to a systematic growth of the number of services provided by us, while also leading to higher customer satisfaction. Achievement of the assumed goals, along with effective cost management, will have a positive impact on value creation for our shareholders.

Yours sincerely,

Tobias Solorz
President of the Management Board
Cyfrowy Polsat S.A.

REPORT OF THE MANAGEMENT BOARD ON THE ACTIVITIES OF CYFROWY POLSAT S.A. IN THE FINANCIAL YEAR ENDED DECEMBER 31, 2015

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POLSAT GROUP AT A GLANCE

Cyfrowy Polsat is the largest pay TV provider in Poland and one of the leading satellite platforms in Europe. Within the scope of our activities we provide a wide array of integrated media and telecommunication services comprising pay TV, mobile broadband Internet and mobile telephony. We offer our customers access to over 170 TV channels, including over 60 channels in high definition standard, as well as additional services such as PPV, VOD Home Movie Rental, TV online, catch-up TV and Multiroom. The platform has its own set-top-boxes factory.

We provide broadband Internet access in mobile HSPA+ technology, and since September 2011 – mobile Internet 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.

We also offer mobile telephony services in the MVNO model and in cooperation with our subsidiary Polkomtel, Plus network operator.

Cyfrowy Polsat is listed on the Warsaw Stock Exchange since May 2008.

Our revenue from services, products, goods and materials sold in 2015 increased to PLN 2,099.6 million while our net profit amounted to PLN 446.1 million. EBITDA profit amounted to PLN 587.0 million with EBITDA margin of 28.0%.

DISCLAIMERS

This constitutes the annual Report of Cyfrowy Polsat S.A. prepared as required by Paragraph 82 and Paragraph 91 of the Regulation of the Minister of Finance of February 19, 2009 on current and periodic information published by issuers of securities and the conditions of recognizing as equal the information required under non-member states' regulations.

Presentation of financial and other information

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

Financial and operating data

This Report contains financial statements and financial information relating to the Company. In particular, this Report contains our financial statements for the financial year ended December 31, 2015 and interim condensed financial statements for the three and twelve month periods ended December 31, 2015. The financial statements for the three and twelve month periods ended December 31, 2015 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").

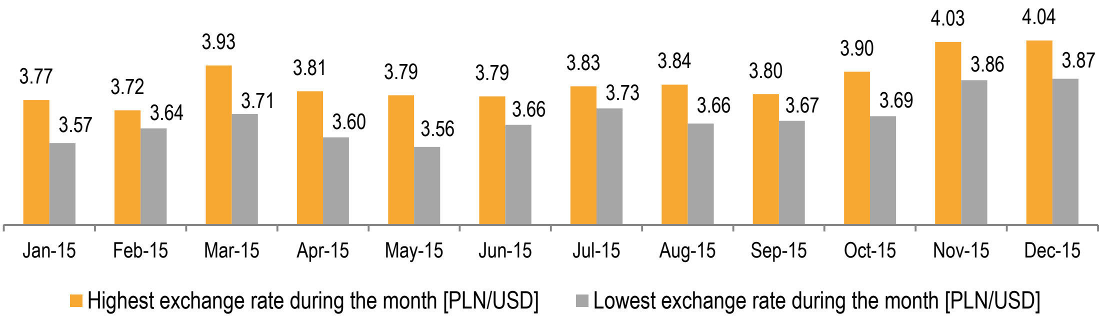
Certain arithmetical data contained in this Report, including financial and operating information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this Report may not conform exactly to the total figure given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

Currency presentation

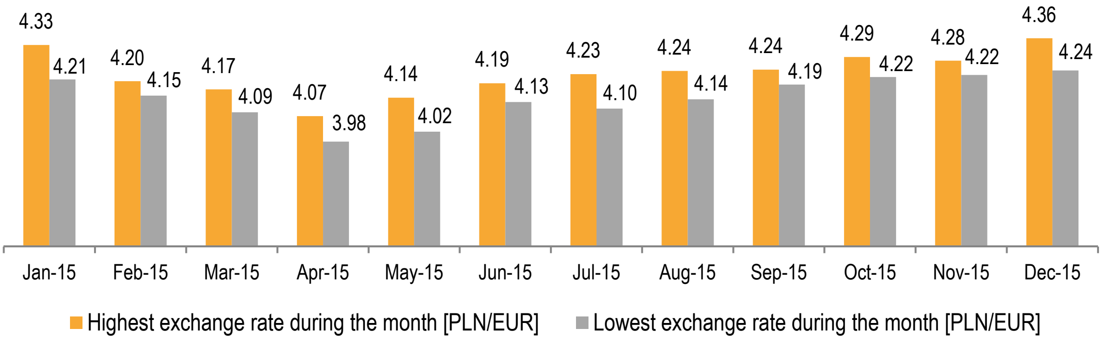
Unless otherwise indicated, all references to "PLN" or "zloty" in this Report are to the lawful currency of the Republic of Poland, all references to "USD" or "US dollars" are to the lawful currency of the United States and all references to "EUR" or the "euro" are to the lawful currency of the member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

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 financial statements and other financial information appearing in this Report. Our inclusion of the exchange rates is not meant to suggest that the zloty amounts actually represent such dollar or euro amounts or that such amounts could have been converted into dollars or euro at any particular rate.

Year [PLN per USD 1.00]	2010	2011	2012	2013	2014	2015
Exchange rate at end of period	2.9641	3.4174	3.0996	3.0120	3.5072	3.9011
Yearly average exchange rate	3.0157	2.9634	3.2570	3.1608	3.1551	3.7701
Highest exchange rate during period	3.4916	3.5066	3.5777	3.3724	3.5458	4.0400
Lowest exchange rate during period	2.7449	2.6458	3.0690	3.0105	3.0042	3.5550



Year [PLN per EUR 1.00]	2010	2011	2012	2013	2014	2015
Exchange rate at end of period	3.9603	4.4168	4.0882	4.1472	4.2623	4.2615
Yearly average exchange rate	3.9946	4.1198	4.1850	4.1975	4.1852	4.1839
Highest exchange rate during period	4.1770	4.5642	4.5135	4.3432	4.3138	4.3580
Lowest exchange rate during period	3.8356	3.8403	4.0465	4.0671	4.0998	3.9822



Forward looking statements

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

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

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

- Eurostat, for data relating to the Polish economy and GDP growth;
- the Polish Chamber of Electronic Communication;
- the Office of Electronic Communications (UKE);
- the Central Statistical Office of Poland (GUS);
- the Body of European Regulators for Electronic Communications (BEREC);
- the European Commission (Digital Agenda Scoreboard);
- IAB AdEX;
- PwC (Global entertainment and media outlook: 2014-2019);
- PMR;
- GfK Polonia;
- e-marketer;
- Ericsson Mobility Report; and
- operators functioning on the Polish market.

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

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

FINANCIAL DATA OVERVIEW

The following tables set out selected consolidated financial data for the twelve month periods ended December 31, 2015 and December 31, 2014. The selected financial data presented in the tables below is expressed in millions of PLN, unless otherwise stated. This information should be read in conjunction with the financial statements for the financial year ended December 31, 2015 (including the notes thereto) attached to this Report, as well as the information included in item 4 of this Report - *Operating and financial review of Cyfrowy Polsat.*

Selected financial data:

- from the income statement and the cash flow statement for the twelve month period ended December 31, 2015 and December 31, 2014 have been converted into euro at a rate of PLN 4.1836 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, 2015;
- from the balance sheet data as at December 31, 2015 and December 31, 2014 have been converted into euro at a rate of PLN 4.2615 per EUR 1.00 (average exchange rate published by NBP on December 31, 2015).

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

	December 31, 2015		December 31, 2014 (1)	
	mPLN	mEUR	mPLN	mEUR
Consolidated balance sheet				
Cash and cash equivalents(2)	136.4	32.0	13.3	3.1
Assets	13,093.0	3,072.4	12,813.0	3,006.7
Non-current liabilities	2,069.9	485.7	1,967.9	461.8
Non-current financial liabilities	1,957.3	459.3	1,847.0	433.4
Current liabilities	1,078.9	253.2	1,462.2	343.1
Current financial liabilities	547.1	128.4	927.9	217.7
Equity	9,944.2	2,333.5	9,382.9	2,201.8
Share capital	25.6	6.0	25.6	6.0

(1) Restatement due to final purchase price allocation of Metelem

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

	for the twelve month period ended			
	December 31, 2015		December 31, 2014	
	mPLN	mEUR	mPLN	mEUR
Consolidated cash flow statement				
Net cash from operating activities	285.5	68.2	376.3	89.9
Net cash from/(used in) investment activities	236.7	56.6	(781.3)	(186.8)
Net cash used in financial activities	(399.1)	(95.4)	392.2	93.7
Net increase in cash and cash equivalents	123.1	29.4	(12.8)	(3.1)

	for the 12-month period ended December 31			
	2015		2014	
	mPLN	mEUR	mPLN	mEUR
Income statement				
Retail revenue	1,967.8	470.4	1,913.0	457.3
Wholesale revenue	45.7	10.9	39.5	9.4
Sale of equipment	59.3	14.2	54.5	13.0
Other sales revenue	26.8	6.4	27.6	6.6
Revenue	**2,099.6**	**501.9**	**2,034.6**	**486.3**
Content costs	(527.3)	(126.0)	(517.2)	(123.6)
Distribution, marketing, customer relation management and retention costs	(317.1)	(75.8)	(332.4)	(79.5)
Depreciation, amortization, impairment and liquidation	(230.2)	(55.0)	(222.6)	(53.2)
Technical costs and cost of settlements with mobile network operators	(340.7)	(81.4)	(288.5)	(69.0)
Salaries and employee-related costs	(120.0)	(28.7)	(131.9)	(31.5)
Cost of equipment sold	(69.3)	(16.6)	(71.3)	(17.0)
Cost of debt collection services and bad debt allowance and receivables written off	(23.4)	(5.6)	(39.2)	(9.4)
Other costs	(122.4)	(29.3)	(132.5)	(31.7)
Total operating cost	**(1,750.4)**	**(418.4)**	**(1,735.6)**	**(414.9)**
Other operating income, net	7.6	1.8	22.1	5.3
Profit from operating activities	**356.8**	**85.3**	**321.1**	**76.8**
Gain/(loss) on investment activities, net	276.9	66.2	168.2	40.2
Financial costs	(141.1)	(33.7)	(309.5)	(74.0)
Gross profit for the period	**492.6**	**117.7**	**179.8**	**43.0**
Income tax	(46.5)	(11.1)	(2.6)	(0.6)
Net profit for the period	**446.1**	**106.6**	**177.2**	**42.4**
Basic and diluted earnings per share (not in millions)	0.70	0.17	0.33	0.08
Weighted number of issued shares in PLN	639,546,016		539,024,535	
Other financial data				
EBITDA(1)	587.0	140.3	543.7	130.0
EBITDA margin	28.0%	28.0%	26.7%	26.7%
Operating margin	17.0%	17.0%	15.8%	15.8%
Capital expenditures, net(2)	40.6	9.7	62.6	15.0

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

1.1. Information on organizational or capital connections with other entities

The following table presents the shares in other entities that we held directly as at December 31, 2015.

Company name	Registered office	Activity	Share in voting rights (%) as at	
			December 31, 2015	December 31, 2014
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	non-current assets and intellectual property rights management	100%	100%
Rioni 1 AB (formerly Cyfrowy Polsat Finance AB) (1)	Stureplan 4C, 4 TR 114 35 Stockholm, Sweden	financial transactions	100%	100%
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	broadcasting and television production	100%	100%
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	radio and TV activities	73.5%	73.5%
Polsat Media Biuro Reklamy Sp. z o.o. Sp.k.	Ostrobramska 77, 04-175 Warsaw	advertising activities	30.5%	-
Redefine Sp. z o.o.(2)	Stanów Zjednoczonych 61 A, 04-028 Warsaw	web portals activities	-	100%
Gery.pl Sp. z o.o.	Stanów Zjednoczonych 61 A, 04-028 Warsaw	web portals activities	100%	100%
Frazpc.pl Sp. z o.o.(3)	Stanów Zjednoczonych 61 A, Warsaw	web portals activities	-	100%
Netshare Sp. z o.o.	Stanów Zjednoczonych 61 A, 04-028 Warsaw	electronic media (Internet) advertising broker	100%	100%
Metelem Holding Company Limited (4)	Chrysanthou Mylona 3 Office no. 102 CY 3030 Limassol Cyprus	holding activities	100%	100%
Orsen Holding Ltd. (5)	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	99.9%	-
Karpacka Telewizja Kablowa Sp. z o.o.	Warszawska 220, 26-600 Radom	dormant	99%	99%
Polskie Badania Internetu Sp. z o.o.	Al. Jerozolimskie 65/79, 00-697 Warsaw	web portals activities	4.55%	-

(1) Disposal of shares in Rioni 1 AB.on January 4, 2016.
(2) On June 30, 2015 Cyfrowy Polsat merged with Redefine.
(3) On December 31, 2015 Netshare Sp. z o.o. merged with Frazcp.pl Sp. z o.o.
(4) Company consolidated since May 7, 2014.
(5) Company consolidated since April 1, 2015.

1.2. Who we are

Cyfrowy Polsat is the largest in Poland and the fourth largest satellite platform in Europe in terms of the number of customers. We offer a complete bundle of multimedia services designed for the entire family: pay TV via satellite, terrestrial and online broadcasting, mobile telephony and data transfer services, broadband Internet access in 2G/3G and state-of-the-art LTE technologies.

Pay TV

Cyfrowy Polsat is the largest pay TV provider in Poland and a leading satellite platform in Europe in terms of the number of customers. Since 2006 we are the leader on the Polish market in terms of the number of active services as well as market share. As at December 31, 2015 we provided over 4.5 million active pay TV services (including 0.94 million Multiroom services).

Our offer includes mainly digital pay TV services distributed directly to end-users via satellite through set-top boxes and satellite antennas. Our programming strategy is to offer a wide range of channels that appeal to the whole family at attractive prices. At present we provide access to over 170 TV channels, including all of Poland's main terrestrial channels as well as general entertainment, sports, music, lifestyle, news/information, children's, education and movie channels. In addition, we offer our customers access to over 60 HD channels and also provide VOD/PPV, online TV, catch-up TV and Multiroom HD services.

Online video

The IPLA service offered by our Company is the leader of the Polish video online streaming market, both in terms of compatibility with a broad range of end-user devices (including computers, tablets, smartphones, TV sets with Internet access, set-top boxes and game consoles) 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 2015 the average number of unique users of the IPLA website and application was approximately 3.4 million per month.

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 demanded by a significant number of consumers. As at the end of December 2015, our LTE Internet and HSPA/HSPA+ Internet covered 96.8% and nearly 100% of Poland's population, respectively. According to data published by operators, that is the broadest coverage currently offered in the country. As at December 31, 2015 our Group provided over 1.8 million broadband Internet access services in the post and pre-paid models.

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, in 2014 Cyfrowy Polsat and Polkomtel launched smartDOM (smartHOME), a joint program continued throughout 2015 which enables bundling of services offered by both operators to the benefit of their customers. Under this program, customers can combine, in a flexible way, such products as satellite TV, broadband LTE Internet, telephone, electricity and banking services, and make savings on each service added to their package.

1.3. Strategy

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

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

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

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

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

The factor that will have a positive impact on revenue is the possibility of cross-selling of products and services to both current and potential customers of Cyfrowy Polsat and Polkomtel. Together with Polkomtel we create a unique portfolio of products and 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).

The integrated services market is poorly developed in Poland, especially outside big cities and thus it has substantial growth potential. We intend to continue expanding our portfolio of products and services, relying both on own projects as well as on strategic alliances or acquisitions. We trust that a comprehensive and unique offer of combined services and the possibility of up-selling additional services, e.g. financial and banking products, or 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 areas inhabited by a majority of our customers, which, combined with the benefits offered by integrated services, should contribute to further improvement of customer satisfaction and growth of ARPU. We seek to attract as many viewers as possible by offering the best-value-for-money TV packages on the Polish market. We also intend to leverage the changes taking place on the Polish pay TV market and take advantage of the opportunities presented by the evolving needs and expectations of Polish consumers (such as increased interest in over-the-top services and growing use of media content on mobile devices), by offering our customers an extensive range of additional services – VOD/PPV, catch-up TV, Internet-based video and music services, Multiroom and Mobile TV. By developing our pay TV offer and expanding it to include complementary products and services, we seek to generate higher ARPU and improve customer satisfaction and loyalty.

An effective combination of telecommunication and media services provides new opportunities for distribution of TV content. Thanks to this combination, the attractive content and the wide range of our services will be delivered through a variety of reliable distribution channels – via satellite (DTH), within digital terrestrial television (DVB-T), through mobile technologies: 3G and LTE – to all consumer devices, from TV sets to PCs to tablets and smartphones.

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

The channels we produce and broadcast enjoy strong, well-established positions on the Polish TV market as well as high ratings in their target groups. We currently broadcast 32 channels (including 10 HD channels), programmed to appeal to most target groups within the Polish audience. Our goal is to maintain our audience share at a stable level and consistently improve our viewer profile. We believe that by making sensible investments in programming, and wider distribution of our own content, we will be able to gradually improve our viewer profile. This in turn will have a positive effect on the advertising airtime pricing.

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

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

We are convinced that building a closely integrated media and telecoms group offers an opportunity for tangible synergies and for securing significant competitive advantages. We are implementing numerous projects aimed at simplifying the

Group's structure by integrating relevant teams and harmonizing business processes and IT systems in the entire Group, which enables us to achieve the potential, tangible cost synergies. On a continuous basis we pursue optimization efforts aimed at adapting our cost base to current market conditions and our Group's situation.

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

The capital resources management policy adopted by us defines the method of using the funds generated from our operations. To guarantee the continuity and stability of the Group's operations, the generated free cash is used in the first place for financing current operations and for investments indispensable for the development of the Group. One of our priorities is effective management of the Group's debt and its successive reduction. As a result, remaining free cash flow is used for the prepayment of the Group's debt. Systematic debt reduction will enable us to fulfill the assumptions of the dividend policy in near future and, consequently, to pay dividend to our shareholders in a predictable manner.

1.4. Competitive advantages

We are a leading integrated media and telecommunications group in the region

Together with our subsidiaries we operate a diversified business comprising DTH, mobile telephony, broadband Internet as well as TV broadcasting and production and on-line video services.

We are the largest provider of pay TV services in Poland and a leading DTH provider in Europe 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 pay TV, telephony and Internet access services are sold through a distribution network with nationwide coverage. We have a total of 1,294 stationary points of sale. We simultaneously offer our services in alternative telemarketing, door-to-door channels as well as online in our Internet Store.

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

Cyfrowy Polsat and IPLA 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 survey, our Cyfrowy Polsat brand has the highest customer referral indicator of all pay TV operators in Poland.

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

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 5.9 million 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

We provide multi-play services combining pay DTH offer, Internet and telecommunication services. In addition, we offer to our customer attractive, in terms of pricing, power supply services, the possibility of using banking services, or telemedicine 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.

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 video communication, online games and HD TV over the 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. 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 offer the fastest Internet access of all telecommunication operators

According to a UKE (Office of Electronic Communications) survey of mobile services quality ("Report of a comparative survey of service quality indicators in mobile networks of companies operating in Poland," December 2015), Internet access offered by Plus was the fastest in the category of data transmission, with the average download rate of 25.19 Mbps. That is two times faster than in the case of Play and 25% faster than in the case of T-Mobile and Orange (download rates for T-Mobile and Orange were respectively 20.64 Mbps and 19.66 Mbps, while for Play the result was 12.43 Mbps).In addition Plus demonstrated the highest upload rate of 17.71 Mbps. In the case of other operators, the results were as follows: T-Mobile 16.87 Mbps, Orange – 15.85 Mbps, and Play – 12.60 Mbps.

The surveys also confirmed, indirectly, that Plus had the biggest LTE network coverage in Poland. In Plus LTE technology operated during as much as 94% to the duration of the tests. In the case of other operators, the figures were respectively 83% for Play and 78% for T-Mobile and Orange. Also on the roads which connect cities Plus demonstrated the best parameters in this category, with data transmission in LTE network accounting for 83% of the total time of the test. In the case of Play LTE network was active during 52% of the time, while the result for Orange and T-Mobile was 38%.

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

Our 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, in 2013 we began the production of PVR set-top-boxes, and in 2016 we started producing a PVR set-top box offers the possibility of simultaneous recording of as many as three channels. By the end of 2015, 6.9 million high technology devices left our production line, out of which over 5.3 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.

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 aid us in maintaining our leadership position in the competitive Polish pay TV market. 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.

We have strong, stable and diversified cash flows

We generate revenue from services provided to individual customers. 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 the case of our cost base, we focus on improving the efficiency while maintaining the high quality by carrying out the initiatives which are aimed at development of in-house services and systems. The examples are: own set-top-boxes factory, own IT solutions, or centralization of selected back-office processes within our Capital Group.

Experienced management team

Our management team consists of executives who have been members of the management boards or served in other managerial positions within the media, TV and telecommunications industries and have extensive experience in these industries. In addition, our operations are managed by teams of experienced senior managers who provide expertise and a deep understanding of the markets in which we operate. Our senior managers have a significant track record of increasing our customer base and market share and introducing new products in competitive environments while managing costs and increasing free cash flow.

1.5. Market opportunities

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

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 among others results from the geographical coverage of their infrastructure telecommunications and cable 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

Based on the data published by UKE, in 2014, 90% of households in Poland had access to the Internet, which translated to a population penetration factor of around 31.6%. At the same time, while referring in its report to the Digital Agenda Scoreboard from June 2014, UKE disclosed that fixed-line Internet access penetration was merely 18.4% in Poland, which was the lowest score among the European Union countries where the average penetration was 30.9%, while in the case of selected countries (Denmark, the Netherlands) it exceeded 40%. The low penetration with fixed-line broadband Internet access services in Poland and the progressing development of mobile technologies make mobile data transmission the fastest growing telecommunication market segment at present. According to PMR estimates ('Telecommunication market in Poland 2015, Development forecast for the years 2015-2020', October 2015), in 2015, there were nearly 13.8 million users of broadband Internet, out of which 46% used mobile connections. According to PMR, by 2020 the number of broadband users is supposed to grow by ca. 20%, with the number of mobile broadband users growing by approximately 34% (the 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 2021 the use of data related to watching video content will grow by 55% per year on average, reaching ca. 70% of the entire mobile data traffic in 2021. 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 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 our customers, which in turn should have a positive impact on the level of ARPU.

Development of the online advertising market in Poland

According to IAB AdEX report Internet advertising market shows a dynamic growth, with the advertising expenditures of PLN 2.2 billion (not in thousands)during the first 9 months of 2015, an increase of 17.1% y-o-y. The expenditures on the video advertising segment, in which we directly generate our revenue, increased in 2015 by 24% and represented 8% of the total expenditures on online advertising (increase by 1 pp. compared to 2014). According to PwC forecasts (Global entertainment and media outlook: 2014-2019) the online video advertising in Poland will grow by an average 19.5% (CAGR) in the years 2014-2019. We believe that thanks to the leading position on the online video market (through IPLA internet television) we may benefit from the growth of this promising advertising market segment.

1.6. Development prospects

We are part of the largest media and 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, a trend reflected in excellent sales results of our integrated offer smartDOM. We are convinced that our unique combination of satellite TV and telecommunication services, including in particular LTE mobile broadband Internet access which currently has the biggest coverage footprint and offers the fastest data transfer, 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 has become the standard for mobile broadband Internet access in Poland, while effectively replacing the earlier UMTS standard. According to the results of a survey conducted by UKE in December 2015, our mobile Internet is the fastest on the market. Due to its technical characteristics and quality parameters, mobile LTE Internet is successfully replacing fixed-line connections while at the same time responding to increasing consumer needs and growing capabilities offered by the Internet. In addition, it has the advantage of mobility, which is important for big percentage of 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 that our broadband LTE Internet services, including data transmission services, will help us to further increase our customer base, both of stand-alone and integrated services.

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 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. Thanks to migration to MPEG4 compression standard we are able to offer a broader range of programs to our existing and potential customers, with a simultaneous improved signal quality. With the development of the market and technologies, the choice of devices, for which we can produce and distribute television content, has 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.

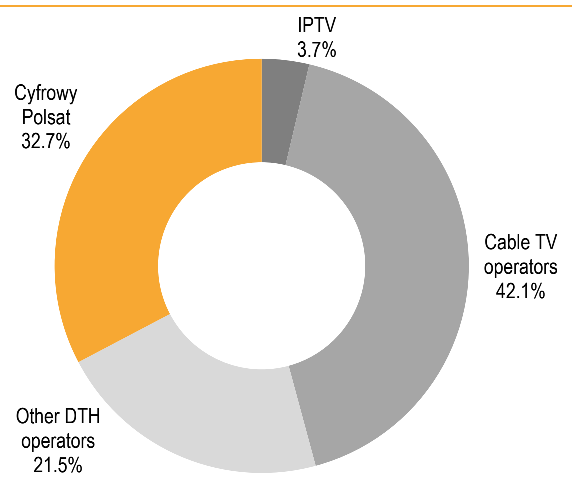
2. BUSINESS OVERVIEW OF CYFROWY POLSAT

2.1. Activities on the pay TV market

2.1.1. Pay TV market in Poland

Pay TV services in Poland are offered by satellite platform operators (DTH), cable TV operators and IPTV providers. According to PwC estimates, in 2015 operators of satellite TV platforms had the dominant share, both in terms of the number of subscribers and revenue in the pay TV market – approximately 54% in terms of subscriber base, followed by cable TV operators with approximately 42%. The significance of IPTV was minor, with market share of approximately 4%. The graph below presents the pay TV market in Poland in 2015 in terms of subscriber base.

Pay TV market in Poland in 2015 in terms of subscriber base



Source: Based on estimates by PwC and own estimates

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.

The Polish pay TV market is a mature market characterized by a high degree of penetration and low growth dynamics. The process of digitization of terrestrial TV in Poland, completed in July 2013, had been an important milestone in the development of the Polish pay TV market. Initially, competition from digital terrestrial TV (DTT) 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 a limited number of channels available in DTT as well the low quality of these channels.

DTH operators

According to PwC, the subscriber base of the pay TV market in Poland is relatively stable and reached approximately 5.8 million. There are three DTH platforms operating in Poland: Cyfrowy Polsat, nc+ and Orange, while the market is practically divided between the first two.

Cyfrowy Polsat is the market leader in terms of the number of customers. At the end of 2015 we provided approximately 4.5 million pay TV services (together with services of paid access to online television), including almost 940 thousand Multiroom services. Based on PwC forecasts we estimate that at the end of 2015 our share in the Polish DTH market, in terms of the number of subscribers, slightly exceeded 60%.

The second player in terms of subscriber base was nc+ platform, provided services to 2.1 million subscribers at the end of 2015, as reported by Vivendi (shareholder of the platform), which translated into a market share of ca. 36% in 2015. Orange cooperates with nc+ platform, offering pay DTH TV based on nc+ programming offer as an element of its integrated packages.

Cable TV

The Polish cable TV market is dominated by three major operators: UPC Polska Sp. z o.o., Vectra S.A. and Multimedia Polska S.A. In 2015 the total combined share in the cable TV market of these three operators was approximately 70%. In addition, several hundred small cable TV operators operate in Poland.

According to PwC estimates, after several years of decline due to the process of digitization and the migration of customers to digital terrestrial television, the cable TV market stabilized at approximated 4.5 million subscribers. Additionally, the migration of cable TV users from analogue services towards digital services is still in progress. Possibilities of acquiring new subscribers are limited due to a high penetration rate of cable TV in urban areas as well as the reluctance of cable TV operators to make significant investments in cable TV infrastructure in the less-densely populated and rural areas of Poland. As a result, inhabitants of those areas currently have access only to a limited number of Polish terrestrial channels and alternative providers of broadband Internet and mobile telephony services. Polish towns with up to 50 thousand 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.

IPTV

The leading IPTV providers in Poland are Orange Polska and Netia S.A. The remaining part of the IPTV market is divided among Multimedia Polska S.A. and local ISP's.

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 services and the associated high costs of implementation of IPTV services. We believe that the introduction of IPTV services by fixed-line telecommunications service providers such as Orange may have a negative impact on cable TV operators in Poland, since these providers plan to launch IPTV services primarily in urban areas, while having less significant effect on DTH providers who are less dependent on customers living in densely populated areas. It is difficult to assess if and when fixed-line telecommunication service providers will significantly develop their IPTV offer in rural, suburban areas and small and medium sized towns and the impact of such a development on the operations of DTH providers.

Development forecasts for the pay TV market

According to PMR forecasts, in the years 2015-2020 the number of pay TV customers in Poland will grow slightly at a constantly declining growth dynamics. This is 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 as well as an extended offer of exclusive content will be of great significance in own customer base retention. State-of-the-art technologies are rapidly gaining in importance as they enable operators to provide personalized content (such as content on demand) via Internet, to mobile devices in particular.

PMR expects the market value to grow in the years 2015-2020, however growth dynamics will remain low (CAGR of 1.7% for the analyzed period). The forecasts assume ARPU growth. According to PMR, in the years 2015-2020 satellite platforms will continue to be the biggest segment of pay TV market in Poland, reaching a market share of 55% (in terms of market value) at the end of the forecast period. Cable TV operators will remain the second major segment, with a market share exceeding 40% at the end of the forecast period. The significance of IPTV services will remain low, although the development of broadband access and optical fiber networks may have a positive effect on the development of this segment.

2.1.2. Cyfrowy Polsat's DTH offer

We build the loyalty of our customers by offering a wide array of packages at competitive prices. Currently, our set-top boxes enable the reception of over 170 TV channels, including over 60 in 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 and Polsat Sport News were ranked the first two most widely viewed sports channel in Poland in 2015 in the commercial group 16-49 (Nielsen Audience Measurement).

Programming packages

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

- Rodzinny HD which provides access to 81 encoded channels (including 16 HD channels);
- Familijny HD which provides access to 109 encoded channels (including 26 HD channels);
- Familijny Max HD which provides access to 138 encoded channels (including 41 HD channels).

Monthly subscription fees for the basic packages range from PLN 19.99 to PLN 49.99.

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, for example by purchasing the HBO HD HBO GO package for PLN 20 monthly as a complement to each basic package.

In order to help our customers make their choice, we have prepared attractive package sets, such as the Familijny Max HD combined with the Sport HD, Film HD and Cinemax HD channels (170 channels, including 59 HD) or the Premium offer, addressed to our most demanding customers, comprising the packages Familijny Max HD, Sport HD, Film HD, Cinemax HD, HBO HD (173 channels, including 62 HD) as well as the online service HBO GO.

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 89.99 per month.

Multiroom HD

We also offer our customers the Multiroom HD service, 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 chosen programming package.

Flexible offer

In order to provide our customers with the possibility to better acquaint themselves with our programming offer, each of our basic packages comes with a set of bonuses. A customer signing a contract can receive, free-of-charge, access to additional channels, online services or our VOD package for even up to 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

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

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.

In January 2016, we included a new set-top box, EVOBOX PVR, in our offer. This set-top box is the most technologically advanced satellite set-top box currently available from satellite platforms in Poland. It allows Cyfrowy Polsat's customers to simultaneously record three programs while watching a fourth, it has a 500 GB disc and a built-in Wi-Fi modem. Its innovative and intuitive software was developed in cooperation with the company ADB, while Cyfrowy Polsat's engineers and specialists worked on its project and construction. EVOBOX PVR is produced in the Group's manufacturing plant in Mielec.

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 Hot Bird satellite in Poland, including a dozen additional Polish-language channels and wide-known foreign channels, such us: 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. The user does not generate data transmission and does not incur any related fees.

Under the Mobile TV service, we offer access to the Extra Package which includes 8 encrypted 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. Set-top boxes offered by Cyfrowy Polsat and dedicated to the Mobile TV service enable the reception of not only encrypted channels included in the Extra Package, but also of all free channels available via digital terrestrial television.

2.1.4. IPLA online TV offer

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

Access to 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 WIEDZA I NEWS, IPLA ROZRYWKA, 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 and FILMBOX LIVE), some of them included in the subscription fee for the first six 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 and Windows 8 through the www.ipla.tv website and dedicated applications, mobile devices powered by iOS, Android and Windows Phone, TV sets with internet connections (Samsung, LG, Sony, Panasonic, Philips, Sharp, Ikea (TV UPPLEVA), Toshiba, Thomson, TCL), set-top boxes (Cyfrowy Polsat, cable TV TOYA, Netia), game consoles (PlayStation 3) and Blu-ray.

2.1.5. Video on demand offer

As of 2009 our pay TV customers can also use our video on demand service VOD – Home Video Rental, offering paid access to new movies and hits via set-top boxes. The service requires no additional 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 13 satellite channels, with over 40 films available each month. Our customers may usually choose from a selection of about 13 titles every 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 Package" 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 six months or the entire term of the contract, depending on the package.

2.1.6. 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 that 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 remedied, Nagravision is obligated, under certain conditions, to replace the conditional access system together with the cards provided to our customers and, if necessary, to adapt the set-top boxes to the new system. Nagravision is paid a monthly fee on a per-customer basis.

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

Satellite

We entered into Hot Bird satellite capacity contracts with Eutelsat S.A. 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. In 2012 we modernized emission systems, which enabled the playout of even up to 100 channels. The center is equipped with up-to-date integrated video, audio and information systems, which allows us to broadcast TV channels in both SD and HD standards.

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

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

Migration to the MPEG-4 standard

Since October 2015 we provide pay TV services based uniquely on the MPEG-4 compression standard, thus withdrawing from using the older and less effective MPEG-2 system. The MPEG-4 standard is the leading edge of commonly applied compression standards which guarantees better quality of offered services and ensures more efficient use of satellite transponder capacity. The compression of all broadcast TV programs in the MPEG4 standard gave us the possibility to introduce new channels in high definition. As a result of the switch to the MPEG-4 standard we can offer our customers 16 additional channels in HD standard without incurring additional costs related to transponder capacity.

Services for television and radio broadcasters

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

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

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

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

Control over the entire process of production of set-top boxes has proved to be more effective and cost-efficient than purchasing set-top boxes manufactured by third parties and has allowed us to offer more competitively priced packages and achieve higher operational efficiency in our business. In-house manufacturing of set-top boxes has allowed us to reduce unit production costs by approximately 20% compared to equipment purchased from foreign suppliers and the costs of servicing was reduced by approximately 50%. Given full control over the software and interface of the set-top boxes, we can maintain the logic of navigation in all our solutions, which is convenient to our customers if they switch between set-top box models. In addition, control over set-top box software guarantees greater flexibility to adapt the software to meet customer requirements.

We have the possibility of flexible adjustment of production levels thanks to a chain of international suppliers who are ready to support and service internal and external orders. The production of our STBs relies on proven solutions. In 2015 we carried out extensive work in the area of research and development related to state-of-the-art technologies applied in the products offered by world class manufacturers. As a result of our efforts, in 2015 we developed a new line of STBs, in which we implemented multi-tuner solutions based on Digital Unicable (dCSS) technologies offering the possibility of wireless data transmission, via Wi-Fi, directly from the STB. These technologies substantially reduce the time needed to change from one channel to another, allow simultaneously recording of programs aired on many channels, and they also serve as the base for supplementary products and services, which we wish to offer to our customers in the future. The first product from this line, the EVOBOX PVR set-top box, was launched to the market in January 2016. The STB has been designed in 100% by Cyfrowy Polsat and it is manufactured by InterPhone Services. Thus far we have not experienced any serious manufacturing problems which would result in the necessity of massive phasing out or replacement of the STBs that we have manufactured.

By the end of 2015, 17 different models of set-top boxes have left our production belts. Currently, to meet our needs we produce HD and zapper set-top boxes and a PVR set-top box with a built-in hard drive (HD 5000, HD 5500s, HD 6000, MINI HD 2000, HD 3000, PVR HD 7000 and EVOBOX) 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).

We also provide services to other operators interested in modern, functional devices at attractive prices. During the 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, 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 2015 set-top boxes manufactured in-house represented over 89% of overall set-top boxes sold or leased. As of the end of 2015, we produced a total of 6.9 million set-top boxes, including over 5.3 million HD set-top boxes. We still cooperate with external providers of set-top boxes, mainly Samsung, Echostar and Thomson, but back in 2010 we limited purchases from external providers. We also cooperate with TV producers, such as Sony, Vestel, Panasonic and LG, in order to develop a solution enabling the reception of Cyfrowy Polsat's satellite signal.

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 smart TVs. Moreover, in response to market needs and the continuous growth of VOD viewership on mobile devices, in 2015 we implemented new mobile application interfaces that are in line with current trends. 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 SIM cards as at December 31, 2015 reached 56.2 million, which translates into a penetration rate of the population of Poland of 146%.

The high rate of penetration with SIM cards in Poland is due to many factors, a significant one being that domestic operators retain pre-paid cards, that are no longer being actively used by retail customers, in their reported bases for relatively long periods time. Certain operators, among them Polsat Group, decided to report only active cards arguing that this method of reporting improves transparency and credibility of published data. As at the date of preparation of this Report, however, reporting of prepaid SIM cards based on actively used cards has not become a generally applied practice on the Polish market.

PMR expects further growth in the number of reported SIM cards used in Poland to almost 67.1 million in 2020, though the growth dynamics will continue to weaken every year. As a result, according to PMR forecasts, the mobile penetration rate in Poland will increase to 175.8% in 2020.

In terms of value, mobile telephony remains the largest segment of the Polish telecommunications market, with a share in total market revenue of nearly 45% in 2014 (excluding revenue from mobile Internet access). According to data published by UKE in the “Report on the telecommunications market in Poland in 2014” (hereinafter “UKE report”), the estimated value of mobile telephony market in Poland in 2014, expressed as the sum of the operators’ retail service revenues, was PLN 17.6 billion (excluding revenue from mobile Internet access) and it was lower by around 5.1% compared to 2013. According to the UKE report 81% of revenue was generated by post-paid customers. At the same time, however, 54% 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 already mentioned above relatively long period of including pre-paid cards in reported bases by domestic operators, even after end-users have stopped using those cards.

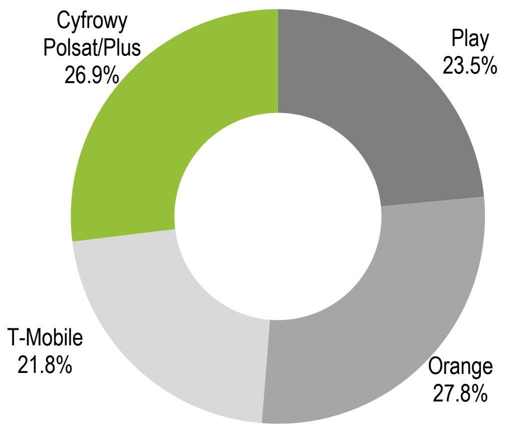
In recent years average revenue per SIM cards of mobile voice services (ARPU per SIM) decreased systematically as a result of competitive pressure stimulated by regulatory reductions of wholesale voice and SMS termination rates (MTR). Since July 1, 2013 the MTR rate per minute of voice connection is stable at the level of PLN 0.0429 which, according to a BEREC report dated June 2015, is significantly lower than the European Union average. As at the date of preparation 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 mobile telephony market, including revenue from mobile Internet access, will grow at an average rate of 2.8% (CAGR 2015-2020) until 2020 and its value will reach PLN 28.2 billion in 2020.

The Polish mobile telephony market is highly competitive and relatively polarized. Four leading infrastructural operators operate on the Polish market: Polkomtel (Plus network), Orange Polska (Orange network), T-Mobile Polska (T-Mobile network) and P4 (Play network).There are also about 20 mobile virtual network operators (MVNO), but their market share in terms of revenue and customer base is relatively low (2% in terms of subscriber base in 2014, according to the UKE report).

The graph below presents market shares of the major MNOs in terms of number of contract SIM cards at the end of 2015.

Market shares in 2015 in terms of number of contract SIM cards



Source: Based on own estimates and data published by operators

Infrastructural operators (MNOs)

At the date of this Report, there were five 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 Sferia).

