CYFROWY POLSAT S.A.

CAPITAL GROUP

Interim Consolidated Report
for the six month period ended
June 30, 2017

Place and date of publication: Warsaw, August 24, 2017
Place and date of approval: Warsaw, August 23, 2017

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REPORT OF THE MANAGEMENT BOARD ON THE ACTIVITIES OF CYFROWY POLSAT S.A. CAPITAL GROUP FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2017

POLSAT GROUP AT A GLANCE

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

- pay digital TV services offered by Cyfrowy Polsat – the largest pay TV provider in Poland and one of the leading satellite platforms in Europe. We offer our customers access to about 180 TV channels, including over 80 channels in high definition standard, as well as additional modern OTT services (e.g. Cyfrowy Polsat GO, PPV, VOD) and Multiroom. We also provide online video services through IPLA, the leader on Poland's online video market, by offering them in a subscription and transaction (PPV) model, as well as free of charge (financed by advertising revenue);

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

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

- broadcasting and television production through Telewizja Polsat, leading commercial TV broadcaster on the Polish market, offering 24 popular TV channels (17 in HD standard), including our main channel POLSAT, one of the leading FTA channels in Poland;

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

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

Our mission and main strategic goals

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

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

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

DISCLAIMERS

This constitutes the semi-annual report of Cyfrowy Polsat Capital Group S.A. prepared as required by Paragraph 82 section 1 and 2 and Paragraph 90 of the Ordinance of the Minister of Finance of February 19, 2009 on current and periodic reports published by the issuers of securities and the conditions of recognizing as equal the information required by the laws of non-member states.

Presentation of financial data and other information

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

Financial and operating data

This Report contains financial statements and financial information relating to the Company and the Group. In particular, this Report contains our interim condensed consolidated financial statements for the 6-month period ended June 30, 2017 and the interim condensed financial statements for the 6-month period ended June 30, 2017. The financial statements attached to this interim Report have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and are presented in millions of zlotys. The financial statements were not audited, however, the interim condensed consolidated financial statements for the 6-month period ended June 30, 2017 and the interim condensed financial statements for the 6 months ended June 30, 2017 were reviewed by an independent auditor.

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

Currency presentation

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

Forward looking statements

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

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

Industry and market data

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

- Eurostat, for data relating to the Polish economy and GDP growth;
- the Polish Chamber of Electronic Communication;
- the Office of Electronic Communications (UKE);
- the Central Statistical Office of Poland (GUS);
- the Body of European Regulators for Electronic Communications (BEREC);
- the European Commission (Digital Agenda Scoreboard);
- Nielsen Audience Measurement;
- Starcom (previously SMG Starlink);
- IAB AdEX;
- PwC (Global entertainment and media outlook: 2016-2020);
- Zenith media house;
- Gemius/PBI;
- PMR – *Telecommunication market in Poland 2016. Market analysis and forecasts for the years 2016-2021*;
- PMR – *Pay TV market in Poland 2016. Market analysis and forecasts for the years 2016-2021*;
- PMR – *Integrated telecommunications services market in Poland 2016;*
- GfK Polonia;
- e-marketer;
- Ericsson Mobility Report; and
- operators functioning on the Polish market.

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

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

FINANCIAL DATA OVERVIEW

The following tables set out selected consolidated financial data for the 3 and 6-month periods ended June 30, 2017 and June 30, 2016. The selected financial data presented in the tables below is expressed in millions PLN, unless otherwise stated. This information should be read in conjunction with interim condensed consolidated financial statements for the 6-month period ended June 30, 2017 and the information included in item 4 of this Report – *Operating and financial review of Polsat Group*.

Selected financial data:

- from the consolidated income statement for the 3-month periods ended June 30, 2017 and June 30, 2016 have been converted into euro at a rate of PLN 4.2169 per EUR 1.00, being the average of monthly average exchange rates announced by the NBP in the reporting period i.e. from April 1, 2017 to June 30, 2017;

- from the consolidated income statement and the consolidated cash flow statement for the 6-month periods ended June 30, 2017 and June 30, 2016 have been converted into euro at a rate of PLN 4.2705 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, 2017 to June 30, 2017;

- from the consolidated balance sheet data as at June 30, 2017 and December 31, 2016 have been converted into euro at a rate of PLN 4.2265 per EUR 1.00 (average exchange rate published by NBP on June 30, 2017).

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

It should be noted that data for the periods of 3 and 6 months ended June 30, 2017 are not fully comparable to data for the periods of 3 and 6 months ended June 30, 2016 due to the acquisition on September 30, 2016 of 100% of shares of IT Polpager S.A., and the acquisition on February 29, 2016 of 100% shares of Litenite Limited, the direct parent of Aero2 Group (formerly Midas Group).

Consolidated balance sheet

	June 30, 2017		December 31, 2016	
	mPLN	mEUR	mPLN	mEUR
Cash and cash equivalents(1)	1,362.6	322.4	1,336.7	316.3
Assets	27,317.5	6,463.4	27,729.3	6,560.8
Non-current liabilities	11,262.2	2,664.7	12,670.5	2,997.9
Non-current financial liabilities	9,805.3	2,320.0	11,159.3	2,640.3
Current liabilities	4,330.2	1,024.5	3,681.2	871.0
Current financial liabilities	1,856.0	439.1	1,317.4	311.7
Equity	11,725.1	2,774.2	11,377.6	2,692.0
Share capital	25.6	6.1	25.6	6.1

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

Consolidated cash flow statement

	for the 6-month period ended June 30			
	2017		2016	
	mPLN	mEUR	mPLN	mEUR
Net cash from operating activities	1,519.4	355.8	1,376.0	322.2
Net cash from/(used in) investment activities	(367.5)	(86.1)	(864.7)	(202.5)
Net cash used in financial activities	(1,122.3)	(262.8)	(1,080.0)	(252.9)
Net increase in cash and cash equivalents	29.6	6.9	(568.7)	(133.2)

Consolidated income statement

	for the 3 month period ended June 30				for the 6 month period ended June 30			
	2017		2016		2017		2016	
	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR
Revenue	2,469.9	585.7	2,442.9	579.3	4,858.5	1,137.7	4,806.9	1,125.6
Retail revenue	1,533.3	363.6	1,586.9	376.3	3,076.0	720.3	3,152.6	738.2
Wholesale revenue	652.3	154.7	645.0	153.0	1,214.4	284.4	1,244.8	291.5
Sale of equipment	243.3	57.7	191.1	45.3	491.9	115.2	363.9	85.2
Other sales revenue	41.0	9.7	19.9	4.7	76.2	17.8	45.6	10.7
Total operating cost	(1,962.8)	(465.5)	(2,042.0)	(484.2)	(3,901.0)	(913.5)	(3,990.0)	(934.3)
Technical costs and cost of settlements with mobile network operators	(483.5)	(114.7)	(456.6)	(108.3)	(951.7)	(222.9)	(1,006.9)	(235.8)
Depreciation, amortization, impairment and liquidation	(446.7)	(105.9)	(527.5)	(125.1)	(919.0)	(215.2)	(951.2)	(222.7)
Cost of equipment sold	(318.8)	(75.6)	(317.3)	(75.2)	(642.4)	(150.4)	(644.1)	(150.8)
Content costs	(298.4)	(70.8)	(316.3)	(75.0)	(562.7)	(131.8)	(564.8)	(132.3)
Distribution, marketing, customer relation management and retention costs	(215.9)	(51.2)	(202.2)	(47.9)	(427.0)	(100.0)	(402.7)	(94.3)
Salaries and employee-related costs	(133.7)	(31.7)	(138.2)	(32.8)	(261.5)	(61.2)	(276.1)	(64.7)
Cost of debt collection services and bad debt allowance and receivables written off	(16.3)	(3.9)	(16.3)	(3.9)	(35.6)	(8.3)	(25.9)	(6.1)
Other costs	(49.5)	(11.7)	(67.6)	(16.0)	(101.1)	(23.7)	(118.3)	(27.7)
Other operating income, net	9.9	2.4	6.6	1.6	16.7	3.9	13.4	3.1
Profit from operating activities	517.0	122.6	407.5	96.6	974.2	228.1	830.3	194.4
Gain/(loss) on investment activities, net	(14.4)	(3.4)	(21.4)	(5.1)	16.1	3.8	(56.6)	(13.3)
Financial costs	(113.3)	(26.9)	(133.2)	(31.6)	(298.8)	(70.0)	(315.9)	(74.0)
Share of the profit of jointly controlled entity accounted for using the equity method	-	-	(0.8)	(0.2)	-	-	-	-
Gross profit for the period	389.3	92.3	252.1	59.7	691.5	161.9	457.8	107.2
Income tax	(107.6)	(25.5)	(21.2)	(5.0)	(138.4)	(32.4)	(48.4)	(11.3)
Net profit for the period	281.7	66.8	230.9	54.7	553.1	129.5	409.4	95.9
Net profit attributable to equity holders of the Parent	291.2	69.1	237.7	56.4	570.6	133.6	413.2	96.8
Net profit/(loss) attributable to non-controlling interest	(9.5)	(2.3)	(6.8)	(1.6)	(17.5)	(4.1)	(3.8)	(0.9)
Basic and diluted earnings per share in PLN (not in millions)	0.44	0.10	0.37	0.09	0.86	0.20	0.64	0.15
Weighted number of issued shares	639,546,016		639,546,016		639,546,016		639,546,016	

Other consolidated financial data

	for the 3-month period ended June 30				for the 6-month period ended June 30			
	2017		2016		2017		2016	
	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR
EBITDA[(1)]	963.7	228.5	935.0	221.7	1,893.2	443.4	1,781.5	417.2
EBITDA margin	39.0%	39.0%	38.3%	38.3%	39.0%	39.0%	37.1%	37.1%
Operating margin	20.9%	20.9%	16.7%	16.7%	20.1%	20.1%	17.3%	17.3%
Capital expenditures[(2)]	210.9	50.0	122.1	29.0	383.0	89.7	240.8	56.4

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

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

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

1. Organization of Cyfrowy Polsat S.A. Capital Group

1.1. Composition and structure of Polsat Group

The following table presents the organizational structure of Polsat Group as at June 30, 2017 and December 31, 2016, indicating the consolidation method.

Company name	Registered office	Activity	Share in voting rights (%) as at	
			June 30, 2017	December 31, 2016
Parent Company				
Cyfrowy Polsat S.A.	Łubinowa 4a, 03-878 Warsaw	radio, TV and telecommunication activities	n/a	n/a
Subsidiaries consolidated using the full consolidation method				
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	non-current assets and intellectual property rights management	100%	100%
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	television broadcasting and production	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o. Sp. k.	Ostrobramska 77, 04-175 Warsaw	advertising activities	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	media	100%	100%
Polsat License Ltd.	Alte Landstrasse 17, 8863 Buttikon, Switzerland	trade of programming licenses	100%	100%
Polsat Ltd.	238A King Street, London W6 0RF, Great Britain	television broadcasting	100%	100%
Muzo.fm Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	radio broadcasting and production	100%	100%
Telewizja Polsat Holdings Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	holding activities, television broadcasting and production	-	100%
Polsat Brands AG	Alte Landstrasse 17, 8863 Buttikon, Switzerland	intellectual property rights management	100%	100%
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	radio and TV activities	100%	100%
CPSPV1 Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	technical services	100%	100%
CPSPV2 Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	technical services	100%	100%
PL 2014 Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	other sport related activities	100%	100%
Metelem Holding Company Limited	Chrysanthou Mylona 3 Office no. 102 CY 3030 Limassol, Cyprus	holding and financial activities	-	100%
Eileme 1 AB (publ)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	100%
Eileme 2 AB (publ)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	100%
Eileme 3 AB (publ)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	100%

Company name	Registered office	Activity	Share in voting rights (%) as at	
			June 30, 2017	December 31, 2016
Eileme 4 AB (publ)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	100%
Polkomtel Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	telecommunication activities	100%	100%
Nordisk Polska Sp. z o.o.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	100%	100%
Polkomtel Finance AB (publ) (in liquidation)	Norrlandsgatan 18, 111 43 Stockholm, Sweden	financial activities	-	100%
Liberty Poland S.A.	Katowicka 47, 41-500 Chorzów	telecommunication activities	100%	100%
Polkomtel Business Development Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	other activities supporting financial services, gaseous fuels trading activities	100%	100%
Plus TM Management Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	intellectual property rights management and rental	100%	100%
LTE Holdings Limited	Kostaki Pantelidi 1, 1010 Nicosia, Cyprus	holding activities	-	100%
TM Rental Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	intellectual property rights rental	100%	100%
IT Polpager S.A.	Al. Stanów Zjednoczonych 61 A, 04-028 Warsaw	maintenance of telco network	-	100%
Litenite Limited	Kostaki Pantelidi 1, 1010 Nicosia, Cyprus	holding activities	100%	100%
Aero2 Sp. z o.o.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	100%	100%
Sferia S.A.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	51%	51%
AltaLog Sp. z o.o.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	software	66%	66%
Orsen Holding Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Orsen Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Grab Sarl	6, rue Eugène Ruppert L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	100%	100%
Dwa Sp. z o.o.	Al. Jerozolimskie 81, 02-001 Warsaw	holding activities	100%	100%
Grab Investment SCSp	6, rue Eugène Ruppert L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	-	100%
IB 1 FIZAN	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	financial activities	(1)	(1)
Interphone Service Sp. z o.o.	Inwestorów 8, 39-300 Mielec	production of set-top boxes	100%	100%
Teleaudio Dwa Sp. z o.o. Sp.k.	Al. Jerozolimskie 81, 02-001 Warsaw	premium-rate services	100%	100%

Company name	Registered office	Activity	Share in voting rights (%) as at	
			June 30, 2017	December 31, 2016
Subsidiaries consolidated using the equity method				
Polsat JimJam Ltd.	105-109 Salusbury Road London NW6 6RG, Great Britain	television activities	50%	50%
Polski Operator Telewizyjny Sp. z o.o.	Wiertnicza 159, 02-952 Warsaw	radio communications and radio diffusion	50%	50%
New Media Ventures Sp. z o.o.	Wołoska 18, 02-675 Warsaw	maintenance of loyalty programs	49.97%	49.97%
Paszport Korzyści Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	maintenance of loyalty programs	49%	49%

(1) Cyfrowy Polsat owns indirectly 100% of certificates.

Additionally, the following entities were included in the consolidated financial statements for the 6-month period ended June 30, 2017:

Company name	Registered office	Activity	Share in voting rights (%) as at	
			June 30, 2017	December 31, 2016
Karpacka Telewizja Kablowa Sp. z o.o. (1)	Warszawska 220, 26-600 Radom	dormant	99%	99%
Polskie Badania Internetu Sp. z o.o.	Al. Jerozolimskie 65/79, 00-697 Warsaw	web portals activities	4.55%	4.55%
InPlus Sp. z o.o.	Wilczyńskiego 25e/216 10-686 Olsztyn	infrastructure projects advisory	1.5%(2)	1.5%(2)

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

Changes in the organizational structure of Polsat Group and their effects

From January 1, 2017 until the date of approval of this Report, the following changes were implemented to the structure of Polsat Group. These changes are the effect of the systematically executed process of simplifying the capital structure of the Group. The simplification of the Group's structure entails, among other things, improved efficiency of financial management and the elimination of redundant costs. What is more, is translates into greater credibility and transparency of Polsat Group, which in turn has a positive influence on the possibilities of obtaining and using external debt financing.

Date	Change
March 31, 2017	Registration of the merger of Polkomtel with IT Polpager S.A.
April 7, 2017	Registration of the cross-border merger of Cyfrowy Polsat with Metelem Holding Company Limited.
April 28, 2017	Registration of the merger of Telewizja Polsat Sp. z o.o. with Telewizja Polsat Holdings Sp. z o.o.
June 8, 2017	Registration of the liquidation of Grab Investment SCSp.
June 19, 2017	Disposal of shares of LTE Holdings Ltd.
June 29, 2017	Registration of the liquidation of Polkomtel Finance AB.
July 20, 2017	Registration of the liquidation of Grab Sarl.