According to the UKE report, Polkomtel, Orange, T-Mobile and P4 together accounted for approximately 99.8% of the revenue generated on the Polish mobile telephony market in 2014. The remaining revenue was generated by MVNOs and the remaining MNO.

Polkomtel operates under the umbrella Plus brand, it also owns an alternative brand Plush. On May 7, 2014 Polkomtel was incorporated in Polsat Group.

Orange Polska, a leading Polish fixed-line telephony operator, operates under the umbrella Orange brand and also has an alternative brand nju.mobile. As at December 31, 2015 Orange reported ca. 15.9 million SIM cards.

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, 2015, P4 had 14.2 million SIM cards. P4 operates solely on the mobile services market relying on purchased access to mobile networks of its competitors.

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, 2015 T-Mobile had 12.1 million SIM cards. T-Mobile is currently expanding its offer by fixed-line telephony services addressed to business customers based on the infrastructure of the company GTS Poland, acquired in 2014.

Midas Group operates on the wholesale market through companies Aero2 and Sferia, providing wholesale access to its network mainly to Polsat Group. At the same time, Aero2 operates on the residential market, where, in line with its concession obligations, it offers free-of-charge broadband Internet access and provides residential services in the prepaid model based on the “wRodzinie” brand, while Sferia provides telecommunication services to residential users based on its brand “Sferia”.

Frequency allocations

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

MNO	Frequency band	Size of allocated band	Date of issue of first allocation decision	Allocation decision expiry date
Polkomtel	900 MHz	2x9 MHz	February 23, 1996	February 24, 2026
	1800 MHz	2x9.6 MHz	September 13, 1999	September 14, 2029
	2100 MHz	2x14.8 MHz + 1x5 MHz	December 20, 2000	January 1, 2023
	2600 MHz	2x20 MHz	January 25, 2016	January 25, 2031
	410 MHz (1)	2x2.5 MHz	May 25, 2006	December 31, 2020
Aero2	900 MHz	2x5 MHz	December 9, 2008	December 31, 2026
	1800 MHz	2x9.8 MHz	November 30, 2007	December 31, 2022
	1800 MHz (2)	2x9.8 MHz	November 30, 2007	December 31, 2022
	2570-2620 MHz	1x50 MHz	November 10, 2009	December 31, 2024
Sferia	800 MHz	2x5 MHz	December 31, 2003	December 31, 2018
Orange	800 MHz	2x10 MHz	January 25, 2016	January 25, 2031
	900 MHz	2x6.8 MHz	July 5, 1999	July 6, 2029
	1800 MHz(1)	2x9.6 MHz	August 21, 1997	August 22, 2027
	2100 MHz	2x14.8 MHz + 1x5 MHz	December 20, 2000	January 1, 2023
	2600 MHz	2x15 MHz	January 25, 2016	January 25, 2031
	450-470 MHz	2x4.5 MHz	December 16,1991	December 31,2016
T-Mobile	800 MHz	2x5 MHz	January 25, 2016	January 25, 2031
	900 MHz	2x9 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
	2600 MHz	2x15 MHz	January 25, 2016	January 25, 2031
	2100 MHz	2x14.8 MHz + 1x5 MHz	December 20, 2000	January 1, 2023
P4	800 MHz	2x5 MHz	January 25, 2016	January 25, 2031
	900 MHz	2x5 MHz	December 9, 2008	December 31, 2023
	1800 MHz	2x15 MHz	June 14, 2013	December 31, 2027
	2600 MHz	2x20 MHz	January 25, 2016	January 25, 2031
	2100 MHz	2x14.8 MHz + 1x5 MHz	August 23, 2005	December 31, 2022

Source: Own analysis based on UKE's summary dated March 23, 2015 and completed with the results of the LTE auction

(1) By Nordisk Polska Sp. z o.o.
(2) Frequencies earlier owned by Mobyland, which merged with Aero 2 on November 30, 2015.

For the purpose of planning, building and maintaining a new mobile telecommunications network, and participating in related tenders, Orange Poland and T-Mobile formed a joint venture in 2011 under the name NetWorks! The 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 19, 2015, UKE announced the results of the LTE Auction of frequencies in the 800 MHz and 2600 MHz bands, which had been in progress since 2014. Frequencies in the 800 MHz bandwidth have been allocated to Orange, T-Mobile and P4, while frequencies in the 2600 MHz bandwidth have been allocated to Orange, T-Mobile, Polkomtel and P4. As at the date of preparation of this Report the process of allocation of the last block in the 800 MHz spectrum was still underway.

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, 20 operators provided mobile services under the MVNO model in 2014.

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 Midas Group) in the mobile subscriber market was 2% in 2014. According to the UKE report, total revenue of all MVNOs (including Midas Group) accounted for a mere 0.24% of the total value of the Polish mobile telephony market in 2014. Limited success of MVNO operators has led some of them to cease operations on the Polish market. For example, in 2015 Lebara Mobile and Vectone Mobile terminated their operations in Poland, although they continue successful operations on foreign telecommunication markets.

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.

Based on the data from the UKE report, in 2014, 90% of households in Poland had Internet access, which translated to a population penetration ratio of 31.6%. At the same time, referring to the Digital Agenda Scoreboard from June 2014, UKE shows in its report that fixed-line Internet access penetration is merely 18.4% in Poland, which the lowest level among all European Union countries, where the average penetration is 30.9%, while in the case of selected countries (Denmark, the Netherlands) it exceeds 40%. Mobile Internet penetration in Poland is significantly better compared to the European Union. According to UKE report, 80.6% of Poland's inhabitants connect to the Internet with the use of mobile technologies (the EU average is 66.7%).

In the 2015 Digital Agenda Scoreboard Poland was ranked 23 out of 28 EU countries in terms of the Digital Economy and Society Index, which measures the development of individual member states in the areas of digitization of the economy and the society. This report also underscores the weakness and the low popularity of fixed-line broadband infrastructure, contrasting it with the favorable indicators for mobile broadband technologies.

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

According to UKE report, in 2014 7.2 million Internet users in Poland used fixed-line access (decrease from 7.6 million reported by UKE for 2013), whereas the number of mobile Internet users reached 5.8 million (growth by 38% versus 4.2 million reported by UKE for 2013). 2G/3G/4G modems are gaining popularity (growth of market share from 39.4% in 2013 to 44.9% in 2014), while the popularity especially of the xDSL technology and cable modems is declining. The market share of the first decreased from 25.7% in 2013 to 22.5% in 2014, and in the case of the latter from 21.1% in 2013 down to 19.0% in 2014.

According to the UKE report, in 2014 49.6% of Internet users in Poland used access links with throughputs below 10 Mbps, while links offering over 30 Mbps were used by only 26.7% of Poles.

According to the UKE report, the value of the Polish broadband market, measured in terms of revenue from sale of services, was PLN 5.1 billion in 2014, up by 11.5% compared to 2013. 2014 mobile technologies increased their share in quantitative terms in the revenue structure to 31.8% (from 26.8% in 2013), while the importance of fixed-line offers, relying on xDSL lines, cable modems and LAN-Ethernet remained in a downward trend during this period. According to the UKE report, the average monthly revenue per user of Internet services (ARPU) decreased by PLN 2.24 in 2014, down to PLN 32.9.

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 primarily from the high cost of build-out of local loops and strategies adopted by leading fixed-line operators. According to the UKE report, access to xDSL technology remains the most popular form of fixed-line Internet access. Orange is the dominant player operating this technology, whose share in the total number of xDSL customers decreased to 73.3% in 2014.

Cable modems, offered by cable TV operators, are the second most popular fixed-line access technology. Based on the UKE report, UPC Polska (39.9% share in user base), Vectra (19.6%) and Multimedia (15.2%) were the major operators on this market in 2014. 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 mobile operators. According to the UKE report the four leading providers of those services (Polkomtel, T-Mobile, Orange and P4) jointly held 79.2% of the market in 2014. The remaining 20.8% is divided between MVNO operators and Cyfrowy Polsat, who actively promotes and sells mobile Internet access in LTE/HSPA+ since 2011.

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

According to the UKE report, in 2014 revenue from mobile technologies grew at the fastest rate on the entire broadband Internet access market, and mobile broadband became the most popular Internet access technology in terms of the number of users (market share of 44.9%, up from 39.4% in 2013). The success of mobile broadband can be attributed to broad availability and the ease of installation of this form of broadband access, affordability, the growing HSPA+ and LTE network coverage, and increasing data transmission speeds. The mobility feature constitutes an advantage of this form of broadband access to a group of customers.

Development forecasts for the broadband Internet access market

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, high quality of LTE-based services will lead to increased data usage by customers, which will improve ARPU, reduce churn, and increase the broadband Internet market share of mobile operators.

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 the LTE technology will be the most significant factors. According to PMR forecasts, in coming years the value of the broadband Internet access market will demonstrate continuous positive dynamics, reaching the level of PLN 6.4 billion in 2020.

In accordance with the PMR forecasts, in 2020 the number of broadband Internet access subscribers in Poland will increase to 16.6 million. PMR forecasts that increments of the number of mobile Internet subscribers will systematically exceed 400 thousand annually in the years 2015-2020, hence the rate of growth of the number of mobile broadband Internet subscribers will be several times higher than that of fixed-line access users. The advancing popularity of mobile technologies in Poland will be the result of competitive pricing as well as growth of mobile network coverage, which will directly translate to improved quality and continuity of coverage of the purchased service. The fast development of LTE network coverage, as well as LTE Advanced and 5G in the future, is an additional factor stimulating the development of mobile Internet services. These standards will enable the provision of mobile services characterized by transmission rates and network throughput levels which have so far been unachievable for radio access technologies.

2.2.3. Mobile telephony offer

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

2.2.4. Internet access offer

We provide a comprehensive array of data services to residential customers.

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 almost 100% of Poles live in areas covered by Cyfrowy Polsat's Internet service, while 96.8% of them can access our LTE Internet.

We offer several data plans with different allowances and price tiers, tailored to customers' individual needs.

Dedicated mobile broadband Internet access is offered in contract tariffs. These contract plans are based on a monthly access fee and allow for a defined data transmission limit or unlimited data transmission in the LTE network. The tariff is currently promoted as "Internet POWER LTE 2.0". Under our contract plans customers may purchase 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 tariffs without equipment "SIM only".

Sizes of packages available in the LTE Internet access offer vary from 30 to 100 GB. After having used up the basic data package the customer still has access to the Internet, thanks to the service Unlimited LTE, however, in the case of low-end subscription fees, transmission speed may be reduced. Monthly subscription fees range from PLN 29.99 for a 30 GB package to PLN 89.99 for a package of 100 GB. The term of the contract is usually 24 months.

Thanks to our LTE Internet access service combined with the set Home LTE Internet, created specifically for Cyfrowy Polsat, we can offer customers a product that constitutes an excellent substitute for fixed-line Internet. Based on the ODU-IDU technology (Outdoor Unit Indoor Unit), the Home LTE Internet set consisting of an external LTE modem (ODU) and an internal router Wi-Fi (IDU) is an innovative and unique product on the market. It significantly improves effective 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.

The standard LTE Internet access offer is accompanied by various types of bonuses, depending on the value of the subscription fee. Such as strategy supports the promotion of our other services and gives our customers the possibility to test services, which they might purchase in the future. Currently, we offer our customers access to chosen packages of online television IPLA and HBO GO free of charge for the first two months of the duration of the contract and the option to purchase access to the film service HBO GO.

2.2.5. Internet equipment and handsets offer

Internet equipment

We offer technologically advanced modems, routers and tablets enabling broadband access to the Internet. The price of the modem depends on the terms of the agreement and data package purchased by the customer. Typically, the longer the term of the agreement and the larger the data package purchased, the lower the price of the equipment and the greater the choice of available types of modems.

To provide our broadband services in LTE technology, we use cutting edge modems, that also operate in HSPA/HSPA+ and EDGE/GPRS technologies. Thanks to this solution, with one modem, Cyfrowy Polsat clients can use our Internet service in LTE and HSPA/HSPA+ technologies as well as in EDGE/GPRS technology, which covers the entire territory of Poland. Currently we offer modems from producers such as Huawei, ZTE and D-Link, some of which support the LTE technology with maximum download speed up to 150 Mb/s. Our offer also comprises modems produced by us.

The modems are compatible with all portable and desktop PCs equipped with USB 2.0 port, and service most of the leading computer software. The equipment is also offered in sets comprising an external magnetic antenna (windowsill) or a "chimney" antenna on customer's request. The use of antenna enhances the quality of received signal and increases the range of the service, and improves data transmission speed.

We also offer a wide selection of routers. All our routers support the HSPA+ technology, while a majority also supports LTE, allowing data transmission speed up to 150 Mb/s.

Moreover, we offer our customers a wide selection of top-of-the-art tablets, comprising devices produced by Samsung, LG, Presigio, Huawei or Manta. The majority of tablets offered by us are equipped with a module supporting LTE technology up to the maximum speed of 100 Mb/s speed or 150 Mb/s. These devices also support the HSPA+ technology. We also offer laptops produced by Acer, HP and Lenovo, which enable fast and easy Internet access via modem.

We also offer a solution enabling fixed access to LTE Internet using the ODU/IDU modules and the TV/SAT installation. The external modem (ODU) allows to significantly improve signal transmission and therefore enable the use of LTE Internet. 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. The Wi-Fi router (IDU) is used to provide access to the Internet inside the house or apartment.

2.2.6. 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 Group. Under the agreement with Mobyland, we have access to mobile data transmission services on 1800MHz and 900MHz bands in LTE and HSPA+ technologies, whereas under the tripartite agreement with Mobyland and Polkomtel we have access to mobile data transmission service on 800 MHz, 900 MHz and 2100 MHz frequencies in EDGE/GPRS and HSPA/HSPA+ technologies.

HSPA+ network on 900 MHz has a maximum transfer speed of 21 Mb/s (28.8 Mb/s with MIMO) for data downloaded from the Internet and 5.7 Mb/s for data uploaded by a user. By introducing HSPA+ MIMO, we increased the transmission speed to 28.8 Mb/s. The MIMO technology, based on multiple transmitting and receiving antennas at a base station and a terminal, enables a simultaneous transfer of several data streams and, therefore, offers a higher aggregate data transmission rate, better quality and better frequency use. It enables the use of all Internet functions, including web browsing, file uploading and downloading, movie playing, HD and 3D transmissions.

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 based on a continuous 20 MHz block in the 1800 MHz band. Since 2015 we additionally use the network based on a 5MHz block in the 800 MHz band, provided by Midas Group, which allowed us to increase the coverage of the fastest mobile LTE Internet from Cyfrowy Polsat and Plus to 96.8% of Poles. According to data published by operators, this is the broadest LTE coverage currently offered in our country.

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.

In addition, since August 2012, thanks to the cooperation with Polkomtel we enable our customers the use of the operator's 3G and 2G radio networks on 2100 MHz and 900 MHz frequencies in HSPA/HSPA+ (maximum data download speed of 42 Mb/s when applying Dual Carrier – HSPA+) and EDGE/GPRS technologies, that has a nationwide coverage.

MVNO technology and infrastructure

We operate as a Mobile Virtual Network Operator. We use the network infrastructure of our subsidiary Polkomtel. Our mobile telephony services, realized in the MVNO model, are provided in 2G and 3G systems and are based on GSM/UMTS/HSPA radio interface of Polkomtel. The services include voice calls, SMS, MMS as well as GPRS/EDGE/UMTS/HSPA/LTE data transmission. We offer our customers the possibility to use international connections and international roaming service.

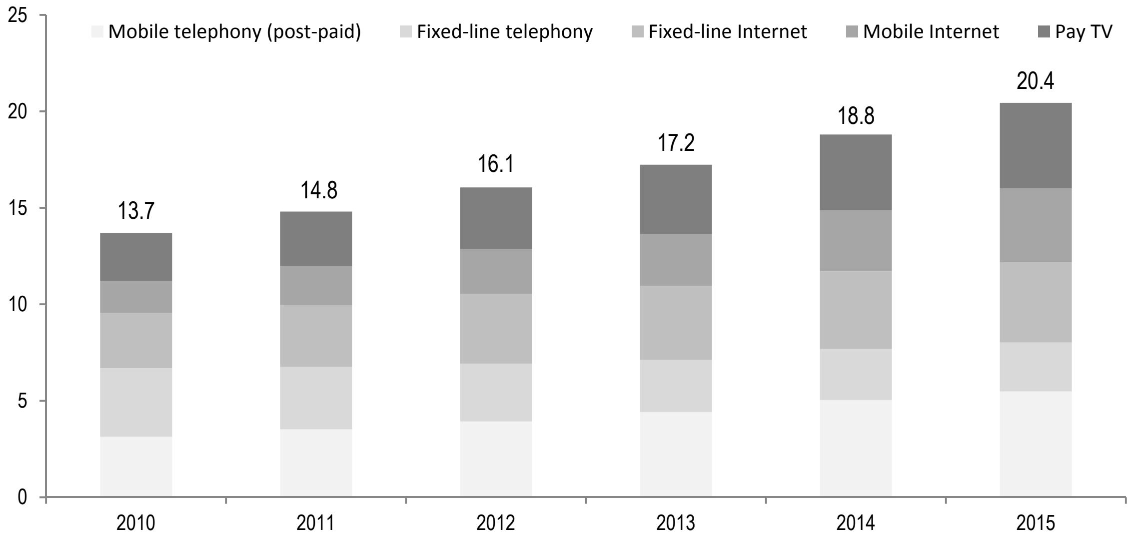
2.3. Activities on the bundled services market

2.3.1. Bundled services market in Poland

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

The Polish multi-play services market is systematically growing. According to estimations by PMR ("Bundled telecommunication services market in Poland 2015"), as at the end of 2015 the number of services sold in bundles exceeded 20 million, i.e. 1.6 million more than in the previous year. PMR estimates that the total number of subscribers (both residential and business) of bundled services amounted to over 8.2 million in 2015 and each of them had on average 2.5 services.

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



Source: PMR, „Bundled telecommunication services market in Poland 2015" (estimated data)

The multi-play market is consistently growing since 2010 in terms of value. According to PMR estimations, in 2015 operators' revenue from sales of bundled services grew at a rate of 10.1% Y-o-Y, reaching PLN 8 billion. ARPU is characterized by a similar trend – PMR estimates that the average revenue per customer from sales of multi-play packages will increase to PLN 84.1 in 2015 from PLN 81.8 in 2014.

Multi-play services in Poland are provided primarily by cable TV operators and telecommunications service providers. According to PMR, as at the end of 2014 nearly half of the bundled services market was held by four largest players – Polsat Group, UPC, Orange and T-Mobile. With respect to the number of subscribers the hare of Polsat Group on the bundled services market in Poland in 2014 was 12%. Other important players on the market included cable operators Multimedia Polska, Netia and Vectra, as well as mobile operator P4. Neither of the remaining operators offering bundles had market shares exceeding 2%.

Both fixed-line telecommunication operators and cable TV operators offer their bundled services mainly in large and medium sized cities, due in part to the geographical limitations of their infrastructure and the inferior quality of the telecommunications infrastructure in Poland. The multi-play services market in Poland is underdeveloped in less densely populated areas and therefore has the potential to grow rapidly in suburbs, small towns and rural areas. In addition to the low penetration rate of multi-play services in less densely populated areas, Internet services provided by cable operators typically suffer in quality of service due to the severe limitations of the established infrastructure. This creates an opportunity for satellite pay TV providers, such as Cyfrowy Polsat, who 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, as at the end of 2013 the penetration rate of multi-play services market (defined as more than one service within an offer of one operator) in Poland amounted to 21%, while in the European Union it reached 46%, and in the Netherlands and Belgium exceeded 70%.

These data can be underestimated, however, due to the methodology applied in the survey. According to PMR, in September 2015, 37% of households in Poland declared that they use multi-play services.

Research by PMR demonstrates that a bundle combining two services remains the most popular option. In September 2015, 61% of Poles chose this option. At that time, 31% of Poles used triple-play services (a bundle comprised of three services), while only 8% of customers decided to purchase a bundle containing four services. As for the structure of the bundles, fixed-line Internet access services and pay TV dominate, followed by mobile telephony. Mobile Internet access is a component of only a third of purchased bundles.

Development forecasts for the bundled services market

According to PMR forecasts, the bundled services market will consistently grow in subsequent years, both in terms of the number of subscribers and value. The expected average annual compound growth rate in the years 2015-2020 will be 6.9%. In the period 2015-2020 the number of subscribers using bundled services will exceed 9.9 million in 2020. The number of services sold in bundles will come close to 28 million in 2020.

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

2.3.2. Bundled services offer of Polsat Group

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

In May 2014, we launched a special smartDOM offer for the first time, marketed under the slogan "second product half off, third for even PLN 1". The promotion is 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. The offer is addressed to customers subscribed to one service (pay TV, Internet or telephony) with a minimum subscription fee of PLN 49.90, or those who sign a new contract for a subscription of at least PLN 39.90 (SIM only) or PLN 59.90 (including equipment). This way every customer has the possibility to create an optimal set of services for the family consisting of satellite TV, access to LTE Internet and telephony services. Adding an account at Plus Bank or electricity from Plus to the package allows to generate even greater savings. The promotion is available to both new and existing customers and is valid throughout the term of the contract.

In October 2014 we launched a corresponding program addressed to business customers under the name smartFIRMA (smartCOMPANY). This program allows customers 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.

2.4. Sales and marketing

Marketing and branding

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

According to the Ranking of Strongest Polish Brands 2015, prepared by the daily Rzeczpospolita in cooperation with Nielsen, Acropolis Advisory and Millward Brown, our brand "Cyfrowy Polsat" is the strongest and most recognizable brand in its line of business. What is more, Cyfrowy Polsat is the sixth most commonly mentioned Polish brand in the spontaneous awareness test, which constitutes a significant competitive advantage, as is indicates that our services are service of first choice.

This is supported by a survey conducted in April/May 2015 by the agency GfK on the pay TV market in Poland. The survey shows that Cyfrowy Polsat is the most recognizable provider of pay TV in Poland, with the spontaneous awareness ratio of 85% and aided awareness ratio of 97%.

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 Center.

Sales network

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

As part of the 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, 2015, the combined sales network of Cyfrowy Polsat and Polkomtel covered 1,294 points of sale. Both Cyfrowy Polsat's pay TV and Internet offers and Polkomtel's telecommunications offer are available at a majority of those points. A majority of points of sale offer additional products and services to customers of both operators, such as Energy from Plus.

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, 2015, Cyfrowy Polsat had 13 own and 10 agency-based D2D sales offices.

Currently, a project aimed at fully integrating Cyfrowy Polsat's and Polkomtel's sales networks is underway. The total number of points of sale will be reduced and processes within a point of sales – unified. We aim to building common logistics and warehousing systems as well as fully integrate training and education of our sales channels. 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's sales call center numbers 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). Our call center services are available to our present and potential customers 24 hours a day, seven days a week, and are responsible for providing comprehensive and professional customer service. The call service operators provide information on our services, enter into service agreements with customers, accept customer complaints and provide information on payments and other support for customers.

Online

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 our programming, multimedia and telecommunication offers, order selected equipment together with a package of their choice or locate our nearest point of sale.

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

Customers can use Cyfrowy Polsat's website (http://www.cyfrowypolsat.pl/) in order to find information about the current telecommunications offer, they can chose a TV or Internet access package they are interested in, select a device (set-top box, tablet, laptop or router) and verify current promotions in the VOD section. 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.

Our commercial website contains detailed information on our bundled services offer available in the smartDOM program.

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

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 m^2 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.

2.5. Customer Relations and Retention Management

Customer Relations Management

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

We use an advanced customer relationship management IT system developed by our specialists based on an integrated platform handling telephone, fax, e-mail, SMS 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 2014 we launched an improved Internet Customer Service Center (ICSC), which we plan to adapt to meet the needs of mobile device users in 2016. 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 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.

Retention management

We place high importance on customer retention. We constantly develop our retention programs in order to minimize churn in terms of both volume and value and consequently to secure revenue from Polsat Group's customer base.

A team has been created within the combined organization of Cyfrowy Polsat and Polkomtel, whose task is to develop and optimize retention programs for all the customers of our Group.

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

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

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

Consistent implementation of retention schemes and upselling of further services to our customer base helps us reduce the churn ratio. Increasing numbers of our customers not only choose to renew their contract for a defined period of time, but also decide to increase of the number of services from our portfolio.

2.6. Other aspects of our business

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," and "IPLA."

Research and development

For Cyfrowy Polsat 2015 was a year of continuation of the research-and-development efforts aimed at developing both, the IT systems and the systems dedicated to the set-top boxes manufactured by the Company in its own factory, as well as further development of those set-top boxes.

In 2015 in cooperation with ADB Cyfrowy Polsat finalized the development of a new satellite TV set-top box called **Evobox**. This set-top box is the next generation device which incorporates the latest global trends. Apart from access to satellite TV broadcasts, Evobox enables recording of up to three programs simultaneously and, thanks to the built-in Wi-Fi module, also provides access to on-line services, such as HBO GO or IPLA. The set-top box also offers a system of recommendations which allows users to quickly select the best programs from the offer.

In 2015 we continued the development and improved the availability of **multi-camera broadcasts.** Users of the services of IPLA, the biggest Polish web TV, could watch coverage of sports events in a manner that is unique on Polish market. Multi-camera broadcast involves simultaneous transmission of signals from many cameras for the same event. As a result, a viewer can follow a game from different angles. It is the viewer himself who selects the cameras from which he wishes to view the event at the moment.

IT systems

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. 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, we use systems licensed from third parties, such as a conditional access system securing access to channels offered in our paid DTH channel packages.

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.

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, 2015, 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 cables and other media. Part of our real estate property is being leased from third parties.

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.

At the date of preparation of this Report, to our best knowledge, 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 operating in Poland.

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

In 2015 Cyfrowy Polsat was party to the 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 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. The following insurers are engaged in the liability insurance policy of directors and management board members of Cyfrowy Polsat: TUiR Allianz Polska S.A., AIG Branch in Poland, ACE Branch in Poland, TUiR Warta S.A., Sopockie TU Ergo Hestia S.A. and PZU S.A.

In 2015 Polkomtel concluded a general fleet motor insurance agreement with STU Ergo Hestia S.A. (collision, comprehensive and third party insurance, theft insurance, accident insurance and assistance), which extends to the entire motor fleet of Polsat Group.

In 2015 the international business travel health insurance with ACE European Group Limited Sp. z o.o. Branch in Poland and personal injury insurance with TUiR Warta S.A. were continued.

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

Charity and sponsorship activities

Corporate Social Responsibility is inherently connected with our operations on the market, the achievement of our business goals and building of the value of our companies. In particular, we are involved life-saving and healthcare initiatives as well as in providing support for those in need. For many years we have been cooperating with Polsat Foundation.

Polsat Foundation is one of the biggest NGOs operating in Poland. For nineteen years it has been helping ill children and their parents as well as people in need. Up to date the Foundation has provided assistance to 26,866 little patients and offered financial support to 1,184 hospitals and medical centers nationwide, which have been renewed or equipped with modern medical equipment. The Foundation has so far transferred nearly PLN 210 million for its statutory purposes.

The most recognizable projects of Polsat Foundation include the campaign “We are for the Children” and the “St. Nicholas Day Commercial Break”, which has been realized jointly with Polsat TV for 12 years. In 2015 the special commercial break attracted 41.7% of viewers from the 16-49 age group. According to estimates, thanks to such a large audience the campaign generated nearly PLN 1.6 million, i.e. PLN 67 thousand more than in 2014.

Since 2010 Cyfrowy Polsat’s budget planned for traditional Christmas gifts has been used for medical treatment and rehabilitation of the patients supported by Polsat Foundation. In 2015 the funds were spent on medical treatment of 14-year-old Mikołaj from Warsaw who suffers from a spinal cord tumor leading to growing limb paresis.

Despite the fact that employee volunteer activities are not subject any formal procedures, our employees are very active in supporting charity initiatives. In 2015 three such projects were realized: “Fill the School Backpack” (over 2,600 school articles and gadgets were donated for the children who are taken care of by Przyjaciółka Foundation), “Santa Claus Courier” (over 90 gifts for the children who are taken care of by Przyjaciółka Foundation), and the “Noble Box Project” (550 gifts for 38 people in 10 families delivered in cooperation with WIOSNA Association).

Apart from charity activities, we are also involved in numerous sponsoring activities. In its to-date sponsoring activities Cyfrowy Polsat supported, among others, Kevin Mirocha (a Formula 2 driver) and Aleksander Arian (a sailor of UKS Sailing Team Rzeszów).

3. Significant events and agreements concluded in 2015

3.1. Corporate events

Appointment of members of the Supervisory Board

Pursuant to resolutions adopted on April 2, 2015, the Annual General Meeting of the Company decided that the Supervisory Board of the new term will consist of six members and appointed Mr. Zygmunt Solorz-Żak, Mr. Robert Gwiazdowski, Mr. Józef Birka, Mr. Aleksander Myszka, Mr. Heronim Ruta and Mr. Leszek Reksa to the Supervisory Board for the subsequent three-year term.

Mr. Zygmunt Solorz-Żak was elected the Chairman of the Supervisory Board. The Audit Committee comprises Mr. Heronim Ruta, Mr. Robert Gwiazdowski and Mr. Leszek Reksa. The Remuneration Committee comprises: Mr. Zygmunt Solorz-Żak and Mr. Heronim Ruta.

Introduction to trading of Series J shares

In its Resolution No. 337/2015 of April 13, 2015 the Management Board of the Warsaw Stock Exchange (the 'WSE') decided that 243,932,490 Series J ordinary bearer shares of the Company marked by the National Depository for Securities (the 'NDS') with the code PLCFRPT00021 shall be listed on the main market of the WSE as of April 20, 2015 through an ordinary listing process. Moreover, in its Resolution No. 233/15 of April 16, 2015 the Management Board of the NDS decided to assimilate, as of April 20, 2015, 243,932,490 Series J ordinary bearer shares of the Company marked with code PLCFRPT00021 with 216,196,025 shares of the Company marked with code PLCFRPT00013. The assimilated shares were awarded the code PLCFRPT00013.

Series J shares were admitted to trading on the WSE after the rights related to the Series J shares were made uniform with the shares already listed on the WSE, which took place on April 2, 2015 as a result of adoption by the General Meeting of the Company of a resolution regarding the distribution of 2014 net profits. Currently, 460,128,515 ordinary bearer shares of the Company are admitted to trading on the regulated market.

Framework Agreement with the EBRD

On June 29, 2015 the Company concluded a Framework Agreement with the European Bank for Reconstruction and Development ("EBRD"). The Framework Agreement was concluded in connection with the EBRD considering the acquisition of bonds issued by the Company.

In the Framework Agreement 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 environmental protection. The Framework Agreement may expire on the terms and conditions set forth therein, if EBRD the stake of the Company's bonds held by the EBRD will decrease below the value set forth in the Framework Agreement.

Basing on the Framework Agreement, the EBRD took part in the subscription for Bonds and was one of the 52 entities to whom the Series A Bonds were allotted on July 21, 2015.

Merger of Cyfrowy Polsat and Redefine

Following the decision of the Management Board of the Company of April 14, 2015, approved by the Extraordinary General Meeting on May 18, 2015, the merger of Cyfrowy Polsat and Redefine was effected on June 30, 2015. The merger was effected by transferring to the Company – as the sole shareholder – all the assets of Redefine and termination of Redefine without liquidation.

As a result of the merger, Cyfrowy Polsat assumed all rights and obligations of Redefine, effective on the date of the merger. Given that the Company held all the shares of Redefine, the merger was effected without increasing the share capital of the Company. The aim of the merger was to optimize costs and simplify the organizational structure of the Group in line with our long-term strategy.

Issue of Series A Bonds

Pursuant to the resolution of the Management Board adopted on July 2, 2015, the Company issued on July 21, 2015 1,000,000 unsecured series A bearer bonds with a nominal value of PLN 1,000 each and a total nominal value of

PLN 1 billion ("Bonds", "Series A Bonds"). The issue price of one bond was equal to its nominal value and amounts to PLN 1,000. The maturity date of the bonds is July 21, 2021. The interest rate on the Bonds is floating and is based on the WIBOR rate for 6-month deposits, increased by a margin, which depends on the debt ratio. The coupon is paid biannually in January and July.

The Bonds were allotted to 52 investors in total, including the EBRD.

On the issue date, i.e. July 21, 2015, the Bonds were registered in the securities depository maintained by the National Depository for Securities. The Bonds were introduced to trading in the alternative trading system organized by the Warsaw Stock Exchange within the Catalyst market on August 12, 2015.

The Bonds are described in detail in item 4.6.4. – *Operating and financial review of Polsat Group – Review of our financial situation – Liquidity and capital resources – Series A Bonds.*

Process of refinancing of the Company's debt

Prepayments of the Refinanced Term Loan

On July 29, 2015, the Company made an early prepayment of a part of the Refinanced CP Term Loan under the Refinanced CP Senior Facilities Agreement dated April 11, 2014 in the amount of PLN 1 billion.

Conclusion of new Senior Facilities Agreements

As part of the process of refinancing of the our indebtedness, the Company and its subsidiaries concluded the CP Senior Facilities Agreement with a consortium of Polish and foreign financial institutions comprising the CP Term Facility Loan up to PLN 1.2 billion and the CP Revolving Facility Loan up to PLN 300.0 million under the CP Senior Facilities Agreement.

The facilities granted under the CP Senior Facilities Agreements bear interest at a variable rate equal to WIBOR for the relevant interest period plus margin and shall be repaid in quarterly installments of variable value. The final repayment date for each of these facilities is September 21, 2020

The Company used the funds acquired under the CP Senior Facilities Agreements in particular to repay the indebtedness under the Refinanced CP Senior Facilities Agreement of April 11, 2014.

Pursuant to the CP Facilities Agreement the Company and its Group companies established certain collaterals for the credit facilities granted thereunder.

Furthermore, on September 21, 2015 the Company and its subsidiaries concluded the Amendment, Restatement and Consolidation Deed. According to the Amendment, Restatement and Consolidation Deed, upon repayment of the whole indebtedness under the senior notes issued in January 26, 2012 by Eileme 2, a subsidiary of the Company ("PLK Senior Notes") the indebtedness under the PLK Facilities Agreement, a facilities agreement concluded between Polkomtel and other subsidiaries of the Company on September 21, 2015, will be refinanced using the funds made available under the CP Facilities Agreement, as amended in the Amendment, Restatement and Consolidation Deed. Upon the repayment of PLK Senior Notes on January 29, 2016, the PLK SFA was refinanced in full on the same day and, as a result, a Combined SFA came into force (see item 3.3 – *Events after the balance date - Consolidation of Term Loans*).

A detailed description of the terms of the CP Facilities Agreement and the Amendment, Restatement and Consolidation Deed is presented in item 4.6.4. *Operating and financial overview of Cyfrowy Polsat– Review of our financial situation - Liquidity and capital resources – Senior Facilities Agreements executed by the Company until the date of preparation of this Report.*

Repayment of debt under the Refinanced CP Senior Facilities Agreements

On September 28, 2015 the Company repaid the total outstanding amount of the term loan and revolving facility granted under the Refinanced CP Senior Facilities Agreement of April 11, 2014, in the total amount of PLN 1,178.0 million.

Funds used to repay the indebtedness of the Company were acquired thanks to the conclusion on September 21, 2015 of new CP Senior Facilities Agreements granting a loan in the total amount of up to PLN 1.5 billion.

Establishment of security interests related to the CP SFA

On September 28, 2015, the Company, other companies from the Group and UniCredit Bank AG, London Branch, executed and concluded certain agreements and other documents concerning the establishment of the security interests in connection with the CP Senior Facilities Agreement concluded by the Company on September 21, 2015. The aggregate book value of the assets encumbered with the said security interests in the Company's and its subsidiaries' books of account is PLN 14,846.4 million. A detailed list of established security interests is presented in item 4.6.5. – *Operating and financial overview of Cyfrowy Polsat– Review of our financial situation - Liquidity and capital resources - Information on guarantees granted by the Company or subsidiaries.*

Change of the Company's ratings

On September 22, 2015 Moody's Investors Service affirmed the Company's corporate family rating at Ba3 and changed its outlook from stable to positive.

Moreover, on September 25, 2015 Standard & Poor's Rating Services, among others, upgraded its long-term corporate credit rating on the Company from "BB" to "BB+" with a stable outlook.

Details concerning the changes of ratings are discussed in item 4.6.4. – *Operating and financial overview of Cyfrowy Polsat– Review of our financial situation - Liquidity and capital resources – Ratings*

Changes in the composition of the Management Board of Cyfrowy Polsat

During its meeting on December 8, 2015 the Supervisory Board adopted resolutions concerning changes in the composition of the Management Board of the Company. As of the date of adoption of the resolutions, the Supervisory Board appointed Mr. Tobias Solorz, the hitherto Vice-President of the Management Board, to the position of President of the Management Board, and Mr. Tomasz Gillner-Gorywoda, the hitherto President of the Management Board, to the position of Member of the Management Board.

Furthermore, on December 8, 2015 the Supervisory Board also adopted a resolution appointing Ms. Agnieszka Odorowicz to the position of Member of the Management Board as of March 1, 2016.

3.2. Business related events

Purchase of data transmission services by the Company

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 on the provision of wholesale data transmission services of March 27, 2014. The memorandum determines new terms of cooperation in the scope of telecommunication services related to data transmission, in particular:

- a new, lower 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 on the provision of wholesale data transmission services of March 27, 2014 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 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.

Acquisition of Teleaudio Dwa and Interphone Service

On April 1, 2015, Polsat Group acquired 100% shares of Orsen Holding Limited for the amount of PLN 34.9 million. Consequently, the companies Teleaudio Dwa Sp. z o.o. S.K.A. and InterPhone Service Sp. z o.o., among others, have joined Polsat Group.

Teleaudio Dwa is a leading company in the telecommunications and IT industry, specializing in the provision of premium rate services based on SMS/IVR/MMS/WAP technologies. The company's operations are based on a proprietary, modern and systematically developed IT platform dedicated to support even the most advanced projects. Teleaudio Dwa is one of the leading providers of telecommunication value added services in Poland. Thanks to Teleaudio Dwa we will be able to develop modern sales and customer service channels which meet the expectations of our customers, thus increasing the competitiveness of our Group and the satisfaction of our customers regarding services provided by us.

Interphone Service owns a factory equipped with a modern machinery stock which produces telecommunications equipment designed for data transmission, also in the LTE technology (including ODU-IDU equipment), as well as low-line electronic equipment, such as set-top boxes. It is located in EURO-PARK MIELEC Special Economic Zone. The purchase of the factory will allow us to improve the efficiency of our set-top box production process at lower production costs and to develop other production lines.

Migration to the MPEG-4 standard

From October 2015, Cyfrowy Polsat, the leader in the area of advanced technology who applies stare-of-the-art solutions, provides pay TV services based uniquely on the MPEG-4 compression standard. The MPEG-4 standard not only ensures more efficient use of satellite transponder capacity but more importantly guarantees transmission of signal of much better quality. As a result of the switch to the MPEG-4 standard our customers received 16 additional channels in HD standard, which brings the total of HD channels available via our platform to over 60.

Co-operation with ADB

In September 2015 we began collaboration with ADB SA to co-develop solutions and advanced TV services. Together we will deliver innovative and competitive TV services based on ADB's newly launched ConnectedOS cloud platform and high quality set-top boxes produced by Cyfrowy Polsat. ConnectedOS is a hybrid cloud and device centric middleware platform for developing, deploying and managing connected devices and Internet of Things (IoT) applications. This solution is designed to simplify integration, streamline the market implementation of the operator's services and reduce costs of delivery of interactive television services to subscribers.

Cyfrowy Polsat will integrate ADB's innovative Connected Solutions and Personal TV software into its own manufactured set-top-boxes, thus bringing a new level of interaction and navigation to TV viewing. At the same time Cyfrowy Polsat will be the provider of set-top boxes for ADB which will use them for developing comprehensive Personal TV products for its business clients. The partnership with ADB supports our efforts to provide our customers with the most advanced TV services, which meet their growing needs related with the availability of content anytime and anywhere.

New edition of the smartDOM program

In October 2015 we re-introduced the simple and flexible mechanism „second product for half off, the third for even 1 zloty" in the smartDOM program. As in the case of the first two editions, customers have the possibility to create an attractive bundle of services comprising satellite TV, mobile Internet access and mobile telephony. Including a bank account at PlusBank or electricity from Plus will allow to generate even higher savings. The promotion is available to both new and existing customers and remains valid over the entire duration of the contract.

It is sufficient to own one service from Cyfrowy Polsat's or Plus's portfolio (TV, Internet, telephone) with a subscription fee of at least PLN 49.90 or to purchase a SIM-only offer for a minimum of PLN 39.90 per month or an offer with equipment for a minimum of PLN 59.90 in order to receive a 50% discount on the second purchased service and pay as little as PLN 1 for the third purchased service.

In October 2015, during an official gala of one of the most important competitions in the advertising sector – Effie Awards – we received an award for the smartDOM program. The silver award in the Telecommunications category for the joint campaign „Saving by adding" was received by Cyfrowy Polsat and Plus network.

3.3. Events after the balance date

Finalization of the refinancing process

Conclusion of hedging agreements

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

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

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

Consolidation of Term Loans

In connection with the early repayment and redemption of the PLK Senior Notes on February 1, 2016, amendments provisioned for in the Amendment, Restatement and Consolidation Deed of September 21, 2015 (for details see item 4.6.4 - *Operating and financial overview of Cyfrowy Polsat – Review of our financial situation - Liquidity and capital resources – Senior Facilities agreements concluded by the Company until the date of preparation of this Report)* were incorporated to the CP Senior Facilities Agreement. Moreover, debts under the PLK Facilities Agreement were repaid on a cashless basis, from funds made available to Polkomtel under the CP Facilities Agreement and Polkomtel and other subsidiaries of the Company have acceded to the CP Facilities Agreement as a borrower and guarantor or a guarantor.

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

4. Operating and financial review of Cyfrowy Polsat

4.1. Key factors impacting our operating activities and financial results

4.1.1. Factors related to social-economic environment

Economic situation in Poland

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

In the sluggish world economy of 2011-2013, Poland continued to record one of the highest real GDP growth rates in the EU. According to Eurostat, Poland's real GDP growth in 2011, 2012 and 2013 was 5.0%, 1.6% and 1.3%, respectively, with the corresponding figures for the EU 28 at 1.7%, -0.5% and 0.2%, respectively.

Based on Eurostat data, a noticeable recovery of economies both of Poland and other EU countries took place in 2014. The GDP growth for Poland in 2014 was 3.3%. According to the latest Eurostat forecasts, GDP growth in Poland in 2015 – 2017 will be significantly higher than the EU average amounting to 3.5% in each year. The corresponding indicator in 28 EU countries is estimated at 1.9% in 2015, 2.0%% in 2016 and 2.1% in 2017.

We believe that average consumer spending, including spending on pay TV, mobile telephony, Internet access and bundle services generally will grow in line with the overall GDP growth in Poland, and will support our future revenue growth.

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 as well as the development of digital terrestrial television) impact promotional offerings to our new customers.

Due to the heavy competition, we continuously invest in customer retention programs and loyalty building. Currently, we consider our programming packages to offer the best value-for-money on the Polish DTH market. We believe that it gives us a chance to attract a significant portion of migrating customers to our platform. Moreover, we offer pay TV services as part of our integrated offer under the smartDOM program, which in our opinion will have a positive impact on the loyalization of our customer base and will contribute to maintaining a relatively low churn rate.

Dynamic growth of non-linear distribution of content, delivered by video on demand and OTT (over-the-top) services is a global trend. This market is still small in Poland (according to data presented by PwC (*Global entertainment and media outlook: 2014-2019)*, its value was estimated at ca. 15.0 million USD in 2015, while in Great Britain and Germany at USD 790.8 million and USD 397.5 million, respectively) but 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 the online advertising market in Poland

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

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. Both the number of fixed lines and revenues generated by fixed-line operators have been gradually decreasing along with the growing penetration of mobile services. Initially, this phenomenon had been observed 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 data by UKE, in 2014 the volume of voice traffic in fixed networks amounted to 10.4 billion minutes and was already almost 8 times lower than the voice traffic volume in mobile networks – which exceeded 82.6 billion minutes.

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

High preference of Poles for mobile technologies combined with improving quality of mobile data transmission as a result of the rapidly growing coverage and capacity of networks built based on LTE/HSPA+ technologies create, in our opinion, 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. Popularization of smartphones translates into growing sales of data transmission products in the segment of small screen devices. According to data presented in the Ericsson Mobility Report dated November 2015, the volume of transmitted data will increase twelvefold in the years 2015-2021.

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

Seasonality of the telecommunications market

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

The December holiday period 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.

4.1.2. Factors related to the operations of the Company

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 (ARPU). 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 telephony services into attractive packages.

Our program smartDOM (addressed to individual customers) allows 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 cross-sell additional products and services to the combined customer base of Cyfrowy Polsat and Polkomtel 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.

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

Providing Internet access services in LTE technology

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

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

Terms of provision of data transmission services

We provide telecommunication services in LTE and HSPA+ technologies, data transmission in particular, based on the frequencies owned by Polkomtel and Midas Group. On March 3, 2015, we concluded memoranda of understanding with Midas Group (for details see item 3.2 – *Significant events and agreements concluded in 2015 – Business related events)* determining new terms of cooperation between the Company 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, we placed an order with Polkomtel for the purchase of a data package of ca. 601 million GB, which will satisfy our needs related to data transmission in the mid-term.

Development of the IPLA service

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

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

4.1.3. Financial factors

Exchange rates fluctuations

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 licensing fees paid to TV broadcasters, signal transmission-related charges, set-top box parts as well as other hardware and software, transponder capacity lease, telecommunication equipment for Internet access customers, selected office building lease agreements and other trade obligations.

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

Refinancing of the Group's debt

On September 21, 2015, Polsat Group entered into a facility agreement with a consortium of Polish and foreign financial institutions comprising a term facility of up to PLN 11.5 billion and a revolving facility of up to PLN 1.0 billion, which, together with the Series A Bonds with the total nominal value of PLN 1,0 billion, issued in July 2015, was used to refinance the entire indebtedness of the Group.

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

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

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

4.2. Key market trends impacting our business

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

- 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 media and telecommunications services, as well as services from other sectors, such as electric energy or financial and banking products;
- 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.

4.3. Major investments in 2015

Acquisition of Teleaudio Dwa and Interphone Service

On April 1, 2015, the Company acquired 99.9% shares of Orsen Holding Limited for the amount of PLN 34.9 million. Consequently, the companies Teleaudio Dwa Sp. z o.o. S.K.A. and InterPhone Service Sp. z o.o., among others, have joined Polsat Group. The acquired companies are described in detail in item 3.2. – *Significant events and agreements concluded in 2015 – Business related events.*

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. The Company does not publish separate KPIs with respect to its core business.

It must be emphasized that the key performance indicators presented below for the twelve-month period ended December 31, 2014 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 period. 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 period. Key performance indicators for the 3-month periods ended December 31, 2014 and 2015 are broadly comparable, given the marginal effect of Orsen Holding Ltd. acquired on April 1, 2015.

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		
	2015	2014	change / %	2015	2014	change / %
Total number of RGUs (contract + prepaid)	**16,469,696**	**16,482,031**	(0.1%)	**16,469,696**	**16,482,031**	(0.1%)
CONTRACT SERVICES						
Total number of RGUs, including:	**12,614,703**	**12,347,828**	2.2%	**12,614,703**	**12,347,828**	2.2%
Pay TV, including:	4,503,320	4,391,702	2.5%	4,503,320	4,391,702	2.5%
Multiroom	*936,307*	*844,809*	10.8%	*936,307*	*844,809*	10.8%
Mobile telephony	6,516,643	6,587,915	(1.1%)	6,516,643	6,587,915	(1.1%)
Internet	1,594,740	1,368,211	16.6%	1,594,740	1,368,211	16.6%
Number of customers	**5,916,103**	**6,137,531**	(3.6%)	**5,916,103**	**6,137,531**	(3.6%)
ARPU per customer [PLN]	88.3	87.2	1.3%	87.3	85.9	1.6%
Churn per customer	10.0%	9.1%	0.9 p.p.	10.0%	9.1%	0.9 p.p.
RGU saturation per one customer	2.13	2.01	6.0%	2.13	2.01	6.0%
Average number of RGUs, including:	**12,496,080**	**12,272,311**	**1.8%**	**12,410,649**	**12,091,316**	**2.6%**
Pay TV, including:	4,441,918	4,361,890	1.8%	4,404,966	4,283,695	2.8%
Multiroom	*915,940*	*822,568*	*11.4%*	*887,766*	*776,635*	*14.3%*
Mobile telephony	6,502,872	6,597,742	(1.4%)	6,528,524	6,661,539	(2.0%)
Internet	1,551,290	1,312,679	18.2%	1,477,159	1,146,082	28.9%
Average number of customers	**5,922,397**	**6,159,903**	**(3.9%)**	**6,004,937**	**6,219,660**	**(3.5%)**
PREPAID SERVICES						
Total number of RGUs, including:	**3,854,993**	**4,134,203**	**(6.8%)**	**3,854,993**	**4,134,203**	**(6.8%)**
Pay TV	31,972	122,787	(74.0%)	31,972	122,787	(74.0%)
Mobile telephony	3,591,736	3,792,978	(5.3%)	3,591,736	3,792,978	(5.3%)
Internet	231,285	218,438	5.9%	231,285	218,438	5.9%
ARPU per total prepaid RGU [PLN]	18.5	18.2	1.6%	18.3	17.7	3.4%

	for the 3-month period ended December 31			for the 12-month period ended December 31		
	2015	2014	change / %	2015	2014	change / %
Average number of RGUs, including:	**3,917,979**	**4,172,129**	**(6.1%)**	**3,990,706**	**4,267,047**	**(6.5%)**
Pay TV	56,743	129,021	(56.0%)	56,798	88,894	(36.1%)
Mobile telephony	3,630,863	3,798,701	(4.4%)	3,724,268	3,939,774	(5.5%)
Internet	230,373	244,407	(5.7%)	209,640	238,379	(12.1%)

As at December 31, 2015, in the segment of services to individual and business customers, our Group provided a total of 16,469,696 active services, maintaining a stable level compared to 16,482,031 active services provided as at December 31, 2014. In terms of the main models of service provision, we noted a decline in the number of provided prepaid services in the analyzed period, which was almost completely offset by a dynamic growth of the number of broadband Internet access services provided in the contract model and a higher number of pay TV services (in particular Multiroom) provided in 2015 compared to the corresponding period of the prior year.

As at December 31, 2015 the share of contract services in the total number of provided, active services was 76.6%. This indicator increased from 74.9% as at December 31, 2014.

Contract services

As at December 31, 2015 we provided contract services to a total of 5,916,103 customers, i.e. 3.6% less compared to 6,137,531 as at December 31, 2014. The main drivers behind this decrease are the merging of contracts under one common contract for the household and the outflow of single-play customers, i.e. customers with only one service. It must be emphasized that in the second half of 2015 the rate of outflow of contract customers was significantly lower compared to the first half of 2015.

The number of active contract services provided by us increased by 266,875, that is 2.2%, to 12,614,703 as at December 31, 2015 from 12,347,828 as at December 31, 2014. This change is primarily the effect of an increase of the number of broadband Internet access services by 226,529, i.e. 16.6%. The dynamic growth in the number of mobile Internet RGUs was supported by the broadest coverage offered by our network, as well as its highest quality proven by a survey by UKE published in January 2016. The total number of pay TV services provided in the contract model increased by 2.5% in 2015 to 4,503,320 as at December 31, 2015 from 4,391,702 as at December 31, 2014, mainly due to an increase by 91.5 thousand in the number of Multiroom services provided. Concurrently, the number of provided mobile telephony services decreased from 6,587,915 as at December 31, 2014 to 6,516,643 as at December 31, 2015 due to the fact that the Polish mobile telephony market is highly competitive and mature. It is worth emphasizing, that the base of active mobile telephony services provided in the post-paid model is stabilizing from quarter to quarter. For the first time in three years, in the fourth quarter of 2015, we recorded an increase of 11.6 thousand in this segment. We believe that further saturation of our customer base with integrated services, including our product smartDOM, will positively influence the growth of the number of contract RGUs provided by us in the future.

As a result of the implementation of our strategy, we note an increase of ARPU in the contract services segment. ARPU per customer increased by 1.3%, to PLN 88.3, in the fourth quarter of 2015 from PLN 87.2 in the corresponding period of 2014. In 2015, ARPU per customer increased by 1.6%, to PLN 87.3, compared to PLN 85.9 in 2014. In line with the assumptions of our long-term strategy, our Group aims to maximize revenue per contract customer through sales of additional products and services to the joined customer bases of Cyfrowy Polsat and Polkomtel, among others within the framework of our program smartDOM, which has a positive impact on ARPU per contract customer.

Our churn rate was equal to 10.0% in the twelve-month period ended December 31, 2015 compared to 9.1% in the twelve-month period ended December 31, 2014 due among others to an accumulation of contracts with our customers, which expired during the first half of 2015. Consequently, the rate of growth of this indicator decelerated significantly in the second half of 2015.

The saturation of our customer base with multi-play services is systematically growing. As at December 31, 2015, each customer in our customer base had on average 2.13 active contract services, which constitutes an increase of 6.0% compared to 2.01 active contract services per customer as at December 31, 2014. The increase in RGU saturation per customer is the result of our marketing and sales activities aimed at maximizing the sale of products and services to one customer.

The smartDOM program records very good sales results and has a positive effect on both the level of RGU saturation per one customer and ARPU per contract customer. At the end of December 2015, already over 1 million customers had joined the program and had bought a total of 3.04 million RGUs. RGU saturation per customer in this group was slightly ca. 3.0 as at December 31, 2015. 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, 2015 decreased by 279,210, that is 6.8%, to 3,854,993 from 4,134,203 as at December 31, 2014. This change was caused among others by a migration of part of our customers from prepaid tariffs towards the contract services segment driven by relatively more attractive terms of post-paid tariffs as well as discounts offered in the smartDOM program.

At the same time ARPU per prepaid RGU increased by 1.6% in the fourth quarter of 2015, to PLN 18.5 from PLN 18.2 in the corresponding period of 2014. In 2015 ARPU per prepaid RGU increased by 3.4% to PLN 18.3 from PLN 17.7 in 2014. The increase in the level of ARPU in the prepaid segment is connected mainly with higher consumption of data on smartphones as well as higher volumes of exchanged voice traffic at stable retail prices in the segment.

4.5. Key positions in the income statement

Revenue

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

Retail revenue

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

Wholesale revenue

Our wholesale revenue comprises:

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

Distribution, marketing, customer relation management and retention cost

Distribution costs consist of (i) commissions due to 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, storage costs and costs associated with services of our regional agents, (iii) costs of warranty service and (iv) costs of maintenance of points of sales. Marketing expenses consist of expenses on TV and radio commercials, press, online and outdoor advertising, promotional activities and materials, as well as other expenses incurred to increase sales and brand recognition. Customer relation management and retention costs consist of mailing costs, call center costs and other customer relation management costs.

Depreciation, amortization, impairment and liquidation

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

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with telecommunication operators comprise:

(i) telecommunications and IT infrastructure lease costs;

(ii) IT systems maintenance costs;

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

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

(v) cost of settlements with mobile network operators and interconnection charge; and

(vi) other costs.

Salaries and employee-related costs

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

Cost of equipment sold

Cost of equipment sold relates mostly to set-top boxes, STB hard disk drives, antennas, Internet modems, routers, tablets, laptops 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) legal, advisory and consulting costs;
(iii) property maintenance costs;
(iv) taxes and other charges;
(v) trademark license costs; and
(vi) other costs.

Other operating income/costs, net

Other operating income/costs consist of:

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

Gains and losses on investment activities, net

Gains and losses on investment activities, net include interest income on invested funds, 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 at fair value through profit or loss, net foreign currency gains/losses (other than on valuation of senior notes), 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 Senior Notes), foreign exchange gains/losses on Senior Notes, bank and other charges on borrowings, guarantee fees relating to the indebtedness resulting from SFA and Indenture as well as discount on license liabilities.

4.6. Review of our financial situation

The following review of results for the twelve month period ended December 31, 2015 was prepared based on the financial statements for the financial year ended on December 31, 2015 prepared in accordance with International Financial Reporting Standards as approved for use by the European Union and based on internal analyses.

4.6.1. Income statement analysis

Review of financial results for the 12-month period ended December 31, 2015 compared with the corresponding period of the prior year

Revenue

Our total revenue increased by PLN 65.0 million, or 3.2%, to PLN 2,099.6 million in 2015 from PLN 2,034.6 million in 2014.

	for the 12 month period ended December 31		change	
	2015	2014	[mPLN]	[%]
Retail revenue	1,967.8	1,913.0	54.8	2.9%
Wholesale revenue	45.7	39.5	6.2	15.7%
Sale of equipment	59.3	54.5	4.8	8.8%
Other revenue	26.8	27.6	(0.8)	(2.9%)
Revenue	**2,099.6**	**2,034.6**	**65.0**	**3.2%**

Retail revenue

Retail revenue increased by PLN 54.8 million, or 2.9%, to PLN 1,967.8 million in 2015 from PLN 1,913.0 million in 2014. This increase was primarily due to higher revenue from mobile Internet services and from pay TV subscription fees related mainly to the increasing popularity of the Multiroom service.

Wholesale revenue

Wholesale revenue increased by PLN 6.2 million, or 15.7%, to PLN 45.7 million in 2015 from PLN 39.5 million in 2014, mainly due to the recognition of revenue generated by Redefine, which merged with the Company on June 30, 2015.

Sale of equipment

Revenue from the sale of equipment increased by PLN 4.8 million, or 8.8%, to PLN 59.3 million in 2015 from PLN 54.5 million in 2014. This increase was primarily due to increased revenue from sales of set-top boxes and television sets and was partially offset by lower revenue from the sale of laptops, tablets, routers and DTT reception equipment.

Other revenue

Other revenue decreased by PLN 0.8 million, or 2.9%, to PLN 26.8 million in 2015 from PLN 27.6 million in 2014.

Operating costs

Our total operating costs increased by PLN 14.8 million, or 0.9%, to PLN 1,750.4 million in 2015 from PLN 1,735.6 million in 2014. Operating costs grew for the reasons set forth below.

	for the 12 month period ended December 31		change	
	2015	2014	[mPLN]	[%]
Content costs	527.3	517.2	10.1	2.0%
Distribution, marketing, customer relation management and retention costs	317.1	332.4	(15.3)	(4.6 %)
Depreciation, amortization, impairment and liquidation	230.2	222.6	7.6	3.4%
Technical costs and cost of settlements with telecommunication operators	340.7	288.5	52.2	18.1%
Salaries and employee-related costs	120.0	131.9	(11.9)	(9.0%)
Cost of equipment sold	69.3	71.3	(2.0)	(2.8%)
Cost of debt collection services and bad debt allowance and receivables written off	23.4	39.2	(15.8)	(40.3%)
Other costs	122.4	132.5	(10.1)	(7.6%)
Operating costs	**1,750.4**	**1,735.6**	**14.8**	**0.9%**

Content costs

Content costs increased by PLN 10.1 million, or 2.0%, to PLN 527.3 million in 2015 from PLN 517.2 million in 2014. This increase was caused mainly by higher costs of programming licenses resulting primarily from the depreciation of the PLN versus the USD.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs decreased by PLN 15.3 million, or 4.6%, to PLN 317.1 million in 2015 from PLN 332.4 million in 2014. This decrease was due to lower costs in the areas of customer service and retention as a result of achieved synergies within the integrated Group.

Depreciation, amortization, impairment and liquidation

Depreciation, amortization, impairment and liquidation costs increased by PLN 7.6 million, or 3.4%, to PLN 230.2 million in 2015 from PLN 222.6 million in 2014. This increase was the result of higher costs of depreciation of equipment leased to the customers of our satellite platform.

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with mobile network operators increased by PLN 52.2 million, or 18.1%, to PLN 340.7 million in 2015 from PLN 288.5 million in 2014. 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 data transmitted by our customers.

Salaries and employee-related costs

Salaries and employee-related costs decreased by PLN 11.9 million, or 9.0%, to PLN 120.0 million in 2015 from PLN 131.9 million in 2014. This decrease was the result of lower employment in Cyfrowy Polsat and the recognition in the compared period of additional costs related to the acquisition of shares in Metelem.

Cost of equipment sold

Cost of equipment sold decreased by PLN 2.0 million, or 2.8%, to PLN 69.3 million in 2015 from PLN 71.3 million in 2014.

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

The cost of debt collection services and bad debt allowance and receivables written off decreased by PLN 15.8 million, or 40.3%, to PLN 23.4 million in 2015 from PLN 39.2 million in 2014, mainly due to a decrease in the costs of debt collection services.

Other costs

Other costs increased by PLN 10.1 million, or 7.6%, to PLN 122.4 million in 2015 from PLN 132.5 million in 2014.

Other operating income and costs, net

Other operating income, net decreased by PLN 14.5 million, or 65.6%, to PLN 7.6 million in 2015 from PLN 22.1 million in 2014.

Gains/losses on investment activities, net

Net losses on investment activities increased by PLN 108.7 million, or 64.6%, to PLN 276.9 million in 2015 from PLN 168.2 million in 2014, mainly due to higher received dividends.

Finance costs

Finance costs amounted to PLN 141.1 million in 2015 and decreased by PLN 168.4 million, or 54.4%, compared to PLN 309.5 million in 2014. The decrease in finance costs in 2015 was influenced, among other things, by bank charges, incurred in 2014 related to the premature redemption in May 2014 of the 350 million EUR Senior Notes issued in 2011 by Cyfrowy Polsat Finance and hence the lack of foreign exchange costs related to the aforementioned notes. Moreover, the decrease in the level of finance costs was caused by a write-off of the costs of acquisition of financing under the Refinanced CP SFA related to its premature repayment on September 28, 2015.

Net profit

Net profit increased by PLN 268.9 million, or 151.7%, to PLN 446.1 million in 2015 from PLN 177.2 million in 2014, primarily due to a significant reduction of finance costs and higher revenue from dividends.

EBITDA & EBITDA margin

EBITDA increased by PLN 43.3 million, or 8.0%, to PLN 587.0 million in 2015 from PLN 543.7 million in 2014. EBITDA margin increased by 1.3 p.p., to 28.0% in 2015 from 26.7% in 2014.

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 891 full-time equivalents in 2015, as compared to 915 full-time equivalents in 2014. The decrease in employment in Cyfrowy Polsat was due, among others, to the ongoing process of integration of organizational unit with Polsat Group, in particular in connection with the acquisition of Polkomtel.

4.6.2. Balance sheet analysis

As at December 31, 2015 and December 31, 2014, our balance sheet amounted to PLN 13,093.0 million and PLN 12,813.0 million, respectively.

Assets

As at December 31, 2015 and December 31, 2014, our non-current assets were PLN 12,309.1 million and PLN 12,283.8 million, respectively, and accounted for 94.0% and 95.9% of the total assets, respectively.

As at December 31, 2015 and December 31, 2014, our current assets amounted to PLN 783.9 million and PLN 529.2 million, respectively, and accounted for 6.0% and 4.1% of the total assets, respectively.

The value of reception equipment amounted to PLN 374.6 million as at December 31, 2015 and decreased by PLN 46.5 million, or 11.0%, compared to PLN 421.1 million as at December 31, 2014.

The value of other property, plant and equipment decreased by PLN 21.5 million, or 13.0%, to PLN 143.3 million as at December 31, 2015 from PLN 164.8 million as at December 31, 2014, among others due to the depreciation of technical equipment, means of transport and other plant and property in 2015.

The value of goodwill increased by PLN 145.0 million, or 278.8%, to PLN 197.0 million as at December 31, 2015 from PLN 52.0 million as at December 31, 2014 as an effect of the merger with Redefine on June 30, 2015.

The value of other intangible assets amounted to PLN 81.4 million as at December 31, 2015 which constitutes an increase of PLN 5.8 million, or 7.7%, compared to PLN 75.6 million as at December 31, 2014, among others due to expenditure on IT projects and the transition of Redefine's assets to the Company following the merger, which was partially compensated by amortization costs in 2015.

Investment property amounted to PLN 12.9 million as at December 31, 2015, which constitutes an increase by PLN 11.1 million, or 616.7%, from PLN 1.8 million as at December 31, 2014 due to the construction of the recording studio for the needs of TV Polsat.

The value of shares in subsidiaries amounted to PLN 11,424.8 million as at December 31, 2015 compared to PLN 11,498.1 as at December 31, 2014. The decrease was caused by the merger of Cyfrowy Polsat with Redefine.

The value of non-current and current deferred distribution fees increased by PLN 9.4 million, or by 8.6%, to PLN 119.0 million as at December 31, 2015 from PLN 109.6 million as at December 31, 2014 mainly due to an increase in the value of current deferred distribution fees.

The value of other non-current assets increased by PLN 7.7 million, or 21.8%, to PLN 43.0 million as at December 31, 2015 from PLN 35.3 million as at December 31, 2014 as a result of an increase of receivables from installment plan sales, partially compensated by a decrease in the value of granted loans (primarily due to the fact that the loans became current).

The value of inventories was PLN 76.0 million as at December 31, 2015 and decreased by PLN 48.0 million, or 38.7%, from PLN 124.0 million as at December 31, 2014. This change was caused primarily by a fall in the stock of set-top boxes and components for their production, modems, tablets and laptops.

The value of trade and other receivables increased by PLN 62.9 million, or 24.1%, to PLN 323.4 million as at December 31, 2015 from PLN 260.5 million as at December 31, 2014, among others due to higher trade receivables from third parties, higher value of loans granted (primarily due to the fact that the loans became current), as well as higher public receivables.

The value of other current assets amounted to PLN 161.2 million as at December 31, 2015, which constitutes an increase of PLN 130.3 million, or 421.7%, compared to PLN 30.9 million as at December 31, 2014, primarily due to the purchase of a data package under agreements with Polkomtel and Midas Group.

The value of cash and cash equivalents increased by PLN 123.1 million, or 925.6%, to PLN 136.4 million as at December 31, 2015 from PLN 13.3 million as at December 31, 2014 due to the generated stream of free cash, dividends received in 2015 from subsidiaries and cash in Redefine, which was compensated by net repayment of debt.

Equity and liabilities

Equity increased by PLN 561.3 million, or by 6.0%, to PLN 9,944.2 million as at December 31, 2015 from PLN 9,382.9 million as at December 31, 2014, primarily due to profit generated in 2015 in the amount of PLN 446.1 million.

As at December 31, 2015 and December 31, 2014 the value of our non-current liabilities amounted to PLN 2,069.9 million and PLN 1,967.9 million, which constituted 65.7% and 57.4% of the Company's total liabilities, respectively.

As at December 31, 2015 and December 31, 2014 the value of our current liabilities amounted to PLN 1,078.9 million and PLN 1,462.2 million, which constituted 34.3% and 42.6% of the Company's total liabilities, respectively.

Loans and borrowings (long- and short-term) decreased by PLN 1,286.6 million, or 46.4%, to PLN 1,486.7 million as at December 31, 2015 from PLN 2,773.3 million. This change is mainly the effect of the repayment of the entire capital and interest under the Refinanced CP SFA dated April 11, 2014 and taking out a new term loan with a lower total nominal value under the SFA agreement dated September 21, 2015.

Senior Notes liabilities (long- and short-term) amounted to PLN 1,017.7 million as at December 31, 2015 compared to a lack of liabilities from senior notes as at December 31, 2014. The increase is primarily the effect of the issue of Series A Bonds on July 21, 2015.

Finance lease liabilities (long- and short-term) decrease by PLN 1.6 million, or 100.0%, to PLN 0.0 million as at December 31, 2015 from PLN 1.6 million as at December 31, 2014.

Deferred income tax liabilities amounted to PLN 97.3 million as at December 31, 2015 and remained at a similar level compared to PLN 97.7 million as at December 31, 2014.

Non-current and current deferred income amounted to PLN 228.9 million as at December 31, 2015, which constitutes an increase by PLN 8.1 million, or 3.7%, compared to PLN 220.8 million as at December 31, 2014, mainly due to advance subscription payments and activation payments made by our customers.

The value of other non-current liabilities and provisions amounted to PLN 10.6 million as at December 31, 2015, which constitutes a decrease by PLN 7.9 million, or 42.7%, compared to PLN 18.5 million as at December 31, 2014. This change was due, among other things, to a decrease in liabilities related to IRS/CIRS hedging instruments.

The value of trade and other payables amounted to PLN 299.8 million as at December 31, 2015 which constitutes a decrease by PLN 17.0 million, or 5.4%, compared to PLN 316.8 million as at December 31, 2014. This decrease is due, i.a. to lower trade liabilities towards third-parties.

Income tax liabilities amounted to PLN 6.2 million as at December 31, 2015 while there were no income tax liabilities as at December 31, 2014.

4.6.3. Cash flow analysis

The table below presents selected data from the cash flow statement for the twelve month periods ended December 31, 2015 and 2014.

mPLN	data for the 12-month period ended December 31	
	2015	2014
Net cash from operating activities	285.5	376.3
Net cash from/(used in) investing activities	236.7	(781.3)
Net cash from/(used in) financing activities	(399.1)	392.2
Net increase in cash and cash equivalents	123.1	(12.8)

Net cash from operating activities

Net cash from operating activities amounted to PLN 285.5 million in 2015, which constitutes a decrease of PLN 90.8 million compared to PLN 376.3 million in 2014. The increase in net cash from operating activities was mainly the result of higher net profit by PLN 268.9 million in 2015, amounting to PLN 446.1 million, adjusted by a series of factors, the most significant being:

- an increase in receivables and other assets in 2015 compared to a decrease in receivables and other assets in 2014,
- higher dividends income and share in the profits of partnerships,
- lower interest costs, primarily due to the lack of interest costs related to the senior notes with a value of EUR 350 million issued by Cyfrowy Polsat Finance in 2011 (Senior Notes), redeemed in full in May 2014 and incurred interest on the Series A Notes,
- a decrease in liabilities, provisions and deferred income as at the end of 2015 compared to an increase in liabilities, provisions and deferred income as at the end of 2014,
- a lower increase of the net value of set-top boxes provided to our customers,
- higher income tax resulting from higher gross profit and lower value of income tax paid,
- a deeper decrease in inventories as at the end of 2015 compared to the decrease in inventories as at the end of 2014.
- income from foreign exchange differences recognized in 2015 versus costs related to foreign exchange differences in 2014, primarily due to the valuation of the Senior Notes in 2014.

Net cash used in investing activities

Net cash from investing activities amounted to PLN 236.7 million in 2015 and was primarily the effect of received dividends and the merger of the Company with Redefine, which was partially compensated by capital expenditure on the purchase of property, plant and equipment, and intangible assets in the amount of PLN 41.8 million.

Net cash from/(used in) finance activities

Net cash used in financing activities amounted to PLN 399.1 million in 2015 compared to net cash obtained from financing activities in 2014 at the level of PLN 392.2 million. The increase was driven primarily by the repayment of the Refinanced CP Term Loan and lower inflows from new loans drawn in 2015 compared to 2014, which was compensated by inflows from the issue of the Series A Notes on July 21, 2015, compared to an outflow related to the redemption of the Senior Notes in 2014 and the payment of dividends in 2014 (no such outflow in 2015).

Capital expenditure on the purchase of property, plant and equipment and intangible assets, and payments for telecommunication concessions

In 2015 cash expenditures of Cyfrowy Polsat on the purchase of property, plant and equipment and intangible assets amounted to PLN 41.8 million and comprised among others, the purchase of IT software and licenses and expenditures related to the maintenance, modernization and development of IT systems.

4.6.4. Liquidity and capital resources

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

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

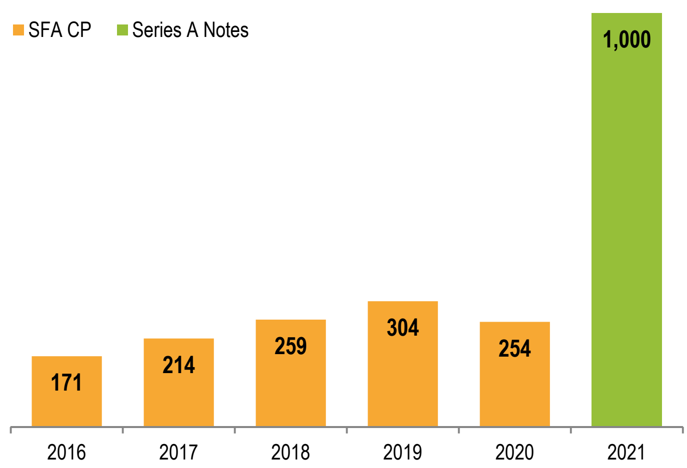
The table below presents a summary of the indebtedness of the Company as at December 31, 2015.

	Balance sheet value [mPLN]	Nominal value [mPLN]	Currency	Coupon / interest	Maturity date
CP Term Facility	1,187.7	1,200.0	PLN	WIBOR + margin	2020
CP Revolving Facility Loan	0.0	0.0	PLN	WIBOR + margin	2020
Series A Notes	1,017.7	1,000.0	PLN	WIBOR+2.5%	2021
Leasing	0.0	0.0	PLN	-	-
Cash Pool	299.0	299.0	PLN	-	-
Cash and cash equivalents [1]	136.4	136.4	PLN	-	-
Net debt	**2,368.0**	**2,362.6**			

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

The graph below presents the aging balance of the Company's debt as at December 31, 2015, expressed in nominal values.

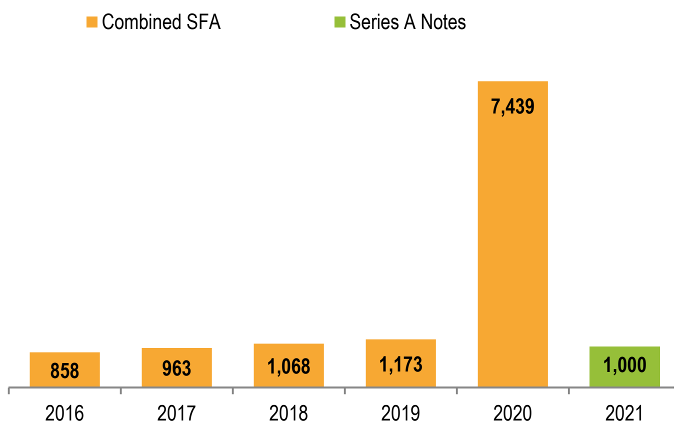
Debt maturing profile[(1)]
as at December 31, 2015 [mPLN]



(1) Nominal value of debt, excluding the CP Revolving Facility Loans (not used as at December 31, 2015) and Cash Pool.

In connection with the redemption in full of the PLK Senior Notes by Eileme 2, a subsidiary of the Company, on January 29, 2016 pursuant to the Amendment, Restatement and Consolidation Deed of September 21, 2015, certain amendments were incorporated to the CP SFA (converted into the Combined SFA), consisting, in particular, in increasing the maximum amount of the CP Term Loan to PLN 11,500.0 million and of the CP Revolving Facility to PLN 1,000.0 million and the repayment in full of the indebtedness under the PLK SFA. The graph below presents the aging balance of the Group's debt as at February 26, 2016, expressed in nominal values.

Debt maturing profile [(1)]
as at February 26, 2016 [mPLN]



(1) Nominal value of debt, excluding the Revolving Facility Loan (not used as at December 31, 2015) and Cash Pool.

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

CP Senior Facilities Agreement (converted into the Combined SFA after the balance date)

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

Based on the CP Facilities Agreement the Company had been awarded a Term Facility Loan up to PLN 1,200.0 million and a Revolving Facility Loan up to PLN 300.0 million.

The Company utilized the funds obtained under the CP SFA in particular to repay the indebtedness under the Refinanced CP Senior Facilities Agreement of April 11, 2014 between the Company (as the borrower) and a consortium of financial institutions. Moreover, the Company uses the funds obtained under the CP SFA to finance general corporate needs of the Group.

In connection with the redemption on February 1, 2016 of the PLK Senior Notes, amendments, provisioned for in the Amendment, Restatement and Consolidation Deed of September 21, 2015 and described below in the item – *Amendment, Restatement and Consolidation Deed*, were incorporated to the CP SFA. The amendments consisted, in particular, in increasing the maximum amount of the CP Term Loan to PLN 11,500.0 million and of the CP Revolving Facility to PLN 1,000.0 million and the repayment in full of the indebtedness under the PLK SFA of September 21, 2015 from funds made available under the amended CP SFA (see item below – *PLK Senior Facilities Agreement*). Furthermore, Polkomtel and other subsidiaries of the Company, who were parties to the PLK SFA, have acceded to the CP Senior Facilities Agreement as a borrower and guarantor or guarantor and additional security interests were established as required by the Amendment, Restatement and Consolidation Deed. Given the above, we will refer to the amended CP SFA as the Combined SFA, and the term loan and revolving facility granted under this agreement as the Term Loan and Revolving Facility, respectively.

The Term Facility and the Revolving Facility bear interest at a variable rate equal to WIBOR for the relevant interest period plus margin. The margin on the Term Facility and the Revolving Facility depends on the ratio of net consolidated indebtedness to consolidated EBITDA in such a way that the lower the ratio – the lower the margin, with the maximum margin level applicable when the net consolidated indebtedness to consolidated EBITDA ratio exceeds 3.50:1, and the minimum margin level applicable when that ratio is no higher than 1.50:1. The period of the Term Facility and the Revolving Facility is five years and the final repayment date for each of these facilities is September 21, 2020. The Term Facility and the Revolving Facility are to be repaid in quarterly installments of variable value.

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

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

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

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

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

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

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

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

Amendment, Restatement and Consolidation Deed

On September 21, 2015 the Amendment, Restatement and Consolidation Deed was concluded between the Company, Polkomtel, Telewizja Polsat, Cyfrowy Polsat Trade Marks, Polsat License Ltd. and Polsat Media Biuro Reklamy, Eileme 2, Eileme 3, Eileme 4, Plus TM Management, TM Rental, Plus TM Group and the consortium of Polish and foreign financing institutions referred to in the item above - *CP Senior Facilities Agreement (converted to the Combined SFA after the balance date)* (the "Amendment, Restatement and Consolidation Deed").

According to the Amendment, Restatement and Consolidation Deed, upon repayment of the indebtedness under the PLK Senior Notes, the indebtedness under the PLK Facilities Agreement was refinanced using the funds made available under the CP Facilities Agreement, as amended in the Amendment, Restatement and Consolidation Deed. The redemption of the PLK Senior Notes took place on February 1, 2016.

Pursuant to the Amendment, Restatement and Consolidation Deed, the following amendments were incorporated to the CP Facilities Agreement:

(i) the maximum amount of the CP Term Facility is PLN 11,500.0 million and the maximum amount of the CP Revolving Facility is PLN 1,000.0 million;

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

(iii) the Company utilized the Term Facility and the Revolving Facility in particular to repay the indebtedness under the Refinanced CP Senior Facilities Agreement of April 11, 2014 and the total indebtedness under the PLK Facilities Agreements, as well as to fund general corporate needs of the Group.

Series A Bonds

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(iii) granting loans;

(iv) disposing of assets;

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

(vi) incurring of financial indebtedness and

(vii) entering into composition agreements.

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

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

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

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

Contractual liabilities

Contractual liabilities related to purchases of non-current assets

The total amount of capital commitments resulting from agreements on property construction and improvements was PLN 0.0 million as at December 31, 2015 (PLN 8.4 million as at December 31, 2014). Additionally the amount of deliveries and services committed to under agreements for the purchases of licenses and software as at December 31, 2015 was PLN 0.3 million (PLN 0.3 million as at December 31, 2014).

Contractual liabilities related to purchases of data transmission services

The total amount of contractual liabilities resulting from the agreement on the purchase of data transmission services as at December 31, 2015 was PLN 1,081.5 million.

Ratings

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

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

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

On September 25, 2015 Standard & Poor's Rating Services, among others upgraded its long-term corporate credit rating on the Company from "BB" to "BB+" with a stable outlook.