In the second quarter of 2017 we began the process aimed at completing the cross-border merger of Cyfrowy Polsat and the companies Eileme 1, Eileme 2, Eileme 3 and Eileme 4, which was reflected in the decisions made by the General Meeting of Shareholders convened on June 27, 2017.

1.2. Shareholders holding material bundles of shares of Cyfrowy Polsat

The following table presents shareholders of Cyfrowy Polsat possessing – according to our best knowledge – no less than 5% of votes at the General Meeting of the Company as at the date of approval of this Report, ie. on August 23, 2017. Information included in the table is based in particular on 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%
Embud2 Sp. z o.o. Sp. K-A (2)	58,063,948	9.08%	58,063,948	7.09%
Karswell Limited (2)	157,988,268	24.70%	157,988,268	19.29%
Sensor Overseas Limited (3), including:	55,092,796	8.61%	82,005,421	10.01%
- privileged registered shares	26,912,625	4.21%	53,825,250	6.57%
- ordinary bearer shares	28,180,171	4.41%	28,180,171	3.44%
Others	214,196,708	33.49%	214,196,708	26.16%
Total	639,546,016	100.00%	818,963,517	100.00%

(1) Reddev Investments Limited is an indirect subsidiary Mr. Zygmunt Solorz.
(2) Previously Embud Sp. z o.o., entity controlled by Mr. Zygmunt Solorz.
(3) Entity controlled by EVO Foundation with its registered seat in Vadus, Liechtenstein.

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

On May 12, 2017, the company Embud Sp. z o.o., a shareholder of the Company, has been transformed into Embud 2 Sp. z o.o. Spółka Komandytowo-Akcyjna with its registered office in Warsaw, Registered in the register of entrepreneurs maintained by the District Court for the Capital City of Warsaw in Warsaw, XIII Commercial Division of the National Court Registry under the KRS number 0000676753.

On July 17, 2017, the Company received a notification from Sensor Overseas Limited, provided under article 69 of the Act dated July 29, 2005 on Public Offerings, Conditions Governing the Introduction of Financial Instruments to Organized Trading and Public Companies regarding the direct acquisition by Sensor of shares in the Company on July 12, 2017.

Pursuant to the abovementioned notification, on July 12, 2017 Sensor acquired 171,250 privileged registered shares of the Company. As a result, Sensor currently holds directly 55,092,796 shares in the Company, constituting 8.61% of the Company's share capital, which represents 82,005,421 votes at the general meeting of the Company constituting 10.01% of the total number of votes in the Company. The abovementioned shares include:

– 26,912,625 privileged registered shares constituting 4.21% of the Company's share capital, representing 53,825,250 votes at the general meeting of the Company, which constitutes 6.57% of the total number of votes in the Company, and
– 28,180,171 bearer shares constituting 4.41% of the Company's share capital, representing 28,180,171 votes at the general meeting of the Company, which constitutes 3.44% of the total number of votes in the Company.

Prior to the transaction described above Sensor held directly 54,921,546 shares in the Company, constituting 8.59% of the Company's share capital, which represented 81,662,921 votes at the general meeting of the Company constituting 9.97% of the total number of votes in the Company. The abovementioned shares included:

– 26,741,375 privileged registered shares constituting 4.18% of the Company's share capital, representing 53,482,750 votes at the general meeting of the Company, which constituted 6.53% of the total number of votes in the Company, and
– 28,180,171 bearer shares constituting 4.41% of the Company's share capital, representing 28,180,171 votes at the general meeting of the Company, which constituted 3.44% of the total number of votes in the Company.

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

To the Company's best knowledge members of the Management Board did not hold any shares of the Company, directly and indirectly, as at the date of approval of this Report, i.e. August 23, 2017 as well as at the date of publication of the previous interim report, i.e. May 11, 2017 (quarterly report for the first quarter of 2017).

To the Company's best knowledge as at the date of approval of this Report, i.e. August 23, 2017, Mr. Aleksander Myszka, Member of the Supervisory Board, held directly 50.000 shares of the Company with the nominal value of PLN 2,000.00. To the Company's best knowledge the remaining Members of the Supervisory Board did not hold any shares of the Company, directly and indirectly, as at the date of approval of this Report, i.e. August 23, 2017.

2. Business review of Polsat Group

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

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

In the segment of services to individual and business customers we provide services including digital television transmission signal, Internet access services, mobile TV services, video online, mobile services, wholesale services for other telecommunications operators as well as sales of telecommunication equipment and production of set-top boxes. As at June 30, 2017 we had 5.8 million contract customers and companies from our Group provided a total of over 16.2 million active services, including almost 13.4 million contract RGUs.

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

2.1. Segment of services to individual and business customers

Pay TV

We are the largest pay TV provider in Poland and a leading satellite platform in Europe in terms of the number of customers. Since 2006 we are the leader on the Polish market in terms of the number of active services as well as market share, providing satellite TV services to approximately 3.5 million subscribers. We actively expand our pay TV offer by adding additional services, such as Multiroom or paid video online subscriptions, providing almost 4.9 million pay TV services as at June 30, 2017.

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

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

As the only operator in Poland, we offer our subscribers our own high-quality set-top boxes at affordable prices. Currently, set-top boxes manufactured by us constitute a vast majority of all set-top boxes sold or otherwise made available to our pay TV customers.

Online video

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

IPLA online television offers the largest database of legal video content and live broadcasts: 88 online TV channels, ca. 200 hours monthly of live coverage of major national and international sports events, a vast and regularly expanded library of feature films, TV series and television programs provided by both Polish and international licensors. IPLA offers its users access to content in the free of charge model accompanied by advertisements and the paid model, as well as the possibility of downloading selected content and viewing it offline. Over 90% of IPLA VOD content is available free of charge, whereas advertisements constitute the source of revenue.

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

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

Mobile telephony

We provide mobile telephony services mainly through our subsidiary Polkomtel, Plus network operator. Polkomtel is one of the leading Polish mobile telecommunications network operators. As at June 30, 2017 we provided over 9.4 million mobile telephony services under both the post-paid and pre-paid models.

We offer a comprehensive array of mobile telecommunications services under the established umbrella brand “Plus” and our additional brand “Plush,” as well as under the brands of companies belonging to Aero2 Group. Our offer includes retail services, comprising contract and prepaid voice services, as well as data transmission services encompassing basic mobile broadband services, MMS, value added services such as entertainment or information and comprehensive convergent telecommunication services for large businesses. Additionally, our mobile telephony offer is complemented with a wide portfolio of handsets and smartphones, including devices which support the LTE technology. Our retail mobile telephony offering is addressed to individual and business customers, including major corporate accounts, small and medium-sized enterprises, and the SOHO (Small Office/Home Office) segment.

Broadband Internet

In 2011, we were the first commercial service provider in Poland to launch an LTE-based broadband Internet access service, offering technical features and quality parameters which allow to compete effectively with fixed-line Internet services, thus meeting the increasing demand of consumers. In addition, LTE-based broadband access offers mobility, which is a significant feature for a significant number of consumers. In January 2017, our LTE Internet and HSPA/HSPA+ Internet covered 99% and nearly 100% of Poland’s population, respectively. In 2016 we also launched the LTE-Advanced technology on a commercial scale, and in January 2017 40% of the population of Poland was within the coverage footprint of our network. As at June 30, 2017, we provided nearly 2.0 million broadband Internet access services, mostly in the contract model.

We provide a comprehensive array of data services to both residential and business customers under two alternative brands: Plus and Cyfrowy Polsat. We also offer broadband Internet in the contract and prepaid model. Moreover, thanks to our LTE Internet access service combined with the set Home LTE Internet, created specifically for Cyfrowy Polsat and Polkomtel, we can offer customers a product that constitutes an excellent substitute for fixed-line Internet. Additionally, pursuant to the provisions of the concession related to the purchase of the 2.6 GHz band, our subsidiary Aero2 provides free of charge Internet access services, however with limited parameters (BDI offer).

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

Bundled services

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

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

Our bundled services offer is based on a simple and flexible mechanism - a customer subscribed to one service with a specified value who purchases additional products of our Group, obtains attractive discounts throughout the entire term of the contract. Currently, the offer, marketed under the slogan “smartDOM Home Savings Program,” provides a choice of nine products and services. In the second quarter of 2017 we have opened the bundled services offer to customers, who subscribe to services in low-end tariffs. As a result, customers of our low-end pay TV packages now have the opportunity to additionally purchase mobile telephony services with attractive discounts.

smartFIRMA (smartCOMPANY) is a similar program addressed to business customers, which allows to combine mobile telephony, LTE Internet and fixed-line voice services. The program also includes banking products, electric energy supply, as well as a wide portfolio of supplementary services which support and enhance business.

Wholesale business

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

Network interconnection

Our telecommunications infrastructure used in interconnection cooperation enables us to effectively manage telecommunications traffic routing to all operators domestically and abroad.

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

Shared access to network assets and lease of telecommunications infrastructure

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

International roaming

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

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

National roaming and virtual operators (MVNOs)

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

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

Mobile Virtual Network Operators (MVNOs) are operators that provide mobile telephony, data services and fixed-lined telephony services based on mobile networks, but do not own frequency allocations nor necessarily have all technical infrastructure required to provide telecommunications services. Their operation is typically based on the frequency allocations and the infrastructure of existing MNOs throughout the country.

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

2.2. Broadcasting and television production segment

Our portfolio comprises 24 channels (17 available in HD) including our flagship POLSAT, available in SD and HD formats and 23 thematic channels.

The main channel POLSAT, broadcast since December 5, 1992, was the first commercial channel in Poland to obtain the nationwide license for analogue broadcasting. POLSAT is one of the leading Polish TV channels in terms of share in the commercial audience group (viewers aged 16-49, including time-shifted viewership Live+2, i.e. for two consecutive days after the original airing date), totaling 12.66% in the second quarter of 2017 and 12.61% in the first half of 2017. POLSAT broadcasts daily, 24/7. The channel is available via digital terrestrial TV on the second multiplex (MUX-2) on local multiplexes (MUX-L4 and MUX-TVS). Apart from terrestrial signal, POLSAT is also available in SD and HD formats on most cable networks and satellite platforms. The channel features a broad selection of films, entertainment shows, news and commentaries, Polish and foreign TV series, as well as popular sporting events.

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

Thematic channel	Description
Polsat Sport Polsat Sport HD	Sports channel broadcasting major sports events in Poland and worldwide (volleyball, athletics, football, handball, world class boxing and MMA contests), which include live broadcast.
Polsat Sport Extra Polsat Sport Extra HD	Sports channel broadcasting premium sport events, primarily the largest international tennis tournaments such as Wimbledon and handball Champions League.
Polsat Sport News HD	Sports channel dedicated to sports news. Broadcast within the DTT technology until January 1, 2017, since January 2, 2017 available only from cable and satellite networks.
Polsat Sport Fight HD	Channel dedicated to martial arts, broadcasting, among others, professional boxing galas and mixed martial arts, as well as coverages of Polsat Boxing Night.
Polsat Film Polsat Film HD	Movie channel broadcasting movie hits, top box office productions and non-mainstream movies from a library of major US movie studios.
Polsat Cafe HD	Channel dedicated to women focusing on lifestyle, fashion and gossip as well as talk-shows.
Polsat Play HD	Channel dedicated to men, focusing on consumer gadgets, the automotive industry, angling and cult series.
Polsat 2 HD	Channel broadcasting reruns of programs that premiered on our other channels.
Polsat News HD	24-hour news channel broadcasting live shows and covering primarily news from Poland and key international events.
Polsat News 2	News channel offering debates on politics, business and world economy, as well as programs on culture, society, current and international affairs. Addressed to viewers interested in economics.
Polsat Jim Jam	Children's channel based exclusively on programs by Hit Entertainment, the channel is a joint venture launched by TV Polsat and ChelloZone.

Thematic channel	Description
CI Polsat	Criminal channel that takes its viewers to the world of crime providing the insight to criminal laboratories, police archives and courtrooms.
Polsat Viasat Explore HD	Channel dedicated to men, simple-unusual people, who work hard and have fun realizing extraordinary dreams. Polsat Viasat Explore operates based on cooperation with Viasat Broadcasting.
Polsat Viasat Nature	Nature channel targeted at the entire family, which allows viewers to accompany wildlife researchers, veterinary doctors and celebrities in their journeys and develop knowledge on dangerous predators, domestic pets and wild animals from around the world. Polsat Viasat Nature operates based on cooperation with Viasat Broadcasting.
Polsat Viasat History HD	Channel offering viewers a journey to the past through high-quality programs, that entertain and educate at the same time; the content features historical events, that influenced the world's history. Polsat Viasat History operates based on cooperation with Viasat Broadcasting.
TV4 TV4 HD	Nationwide entertainment channel, the programming offer of which includes feature movies, series, entertainment and popular science programs and sports. The channel is available in digital terrestrial television.
TV6 HD	Nationwide entertainment channel broadcasting popular entertainment formats in original versions, as well as series, entertainment programs and feature movies from Polsat's library. The channel is available in digital terrestrial television.
Polsat Romans	Channel created for and dedicated to women. The programming offer includes both feature movies as well as popular Polish and foreign series.
Disco Polo Music	Music channel broadcasting disco polo, dance and feast music.
Polsat Music HD	Channel broadcasting rock and pop music as well as the best video clips, both the classics and the novelties. MUZO.TV is the second music channel in Polsat's programming offer. Launched on May 26, 2016, replacing MUZO.TV.
Polsat 1	Channel addressed to Poles living abroad, broadcasts various productions form the libraries of the channels: Polsat, TV4, Polsat Cafe and Polsat Play.
Super Polsat Super Polsat HD	Channel offering entertainment and information programs, movies, series and live sports coverage. Available in the DTT technology.
Polsat Doku HD	Documentary channel broadcasting historical and scientific programs, addressed to viewers interested in the problems of today's world, travel and nature.

Sales of TV channel advertising airtime and sponsoring

Within out wholesale business we sell advertising and sponsoring time on our own channels as well as third-party channels. Based on Starcom data we estimate that in the first half of 2017 Polsat Group channels captured 26.7% of the Polish TV advertising market worth approximately PLN 2.0 billion in that period, while in the second quarter alone the share of the Group's channels reached 27.6% in the market valued at PLN 1.1 billion in that period.

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

Sale of channel broadcasting rights

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

3. SIGNIFICANT EVENTS

3.1. Corporate events

Early redemption of the Litenite Notes

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

The aim of the early redemption of the Litenite Notes was the consistent execution of the strategic goal in the area of efficient capital resource management that is the consistent reduction of the indebtedness of Cyfrowy Polsat Group.

S&P revised Polsat Group's rating outlook to positive

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

Decision of the Head of the Mazovian Tax Office in Warsaw

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

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

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

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

Dividends for 2016

On June 27, 2017 the Annual General Meeting of the Company adopted a resolution on the distribution of the Company's net profit for the financial year 2016 in the amount of PLN 578.0 million thereby allocating PLN 204.7 million, which represents 35.4% of the Company's net profit for 2016, to dividend payments and the remaining PLN 373.3 million to the reserve capital. The value of dividend per one share amounted to PLN 0.32, with 639,546,016 shares of the Company entitled to dividend. The dividend day was scheduled for July 20, 2017 and the dividend was paid out on August 3, 2017.

3.2. Business related events

Expansion of the channel portfolio of TV Polsat

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

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

In May 2017, Cyfrowy Polsat introduced a special "season pass" package dedicated to the four Grand Slam tennis tournaments. The channels Tennis Premium 1 and Tennis Premium 2, comprised in the package, offer live broadcasts of all matches played in the four tournaments 24/7 in HD quality and without advertisements. The channels will be activated only for the duration of the tournaments and an additional week following each tournament. The Tennis Premium package is available to all cable TV and satellite platform operators. For Cyfrowy Polsat and IPLA customers the one-off access fee for the package is PLN 40.

Development of the smartDOM program

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

In the second quarter of 2017 we have opened the bundled services offer to customers, who subscribe to services in low-end tariffs. As a result, customers of our low-end pay TV packages now have the opportunity to additionally purchase mobile telephony services with attractive discounts.