S&P justified its decision by the expected significant improvement of the Company's capital structure due to the refinancing of the existing debt. In its media release S&P emphasized in particular greater flexibility resulting from the ultimate pooling of the facilities of companies belonging to the Group, the elimination of foreign exchange risk given that the debt under the new facilities agreements will be denominated solely in Polish zloty, as well as the strengthening of the Company's credit metrics thanks to reduced interest costs to the blended level of ca. 3.6% versus ca. 6.6% currently.

4.6.5. Information on guarantees granted by the Company or subsidiaries

Securities related to the Combined Senior Facilities Agreement

In order to secure the repayment of claims under the CP Senior Facilities Agreement (amended and converted to the Combined SFA after the balance date), the following encumbrances over assets of the Group were established by the Group companies on September 28, 2015:

(i) registered pledges over variable collections of movable property and rights comprised in the enterprises of the Company, Cyfrowy Polsat Trade Marks sp. z o.o., Polsat Media Biuro Reklamy spółka z ograniczoną odpowiedzialnością sp.k. and Telewizja Polsat sp. z o.o.;

(ii) financial and registered pledges on shares in Cyfrowy Polsat Trade Marks sp. z o.o. (with an aggregate nominal value of PLN 615,445) and Telewizja Polsat sp. z o.o. (with an aggregate nominal value of PLN 236,946,700), governed by Polish law, together with powers of attorney to exercise corporate rights attached to the shares in the said companies; the pledged shares represent 100% of the share capital of each company and are held by the Company as a long-term capital investment. The Company holds 100% of shares in Cyfrowy Polsat Trade Marks sp. z o.o and Telewizja Polsat sp. z o.o., representing 100% of votes at the general meetings of shareholders of the said companies;

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

(iv) powers of attorney to bank accounts of the Company, Cyfrowy Polsat Trade Marks sp. z o.o., Polsat Media Biuro Reklamy spółka z ograniczoną odpowiedzialnością sp.k. and Telewizja Polsat sp. z o.o., governed by Polish law;

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

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

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

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

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

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

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

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

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

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

Furthermore, in connection with the repayment of the indebtedness under the PLK Senior Notes on January 29, 2016 and the resulting amendment of the CP SFA (see item 4.6.4 above – *Operating and financial review of Cyfrowy Polsat– Review of our financial situation - Senior Facilities Agreements executed by the Company until the date of preparation of this Report*), to which Polkomtel and other subsidiaries of the Company have acceded as a borrower and guarantor, on January 29, 2016, Polkomtel, other members of the Group referred to below and UniCredit Bank AG, London Branch, executed and signed certain agreements and further documents concerning the establishment of additional security interests to secure the repayment of claims under the Combined SFA:

(i) registered pledges over variable collections of movable property and rights comprised in enterprises of Polkomtel and Plus TM Management sp. z o.o., governed by Polish law;

(ii) financial and registered pledges on shares in Polkomtel (with a total nominal value of PLN 3,510.3 million) and in Plus TM Management sp. z o.o. (with a total nominal value of PLN 106,000), governed by Polish law, together with powers of attorney to exercise corporate rights attached to the shares in the aforementioned companies; the pledged shares represent 100% of the share capital of each company and are held by the Company as long-term capital investments. The Company directly holds 100% of shares in Polkomtel and in Plus TM Management sp. z o.o., representing 100% of votes at shareholders' meetings of these companies;

(iii) financial and registered pledges on receivables under bank account agreements of Polkomtel and Plus TM Management sp. z o.o., governed by Polish law;

(iv) powers of attorney to bank accounts of Polkomtel and Plus TM Management sp. z o.o., governed by Polish law;

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

(vi) assignment for security of receivables under hedge agreements of Polkomtel, governed by English law;

(vii) assignment for security of rights under insurance agreements covering the Polkomtel's property;

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

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

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

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

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

4.7. Information on market risks

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

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

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

The Company applies an integrated approach to market risk management. This means a comprehensive approach to the whole spectrum of identified market risks, rather than to each of them individually. The primary technique for market risk management is the use in the Company of hedging strategies involving derivatives. Apart from this, natural hedging is also used to the extent available.

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

It is permitted to use the following types of instruments:

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

Currency risk

One of the main risks that the Group is exposed to is currency risk resulting from fluctuations in exchange rate of the Polish One of the main risks to which the Company is exposed is currency risk related to fluctuations in the exchange rate between the Polish zloty and other currencies. The revenues generated by the Company are denominated mainly in Polish zloty, however, a portion of operating costs and capital expenditures are incurred in foreign currencies. The Company's currency risk is related to royalties for TV and radio broadcasters (USD and EUR), transponder capacity leases (EUR), fees for conditional access system (EUR) and purchases of reception equipment and accessories for reception equipment (USD and EUR). Since 2011 to May 2014 the level of currency risk exposure has increased because of new financing denominated in EUR obtained to purchase Telewizja Polsat S.A.

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

The Company did not have any assets held for trading denominated in foreign currencies.

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

mPLN	December 31, 2015				December 31, 2014			
	EUR	USD	GBP	CHF	EUR	USD	GBP	CHF
Trade receivables	4.4	6.1	-	-	3.8	0.2	-	-
Cash and cash equivalents	0.2	0.8	-	-	0.3	0.2	-	0.1
Trade payables	(1.5)	(1.9)	-	-	(1.8)	(5.9)	-	-
Gross balance sheet exposure	**3.1**	**5.0**	**-**	**-**	**2.3**	**(5.5)**	**-**	**0.1**
Net exposure	**3.1**	**5.0**	**-**	**-**	**2.3**	**(5.5)**	**-**	**0.1**

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

(in PLN)	Average rate		Rates at the reporting date	
	2015	2014	December 31, 2015	December 31,2014
1 EUR	4.1839	4.1852	4.2615	4.2623
1 USD	3.7701	3.1551	3.9011	3.5072

For the purposes of the exchange rate sensitivity analysis as at December 31, 2015 and December 31, 2014, 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 2014.

mPLN	2015					2014				
	As at December 31, 2015		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at December 31, 2014		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	4.4	18.6	5%	0.9	-	3.8	16.4	5%	0.8	-
USD	6.1	23.9	5%	1.2	-	0.2	0.6	5%	-	-
Cash and cash equivalents										
EUR	0.2	0.9	5%	-	-	0.3	1.4	5%	0.1	-
USD	0.8	3.1	5%	0.2	-	0.2	0.7	5%	-	-
GBP	-	-	5%	-	-	-	0.1	5%	-	-
CHF	-	-	5%	-	-	0.1	0.3	5%	-	-
Trade payables										
EUR	(1.5)	(6.6)	5%	(0.3)	-	(1.8)	(7.8)	5%	(0.4)	-
USD	(1.9)	(7.6)	5%	(0.4)	-	(5.9)	(20.8)	5%	(1.0)	-
Change in operating profit				**1.6**	**-**				**(0.5)**	**-**
Income tax				(0.3)	-				0.1	-
Change in net profit				**1,3**	**-**				**(0.4)**	**-**

mPLN	2015					2014				
	As at December 31, 2015		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at December 31, 2014		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	4.4	18.6	-5%	(0.9)	-	3.8	16.4	-5%	(0.8)	-
USD	6.1	23.9	-5%	(1.2)	-	0.2	0.6	-5%	-	-
Cash and cash equivalents										
EUR	0.2	0.9	-5%	-	-	0.3	1.4	-5%	(0.1)	-
USD	0.8	3.1	-5%	(0.2)	-	0.2	0.7	-5%	-	-
GBP	-	-	-5%	-	-	-	0.1	-5%	-	-
CHF	-	-	-5%	-	-	0.1	0.3	-5%	-	-
Trade payables										
EUR	(1.5)	(6.6)	-5%	0.3	-	(1.8)	(7.8)	-5%	0.4	-
USD	(1.9)	(7.6)	-5%	0.4	-	(5.9)	(20.8)	-5%	1.0	-
Change in operating profit				**(1.6)**	**-**				**0.5**	**-**
Income tax				0.3	-				(0.1)	-
Change in net profit				**(1.3)**	**-**				**0.4**	**-**

mPLN	2015		2014	
	Estimated change in profit [PLN]	Estimated change in other comprehensive income [PLN]	Estimated change in profit [PLN]	Estimated change in other comprehensive income [PLN]
Estimated change in exchange rate by 5 %				
EUR	0.5	-	0.4	-
USD	0.8	-	(0.8)	-
GBP	-	-	-	-
CHF	-	-	-	-
Estimated change in exchange rate by -5 %				
EUR	(0.5)	-	(0.4)	-
USD	(0.8)	-	0.8	-
GBP	-	-	-	-
CHF	-	-	-	-

Had the Polish zloty strengthened 5% against the basket of currencies as at December 31, 2015 and December 31, 2014, the Company's net profit would have increased by PLN 1.3 million and decreased by PLN 0.4 million, respectively and other comprehensive income would have been unchanged in 2015 and would have been unchanged in 2014. Had the Polish zloty weakened 5%, the Company's net profit would have correspondingly decreased by PLN 1.3 million in 2015 and increased by PLN 0.4 million in 2014 and other comprehensive income would have been unchanged in 2015 and would have been unchanged in 2014, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

Interest rate risk

Changes in market interest rates have no direct effect on the Company's revenues, however, they do have an effect on net cash from operating activities due to interest earned on overnight bank deposits and current accounts, and on net cash from financing activities due to interest charged on bank loans.

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

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

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

mPLN	Carrying amount	
	December 31, 2015	December 31, 2014
Fixed rate instruments		
Financial assets	100.0	10
Financial liabilities*	-	(1.4)
Variable rate instruments		
Financial assets	54.0	13.3
Financial liabilities*	(2,499.0)	(2,810.0)
Net interest exposure	**(2,445.0)**	**(2,796.7)**

*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, 2015						
Variable rate instruments*	(24.4)	24.4	6.6	(6.6)	(17.8)	17.8
Cash flow sensitivity (net)	**(24.4)**	**24.4**	**6.6**	**(6.6)**	**(17.8)**	**17.8**
December 31, 2014						
Variable rate instruments*	(28.0)	28.0	17.0	(17.0)	(11.0)	11.0
Cash flow sensitivity (net)	**(28.0)**	**28.0**	**17.0**	**(17.0)**	**(11.0)**	**11.0**

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

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

Information regarding financial instruments related to:

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

are described in Note 34 of the financial statements for the financial year ended December 31, 2015.

5. OTHER SIGNIFICANT INFORMATION

5.1. Transactions with related parties

Transactions concluded in 2015 with entities related to the Company have all been concluded on market conditions and are described in Note 38 of the financial statements for the financial year ended December 31, 2015.

5.2. Information on loans granted

Information on loans granted is presented in Note 34 of the financial statements for the financial year ended December 31, 2015.

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

Cyfrowy Polsat did not publish any financial forecasts for 2015.

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

Management believes that the provisions for litigations as at December 31, 2015 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Company's financial situation. Information regarding the amount of provisions was not separately disclosed, as in the opinion of the Company's Management, such disclosure could prejudice the outcome of the pending cases.

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

There were no changes to the principle rules of management of the Company in the year 2015.

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

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

6. KEY RISK AND THREAT FACTORS

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

Our performance depends on our customers' satisfaction and the acceptance of our programming content by viewers, as well as our ability to generate profit 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.

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

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

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

We may be unable to attract or retain customers if we fail to conclude or extend the 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. 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, it is necessary to maintain an attractive selection of TV programmes. There can be no assurance that our licence agreements will be extended on equally favorable terms or that they will be extended at all, nor can we exclude the possibility that a licensor will terminate the licence agreement before its agreed expiry date. Our inability to obtain, maintain, or extend important programme licences may make it difficult for us to provide and offer new attractive channels and programmes, which may result in losing our ability to acquire and retain customers. This in turn may have a material adverse effect on our performance, financial condition and growth prospects.

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

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

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

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

To broadcast our terrestrial channels, we use the services provided by Emitel Sp. z o.o. We also rely on another third-party contractor, Nagravision S.A., which provides to us a conditional access system to secure our networks against unauthorised access by pirates and hackers. Our broadcasting services also rely on a number of third-party contractors, and we outsource a number of non-core activities (including certain IT functions) not related to our broadcasting business. These, and other services, are often central to our operating activities.

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

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 delivering pay TV and broadband 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 by us, as well as other software and technologies used by us and our suppliers, must be constantly updated and replaced to match the latest technological developments. Our inability to replace obsolete technological solutions as and when needed may result in disruption of our pay TV services, which may in turn cause an outflow of customers to competitors who have brought their technologies up to date.

Technological progress requires us to modify our content distribution and TV programming methods to keep pace with the changing market. New technologies – including new video formats, IPTV, Internet streaming and downloading services, video on demand (VOD), mobile television, set-top boxes with recording capability, as well as other devices and technologies – introduce new media and entertainment options and change the way customers receive content. This allows them to enjoy television outdoors or at 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. 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.

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

The good name of the “Cyfrowy Polsat” and “IPLA” brands is a significant component of Company’s value. Maintaining their good name is fundamental for acquiring new and retaining existing customers. Our reputation may suffer if we are unable to provide existing products and services or implement new products and services due to technical faults, a lack of necessary equipment, or other circumstances. Also, the quality of our products and services depends on the quality of third-party infrastructure and services, over which we have little control. If our partners fail to observe relevant performance standards or supply faulty products or services, the quality of our products and services, as well as our good name may suffer. There can be no assurance that these or other risks, which would compromise the good name of the “Cyfrowy Polsat” and “IPLA” 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.

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 newly acquired facility in Mielec. In 2015 set-top boxes manufactured by us accounted for more than 89% of all the set-top boxes sold or leased by us. Should any batch of the set-top boxes we have manufactured prove defective and need to be withdrawn from the market, we are under the obligation to replace the set-top boxes we have made available to our customers 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.

Midas Group may lose the spectrum reservations it uses for LTE/HSPA+ network roll-out carried out jointly with Polkomtel Group

Midas Group companies currently hold frequency allocations in the 800 MHz, 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 Midas Group. Midas Group's competitors have taken a number of steps, some of which may lead to retraction of the decisions regarding frequency allocations granted to Midas Group, including the 800 MHz and 1800 MHz band frequency allocations, which are currently integral to the offering of LTE services.

No assurance can be given that as a result of the pending proceedings Midas Group will not lose its 800 MHz or 1800 MHz frequency allocation, which could have a material effect on the ability to provide LTE services. Proceedings to invalidate the 1800 MHz frequency allocation tender have been instigated by T-Mobile and Orange. Supreme Administrative Court (NSA), in its ruling dated 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 preparation of this Report we have not become aware of further new information regarding these proceedings.

T-Mobile Polska, Orange Polska and P4, as well as the French Chamber of Commerce and Industry have undertaken a series of legal actions aimed at blocking the possibility of using frequencies from the 800 MHz spectrum by Sferia S.A., a member of Midas Group. As at the date of preparation of this Report legal proceedings are in progress before the Regional Court in Warsaw, the Administrative Court in Warsaw and the Supreme Administrative Court in Warsaw. So far all the decisions of the courts have been favorable for Sferia S.A. Nonetheless, until the legally binding termination of proceedings, it is not possible to exclude the possibility of an unfavorable, from the point of view of Sferia S.A., modification of rulings in the currently ongoing proceedings, which may result in an unfavorable change of the reservation decision regarding the 800 MHz spectrum, or its withdrawal.

No assurance can be given that if Midas 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.

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.

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.

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 the distribution of paid content. Media piracy is a problem well known in many geographies, including Poland. Technological advancements and digital conversion of multimedia content are powerful incentives for pirating, as they enable the production and distribution of high-quality unauthorised copies, recorded on various carriers, of pay-per-view programmes delivered via set-top boxes, licence-free or free-to-air transmissions on television or the Internet. This is further exacerbated by the difficult enforcement of the laws governing copyright and trade-mark infringements on the Internet, which compromises the protection of our intellectual property rights in that medium. Unauthorised use of our intellectual property may adversely affect our operations, harming our reputation and undermining our trading partners' confidence in our ability to properly protect our proprietary and licensed content, which in turn may have a material adverse effect on our business, financial condition, results of operations or prospects.

Our broadcasting licences may be revoked or may not be renewed

Broadcasting of TV programmes by DTH service providers requires no licence, only registration by the Chairperson of KRRiT.

Our mobile pay TV services use the 470–790 MHz band, which has been allocated to us for a specified period. 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 Company.

To maintain the frequency allocations, the Company must comply with the terms of the allocation, as well as relevant laws and regulations introduced by the President of UKE and the Minister of Digital Affairs. Any breach of those terms, laws or regulations by the Company, including in particular failure to pay frequency allocation fees, may cause the allocation to be revoked and penalties to be imposed on the Company. In particular, given that the regulations and laws governing the Polish telecommunications industry are very complex and often change, there can be no assurance that the Company will not breach any laws or regulations related to frequency allocation or any terms of such allocation.

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

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

Our Company uses large financial leverage. In the past, debt servicing and other cash requirements were financed with cash flows from operating activities and revolving credit facilities. Our debt servicing liabilities increased significantly following the acquisition of Telewizja Polsat and Metelem 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 agreement and notes indenture provide for a number of restrictions and obligations (including maintaining specified financial ratios), limiting the Company's ability to incur new debt for financing future operations or to pursue business opportunities and activities that may be in our interest.

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

We may need to incur a significant amount of new debt in the future. In particular, the terms and conditions of the Senior Facilities Agreement as well as the Series A Bonds Terms impose certain limitations on, but do not prohibit us from, incurring new debt or other liabilities. In particular, a high level of debt may (i) limit our ability to repay our liabilities under the 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 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.

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

6.3. Risks related to market environment and economic situation

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

The Company derives almost all of its revenue from telecommunication services and pay-TV customers in Poland. Our revenue depends on the amount of cash our existing and potential customers can spend on entertainment, recreation and telecommunications services. If the economic conditions in Poland deteriorate, consumers may be willing to spend less on entertainment, recreation and telecommunications services, which may have an adverse effect on the number of our customers or on our customers' spending on our services. Lower consumer spending caused by economic recession may also lead existing and potential customers to choose cheaper versions of our service packages or to discontinue using the services, which in turn may have a material adverse effect on results of our operations, financial condition, and growth prospects.

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 Company.

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

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

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

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

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.

The loss of customers 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

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

In a scenario when we draw funds in a currency other than the Polish zloty from the multicurrency Revolving Facility granted to us, we may be exposed to currency risk, since movements in the exchange rate of the euro, dollar or any other currency provided for in the Senior Facilities Agreement dated September 21, 2015 against the złoty may increase the złoty-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 Company'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 Company's costs of servicing debt. In particular, our liabilities under the Senior Facilities Agreement dated September 21, 2015 and our liabailities under the Terms of Issue of Series A Notes are calculated based on variable WIBOR, EURIBOR or LIBOR interest rates subject to periodical changes, increased by a relevant margin.

Despite the fact that the Company 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 Company 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.

6.4. 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 Company's tax settlements on non-statute-barred tax liabilities (including conformity with the taxpayer's obligations), and will not determine the existence of tax arrears of the Company. Any unfavorable decisions, interpretations (including changes to any interpretations obtained by the Company) or rulings by tax authorities may have a material adverse effect on our business, financial condition, results of operations or prospects.

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

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

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

Despite monitoring the risk in individual business areas, there can be no guarantee that disputes with tax authorities regarding assessment of tax effects of individual events and transactions typical for our operations and the sector in which we operate will not occur, and consequently that the tax authorities will not question the correctness of tax settlements on non-statute-barred tax liabilities of the Company (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.

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 and additionally, pursuant to the provisions of the amended legislation on consumer and competition protection, can impose on us the obligation to pay compensation to consumers, who were affected by the practises in question. 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 violate the acts of law and regulations governing our satellite TV distribution and telecommunications businesses

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

The President of UKE supervises our telecommunications operations. As part of our telecommunications services, we mainly provide mobile voice services in the MVNO model and broadband Internet access. Telecommunications enterprises operating in Poland are subject to a number of legal and administrative requirements having a direct impact on their business, 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). We cannot give any assurance that we will be able to meet the numerous requirements imposed on us by the Polish Telecommunications Law. In the event of our non-compliance with any provisions of the Telecommunications Law, we may face a fine from the President of UKE of up to 3% of our revenue generated in the year proceeding the year in which such fine is imposed.

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.

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

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

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

6.5. Risk factors associated with the Series A Bonds

The Bonds may not be repaid

Investing in Bonds is connected with the Company's credit risk, the extent of which is determined by the Company's ability to repay its debts. This risk can materialise if the Bonds are not redeemed, the interest on the Bonds is not paid, or both of these payments are not made on the dates indicated in the Bonds Terms. The Company's ability to repay its debts depends on numerous factors, both within and outside the Company's control. Some of the existing or future financial liabilities of the Company, including loans, or other liabilities of similar nature can become due before the Bonds' redemption date. If the Company is unable to generate sufficient cash flows, it may not have the funds to repay all or part of its debts as they become due, including the debt under the Bonds.

The Company's ability to service its debt depends, among others, on the Company's financial situation at a given time and in case of refinancing – the limitations regarding the ability to incur debt, which are indicated in the facility agreements to which the Company or its assets are subject, as well as on the market conditions based on which the debt could potentially be refinanced. The availability of refinancing in the future on terms and conditions acceptable for the Company cannot be guaranteed. Moreover, the possibility of raising additional funds in the future cannot be guaranteed. If refinancing or raising additional funds proves impossible in the future, the Company may be forced to sell its assets in circumstances which may prevent it from obtaining optimum terms of such sale.

Materialisation of the Company's credit risk may have material adverse impact on the value of the Bonds, leading to a situation in which the Bondholders will not be able to recover the amounts that they have invested in the Bonds, or they may recover amounts which are lower than invested.

The Bonds are not secured by collateral

The Bonds will not entitle the Bondholder to security interests in any collateral. Some of our debts have been secured by establishing mortgages or pledges over our assets, or by transferring or assigning our assets. In the future we may also grant other security interests, whether collateralised or not, in connection with existing or future debt. This means that if creditors seek to collect from our assets, assets that serve as collateral will used to satisfy the claims of creditors who have collateralised claims first. It cannot be ruled out that in such a situation the value of the remaining assets intended to satisfy other creditors, including the Bondholders, may prove insufficient to satisfy their claims and hence the Bondholders may not recover the amounts they invested in the Bonds, or they may recover amounts lower than invested.

The Bonds may be subject to early redemption at a Bondholder's request

The Bondholders may demand an early redemption of the Bonds in situations specified in the Bonds Act. Additionally, the Bonds Terms provide for the possibility of Bondholders' requesting early redemption of the Bonds they hold, following an Event of Default. The Bondholders should be aware that with regard to a majority of Events of Default, the right to request early redemption can be exercised only upon obtaining the consent of the Bondholders' Meeting. If only some of the Bondholders request early redemption of the Bonds, redemption of only part of the Bonds may have a negative impact on the Bonds' liquidity, and consequently on their value.

The Bonds may be subject to early redemption due to reasons other than a Bondholder's request

In accordance with the Bonds Terms, the Company is entitled, at any time, to redeem the Bonds early. This right can be exercised at any time before the redemption date, both with regard to all the Bonds as well as a part of the Bonds which have been issued and have not been redeemed, however such redemption should cover no less than 10% of the total nominal value of the Bonds or of all unredeemed Bonds, if their total nominal value was lower than the above mentioned amount. Moreover, pursuant to Article 74 section 5 of the Bonds Act, in the event of the liquidation of the Company, the Bonds are subject to immediate redemption at the moment when the liquidation proceedings start, even if the redemption date has not occurred yet. Pursuant to Article 74 section 4 of the Bonds Act, in the event of a merger of the Company with another entity, its demerger or change of legal form the Bonds are subject to immediate redemption insofar as they provide for a monetary performance, if the entity which assumes the Company's obligations related to the Bonds has no power and authority to issue the Bonds under the Bonds Act.

In the event of the liquidation of the Company, its merger with another entity, demerger, change of legal form as described above or exercising by the Company of the right of early redemption of the Bonds, the Bondholder's investment horizon will shorten in relation to the Bonds covered by redemption, which may result in a rate of return on the investment in Bonds lower than expected.

Our debt may increase and we may take other actions which may not be in the Bondholders' best interest

The Company and its subsidiaries may increase their debt by, among other things, taking out loans and borrowings or issuing new debt securities. In addition we may implement changes in the Group's structure, dispose of our assets, or enter into specific transactions, especially intra-group transactions, as well as distribute profits to our shareholders. In some circumstances these actions may not be in the best interest of the Bondholders and may, on the one hand, adversely affect our ability to meet our obligations under the Bonds (and our overall financial situation), while on the other hand they may potentially restrict the Bondholders' ability to exercise their rights resulting from the Bonds.

The Bondholders' Meeting may fail to pass some resolutions, or may pass resolutions which are contradictory to the interest of the Bondholders voting against such resolutions or not present at the Bondholders' Meeting

Some of the decisions related to the Bonds are passed by the Bondholders' Meeting. Convening a Bondholders' Meeting requires specific actions to be taken while the decisions are carried by a majority of votes or unanimously. For instance, unanimous decision is required (i) to adopt a resolution on decreasing the nominal value of the Bonds; or (ii) if the Bonds are traded in an ATS – to adopt a resolution changing the qualified Bonds Terms within the meaning of Article 49 Section 1 of the Bonds Act. Moreover, Bondholders' Meeting is deemed valid if attended by Bondholders representing at least 50% of the Adjusted Total Nominal Value of the Bonds. The Bondholders' Meeting will thus be unable to pass any resolutions if attended by Bondholders representing less than the above indicated nominal value of the Bonds.

Therefore, there is a risk that actions taken as a result of resolutions passed by the Bondholders' Meetings may conflict with the interest of the Bondholders voting against these resolutions, or those who do not attend the Bondholders' Meeting. In addition there is a risk that Bondholders seeking adoption of a specific resolution, in particular a resolution changing the Bonds Terms or authorizing the Bondholder to exercise its right to demand early redemption of the Bonds in some situations, may not gain the required majority of votes or there may be no quorum as required for passing such a resolution.

Resolutions of the Bondholders' Meeting may be challenged

Pursuant to Article 70 Section 1 of the Bonds Act, a resolution of the Bondholders' Meeting that manifestly prejudices the Bondholders' interests or is contrary to good customs can be challenged through a lawsuit filed against the Company seeking to repeal the resolution. Pursuant to Article 71 Section 1 of the Bonds Act, a resolution of the Bondholders' Meeting that is unlawful can be challenged through a lawsuit filed against the Company seeking to invalidate the resolution.

It cannot be ruled out that some Bondholders may attempt to challenge the resolutions adopted by the Bondholders' Meeting. If they succeed in challenging the resolution of the Bondholders' Meeting authorizing the Bondholders to request early redemption of the Bonds, the Bondholders may be deprived of this possibility. If certain resolutions of the Bondholders' Meeting concerning amendments to the Bonds Terms are successfully challenged, it may adversely affect the Company's ability to timely discharge its obligations under the Bonds, in particular its capacity to make payments under the Bonds.

After the Record Date for redemption of the Bonds, the Bonds can be excluded from trading

Pursuant to Article 8 Section 6 of the Bonds Act, after a group of bondholders entitled to receive payment for redemption of a dematerialised bond, the rights attached to such bond cannot be transferred. The Bonds Terms provide that the Bonds will be registered in the securities depository maintained by the NDS. This means that as long as the Bonds remain registered therein or are otherwise dematerialised, after the lapse of the Record Date for redemption of the Bonds the rights attached to the Bonds will no longer be transferable. In particular, it will not be possible to sell the Bonds should the Company fail to redeem them as scheduled. In these situations, a Bondholder may be unable to exit the investment in the Bonds even if it finds a person interested in purchasing the Bonds.

The Bonds' prices and liquidity may be subject to fluctuations

There can be no assurance that a liquid market for the Bonds on the ATS will be sustained. It is impossible to predict the degree of investor interest in the Bonds. Hence, it is impossible to rule out substantial fluctuations in the Bonds' prices, or that the investors will not be able to buy or sell the Bonds at the expected prices or on the expected dates. The prices of the Bonds may in addition be affected by numerous other factors, including general economic trends, changes in the overall situation on the financial markets, changes in law and other regulations in Poland and in the EU, changes in forecasts issued by securities analysts as well as actual or forecasted changes in our operations, our situation and our financial results. Fluctuations in the securities market in the future can also negatively impact the price of Bonds, irrespective of our operations, our financial situation or results and our development prospects.

Interest rate risk

We cannot rule out that interest rates, including the base rate for the Bonds, will change substantially in the future. The interest rate for the Bonds for a given interest period consists of the base rate (equal to the 6-month WIBOR rate for PLN deposits), plus the margin. A reduction in interest rates, including the base rate for the Bonds, in particular when connected with a deteriorating economic situation, may lead to a reduced yield from the Bonds. On the other hand, significant growth in interest rates, including the base rate for the Bonds, may increase the cost of servicing the debt under the Bonds or other sources of debt capital, and it may adversely affect our financial situation and our operating results, consequently having a bearing on the value of the Bonds and our ability to make the payments under the Bonds.

The Bonds Terms do not contain a tax gross up clause

Investment in the Bonds may entail the necessity of Bondholders paying taxes.

The Bonds Terms do not contain a tax gross up clause related to payments to the Bondholders. If any payment on account of Bonds entails the obligation to collect and pay any tax, charge or other public imposts, the Company shall not be obliged to pay to the Bondholders any amounts compensating the collected taxes, charges or other public imposts, or to make any other payments.

The obligation to pay any taxes connected with acquiring, holding (in terms of any payments under the Bonds), or selling the Bonds may result in a lower than expected rate of return on the investment in the Bonds.

We are subject to the restrictions specified in the Bonds Terms

The Bonds Terms impose certain obligations on us which restrict our ability to finance future operations or investments or to take advantage of other business opportunities which may be of our interest. The Bonds Terms impose on us an obligation to maintain specified financial ratios at required levels while also restricting, inter alia, the following:

- acquisition or taking up of shares in other companies;
- extending guarantees or granting sureties, accession to debt or release from liability;
- granting loans;
- disposing of assets;
- payment of dividends or advance dividends, payment of the price for own shares, or returns of additional payment to shareholders;
- incurring of financial indebtedness; and
- entering into composition agreements.

The full list of restrictions applicable can be found in the Bonds Terms.

If there were an event of default under any of our debt instruments that was not cured or waived, the holders of the defaulted debt could terminate their commitments thereunder and cause all amounts outstanding with respect to such indebtedness to be due and payable immediately, which in turn could result in cross-defaults under our other debt instruments, including the Bonds. Any such actions could force us into bankruptcy or liquidation, which could mean that the Bondholders will not recover the amounts they have invested in Bonds, or they will recover amounts lower than invested.

Trading in the Bonds may be suspended

Pursuant to Art 78 section 3 of the Trading in Financial Instruments Act of July 29, 2005, when trading in specified financial instruments takes place in circumstances which indicate a possibility of the proper functioning of the alternative trading system or the security of trading in that alternative trading system being jeopardised, or of harm to the interests of investors, the investment company which organises the alternative trading system, at the request of the Polish Financial Supervision Authority, shall be obliged to suspend trading in these instruments for a period of no longer than a month.

The WSE, being the relevant organiser of the alternative trading system, may, by virtue of § 11 of the ATS Rules, suspend trading in financial instruments for a period of no longer than three months:

- at the request of the Company;
- if they conclude that it is required by the interests and security of participants in trading.

Moreover, the WSE may suspend trading in debt instruments for an unspecified period of time before taking a decision to exclude these instruments from trading, and in the case described in point – *The WSE may impose penalties on the Company based on its regulations* – below.

We may not rule out that grounds for suspending trading in the Bonds may arise in the future. During the period of suspension of trading in the Bonds, investors would have no possibility to buy or sell such securities on the ATS, which would have a negative impact on liquidity. Sale of the Bonds outside the ATS may be effected at substantially lower prices as compared to the most recent prices obtained in transactions carried out on the ATS.

The Bonds may be excluded from trading

Pursuant to Art 78 section 4 of the Trading in Financial Instruments Act of July 29, 2005, at the request of the Polish Financial Supervision Authority, the organiser of an alternative trading system shall exclude the financial instruments indicated by the Polish Financial Supervision Authority from trading if trading in these instruments materially jeopardises the proper functioning of the alternative trading system or the security of trading in this alternative trading system, or if it causes harm to the interests of investors.

In accordance with the ATS Rules, the WSE as the relevant organiser of the alternative trading system may exclude financial instruments from trading:

- at the request of the Company; however, in this case the Company may be required to fulfil additional conditions;
- if any of the organizers recognise that it is required in the interests and security of the participants in trading;
- as a result of declaration of the Company's bankruptcy, or in the case of a court repealing a motion for the declaration of bankruptcy due to a lack of funds in the Company's estate sufficient to satisfy the costs of the bankruptcy proceedings;
- as a result of initiation of the Company's liquidation;

The WSE may also exclude financial instruments from trading as a result of a decision being taken to merge the Company with another entity or to divide or transform the Company, however, the exclusion of financial instruments from trading may occur not earlier than on the date of the merger, division (spinning off) or transformation, respectively.

Moreover, the WSE may exclude financial instruments from trading in the case described in point – *The WSE may impose penalties on the Company based on its regulations* – below.

In addition, the WSE shall exclude financial instruments from trading:

- in situations defined by law;
- when the transferability of those instruments is restricted;
- in case of a reversal of the dematerialisation of these instruments;
- after the lapse of 6 months from either the date on which a declaration of the Company's bankruptcy, including liquidation of its assets, or the date on which a court's decision to dismiss the application to declare bankruptcy due to a lack of funds in the Company's estate sufficient to satisfy the costs of the bankruptcy proceedings, becomes final.

We are unable to predict whether any circumstances giving grounds for the exclusion of the Bonds from trading will occur in the future. Once the Bonds are excluded from trading, the investors lose the possibility of trading in the Bonds on the ATS, which may adversely affect their liquidity. The sale of the Bonds outside the ATS may be effected at substantially lower prices compared to the most recent prices obtained in transactions carried out on the ATS.

The WSE may impose penalties on the Company based on its regulations

Pursuant to § 17c section 1 of the ATS Rules, if the Company does not observe the rules or the regulations applicable on the ATS or does not fulfil or improperly fulfils the obligations defined in the ATS Rules, including in particular the Company's information duties, the WSE may issue a warning or impose a financial penalty in the amount of up to PLN 50,000. When deciding on the warning or the financial penalty, the WSE may set a deadline for the Company to cease the violations or to take actions to prevent such violations in the future. In particular, the WSE may oblige the Company to publish relevant documents or information in the manner and on the terms applicable on the ATS.

Moreover, pursuant to the ATS Rules, if the Company:

- does not comply with the imposed penalty; or
- in spite of the penalty, continues to violate the rules or the regulations applicable on the ATS, or
- does not fulfil or improperly fulfils the obligations specified in Chapter V of the ATS Rules, or
- does not fulfil the obligations related to cessation, by the deadline set by the WSE, the existing violations or fails to take actions aimed at preventing such violations in the future (including by publishing specific documents or information in the in the manner and on the terms applicable in on the ATS)

—then the WSE may:

- impose a financial penalty on the Company, however such a penalty, together with the penalty imposed by virtue of the regulations mentioned in the above paragraph, may not exceed PLN 50,000;
- suspend trading in the Company's debt instruments on the ATS;
- exclude the Company's debt instruments from trading on the ATS.

Moreover, the WSE may publish information on its website indicating the infringement by the Company of the principles or regulations applicable on the ATS, on non-performance or improper performances of its obligations by the Company, or on imposing a penalty on the Company.

If any of the above circumstances occur, it may have an adverse impact on the value of the Bonds.

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, 2015:

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

Basic data on the Cyfrowy Polsat shares in trading

date of first quotation	May 6, 2008
component of indices	WIG, WIG30, WIG-MEDIA
market	main
quotation system	continuous
sector	media

International Securities Identification Number (ISIN)	PLCFRPT00013 (1)

Cyfrowy Polsat's identification codes

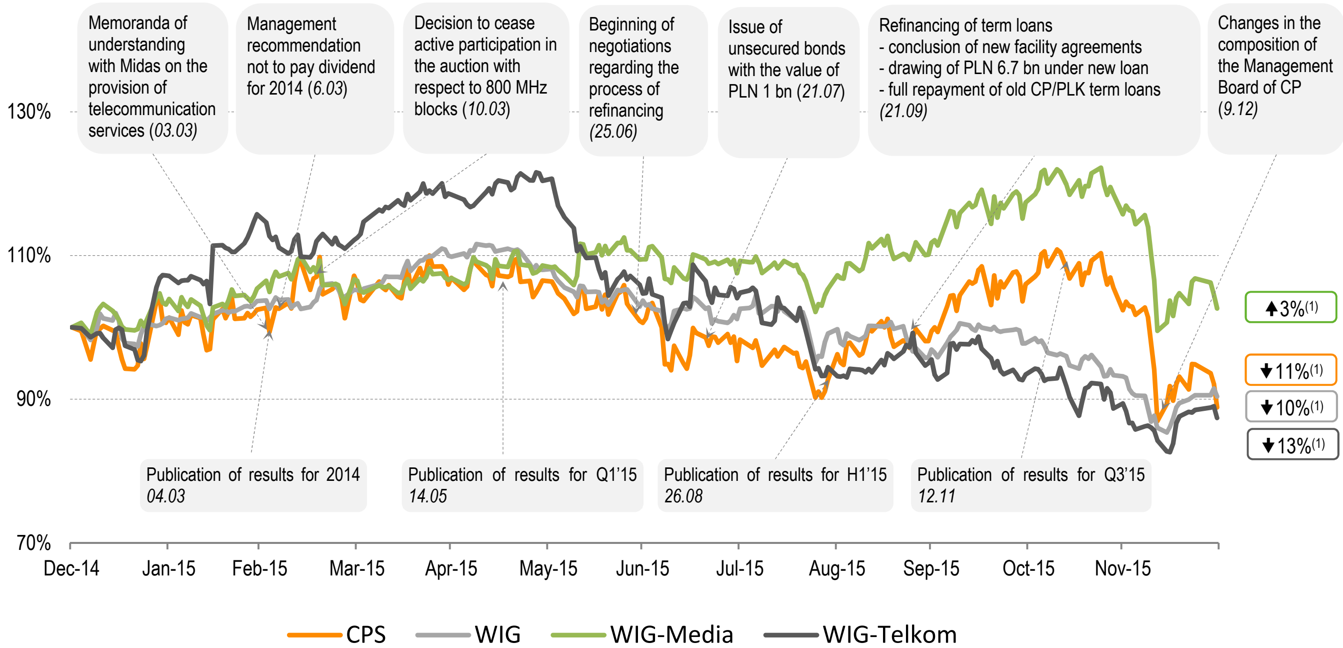
WSE	CPS
Reuters	CYFWF.PK
Bloomberg	CPS:PW

(1) Shares admitted to trading on the WSE.