Acquisition of sports rights

Polsat Group gained exclusive rights to broadcast over 1000 matches of the UEFA Champions League and Europa League over three consecutive years (from 2018 until 2021) on all channels of distribution, including television, internet and mobile devices. This is a strategic investment given the increasing popularity of broadcasts of football events observed in recent years.

Implementation of the *Roam like at home* rule

Pursuant to the Resolution of the European Parliament and Council of November 25, 2015 retail charges for regulated roaming services were levelled with domestic charges starting from June 15, 2017 (the *Roam like at home,* or RLAH concept). Thanks to the full implementation of the RLAH concept as of June 15, 2017, whilst on the territory of the European Economic Area, our customers can use our telecommunication services on terms identical as domestic terms. In particular, the subscribers of unlimited contract tariffs, highly popular in Poland, have the possibility to make unlimited voice connections, send an unlimited number of short text messages and use a specified data transmission pack, dependent on the subscription fee, in international roaming without incurring any additional costs. Concurrently, all incoming connections in roaming on the EEA are free of charge.

3.3. Events after the balance date

Moody's revised Polsat Group's rating outlook to positive

On August 8, 2017 Moody's revised the rating outlook for Cyfrowy Polsat Group to positive from stable, affirming the Ba2 corporate family rating. Details regarding the rationale of the revision is presented in this Report in item 4.3.5 – *Operating and financial review of Polsat Group – Review of our financial situation – Liquidity and capital resources – Ratings*.

4. OPERATING AND FINANCIAL REVIEW OF POLSAT GROUP

4.1. Operating review of the Group

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

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

	for the 3-month period ended June 30		change / %	for the 6-month period ended June 30		change / %
	2017	2016		2017	2016	
SEGMENT OF SERVICES TO INDIVIDUAL AND BUSINESS CUSTOMERS						
Total number of RGUs (EOP) (contract + prepaid)	16,273,840	16,711,541	(2.6%)	16,273,840	16,711,541	(2.6%)
Contract services						
Total number of RGUs (EOP), incl.	13,419,539	12,880,725	4.2%	13,419,539	12,880,725	4.2%
Pay TV, incl.	4,835,534	4,632,246	4.4%	4,835,534	4,632,246	4.4%
Multiroom	*1,058,982*	*972,771*	*8.9%*	*1,058,982*	*972,771*	*8.9%*
Mobile telephony	6,810,999	6,559,223	3.8%	6,810,999	6,559,223	3.8%
Internet	1,773,006	1,689,256	5.0%	1,773,006	1,689,256	5.0%
Number of customers (EOP)	5,819,386	5,862,310	(0.7%)	5,819,386	5,862,310	(0.7%)
ARPU per customer [PLN]	89.6	88.4	1.4%	89.3	87.7	1.8%
Churn per customer	8.6%	9.0%	(0.4 pp)	8.6%	9.0%	(0.4 pp)
RGU saturation per one customer	2.31	2.20	5.0%	2.31	2.20	5.0%
Average number of RGUs, incl.	13,379,081	12,809,438	4.4%	13,346,525	12,742,650	4.7%
Pay TV, including:	4,817,543	4,595,313	4.8%	4,799,611	4,564,059	5.2%
Multiroom	*1,051,692*	*964,197*	*9.1%*	*1,040,493*	*956,281*	*8.8%*
Mobile telephony	6,790,804	6,546,774	3.7%	6,780,091	6,535,045	3.7%
Internet	1,770,734	1,667,351	6.2%	1,766,823	1,643,546	7.5%
Average number of customers	5,828,405	5,876,458	(0.8%)	5,850,461	5,889,492	(0.7%)
Prepaid services						
Total number of RGUs (EOP), including:	2,854,301	3,830,816	(25.5%)	2,854,301	3,830,816	(25.5%)
Pay TV	57,183	73,544	(22.2%)	57,183	73,544	(22.2%)
Mobile telephony	2,616,592	3,473,228	(24.7%)	2,616,592	3,473,228	(24.7%)
Internet	180,526	284,044	(36.4%)	180,526	284,044	(36.4%)
ARPU per total prepaid RGU [PLN]	20.5	18.9	8.5%	19.6	18.3	7.1%
Average number of RGUs, including:	2,882,155	3,794,613	(24.0%)	2,966,380	3,798,241	(21.9%)
Pay TV	69,132	52,114	32.7%	58,895	44,184	33.3%
Mobile telephony	2,631,773	3,473,104	(24.2%)	2,716,070	3,501,472	(22.4%)
Internet	181,250	269,395	(32.7%)	191,415	252,585	(24.2%)
BROADCASTING AND TELEVISION PRODUCTION SEGMENT						
Audience share	24.9%	25.3%	(0.4 pp)	24.5%	24.8%	(0.3 pp)
Advertising market share	27.6%	27.1%	0.5 pp	26.7%	26.3%	0.4 pp

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

4.1.1. Segment of services to individual and business customers

As at June 30, 2017, in the segment of services to individual and business customers our Group provided a total of 16,273,840 services. It is worth emphasis that the share of contract services in the total number of services that we provide is growing consistently, and has reached the level of 82.5% at the end of the second quarter of 2017, as compared to 77.1% recorded at the end of the second quarter of 2016. At the end of the second quarter of 2017 we recorded YoY growth in the number of all our core services provided in the contract model, i.e. pay TV, mobile telephony services, and mobile broadband. At the same time, in the second quarter of 2017, following three quarters of pressure resulting from the entry into force of legal regulations obligating customers of all mobile networks to register prepaid SIM cards, we have observed an explicit stabilization of the number of provided prepaid services which is the effect of our decision to eliminate, on a one-off basis, from reported statistics of all the cards that have not been validly registered.

Contract services

As at June 30, 2017, we provided contract services to a total of 5,819,386 customers, i.e. 0.7% less compared to 5,862,310 customers the Group had as at June 30, 2016. The main driver behind the decline of the contract customer base was the outflow of single-play customers, as well as the merging of contracts under one common contract for the household. In line with our strategic assumptions, we avoid conducting an aggressive sales policy on individual products and concentrate rather on increasing customer loyalty, in particular through offering a wide portfolio of bundled services, as well as on increasing ARPU per contract customer.

The number of contract services provided by us increased by 538,814 in the last 12 months, that is by 4.2%, to 13,419,539 as at June 30, 2017, from 12,880,725 as at June 30, 2016. We recorded growth in the number of all services provided in the contract model. The number of pay TV services provided in the contract model amounted to 4,835,534 as at June 30, 2017, which constitutes an increase by 203,288, or 4.4%, compared to 4,632,246 as at June 30, 2016. This increase is due in particular to the growing popularity of our Multiroom service (YoY increase by over 86 thousand, to 1.06 million RGUs), as well as to increasing sales of paid OTT services. The number of provided mobile telephony services in the contract model increased by 251,776, or 3.8%, reaching the level of 6,810,999 as at June 30, 2017, up from 6,559,223 as at June 30, 2016. This growth was driven by the successful implementation of our strategy of cross-selling, as well as by the temporarily intensified migration of users of prepaid services to contract tariffs. In terms of mobile broadband, as at June 30, 2017, we provided 1,773,006 RGUs in the contract model, that is by 83,750, or 5.0%, more than as at June 30, 2016, when we provided 1,689,256 such services. We believe that further saturation of our customer base with integrated services, including our flagship product smartDOM, will positively influence the growth of the number of contract RGUs provided by us in the future.

In line with the assumptions of our long-term strategy we aim to maximize revenue per contract customer through cross-selling, i.e., selling additional products and services to the joined customer bases of Cyfrowy Polsat and Polkomtel, among others within the framework of our program smartDOM, which has a positive impact on ARPU per contract customer. As a result of the implementation of our multiplay strategy and the systematic development of our bundled offer, we continue to record a successive increase of ARPU in the contract services segment on an annual basis. In the first quarter of 2017 the average revenue per contract customer increased by 1.8%, to PLN 89.3 from PLN 87.7 in the corresponding period of 2016. In the second quarter of 2017 ARPU increased by 1.4%, to PLN 89.6, from PLN 88.4 in the second quarter of 2016. ARPU in the second quarter of 2017 was negatively impacted by the levelling of retail roaming charges with domestic fees across the European Economic Area as of June 15, 2017 (the Roam like at home concept). We anticipate that this impact will be reflected to its full extent in APRU dynamics starting from the third quarter of 2017, which may translate into a decelerated rate of growth of ARPU over the next four quarters.

Our churn rate decreased by 0.4 percentage points, to 8.6% in the twelve-month period ended June 30, 2017, compared to 9.0% in the twelve-month period ended June 30, 2016. This is primarily the effect of the systematically growing loyalty of our customers connected with the successful implementation of our multiplay strategy.

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

As at June 30, 2017, each customer in our customer base had on average 2.31 active contract services which constitutes an increase of 5.0% compared to 2.2 active contract services per customer as at June 30, 2016. The increase in RGU saturation per customer is the result of our marketing and sales activities aimed at maximizing the sale of products and services to a single customer.

As at June 30, 2017, already 1,374,291 customers were using our bundled offer, which constitutes an increase of 212,598 customers, or 18.3%, YoY. This means that the saturation of our customer base with multiplay services was at the level of 23.6% at the end of the second quarter of 2017. This group of customers had a total of 4,086,604 RGUs, by 647,128, or 18.8%, more than in the previous year. In the second quarter of 2017 we addressed the bundled services offer also to customers who subscribe to services in low-end tariffs, which should have a positive influence on the growth dynamics of the multiplay customer base as well as the blended level of ARPU across the entire customer base. Bearing in mind the long-term goal of our Group, that is the maximization of revenue per contract customer through cross-selling, our bundled services offer is perfectly in line with our strategy.

Prepaid services

The number of prepaid services provided by us as at June 30, 2017 decreased by 976,515, that is by 25.5%, to 2,854,301 from 3,830,816 as at June 30, 2016. The year on year erosion of the prepaid RGU base was driven mainly by the statutory obligation to register newly purchased prepaid SIM cards starting from July 25, 2016, that led to a significant decline in the number of new activations on the entire market, as well as the obligation to deactivate after February 1, 2017 all prepaid SIM cards that had not been validly registered. As opposed to other large operators on the Polish market, we decided to report only validly registered prepaid SIM cards as of February 1, 2017. This decision translated into an explicit stabilization of our reported volume statistics in the prepaid segment in the second quarter of 2017, as well as an improved level of APRU in this segment, as described below.

In the first half of 2017, the average revenue per prepaid RGU (prepaid ARPU) increased by 7.1%, to PLN 19.6 from PLN 18.3 in the first half of 2016. In the second quarter of 2017 ARPU per prepaid RGU increased by 8.5% to PLN 20.5 from PLN 18.9 in the corresponding period of 2016. High growth dynamics of prepaid ARPU both in the second quarter and the first half of 2017 was, among other things, the effect of a significant elimination of SIM cards characterized by low ARPU (so called one-time use cards).

4.1.2. Braodcasting and television production segment

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

Audience shares

	3 months ended June 30		change [pp]	6 months ended June 30		change [pp]
	2017	2016		2017	2016	
Audience share[(1) (2)], including:	24.88%	25.34%	*(0.46)*	24.50%	24.77%	*(0.27)*
POLSAT (main channel)	*12.61%*	*13.76%*	*(1.15)*	*12.66%*	*13.17%*	*(0.51)*
Thematic channels	*12.27%*	*11.58%*	*0.69*	*11.84%*	*11.59%*	*0.25*
TV4	4.10%	3.52%	*0.58*	4.03%	3.64%	*0.39*
TV6	1.53%	1.74%	*(0.21)*	1.61%	1.77%	*(0.16)*
Polsat 2	1.51%	1.38%	*0.13*	1.38%	1.37%	*0.01*
Super Polsat[(3)]	0.79%	n/a	*n/a*	0.78%	n/a	*n/a*
Polsat Film	0.79%	0.74%	*0.05*	0.77%	0.81%	*(0.04)*
Polsat News	0.76%	0.77%	*(0.01)*	0.73%	0.75%	*(0.02)*
Polsat Play	0.58%	0.68%	*(0.10)*	0.57%	0.68%	*(0.11)*
Polsat Cafe	0.42%	0.36%	*0.06*	0.42%	0.35%	*0.07*
Polsat Sport	0.47%	0.69%	*(0.22)*	0.34%	0.55%	*(0.21)*
Disco Polo Music	0.23%	0.26%	*(0.03)*	0.20%	0.25%	*(0.05)*
CI Polsat	0.21%	0.14%	*0.07*	0.16%	0.12%	*0.04*
Polsat JimJam	0.12%	0.20%	*(0.08)*	0.16%	0.24%	*(0.08)*
Polsat Viasat History	0.16%	0.13%	*0.03*	0.16%	0.12%	*0.04*
Polsat Viasat Explore	0.12%	0.08%	*0.04*	0.12%	0.09%	*0.03*
Polsat Romans	0.12%	0.15%	*(0.03)*	0.12%	0.16%	*(0.04)*
Polsat Sport Extra	0.10%	0.11%	*(0.01)*	0.09%	0.10%	*(0.01)*
Polsat News 2	0.08%	0.08%	-	0.09%	0.08%	*0.01*
Polsat Music HD[(4)]	0.05%	0.02%	*0.03*	0.04%	0.02%	*0.02*
Polsat Sport News HD[(5)]	0.04%	n/a	*n/a*	0.04%	n/a	*n/a*
Polsat Doku[(6)]	0.04%	n/a	*n/a*	0.03%	n/a	*n/a*
Polsat Sport Fight[(7)]	0.03%	n/a	*n/a*	0.03%	n/a	*n/a*
Polsat Viasat Nature	0.02%	0.03%	*(0.01)*	0.02%	0.03%	*(0.01)*
Polsat Sport News[(5)]	n/a	0.43%	*n/a*	n/a	0.41%	*n/a*
Polsat Food Network[(8)]	n/a	0.10%	*n/a*	n/a	0.10%	*n/a*
Polsat 1[(9)]	n/a	n/a	*n/a*	n/a	n/a	*n/a*
Advertising market share[(10)]	27.60%	27.10%	*0.50*	26.70%	26.30%	*0.40*

1) Nielsen Audience Measurement, All day ages 16-49 audience share, including Live+2 (viewership results include 2 additional days of time-shifted viewing).
2) When calculating the total audience share of Polsat Group and audience share of thematic channels, we take into account the moment of including the channel in our portfolio.
3) Channel broadcasting in DTT since January 2, 2017, replaced Polsat Sport News.
4) Until May 26, 2017, channel broadcast under the name "MUZO.TV".
5) Channel available only in cable and satellite networks since January 2, 2017 under the name "Polsat Sport News HD".
6) Channel broadcast since February 10, 2017, data for the broadcasting period.
7) Channel broadcast since August 1, 2016, included in the telemetric panel since January 1, 2017.
8) From January 2017 channel available as "Food Network" in TVN Group.
9) Channel broadcast since December 18, 2015, not included in the telemetric panel.
10) Our estimates based on Starcom data.

The audience share in the commercial group (all viewers aged 16-49, including Live+2, i.e. 2 additional days of time-shifted viewing) for the entire Polsat Group in the second quarter and in the first half of 2017 amounted to 24.9% and 24.5%, respectively. In both analyzed periods the total audience share for the Group was under pressure from lower viewership figures of the main channel POLSAT, which was connected with the broadcasts of very popular UEFA EURO 2016 matches in the corresponding periods of the last year. As a result in the second quarter of 2017 the main channel had an audience share of 12.6% - down by 8.4% as compared to the corresponding period of 2016 - whereas in the entire first half of 2017 the audience share decreased by 3.9% to the level of 12.7%.

In turn, the consistently growing audience share of thematic channels, which in the second quarter of 2017 increased by nearly 6.0% to the level of 12.3%, and in the first half of the year – by 2.2% to the level of 11.8%, had a positive impact on viewership figures recorded by the entire Polsat Group. While comparing the first half of 2017 with the corresponding period of 2016, we observed the highest growth in terms of audience share in the case of the channel TV4, which stems from an enriched programing offer of this channel, and specifically to broadcasting in *prime time* of very popular detective and crime series. On the other hand, the growing shares of other thematic channels, in particular CI Polsat, Polsat Viasat Explore and Polsat Viasat History, are due to the systematic increase of the technical reach of these channels. The Polsat Music HD improved its viewership figures notably, which was related to the rebranding of this channel in the second quarter of 2017.

Both in the second quarter and the first half of 2017, viewers in the commercial group were attracted by the fixed slots on our main channel's schedule. Monday's film slot *Mega Hit* had an audience share of 16.1% in the second quarter and 16.7% in the first half of 2017, while the premier episodes of the TV series *First Love* gained an audience share of 18.6% in the second quarter and 18.4% in the first half of 2017. The series *Świat według Kiepskich,* aired from Monday to Saturday at 7.30 p.m. had an audience share of 11.4% in the second quarter and 12.2% in the first half of 2017

The news program broadcast daily at 6.50 p.m., *Wydarzenia* (*News*), maintained high viewership figures with an audience share of 16.7% in the second quarter and 17.5% in the first half of 2017. The morning block of news and information programs, *Nowy Dzień z Polsat News* (*New day with Polsat News*), broadcast daily from Monday to Friday, is worth mentioning. This block had an audience share of 17.2% in the second quarter of 2017 and 16.8% in the first half of 2017.

The results of the second quarter and the first half of 2017 were significantly influenced by programs from the spring scheduling. A large audience was gathered by the show *Your Face Sounds Familiar.* The Saturday slots dedicated to this show had an audience share of 16.6% in the second quarter and 14.0% in the first half of 2017. Another position in our spring scheduling, the show *Our New House*, gathered on average 13.9% of viewers in the second quarter and 13.7% in the first half of 2017. The reality show *The Brain* had an audience share of 13.7% in the second quarter and 15.3% in the first half of 2017. After a 12 year break, we decided to put back on air the talent show *Idol* in the spring scheduling. In the second quarter of 2017 the new edition of this show attracted 10.6% of viewers, whereas in the first half of 2017 it was 12.5%. *Dancing with the Stars* attracted 12.9% of viewers in the second quarter and 12.5% in the first half of 2017. *Live cabaret* entertainment series, broadcast on Sunday evenings, had an audience share of 14.8% both in the second quarter and the first half of 2017.

Additionally, record high results of sports events broadcast in the first half of 2017 are worth notice. The most widely viewed qualifying match to the FIFA World Cup 2018 was the match Poland-Romania of June 10, 2017 with a total share of Polsat and Polsat Sport of 61.3%. Broadcasts of matches of the 2017 UEFA European Under-21 Championship were another sport event worth mentioning. The best viewed match, Poland–Sweden of June 19, 2017, generated a total SHR on Polsat and Polsat Sport of 33.1%.

In the first half of 2017, the *Polsat Superhit Festival 2017* gained a very high audience share in the analyzed period. The broadcast of May 28, 2017 – *Sopocki Hit Kaberetowy – Życie Jest Piękne* – attracted 28.7% of viewers to their TV sets. The cabaret *XI Płocka Noc Kabaretowa,* aired on April 30, 2017 on the main channel, had an audience share of 25.2%. The concert *Wrocław w rytmie disco*, aired on Polsat channel on June 14, 2017 gave the channel a 26.1% share in the audience.

Advertising and sponsoring market share

According to Starcom estimates, expenditures on TV advertising and sponsoring in the first half of 2017 amounted to about PLN 2.0 billion and decreased year-on-year by 0.5%. Based on these data, we estimate that in the first half of 2017 our TV advertising market share increased year-on-year by 0.4 percentage points to 26.7% from 26.3% in the corresponding period of 2016. In the second quarter of 2017, expenditures on TV advertising and sponsoring amounted to PLN 1.1 billion, which constitutes a decrease of 1.2% year-on-year. Our TV ad market share increased by 0.5 percentage points to 27.6% in the second quarter of 2017 from 27.1% in the corresponding period of 2016.

If we compare the current portfolio of Polsat Group's channels, we generated 1.62% more GRPs in the first half of 2017 compared to the corresponding period of 2016.

Distribution and technical reach

Technical reach[1]	3 months ended June 30		Change [pp]	6 months ended June 30		Change [pp]
	2017	2016		2017	2016	
Polsat	100.0%	99.9%	0.10	100.0%	99.9%	0.10
TV4	99.9%	99.9%	-	99.9%	99.8%	0.10
Super Polsat[2]	96.6%	n/a	n/a	96.1%	n/a	n/a
TV6	95.7%	94.5%	1.20	95.5%	94.2%	1.30
Polsat 2	63.3%	63.3%	-	63.1%	63.0%	0.10
Polsat News 2	58.0%	55.8%	2.20	57.6%	55.4%	2.20
Polsat News	56.6%	55.9%	0.70	56.3%	55.9%	0.40
Polsat Cafe	56.1%	55.3%	0.80	56.0%	55.0%	1.00
Polsat Film	52.7%	51.2%	1.50	52.6%	51.0%	1.60
Polsat Play	50.9%	48.9%	2.00	50.6%	48.6%	2.00
Polsat Viasat History	49.8%	39.0%	10.80	50.2%	38.7%	11.50
Disco Polo Music	48.3%	46.1%	2.20	48.0%	45.9%	2.10
Polsat Sport	47.7%	48.6%	(0.90)	47.5%	48.6%	(1.10)
Polsat Romans	47.8%	46.7%	1.10	47.0%	46.2%	0.80
Polsat JimJam	45.7%	44.4%	1.30	45.7%	44.1%	1.60
Polsat Viasat Explore	44.0%	34.1%	9.90	44.2%	34.2%	10.00
Polsat Viasat Nature	44.1%	32.1%	12.00	44.0%	30.9%	13.10
Polsat Music HD[3]	42.4%	40.6%	1.80	42.5%	40.1%	2.40
CI Polsat	40.6%	39.2%	1.40	40.5%	38.8%	1.70
Polsat Sport Extra	36.4%	36.1%	0.30	36.2%	36.0%	0.20
Polsat Sport News HD[4]	28.5%	n/a	n/a	27.2%	n/a	n/a
Polsat Doku[5]	22.7%	n/a	n/a	18.6%	n/a	n/a
Polsat Sport Fight[6]	12.0%	n/a	n/a	11.5%	n/a	n/a
Polsat Sport News[4]	n/a	94.6%	n/a	n/a	94.4%	n/a
Polsat Food Network[7]	n/a	25.3%	n/a	n/a	25.0%	n/a
Polsat 1[8]	n/a	n/a	n/a	n/a	n/a	n/a

1) Nielsen Audience Measurement, percentage of TV households able to receive a given channel; arithmetical average of monthly technical reach.
2) Channel broadcasting in DTT since January 2, 2017, replaced Polsat Sport News
3) Channel broadcast since May 26, 2017, replaced MUZO.TV.
4) Channel available only in cable and satellite networks since January 2, 2017.
5) Channel broadcast since February 10, 2017, data for the broadcasting period.
6) Channel broadcast since August 1, 2016, included in the telemetric panel since January 1, 2017.
7) From January 2017 channel available as “Food Network” in TVN Group.
8) Channel broadcast outside of Poland, not included in the telemetric survey.

Thematic channels of Polsat Group are currently available on all significant cable and satellite platforms. The systematically increasing availability of our channels is clearly visible. Comparing data for both the second quarter and first half of 2017 with corresponding periods of 2016, the highest growth dynamics in technical reach were recorded by Polsat Viasat Nature, Polsat Viasat History and Polsat Viasat Explore, which was connected with intensive marketing actions, such as “open windows” and other promotions offered be selected pay TV operators. The music channels (Polsat Music HD and Disco Polo Music) also systematically improve their respective technical reach.

4.2. Key positions in the consolidated income statement

Revenue

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

Retail revenue

Retail revenue consists primarily of:

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

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

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

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

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

(vi) activation fees;

(vii) penalties; and

(viii) fees for additional services.

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

Wholesale revenue

Our wholesale revenue comprises:

(i) advertising and sponsorship revenue;

(ii) revenue from cable and satellite operator fees;

(iii) revenue from the lease of infrastructure;

(iv) interconnect revenue;

(v) revenue from roaming;

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

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

(viii) revenue from premium rate services.

Sale of equipment

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

Other revenue

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

Operating costs

Operating costs consist of:

(i) content costs;

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

(iii) depreciation, amortization, impairment and liquidation;

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

(v) salaries and employee-related costs;

(vi) cost of equipment sold;

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

(viii) other costs.

Content costs

Content costs consist of:

(i) programming license costs;

(ii) amortization of purchased film licenses;

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

(iv) other content costs.

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

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

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

Distribution, marketing, customer relation management and retention cost

Distribution costs consist of:

(i) commissions due to authorized retail points of sale as remuneration for concluded agreements with our customers for pay television and telecommunication services;

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

(iii) costs of warranty service; and

(iv) costs of maintenance of points of sales.

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

Depreciation, amortization, impairment and liquidation

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

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

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

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

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

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

(vi) non-current assets impairment allowance; and

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

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with telecommunication operators comprise:

(i) telecommunications and IT infrastructure lease costs;

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

(iii) telecommunication network maintenance costs and fees;

(iv) IT systems maintenance costs;

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

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

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

(viii) Interconnection and roaming charges; and

(ix) other costs.

Salaries and employee-related costs

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

Cost of equipment sold

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

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

In this group of costs we present:

(i) bad debt recovery fees;

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

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

Other costs

Key items of other costs include:

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

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

(iii) legal, advisory and consulting costs;

(iv) property maintenance costs;

(v) taxes and other charges;

(vi) trademark license costs;

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

(viii) other costs.

Other operating income/costs, net

Other operating income/costs consist of:

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

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

Gains and losses on investment activities, net

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

Finance costs

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

4.3. Review of the Group's financial situation

The following review of results for the 3 and 6-month periods ended June 30, 2017 was prepared based on the interim condensed consolidated financial statements for the 6-month period ended June 30, 2017, prepared in accordance with International Financial Reporting Standards as approved for use by the European Union and based on internal analyses.

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

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

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

4.3.1. Income statement analysis

Review of financial results for the second quarter of 2017 and 2016

[mPLN]	for the 3-month period ended June 30		change	
	2017	2016	[mPLN]	[%]
Revenue	2,469.9	2,442.9	27.0	1.1%
Operating costs	(1,962.8)	(2,042.0)	(79.2)	(3.9%)
Other operating income, net	9.9	6.6	3.3	50.0%
Profit from operating activities	517.0	407.5	109.5	26.9%
Gain/(loss) on investment activities, net	(14.4)	(21.4)	(7.0)	(32.7%)
Financial costs	(113.3)	(133.2)	(19.9)	(14.9%)
Share of the profit of jointly controlled entity accounted for using the equity method	-	(0.8)	(0.8)	(100.0%)
Gross profit for the period	389.3	252.1	137.2	54.4%
Income tax	(107.6)	(21.2)	86.4	407.5%
Net profit for the period	281.7	230.9	50.8	22.0%
EBITDA	*963.7*	*935.0*	*28.7*	*3.1%*
EBITDA margin	*39.0%*	*38.3%*	*-*	*0.7 pp*

Revenue

Our total revenue increased by PLN 27.0 million, or 1.1%, to PLN 2,469.9 million in the second quarter of 2017 from PLN 2,442.9 million in the second quarter of 2016. The increase in revenue was triggered by factors described below.

	for the 3-month period ended June 30		change	
	2017	2016	[mPLN]	[%]
Retail revenue	1,533.3	1,586.9	(53.6)	(3.4%)
Wholesale revenue	652.3	645.0	7.3	1.1%
Sale of equipment	243.3	191.1	52.2	27.3%
Other revenue	41.0	19.9	21.1	106.0%
Revenue	2,469.9	2,442.9	27.0	1.1%

Retail revenue

In the second quarter of 2017, retail revenue decreased by PLN 53.6 million, or 3.4%, to PLN 1,533.3 million from PLN 1,586.9 million in the second quarter of 2016. This decrease was primarily due to lower revenue from voice services. Several factors contributed to the fall in revenue from voice services, in particular the change in the model of offering equipment to retail customers (payment for equipment, previously included in subscription fees, is currently recognized as revenue from sales of equipment under the installment plan model), a lower number of prepaid activations, which is related to the statutory obligation of prepaid SIM registration and the resulting elimination of one-time use SIM cards from the base, as well as the high level of competitiveness on the telecommunications market. Moreover, in June we have observed the first effects of the implementation of the *Roam like at home* rule, which imposed the levelling of retail roaming charges with domestic charges as of June 15, 2017. The decrease in retail revenue was partially compensated by higher revenue from pay TV and higher revenue from mobile Internet access services and data transmission.

Wholesale revenue

Wholesale revenue increased by PLN 7.3 million, or 1.1%, to PLN 652.3 million in the second quarter of 2017 from PLN 645.0 million in the second quarter of 2016. The increase of wholesale revenue was triggered primarily by higher revenue from interconnection services, which in turn was the result of the increasing volume of traffic exchanged with other networks, and by higher revenue from the wholesale sale of traffic in domestic and international roaming. The growth dynamics of wholesale revenue was distorted to a significant extent by the effect of a high base in the comparative period, as in the second quarter 2016 this item comprised additional revenue related to the multichannel monetization of sports rights to the EURO UEFA 2016 tournament.

Sale of equipment

Revenue from the sale of equipment increased by PLN 52.2 million, or 27.3%, to PLN 243.3 million in the second quarter of 2017 from PLN 191.1 million in the second quarter of 2016, which was due primarily to higher revenue from installment plan sales of equipment related to the increasing share of this model in equipment sales, as well as to the customers' increased preference for more advanced and expensive devices.

Other revenue

Other revenue increased by PLN 21.1 million, or 106.0%, to PLN 41.0 million in the second quarter of 2017 from PLN 19.9 million in the second quarter of 2016. This increase was mainly the result of growing revenue from interest on installment plan sales of equipment to residential customers.

Operating costs

Our total operating costs decreased by PLN 79.2 million, or 3.9%, to PLN 1,962.8 million in the second quarter of 2017 from PLN 2,042.0 million in the second quarter of 2016. Operating costs declined for the reasons set forth below.

	for the 3-month period ended June 30		change	
	2017	2016	[mPLN]	[%]
Technical costs and cost of settlements with telecommunication operators	483.5	456.6	26.9	5.9%
Depreciation, amortization, impairment and liquidation	446.7	527.5	(80.8)	(15.3%)
Cost of equipment sold	318.8	317.3	1.5	0.5%
Content costs	298.4	316.3	(17.9)	(5.7%)
Distribution, marketing, customer relation management and retention costs	215.9	202.2	13.7	6.8%
Salaries and employee-related costs	133.7	138.2	(4.5)	(3.3%)
Cost of debt collection services and bad debt allowance and receivables written off	16.3	16.3	-	-
Other costs	49.5	67.6	(18.1)	(26.8%)
Operating costs	1,962.8	2,042.0	(79.2)	(3.9%)

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with mobile network operators increased by PLN 26.9 million, or 5.9%, to PLN 483.5 million in the second quarter of 2017 from PLN 456.6 million in the second quarter of 2016. This increase resulted from higher interconnection costs related to the popularization of tariffs offering unlimited connections to other telecommunication networks and higher costs related to the wholesale purchase of traffic in international roaming.

Depreciation, amortization, impairment and liquidation

Depreciation, amortization, impairment and liquidation costs decreased by PLN 80.8 million, or 15.3%, to PLN 446.7 million in the second quarter of 2017 from PLN 527.5 million in the second quarter of 2016, among others due to the termination of the amortization period of certain intangible assets, acquired alongside Polkomtel in 2014 (relates to the item "Relations with customers" on the balance sheet), as well as lower costs of depreciation of the telecommunications infrastructure which is connected with the termination of the depreciation period of selected elements of this infrastructure.

Cost of equipment sold

The cost of equipment sold amounted to PLN 318.8 million in the second quarter of 2017 and remained at a stable level compared to PLN 317.3 million in the second quarter of 2016.