7.2. Shares quotes

Performance of Cyfrowy Polsat shares in 2015

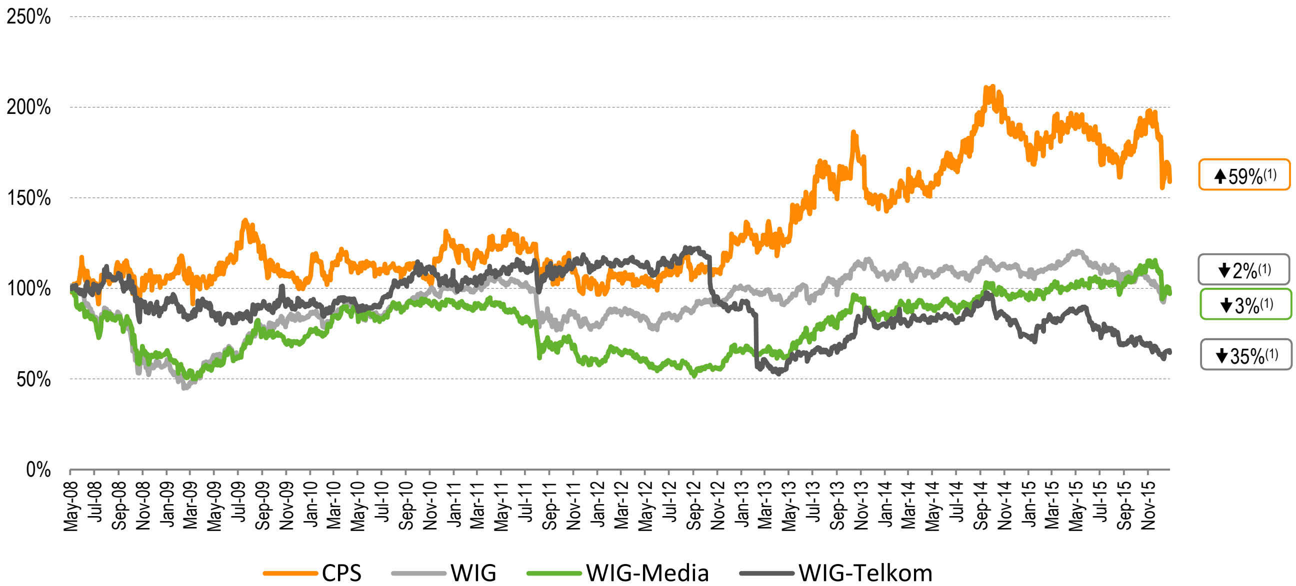
(indexed; 100 = closing price on December 30, 2014)



(1) change Dec. 30, 2015 vs Dec. 30, 2014

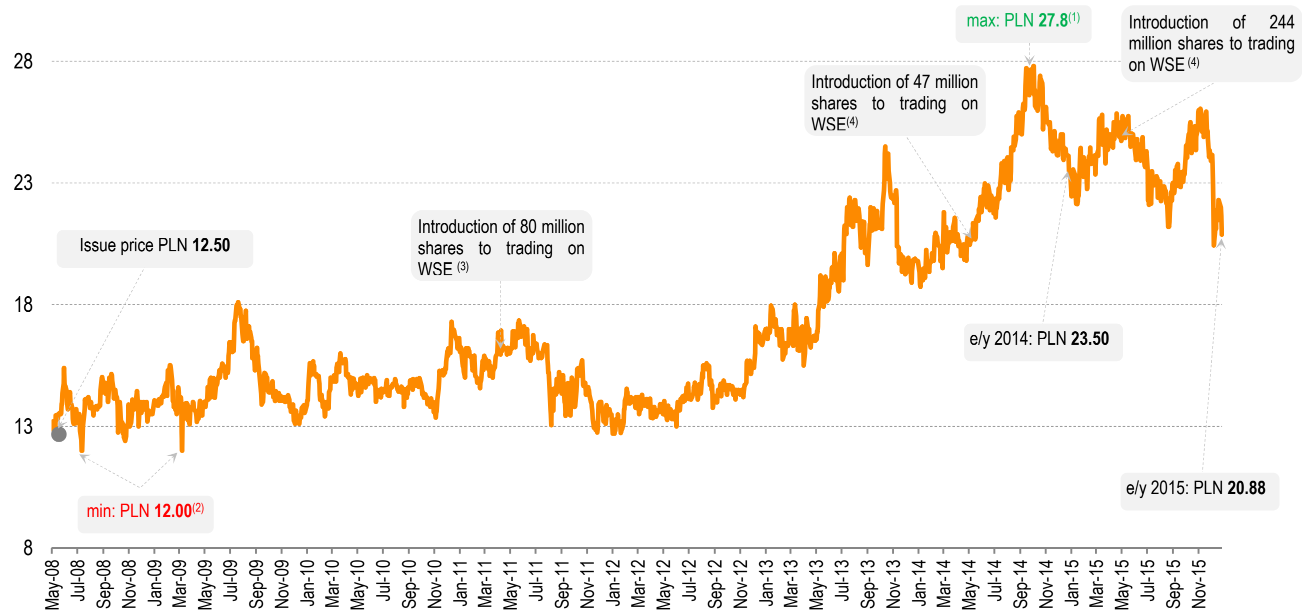
Performance of Cyfrowy Polsat shares since the debut on the WSE in May 2008 until the end of 2015 compared to WSE indexes

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



(1) change Dec. 30, 2015 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. This 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 took-up by the shareholders of Telewizja Polsat

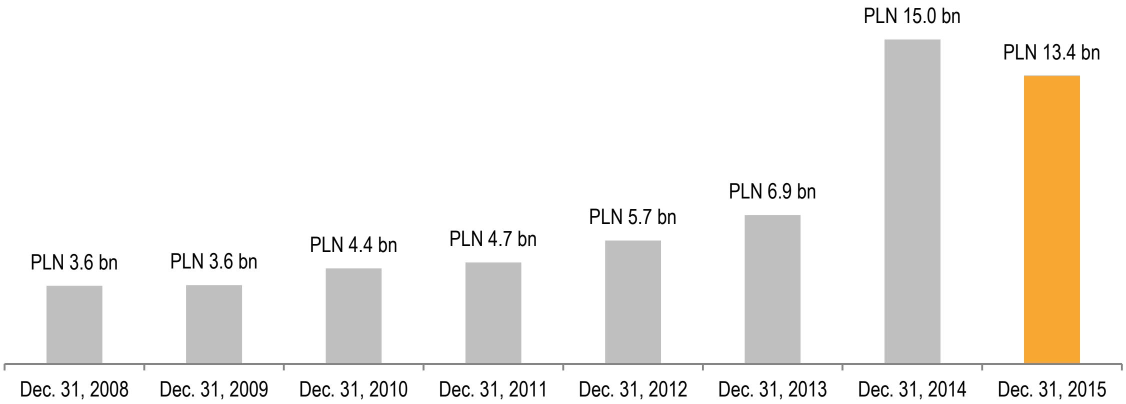
(4) On May 7, 2014 the Company issued 47,260,690 Series I shares and 243,932,490 Series J shares with the nominal value of PLN 0.04 each. On May 14, 2014 these shares were registered in the Central Securities Depository of Poland with ISIN codes PLCFRPT00013 and PLCFRPT00021, respectively. Series I shares were admitted to trading on May 12, 2014 and Series J shares – on April 20, 2015, pursuant to the resolutions of the Management of the Warsaw Stock Exchange in Warsaw. The issue of Series I and J shares provided the source of financing of the transaction of acquisition of Metelem Holding Company Limited. The issued shares were acquired by shareholders of Metelem Holding Company Limited.

Cyfrowy Polsat shares on the stock exchange in 2015

		2015	2014
Year-end price	PLN	20.88	23.50
High for the year	PLN	26.05	27.80
Low for the year	PLN	20.43	18.73
Average for the year	PLN	23.91	22.86
Average daily turnover	PLN '000	10,585	9,966
Average daily trading volume	shares	444,522	439,978
Number of shares (as at year-end)	shares	639,546,016	639,546,016
Bearer shares	shares	216,196,025	216,196,025
Market capitalization (as at year-end)	PLN '000	13,353,721	15,029,331

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

In terms of market capitalization, that amounted to PLN 13.4 billion as of the end of 2015, 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

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

Recommendations for the shares of Cyfrowy Polsat published in 2015

Date	Institution	Target price	Recommendation [PLN]
December 18th	ING Securities S.A.	- Hold	23.20
December 15th	DM PKO BP S.A	↑ Buy	26.60
December 15th	Goldman Sachs	- Neutral	23.60
December 15th	Haitong Bank S.A.	↑ Buy	26.10
December 11th	IPOPEMA Securities S.A.	↑ Buy	27.20
December 3rd	DM mBanku S.A.	↓ Reduce	22.10
November 15th	Deutsche Bank Securities S.A.	- Hold	27.00
October 27th	Citigroup Global Markets Inc.	- Neutral	25.80
October 26th	Dom Maklerski BDM S.A.	- Hold	24.21
October 19th	Dom Maklerski BZ WBK S.A.	↑ Buy	32.00
October 16th	ING Securities S.A.	- Hold	26.30
October 16th	Trigon Dom Maklerski S.A.	↑ Buy	28.30

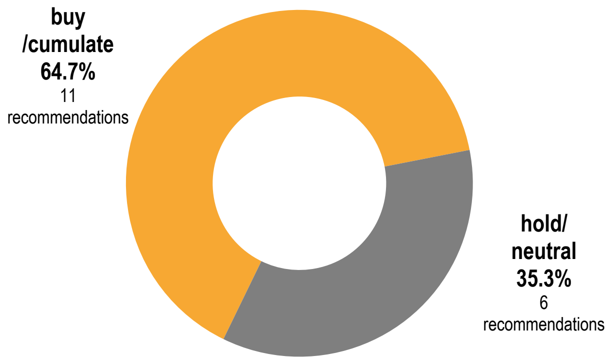
Date	Institution	Target price	Recommendation [PLN]
September 2nd	Wood&Company	↑ Buy	28.70
August 27th	Goldman Sachs	- Neutral	24.80
July 22nd	Dom Maklerski BOŚ S.A	- Hold	25.00
July 21st	Raiffeisen CENTROBANK	↑ Buy	28.50
July	ING Securities S.A.	↑ Buy	27.00
July 15th	Banco Espírito Santo de Investimento, S.A.(1)	↑ Buy	28.00
July 8th	Dom Maklerski BZ WBK S.A.	↑ Buy	31.50
May 25th	DM PKO BP S.A.	- Hold	27.90
May 7th	ERSTE Group Research	↑ Buy	30.00
April 22nd	Dom Maklerski BZ WBK S.A.	↑ Buy	31.70
April 21st	Goldman Sachs	- Neutral	26.10
March 26th	Raiffeisen CENTROBANK	↑ Buy	30.00
March 11th	Goldman Sachs	- Neutral	25.80
March 12th	Trigon Dom Maklerski S.A.	↑ Buy	28.30
March 9th	UBS Investment Bank	↑ Buy	28.00
February 18th	Raiffeisen CENTROBANK	↑ Buy	29.00
February 17th	Goldman Sachs	- Neutral	27.30
February 11th	Dom Maklerski BZ WBK S.A.	↑ Buy	31.10
February 10th	ERSTE Group Research	- Hold	26.00
February 2nd	Trigon Dom Maklerski S.A.	↑ Buy	28.80
January 19th	IPOPEMA Securities S.A.	↑ Buy	26.70
January 19th	Dom Maklerski BDM S.A.	↓ Reduce	20.11
January 16th	Deutsche Bank Securities S.A.	- Hold	26.00

Recommendations released in 2016 after the reporting period

February 11th	Dom Maklerski BDM S.A.	↑ Cumulate	24.65
February 9th	IPOPEMA Securities S.A.	↑ Buy	24.00
February 2nd	DM mBanku S.A.	- Hold	22.10
January 20th	Raiffeisen CENTROBANK	↑ Buy	26.50
January 13th	Deutsche Bank	↑ Buy	26.00

(1) Currently Haitong Bank S.A.

Recommendations structure as at February 26, 2016



Target price as at February 26, 2016 [PLN]

minimum	22.1
maximum	32.0
average	**26.3**

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 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.grupapolsat.pl/en/investor-relations), electronic newsletters, RSS, periodic newsletters including both information on current events in the Company and latest market developments (press review), as well as reminders of the most important events in the Company.

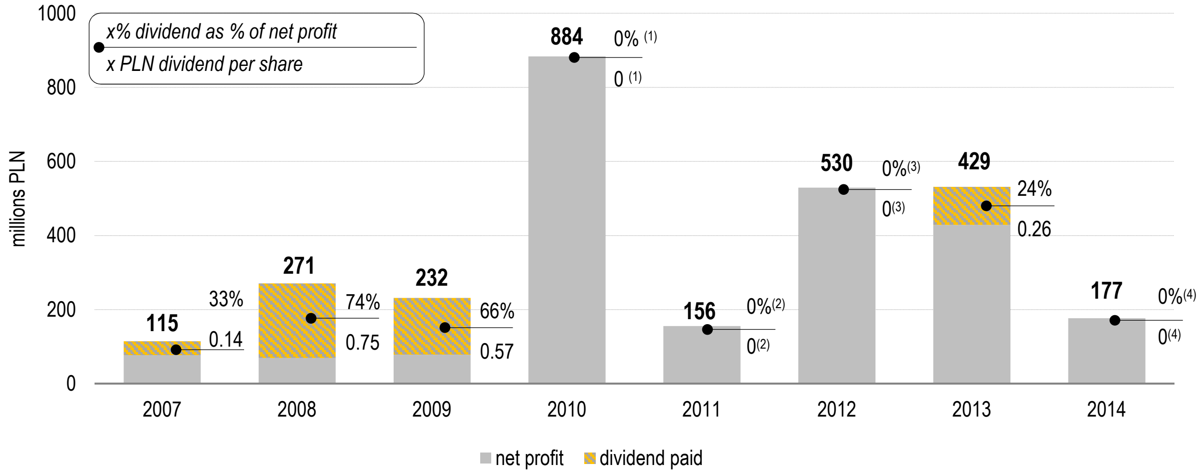
7.5. Dividend policy

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 came 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. 23 of the Ordinary General Meeting, held on April 2, 2015, regarding profit distribution, the Company's total standalone net profit for the financial year ended December 31, 2014 in the amount of PLN 177.2 million was allocated to the reserve capital.

History of profit sharing



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

8. CORPORATE GOVERNANCE STATEMENT

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

In 2015 the Company was 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 ("Best Practices"), constitute an appendix to 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.

Application of principles of corporate governance

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 2015, as a principle, we employed all the rules in force included in Parts: II, III and IV of the Best Practices, 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 corporate website. Thus the Company has not applied the principles set out in Part IV section10 and in Part II section I point 9a on the occasion of the General Meetings of the Company held in 2015. 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 lack of interest on the part of our shareholders, small spread of the practice of conducting General Meetings using electronic means of communication and incomplete readiness of the market, and thus an increased legal risk and the 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 I.12. We have waived the recommendation I.12 enabling shareholders to exercise their right to vote in person or through a plenipotentiary from a location other that 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 voting process at the General Meeting.

Recommendation I.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 member of the Management Board, pursuant to article 19 2d) of the Articles of Association, when the decision is taken by the Supervisory Board. The remuneration relates to the scope of tasks and responsibilities related to the function performed, reflects the size of the Company and keeps a healthy relation to its financial results. The remuneration of the Management Board members is set by the Supervisory Board and reflects the duties and responsibilities appointed to them.

Recommendation I.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 innovation 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.

On October 13, 2015 the WSE Council adopted resolution no. 26/1413/2015 on the adoption of a new code of best practices under the name "Best Practices of WSE Listed Companies 2016" (hereinafter "Best Practices 2016"), which came into force on January 1, 2016. The document is publicly available on the official website of the WSE dedicated to corporate governance issues at http://corp-gov.gpw.pl. The Company published an appropriate report regarding the application pf the new best practices and published a statement on the Company's compliance with the corporate governance recommendations and principles contained in the Best Practices 2016 on its website, as required by principle I.Z.1.13.

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

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

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

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

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

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

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

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

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

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

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

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.

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

On December 1, 2015, 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, 2015 of Cyfrowy Polsat S.A.

The following summary presents a list of services provided by the certified auditor and remuneration for the services in the twelve month period ended on December 31, 2015 and December 31, 2014.

[mPLN]	For the year ended	
	December 31, 2015	December 31, 2014
Remuneration for audit of the financial statements for the year and other certifying services, including the review of financial statements	0.4	0.5
Other services	0.4	0.3
Total	**0.8**	**0.8**

8.4. Share capital and shareholding structure of Cyfrowy Polsat

8.4.1. 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 preparation 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%
Embud Sp. z o.o. (2)	**58,063,948**	**9.08%**	**58,063,948**	**7.09%**
Karswell Limited (2)	**157,988,268**	**24.70%**	**157,988,268**	**19.29%**
Sensor Overseas Limited (3), including:	**54,921,546**	**8.59%**	**81,662,921**	**9.97%**
- privileged registered shares	26,741,375	4.18%	53,482,750	6.53%
- ordinary bearer shares	28,180,171	4.41%	28,180,171	3.44%
Others	**214,367,958**	**33.52%**	**214,539,208**	**26.20%**
Total	**639,546,016**	**100.00%**	**818,963,517**	**100.00%**

(1) Reddev Investments Limited is an indirect subsidiary of 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

Since the publication of the previous interim report, i.e. since November 12, 2015 (interim report for the third quarter of 2015) until the date of preparation of this Report, i.e. February 26, 2016, no changes in the structure of ownership of significant packages of the Company's shares took place.

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

As at the date of preparation of this Report, i.e. February 26, 2016, the Company does not have any information on agreements which can result in a change in the proportion of shares held by hitherto shareholders in the future.

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

To the Company's best knowledge members of the Management Board did not hold any shares of the Company, directly and indirectly, as at date of the preparation of this Report, i.e. February 26, 2016.

As at the date of preparation of this Report, i.e. February 26, 2016, The Chairman of the Supervisory Board, Mr. Zygmunt Solorz-Żak held indirectly, through controlled entities, 370,256,512 shares of the Company with the nominal value of PLN 14,810,260.48. Information on entities controlled by Mr. Zygmunt Solorz-Żak, who hold shares of the Company, is presented in the item above 8.4.1. *Shareholders holding, directly or indirectly, material bundles of shares*.

8.4.3. Securities with special controlling rights

Current shareholders do not have any other rights in the General Meeting of Shareholders than those resulting from holding our shares. As at December 31, 2015 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
- TRIGON XVIII 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.

8.4.4. Limitations related to shares

There are no limitations to the exercise of voting rights.

Except for the limitations regarding our securities ownership rights transfer resulting from the general provisions of the law there are no other limitations, in particular contractual limitations, regarding our securities ownership rights transfer.

8.5. Articles of Association of the Company

An amendment to the Articles of Association requires a resolution of the General Shareholders' Meeting and a registry into the Court register. The general provisions of law and the Bylaws of the General Shareholders' Meeting and the Articles of Association govern the procedure for adopting resolutions regarding amendments to the Articles of Association.

Pursuant to the provisions of the Articles of Association, taking into account the provisions of art. 417 § 4 of the commercial companies code, an amendment to the Articles of Association may take place without a share buyback.

8.6. General Shareholders' Meeting

The General Shareholders' Meeting acts pursuant to the provisions of the commercial companies' code, the Articles of Association, and the Bylaws of General Shareholders' Meeting adopted by Resolution 6 of the Extraordinary Shareholders' Meeting dated December 4, 2007 and amended by Resolution 29 of the Extraordinary Shareholders' Meeting dated April 23, 2009.

The General Shareholders' Meeting adopts resolutions regarding, in particular, the following issues:

a) discussion and approval of Reports on the Management Board's activity and the Supervisory Board's activity, and the financial statements for the previous year,
b) decision about distribution of profits, or covering losses,
c) signing off for the Supervisory Board's and the Management Board's performance of duties,
d) appointment and dismissal of members of the Supervisory Board and determination of their compensation,
e) amendments to the Articles of Association of the Company,
f) amendments to the business activity of the Company,
g) increase or decrease in the share capital,
h) merger or transformation of the Company,
i) dissolution or liquidation of the Company,
j) issuance of convertible bonds or seniority bonds,
k) sale or lease of the Company and establishment of a right of use or sale of the Company's plant,
l) purchase of real estate or equipment for the Company, serving for permanent usufruct for a price exceeding by 1/5 (one fifth) the paid-up share capital if the purchase takes place within two years of the Company's registration,
m) all decisions regarding claims for damages upon establishment of the Company, or activities of management or supervision,
n) other issues set out by the provisions of the commercial companies code.

The General Meeting shall be attended by persons who are shareholders of the Company sixteen days prior to the date of the General Meeting (the day of registration for participation in the General Meeting). The date of registration for participation in the General Meeting is consistent for bearer shares and registered shares holders. Holders of registered shares and interim certificates and lienors and users who have the right to vote, are entitled to participate in the General Meeting of the Company, provided they are entered in the register of shareholders on the day of registration for participation in the General Meeting.

A shareholder, being a natural person, is entitled to participation in the General Shareholders' Meeting and execution of voting rights in person, or through a proxy. A shareholder, being a legal entity, is entitled to participation in the General Shareholders' Meeting and execution of voting rights through a person authorized to make representations of intent on its behalf, or through a proxy.

The power of attorney to attend the General Meeting and exercise voting rights requires a written or an electronic form. The shareholder must notify the Company about electronically granting the power of attorney by sending the information specifying the Shareholder and the Shareholder's proxy, including the name and surname or company (the name) and address (seat), and indicating the number of shares and votes, of which the proxy is authorized to exercise to the address: akcjonariusze@cyfrowypolsat.pl.

The General Meeting should be attended by members of the Management Board and Supervisory Board - in the composition which allows for substantive answers to the questions posed during the General Meeting.

The General Meeting is opened by the Chairman of the Supervisory Board or a person they nominate. The person opening the General Meeting shall proceed with immediate election of Chairman of the General Meeting, refraining from considering any other substantive or formal matters.

Each participant in the General Meeting is entitled to be elected the Chairman of the General Meeting, and also nominate one person as candidate to the position of Chairman of the General Meeting. Decisions shall not be made until Chairman of the General Meeting is elected.

The Chairman of the General Meeting directs proceedings in accordance with the agreed agenda, provisions of law, the Articles of Association and the By-laws, and in particular: giving the floor to speakers, ordering voting and announcing the results thereof. The Chairman ensures efficient proceedings and respecting of the rights and interests of all Shareholders. The Chairman may decide on issues of the order of the agenda.

After creation and signing of the attendance list the Chairman approves that the Shareholders' Meeting has been called in a proper manner and is authorized to pass resolutions; presents the agenda and orders selection of the Ballot Committee.

The General Meeting may pass a motion regarding nonfeasance of voting over an item on the agenda, and also on adjourning the order of issues on the agenda. However, removing an item from the agenda, or its adjourning upon a request of shareholders, requires prior consent of all the shareholders present, who have forwarded such a motion, supported by a majority of votes of the General Meeting. Motions regarding the aforementioned issues shall be justified in detail.

The Chairman, after opening an item on the agenda, may give the floor in order of application of speakers. In the event of a significant number of applications the Chairman may set a time limit or limit the number of speakers. The floor may be taken regarding items on the agenda and currently under discussion only. The Chairman may give the floor outside of the order of application to the members of the Management Board or Supervisory Board, and also to the Company experts called by them.

The Meeting may not pass resolutions regarding items that are not on the agenda unless all the share capital is represented in the General Meeting and none of the present in the Meeting raises any objections as to the adoption of a resolution.

Voting shall proceed in a manner adopted by the General Meeting using a computerized system of casting and counting votes, ensuring that votes are cast in the number corresponding to the number of shares held and - in case of a secret ballot - allowing to eliminate a possibility of detecting the manner of voting by individual Shareholders.

Subject to mandatory provisions of law, the General Meeting shall be valid if attended by shareholders representing jointly more than 50% of the total number of votes in the Company. Resolutions are adopted by a simple majority of votes.

As at December 31, 2015 the shareholders participating in the General Meeting had the number of votes corresponding to the number of shares held, observing the fact that the shares listed in item 8.4.3. – *Securities with special controlling rights* – are preferential in such a way that each of them entitles to casting two votes at the General Meeting.

The Chairman of the General Meeting closes the General Meeting upon exhausting its agenda.

8.7. Management Board of the Company

8.7.1. Rules regarding appointment and dismissal of the management and their rights

Pursuant to 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 or and Vice-presidents of the Management Board, appointed by the Supervisory Board. The Supervisory Board decides as to the number of Management Board members upon their appointment. The term of office of the Management Board is joint and lasts three years. The members of the Management Board may be dismissed at any time by the Supervisory Board.

Pursuant to the Articles of Association, the Management Board of the Company, led by the President of the Management Board, is responsible for our day-to-day management and for our representations in dealing with third parties. All business decisions are in the scope of activities of the Management Board, unless limited by law, Articles of Association to be the competence of the Supervisory Board or the General Shareholders' Meeting.

Members of the Management Board participate in each General Shareholders' Meeting and provide answers to questions posed during the General Shareholders' Meeting. Moreover, members of the Management Board invited by the Chairman of the Supervisory Board to a Meeting of the Supervisory Board participate in the Meeting with a right to voice their opinion on issues on the agenda.

The General Shareholders' Meeting makes decisions regarding an issue or buy back of 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.

8.7.2. Composition of the Management Board and changes in 2015

Currently, our Management Board has six members. The table below presents personal changes in the composition of the Management Board which took place in 2015.

Date	Change
December 8, 2015	The Supervisory Board appointed Tobias Solorz, the hitherto Vice-President of the Management Board to the position of President of the Management Board.
December 8, 2015	The Supervisory Board appointed Tomasz Gillner-Gorywoda, the hitherto President of the Management Board to the position of Member of the Management Board.

Furthermore, on December 8, 2015 the Supervisory Board adopted a resolution pursuant to which Ms. Agnieszka Odorowicz has been appointed to the position of Member of the Management Board as of March 1, 2016.

The following table presents names, surnames, functions, dates of appointment and dates of expiry of the current term of particular members of the Management Board as at December 31, 2015.

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Tobias Solorz	President of the Management Board	2014	2015	2016
Dariusz Działkowski	Member of the Management Board	2007	2013	2016
Tomasz Gillner-Gorywoda	Member of the Management Board	2014	2015	2016
Aneta Jaskólska	Member of the Management Board	2010	2013	2016
Maciej Stec	Member of the Management Board	2014	2014	2016
Tomasz Szeląg	Member of the Management Board	2009	2013	2016

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. In December 2015 he was appointed to the position of President of the Management Board. Mr. Solorz was first appointed to the Management Board of Polkomtel 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., Netshare Sp. z o.o. and Gery.pl Sp. z o.o.

Since 2010 he is a Member of the Mangement 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.

Tomasz Gillner-Gorywoda held the position of President of the Management Board of Cyfrowy Polsat from October 2014 until December 2015. Since December 2015 he is a Member of the Management Board. Concurrently, he holds the position of General Director and proxy at Polkomtel.

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.

Aneta Jaskólska has been a Member of the Management Board of Cyfrowy Polsat since July 2010. She is responsible for Legal Department, Customer Service 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., Netshare Sp. z o.o., Gery.pl Sp. z o.o., and Polkomtel. Since 2007 Mrs. Jaskólska has been Director of Legal and Regulatory Department of Cyfrowy Polsat.

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 at the Warsaw University and completed legal internship with the District Chamber of Legal Advisers in Warsaw, receiving the title of a solicitor. She also graduated from Copyright, Publishing and Press Law Faculty at the Department of Management and Social Communication of the Jagiellonian University.

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.

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 Sp. z o.o. (currently Polsat Media Biuro Reklamy Sp. z o.o. Sp.k.).

Mr. Stec graduated from the Management and Marketing Faculty of the Leon Kozminski Academy of Entrepreneurship and Management in Warsaw.

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, 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 INFO-TV-FM Sp. z o.o., Netshare Sp. z o.o. and Gery.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 Telefonia 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.

8.7.3. 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 2016. Upon taking decisions related to our matters, the members of the Management Board act within justified limits of business risk.

The following are entitled to submit statements on our behalf

(i) in the case of one person Management Board – the President of the Management Board acting independently, and
(ii) in the case of a more numerous Management Board – the President of the Management Board acting independently, the Vice-president of the Management Board acting jointly with a member of the Management Board or another Vice-president, two members of Management Board acting jointly, the Vice-president of the Management Board acting jointly with a proxy, or a member of the Management Board acting jointly with a proxy.

All issues related to our management, not restricted by the provisions of the law or the Articles of Association to the competence of the Supervisory Board or the General Meeting, are within the scope of competence of the Management Board.

Members of the Management Board participate in sessions of the General Meeting and provide substantive answers to questions asked during the General Meeting. Members of the Management Board invited to a meeting of the Supervisory Board by the Chairman of the Supervisory Board participate in the meeting with the right to take the floor regarding issues on the agenda. Members of the Management Board shall, within their scope of competence and the scope necessary to settle issues discussed by the Supervisory Board, submit explanation and information regarding Company affairs to the participants in the meeting of the Supervisory Board.

The Board adopts resolutions provided that at least a half of the members of the Board are present in the meeting and all members of the Board have been notified of the meeting. Resolutions are adopted by an absolute majority of votes of the members of the Board present in the meeting or participating in the voting. The establishment of a proxy requires consent of all the members of the Management Board. Each member of the Management Board may revoke the power of proxy. In the case of equality of votes upon adoption of resolutions by the Management Board the vote of the President of the Management Board shall prevail.

Resolutions are adopted in a meeting or in a manner set out below. The President of the Management Board, or 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).

8.7.4. Remuneration of the Members of the Management Board

Information regarding remuneration of members of the Management Board for the financial year ended December 31, 2015 is included in Note 41 of the financial statements for the financial year ended December 31, 2015.

8.7.5. 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 **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 **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 **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 Szeląg** sets out the notice period at four months. In addition the non-competition agreement concluded with Tomasz Szeląg 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 Szeląg 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.

8.8. The Supervisory Board

8.8.1. The Composition of the Supervisory Board

As at January 1, 2015 the Supervisory Board comprised the following members:

- Zygmunt Solorz-Żak – Chairman of the Supervisory Board,
- Robert Gwiazdowski – Independent Member of the Supervisory Board,
- Andrzej Papis - Member of the Supervisory Board,
- Leszek Reksa – Independent Member of the Supervisory Board,
- Heronim Ruta - Member of the Supervisory Board.

On April 2, 2015 the Annual General Meeting adopted resolutions regarding a change in the composition of the Supervisory Board, based on which it was decided that the Supervisory Board of the new, three-year term of office will comprise 6 members. Since April 2, 2015 the Supervisory Board comprises the following members:

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	2015	2018
Józef Birka	Member of the Supervisory Board	2015	2015	2018
Robert Gwiazdowski	Independent(1) member of the Supervisory Board Chairman of the Audit Committee	2008	2015	2018
Aleksander Myszka	Member of the Supervisory Board	2015	2015	2018
Leszek Reksa	Independent(1) member of the Supervisory Board Member of the Audit Committee	2008	2015	2018
Heronim Ruta	Member of the Supervisory Board Member of the Audit Committee Member of the Remuneration Committee	2001	2015	2018

(1) conforms with the independence criteria listed in the Best Practices of WSE listed Companies 2016 in principle II.Z.4.

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.

Józef Birka is an advocate and graduate of the Faculty of Law of Wroclaw University. He has been associated with Telewizja Polsat S.A. since its inception, he was in charge of the function of the President of the Management Board of Telewizja Polsat during the first licensing procedure granting terrestrial license to broadcast the first independent countrywide TV channel in Poland. Since its establishment, he is a member of the Board of the POLSAT Foundation, one of the largest non-governmental organizations operating in Poland.

Mr. Józef Birka has extensive experience of working in statutory bodies of commercial-law companies. He is a member of the Supervisory Board Telewizja Polsat Sp. z o.o., Polkomtel Sp. z o.o. and Elektrim S.A. Between 2004 and 2006 he was also in the Supervisory Board member of Polska Telefonia Cyfrowa Sp. z o.o. He acts actively in the Association of Private Media Employers, incorporated into Polish Confederation of Private Employers "Lewiatan". He was honored by the Polish Bar Council with a medal “Commendable Service to the Advocates Bar”.

Robert Gwiazdowski 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.

Aleksander Myszka is a solicitor and graduate of the Faculty of Law of Wroclaw University. He commenced his career as a solicitor in a Law Firm in Oleśnica, and then he worked for Law Office No. 4 in Wrocław where he also held a position of a Director for two terms of office. In particular, he focused in his practice on civil law and since the mid-eighties he has specialized in commercial law and developed legal services for business entities. His career has been connected with Telewizja Polsat since its establishing, as Mr. Myszka is one of its co-founders. For 12 years, in the years 1995 - 2007, he held the position of the President of the Management Board of Telewizja Polsat.

Since April 30, 2007 Mr. Aleksander Myszka has been a member of the Supervisory Board of Telewizja Polsat and since November 9, 2011 - a member of the Supervisory Board of Polkomtel. He is also a co-founder and a member of Stowarzyszenie Kreatywna Polska, a society gathering the community of artists and creative industries, whose main goals are the protection of copyrights and intellectual property. In 2015, Mr. Myszka was elected for a 3-year term of office to the Council of the Polish Film Institute.

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-Usługowa 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 Uzdaroji 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.

8.8.2. 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) audit of the financial statements both as to their compliance with books and documents and also the factual state, audit of the interim and annual reports of the Management Board, or Management Board's motions regarding allocation of profit or covering debts and presenting written reports with results of the audits before the General Shareholders Meeting,

b) creating, once a year, and presenting before the Annual General Meeting a concise evaluation of the situation of the Company, considering the evaluation of the internal control system, and the system for managing risks relevant for the Company,

c) appointment of members of the Management Board,

d) delegation of members of the Supervisory Board to temporary performance of duties of members of the Management Board who are unable to perform their duties,

e) suspending particular or all members of the Management Board for material reasons,

f) approval of the Bylaws of the Management Board,

g) determination of remuneration of the members of the Management Board,

h) appointment of a certified auditor to examine financial statements of the Company,

i) granting consent for disbursement of a down payment toward the anticipated dividend.

Moreover, the competencies of the Supervisory Board include:

a) creation and presentation of an evaluation of the work of the Management Board 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 10.0 million, including guarantees or issuing or guaranteeing bills of exchange done in the scope of daily business, in particular the business of pay digital television, Internet service or the business of MVNO.

i) issuing, upon the Management Board's request, opinion on all issues material for the Company.

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 their own performance,

c) investigate and issue opinions about matters to be subjects of resolutions of the General Meeting.

8.8.3. Committees of the Supervisory Board

Pursuant to the Bylaws of the Supervisory Board the Supervisory Board may appoint permanent committees, in particular 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, 2015 comprised the following members of the Supervisory Board:

- Heronim Ruta,
- Robert Gwiazdowski, an independent member of the Supervisory Board,
- Leszek Reksa, an independent member of the Supervisory Board.

On January 8, 2016, Mr. Robert Gwiazdowski was appointed to the position of Chairman of the Audit Committee, which constitutes the fulfillment of principle II.Z.8 of the Best Practices of WSE listed Companies 2016, according to which the

Chairman of the Audit Committee meets the independence criteria referred to in Annex II to the European Commission Recommendation 2005/162/WE of February 15, 2005.

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, 2015, 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.

8.8.4. Remuneration of the Members of the Supervisory Board

Information regarding remuneration of members of the Supervisory Board for the financial year ended December 31, 2015 is included in Note 42 of the financial statements for the financial year ended December 31, 2015.

Tobias Solorz
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

Tomasz Gillner-Gorywoda
Member of the Management Board

Warsaw, February 26, 2016

Glossary

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

Glossary of general terms

Term	Definition
Amendment, Restatement and Consolidation Deed	Agreement concluded on September 21, 2015 between the Company, Polkomtel, Telewizja Polsat, Cyfrowy Polsat Trade Marks, Polsat License Ltd. and Polsat Media Biuro Reklamy, Eileme 2, Eileme 3, Eileme 4, Plus TM Management, TM Rental, Plus TM Group and a consortium of Polish and foreign financing institutions, amending and consolidating the CP SFA and the PLK SFA.
Argumenol	Argumenol Investment Company Limited, a company under Cypriot law with its registered office in Nicosia, Cyprus.
ATS, WSE ATS	Alternative system of trading in debt instruments organized by the WSE within the Catalyst market.
ATS Rules	Alternative Trading System Rules governing the alternative trading system organized by the WSE, adopted by resolution no. 147/2007 of the management board of the WSE on March 1, 2007, as amended.
Bonds, Series A Bonds	Dematerialized, interest-bearing, senior and unsecured Series A bearer bonds with the total nominal value of PLN 1 billion and the nominal value of PLN 1,000 each, issued pursuant to the Management Board's Resolution No. 01/02/07/2015 dated July 2, 2015.
Bonds Terms	Terms and conditions of Bonds issuance together with the supplement
Catalyst	Trading system of debt instruments operating on markets organized by the WSE and Bondspot, as defined in § 1 of the Catalyst Operating Rules adopted pursuant to resolution no. 59/2010 of the Management Board of WSE on January 27, 2010, as amended.
Combined SFA	CP SFA of September 21, 2015 as amended by the Amendment, Restatement and Consolidation Deed of September 21, 2015
Copyright Law	Copyright and Neighboring Rights Act of February 4, 1994 (consolidated text in Journal of Laws 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. On August 20, 2015 the Company changed its business name to Rioni 1 AB.
CP Revolving Facility Loan	The revolving facility loan of up to PLN 300 million, issued under the CP Senior Facilities Agreement, with the maturity date of September 21, 2020.
CP Senior Facilities Agreement, CP SFA	The Senior Facilities Agreement of September 21, 2015 between the Company, Telewizja Polsat, CPTM, Polsat License Ltd. and Polsat Media Biuro Reklamy, and a syndicate of Polish and foreign banks, covering the CP Term Facility Loan and the CP Revolving Facility Loan.
CP Term Facility Loan	The term facility loan of up to PLN 1.2 billion, issued under the CP Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
Cyfrowy Polsat, the Company	Cyfrowy Polsat Spółka Akcyjna, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000010078.
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.
Embud	Embud spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. 0000165473.
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.

Term	Definition
IFRS	The International Accounting Standards, International Financial Reporting Standards and the related Interpretations by the Standing Interpretations Committee and International Financial Reporting Interpretations Committee, adopted pursuant to Commission Regulation (EC) No. 1126/2008 of November 3, 2008, adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council (OJ L 320/1 of November 29, 2008, as amended), as defined in Art. 2 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards (OJ L 243/1 of September 11, 2002, as amended).
Karswell	Karswell Limited, a company under Cypriot law with its registered office in Nicosia, Cyprus
KRRiT	Krajowa Rada Radiofonii i Telewizji, National Broadcasting Council.
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 Sp. z o.o., Polska, Liberty Poland S.A., Polkomtel Finance AB (publ), Polkomtel Business Development Sp. z o.o., TM Rental, LTE Holdings, and Plus TM Management.
Midas Group	Midas spółka akcyjna 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.
NBP	Narodowy Bank Polski, the central bank of the Republic of Poland
NDS	National Depository for Securities (*Krajowy Depozyt Papierów Wartościowych, KDPW*)
Orange, Orange Polska	Orange Polska Spółka Akcyjna, entered in the register of entrepreneurs of the National Court register under entry No. KRS 0000010681, previously operating under the name of Telekomunikacja Polska Spółka Akcyjna.
P4	P4 spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000217207.
PLK Revolving Facility Loan	The revolving facility loan of up to PLN 700 million, issued under the PLK Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
PLK Senior Facilities Agreement, PLK SFA	The Senior Facilities Agreement of September 21, 2015 between Polkomtel, Eileme 2, Eileme 3, Eileme 4, Plus TM Management, TM Rental and Plus TM Group and a syndicate of Polish and foreign financial institutions, covering the PLK Term Facility Loan and the PLK Revolving Facility Loan.
PLK Senior Notes Indenture	PLK Senior Notes Indenture of January 26, 2012 between Eileme 2, Eileme 3, Eileme 4, Spartan, Ortholuck, Citibank, N.A., London Branch, Citibank, N.A., New York Branch, and Citigroup Global Markets Deutschland.
PLK Senior Notes	Unsubordinated senior notes with a total nominal amount of EUR 542.5 million and USD 500.0 million, maturing in 2020, issued by Eileme 2.
PLK Term Facility Loan	The term facility loan of up to PLN 10,300 million, issued under the PLK Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
Plus Bank	Plus Bank Spółka Akcyjna entered in the register of entrepreneurs of the National Court Register under entry No. 0000096937.
Pola	Pola Investments Limited, a company under Cypriot law, with its registered office in Nicosia, Cyprus.
Polish Energy Law	Polish Energy Law of April 10, 1997 (consolidated text in Journal of Laws 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 Group	Polkomtel jointly with the following companies: Nordisk Polska Sp. z o.o., Liberty Poland S.A., Polkomtel Finance AB (publ), Polkomtel Business Development Sp. z o.o., TM Rental Sp. z o.o., LTE Holdings, and Plus TM Management.
Redefine	Redefine spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. 0000287684. On June 30, 2015, Cyfrowy Polsat merged with Redefine.