Content costs

Content costs decreased by PLN 17.9 million, or 5.7%, to PLN 298.4 million in the second quarter of 2017 from PLN 316.3 million in the second quarter of 2016. This decrease is due primarily to the effect of a high base – higher costs of sports licenses and internal production were recognized in the comparative period, which was related to the broadcasting of UEFA

EURO 2016 – and was partially offset by higher costs of programming licenses connected with the expansion of the programming packages chosen by our pay TV customers.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs increased by PLN 13.7 million, or 6.8%, to PLN 215.9 million in the second quarter of 2017 from PLN 202.2 million in the second quarter of 2016, among others due to the recognition of higher marketing costs and higher costs of customer service and retention, which is associated with an increase in per hour rates resulting from an upward pressure on wages on the Polish labor market.

Salaries and employee-related costs

Salaries and employee-related costs decreased by PLN 4.5 million, or 3.3%, to PLN 133.7 million in the second quarter of 2017 from PLN 138.2 million in the second quarter of 2016, among others as a result of a decrease in the average level employment in the Group.

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

The cost of debt collection services and bad debt allowance and receivables written off amounted to PLN 16.3 million in the second quarter of 2017 and remained unchanged compared to the second quarter of 2016.

Other costs

Other costs decreased by PLN 18.1 million, or 26.8%, to PLN 49.5 million in the second quarter of 2017 from PLN 67.6 million in the second quarter of 2016, among others as a result of the recognition in the comparative period of the cost of sold licenses related to the UEFA EURO 2016 tournament, while no such costs were recognized in the second quarter of 2017.

Other operating income and costs, net

Other net operating income increased by PLN 3.3 million, or 50.0%, to PLN 9.9 million in the second quarter of 2017 from PLN 6.6 million in the second quarter of 2016.

Gains and losses on investment activities, net

Net losses on investment activities amounted to PLN 14.4 million in the second quarter of 2017, which constitutes a decrease by PLN 7.0 million, or 32.7%, compared to net losses on investment activities of PLN 21.4 million in the second quarter of 2016. This is primarily the net effect of a decline in foreign exchange costs related to the valuation of UMTS license liabilities, caused by a weaker degree of depreciation of the PLN versus the EUR in the second quarter of 2017 than in the comparative period, and lower revenue from the valuation and realization of operational hedging instruments.

Finance costs

Finance costs amounted to PLN 113.3 million in the second quarter of 2017 and decreased by PLN 19.9 million, or 14.9%, compared to PLN 133.2 million in the second quarter of 2016. This decrease was caused, among other factors, by a decline in costs of interest on bonds following the early redemption of the Litenite Notes in April 2017, as well as lower interest costs related to the service of the Combined SFA as a result of repayments according the schedule and a lower margin resulting from a lower level of indebtedness of the Group.

Net profit

As a consequence of the changes described above, net profit increased by PLN 50.8 million, or 22.0%, to PLN 281.7 million in the second quarter of 2017 from PLN 230.9 million in the second quarter of 2016.

EBITDA & EBITDA margin

EBITDA increased by PLN 28.7 million, or 3.1%, to PLN 963.7 million in the second quarter of 2017 from PLN 935.0 million in the second quarter of 2016 for the reasons discussed above. In the second quarter of 2017, EBITDA margin increased by 0.7 pp to 39.0%, from 38.3% in the second quarter of 2016.

Employment

The average employment of permanent workers not engaged in production in Polsat Group, excluding workers who did not perform work in the reporting period due to long-term absences, was 4,814 full-time equivalents in the second quarter of 2017, as compared to 5,051 full-time equivalents in the corresponding period of 2016. The decline in the average level of employment in the Group is connected with, on the one hand, a greater degree of integration of departments within the Group, thus leading to an improvement of efficiency, and on the other with a modification of the model of managing the Group's sales network.

Comparison of financial results for the first half of 2017 and 2016

[mPLN]	for the 6-month period ended June 30		change	
	2017	2016[1]	[mPLN]	[%]
Revenue	4,858.5	4,806.9	51.6	1.1%
Operating cost	(3,901.0)	(3,990.0)	(89.0)	(2.2%)
Other operating income, net	16.7	13.4	3.3	24.6%
Profit from operating activities	974.2	830.3	143.9	17.3%
Gain/(loss) on investment activities, net	16.1	(56.6)	72.7	128.4%
Financial costs	(298.8)	(315.9)	(17.1)	(5.4%)
Gross profit for the period	691.5	457.8	233.7	51.0%
Income tax	(138.4)	(48.4)	90.0	186.0%
Net profit for the period	553.1	409.4	143.7	35.1%
EBITDA	*1,893.2*	*1,781.5*	*111.7*	*6.3%*
EBITDA margin	*39.0%*	*37.1%*	*-*	*1.9 pp*

(1) Consolidation of the results of Aero2 Group (formerly Midas Group) from February 29, 2016.

Revenue

Our total revenue increased by PLN 51.6 million, or 1.1%, to PLN 4,858.5 million in the first half of 2017 from PLN 4,806.9 million in the first half of 2016. The factors driving revenue growth are described below.

	for the 6-month period ended June 30		Change	
	2017	2016	[mPLN]	[%]
Retail revenue	3,076.0	3,152.6	(76.6)	(2.4%)
Wholesale revenue	1,214.4	1,244.8	(30.4)	(2.4%)
Sale of equipment	491.9	363.9	128.0	35.2%
Other revenue	76.2	45.6	30.6	67.1%
Revenue	4,858.5	4,806.9	51.6	1.1%

(1) Consolidation of the results of Aero2 Group (formerly Midas Group) from February 29, 2016.

Retail revenue

In the first half of 2017, retail revenue decreased by PLN 76.6 million, or 2.4%, to PLN 3,076.0 million from PLN 3.152,6 million in the first half of 2016. This decrease was primarily due to lower revenue from voice services. Several factors contributed to the fall in revenue from voice services, in particular the change in the model of offering equipment to retail customers (payment for equipment, previously included in subscription fees, is currently recognized as revenue from sales of equipment under the installment plan model), a lower number of prepaid activations, which is related to the statutory obligation of prepaid SIM registration and the resulting elimination of single-use SIM cards from the base, as well as the high level of competitiveness on the telecommunications market. Moreover, in June we have observed the first effects of the implementation of the *Roam like at home* rule, which imposed the levelling of retail roaming charges with domestic charges as of June 15, 2017. The decrease in retail revenue was partially compensated by higher revenue from pay TV and higher revenue from mobile Internet access services and data transmission.

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

Wholesale revenue

Wholesale revenue decreased by PLN 30.4 million, or 2.4%, to PLN 1,214.4 million in the first half of 2017 from PLN 1,244.8 million in the first half of 2016. The decrease of wholesale revenue was triggered primarily by the fact, that in January and February of 2016 this item comprised revenue from the lease of telecommunication infrastructure to Aero2 Group, which is subject to elimination during consolidation in the first half of 2017 as a result of the acquisition of Aero2 Group on February 29, 2016. Moreover, in the first half of 2016 this item comprised additional revenue related to the multichannel monetization of sports rights to the EURO UEFA 2016 tournament.

The streams of revenue that demonstrated a positive growth trend in this revenue category included revenue from interconnection services resulting from increasing volumes of traffic exchanged with other networks, as well as revenue from domestic and international roaming services, which in turn was the result of higher volumes of sold traffic.

Sale of equipment

Revenue from the sale of equipment increased by PLN 128.0 million, or 35.2%, to PLN 491.9 million in the first half of 2017 from PLN 363.9 million in the first half of 2016, which was due primarily to higher revenue from installment plan sales of equipment related to the increasing share of this model in equipment sales, as well as to the customers' increased preference for more advanced and expensive devices.

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

Other revenue

Other revenue increased by PLN 30.6 million, or 67.1%, to PLN 76.2 million in the first half of 2017 from PLN 45.6 million in the first half of 2016. This increase was mainly the result of growing revenue from interest on installment plan sales of equipment to residential customers.

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

Operating costs

Our total operating costs decreased by PLN 89.0 million, or 2.2%, to PLN 3,901.0 million in the first half of 2017 from PLN 3,990.0 million in the first half of 2016. The drivers behind the decrease of operating costs are set forth below.

	for the 6-month period ended June 30		change	
	2017	2016(1)	[mPLN]	[%]
Technical costs and cost of settlements with telecommunication operators	951.7	1,006.9	(55.2)	(5.5%)
Depreciation, amortization, impairment and liquidation	919.0	951.2	(32.2)	(3.4%)
Cost of equipment sold	642.4	644.1	(1.7)	(0.3%)
Content costs	562.7	564.8	(2.1)	(0.4%)
Distribution, marketing, customer relation management and retention costs	427.0	402.7	24.3	6.0%
Salaries and employee-related costs	261.5	276.1	(14.6)	(5.3%)
Cost of debt collection services and bad debt allowance and receivables written off	35.6	25.9	9.7	37.5%
Other costs	101.1	118.3	(17.2)	(14.5%)
Operating costs	3,901.0	3,990.0	(89.0)	(2.2%)

(1) Consolidation of the results of Aero2 Group (formerly Midas Group) from February 29, 2016.

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with mobile network operators decreased by PLN 55.2 million, or 5.5%, to PLN 951.7 million in the first half of 2017 from PLN 1,006.9 million in the first half of 2016. This decrease was the effect of the elimination during consolidation of growing costs of wholesale purchase of data traffic within our broadband Internet access service in connection with the acquisition of Aero2 Group on February 29, 2016 (in the comparative period the aforementioned costs of traffic were payable to Midas Group, at the time, for January and February), and was partially offset by higher interconnection costs related to the popularization of tariffs offering unlimited connections to other telecommunication networks, as well as higher costs related to the wholesale purchase of traffic in international roaming

Depreciation, amortization, impairment and liquidation

Depreciation, amortization, impairment and liquidation costs decreased by PLN 32.2 million, or 3.4%, to PLN 919.0 million in the first half of 2017 from PLN 951.2 million in the first half of 2016, among others as the result of the termination of the amortization period of certain intangible assets, acquired alongside Polkomtel in 2014 (relates to the item "Relations with customers" on the balance sheet), as well as lower costs of depreciation of the telecommunications infrastructure which is connected with the termination of the depreciation period of selected elements of this infrastructure. This decrease was partially offset by the consolidation of depreciation costs of Aero2 Group for the full period, whereas in the comparative period these costs were consolidated starting from February 29, 2016.

Cost of equipment sold

The cost of equipment sold amounted to PLN 642.4 million in the first half of 2017 and remained at a stable level compared to PLN 644.1 million in the first half of 2016.

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

Content costs

Content costs amounted to PLN 562.7 million in the first half of 2017 and remained at a stable level compared to PLN 564.8 million in the first half of 2016.

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

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs increased by PLN 24.3 million, or 6.0%, to PLN 427.0 million in the first half of 2017 from PLN 402.7 million in the first half of 2016, among others due to the recognition of higher marketing costs and higher costs of customer service and retention, which is associated with an increase in per hour rates resulting from an upward pressure on wages on the Polish labor market.

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

Salaries and employee-related costs

Salaries and employee-related costs decreased by PLN 14.6 million, or 5.3%, to PLN 261.5 million in the first half of 2017 from PLN 276.1 million in the first half of 2016, among others as a result of a decrease in the average level employment in the Group.

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

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

The cost of debt collection services and bad debt allowance and receivables written off increased by PLN 9.7 million, or 37.5%, to PLN 35.6 million in the first half of 2017 from PLN 25.9 million in the first half of 2016, primarily due to a change in the structure of sales and a higher share of sales based on the installment plan model.

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

Other costs

Other costs decreased by PLN 17.2 million, or 14.5%, to PLN 101.1 million in the first half of 2017 from PLN 118.3 million in the first half of 2016, among others as a result of the recognition in the comparative period of the cost of sold licenses related to the UEFA EURO 2016 tournament, while no such costs were recognized in the first half of 2017.

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

Other operating income and costs, net

Other net operating income increased by PLN 3.3 million, or 24.6%, to PLN 16.7 million in the first half of 2017 from PLN 13.4 million in the first half of 2016.

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

Gains and losses on investment activities, net

Net gains on investment activities amounted to PLN 16.1 million in the first half of 2017, which constitutes an increase by PLN 72.7 million compared to net losses on investment activities of PLN 56.6 million in the first half of 2016. This is mainly due to foreign exchange gains resulting from the decrease in the valuation of UMTS license liabilities, which was caused by an appreciation of the PLN versus the EUR in the first half of 2017, whereas a depreciation of the PLN versus the EUR was recorded in the corresponding period of 2016.

Finance costs

Finance costs amounted to PLN 298.8 million in the first half of 2017 and decreased by PLN 17.1 million, or 5.4%, compared to PLN 315.9 million in the first half of 2016. This decrease was caused, among other factors, by lower interest costs on bank loans and bonds as a consequence of our consistent deleveraging policy (in the first half of 2017 we prematurely redeemed the Litenite Notes, whereas in the first half of 2016 we prematurely redeemed the PLK Senior Notes and repaid bank loans and bonds of the then Midas Group (currently Aero2 Group)). We emphasize that the dynamics of finance costs was affected by one-off events related to debt repayment. In the first half of 2017 this item comprised a one-off cost in the amount of ca. PLN 58.7 million related to the payment of a premium for the early redemption of the Litenite Notes executed on April 26, 2017, while in the first half of 2016 the early redemption of the PLN Senior Notes was associated with foreign currency valuation of these notes, as well as the valuation and realization of forward contracts hedging the repayment of the principal of the notes.

Net profit

As a consequence of the changes described above, net profit increased by PLN 143.7 million, or 35.1%, to PLN 553.1 million in the first half of 2017 from PLN 409.4 million in the first half of 2016.

EBITDA & EBITDA margin

EBITDA increased by PLN 111.7 million, or 6.3%, to PLN 1.893.2 million in the first half of 2017 from PLN 1,781.5 million in the first half of 2016 for the reasons discussed above. EBITDA margin increased by 1.9 pp, to 39.0% in the first half of 2017 from 37.1% in the first half of 2016.

Employment

The average employment of permanent workers not engaged in production in Polsat Group, excluding workers who did not perform work in the reporting period due to long-term absences, was 4,793 full-time equivalents in the first half of 2017, as compared to 5,041 full-time equivalents in the corresponding period of 2016. The decline in the average level of employment in the Group is connected with, on the one hand, a greater degree of integration of departments within the Group, thus leading to an improvement of efficiency, and on the other with a modification of the model of managing the Group's sales network.

4.3.2. Operating segments

The Group operates in the following two segments:

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

The Group conducts its operating activities primarily in Poland.

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

Services to individual and business customers segment include:

- digital pay television services which primarily relate to direct distribution of technologically advanced pay TV services and revenues are generated mainly by pay TV subscription fees;
- mobile telecommunication services in the contract model (postpaid and mix) which generate revenues mainly from interconnection, settlements with mobile network operators and subscription fees;
- mobile telecommunication prepaid services which generate revenues mainly from interconnection revenues and settlements with mobile network operators;
- providing access to broadband Internet which generates revenues mainly from traffic and subscription fees;
- telecommunication wholesale services, including wholesale international and domestic roaming as well as telecommunication infrastructure sharing services;
- online TV services (IPLA), which generate revenues mainly from subscription fees and advertising on the Internet;
- premium rate services based on SMS/IVR/MMS/WAP technologies;
- production of set-top boxes;
- sale of telecommunication and TV reception equipment;
- sale of electric energy and other media to retail customers.

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

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

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the 6 months ended June 30, 2017:

6 months ended June 30, 2017 (unaudited) [mPLN]	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	4,249.3	609.2	-	4,858.5
Inter-segment revenues	21.0	84.8	(105.8)	-
Revenues	4,270.3	694.0	(105.8)	4,858.5
EBITDA (unaudited)	1,629.7	263.5	-	1,893.2
Depreciation, amortization, impairment and liquidation	899.8	19.2	-	919.0
Profit from operating activities	729.9	244.3	-	974.2
Acquisition of property, plant and equipment, reception equipment and other intangible assets	433.8*	15.1	-	448.9
Balance as at June 30, 2017 (unaudited)				
Assets, including:	22,975.4	4,656.0**	(313.9)	27,317.5
Investments in joint ventures	-	5.8	-	5.8

* This item also includes the acquisition of reception equipment for operating lease purposes.
**This item includes non-current assets located outside of Poland in the amount of PLN 12.5 million.

All material revenues are generated in Poland.

It should be noted that the data for the 6-month period ended June 30, 2017 is not comparable to the 6-month period ended June 30, 2016 as Litenite Limited was acquired on February 29, 2016 (allocated to the Services to individual and business customers segment) and IT Polpager S.A. was acquired on September 30, 2016 (allocated to the Services to individual and business customers segment).

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the 6 months ended June 30, 2016:

6 months ended June 30, 2016 (unaudited) [mPLN]	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	4,162.7	644.2	-	4,806.9
Inter-segment revenues	15.3	105.2	(120.5)	-
Revenues	4,178.0	749.4	(120.5)	4,806.9
EBITDA (unaudited)	1,499.7	281.8	-	1,781.5
Depreciation, amortization, impairment and liquidation	931.0	20.2	-	951.2
Profit/(loss) from operating activities	568.7	261.6	-	830.3
Acquisition of property, plant and equipment, reception equipment and other intangible assets	298.0*	14.6	-	312.6
Balance as at June 30, 2016 (unaudited)				
Assets, including:	23,221.1	4,434.3**	(74.3)	27,581.1
Investments in joint ventures	-	5.8	-	5.8

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

** This item includes non-current assets located outside of Poland in the amount of PLN 17.0 million.

Reconciliation of EBITDA and net profit for the period:

[mPLN]	for the 6 months ended June 30, 2017 unaudited	for the 6 months ended June 30, 2016 unaudited
EBITDA (unaudited)	1,893.2	1,781.5
Depreciation, amortization, impairment and liquidation	(919.0)	(951.2)
Profit from operating activities	974.2	830.3
Other foreign exchange rate differences, net	32.2	(56.8)
Interest costs, net	(221.8)	(265.7)
Foreign exchange differences on issued bonds	-	(244.8)
Valuation and realization of derivatives not used in hedge accounting – relating to principal		203.8
Early redemption costs	(58.7)	
Other	(34.4)	(9.0)
Gross profit for the period	691.5	457.8
Income tax	(138.4)	(48.4)
Net profit for the period	553.1	409.4

4.3.3. Balance sheet analysis

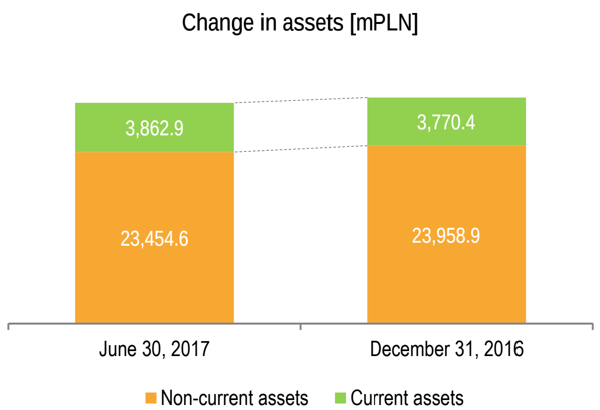
As at June 30, 2017 our balance sheet amounted to PLN 27,317.5 million and decreased by PLN 411.8 million, or 1.5%, from PLN 27,729.3 million as at December 31, 2016.

Assets

[mPLN]	June 30, 2017	December 31, 2016[1]	Change	
			[mPLN]	%
Reception equipment	332.9	350.9	(18.0)	(5.1%)
Other property, plant and equipment	2,904.7	2,964.3	(59.6)	(2.0%)
Goodwill	10,975.4	10,975.4	-	-
Customer relationships	2,762.8	3,031.2	(268.4)	(8.9%)
Brands	2,044.4	2,056.5	(12.1)	(0.6%)
Other intangible assets	3,471.1	3,656.2	(185.1)	(5.1%)
Non-current programming assets	167.3	151.8	15.5	10.2%
Investment property	5.1	5.1	-	-
Non-current deferred distribution fees	82.9	82.8	0.1	0.1%
Other non-current assets	508.1	452.0	56.1	12.4%
includes derivative instruments assets	*4.9*	*9.5*	*(4.6)*	*(48.4%)*
Deferred tax assets	199.9	232.7	(32.8)	(14.1%)
Total non-current assets	23,454.6	23,958.9	(504.3)	(2.1%)
Current programming assets	214.3	192.0	22.3	11.6%
Inventories	279.0	278.7	0.3	0.1%
Trade and other receivables	1,727.0	1,688.0	39.0	2.3%
Income tax receivable	17.0	29.1	(12.1)	(41.6%)
Current deferred distribution fees	202.3	207.2	(4.9)	(2.4%)
Other current assets	60.7	38.7	22.0	56.8%
includes derivative instruments assets	*5.3*	*6.7*	*(1.4)*	*(20.9%)*
Cash and cash equivalents	1,354.6	1,326.0	28.6	2.2%
Restricted cash	8.0	10.7	(2.7)	(25.2%)
Total current assets	3,862.9	3,770.4	92.5	2.5%
Total assets	27,317.5	27,729.3	(411.8)	(1.5%)

As at June 30, 2017 and December 31, 2016, our non-current assets amounted to PLN 23,454.6 million and PLN 23,958.9 million, respectively, and accounted for 85.9% and 86.4% of total assets, respectively.

As at June 30, 2017 and December 31, 2016, our current assets amounted to PLN 3,862.9 million and PLN 3,770.4 million, respectively, and accounted for 14.1% and 13.6% of total assets, respectively.



The value of reception equipment amounted to PLN 332.9 million as at June 30, 2017 and decreased by PLN 18.0 million, or 5.1%, compared to PLN 350.9 million as at December 31, 2016.

The value of other property, plant and equipment decreased by PLN 59.6 million, or 2.0%, to PLN 2,904.7 million as at June 30, 2017 from PLN 2,964.3 million as at December 31, 2016, mainly due to the recognition of amortization of the technical infrastructure and telecommunications network equipment, which was partially compensated by capital spending on the roll-out of our telecommunications network and IT systems.

The value of goodwill amounted to PLN 10,975.4 million as at June 30, 2017 and remained at an unchanged level compared to the balance as at December 31, 2016.

The value of customer relationships decreased by PLN 268.4 million, or 8.9%, to PLN 2,762.8 million as at June 30, 2017 compared to PLN 3,031.2 million as at December 31, 2016, among others due to calculated amortization for the 6-month period ended June 30, 2017. We point out that the amortization period of certain intangible assets comprised in this item ended in the second quarter of 2017.

As at June 30, 2017, the value of brands was PLN 2,044.4 million, which constitutes a decrease by PLN 12.1 million, or 0.6%, compared to PLN 2,056.5 million as at December 31, 2016, due to recognition of the depreciation of the Plus trademark for the 6-month period ended June 30, 2017.

The value of other intangible assets amounted to PLN 3,471.1 million as at June 30, 2017 which constitutes a decrease by PLN 185.1 million, or 5.1%, compared to PLN 3,656.2 million as at December 31, 2016. The main reason behind this decrease is the recognition of depreciation of telecommunication licenses.

The value of non-current and current programming assets increased by PLN 37.8 million, or 11.0%, to PLN 381.6 million as at June 30, 2017, from PLN 343.8 million as at December 31, 2016. This increase was primarily the effect of the recognition of a higher value of sport licenses.

Investment property amounted to PLN 5.1 million as at June 30, 2017 and remained at an unchanged level compared to the balance as at December 31, 2016.

The value of non-current and current deferred distribution fees decreased by PLN 4.8 million, or 1.7%, to PLN 285.2 million as at June 30, 2017, from PLN 290.0 million as at December 31, 2016.

The value of other non-current assets amounted to PLN 508.1 million as at June 30, 2017 and increased by PLN 56.1 million, or 12.4%, compared to PLN 452.0 million as at December 31, 2016, primarily as a result of an increase of receivables from installment plan sales of equipment.

The value of deferred tax assets amounted to PLN 199.9 million as at June 30, 2017, which constitutes a decrease by PLN 32.8 million, or 14.1%, compared to PLN 232.7 million as at December 31, 2016.

The value of inventories amounted to PLN 279.0 million as at June 30, 2017 and remained at a similar level compared to PLN 278.7 million as at December 31, 2016.

The value of trade and other receivables increased by PLN 39.0 million, or 2.3%, to PLN 1,727.0 million as at June 30, 2017 from PLN 1,688.0 million as at December 31, 2016, primarily due to higher receivables from installment plan sales of equipment to residential customers, which was partially offset by lower trade receivables from unrelated parties.

The value of other current assets amounted to PLN 60.7 million as at June 30, 2017, which constitutes an increase by PLN 22.0 million, or 56.8%, compared to PLN 38.7 million as at December 31, 2016, mainly as a result of an increase in the value of other prepayments and accruals.

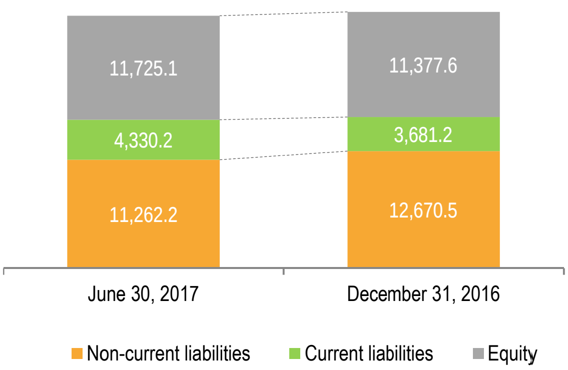
The value of cash and cash equivalents and restricted cash increased by PLN 25.9 million, or 1.9%, to PLN 1,362.6 million as at June 30, 2017 from PLN 1,336.7 million as at December 31, 2016.

Equity and liabilities

[mPLN]	June 30, 2017	December 31, 2016(1)	change	
			[mPLN]	%
Share capital	25.6	25.6	-	-
Share premium	7,174.0	7,174.0	-	-
Other reserves	3.6	4.5	(0.9)	(20.0%)
Retained earnings	4,461.4	4,095.5	365.9	8.9%
Equity attributable to equity holders of the Parent	11,664.6	11,299.6	365.0	3.2%
Non-controlling interests	60.5	78.0	(17.5)	(22.4%)
Total equity	11,725.1	11,377.6	347.5	3.1%
Loans and borrowings	8,808.6	9,302.7	(494.1)	(5.3%)
Issued bonds	975.3	1,835.7	(860.4)	(46.9%)
Finance lease liabilities	21.4	20.9	0.5	2.4%
UMTS license liabilities	555.4	574.0	(18.6)	(3.2%)
Deferred tax liabilities	775.7	786.9	(11.2)	(1.4%)
Deferred income	3.8	20.1	(16.3)	(81.1%)
Other non-current liabilities and provisions	122.0	130.2	(8.2)	(6.3%)
includes derivative instruments liabilities	*1.7*	-	*1.7*	*n/a*
Total non-current liabilities	11,262.2	12,670.5	(1,408.3)	(11.1%)
Loans and borrowings	1,805.9	1,270.0	535.9	42.2%
Issued bonds	42.5	42.4	0.1	0.2%
Finance lease liabilities	7.6	5.0	2.6	52.0%
UMTS license liabilities	117.6	121.5	(3.9)	(3.2%)
Trade and other payables	1,694.4	1,569.5	124.9	8.0%
includes derivative instruments liabilities	*0.6*	-	*0.6*	*n/a*
Income tax liability	24.9	24.9	-	-
Deferred income	637.3	647.9	(10.6)	(1.6%)
Total current liabilities	4,330.2	3,681.2	649.0	17.6%
Total liabilities	15,592.4	16,351.7	(759.3)	(4.6%)
Total equity and liabilities	27,317.5	27,729.3	(411.8)	(1.5%)

Equity increased by PLN 347.5 million, or by 3.1%, to PLN 11,725.1 million as at June 30, 2017 from PLN 11,377.6 million as at December 31, 2016, primarily as a result of the recognition of profit generated in the 6-month period ended June 30, 2017, in the amount of PLN 553.1 million reduced by the value of dividend in the amount of PLN 204.7 million, approved for payment in the third quarter of 2017.

Change in liabilities [mPLN]



As at June 30, 2017 and December 31, 2016 the value of our non-current liabilities amounted to PLN 11,262.2 million and PLN 12,670.5 million, which constituted 72.2% and 77.5% of the Group's total liabilities, respectively.

As at June 30, 2017 and December 31, 2016 the value of our current liabilities amounted to PLN 4,330.2 million and PLN 3,681.2 million, which constituted 27.8% and 22.5% of the Group's total liabilities, respectively.

Loans and borrowings (long and short-term) increased by PLN 41.8 million, or 0.4%, to PLN 10,614.5 million as at June 30, 2017 from PLN 10,572.7 million, which was the net effect of drawing PLN 500.0 million (net, accounting for repayments) under the Revolving Facility Loan and repayment of the capital of the Combined SFA according to schedule in the total amount of PLN 468.0 million in the first half of 2017.

Senior Notes liabilities (long and short-term) decreased by PLN 860.3 million or by 45.8%, to PLN 1,071.8 million as at June 30, 2017 from PLN 1,878.1 million as at December 31, 2016 following the early redemption of the all the Litenite Notes on April 26, 2017.

Finance lease liabilities (long- and short-term) amounted to PLN 29.0 million as at June 30, 2017 and increased by PLN 3.1 million, or 12.0%, from PLN 25.9 million as at December 31, 2016.

UMTS license liabilities (long- and short-term) decreased by PLN 22.5 million, or 3.2%, to PLN 673.0 million as at June 30, 2017 from PLN 695.5 million as at December 31, 2016, due to their lower valuation resulting from the appreciation of the Polish zloty with respect to the euro in the first half of 2017.

Deferred income tax liabilities decreased by PLN 11.2 million, or 1.4%, to PLN 775.7 million as at June 30, 2017 from PLN 786.9 million as at December 31, 2016.

Non-current and current deferred income amounted to PLN 641.1 million as at June 30, 2017, and decreased by PLN 26.9 million, or 4.0%, from PLN 668.0 million as at December 31, 2016, due among other things to the recognition of lower deferred income in the area of prepaid services, which is related to the shrinking of the market following the entry into force of the provisions of the Anti-terrorist Act of July 10, 2016.

The value of other non-current liabilities and provisions amounted to PLN 122.0 million as at June 30, 2017 and decreased by PLN 8.2 million, or 6.3%, compared to PLN 130.2 million as at December 31, 2016.

The value of trade and other payables amounted to PLN 1,694.4 million as at June 30, 2017 which constitutes an increase by PLN 124.9 million, or 8.0%, compared to PLN 1,569.5 million as at December 31, 2016. This increase was driven, among other factors, by the recognition of a liability towards shareholders in connection with the approved dividend payment for the year 2016, planned and executed after the balance sheet date, and a higher balance of liabilities related to the purchase of equipment for residential customers. This increase was partially offset by a lower liabilities connected with the execution and settlements of projects in the area of modernization and capacity-building of our telecommunications network and a lower balance of accruals, in particular with respect to salaries and interconnection costs.

Income tax liabilities amounted to PLN 24.9 million as at June 30, 2017 and remained at an unchanged level compared to the balance as at December 31, 2016.

4.3.4. Cash flow analysis

The table below presents selected data from the consolidated cash flow statement for the 6-month periods ended June 30, 2017 and 2016.

[mPLN]	for 6 months ended June 30		change	
	2017	2016[(1)]	mPLN	%
Net profit	553.1	409.4	143.7	35.1%
Net cash from operating activities	1,519.4	1,376.0	143.4	10.4%
Net cash used in investing activities	(367.5)	(864.7)	(497.2)	(57.5%)
Capital expenditures	*(383.0)*	*(240.8)*	*142.2*	*59.1%*
Net cash used in financing activities	(1,122.3)	(1,080.0)	42.3	3.9%
Net increase/(decrease) in cash and cash equivalents	29.6	(568.7)	598.3	105.2%
Cash and cash equivalents at the beginning of the period	1,336.7	1,523.7	(187.0)	(12.3%)
Cash and cash equivalents at the end of the period	1,362.6	955.4	407.2	42.6%

1) Consolidation of the results of Aero2 Group from February 29, 2016.