Term	Definition
Refinanced CP Senior Facilities Agreement	The Senior Facilities Agreement of April 11, 2014 between the Company, Telewizja Polsat, CPTM, Polsat License Ltd. and Polsat Media Biuro Reklamy, and a syndicate of Polish and foreign banks, covering the CP Term Loan and the CP Revolving Facility Loan. Refinanced in full on September 21, 2015.
Refinanced CP Term Loan	The term facility loan of up to PLN 2,500 million, issued under the Refinanced CP Senior Facilities Agreement, with maturity on April 11, 2019. Refinanced in full on September 21, 2015.
Refinanced PLK Senior Facilities Agreement	The Senior Facilities Agreement of June 17, 2013 between Eileme 2, Eileme 3, Eileme 4, Polkomtel and subsidiaries, and a syndicate of banks. Refinanced in full on September 21, 2015.
Refinanced PLK Term Loans	The Term Facility Loans A, B and C issued under the Refinanced PLK Senior Facilities Agreement of up to PLN 2.65 billion, PLN 3.3 billion and PLN 1.7 billion with maturity dates falling in years 2017, 2018 and 2019, respectively. Refinanced in full on September 21, 2015.
Shares	Shares of Cyfrowy Polsat S.A. admitted to trading on the Warsaw Stock Exchange in Warsaw S.A.
Senior Notes	Unsubordinated 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.
SOKiK	The District Court in Warsaw, 17th Department for Competition and Consumer Protection.
Telecommunications Law	Telecommunications Law of July 16, 2004 (Dz. U. of 2004, No. 171, item 1800, as amended).
Telewizja Polsat, TV Polsat	Telewizja Polsat spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000388899. The company was established following the transformation of Telewizja Polsat Spółka Akcyjna, which was entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000046163.
Telewizja Polsat Group, TV Polsat Group	Telewizja Polsat together with its direct and indirect subsidiaries.
TiVi Foundation	TiVi Foundation, a family foundation of Kirchstrasse 12, 9490 Vaduz, Liechtenstein.
T-Mobile, T-Mobile Polska	T-Mobile Polska Spółka Akcyjna, entered in the register of entrepreneurs of the National Court register under entry No. KRS 0000391193, previously operating under the name of Polska Telefonia Cyfrowa Spółka Akcyjna.
UKE	The Office of Electronic Communications (Urząd Komunikacji Elektronicznej).
UOKiK	The Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów).

Technical terms

Term	Definition
2G	Second-generation cellular telecommunications networks commercially launched on the GSM standard in Europe.
3G	Third-generation cellular telecommunications networks that allow simultaneous use of voice and data services.
4G	Fourth-generation cellular telecommunications networks.
Add-on sales	Sales technique combining cross-selling and up-selling.
CAGR	Compounded Annual Growth Rate – the average annual growth rate calculated for a given value using the following formula: $$\mathrm{CAGR} = \left(\frac{W_{rk}}{W_{rp}}\right)^{\left(\frac{1}{rk-rp}\right)} - 1$$ where: rp – start year, rk – end year, Wrp – value in start year, Wrk – value in end year.

Term	Definition
Catch-up TV	Services providing access to view selected programming content for a certain period after it was broadcast. Cyfrowy Polsat provides such services from 2011.
CDMA	A family of mobile telecommunications standards developed by the 3rd Generation Partnership Project 2, comprising e.g. CDMAOne and CDMA2000. CDMA is mainly used for data transmission services in rural areas. Its maximum transmission speed is 3.1 MB/s. CDMA also supports direct communication between user terminals and restriction of access to selected devices, and the technology is therefore used for digital trunked communications.
Churn	Termination of the contract with Customer by means of the termination notice, collections or other activities resulting in the situation that after termination of the contract the Customer does not have any active service provided in the contract model. Churn rate presents the relation of the number of customers for whom the last service has been deactivated (by means of the termination notice as well as deactivation as a result of collection activities or other reasons) within the last 12 months to the annual average number of customers in this 12-month period.
Contract ARPU	Average monthly revenue per customer generated in a given settlement period (including interconnect revenue)
Converged (integrated) services	A package of two or more services from our pay TV, mobile telecommunications and broadband Internet access offering, provided under a single contract and for a single subscription fee.
Customer	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).
HD	Above-standard resolution signal (High Definition).
HSPA/HSPA+	Radio data transmission technology for wireless networks, increasing the capacity of the UMTS network (High Speed Packet Access/High Speed Packet Access Plus). It also covers the HSPA+ Dual Carrier technology (Evolved High Speed Packet Access Dual Carrier). It supports transmission speeds of up to 42 Mb/s for download and up to 5.7 Mb/s for upload.
IPLA	Internet platform providing access to 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).

Term	Definition
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.
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.
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.
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 of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognised as equivalent,* the Management Board of Cyfrowy Polsat S.A. represented by:

Tobias Solorz, President of the Management Board,
Dariusz Działkowski, Member of the Management Board,
Tomasz Gillner-Gorywoda, Member of the Management Board,
Aneta Jaskólska, Member of the Management Board,
Maciej Stec, Member of the Management Board,
Tomasz Szeląg, Member of the Management Board

hereby represents that:

- to the best of its knowledge the annual financial statements and the comparative information were prepared in accordance with the currently effective accounting principles, and they truly and fairly present the financial position of the Company as well as its financial performance and the Management Board's report on activities contains a true image of the Company's development, achievements and standing, including description of basic risks and threats;

- the entity authorised to audit the financial statements, which has audited the annual financial statements, was selected in accordance with the regulations of law. That entity as well as the registered auditor who has carried out the audit fulfilled the conditions for expressing an unbiased and independent opinion about the consolidated financial statements pursuant to relevant provisions of the national law and industry norms.

Tobias Solorz	Tomasz Szeląg	Dariusz Działkowski
President of the Management Board	Member of the Management Board	Member of the Management Board
Tomasz Gillner-Gorywoda	Aneta Jaskólska	Maciej Stec
Member of the Management Board	Member of the Management Board	Member of the Management Board

Warsaw, 26 February 2016

Independent auditor's report

To the Shareholders and the Supervisory Board of Cyfrowy Polsat S.A.

We have audited the accompanying financial statements of Cyfrowy Polsat S.A., which comprise the balance sheet as at 31 December 2015 and the income statement, the statement of comprehensive income, the statement of changes in equity and the 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 financial statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Cyfrowy Polsat S.A. as at 31 December 2015, 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.
26 February 2016
Warsaw, Poland

PricewaterhouseCoopers Sp. z o.o.,
Al. Armii Ludowej 14, 00-638 Warsaw, Poland
T: +48 (22) 523 4000, F: +48 (22) 523 4040, www.pwc.com

CYFROWY POLSAT S.A.

Financial Statements
for the year ended 31 December 2015

Prepared in accordance
with International Financial Reporting Standards
as adopted by the European Union

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APPROVAL OF THE FINANCIAL STATEMENTS

On 26 February 2016, the Management Board of Cyfrowy Polsat S.A. approved the financial statements of the Cyfrowy Polsat S.A. prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which include:

Income Statement for the period from 1 January 2015 to 31 December 2015 showing a net profit for the period of:	PLN 446.1
Statement of Comprehensive Income for the period from 1 January 2015 to 31 December 2015 showing a total comprehensive income for the period of:	PLN 451.6
Balance Sheet as at 31 December 2015 showing total assets and total equity and liabilities of:	PLN 13,093.0
Cash Flow Statement for the period from 1 January 2015 to 31 December 2015 showing a net increase in cash and cash equivalents amounting to:	PLN 123.1
Statement of Changes in Equity for the period from 1 January 2015 to 31 December 2015 showing an increase in equity of:	PLN 561.3

Supplementary Information to the Financial Statements

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

Tobias Solorz President of the Management Board	Tomasz Szeląg Member of the Management Board	Dariusz Działkowski Member of the Management Board
Tomasz Gillner-Gorywoda Member of the Management Board	Aneta Jaskólska Member of the Management Board	Maciej Stec Member of the Management Board

Agnieszka Szatan
Chief Accountant

Warsaw, 26 February 2016

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

Income Statement

		for the year ended	
	Note	31 December 2015	31 December 2014
Revenue	8	2,099.6	2,034.6
Operating costs	9	(1,750.4)	(1,735.6)
Other operating income, net		7.6	22.1
Profit from operating activities		**356.8**	**321.1**
Gain/loss on investment activities, net	10	276.9	168.2
Finance costs	11	(141.1)	(309.5)
Gross profit for the period		**492.6**	**179.8**
Income tax	12	(46.5)	(2.6)
Net profit for the period		**446.1**	**177.2**
Basic and diluted earnings per share (in PLN)	14	**0.70**	**0.33**

Statement of Comprehensive Income

		for the year ended	
	Note	31 December 2015	31 December 2014
Net profit for the period		**446.1**	**177.2**
Items that may be reclassified subsequently to profit or loss:			
Valuation of hedging instruments	26	6.6	(3.9)
Income tax relating to hedge valuation	26	(1.1)	0.7
Items that may be reclassified subsequently to profit or loss		**5.5**	**(3.2)**
Other comprehensive income, net of tax		**5.5**	**(3.2)**
Total comprehensive income for the period		**451.6**	**174.0**

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

Balance Sheet - Assets

	Note	31 December 2015	31 December 2014 restated*
Reception equipment	15	374.6	421.1
Other property, plant and equipment	15	143.3	164.8
Goodwill	16	197.0	52.0
Other intangible assets	17	81.4	75.6
Investment property		12.9	1.8
Shares in subsidiaries	18	11,424.8	11,498.1
Non-current deferred distribution fees	19	32.1	35.1
Other non-current assets	20	43.0	35.3
Total non-current assets		**12,309.1**	**12,283.8**
Inventories	21	76.0	124.0
Trade and other receivables	22	323.4	260.5
Income tax receivable		-	26.0
Current deferred distribution fees	19	86.9	74.5
Other current assets	23	161.2	30.9
Cash and cash equivalents	24	136.4	13.3
Total current assets		**783.9**	**529.2**
Total assets		**13,093.0**	**12,813.0**

* Restatement resulting from final purchase price allocation of Metelem (see note 5e in these financial statements for the year ended 31 December 2015)

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

Balance Sheet - Equity and Liabilities

	Note	31 December 2015	31 December 2014 restated*
Share capital	25	25.6	25.6
Share premium	25	7,174.0	7,174.0
Hedge valuation reserve	26	(6.7)	(12.2)
Retained earnings		2,751.3	2,195.5
Total equity		**9,944.2**	**9,382.9**
Loans and borrowings	27	982.0	1,846.2
Issued bonds	28	975.3	-
Finance lease liabilities	29	-	0.8
Deferred tax liabilities	12	97.3	97.7
Deferred income	33	4.7	4.7
Other non-current liabilities and provisions	30	10.6	18.5
includes derivative instruments (IRS/CIRS) liabilities		-	*7.0*
Total non-current liabilities		**2,069.9**	**1,967.9**
Loans and borrowings	27	504.7	927.1
Issued bonds	28	42.4	-
Finance lease liabilities	29	-	0.8
Trade and other payables	31	299.8	316.8
includes derivative instruments (IRS/CIRS) liabilities		*8.3*	*8.4*
Income tax liability		6.2	-
Deposits for equipment	32	1.6	1.4
Deferred income	33	224.2	216.1
Total current liabilities		**1,078.9**	**1,462.2**
Total liabilities		**3,148.8**	**3,430.1**
Total equity and liabilities		**13,093.0**	**12,813.0**

* Restatement resulting from final purchase price allocation of Metelem (see note 5e in these financial statements for the year ended 31 December 2015)

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

Cash Flow Statement

		for the year ended	
	Note	**31 December 2015**	**31 December 2014**
Net profit		446.1	**177.2**
Adjustments for:		**(146.6)**	**226.1**
Depreciation, amortization, impairment and liquidation	9	230.2	222.6
Interest expense		127.6	197.4
Change in inventories		47.9	20.7
Change in receivables and other assets		(171.8)	5.4
Change in liabilities, provisions and deferred income		(18.1)	44.7
Valuation of hedging instruments		6.6	(3.9)
Foreign exchange losses, net		-	22.7
Income tax	12	46.5	2.6
Net increase in reception equipment provided under operating lease		(138.4)	(193.1)
Dividends income and share in the profits of partnerships		(277.7)	(166.9)
Other adjustments		0.6	73.9
Cash from operating activities		**299.5**	**403.3**
Income tax paid		(15.4)	(27.9)
Interest received from operating activities		1.4	0.9
Net cash from operating activities		**285.5**	**376.3**
Received dividends and shares in the profits of partnerships		272.8	166.9
Merger with subsidiary	37	47.2	-
Proceeds from realization of forward instruments (USD)		-	8.1
Proceeds from sale of property, plant and equipment		1.2	0.8
Loans granted		(7.8)	(10.0)
Acquisition of property, plant and equipment		(18.0)	(28.8)
Acquisition of intangible assets		(23.8)	(34.6)
Share capital increase in subsidiaries and acquisition of shares	18	(34.9)	(883.7)
Net cash (used in)/from investing activities		**236.7**	**(781.3)**
Term loans received	27	1,320.0	2,800.0
Issuance of bonds/(bonds redemption)	28	1,000.0	(1,472.0)
Payment of interest on loans, borrowings, bonds, finance lease and commissions*		(84.1)	(269.6)
Net cash from Cash Pool with paid interest		(84.7)	326.8
Proceeds from realization of forward instruments (EUR)		-	3.0
Finance lease – principal repayments		(0.3)	(2.1)
Payment of share issuance-related consulting costs		-	(3.9)
Dividend paid		-	(102.9)
Repayment of loans and borrowings	27	(2,550.0)	(887.1)
Net cash (used in)/from financing activities		**(399.1)**	**392.2**
Net increase/(decrease) in cash and cash equivalents		**123.1**	**(12.8)**
Cash and cash equivalents at the beginning of the year		**13.3**	**26.1**
Effect of exchange rate fluctuations on cash and cash equivalents		-	-
Cash and cash equivalents at the end of the year		**136.4**	**13.3**

* Includes impact of hedging instruments, premium paid for early bonds' repayment and amount paid for costs related to new financing

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

Statement of Changes in Equity
for the year ended 31 December 2015

	Note	Number of shares	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total Equity**
Balance as at 1 January 2015		**639,546,016**	**25.6**	**7,237.4**	**(12.2)**	**2,195.5**	**9,446.3**
Restatement resulting from purchase price allocation of Metelem**		-	-	(63.4)	-	-	**(63.4)**
Balance as at 1 January 2015 restated **		**639,546,016**	**25.6**	**7,174.0**	**(12.2)**	**2,195.5**	**9,382.9**
Merger with Redefine Sp. z o.o.	37	-	-	-	-	109.7	**109.7**
Total comprehensive income		-	-	-	5.5	446.1	**451.6**
Hedge valuation reserve	*26*	-	-	-	*5.5*	-	***5.5***
Net profit for the period		-	-	-	-	446.1	***446.1***
Balance as at 31 December 2015		**639,546,016**	**25.6**	**7,174.0**	**(6.7)**	**2,751.3**	**9,944.2**

Statement of Changes in Equity
for the year ended 31 December 2014

	Note	Number of shares	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total Equity**
Balance as at 1 January 2014		**348,352,836**	**13.9**	**1,295.1**	**(9.0)**	**2,121.2**	**3,421.2**
Issue of shares		291,193,180	11.7	5,878.9**	-	-	**5,890.6**
Dividend declared and paid		-	-	-	-	(102.9)	**(102.9)**
Total comprehensive income		-	-	-	(3.2)	177.2	**174.0**
Hedge valuation reserve	*26*	-	-	-	*(3.2)*	-	***(3.2)***
Net profit for the period		-	-	-	-	*177.2*	***177.2***
Balance as at 31 December 2014 restated**		**639,546,016**	**25.6**	**7,174.0**	**(12.2)**	**2,195.5**	**9,382.9**

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

** Restatement resulting from final purchase price allocation of Metelem (see note 5e in these financial statements for the year ended 31 December 2015)

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

Notes to the Financial Statements

1. The Company

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

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

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

The Company is the Parent Company of Cyfrowy Polsat S.A. Capital Group (the 'Group'). The Group encompasses the Company, Metelem Holding Company Limited ('Metelem') and its subsidiaries and joint arrangements, Telewizja Polsat Sp. z o.o. and its subsidiaries and joint arrangements, Cyfrowy Polsat Trade Marks Sp. z o.o. and its subsidiaries, INFO-TV-FM Sp. z o.o., Rioni 1 AB, Orsen Holding Limited and its subsidiaries, Netshare Sp. z o.o. and Gery.pl Sp. z o.o.

On 30 June 2015 the District Court for the Capital City of Warsaw in Warsaw, XIII Business Division for the National Court Register registered the merger of the Company with Redefine Sp. z o.o. ('Redefine') seated in Warsaw. The impact of the merger is presented in detail in note 37.

2. Composition of the Management Board of the Company

- Tobias Solorz	President of the Management Board (from 8 December 2015), Vice-President of the Management Board (from 10 December 2014 to 7 December 2015),
- Dariusz Działkowski	Member of the Management Board,
- Tomasz Gillner-Gorywoda	Member of the Management Board (from 8 December 2015), President of the Management Board (from 28 October 2014 to 7 December 2015)
- Aneta Jaskólska	Member of the Management Board,
- Maciej Stec	Member of the Management Board,
- Tomasz Szeląg	Member of the Management Board.

3. Composition of the Supervisory Board of the Company

- Zygmunt Solorz-Żak	President of the Supervisory Board,
- Józef Birka	Member of the Supervisory Board (from 3 April 2015),
- Robert Gwiazdowski	Member of the Supervisory Board,
- Aleksander Myszka	Member of the Supervisory Board (from 3 April 2015),
- Andrzej Papis	Member of the Supervisory Board (until 2 April 2015),
- Leszek Reksa	Member of the Supervisory Board,
- Heronim Ruta	Member of the Supervisory Board.

4. Basis of preparation of the financial statements

Statement of compliance

These financial statements for the year ended 31 December 2015 have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU (IFRS EU). The Company applied the same accounting policies in the preparation of the financial data for the year ended 31 December 2015 and the financial statements for 2014, presented in the annual report, except for the EU-endorsed standards and interpretations which are effective for the reporting periods beginning on or after 1 January 2015.

During the year ended 31 December 2015 the following became effective:

(i) annual improvements – 2011-2013 reporting cycle
(ii) IFRIC 21 *Levies*

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) annual improvements – 2012-2014 reporting cycle
(ix) annual improvements – 2010-2012 reporting cycle
(x) amendments to IAS 19 *Employee Benefits*
(xi) amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*
(xii) IRFS 16 *Leasing*
(xiii) amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
(xiv) amendments to IAS 7 Disclosure Initiative

The Company 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, IFRS 16 and IFRS 9), other than additional disclosures.

The Company 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 financial statements the Company has not completed the analysis of the impact of the new standards, IFRS 15, IFRS 16 and IFRS 9.

Other published but not yet effective standards not included above are not relevant to the Company's operations.

5. Accounting policies

The accounting policies set out below have been applied by the Company consistently to all periods presented in the financial statements.

a) Basis of measurement

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments, which are valued at fair value.

b) Going concern assumption

These financial statements have been prepared assuming that the Company will continue as a going concern in the foreseeable future, not shorter than 12 months from 31 December 2015.

c) Functional currency and presentation currency

The financial data in the financial statements is presented in Polish zloty, rounded to million. The functional currency of the Company is the Polish zloty.

d) Judgments and estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about critical estimates and judgements in applying accounting policies is included in note 45.

e) Comparative financial information

Comparative data or data presented in previously published financial statements has been updated, if necessary, in order to reflect presentational changes introduced in the current period. Due to final purchase allocation of Metelem the value of shares in subsidiaries and the value of share premium were restated – decrease by PLN 63.4 resulting from change in the purchase price (fair value of Company's issued shares - see note 37 in the consolidated financial statements for the year ended 31 December 2015). Except above mentioned restatement, the changes had no impact on previously reported amounts of net income or equity.

It should be noted that the year ended 31 December 2015 may not be comparable to the year ended 31 December 2014 due to the merger of the Company with Redefine Sp. z o.o. as at 30 June 2015.

f) Foreign currency

Transactions in foreign currencies are translated to Polish zloty at exchange rates effective on a day of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated in accordance with the balance sheet date into Polish zloty at the average exchange rate quoted by the National Bank of Poland ("NBP") for that date. The foreign exchange differences arising on translation of transactions denominated in foreign currencies and from the balance–sheet valuation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the average NBP exchange rate in effect at the date of the valuation. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the average NBP foreign exchange rate in effect at the date the fair value was determined.

g) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and a part of other receivables, cash and cash equivalents, loans and borrowings, issued bonds, finance lease liabilities, deposits for equipment and trade and a part of other payables.

Non-derivative financial instruments are recognized initially at fair value increased by directly attributable transaction costs.

A financial instrument is recognized if the Company becomes a party to the contractual obligations of the instrument. Financial assets are derecognized if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset. Standardised sale and purchase transactions of financial assets are recognized at the transaction date i.e. on the date the Company is obliged to acquire or sell the asset. Financial liabilities are derecognized if the Company's obligations specified in the contract expire (are discharged or cancelled).

Cash and cash equivalents comprise cash on hand and short term deposits (up to 3 months). The cash and cash equivalents balance presented in the cash flow statement comprises the above mentioned cash and cash equivalents.

Principles for recognition of gains and losses on investment activities and finance costs are presented in note 5u.

Loans and receivables and other financial liabilities

Loans and receivables which are not derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses. Other financial liabilities which are not derivative financial instruments are measured at amortised cost using the effective interest method.

Deposits

Deposits received from subscribers and distributors are valued at amortised costs and are presented as non-current or current liabilities depending on the minimum term of the agreements.

(ii) Derivative financial instruments

Hedge accounting

The Company may use derivative financial instruments such as forward currency contracts, foreign exchange call options, interest rate swaps and cross-currency interest rate swaps to hedge its foreign currency and interest rate risks. The Company may use forward currency contracts and foreign exchange call options as cash flow hedges of its exposure to foreign currency risk in forecasted EUR denominated fixed coupon payments on Eurobonds as well as interest rate swaps and cross-currency interest rate swaps for its exposure to volatility in the interest payments on floating rate debt.

For the purpose of hedge accounting, the Company's hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

For cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the hedge valuation reserve, while any ineffective portion is recognized immediately in the income statement.

The amounts recognized within other comprehensive income are transferred from equity to the income statement when the hedged transaction affects profit or loss, such as when the related gain or loss is recognized in finance cost or when a forecast sale occurs.

Gains and losses from the settlement of derivative instruments that are designated as, and are effective hedging instruments, are presented in the same position as the impact of the hedged item. The derivative instrument is divided into a current portion and a non-current portion only if a reliable allocation can be made.

Other derivatives not designated for hedge accounting

Derivative instruments that are not designated for hedge accounting are recognized initially at fair value, attributable transaction costs are recognized in the profit or loss as incurred. Subsequent to initial recognition, the Company measures those derivative financial instruments at fair value, and changes therein are recognized in profit or loss.

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or divided into a current and non-current portion based on an assessment of the relevant facts and circumstances (i.e. the underlying contracted cash flows):

- Where the Company will hold a derivative instrument considered an economic hedge (for which hedge accounting is not applied) for a period exceeding 12 months after the reporting date, such derivative instrument is classified as non-current (or divided into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivates that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

h) Equity

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity.

Preferred shares

Preference share capital is classified as equity, if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity.

Costs attributable to the issue and public offer of shares

Costs attributable to a new issue of shares are recognized in equity while costs attributable to a public offering of existing shares are recognized directly in finance costs. These costs relating to both new issue and sale of existing shares are recognized on a pro-rata basis in equity and finance costs.

Share premium

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

Retained earnings

Retained earnings include net result and effect of merger with the Company. Effect of merger is calculated as the difference between assets and liabilities of the merged entity.

In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital. This capital is excluded from distribution, however, it can be utilised to cover accumulated losses.

i) Property, plant and equipment

(i) Property, plant and equipment owned by the Company

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes purchase price of the asset and other expenditure that is directly attributable to the acquisition and bringing the asset to a working condition for its intended use, including initial delivery as well as handling and storage costs. The cost of purchased assets is reduced by the amounts of vendor discounts, rebates and other similar reductions received.

The cost of self-constructed assets and assets under construction includes all costs incurred for their construction, installation, adoption, and improvement as well as borrowing costs incurred until the date they are accepted for use (or until the reporting date for an asset not yet accepted for use). The above cost also may include, if necessary, the estimated cost of dismantling and removing the asset and restoring the site. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Investment property

Investment property is defined as a property (land, building, or both) held by the Company to earn rentals or for capital appreciation or both.

Investment property is measured initially at cost. Once recognized all investment property held by the Company are measured using the cost model as set out in IAS 16. This means that the assets are recognized at cost and depreciated systematically over its useful life as presented in (i) above.

Investment property is removed from the balance sheet on disposal or when it is permanently withdrawn from use and no further economic benefits are expected from its disposal.

(iii) Subsequent costs

Subsequent cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company and the amount of the cost can be measured reliably. Replaced item is derecognised. Other property, plant and equipment related costs are recognized in profit and loss as incurred.

(iv) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The estimated useful lives for the current and comparative period are as follows:

Buildings and structures	2-61	Years
Reception equipment	3 or 5	Years
Technical equipment and machinery	2-22	Years
Vehicles	2-10	Years
Other	2-26	Years

Depreciation methods, useful lives and residual values of material assets are reviewed at each financial year-end and adjusted if appropriate.

(v) Leased assets

Assets used under lease, tenancy, rental or similar contracts which meet finance lease criteria, are classified as non-current assets and recognized at the lower of fair value of the leased asset and the present value of the minimum lease payments. Equipment that is provided to customers under operational leases is accounted for as property, plant and equipment (Reception equipment in balance sheet).

Assets subject to the lease are depreciated in a manner that is consistent with the policies applied to similar Company-owned assets. Depreciation is based on the principles of IAS 16 *Property, plant and equipment*. Where it is not reasonably certain that the lessee will obtain ownership of the asset before the lease term ends, the asset is depreciated over its useful life or the lease term, if shorter.

Carrying amounts of reception equipment and other items of property, plant and equipment may be reduced by impairment losses whenever there is uncertainty as to those assets' revenue generating potential or their future use in the Company's operations. The accounting policies relating to impairment are presented in 5n.

j) Intangible assets

(i) Goodwill

Goodwill represents the excess of the sum of consideration transferred and payable, the amount of non-controlling interest in the acquiree and the fair value as at the date of acquisition of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired.

Goodwill is presented at purchase price less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if possible impairment is indicated. Goodwill is allocated to acquirer's cash-generating units for the purpose of testing for impairment. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Other intangible assets

The Company capitalizes costs of IT software internally generated, including employee-related expenses, directly resulting from generation and preparing asset to be capable of operating, if the Company is able to demonstrate: the technical feasibility of completing the intangible asset so that it will be available for use or sale; its intention to complete the intangible asset and use or sell it; its ability to use or sell the intangible asset; how the intangible asset will generate probable future economic benefits, the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other intangible assets acquired by the Company are stated at cost less accumulated amortization and impairment losses. Subsequent expenditure on existing intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in the profit or loss as incurred.

Amortization is based on the cost of an asset less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The estimated useful lives for respective intangible assets groups are as follows:

- Computer software: 2 – 15 years,
- Other: 2 – 7 years.

k) Shares in subsidiaries

Shares in subsidiaries are measured at cost less impairment losses. Accounting principles relating to impairment testing are presented in 5n.

l) Inventories

Inventories are measured at the lower of cost or net realizable value. Cost of acquisition or production cost of inventories is determined by using the weighted average cost of acquisition or production cost of inventory.

The cost of inventories includes purchase price, costs relating directly to the acquisition and the costs related to preparing the inventory for use or sale. 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 realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In the case of set-top boxes, mobile phones, modems and tablets, which under the business model applied by the Company are sold below cost, the loss on the sale is recorded when transferred to the customer.

The Company creates an allowance for slow-moving or obsolete inventories.

m) Prepayments

Prepayments for data transfer purchases are recognized in the nominal value upon payments made. The costs are recognized in the income statement based on actual usage of data transmission and contractual. Prepayments, which will be settled after 12 months from the balance sheet date are presented as other non-current assets.

n) Impairment of assets

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis at balance sheet date. The remaining financial assets are assessed for impairment collectively in groups that share similar credit risk characteristics.

Receivables are reduced by an allowance based on the likelihood of future debt collection. The allowance is charged to cost of debt collection services and bad debt allowance and receivables written off. An allowance for receivables from individuals is estimated based on the historical recoverability of overdue receivables and recovery efficiency.

All impairment losses are recognized in the income statement in Cost of debt collection services and bad debt allowance and receivables written off.

Impairment losses are reversed if a subsequent increase in recoverable value of a financial asset can be related objectively to an event occurring after the impairment losses were recognized.

(ii) Non-financial assets

The carrying amounts of non-financial assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of intangible assets which are not yet ready for use is assessed at each financial year-end.

The Company considers on annual basis whether there are indicators that investments in subsidiaries suffered any impairment (i.a. value of net assets). If so, then the impairment test is performed and the recoverable amount of the investment is estimated based on value-in-use calculations.

An impairment loss is recognized when the carrying amount of an asset or a cash-generating unit is greater than its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in the income statement. An impairment loss for a cash-generating unit is initially recognized as a decrease of goodwill assigned to this unit (group of units), then it proportionally reduces the carrying amount of other assets from this unit (group of units).

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In the case of assets that do not generate independent cash flows, the value in use is estimated for the smallest identifiable cash-generating unit to which the asset belongs.

An impairment loss for goodwill cannot be reversed. As for other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss other than that in respect of goodwill is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

o) Employee benefits

(i) Defined contribution program

The Company is obliged, under applicable regulations, to collect and remit the contribution to the state pension fund. These benefits, according to IAS 19 *Employee Benefits* represent state plans and are classified as defined contribution plans. Therefore, the Company's obligations for each period are estimated as the amount of contributions to be remited for a given period.

(ii) Defined benefit program – retirement benefits

The Company is obliged to pay retirement benefits calculated in accordance with the relevant provisions of the Polish labour code. The minimum retirement benefit is as per the labour code provisions at the moment of payment.

The calculation is carried out using the Projected Unit Credit Method. Employee rotation is estimated based on historical experience and forecasts of future employment levels.

Changes in the value of the retirement benefit provision are recognized in the income statement. Actuarial gains and losses are recognized in the equity, in other comprehensive income in full in the period they originated.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are recognized as an expense as the related service is provided.

The Company recognizes a liability and charges the income statement for the amounts expected to be paid under short-term bonuses, if the Company has a legal or constructive obligation to make such payments as a result of past services provided by the employees and the obligation can be estimated reliably.

p) Provisions

A provision is recognized when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where the effect of the time value of money is material, the Company discounts the provision, using a pre-tax discount rate that reflects current market assessments of the time value of money and those risks specific to the component of the liability.
Certain disclosures may not be included in these consolidated financial statements as they relate to sensitive information.

Warranty provision

A warranty provision is recognized when products or goods, for which the warranty was granted, are sold. The amount of the provision is based on historical warranty data and on a weighted average of all possible outflows connected with warranty claims against their associated probabilities.

q) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company or a present obligation that arises from past events, but its amount cannot be estimated reliably or it is not probable that there will be an outflow of resources embodying economic benefits.

A contingent liability is disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Unless the possibility of any outflow in settlement is remote, the Company discloses for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practice able:
- an estimate of its financial effect;
- an indication of the uncertainties relating to the amount or timing of any outflow and
- the possibility of any reimbursement.

r) Revenue

Revenue, which excludes value added tax, returns, trade discounts and volume rebates, represents the gross inflow of economic benefit from Company's operating activities. Revenue is measured at the fair value of the consideration received or receivable. The Company's main sources of revenue are recognized as follows:

(a) Retail revenue consists primarily of subscription fees paid by our pay digital television contract customers and our contract customers for telecommunication services. Retail revenue also includes contractual penalties related to terminated agreements in the amount expected to recover which are recognized when the contract is terminated and revenue from the rental of reception equipment. Revenue from above mentioned services is recognized as these services are provided.
Revenue from the rental of reception equipment and activation fees are recognized on a straight-line basis over the minimum base period of the subscription contract.
Revenues from prepaid mobile telephone services are recognized in profit or loss once the prepaid credit is utilised or forfeited.

(b) Wholesale revenue consists of revenue from the sale of broadcasting and signal transmission, advertising and sponsorship revenue, revenue from the sale of licenses, sublicenses and property rights and interconnect revenue. Wholesale revenue is recognized, net of any discount given, when the relevant goods or service are provided.
(c) Revenue from sale of equipment is measured at the fair value of the consideration received or receivable, net of discounts, rebates and returns. Revenue from the sale of goods is recognized in profit or loss when the significant risks and rewards of ownership have been transferred to the customer.
(d) Other revenue is recognized, net of any discount given, when the relevant goods or service are provided.

When the Company sells goods and services in one bundled transaction, the total consideration from the arrangement is allocated to each element of such multiple-element arrangements based on residual method in such a way that the amount recognised for items already received cannot be higher than cash already received.

s) Distribution fees

Commissions for distributors for registering new subscribers and for retention existing subscribers are recognized during the minimum basic period of the subscription agreement.

Turnover commissions for concluding a certain number of subscription contracts are recognized in the income statement as they are due.

Commissions for distributors which will be settled within the period of 12 months after the balance sheet date are presented as current assets, however, the commissions, which will be settled after the 12-month period from the balance sheet date, are presented as non-current assets.

t) Revenues and costs of barter transactions

Revenues from barter transactions are recognized when the services are rendered or goods are delivered. Programming licenses, products or services are expensed or capitalized when received or used. The Company recognizes barter transactions based on the estimated fair value of the programming licenses, products or services.

u) Gains and losses on investment activities and finance costs

Gains and losses on investment activities income includes interest income on funds invested, interest expenses (other than interest expenses on borrowings), dividends income, results on the disposal of available-for-sale financial instruments, net foreign currency gains/losses, and results on completed forward exchange contracts and call options related to investment activities, impairment losses recognized on financial assets. Interest income and expense (other than interest expense on borrowings) is recognized as it accrues in profit or loss using the effective interest method. Dividends income is recognized in profit or loss on the date that the Company’s right to receive payment is established.

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

v) Lease payments

Payments under an operating lease are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments due to financial lease agreements are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

w) Taxation

Income tax expense/benefit for the year comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are measured based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, respectively, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be partly or wholly realised. When not recognized deferred tax asset becomes recoverable, it is recognised to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are offset by the Company as criteria for offsetting from IAS 12 are fulfilled.

x) Earnings per share

The Company presents basic and diluted earnings per share for its ordinary and preference shares. Basic earnings per share are calculated by dividing the period's profit or loss from continuing operations attributable to ordinary and preference shareholders of the Company by the weighted average number of ordinary and preference shares outstanding during the period. Diluted earnings per share are calculated by dividing the period's profit or loss from the continued operations attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares adjusted for all potentially dilutive ordinary and preference shares.

y) Segment reporting

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

The Company conducts its operating activities in Poland.

Further information on segments is presented in the consolidated financial statements of the Group.

z) Cash flow statement

Cash and cash equivalents in the cash flow statement are equal to cash and cash equivalents presented in the balance sheet.

The purchase of reception equipment provided to clients under operating lease contracts is classified in the cash flow statement in operating activities. The purchase and sales of reception equipment are classified in the cash flow statement in operating activities and presented as “Net disposals/(additions) in reception equipment provided under operating lease”.

Purchases of property, plant and equipment or intangible assets are presented in their net amount (net of VAT).

aa) Business combinations among entities under common control

In principle, the issues relating to acquisitions and business combinations are regulated by IFRS 3 “Business combinations”. However, transactions under common control are excluded from the scope of this standard. The situation in which a given transaction or business phenomenon that require recognizing in financial statements prepared in accordance with IFRS are not regulated by the provisions of the individual standards is regulated by the provisions of IAS 8, points 10-12. These provisions put an entity which prepares its financial statements in accordance with IFRS under an obligation to determine an accounting policy and to use it on a consistent basis for similar transactions.

The Company decided to apply the predecessor accounting method to account for the combination of entities that are under common control. This method is based on the assumption that the entities combining were, both before and after the transaction, controlled by the same shareholder and, therefore, the financial statements reflect the continuity of joint control and do not reflect changes in net asset values to fair values (or the recognition of new assets) or the valuation of goodwill, because none of the entities combining is not actually being acquired. The predecessor accounting method applied by the Company consists of adding up the carrying values of the items taken from the statements of financial position as at the combination date, as well as the revenues and expenses and gains and losses of the entities combining as from the combination date.

6. Determination of fair values

A number of accounting principles and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. The methods for determining fair values are described below. In justified cases, further information on methods of fair value measurement is described in the appropriate notes specific to that asset or liability.

(i) Derivatives

The fair value of derivatives is calculated based on their quoted closing bid price at the balance sheet date or, in the lack thereof, other inputs that are observable for the asset or liability, either directly (i. e. as prices) or indirectly (i. e. derived from prices). In the second case, the fair value of derivatives is estimated as the present value of future cash flows , discounted using the market interest rate at the reporting date. Information on the structure of Polish and eurozone interest rates and Polish złoty exchange rate are used in order to estimate future cash flows and market interest rate.

(ii) Non-derivative financial assets

The fair value of non-derivative financial asset for disclosure purposes is estimated as the present value of future cash flows discounted using a market interest rate as at the balance sheet date.

(iii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on liabilities' quoted closing bid price at the balance sheet date or, in the lack thereof, estimated on the present value of future principal and interest cash flows, discounted using the market interest rate at the reporting date. Market interest rate is estimated as interbank interest rate for a given currency zone (WIBOR, EURIBOR) plus a margin regarding the Company's credit risk. A market interest rate for a finance lease contract is estimated based on interest rates for similar lease contracts.

7. Approval of the Financial Statements

These financial statements were approved for publication by the Management Board on 26 February 2016.

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

8. Revenue

	for the year ended	
	31 December 2015	31 December 2014
Retail revenue	1,967.8	1,913.0
Wholesale revenue	45.7	39.5
Sale of equipment	59.3	54.5
Other revenue	26.8	27.6
Total	**2,099.6**	**2,034.6**

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

9. Operating costs

		for the year ended	
	Note	31 December 2015	31 December 2014
Content costs		527.3	517.2
Technical costs and costs of settlements with telecommunication operators		340.7	288.5
Distribution, marketing, customer relation management and retention costs		317.1	332.4
Depreciation, amortization, impairment and liquidation		230.2	222.6
Salaries and employee-related costs	a	120.0	131.9
Cost of equipment sold		69.3	71.3
Cost of debt collection services and bad debt allowance and receivables written off		23.4	39.2
Other costs		122.4	132.5
Total		**1,750.4**	**1,735.6**

a) Salaries and employee-related costs

	for the year ended	
	31 December 2015	31 December 2014
Salaries	102.1	112.6
Social security contributions	14.7	15.5
Other employee-related costs	3.2	3.8
Total	**120.0**	**131.9**

Average headcount of non-production employees*

	for the year ended	
	31 December 2015	31 December 2014
Employment contracts (full-time equivalents)	891	915

* excluding workers who did not perform work in the reporting period due to long-term absences

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

10. Gain/loss on investment activities, net

	for the year ended	
	31 December 2015	31 December 2014
Dividends received	260.7	166.9
Share in the profits of partnerships	17.0	-
Guarantee fees from related parties	-	3.3
Other foreign exchange losses, net	(2.5)	(8.3)
Realization of USD forward	-	8.1
Other	1.7	(1.8)
Total	**276.9**	**168.2**

11. Finance costs

	for the year ended	
	31 December 2015	31 December 2014
Interest expense on loans and borrowings	102.4	113.5
Interest expense on issued bonds	19.2	70.4
Early redemption costs	-	82.1
Foreign exchange differences on issued bonds	-	22.7
Valuation and realization of hedging instruments	7.7	4.9
Valuation and realization of derivatives not used in hedge accounting	-	4.2
Other	11.8	11.7
Total	**141.1**	**309.5**

12. Income tax

(i) Income tax in the income statement

	for the year ended	
	31 December 2015	31 December 2014
Corporate income tax	44.9	(2.0)
Change in deferred income tax in the income statement	1.6	4.6
Income tax expense in the income statement	**46.5**	**2.6**

	for the year ended	
Change in deferred income tax	31 December 2015	31 December 2014
Receivables and other assets	3.2	(4.6)
Liabilities	(0.2)	3.8
Deferred distribution fees	1.8	1.8
Tangible and intangible non-current assets	(3.0)	6.4
Other	(0.2)	(2.8)
Change in deferred income tax – total	**1.6**	**4.6**

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

(ii) Income tax recognized in other comprehensive income

	for the year ended	
	31 December 2015	**31 December 2014**
Change in deferred income tax on hedge valuation	1.1	(0.7)
Income tax expense recognized in other comprehensive income - total	**1.1**	**(0.7)**

(iii) Effective tax rate reconciliation

	for the year ended	
	31 December 2015	**31 December 2014**
Profit before income tax	492.6	179.8
Profit before tax multiplied by the statutory tax rate in Poland of 19%	93.6	34.2
Dividend received from subsidiaries	(49.5)	(31.7)
Other non-taxable costs, net at 19% tax rate	2.4	0.1
Tax charge for the year	**46.5**	**2.6**
Effective tax rate	**9.4%**	**1.4%**

(iv) Deferred tax assets

	31 December 2015	**31 December 2014**
Liabilities	37.7	37.2
Tangible non-current assets	2.0	3.2
Receivables and other assets	18.4	8.7
Other	4.9	5.8
Total deferred tax assets	**63.0**	**54.9**
Offsetting of deferred tax liabilities and deferred tax assets	(63.0)	(54.9)
Deferred tax assets in the balance sheet	**-**	**-**

(v) Tax losses recognized and carried forward

	31 December 2015	**31 December 2014**
2014 tax loss carried forward	17.7	15.4
Tax losses carried forward – total	**17.7**	**15.4**

According to Art. 7 of the Polish Corporate Income Tax Act dated 15 February 1992, tax losses incurred in a given financial year can be utilized in the subsequent five fiscal years. However, no more than 50% of a tax loss for any given year can be utilized in a single subsequent fiscal year.