Net cash from operating activities

Net cash from operating activities amounted to PLN 1,519.4 million in the first quarter of 2017 and increased by PLN 143.4 million, or 10.4%, compared to net cash from operating activities in the amount of PLN 1,376.0 million the corresponding period of 2016.

The stronger stream of cash from operating activities generated in the first quarter of 2017 was the result of a higher level of EBITDA and the concurrent reduction by a lower level of income tax paid in the first quarter of 2017 than in the corresponding period of 2016. Concurrently, the stream of net cash from operating activities in both analyzed periods remained under the influence of a significant increment of working capital, which resulted primarily from an increase in receivables from installment plan sales of equipment to residential customers.

Net cash used in investing activities

Net cash used in investing activities amounted to PLN 367.5 million in the first quarter of 2017 which constitutes a decrease by PLN 497.2 million, or 57.5%, from PLN 864.7 million in the first quarter of 2016. The dynamics of this change was primarily driven by the recognition in the comparative period of the acquisition of shares in Litenite, and the payment for frequency reservations in the 2600 MHz bandwidth, while in the first quarter of 2017 the Group incurred mainly standard capital expenditures.

In the first quarter of 2017, capital expenditures on the purchase of property, plant and equipment and intangible assets amounted to PLN 383.0 million, which constitutes an increase by PLN 142.2 million, or 59.1%, compared to PLN 240.8 million in the first quarter of 2016. Capex expenditures comprised, among others, the continuation of the roll-out and development of the capacity of the telecommunications network based on LTE and LTE-Advanced technologies, expenditures related to the preparation for the process of refarming the 900 MHz band, the development of functionalities of the telecommunications network (including the propagation of the HD Voice service), as well as expenditures related to the project of the exchange of the IT environment within the Group.

Net cash from/(used in) finance activities

Net cash used in financing activities amounted to PLN 1,122.3 million in the first quarter of 2017, which constitutes an increase by PLN 42.3 million, or 3.9% compared to PLN 1,080,0 million in the first quarter of 2016. The amount of cash used in financing activities in the first quarter of 2017 was affected primarily by current repayments according to schedule and servicing of the Combined SFA, the payment of the semi-annual coupon on the Series A Notes, the early redemption of the Litenite Notes and the associated premium, as well as the drawing of an additional PLN 500.0 million (net, accounting for repayments) under the Revolving Facility Loan.

4.3.5. Liquidity and capital resources

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

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

The table below presents a summary of the indebtedness of the Group as at June 30, 2017.

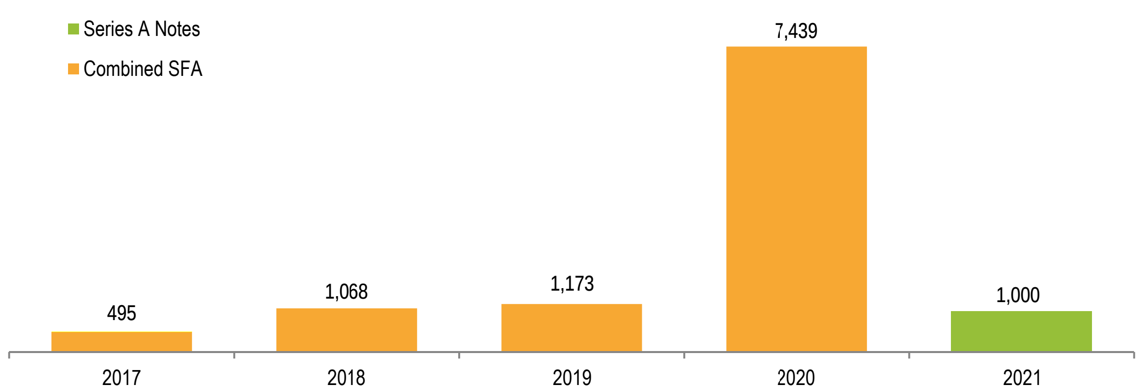
	Balance value as at June 30, 2017 [mPLN]	Coupon / interest	Maturity date
Combined SFA, incl.	10,614.5	WIBOR + margin	2020
Revolving Facility Loan	*500.0*	*WIBOR + margin*	
Series A Notes	1,017.8	WIBOR + 2.5%	2021
Leasing and other	29.0	-	-
Gross debt	11,661.3	-	-
Cash and cash equivalents[1]	(1,362.6)	-	-
Net debt	10,298.7	-	-
EBITDA LTM	3,752.5	-	-
Total net debt / EBITDA LTM	2.74	-	-
Weighted average interest cost[2]	3.3%		

1 This position comprises cash and cash equivalents, including restricted cash, as well as short-term deposits.
2 Prospective average weighted interest cost of the Combined SFA (including the Revolving Facility Loan) and the Series A Notes, excluding hedging instruments, as at June 30, 2017 assuming WIBOR 1M of 1.66% and WIBOR 6M of 1.81%.

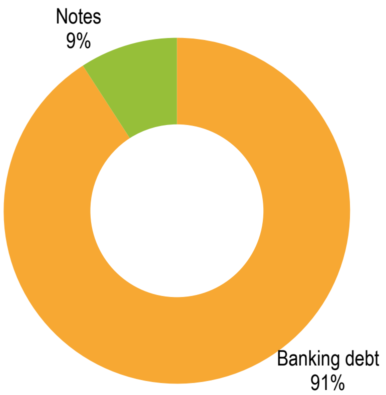
On April 26, 2017, we have concluded the early redemption of the Litenite Notes for the total amount of PLN 886.7 million, increased by the premium for early redemption in the amount of PLN 58.7 million. In connection with the above, we have drawn a total of PLN 600.0 million under the Revolving Facility Loan on April 24, 2017, of which we have repaid PLN 100.0 million by June 30, 2017.

The graphs below present the aging balance of the Group's debt and its currency composition, expressed in nominal values and excluding the indebtedness under the revolving facility loans and leasing, as at the balance date, i.e. June 30, 2017.

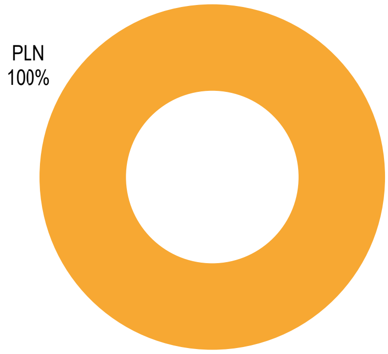
Debt maturing profile as at June 30, 2017 [mPLN]



Debt structure by instrument type
as at June 30, 2017



Debt structure by currency
as at June 30, 2017



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

Material financing agreements executed by the Group

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

Combined Senior Facilities Agreement

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

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

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

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

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

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

The Term Facility and the Revolving Facility bear interest at a variable rate equal to WIBOR for the relevant interest period plus margin. The margin on the Term Facility and the Revolving Facility depends on the ratio of net consolidated indebtedness to consolidated EBITDA in such a way that the lower the ratio – the lower the margin, with the maximum margin level applicable when the net consolidated indebtedness to consolidated EBITDA ratio exceeds 3.50:1, and the minimum margin level applicable when that ratio is no higher than 1.50:1, whereby the value of consolidated net debt used in the calculation of this ratio, pursuant to the definition set out in the Combined SFA, excludes debt instruments in which interest is not paid in cash on a current basis. The final repayment date for the Term Facility and the Revolving Facility is September 21, 2020. The Term Facility is being repaid in quarterly installments of variable value according to an established schedule. Up until one month prior to the final repayment date of the Term Facility, Group companies which have joined the Combined SFA as borrowers can use the Revolving Facility in the amount of up to PLN 1,000.0 million.

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

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

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

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

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

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

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

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

Series A Bonds issued by Cyfrowy Polsat

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Litenite Notes

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

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

Contractual obligations

Contractual commitments to purchase programming assets

As at June 30, 2017 the Group had outstanding contractual commitments in relation to purchases of programming assets. The table below presents a maturity analysis for such commitments:

[mPLN]	June 30, 2017 (unaudited)	December 31, 2016
within one year	119.6	139.4
between 1 to 5 years	539.9	83.3
more than 5 years	22.5	20.0
Total	682.0	242.7

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

[mPLN]	June 30, 2017 (unaudited)	December 31, 2016
within one year	2.7	14.6
Total	2.7	14.6

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of property, plant and equipment was PLN 158.1 million as at June 30, 2017 (PLN 118.3 million as at December 31, 2016). Total amount of contractual liabilities resulting from agreements for the purchases of intangible assets as at June 30, 2017 was PLN 255.7 million (PLN 115,3 million as at December 31, 2016).

Ratings

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

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

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

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

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

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

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

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

Moody's sees the possibility of upgrading the Group's ratings were it to achieve targets set by Moody's for specific ratios. Negative pressure could be exerted on the Group's ratings as a result of a material weakening of its operating performance or its liquidity, or an increase in its debt levels.

4.3.6. Information on guarantees granted by the Company or subsidiaries

Securities related to the Combined Senior Facilities Agreement

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

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

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

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

(iv) powers of attorney to bank accounts of the Company, Cyfrowy Polsat Trade Marks Sp. z o.o., Polsat Media Biuro Reklamy spółka z ograniczoną odpowiedzialnością Sp.k., Telewizja Polsat, Polkomtel, Eileme 1, Eileme 2, Eileme 3, Eileme 4, Plus TM Management Sp. z o.o., Dwa Sp. z o.o., Teleaudio Dwa Spółka z ograniczoną odpowiedzialnością Sp. k., Polsat Media Biuro Reklamy Sp. z o.o., Interphone Service Sp. z o.o., Muzo.fm Sp. z o.o., INFO-TV-FM Sp. z o.o., Polkomtel Business Development Sp. z o.o., Nordisk Polska Sp. z o.o., TM Rental Sp. z o.o., Liberty Poland S.A., PL2014 Sp. z o.o. and Aero2, governed by Polish law;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. OTHER SIGNIFICANT INFORMATION

5.1. Transactions concluded with related parties on conditions differing from market conditions

Transactions concluded in the first half of 2017 by us or our subsidiaries with entities related to Polsat Group have all been concluded on market conditions and are described in Note 17 of the interim condensed consolidated financial statements for the 6-month period ended June 30, 2017.

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

Polsat Group had not published any financial forecasts.

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

The Management of Cyfrowy Polsat believes that the provisions for litigations as at June 30, 2017 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

Proceedings before the Office of Competition and Consumer

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

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

Legal disputes in respect of telecommunication frequencies

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

There is a pending legal dispute in respect of the telecommunication license for the 1800 MHz frequency granted by the President of UKE in 2007 to Mobyland Sp. z o.o. (now Aero2 Sp. z o.o.) and Centernet S.A. (now Aero2 Sp. z o.o.). Proceedings to invalidate the 1800 MHz frequency allocation tender have been instigated by T-Mobile and Orange. The 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 the President of UKE remained valid while the operators could continue providing their services while using these frequencies". On December 23, 2016 President of UKE notified the parties that the tender annulment proceedings relating to the 1800 MHz frequency have been adopted *ex officio*. Pursuant to the decision dated August 7, 2017, the President of UKE notified the parties that the tender dated 2007 has been annulled. The decision is a first instance decision and the parties are entitled to appeal for the reconsideration of the case. The issued decision does not affect reservation decisions issued in a procedure separate from the tender. In accordance with the press release published by the President of UKE, these reservation decisions remain valid and telecommunication operators may continue to provide their services based on these reservation decisions. In the Management Board's opinion this issue should have no negative impact on the results and financial condition of the Group. Accordingly, no valuation adjustment has been made in the consolidated financial statements that might have been necessary should the dispute's outcome be unfavorable for the entity.

In addition to the matters described above, there are also other proceedings, for which provisions have been made according the best estimates of the management board members as to potential future outflows of the economic benefits required for their settlement. Information regarding the amount of provisions was not separately disclosed, as in the opinion of the Group's Management, such disclosure could prejudice the outcome of the pending cases. Other significant proceedings described in the consolidated financial statements for the year ended December 31, 2016 remained unchanged.

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

5.4.1. Factors related to social-economic environment

Economic situation in Poland

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

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

We believe that average consumer spending, including spending on pay TV, mobile telephony, Internet access and bundle services generally will grow in line with the overall GDP growth in Poland, and will support our future revenue growth. We expect that the positive growth dynamics of GDP in the years 2017-2018 will also have a positive impact on the advertising expenditures in Poland.

Situation on the pay TV market in Poland

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

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

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

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

Development of the advertising market in Poland

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

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

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

Growing importance of thematic channels

With the high penetration of the Polish market by pay TV, that provides viewers with an increasingly greater selection of thematic channels, as well as a broader offer of channels available via digital terrestrial television (DTT), main general entertainment channels (FTA) are experiencing a gradual decline in audience shares. According to data published by Nielsen Audience Measurement, in 2016 the total share of the four leading channels (POLSAT, TVN, TVP1 and TVP2) in the commercial group (16-49 years old) was 41.1%, while in 2015 it was equal to 41.7%.

What is more, Starcom data suggests that the advertising market share of thematic stations and channels broadcast via terrestrial television multiplexes is consistently growing. In order to maintain total audience share and advertising market share, we focus on developing our thematic channels portfolio and increasing the attractiveness of the content offered to our viewers.

Fixed-mobile substitution and growth of mobile broadband Internet saturation

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

In Poland the fixed-mobile substitution has a larger scale than in most EU countries. Based on UKE data, in 2016 the volume of voice traffic in fixed-line networks amounted to 8 billion minutes and was already over 12 times lower than the volume of voice traffic in mobile networks (ca. 97.3 billion minutes). At the same time, the availability of fixed-line broadband is limited mainly to urban areas. High-quality fixed-line broadband services are offered only to a limited extent outside urban areas, which is due to historical underinvestment resulting from the high cost of build-out of local loops (the so called "last mile").

In our opinion, the high preference of Poles for mobile technologies combined with the systematically improving quality of mobile data transmission as a result of the development of the LTE/LTE Advanced technologies, and in the future also 5G, as well as the development of dedicated equipment allowing to transmit high quality radio signal indoors (ex. our ODU-IDU set) create the opportunity for dynamic growth of the value of the mobile broadband market in Poland over the next years, which we intend to benefit from.

Growing demand for smartphones and data transmission

In Poland the popularity and sales of smartphones has been gradually growing. Currently, smartphones have almost completely replaced traditional handsets in our sales structure. Concurrently, we estimate that among all handsets used by our customers only about 66% constitute smartphones. This disproportion shows that the saturation of our mobile services customer base with smartphones will grow consistently in the next years.

Popularization of smartphones translates into growing sales of data transmission products in the segment of small screen devices. According to estimates presented in the Ericsson Mobility Report dated June 2017, the volume of transmitted data in the Central and Eastern Europe region, to which Poland belongs, will grow at an average annual rate of 33% over the next 6 years (CAGR 2016-2022).

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

Information on seasonality

Wholesale revenue includes *inter alia* advertising and sponsoring revenue which tends to be lowest during the third quarter of each calendar year due to the summer holidays period and highest during the second and fourth quarter of each calendar year due to the introduction of a new programming offer. In the year ended December 31, 2016, TV Polsat Group generated approximately 21.0% of advertising revenue in the first quarter, 28.0% in the second quarter, 20.3% in the third quarter and 30.7% in the fourth quarter.

Within retail revenue category mobile revenue is a subject to slight fluctuations during the year. This revenue stream tends to decrease in the first quarter of each year due to fewer number of calendar and business days.

Other revenues are not directly subject to any seasonal trend.

5.4.2. Factors related to the operations of the Group

Growing importance of bundled services

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

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

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

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

Investments in network roll-out and spectrum refarming

In the first half of 2017 residential customers of Cyfrowy Polsat and Polkomtel transferred 533 PB of data, that is 50% more than in the corresponding period of 2016. Striving to maintain the high quality of services that we provide, we continue to invest in our telecommunication network roll-out. In particular, upon having reached a 99% population coverage level for our LTE network, we are currently focusing on expanding the capacity of our telecommunication network and extending the coverage footprint of LTE-Advanced.