(vi) Deferred tax liabilities

	31 December 2015	31 December 2014
Receivables and other assets	50.8	40.6
Deferred distribution fees	22.6	20.8
Tangible non-current assets	86.9	91.2
Total deferred tax liabilities	**160.3**	**152.6**
Offsetting of deferred tax liabilities and deferred tax assets	(63.0)	(54.9)
Deferred tax liabilities in the balance sheet	**97.3**	**97.7**

The tax authorities may at any time inspect the books and records within 5 years from the end of the year when a tax declaration was submitted, and may impose additional tax assessments with penalty interest and penalties. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

13. EBITDA (unaudited)

EBITDA (earnings before interest, taxes, depreciation, amortization, impairment and liquidation) presents the Company’s key measure of earnings performance. The level of EBITDA measures the Company’s ability to generate cash from recurring operations. The Company defines EBITDA as operating profit adjusted by depreciation, amortization, impairment and liquidation. EBITDA is not an IFRS EU measure, and as such can be calculated differently by other entities.

	for the year ended	
	31 December 2015	31 December 2014
Net profit for the period	446.1	177.2
Income tax (see note 12)	46.5	2.6
Gain/loss on investment activities, net (see note 10)	(276.9)	(168.2)
Finance costs(see note 11)	141.1	309.5
Depreciation, amortization, impairment and liquidation* (see note 9)	230.2	222.6
EBITDA (unaudited)	**587.0**	**543.7**

* 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.

14. Basic and diluted earnings per share

As at the balance sheet date, the Company did not have financial instruments that could have a dilutive effect, therefore the Company’s diluted earnings per share are equal to basic earnings per share.

	for the year ended	
	31 December 2015	31 December 2014
Net profit for the period	446.1	177.2
Weighted average number of ordinary and preference shares in the year	639,546,016	539,024,535
Earnings per share in PLN (not in millions)	**0.70**	**0.33**

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

15. Property, plant and equipment

	Reception equipment	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Tangible assets under construction	**Other property, plant and equipment**
Cost								
Cost as at 1 January 2015	**960.5**	**6.9**	**103.6**	**166.6**	**11.6**	**23.6**	**5.2**	**317.5**
Merger with subsidiary	-	-	0.1	1.8	-	0.8	-	2.7
Additions	140.8	-	0.9	7.5	-	0.6	-	9.0
Transfer from assets under construction	-	-	-	0.2	-	0.1	(0.3)	-
Transfer to investment property	-	-	-	-	-	-	(3.2)	(3.2)
Disposals	(86.3)	-	(0.3)	(4.5)	(4.0)	(1.4)	-	(10.2)
Cost as at 31 December 2015	**1,015.0**	**6.9**	**104.3**	**171.6**	**7.6**	**23.7**	**1.7**	**315.8**
Accumulated impairment losses as at 1 January 2015	**(16.5)**	**-**	**-**	**(0.1)**	**-**	**-**	**-**	**(0.1)**
Recognition	-	-	-	-	-	-	-	-
Reversal	4.0	-	-	-	-	-	-	-
Utilisation	2.9	-	-	-	-	-	-	-
Accumulated impairment losses as at 31 December 2015	**(9.6)**	**-**	**-**	**(0.1)**	**-**	**-**	**-**	**(0.1)**
Accumulated depreciation								
Accumulated depreciation as at 1 January 2015	**522.9**	**-**	**29.5**	**97.9**	**8.5**	**16.7**	**-**	**152.6**
Merger with subsidiary	-	-	0.1	1.8	-	0.8	-	2.7
Additions	183.5	-	4.3	15.9	1.0	2.8	-	24.0
Additions (depreciation in the value of produced equipment)	-	-	-	0.2	-	-	-	0.2
Disposals	(75.6)	-	(0.2)	(2.4)	(3.3)	(1.2)	-	(7.1)
Accumulated depreciation as at 31 December 2015	**630.8**	**-**	**33.7**	**113.4**	**6.2**	**19.1**	**-**	**172.4**
Carrying amount								
As at 1 January 2015	**421.1**	**6.9**	**74.1**	**68.6**	**3.1**	**6.9**	**5.2**	**164.8**
As at 31 December 2015	**374.6**	**6.9**	**70.6**	**58.1**	**1.4**	**4.6**	**1.7**	**143.3**

The Company recognized reversal and utilisation of an impairment loss on items of property, plant and equipment. The impairment allowance is recognized in ‘depreciation, amortization, impairment and liquidation’.

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

	Reception equipment	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Tangible assets under construction	**Other property, plant and equipment**
Cost								
Cost as at 1 January 2014	**823.1**	**6.9**	**102.0**	**156.9**	**11.6**	**22.8**	**7.3**	**307.5**
Additions	194.9	-	2.2	17.1	0.4	1.4	1.6	22.7
Transfer from assets under construction	-	-	-	3.7	-	-	(3.7)	-
Disposals	(57.5)	-	(0.6)	(11.1)	(0.4)	(0.6)	-	(12.7)
Cost as at 31 December 2014	**960.5**	**6.9**	**103.6**	**166.6**	**11.6**	**23.6**	**5.2**	**317.5**
Accumulated impairment losses as at 1 January 2014	**(17.5)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Recognition	(2.4)	-	-	(0.1)	-	-	-	(0.1)
Reversal	0.4	-	-	-	-	-	-	-
Utilisation	3.0	-	-	-	-	-	-	-
Accumulated impairment losses as at 31 December 2014	**(16.5)**	**-**	**-**	**(0.1)**	**-**	**-**	**-**	**(0.1)**
Accumulated depreciation								
Accumulated depreciation as at 1 January 2014	**398.0**	**-**	**25.7**	**93.0**	**7.5**	**14.2**	**-**	**140.4**
Additions	171.8	-	4.2	13.2	1.3	3.0	-	21.7
Additions (depreciation in the value of produced equipment)	-	-	-	1.2	-	0.1	-	1.3
Disposals	(46.9)	-	(0.4)	(9.5)	(0.3)	(0.6)	-	(10.8)
Accumulated depreciation as at 31 December 2014	**522.9**	**-**	**29.5**	**97.9**	**8.5**	**16.7**	**-**	**152.6**
Carrying amount								
As at 1 January 2014	**407.6**	**6.9**	**76.3**	**63.9**	**4.1**	**8.6**	**7.3**	**167.1**
As at 31 December 2014	**421.1**	**6.9**	**74.1**	**68.6**	**3.1**	**6.9**	**5.2**	**164.8**

The Company 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 allowance is recognized in ‘depreciation, amortization, impairment and liquidation’.

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

16. Impairment test on goodwill allocated to the "Services to individual and business customers" cash-generating unit

The Company recognized goodwill in the amount of PLN 52.0 on the acquisition of M.Punkt Holdings Ltd. and goodwill in the amount of PLN 145.0 on the acquisition of Redefine Sp. z o.o. in the financial statements and allocated them to the "Services to individual and business customers" cash-generating unit. "Services to individual and business customers" cash-generating unit is equivalent to the Company. Upon merger of M.Punkt Holdings and Redefine with the Company the amount of goodwill recognized in consolidated financial statements was transferred to these financial statements (see accounting policy 5aa).

Goodwill was tested for impairment as at 31 December 2015. The impairment test did not indicate impairment.

The impairment test was based on the recoverable amounts of the cash generating unit to which the goodwill has been allocated. The recoverable amount of the cash-generating unit is determined based on the value-in-use calculations. The Company tests the total carrying amount of the cash-generating unit and any impairment identified is recognized in the profit or loss immediately with respect to goodwill first and is not subsequently reversed. If goodwill is fully impaired the remaining amount of the impairment loss is allocated to other assets of the cash-generating unit on a pro rata basis.

In the annual impairment test performed by the Company as at 31 December 2015 the calculation of value-in-use was based on discounted free cash flows and involved the use of estimates related to cash flow before tax projections based on actual financial business plans covering the 5-year period until 2020. Cash flow projections after 5-year forecast period are estimated using the terminal growth. Terminal growth rate does not exceed the long-term average growth rate for the country in which the Company operates.

The key financial assumptions

The most sensitive key financial assumptions used in the value-in-use calculations of the "Services to individual and business customers" cash-generating unit were as follows:
- discount rate
- terminal growth rate used for estimating fee cash flows beyond the period of financial plans

	Services to individual and business customers	
	2015	2014
Terminal growth	3%	3%
Discount rate before tax	8.5%	6.7%

Discount rate – the discount rate reflects the estimate made by the management of the risks specific to cash-generating unit, taking into account the time value of money and risks specific to the asset. The discount rate was estimated on the basis of weighted average cost of capital method (WACC) and considered Company's business environment. WACC considers both debt and equity. Cost of equity is based on the return on investment excepted by the Company's investors while cost of debt is based on the interest bearing debt instruments. Operating segment - specific risk is considered by the estimation of beta. Beta is estimated annually and is based on the market data.

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

Terminal growth rate – growth rates are based on widely available published market data such as International Monetary Fund publications.

Sensitivity analysis of key financial assumptions

The Company believes that the key assumptions made in testing for impairment of the “Services to individual and business customers” cash-generating unit as at 31 December 2015 are reasonable and are based on our experience and market forecasts that are published by the industry experts. Management believes that any reasonably possible change in the key assumptions on which the cash-generating unit’s recoverable amount is based would not cause the impairment charge to be recognized.

17. Other intangible assets

	Software and licenses	Other	Under development	Total
Cost				
Cost as at 1 January 2015	**147.8**	**6.1**	**26.5**	**180.4**
Merger with subsidiary	10.0	0.9	1.6	12.5
Additions	17.4	0.1	4.5	22.0
Transfer from intangible assets under development	22.3	0.1	(22.4)	-
Disposals	(1.4)	(0.2)	(1.6)	(3.2)
Cost as at 31 December 2015	**196.1**	**7.0**	**8.6**	**211.7**
Accumulated impairment losses as at 1 January 2015	**-**	**-**	**-**	**-**
Recognition	0.5			0.5
Reversal	-	-	-	-
Accumulated impairment losses as at 31 December 2015	**0.5**	**-**	**-**	**0.5**
Accumulated amortization				
Accumulated amortization as at 1 January 2015	**99.7**	**5.1**	**-**	**104.8**
Merger with subsidiary	5.1	0.9	-	6.0
Additions	18.9	0.1	-	19.0
Additions (depreciation in the value of produced equipment)	0.2	0.6	-	0.8
Disposals	(0.7)	(0.1)	-	(0.8)
Accumulated amortization as at 31 December 2015	**123.2**	**6.6**	**-**	**129.8**
Carrying amounts				
As at 1 January 2015	**48.1**	**1.0**	**26.5**	**75.6**
As at 31 December 2015	**72.4**	**0.4**	**8.6**	**81.4**

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

	Software and licences	Other	Under development	Total
Cost				
Cost as at 1 January 2014	**122.9**	**5.8**	**28.8**	**157.5**
Additions	13.6	0.2	11.6	25.4
Transfer from intangible assets under development	13.8	0.1	(13.9)	-
Disposals	(2.5)	-	-	(2.5)
Cost as at 31 December 2014	**147.8**	**6.1**	**26.5**	**180.4**
Accumulated impairment losses as at 1 January 2014	**-**	**-**	**-**	**-**
Reversal	-	-	-	-
Accumulated impairment losses as at 31 December 2014	**-**	**-**	**-**	**-**
Accumulated amortization				
Accumulated amortization as at 1 January 2014	**82.2**	**3.2**	**-**	**85.4**
Additions	19.5	0.1	-	19.6
Additions (depreciation in the value of produced equipment)	-	1.8	-	1.8
Disposals	(2.0)	-	-	(2.0)
Accumulated amortization as at 31 December 2014	**99.7**	**5.1**	**-**	**104.8**
Carrying amounts				
As at 1 January 2014	**40.7**	**2.6**	**28.8**	**72.1**
As at 31 December 2014	**48.1**	**1.0**	**26.5**	**75.6**

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

18. Shares in subsidiaries

Shares in subsidiaries as at 31 December 2015

	Company's registered office	Activity	Voting rights percentage	Cost and carrying amount
Metelem Holding Company Limited	Chrysanthou Mylona 3 Office no. 102 CY 3030 Limassol Cyprus	holding and financial activities	100%	6,778.0
Telewizja Polsat Sp. z o.o.	ul. Ostrobramska 77, Warsaw	broadcasting and television production	100%	3,899.0
Cyfrowy Polsat Trade Marks Sp. z o.o.	ul. Łubinowa 4a, Warsaw	non-current assets and intellectual property rights management	100%	615.4
Orsen Holding Limited	Elia Zammit Street, St. Julian's STJ 3155, Malta	holding and financial activities	99.9%	34.9
INFO-TV-FM Sp. z o.o.	ul. Łubinowa 4a, Warsaw	radio and TV activities	73.5%	29.3
Netshare Sp. z o.o.	al. Stanów Zjednoczonych 61 A, Warsaw	electronic media (Internet) advertising broker	100%	29.8
Polsat Media Biuro Reklamy Sp. z o.o. Sp.k.	ul. Ostrobramska 77, Warszawa	advertising activities	30.5%	20.3
Gery.pl Sp. z o.o.	al. Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%	15.4
Karpacka Telewizja Kablowa Sp. z o.o.	ul. Warszawska 220, Radom	Dormant	99%	2.4
Rioni 1 AB (formerly Cyfrowy Polsat Finance AB	Stureplan 4C, 4 TR 114 35 Stockholm, Sweden	financial transactions	100%	0.2
Polskie Badania Internetu Sp. z o.o.	Aleje Jerozolimskie 65/79, Warszawa	web portals activities	4.55%	0.1
			Total	**11,424.8**

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

	31 December 2014 restated*	Additions	Decreases	31 December 2015
Metelem Holding Company Limited	6,778.0*	-	-	6,778.0
Telewizja Polsat Sp. z o.o.	3,899.0	-	-	3,899.0
Cyfrowy Polsat Trade Marks Sp. z o.o.	615.4	-	-	615.4
Redefine Sp. z o.o. (see note 37)	128.7	-	(128.7)**	-
Orsen Holding Limited	-	34.9***	-	34.9
INFO-TV-FM Sp. z o.o.	29.3	-	-	29.3
Netshare Sp. z o.o.	23.3	6.5****	-	29.8
Polsat Media Biuro Reklamy Sp. z o.o. Sp. k. (see note 37)	-	20.3**	-	20.3
Gery.pl Sp. z o.o.	15.3	0.1****	-	15.4
Frazpc.pl Sp. z o.o.	6.5	-	(6.5)****	-
Karpacka Telewizja Kablowa Sp. z o.o.	2.4	-	-	2.4
Rioni 1 AB (formerly Cyfrowy Polsat Finance AB)	0.2	-	-	0.2
Poszkole.pl Sp. z o.o. (see note 37)	-	0.1**	(0.1)****	-
Polskie Badania Internetu Sp. z o.o. (see note 37)	-	0.1**	-	0.1
Total	**11,498.1**	**62.0**	**(135.3)**	**11,424.8**

* Restatement due to final purchase price allocation of Metelem (see note 5e in these financial statements for the year ended 31 December 2015) – decrease by PLN 63.4

** On 30 June 2015 the Company completed a merger with Redefine Sp. z o.o. (Company's subsidiary) as presented in note 37. Following the merger Company's shares in Redefine Sp. z o.o. were eliminated whereas shares held by Redefine Sp. z o.o. as at the date of the merger in Polsat Media Biuro Reklamy Sp. z o.o. Sp. k., Poszkole.pl Sp. z o.o. oraz Polskie Badania Internetu Sp. z o.o. were include in the Company's balance sheet.

*** On 1 April 2015 Cyfrowy Polsat acquired 99.9% shares of Orsen Holding Limited for the amount of PLN 34.9. As a result of the above mentioned acquisition Teleaudio Dwa Sp. z o.o. S.k. (the leader in Premium Rate services) and InterPhone Service Sp. z o.o. (the manufacturer of telecommunication and electronic appliances) have joined Cyfrowy Polsat Group.

**** On 31 December 2015 two mergers were registered: the merger of Netshare Sp. z o.o. with Frazpc.pl Sp. z o.o. and the merger of Gery.pl Sp. z o.o. with Poszkole.pl Sp. z o.o.

No impairment on shares in related entities was recognized as at 31 December 2015.

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19. Deferred distribution fees

	31 December 2015	31 December 2014
Deferred distribution fees	119.0	109.6
Of which: Current	*86.9*	*74.5*
Non-current	*32.1*	*35.1*

Deferred distribution fees include commissions for distributors for contracts effectively concluded with subscribers. These costs are expensed by the Company to profit or loss over the minimum base period of the subscription contracts.

As at 31 December 2015, 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 118.7 (as at 31 December 2014: 109.1 PLN).

20. Other non-current assets

	31 December 2015	31 December 2014
Non-current trade receivables	41.6	24.5
Non-current loans granted	-	9.2
Other deferred costs	1.4	1.6
Total	**43.0**	**35.3**

21. Inventories

Types of inventories	31 December 2015	31 December 2014
Set-top boxes and disc drives	17.0	44.0
Mobile phones, modems, tablets and laptops	21.3	32.1
Other inventories	42.2	51.6
Total gross value	**80.5**	**127.7**
Write-down of inventories	(4.5)	(3.7)
Total net value	**76.0**	**124.0**

In other inventories are presented mainly materials used in production of reception equipment.

Write-downs of inventories	2015	2014
Opening balance	**3.7**	**4.5**
Increase	1.7	1.4
Utilisation	-	(0.2)
Decrease	(0.9)	(2.0)
Closing balance	**4.5**	**3.7**

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

22. Trade and other receivables

	31 December 2015	31 December 2014
Trade receivables from related entities	30.2	36.6
Trade receivables from non-related entities	231.4	200.5
Tax and social security receivables	30.6	21.7
Other receivables (see note 34)	31.2	1.7
Total	**323.4**	**260.5**

Trade receivables from non-related entities include receivables from individual clients, distributors and others.

Trade receivables by currency

Currency	31 December 2015	31 December 2014
PLN	219.1	220.1
EUR	18.6	16.4
USD	23.9	0.6
Total	**261.6**	**237.1**

Movements in bad debt allowance – short-term and log-term

	2015	2014
Opening balance as at 1 January	**35.6**	**31.8**
Increase	14.0	20.0
Reversal	(2.4)	(3.6)
Utilisation	(10.9)	(12.6)
Closing balance as at 31 December	**36.3**	**35.6**
Of which:		
Short-term	*35.1*	*35.6*
Long-term	*1.2*	*-*

23. Other current assets

	31 December 2015	31 December 2014
Other deferred costs	152.5	21.2
Other deferred income	8.7	9.7
Total	**161.2**	**30.9**

Other deferred costs as at 31 December 2015 comprise mainly deferred costs related to the agreement with Polkomtel Sp. z o.o. (see note 43).

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

24. Cash and cash equivalents

	31 December 2015	31 December 2014
Current accounts	5.4	7.4
Deposits	131.0	5.9
Total	**136.4**	**13.3**

The Company places its cash and cash equivalents in banks and financial institutions with reliability proven by ratings awarded by universally recognized agencies Standard & Poor's, Moody's or Fitch, as required by the loan agreement and policies adopted therein. As at 31 December 2015, the largest concentration of funds in one bank (rated A2 by Moody's Investors Service Ltd.) was approximately 83%.

Currency	31 December 2015	31 December 2014
PLN	132.4	10.8
EUR	0.9	1.4
USD	3.1	0.7
Other	-	0.4
Total	**136.4**	**13.3**

As the Company cooperates with well-established Polish and international banks, the risks relating to deposited cash are considerably limited.

25. Equity

(i) Share capital

Presented below is the structure of the Company's share capital as at 31 December 2015 and 31 December 2014:

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

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

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

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

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

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

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

On 16 March 2015, Embud Sp. z o.o. acquired from Argumenol Investment Company Limited 28.415.173 ordinary series J bearer shares of the Company.

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%
Others	214,367,958	8.6	33.52%	214,539,208	26.20%
Razem	**639,546,016**	**25.6**	**100%**	**818,963,517**	**100%**

[1] As at 31 December 2014 entity was controlled by Mr. Zygmunt Solorz-Żak

[2] As at 31 December 2014 Reddev Investments Ltd. was an indirect subsidiary of Mr. Zygmunt Solorz-Żak

[3] As at 31 December 2014 Sensor Overseas Ltd. was controlled by EVO Foundation

(ii) Share premium

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

(iii) Retained earnings

On 2 April 2015 the Annual General Meeting of the Company adopted resolution on distribution of profit of the Company for the financial year of 2014. Pursuant to the provisions of the resolution the net profit earned by the Company in the financial year of 2014 in the amount of PLN 177.2 is appropriated to the supplementary capital.

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26. 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.

Impact of hedging instruments valuation on assets and liabilities as at 31 December 2015

	IRS	CIRS	Total
Liabilities			
Short-term	(8.3)	-	(8.3)
Total	**(8.3)**	**-**	**(8.3)**

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 hedge valuation reserve

	2015	2014
Balance as at 1 January	**(12.2)**	**(9.0)**
Valuation of cash flow hedges	-	-
Amount transferred to income statement	-	11.1
Deferred tax	-	(2.1)
Change for the period (credit facility repaid in 2014)	**-**	**9.0**
Hedging relationship designation	-	(15.0)
Valuation of cash flow hedges	6.6	-
Deferred tax	(1.1)	2.8
Change for the period (credit facilities signed in 2014 and 2015)	**5.5**	**(12.2)**
Balance as at 31 December	**(6.7)**	**(12.2)**

Due to the repayment of existing debt and its replacement with new credit facility (see note 27) the hedge of existing debt was ended and the amounts presented in hedge valuation reserve were transferred to profit and loss. In connection with new credit facility established in 2014 a new hedging relationship was designated. This relationship was maintained and linked with the loan facility established in 2015.

27. Loans and borrowings

Loans and borrowings	31 December 2015	31 December 2014
Short-term liabilities	504.7	927.1
Long-term liabilities	982.0	1,846.2
Total	**1,486.7**	**2,773.3**

Change in loans and borrowings liabilities

	2015	2014
Loans and borrowings as at 1 January	**2,773.3**	**537.2**
Repayment of capital	(2,550.0)	(887.1)
Repayment of interest and commissions	(78.0)*	(119.1)*
Facilities agreement	1,200.0	2,500.0
Revolving facility loan	120.0	300.0
Net cash from Cash Pool	(81.0)	328.8
Interest accrued	102.4	113.5
Loans and borrowings as at 31 December	**1,486.7**	**2,773.3**

* Includes amount paid for costs related to the new financing

During 2015 the Company made scheduled payments of part of the Senior Facilities term loan in total amount of PLN 152. On 29 July 2015 the Company made a voluntary prepayment of part of the loan in the amount of PLN 1 billion (not in million). Subsequently on 28 September 2015 the Company made an early repayment of the loan in the amount of PLN 1,178.0. As a result of the said early repayment the Company repaid its total indebtedness under the facilities agreement dated 11 April 2014.

Facilities agreement between the Company and a consortium of financial institutions

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

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Based on the CP Facilities Agreement the Company has been granted a Term Facility Loan up to PLN 1,200 (the "CP Term Facility") and a Revolving Facility Loan up to PLN 300 (the "CP Revolving Facility").

The CP Term Facility and the CP Revolving Facility bear interest at a variable rate equal to WIBOR for the relevant interest period plus margin. The margin on the CP Term Facility and the CP Revolving Facility depends on the ratio of net consolidated indebtedness to consolidated EBITDA in such a way that the lower the ratio – the lower the margin. The CP Term Facility and the CP Revolving Facility are to be repaid in quarterly installments of variable value with the final repayment date for each of these facilities set at 21 September 2020.

The CP Revolving Facility as at 31 December 2015 was not utilized. The outstanding balance as at 31 December 2014 of a revolving facility used by the Company amounted to PLN 100.

The Company used the CP Term Facility in particular to:
(i) repay the indebtedness under the Senior Facilities Agreement of 11 April 2014 between the Company (as the borrower) and a consortium of financial institutions, and
(ii) fund general corporate needs of the Group.

In accordance with the provisions of the CP Facilities Agreement, the Company may incur additional facilities. The terms of such additional facilities will be established individually in separate additional facility accession deeds and their terms will have to satisfy certain criteria.

Claims related to the CP Facilities Agreement are secured by collaterals established by the Company. A detailed description of the established securities is presented in the Management Report in note 4.6.5.

<u>Agreement with Bank Pekao S.A.</u>

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 2015 the bank issued guarantees in the total amount of PLN 2.7.

28. Issued bonds

	31 December 2015	**31 December 2014**
Short-term liabilities	42.4	-
Long-term liabilities	975.3	-
Total	**1,017.7**	**-**

Change in issued bonds payable

	2015	2014
Issued bonds payable as at 1 January	**-**	**1,434.9**
Issuance of bonds	1,000.0	-
Bonds redemption	-	(1,472.0)
Foreign exchange losses	-	22.7
Early redemption costs	-	82.1
Repayment of interest and commissions	(1.5)**	(138.1)*
Interest accrued	19.2	70.4
Issued bonds payable as at 31 December	**1,017.7**	**-**

* Includes payment of the early redemption costs

** Includes amount paid for costs related to the new financing

On 21 July 2015, the Company registered 1.000.000 unsecured series A bearer bonds with a nominal value of PLN 1.000 each (not in millions) and a total nominal value of PLN 1.000.000.000 (not in millions) (the “Bonds”) in the securities depository maintained by the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.). The Bonds mature in 6 years. The redemption date for the Bonds is 21 July 2021. The interest rate is floating and is based on the WIBOR 6M rate, increased by a margin which depends on the Leverage Ratio level (defined in the terms and conditions of the Bonds' issuance).

29. Company as a lessor and as a lessee

a) Company as a lessor

Operating leases

The Company entered into contracts with third parties, which are classified as operating leases due to their economic substance. The contracts relate to rental of digital satellite reception equipment, lease of TV production studio and lease of premises. Assets connected with such contracts are presented as property, plant and equipment.

Lease contracts for set-top boxes are concluded for a basic contractual period ranging from 12 to 29 months. After the basic period, the contracts are converted into contracts with indefinite or definite terms, unless terminated by subscribers.

Future minimum lease payments concerning set-top boxes under operating lease are as follows:

	31 December 2015	31 December 2014
within 1 year	5.3	2.9
between 1 and 5 years	3.8	0.7
in more than 5 years	-	-
Total	**9.1**	**3.6**

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

b) Company as a lessee

Operating leases

The Company entered into agreements, which are classified as operating lease contracts based on their economic substance. Assets leased under these contracts are not recorded in the financial statements. The contracts comprise *inter alia* leases of office, lease of satellite transponders capacity, and other equipment.

Future minimum lease payments under operating leases are as follows:

	31 December 2015	31 December 2014
within 1 year	110.4	112.5
between 1 and 5 years	187.3	273.1
in more than 5 years	9.7	38.2
Total	**307.4**	**423.8**

In 2015 the Company incurred costs related to operating lease agreements amounting to PLN 113.9 and in 2014 the costs of the Company amounted to PLN 113.2.

Finance leases

The carrying value of devices used on the basis of finance lease contracts amounted to PLN 1.7 as at 31 December 2014. There were no agreements classified as finance lease as at 31 December 2015.

Future minimum lease payments under finance leases are as follows:

	31 December 2015	31 December 2014
within 1 year	-	0.8
between 1 and 5 years	-	0.9
in more than 5 years	-	-
Total	**-**	**1.7**

The present value of minimum lease payments amounted to PLN 1.6 as at 31 December 2014.

30. Other non-current liabilities and provisions

	31 December 2015	31 December 2014
Derivative instruments (IRS/CIRS) liabilities (see note 34)	-	7.0
Deposits	10.2	11.0
Other provisions	0.4	0.5
Total	**10.6**	**18.5**

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

31. Trade and other payables

	31 December 2015	31 December 2014
Trade payables to related parties	56.9	48.3
Trade payables to non-related parties	57.2	90.3
Taxation and social security payables	10.8	10.8
Payables relating to purchases of non-current assets	4.5	3.9
Accruals	127.1	115.4
Short term provisions	22.9	24.9
Derivative instruments (IRS/CIRS) liabilities (see note 34)	8.3	8.4
Other	12.1	14.8
Total	**299.8**	**316.8**

Accruals

	31 December 2015	31 December 2014
Salaries	17.0	20.4
Licence fees and royalties for copyright management organizations	65.1	49.9
Distribution costs	8.3	7.5
Other	36.7	37.6
Total	**127.1**	**115.4**

Short-term and long-term provisions

	2015	2014
Opening balance as at 1 January	**25.4**	**36.4**
Increases	-	0.1
Reversal	(2.1)	(11.1)
Closing balance as at 31 December	**23.3**	**25.4**
Of which:		
Short-term	*22.9*	*24.9*
Long-term	*0.4*	*0.5*

Provisions comprise mainly of provisions for license fees, litigation and disputes, warranty provision.

Trade payables and payables relating to purchases of non-current assets by currency

Currency	31 December 2015	31 December 2014
PLN	104.4	113.9
EUR	6.6	7.8
USD	7.6	20.8
Total	**118.6**	**142.5**

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

Accruals by currency

Currency	31 December 2015	31 December 2014
PLN	111.2	92.7
EUR	15.5	19.3
USD	0.4	3.4
Total	**127.1**	**115.4**

32. Deposits for equipment

	31 December 2015	31 December 2014
Subscribers	1.6	1.4
Total	**1.6**	**1.4**

Deposits received comprise amounts paid by subscribers under agreements for rental of reception equipment. Deposits are returned to customers or offset against receivables from subscribers upon contract termination.

33. Deferred income

	31 December 2015	31 December 2014
Deferred income	**228.9**	**220.8**
Of which: Short-term	*224.2*	*216.1*
Long-term	*4.7*	*4.7*

Deferred income comprises mainly subscription fees paid in advance and rental fees for reception equipment.

34. Financial instruments

Overview

Cyfrowy Polsat S.A. is exposed to the following financial risks:
- credit risk,
- liquidity risk,
- market risk:
    a. currency risk,
    b. interest rate risk.

The Company's risk management policies are designed to reduce the impact of adverse conditions on the Company's results.

The Management Board is responsible for oversight and management of each of the risks faced by the Company. Therefore, the

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Management Board has established an overall risk management framework as well as risk management policies on market, credit and liquidity risks.

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are also included throughout these financial statements.

Bank loans, bonds, cash, interest rate swaps, cross-currency interest rate swaps and short-term bank deposits are the main financial instruments used by the Company, with the intention of securing the financing for the Company's activities. The Company also holds other financial instruments including trade receivables and payables and payables relating to purchases of tangible and intangible assets which arise in the course of its business activities.

Financial assets	**Carrying amount**	
	31 December 2015	**31 December 2014**
Loans and receivables, including:	**470.8**	**285.9**
Loans granted	18.6	10.2
Trade and other receivables from related parties	31.7	36.6
Trade and other receivables from non-related parties	273.5	225.8
Share in the profits of partnerships receivables	10.6	-
Cash and cash equivalents	136.4	13.3

Financial liabilities	**Carrying amount**	
	31 December 2015	**31 December 2014**
Other financial liabilities valued at amortised cost, including:	**2,773.9**	**3,060.1**
Financial lease liabilities	-	1.6
Borrowings and loans	1,486.7	2,773.3
Issued bonds	1,017.7	-
Trade payables and other payables to third parties and deposits	85.5	117.6
Trade and other payables to related parties	56.9	52.2
Accruals	127.1	115.4
Hedging derivative instruments:	**8.3**	**15.4**
Interest rate swaps	8.3	15.4

Credit risk

Credit risk is defined as the risk that counterparties of the Company will not be able to meet their contractual obligations. Exposure to credit risk is related to three main areas: it relates to

- the creditworthiness of the customers with whom physical sale transactions are undertaken,
- the creditworthiness of the financial institutions (banks/brokers) with whom, or through whom, hedging or other derivative transactions are undertaken,

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- the creditworthiness of the entities in which investments are made, or whose securities are purchased.

Credit risk arises mainly on trade receivables. In the financial year ended 31 December 2014, the Company was not materially exposed to credit risk arising from sales on credit. The Company's customer base includes a large number of individual subscribers dispersed geographically over the country who prepay subscription fees. Receivables from subscribers are constantly monitored and recovery actions are taken, including blocking of the signal transferred to subscribers or termination of services to a MVNO and Internet client.

The Company pursues a credit policy under which credit risk exposure is constantly monitored.

Due to diversification of risk in terms of the nature of individual entities, their geographical location and cooperation with highly-rated financial institutions, also taking into consideration the fair value of liabilities arising from derivative transactions, the Company is not materially exposed to credit risk as a result of derivative transactions entered into.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at the reporting date was as follows:

Maximum exposure to credit risk

	Carrying amount	
	31 December 2015	**31 December 2014**
Loans granted	18.6	10.2
Trade and other receivables from related parties	31.7	36.6
Trade and other receivables from non-related parties	273.5	225.8
Share in the profits of partnerships receivables	10.6	-
Cash and cash equivalents	136.4	13.3
Total	**470.8**	**285.9**

The maximum exposure to credit risk for trade and other receivables, by type of customer, was:

	Carrying amount	
	31 December 2015	**31 December 2014**
Receivables from subscribers	222.6	194.3
Receivables from distributors	3.2	4.4
Receivables from media companies	17.6	15.5
Receivables and loans granted to related parties, including share in the profits of partnerships receivables	56.4	46.8
Receivables from DTH and cable TV operators	6.6	0.5
Other receivables and loans granted to non-related parties	28.0	11.1
Total	**334.4**	**272.6**

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The ageing of trade and other receivables at the reporting date was:

	31 December 2015			31 December 2014		
	Gross	**Impairment**	**Net**	**Gross**	**Impairment**	**Net**
Not past due	266.8	6.3	260.5	181.9	5.4	176.5
Past due 0-30 days	20.8	0.9	19.9	40.0	1.3	38.7
Past due 31-60 days	9.0	0.8	8.2	22.5	1.5	21.0
Past due more than 60 days	55.5	28.3	27.2	53.6	27.4	26.2
Total	**352.1**	**36.3**	**315.8**	**298.0**	**35.6**	**262.4**

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 Company's objective in liquidity management is to ensure that it always has sufficient funds to meet its liabilities when due. Surplus cash is invested in bank deposits.

The Company prepares, on an ongoing basis, analyses and forecasts of cash requirements based on projected cash flows.

The following are the contractual maturities of the Company's financial liabilities.

	31 December 2015						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	more than 5 years
Loans and borrowings	1,486.7	1,616.7	400.1	109.6	246.4	860.6	-
Finance lease liabilities	1,017.7	1,256.5	21.6	21.3	85.4	1,128.2	-
Trade and other payables to non-related parties and deposits	85.5	85.5	85.5	-	-	-	-
Trade and other payables to related parties	56.9	56.9	56.9	-	-	-	-
Accruals	127.1	127.1	127.1	-	-	-	-
IRS*	8.3	6.6	4.4	2.2	-	-	-
	2,782.2	**3,149.3**	**695.6**	**133.1**	**331.8**	**1,988.8**	**-**

*Pursuant to the agreements settlements shall be on a net basis

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

	31 December 2014						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	more than 5 years
Loans and borrowings	2,773.3	3,024.7	672.9	266.4	500.7	1,584.7	-
Finance lease liabilities	1.6	1.7	0.4	0.4	0.6	0.3	-
Trade and other payables to non-related parties and deposits	117.6	117.6	117.6	-	-	-	-
Trade and other payables to related parties	52.2	52.2	52.2	-	-	-	-
Accruals	115.4	115.4	115.4	-	-	-	-
IRS*	15.4	15.7	3.7	4.8	7.2	-	-
	3,075.5	**3,327.3**	**962.2**	**271.6**	**508.5**	**1,585.0**	**-**

*Pursuant to the agreements settlements shall be on a net basis

The Company may utilize revolving facility line of credit up to the amount of 300 PLN with a final maturity date on 21 September 2020. As at 31 December 2015 the revolving facility was not utilized. As at December 2014 the Company had revolving facility line of credit up to the amount of 500 PLN with a final maturity date on 11 April 2019. The amount of unused revolving facility amounted to PLN 100.

Market risk

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

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

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

The Company applies an integrated approach to market risk management. This means a comprehensive approach to the whole spectrum of identified market risks, rather than to each of them individually. The primary technique for market risk management is the use in the Company of hedging strategies involving derivatives. Apart from this, natural hedging is also used to the extent available.

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

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It is permitted to use the following types of instruments:

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

Currency risk

One of the main risks to which the Company is exposed is currency risk related to fluctuations in the exchange rate between the Polish zloty and other currencies. The revenues generated by the Company are denominated mainly in Polish zloty, however, a portion of operating costs and capital expenditures are incurred in foreign currencies. The Company's currency risk is related to royalties for TV and radio broadcasters (USD and EUR), transponder capacity leases (EUR), fees for conditional access system (EUR) and purchases of reception equipment and accessories for reception equipment (USD and EUR). Since 2011 to May 2014 the level of currency risk exposure has increased because of new financing denominated in EUR obtained to purchase Telewizja Polsat S.A.
In respect of licence fees and transponder capacity leases, the Company partly reduces its currency risk exposure by means of an economic hedge as it denominates receivables from signal broadcast and marketing services in foreign currencies.

The Company did not have any assets held for trading denominated in foreign currencies.

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

	31 December 2015				31 December 2014			
	EUR	**USD**	**GBP**	**CHF**	**EUR**	**USD**	**GBP**	**CHF**
Trade receivables	4.4	6.1	-	-	3.8	0.2	-	-
Cash and cash equivalents	0.2	0.8	-	-	0.3	0.2	-	0.1
Trade payables	(1.5)	(1.9)	-	-	(1.8)	(5.9)	-	-
Gross balance sheet exposure	**3.1**	**5.0**	**-**	**-**	**2.3**	**(5.5)**	**-**	**0.1**
Net exposure	**3.1**	**5.0**	**-**	**-**	**2.3**	**(5.5)**	**-**	**0.1**

Following foreign exchange rates were applied in the presented periods:

	Average rate		Rates at the balance sheet date	
(in PLN)	**2015**	**2014**	**31 December 2015**	**31 December 2014**
1 EUR	4.1839	4.1852	4.2615	4.2623
1 USD	3.7701	3.1551	3.9011	3.5072

For the purposes of exchange rate volatility sensitivity analysis as at 31 December 2015 and 31 December 2014 it was assumed that probable volatility will be in the +/- 5% band. This analysis assumes that all other variables, in particular interest rates, remain constant. The sensitivity analysis below is performed on the same basis for 2014.

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

	2015					2014				
	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	4.4	18.6	5%	0.9	-	3.8	16.4	5%	0.8	-
USD	6.1	23.9	5%	1.2	-	0.2	0.6	5%	-	-
Cash and cash equivalents										
EUR	0.2	0.9	5%	-	-	0.3	1.4	5%	0.1	-
USD	0.8	3.1	5%	0.2	-	0.2	0.7	5%	-	-
GBP	-	-	5%	-	-	-	0.1	5%	-	-
CHF	-	-	5%	-	-	0.1	0.3	5%	-	-
Trade payables										
EUR	(1.5)	(6.6)	5%	(0.3)	-	(1.8)	(7.8)	5%	(0.4)	-
USD	(1.9)	(7.6)	5%	(0.4)	-	(5.9)	(20.8)	5%	(1.0)	-
Change in operating profit				1.6	-				(0.5)	-
Income tax				(0.3)	-				0.1	-
Change in net profit				1.3	-				(0.4)	-

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

	2015					2014				
	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	4.4	18.6	-5%	(0.9)	-	3.8	16.4	-5%	(0.8)	-
USD	6.1	23.9	-5%	(1.2)	-	0.2	0.6	-5%	-	-
Cash and cash equivalents										
EUR	0.2	0.9	-5%	-	-	0.3	1.4	-5%	(0.1)	-
USD	0.8	3.1	-5%	(0.2)	-	0.2	0.7	-5%	-	-
GBP	-	-	-5%	-	-	-	0.1	-5%	-	-
CHF	-	-	-5%	-	-	0.1	0.3	-5%	-	-
Trade payables										
EUR	(1.5)	(6.6)	-5%	0.3	-	(1.8)	(7.8)	-5%	0.4	-
USD	(1.9)	(7.6)	-5%	0.4	-	(5.9)	(20.8)	-5%	1.0	-
Change in operating profit				(1.6)	-				0.5	-
Income tax				0,3	-				(0.1)	-
Change in net profit				(1.3)	-				0.4	-

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

	2015		2014	
	Estimated change in profit in PLN	**Estimated change in other comprehensive income in PLN**	**Estimated change in profit in PLN**	**Estimated change in other comprehensive income in PLN**
Estimated change in exchange rate by 5 %				
EUR	0.5	-	0.4	-
USD	0.8	-	(0.8)	-
GBP	-	-	-	-
CHF	-	-	-	-
Estimated change in exchange rate by -5 %				
EUR	(0.5)	-	(0.4)	-
USD	(0.8)	-	0.8	-
GBP	-	-	-	-
CHF	-	-	-	-

Had the Polish zloty strengthened 5% against the basket of currencies as at 31 December 2015 and 31 December 2014, the Company's net profit would have increased by PLN 1.3 and decreased by PLN 0.4, respectively and other comprehensive income would have been unchanged in 2015 and would have been unchanged in 2014. Had the Polish zloty weakened 5%, the Company's net profit would have correspondingly decreased by PLN 1.3 in 2015 and increased by PLN 0.4 in 2014 and other comprehensive income would have been unchanged in 2015 and would have been unchanged in 2014, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

Interest rate risk

Changes in market interest rates have no direct effect on the Company's revenues, however, they do have an effect on net cash from operating activities due to interest earned on overnight bank deposits and current accounts, and on net cash from financing activities due to interest charged on bank loans.

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

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

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

	Carrying amount	
	31 December 2015	31 December 2014
Fixed rate instruments		
Financial assets*	100.0	10.0
Financial liabilities*	-	(1.4)
Variable rate instruments		
Financial assets*	54.0	13.3
Financial liabilities*	(2,499.0)	(2,810.0)
Net interest exposure	**(2,445.0)**	**(2,796.7)**

* nominal values

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 2015						
Variable rate instruments*	(24.4)	24.4	6.6	(6.6)	(17.8)	17.8
Cash flow sensitivity (net)	**(24.4)**	**24.4**	**6.6**	**(6.6)**	**(17.8)**	**17.8**
31 December 2014						
Variable rate instruments*	(28.0)	28.0	17.0	(17.0)	(11.0)	11.0
Cash flow sensitivity (net)	**(28.0)**	**28.0**	**17.0**	**(17.0)**	**(11.0)**	**11.0**

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

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

Fair value vs. carrying amount

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

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

			31 December 2015		31 December 2014	
	Category according to IAS 39	**Level of the fair value hierarchy**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**
Loans granted	A	2	18.3	18.6	10.5	10.2
Trade and other receivables	A	*	315.8	315.8	262.4	262.4
Cash and cash equivalents	A	*	136.4	136.4	13.3	13.3
Loans and borrowings	C	2	(1,502.6)	(1,486.7)	(2,831.7)	(2,773.3)
Issued bonds	C	2	(1,031.6)	(1,017.7)	-	-
Finance lease liabilities	C	2	-	-	(1.6)	(1.6)
Accruals	C	*	(127.1)	(127.1)	(115.4)	(115.4)
Trade and other payables and deposits	C	*	(142.4)	(142.4)	(169.8)	(169.8)
Total			**(2,333.2)**	**(2,303.1)**	**(2,832.3)**	**(2,774.2)**
Unrecognized gain/(loss)				**(30.1)**		**(58.1)**

A – loans and receivables

B – hedges

C – other liabilities

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

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

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

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

As at 31 December 2015 loans and borrowings comprised senior facility loan and Cash Pool and as at 31 December 2014 senior facility, revolving facility loan and Cash Pool. The discount rate for each payment was calculated as a sum of implied WIBOR interest rate and a margin regarding the Company's credit risk. When determining the fair value of senior facility as at 31 December 2015, forecasted cash flows from the reporting date to 21 September 2020 (assumed date of repayment of the loan) were analyzed. When determining the fair value of senior facility as at 31 December 2014, forecasted cash flows from the reporting date to 11 April 2019 (assumed date of repayment of the loan) 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. The fair value of Cash Pool is set as equal to carrying amount.

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The fair value of bonds as at 31 December 2015 is calculated based on the last bid price as at the balance sheet date as quoted on the Catalyst market.

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

Liabilities measured at fair value

	31 December 2015	Level 1	Level 2	Level3
IRS			(8.3)	
Total		**-**	**(8.3)**	**-**

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

As at 31 December 2014, the Company held the following financial instruments carried at fair value on the statement of financial position:

Liabilities measured at fair value

	31 December 2014	Level 1	Level 2	Level3
IRS			(15.4)	
Total		**-**	**(15.4)**	**-**

Items of income, costs, profit and losses recognized in profit or loss generated by loans and issued bonds (including hedging transactions)

For the period from 1 January 2015 to 31 December 2015	Loans and borrowings	Issued bonds	Hedging instruments	**Total**
Interest expense on loans and borrowings	(98.8)	-	(7.7)	**(106.5)**
Interest expense on issued bonds	-	(19.2)	-	**(19.2)**
Total finance costs	(98.8)	(19.2)	(7.7)	**(125.7)**
Total gross profit/(loss)	**(98.8)**	**(19.2)**	**(7.7)**	**(125.7)**
Hedge valuation reserve	**-**	**-**	**(6.6)**	**(6.6)**

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

For the period from 1 January 2014 to 31 December 2014	Loans and borrowings	Issued bonds	Hedging instruments	**Total**
Interest expense on loans and borrowings	(113.5)	-	(2.9)	**(116.4)**
Interest expense on issued bonds	-	(70.4)	(2.0)	**(72.4)**
Early redemption costs	-	(82.1)	-	**(82.1)**
Foreign exchange rate differences	-	(22.7)	-	**(22.7)**
Total finance costs	(113.5)	(175.2)	(4.9)	**(293.6)**
Total gross profit/(loss)	**(113.5)**	**(175.2)**	**(4.9)**	**(293.6)**
Hedge valuation reserve	**-**	**-**	**(3.9)**	**(3.9)**

Hedge accounting and derivatives

Cash Flow Hedge of interest rate risk of interest payments

At 31 December 2015, the Company held a number of interest rate swaps, designated as hedges of floating interest payments on senior facility denominated in PLN. The interest rate swaps are being used to hedge the interest rate risk of the Company's floating rate financing in PLN.

The terms of the interest rate swaps have been negotiated to match the terms of the floating rate financing in PLN. There were no highly probable transactions for which hedge accounting has been claimed that have not occurred and no significant element of hedge ineffectiveness requiring recognition in the income statement.

Table below presents the basic parameters of IRS designated as hedging instruments, including the periods in which cash flows occur due to cash flow hedges, periods they will affect the financial results and fair value in PLN of hedging instruments as at the balance sheet date.

	31 December 2015	**31 December 2014**
Type of instrument	Interest rate swap	Interest rate swap
Exposure	Floating rate interest payments in PLN	Floating rate interest payments in PLN
Hedged risk	Interest rate risk	Interest rate risk
Notional value of hedging instrument (PLN)	975.0	1,165.0
Fair value of hedging instruments	(8.3)	(15.4)
Hedge accounting approach	Cash Flow Hedge	Cash Flow Hedge
Expected period the hedge item affect income statement	Until 31 December 2016	Until 31 December 2016

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

Change in fair value of cash flow hedges recognized in equity is presented below (pre-tax):

	2015	2014
Opening Balance	**(15.4)**	**(8.0)**
Effective part of gains or losses on the hedging instrument	(0.6)	(16.1)
Reclassification to instruments for which hedge accounting is not adopted	0.1	5.1
Early settlement	-	0.4
Amounts recognized in equity transferred to the profit and loss statement, of which:	7.6	3.2
- adjustment of interest costs	7.6	3.0
- adjustment due to inefficiency of the hedge relationships	-	0.2
Closing Balance	**(8.3)**	**(15.4)**

35. Capital management

This note presents information about the Company's management of capital. Further quantitative disclosures are also included throughout these financial statements.

The goal of capital management is to maintain the Company's ability to operate as a going concern in order to provide the shareholders return on investment as well as benefits for other stakeholders. The Company might issue shares, increase debt or sell assets in order to maintain or improve the equity structure.

The Company monitors capital on the basis of leverage ratio, which is calculated as a ratio of net debt to sum of equity and net debt. Net debt represents interest-bearing loans and borrowings and issued bonds less cash and cash equivalents (including restricted cash).

	Carrying amount	
	31 December 2015	**31 December 2014**
Loans	1,486.7	2,773.3
Issued bonds	1,017.7	-
Cash and cash equivalents	(136.4)	(13.3)
Net debt	**2,368.0**	**2,760.0**
Equity	9,944.2	9,382.9
Equity and net debt	**12,312.2**	**12,142.9**
Leverage ratio	**0.19**	**0.23**

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

36. Barter transactions

The Company is a party to barter transactions. The table below presents revenues and costs of barter transactions executed on an arm's-length basis. Revenue comprise revenue from services, goods and materials sold, costs comprise costs of sales.

	for the year ended	
	31 December 2015	31 December 2014
Revenues from barter transactions	6.4	4.2
Cost of barter transactions	5.9	4.8

	31 December 2015	31 December 2014
Barter receivables	1.0	0.7
Barter payables	0.1	0.3

37. The impact of merger with Redefine Sp. z o.o. on assets, equity and liabilities

On June 30, 2015 the District Court for the Capital City of Warsaw in Warsaw, XIII Business Division for the National Court Register registered the merger of the Company with Redefine Sp. z o.o. ('Redefine') seated in Warsaw.

The merger was effected by:

i. transferring to Company, as the sole shareholder of Redefine, all the assets of Redefine by the way of universal succession, and

ii. termination of Redefine without liquidation.

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

The detailed terms of the merger are specified in the Merger Plan prepared on April 14, 2015 and made publicly available, free of charge, on the website of the Company. The merger was performed in order to optimize costs of operations and simplify the organizational structure of Cyfrowy Polsat Group.

For business combinations under common control the Company applies a method based on historical values as presented in the consolidated financial statements of the parent company (a higher-level parent), which produces consolidated financial statements. The method based on historical values, as applied by the Company, is based on the combination of balance sheets values and results of the merging companies from the date of business combination under common control (not the date of acquisition and establishing control over the merging entity by the capital group). The Company's balance sheet as at the date of business combinations under common control includes relevant assets, equity and liabilities of the merging entity as presented in the consolidated financial statements of the capital group as at the date of the merger, with appropriate eliminations. As a consequence, goodwill, trademark, other assets and liabilities (excluding deferred tax liability) presented in the historical consolidated financial statements are recognized following the merger of the entities. The value of shares held by the Company in the merging entity and the value of equity of the merging entity as at the date of establishing control by the capital group are eliminated. Following this elimination, the difference between assets and liabilities is recognized in the retained earnings. Receivables and liabilities between the Company and the merging entity are also eliminated. The Company's income statement includes financial results of the merging entity from the date of the merger.

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

The merger's effects on the Company's assets and liabilities were as follows:

	Change resulting from the merger as at 30 June 2015
Shares in Redefine	(128.7)
Shares in subsidiaries	20.5*
Other property, plant and equipment	-
Goodwill	145.0
Other intangible assets	6.4
Receivables and other current assets	22.5
Cash and cash equivalents	47.2
Deferred tax asset	3.1
Current liabilities	(6.3)
Total	**109.7**

* includes shares in Polsat Media Biuro Reklamy Sp. z o.o. Sp. k., Poszkole.pl Sp. z o.o. and Polskie Badania Internetu Sp. z o.o. (see note 18).

As a result of the merger, net assets of Cyfrowy Polsat increased by PLN 109.7, which was reflected in a increase in retained earnings.

38. Transactions with related parties

Receivables

	31 December 2015	**31 December 2014**
Subsidiaries	41.1	35.0
Joint ventures	0.3	0.3
Entities controlled by a person (or a close member of that person's family)who has control, joint control or significant influence over reporting entity	0.9	1.3
Total	**42.3**	**36.6**

A significant portion of receivables is represented by receivables related to sale of Polkomtel Sp. z o.o. ('Polkomtel') services.

Other assets

	31 December 2015	**31 December 2014**
Subsidiaries	160.0	28.9
Total	**160.0**	**28.9**

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

Other current assets comprise mainly deferred costs related to the agreement with Polkomtel. More details regarding the above-mentioned agreements are presented in note 43.

Liabilites

	31 December 2015	31 December 2014
Subsidiaries	65.3	63.7
Joint ventures	1.2	1.1
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	3.1	3.1
Total	**69.6**	**67.9**

A significant portion of liabilities is represented by liabilitites related to Polkomtel services, programming licence fees and fees for using “Cyfrowy Polsat” trade mark.

Loans granted

	31 December 2015	31 December 2014
Subsidiaries	3.3	-
Joint ventures	10.7	10.2
Total	**14.0**	**10.2**

Revenues

	for the year ended	
	31 December 2015	31 December 2014
Subsidiaries	101.0	45.2
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	2.1	2.8
Total	**103.1**	**48.0**

The most significant transactions include revenues from sale of materials used in set-top boxes’ production, signal broadcast services, accounting services rendered to subsidiaries, programming fees and property rental.

Expenses

	for the year ended	
	31 December 2015	31 December 2014
Subsidiaries	487.3	302.0
Joint ventures	2.8	2.8
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	18.3	130.6
Total	**508.4**	**435.4**

The most significant transactions include data transfer services.

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

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

Gains on investment activities, net

	for the year ended	
	31 December 2015	**31 December 2014**
Subsidiaries	277.8	170.1
Joint ventures	0.5	0.2
Total	**278.3**	**170.3**

Gains and losses on investment activities comprises mostly of dividends and in 2014 the income from guarantees granted by the Company in respect to settlement of bonds issued by Cyfrowy Polsat Finance AB.

Finance costs

	for the year ended	
	31 December 2015	**31 December 2014**
Subsidiaries	4.2	157.0
Total	**4.2**	**157.0**

Finance costs comprise mostly of interest on bonds (in 2014) and also guarantee fees in respect to settlement of term facilities (including loan which was repaid as well as loan currently taken).

39. Litigations

Management believes that the provisions for litigations as at 31 December 2015 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Company's financial situation. Information regarding the amount of provisions was not separately disclosed, as in the opinion of the Company's Management, such disclosure could prejudice the outcome of the pending cases.

40. Other disclosures

Security relating to loans and borrowings

Establishment of collateral for loan facilities

The Company entered into a series of agreements establishing collateral under the SFA. Detailed information in respect to the agreements is presented in the Management Report in note 4.6.5.

Other securities

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

Contractual liabilities related to purchases of non-current assets

Total amount of capital commitments resulting from agreements on property construction and improvements was PLN 0.0 as at 31 December 2015 (PLN 8.4 as at 31 December 2014). Additionally the amount of deliveries and services committed to under agreements for the purchases of licences and software as at 31 December 2015 was PLN 0.3 (PLN 0.3 as at 31 December 2014).

Contractual liabilities related to purchase of data transfer services

Total amount of capital commitments resulting from agreements on data transfer services as at 31 December 2015 was PLN 1,081.5. Further details presented in note 43.

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

41. Remuneration of the Management Board

The table below presents the remuneration of the Management Board members of the Company in 2015 and 2014.

Name	Function	2015	2014
Tobias Solorz	President of the Management Board (from 8 December 2015), Vice-President of the Management Board (from 10 December 2014 to 7 December 2015), Member of the Management Board (from 1 September 2014 to 9 December 2014)	0.2	0.1
Dariusz Działkowski	Member of the Management Board	0.6	0.6
Tomasz Gillner-Gorywoda	Member of the Management Board (from 8 December 2015), President of the Management Board (from 28 October 2014 to 7 December 2015)	0.7	0.1
Aneta Jaskólska	Member of the Management Board	0.6	0.6
Maciej Stec	Member of the Management Board (from 4 November 2014),	0.1	0.0
Tomasz Szeląg	Member of the Management Board	0.6	0.6
Dominik Libicki	President of the Management Board (until 28 October 2014)	-	0.9
Total		**2.8**	**2.9**

The bonuses payable to each member of the Management Board of the Company for years 2015 and 2014 from the Company and subsidiaries are presented below:

Name	Function	2015	2014
Tobias Solorz	President of the Management Board (from 8 December 2015), Vice-President of the Management Board (from 10 December 2014 to 7 December 2015), Member of the Management Board (from 1 September 2014 to 9 December 2014)	3.5	1.4
Dariusz Działkowski	Member of the Management Board	1.0	0.9
Tomasz Gillner-Gorywoda	Member of the Management Board (from 8 December 2015), President of the Management Board (from 28 October 2014 to 7 December 2015)	2.1	0.6
Aneta Jaskólska	Member of the Management Board	1.5	2.1
Maciej Stec	Member of the Management Board (from 4 November 2014),	1.1	0.9
Tomasz Szeląg	Member of the Management Board	3.2	3.1
Dominik Libicki	President of the Management Board (until 28 October 2014)	-	3.7
Total		**12.4**	**12.7**

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

The table below presents the remuneration of the Management Board of Cyfrowy Polsat S.A. in 2015 and 2014 from other related companies:

Name	Function	2015	2014
Tobias Solorz	President of the Management Board (from 8 December 2015), Vice-President of the Management Board (from 10 December 2014 to 7 December 2015), Member of the Management Board (from 1 September 2014 to 9 December 2014)	1.3	0.4
Dariusz Działkowski	Member of the Management Board	0.0	0.0
Tomasz Gillner-Gorywoda	Member of the Management Board (from 8 December 2015), President of the Management Board (from 28 October 2014 to 7 December 2015)	0.6	0.1
Aneta Jaskólska	Member of the Management Board	0.2	0.0
Maciej Stec	Member of the Management Board (from 4 November 2014),	0.8	0.1
Tomasz Szeląg	Member of the Management Board	0.3	0.1
Dominik Libicki	President of the Management Board (until 28 October 2014)	-	0.1
Total		**3.2**	**0.8**

42. The Supervisory Board remuneration

The Supervisory Board receives remuneration based on the resolution of the Extraordinary General Shareholders' Meeting of Cyfrowy Polsat S.A. dated 5 September 2007.

The table below presents the total remuneration payable to the Supervisory Board members in 2015 and 2014:

Name	Function	2015	2014
Zygmunt Solorz-Żak	President of the Supervisory Board	0.2	0.2
Heronim Ruta	Member of the Supervisory Board	0.1	0.1
Józef Birka	Member of the Supervisory Board	0.1	-
Robert Gwiazdowski	Independent Member of the Supervisory Board	0.1	0.1
Aleksander Myszka	Member of the Supervisory Board	0.1	-
Andrzej Papis	Member of the Supervisory Board	0.0	0.1
Leszek Reksa	Independent Member of the Supervisory Board	0.1	0.1
Total		**0.7**	**0.6**

43. Important agreements and events

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 were 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.

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 were 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.

Listing of Series J shares

The Management Board of the Warsaw Stock Exchange (the WSE) decided that 243.932.490 Series J ordinary bearer shares of the Company shall be listed on the main WSE market as of 20 April 2015 through an ordinary listing procedure. The Company's intention was to have the Series J shares listed on the WSE after the rights related to the Series J shares were made uniform with the shares already listed on the WSE. These rights were made uniform as of 2 April 2015 as a result of the adoption by the General Meeting of the Company of a resolution regarding the distribution of 2014 net profits.

Extraordinary General Meeting of the Company

On 18 August 2015 the Extraordinary General Meeting of the Company adopted a resolution whereby it gives its consent to conclude a pledge agreement and to establish registered pledge on collection of movables and rights constituting the organized entirety with variable composition, being the part of the Company's enterprise. to secure the payments resulting from the facilities agreements.

Amendment, Restatement and Consolidation Deed executed between the parties to the CP Facilities Agreement, PLK Facilities Agreement and certain members of the Group

On 21 September 2015 the Amendment, Restatement and Consolidation Deed was concluded between the Company, Polkomtel Sp. z o.o., Telewizja Polsat Sp. z o.o., Cyfrowy Polsat Trade Marks Sp. z o.o., Polsat License Ltd. and Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością sp.k., Eileme 2 AB (publ), Eileme 3 AB (publ), Eileme 4 AB (publ), Plus TM Management Sp. z o.o., TM Rental Sp. z o.o., Plus TM Group Sp. z o.o. and the consortium of Polish and foreign financing institutions (the "Amendment, Restatement and Consolidation Deed").

According to the Amendment, Restatement and Consolidation Deed, upon repayment of the HY Notes Indebtedness (indebtedness under the senior notes issued on 26 January 2012 by Eileme 2 AB (publ) – a Company's indirect subsidiary), the indebtedness under the PLK Facilities Agreement (facilities agreement between Polkomtel and consortium of financial institutions dated 21 September 2015) will be refinanced using the funds made available under the CP Facilities Agreement, as amended in the Amendment, Restatement and Consolidation Deed. The HY Notes Indebtedness have been repaid on 1 February 2016.

The Amendment, Restatement and Consolidation Deed amends the CP Facilities Agreement as follows:

i. the maximum amount of the CP Term Facility will be PLN 11,500, and the maximum amount of the CP Revolving Facility will be PLN 1,000;
ii. the Company and other Group members will establish additional collaterals for the facilities granted on this basis.

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

Changes in the Management Board of the Company

On 8 December 2015 the Supervisory Board adopted resolutions concerning the following changes in the composition of the Management Board of the Company:

a) appointment of Mr. Tobias Solorz, the hitherto Vice-President of the Management Board, to the position of President of the Management Board as of the date of adoption of the resolution,

b) appointment of Mr. Tomasz Gillner-Gorywoda, the hitherto President of the Management Board, to the position of Member of the Management Board as of the date of adoption of the resolution.

Furthermore, on 8 December 2015 the Supervisory Board adopted a resolution appointing Ms. Agnieszka Odorowicz to the position of Member of the Management Board as of 1 March 2016.

44. Events subsequent to the reporting date

There were no significant events subsequent to reporting date other than those disclosed in the note 43.

45. Judgments, financial estimates and assumptions

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

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

The most significant estimates and assumptions made primarily related to the following:

- *Classification of lease agreements*

The Company classifies leasing agreements as operating or financial based on the assessment as to what extent the risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The assessment is based on the economical substance of each transaction. The Company concludes agreements for the rental of reception equipment (set-top boxes, modems and routers) to its customers in the course of its business operations. These lease agreements are classified as operating leases as the Company holds substantially all the risks and rewards incidental to ownership of the reception equipment. As a part of its business activities the Company has concluded agreements with Eutelsat for the rental of transponder capacity as well as an agreement with Nagravision for the lease of conditional access system (including SMART cards). These agreements were classified as operating leases as Eutelsat and Nagravision hold substantially all the risks and rewards incidental to the ownership of the transponders and the conditional access system. For more information see note 29.

- *Depreciation rates of property, plant and equipment and intangible assets with definite useful lives*

Depreciation rates are based on the expected economic useful lives of property, plant and equipment (including reception equipment provided to customers under lease agreements) and intangible assets. The expected economic useful lives are reviewed on an annual basis based on the experience of the entity.

The economic useful lives of the set-top boxes rented to customers under operating lease agreements are estimated for 5 years, modems and routers 3 years. For information on the useful lives of property, plant and equipment, programming assets and other intangible assets with definite useful lives see notes 5i and 5j. For information on the depreciation charge for the period by the category of property, plant and equipment and intangible assets with definite useful lives see notes 15 and 17.

- *The impairment of goodwill*

The Company performed impairment test on goodwill arising on the acquisition of M.Punkt Holdings and Redefine. The impairment test was based on the value-in-use calculations of the "Services to individual and business customers" cash-generating unit to which the goodwill has been allocated on the initial recognition. The value-in-use calculations included estimation of discounted cash flows for the given cash-generating unit and the relevant discount rate. The value of goodwill tested at each cash-generating unit, the key assumptions used in the value-in-used calculations for each cash-generating unit, impairment test results and sensitivity analysis of reasonably possible changes in the key assumptions are presented in note 16.

- *The impairment of investment in subsidiaries*

The Company analyzed whether any indicators of potential impairment of investments in subsidiaries exist as at the balance sheet date. The analysis did not indicate such impairment indicators therefore the Company did not perform an impairment test for these assets.

- *The impairment of non-financial non-current assets*

As at the reporting date the Company has assessed whether there are any indications that intangible and tangible assets with definite useful lives may be impaired. The impairment loss recognised equals the difference between net book value and recoverable amount. The impairment values are presented in notes 15 and 17.

- *Impairment of receivables*

Judgment is required in evaluating the likelihood of collection of customer debt after revenue has been recognized. This evaluation requires estimates to be made including the level of bad debt allowance made for amounts with uncertain recovery profiles. Allowances are based on the probability of receivables collection, and on more detailed reviews of individually significant balances. Depending on the type of the customer and the source of the receivable, the assessment of the probability of receivable collection is done either based on the analysis of individual balances or based on the statistical probability of recoverability for each receivable's ageing profile. Recoverability rates are defined based on the analysis of the historical recoverability and the customers' behavior as well as other factors that, according to the Management Board, might influence the recoverability of the receivables. For more information see notes 5n, 22 and 34.

- *Provisions for pending litigation*

During the normal course of its operations the Company participates in several court proceedings, usually typical and repeatable and which, on an individual basis, are not material for the Company, its financial standing and operations. The provisions are estimated based on the court documentation and the expertise of the Company's lawyers who participate in the current litigations and who estimate Company's possible future obligations taking the progress of litigation proceedings into account. The Company also recognizes provisions for potential unreported claims resulting from past events, should the Management Board find that the resulting outflow of economic benefits is likely. Provisions regarding probable claims are recognized as a result of Management Board's estimates based on accessible information regarding market rates for similar claims. Management believes that the provisions as at 31 December 2015 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Company's financial situation.

- *Deferred tax*

Deferred taxes are recognised for all temporary differences, as well as for unused tax losses. The key assumption in relation to deferred tax accounting is the assessment of the expected timing and manner of realization or settlement of the carrying amounts of assets and liabilities held at the reporting date. In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deductible temporary differences can be utilized. At the end of the reporting period unrecognised deferred tax assets are re-assessed. A previously unrecognised deferred tax asset is recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. For further details refer to note 5w and 12.

- *Fair value of financial instruments*

Fair value of financial instruments for which there is no active market is estimated using appropriate techniques of measurements. The techniques are chosen based on the professional judgment. For more information about the method of establishing the fair value of financial instruments and key assumption made see note 5g.

CYFROWY POLSAT S.A.

Interim Condensed Financial Statements
for 3 and 12 Months Ended 31 December 2015

Prepared in accordance
with International Financial Reporting Standards
as adopted by the European Union

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

Interim Income Statement

		for 3 months ended		for 12 months ended	
	Note	**31 December 2015 unaudited**	**31 December 2014 unaudited**	**31 December 2015**	**31 December 2014**
Revenue	**5**	554.6	543.6	2,099.6	2,034.6
Operating costs	**6**	(462.0)	(501.7)	(1,750.4)	(1,735.6)
Other operating income/(costs), net		(7.6)	20.5	7.6	22.1
Profit from operating activities		**85.0**	**62.4**	**356.8**	**321.1**
Gain/loss on investment activities, net		14.0	(2.5)	276.9	168.2
Finance costs		(29.8)	(28.6)	(141.1)	(309.5)
Gross profit for the period		**69.2**	**31.3**	**492.6**	**179.8**
Income tax		(15.1)	(7.8)	(46.5)	(2.6)
Net profit for the period		**54.1**	**23.5**	**446.1**	**177.2**
Basic and diluted earnings per share (in PLN)		**0.09**	**0.04**	**0.70**	**0.33**

Interim Statement of Comprehensive Income

	for 3 months ended		for 12 months ended	
	31 December 2015 unaudited	**31 December 2014 unaudited**	**31 December 2015**	**31 December 2014**
Net profit for the period	**54.1**	**23.5**	**446.1**	**177.2**
Items that may be reclassified subsequently to profit or loss:				
Valuation of hedging instruments	1.8	(3.7)	6.6	(3.9)
Income tax relating to hedge valuation	(0.3)	0.7	(1.1)	0.7
Items that may be reclassified subsequently to profit or loss	**1.5**	**(3.0)**	**5.5**	**(3.2)**
Other comprehensive income, net of tax	**1.5**	**(3.0)**	**5.5**	**(3.2)**
Total comprehensive income for the period	**55.6**	**20.5**	**451.6**	**174.0**

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

Interim Balance Sheet – Assets

	31 December 2015	31 December 2014 restated*
Reception equipment	374.6	421.1
Other property, plant and equipment	143.3	164.8
Goodwill	197.0	52.0
Other intangible assets	81.4	75.6
Investment property	12.9	1.8
Shares in subsidiaries	11,424.8	11,498.1
Non-current deferred distribution fees	32.1	35.1
Other non-current assets	43.0	35.3
Total non-current assets	**12,309.1**	**12,283.8**
Inventories	76.0	124.0
Trade and other receivables	323.4	260.5
Income tax receivable	-	26.0
Current deferred distribution fees	86.9	74.5
Other current assets	161.2	30.9
Cash and cash equivalents	136.4	13.3
Total current assets	**783.9**	**529.2**
Total assets	**13,093.0**	**12,813.0**

* Restatement resulting from final purchase price allocation of Metelem (see note 5e in financial statements for the year ended 31 December 2015)

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

Interim Balance Sheet – Equity and Liabilities

	31 December 2015	31 December 2014 restated*
Share capital	25.6	25.6
Share premium	7,174.0	7,174.0
Hedge valuation reserve	(6.7)	(12.2)
Retained earnings	2,751.3	2,195.5
Total equity	**9,944.2**	**9,382.9**
Loans and borrowings	982.0	1,846.2
Issued bonds	975.3	-
Finance lease liabilities	-	0.8
Deferred tax liabilities	97.3	97.7
Deferred income	4.7	4.7
Other non-current liabilities and provisions	10.6	18.5
includes derivative instruments (IRS/CIRS) liabilities	-	*7.0*
Total non-current liabilities	**2,069.9**	**1,967.9**
Loans and borrowings	504.7	927.1
Issued bonds	42.4	-
Finance lease liabilities	-	0.8
Trade and other payables	299.8	316.8
includes derivative instruments (IRS/CIRS) liabilities	*8.3*	*8.4*
Income tax liability	6.2	-
Deposits for equipment	1.6	1.4
Deferred income	224.2	216.1
Total current liabilities	**1,078.9**	**1,462.2**
Total liabilities	**3,148.8**	**3,430.1**
Total equity and liabilities	**13,093.0**	**12,813.0**

* Restatement resulting from final purchase price allocation of Metelem (see note 5e in financial statements for the year ended 31 December 2015)

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

Interim Cash Flow Statement

	for the year ended	
	31 December 2015	31 December 2014
Net profit	**446.1**	**177.2**
Adjustments for:	**(146.6)**	**226.1**
Depreciation, amortization, impairment and liquidation	230.2	222.6
Interest expense	127.6	197.4
Change in inventories	47.9	20.7
Change in receivables and other assets	(171.8)	5.4
Change in liabilities, provisions and deferred income	(18.1)	44.7
Valuation of hedging instruments	6.6	(3.9)
Foreign exchange losses, net	-	22.7
Income tax	46.5	2.6
Net increase in reception equipment provided under operating lease	(138.4)	(193.1)
Dividends income and share in the profits of partnerships	(277.7)	(166.9)
Other adjustments	0.6	73.9
Cash from operating activities	**299.5**	**403.3**
Income tax paid	(15.4)	(27.9)
Interest received from operating activities	1.4	0.9
Net cash from operating activities	**285.5**	**376.3**
Dividends received and shares in the profits of partnerships	272.8	166.9
Merger with subsidiary	47.2	-
Proceeds from forward instruments (USD)	-	8.1
Proceeds from sale of property, plant and equipment	1.2	0.8
Loans granted	(7.8)	(10.0)
Acquisition of property, plant and equipment	(18.0)	(28.8)
Acquisition of intangible assets	(23.8)	(34.6)
Share capital increase in subsidiaries and acquisition of shares	(34.9)	(883.7)
Net cash (used in)/from investing activities	**236.7**	**(781.3)**
Term loans received	1,320.0	2,800.0
Issuance of bonds/(bonds redemption)	1,000.0	(1,472.0)
Payment of interest on loans, borrowings, bonds, finance lease and commissions*	(84.1)	(269.6)
Net cash from Cash Pool with paid interest	(84.7)	326.8
Proceeds from realization of forward instruments (EUR)	-	3.0
Finance lease – principal repayments	(0.3)	(2.1)
Payment of share issuance-related consulting costs	-	(3.9)
Dividend paid	-	(102.9)
Repayment of loans and borrowings	(2,550.0)	(887.1)
Net cash (used in)/from financing activities	**(399.1)**	**392.2**
Net decrease in cash and cash equivalents	**123.1**	**(12.8)**
Cash and cash equivalents at the beginning of the year	**13.3**	**26.1**
Effect of exchange rate fluctuations on cash and cash equivalents	-	-
Cash and cash equivalents at the end of the year	**136.4**	**13.3**

* Includes impact of hedging instruments, premium paid for early bonds' repayment and amount paid for costs related to new financing

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Interim Statement of Changes in Equity for the year ended 31 December 2015

	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total Equity**
Balance as at 1 January 2015	**25.6**	**7,237.4**	**(12.2)**	**2,195.5**	**9,446.3**
Restatement resulting from purchase price allocation of Metelem**	-	(63.4)	-	-	**(63.4)**
Balance as at 1 January 2015 restated **	**25.6**	**7,174.0**	**(12.2)**	**2,195.5**	**9,382.9**
Merger with Redefine Sp. z o.o.	-	-	-	109.7	**109.7**
Total comprehensive income	-	-	5.5	446.1	**451.6**
Hedge valuation reserve	-	-	*5.5*	-	***5.5***
Net profit for the period	-	-	-	446.1	***446.1***
Balance as at 31 December 2015	**25.6**	**7,174.0**	**(6.7)**	**2,751.3**	**9,944.2**

Interim Statement of Changes in Equity for the year ended 31 December 2014

	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total Equity**
Balance as at 1 January 2014	**13.9**	**1,295.1**	**(9.0)**	**2,121.2**	**3,421.2**
Issue of shares	11.7	5,878.9**	-	-	**5,890.6**
Dividend declared and paid	-	-	-	(102.9)	**(102.9)**
Total comprehensive income	-	-	(3.2)	177.2	**174.0**
Hedge valuation reserve	-	-	*(3.2)*	-	***(3.2)***
Net profit for the period	-	-	-	*177.2*	***177.2***
Balance as at 31 December 2014 restated**	**25.6**	**7,174.0**	**(12.2)**	**2,195.5**	**9,382.9**

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

** Restatement resulting from final purchase price allocation of Metelem (see note 5e in financial statements for the year ended 31 December 2015)

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Notes to the Interim Condensed Financial Statements for 3 and 12 months Ended 31 December 2015

1. Activity of the Company

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

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

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

2. Composition of the Management Board of the Company

- Tobias Solorz	President of the Management Board (from 8 December 2015), Vice-President of the Management Board (from 10 December 2014 to 7 December 2015),
- Dariusz Działkowski	Member of the Management Board,
- Tomasz Gillner-Gorywoda	Member of the Management Board (from 8 December 2015), President of the Management Board (from 28 October 2014 to 7 December 2015),
- Aneta Jaskólska	Member of the Management Board,
- Maciej Stec	Member of the Management Board.
- Tomasz Szeląg	Member of the Management Board.

3. Composition of the Supervisory Board of the Company

- Zygmunt Solorz-Żak	President of the Supervisory Board,
- Józef Birka	Member of the Supervisory Board (from 3 April 2015),
- Robert Gwiazdowski	Member of the Supervisory Board,
- Aleksander Myszka	Member of the Supervisory Board (from 3 April 2015),
- Andrzej Papis	Member of the Supervisory Board (until 2 April 2015),
- Leszek Reksa	Member of the Supervisory Board,
- Heronim Ruta	Member of the Supervisory Board.

4. Basis of preparation of the interim condensed financial statements

Statement of compliance

These interim condensed financial statements for 3 and 12 months ended 31 December 2015 have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting*. These interim condensed financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The Company applied the same accounting policies in the preparation of the financial data for 3 and 12 months ended 31 December 2015 and the financial statements for the year 2014, presented in the annual report, except for the EU-endorsed standards and interpretations which are effective for the reporting periods beginning on or after 1 January 2015.

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

The most recent published annual financial statements were prepared and audited for the year ended 31 December 2015. Annual financial statements fully disclose accounting policies approved by the Company.

5. Revenue

	for 3 months ended		for 12 months ended	
	31 December 2015 unaudited	**31 December 2014 unaudited**	**31 December 2015**	**31 December 2014**
Retail revenue	507.9	496.3	1,967.8	1,913.0
Wholesale revenue	14.8	11.6	45.7	39.5
Sale of equipment	25.1	26.0	59.3	54.5
Other revenue	6.8	9.7	26.8	27.6
Total	**554.6**	**543.6**	**2,099.6**	**2,034.6**

6. Operating costs

	for 3 months ended		for 12 months ended	
	31 December 2015 unaudited	**31 December 2014 unaudited**	**31 December 2015**	**31 December 2014**
Content costs	131.0	134.3	527.3	517.2
Technical costs and costs of settlements with telecommunication operators	95.9	101.3	340.7	288.5
Distribution, marketing, customer relation management and retention costs	85.6	94.6	317.1	332.4
Depreciation, amortization, impairment and liquidation	56.3	59.0	230.2	222.6
Salaries and employee-related costs	31.6	37.8	120.0	131.9
Cost of equipment sold	25.3	31.9	69.3	71.3
Cost of debt collection services and bad debt allowance and receivables written off	3.4	9.6	23.4	39.2
Other costs	32.9	33.2	122.4	132.5
Total	**462.0**	**501.7**	**1,750.4**	**1,735.6**