Investments in the development of our LTE network are mainly conducted using own spectrum in 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz frequency bands. During the past 12 months we have put on air an additional 1.7 thousand LTE base stations, operating mainly in the 1800 MHz and 2600 MHz bands.

We expect that LTE network roll-out, relying mainly on continuous 20 MHz spectrum blocks in the 1800 MHz and 2600 MHz bands combined with increasing the density of the base station network, distinct growth of the number of operating transceivers as well as the use of the ODU-IDU (Outdoor Unit Indoor Unit) solution will enable us to maintain our competitive advantage in terms of the quality of provided mobile broadband access.

The next crucial phase in the development of our network consists in the refarming of the 900 MHz and 2100 MHz spectrum, which will result in the allocation of part of the bandwidth currently used for 2G and 3G services to LTE and LTE-Advanced technologies. We are involved in intensive work aimed at completing the refarming process before the end of 2018. At present, we are finalizing the release of part of the 900 MHz bandwidth, used so far in 2G technology, on the entire territory of Poland, with the intention of migrating to this frequency services provided in recent and definitely more effective technologies. A similar process will successively take place in other regions of Poland.

Simultaneously, work is in progress throughout Poland with a view of expanding the capacity of our transmission network to support the continuously increasing data transfer volumes. Transmission network roll-out enables us to use our existing towers and other network locations, which have so far operated in 2G and 3G technologies, for the provision of LTE and LTE-Advanced services.

We trust that continuous investments in telecommunication network roll-out will enable us to maintain our competitive edge in the form of the possibility of providing top quality data transmission services without having to incur excessively high cost of purchase or extension of spectrum permits.

Development of IPLA

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

Mobile video traffic is the fastest growing segment of global mobile data traffic. According to estimates presented in the Ericsson Mobility Report dated June 2017, in 2016 video already generated half of total traffic and the average annual growth rate (CAGR) in the years 2016-2022 is estimated at 50%. Bearing this in mind, we believe that IPLA online television will make an increasingly significant element of our business in the future.

Attractive content of our TV channels

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

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

5.4.3. Factors related to the regulatory environment

International roaming in mobile networks

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

Pursuant to the Resolution of the European Parliament and Council of November 25, 2015 retail charges for regulated roaming services were levelled with domestic charges starting from June 15, 2017 (the "roam like at home" concept). The majority of price plans used on the Polish market include the so-called unlimited tariffs which enable making unlimited domestic calls and sending an unlimited number of short text messages against a fixed monthly subscription fee, and incoming voice calls on the Polish market are free-of-charge, as a general rule. In view of the above, in the subsequent periods the implementation of the "Roam like at home" concept will have a significant impact on the reduction of the retail revenue stream of all operators who will have fully implemented this regulation, including Polsat Group. Polsat Group estimates that the loss of its retail revenue may substantially exceed the amount of PLN 100.0 million in a 12 month perspective, despite the rapid growth of the traffic volume generated by the Company's customers abroad.

Taking into account the fact that a comparable loss of retail revenue streams will apply to all major mobile operators on the Polish market, it cannot be ruled out that in the mid-term individual operators will introduce modifications to their price lists of retail services in order to compensate, in part or in full, the loss of revenues caused by the "Roam like at home" regulation.

When our customers generate traffic while roaming abroad and logging in to foreign telecommunication networks, we incur the costs of purchasing that traffic. Wholesale settlement rates for the purchase of roaming traffic on the territory of the EEA are also subject to regulatory reductions. In particular, the implementation of the "Roam like at home" concept starting from June 15, 2017 was preceded by the implementation of an interim plan of a reduction of wholesale charges for international roaming services valid on the territory of the EEA. Currently valid rates are presented below:

[EUR]	Maximum average wholesale prices (settlements between operators) on the territory of the EEA from:						
	July 1, 2014 to July 14 ,2017	June 15, 2017	January 1, 2018	January 1, 2019	January 1, 2020	January 1, 2021	January 1, 2022
Data transmission (per 1 GB)	51.2	7.7	6.0	4.5	3.5	3.0	2.5
Outbound voice calls (per minute)	0.05	0.032	0.032	0.032	0.032	0.032	0.032
SMS (per 1 SMS)	0.02	0.01	0.01	0.01	0.01	0.01	0.01

Despite the considerable reduction of the maximum settlement rates introduced in parallel with the implementation of the "Roam like at home" regulation, according to our expectations, the rapid growth of the traffic volume generated by our customers roaming abroad will result in the growth of the cost related to the purchase of roaming traffic, which, in selected cases, may generate losses on roaming services. Due to the fact that this situation concerns each operator on the Polish market, it cannot be ruled out that this will result in changes introduced to price lists of retail services by individual operators, in particular there may appear local tariffs which will not include roaming services and more expensive tariffs including roaming services. For instance, on June 23, 2017 Orange Polska decided to deactivate roaming services in mobile broadband tariffs offered by this operator.

A Fair Usage Policy, developed by the European Commission, is an additional tool which should protect the interests of operators in individual member states after the implementation of the "Roam like at home" concept. This policy allows for suspending the provision of roaming services, if such services are used by individual customers in an unlawful or abusive manner. Furthermore, according to the declaration of the European Commission, individual operators may be released from the obligation of levelling roaming charges prices with domestic prices, by introducing a mechanism of surcharges to domestic prices, provided that these operators can prove that they would not be able to recover the costs incurred in connection with the provision of roaming services.

Roll-out of competing LTE networks

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

Cooperation between certain telecommunication operators in the scope of network sharing may have a significant effect on the shape of the Polish telecoms market in the foreseeable future. In December 2016 T-Mobile Polska and Orange Polska signed an agreement, pursuant to which they will develop their own LTE networks using jointly the network of transmitters of the joint venture NetWorks!, however, they will not share radio resources from the 800 MHz bandwidth.

In our opinion the significant improvement of the quality of LTE mobile broadband services provided by our competitors and the systematic expansion of the coverage footprints of their networks resulting from infrastructural investments, as well as exorbitant costs related to the purchase of the 800 MHz frequencies will influence, in coming periods, the competition model functioning on the Polish mobile broadband market by turning from price competition towards qualitative competition.

Registration of prepaid SIM cards

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

As a result of the implementation of the regulations stemming from the Anti-terrorist Act of June 10, 2016, the Polish mobile market has been remodeled, in particular a sharp reduction, estimated by us at ca. 50%, of the volume of sales of prepaid SIMs took place, while simultaneously the average period of activity of registered SIMs was extended and the volumes of prepaid customer bases reported by respective operators was reduced (due to the elimination of the so-called "dead souls"). This should lead to obtaining more realistic figures regarding the size and mobile penetration for the Polish market.

According to the data published by the Central Statistical Office (GUS), at the end of June 2017 the total base of reported SIM cards declined by around 5.5 million during 12 months. Polsat Group decided to exclude, on a one-off basis, from reported statistics of all SIM cards that have not been hitherto registered. We remain unsure whether similar decision had been made by our competitors. However, we assume that the number of SIM cards reported by domestic operators may erode further in the coming quarters.

At the same time, the reduction of the number of cards used for brief periods of time and generating relatively low revenue, combined with the phasing out of the negative effects of temporary promotions related to the registration process should lead to more realistic levels of reported ARPU in the prepaid segment. In our case, this effect was fully visible in the second quarter of 2017.

5.4.4. Financial factors

Exchange rates fluctuations

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

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

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

6. Risk factors

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

The results of our operations in the telecommunications sector depend on the ability to effectively encourage the existing customers to use a wider range of our services, win customers from competitive mobile and fixed-line operators, as well as the ability to reduce churn

It is expected that further growth of our operations on the mature Polish mobile telephony market will chiefly depend on the ability to effectively encourage the existing customers to use a wider range of services offered by us, win customers from competitive mobile and fixed-line operators, as well as the ability to reduce the churn rate. The Group cannot give any assurance that the measures it is undertaking will encourage its existing customers to use a wider range of services or attract customers from competitive mobile and fixed-line operators, or that the measures we are undertaking to increase customer loyalty will reduce the rate of churn or allow the Group to maintain the current churn rate. If we are unable to effective manage the churn rate, we may be forced to significantly reduce our costs to maintain satisfactory profit margins, or to take alternative steps, which could in turn result in higher costs of customer acquisition and retention.

In addition, the mobile telecommunications industry is characterised by frequent developments in product offerings, as well as by advances in network and end-user device technology. If we are unable to maintain and upgrade our network and provide customers with an attractive portfolio of products and services, we may not be able to retain customers or the customers' retention costs may increase. Likewise, if we fail to effectively advertise our products and services, acquisition of new customers may be impossible or very difficult.

Additionally, competing mobile operators may improve their ability to attract new customers, or offer their products or services at lower prices, improve their attractiveness for customers, which could make it more difficult for us to retain the current customer base, and the cost of retaining and acquiring new customers could increase.

All such events could have a material adverse effect on the results of our operations, financial condition and prospects.

Our performance depends on our customers' satisfaction, the acceptance of our programming content by viewers, as well as our ability to generate profit from our own productions or from acquired broadcasting rights

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

Our ability to generate advertising revenue in the TV production and broadcasting segment depends almost entirely on viewers' demand for our programmes. Audience shares achieved by programmes we broadcast directly affect both the attractiveness of our television channels to existing and potential advertisers and rates we are able to charge for advertising time. In the TV broadcasting and production segment we also generate revenue from production and sale of television programmes to third parties operating in Poland and, to a lesser extent, abroad. Prices which we are able to receive from potential buyers of our own productions are directly linked to the audience for those programmes, as third-party buyers, interested in generating advertising revenue, look for programming contents with highest viewership numbers.

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

To some extent, the profitability of our operations depends on our ability to produce or obtain broadcasting rights to the most attractive programmes in a cost-effective manner. While costs of in-house productions of television content are usually higher than costs of purchasing third-party programmes, we believe that a larger number of Polish programmes broadcast on our channels will increase viewers' demand and consequently increase the demand from advertisers. However, there can be no assurance that financial outlays we have made or will make in the future on Polish programming production will be fully recovered or that we will be able to generate revenue high enough to offset those costs.

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

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

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

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

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

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

Our ability to grow our customer base depends on our ability to provide high-quality, reliable services and products. In offering products and services, we rely on a number of third-party providers of network, services, equipment and content over whom we have no control. If such third-party providers do not perform their contractual obligations towards us or do not adjust to changes in requirements of the Group's companies, our customers may experience service interruptions, which could adversely affect the perceived quality of our services and products, therefore, adversely impact the brand and reputation of the Group's companies, thus affecting our business, financial condition, results of operations or prospects.

A possibility of provision of telecommunications services depend to a large degree on our ability to interconnect with the telecommunications networks and services of other telecommunications operators, including those of Polkomtel's direct competitors. We also rely on third-party operators for the provision of international roaming services to our mobile customers. While Polkomtel has interconnection and roaming agreements in place with other operators, we do not have direct control over the quality of their networks and the interconnections and roaming services they provide, due to the fact that we do not have direct control over availability or quality of networks of such operators or interconnect and roaming services, there can be no assurance that availability and quality of services provided by such other operators will be in accordance with contract. Any difficulties or delays in interconnecting with other networks and services, the failure of any operator to provide reliable interconnections or roaming services on a consistent basis or early termination of any of material interconnection or roaming agreements could result in an inability or limited ability to provide services to our customers or in a deterioration of quality of the services, which in turn can lead to loss of customers or decreased usage of our services, and consequently have a material adverse effect on our performance, financial condition and growth prospects.

In addition, we rely on continued maintenance and supply services rendered by manufacturers of telecommunications equipment, including Nokia Solutions and Networks, Ericsson and Huawei. Continued cooperation with some of them is important for us to maintain our operations without disruption. We also rely on agreements with external suppliers of handsets and modems (including Samsung, Sony, LG, Huawei and Microsoft Mobile) and providers of IT services (including Huawei, Intec Billing, CGI, Infovide Matrix, Oracle). We do not have any control over our key suppliers and have limited influence on the manner in which these key suppliers perform their obligations under concluded contracts. There can be no assurance that these providers will not terminate their contracts with us, extend them upon expiry, extend them on the same or more favorable terms, or that we will be able to acquire the necessary equipment and services in the future from these or other suppliers, in required amounts and at the right time, or at all. Accordingly, due to dependence on third-party suppliers, we are exposed to the risk of delayed provision of necessary services or equipment or lack of such provision.

If any of the third parties that we rely on becomes unable to or refuses to provide the services, facilities and equipment that we depend on in a timely and commercially reasonable manner or at all, we may not be able to offer our customers such services, facilities or equipment or may experience temporary service interruptions or service quality problems, which would significantly impact our reputation and customer confidence and lead to a decrease in revenue from sales of such services, facilities and equipment and in consequence have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

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

It is expected certain communications technologies that are currently under development, including LTE-Advanced or 5G, as well as fibre optics technology allowing for faster data transmission 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 engage appropriate amounts of capital and resources to develop the necessary technologies, products or services that will satisfy existing customers and attract new customers. If we fail to implement new technologies, products or services or implement such new technologies, products or services too late, it may render our technologies, products or services less profitable or less attractive than those offered by its competitors. In addition, new or enhanced technologies, services or products we introduce may fail to achieve sufficient market acceptance or experience technical difficulties. We may also be unable to recover the investments it has made or may make to deploy these technologies, services and products and therefore no assurance can be given that we will be able to do so in a cost efficient manner, which would also reduce our profitability. Moreover, we may not be able to obtain funding, in sufficient amounts on reasonable terms, in order to finance capital expenditures necessary to keep pace with technological developments and with the competitors.

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

Alleged health risks of wireless communications devices could lead to decreased wireless communications usage or increased difficulty in obtaining sites for base stations

In the past, reports have been published alleging that there may be health risks associated with the effects of electromagnetic signals from antenna sites and from mobile handsets and other mobile telecommunications devices. There can be no assurance that further medical research and studies will not prove that there are health risks associated with the effects of electromagnetic signals.

The actual or perceived risk of mobile telecommunications devices, press reports about risks posed by such devices or consumer litigation relating to such risks could result in decreased mobile usage, reduction in the number of customers, increased difficulty in obtaining sites for base stations and exposure to potential litigation or other liabilities. In addition, these health concerns may cause authorities to impose stricter regulations on the construction of the components mobile telecommunications networks, such as base transceiver stations or other telecommunications network infrastructure, which may lead to an increase in our operating costs in the segment of services to individual and business customers, and may hinder the completion of network deployment, or may increase costs of such development. Such events may have a material adverse effect on our business, financial condition, results of operations or prospects.

We are exposed to the risk of fraudulent activities by customers

Given the nature of the telecommunications market stemming from the manner of making interconnect settlements related to the exchange of domestic and international telecommunications traffic, incurring wholesale costs realted to traffic generated by our customers when using telecommunications networks of foreign operators (roaming) and fees for sold premium services, some of our customers use telecommunications services in a way that differs from the standard method of their use by the end user, e.g. by terminating mass traffic in the network of another operator while bypassing wholesale interconnect settlements. This phenomenon may intensify in particular as a byproduct of the implementation of roaming regulations (Roam like at home). We prevent such behaviour by analysing any abnormal traffic patterns on individual SIM cards. If such traffic patterns are identified, the card can be immediately deactivated, in accordance with the service provision regulations. However, there can be no assurance that we will be sufficiently effective in preventing this type of fraud. If we do not identify a fraud or identifies a fraud with a delay, we may be exposed to additional costs or lose some revenue due to us, which can have a material adverse effect on our business, financial condition or growth prospects.

We might be unable to maintain good name of the Cyfrowy Polsat, Plus, Telewizja Polsat, IPLA, TV4 and TV6 brands

The good name of the “Cyfrowy Polsat,” “Plus,” “Telewizja Polsat,” “IPLA,” “TV4” and “TV6” brands is a significant component of Group's value. Maintaining their good name is fundamental for acquiring new and retaining existing customers and advertisers. Our reputation may suffer if we are unable to provide existing products and services or implement new products and services due to technical faults, a lack of necessary equipment, or other circumstances. Also, the quality of our products and services depends on the quality of third-party infrastructure and services, over which we have little control. If our partners fail to observe relevant performance standards or supply faulty products or services, the quality of our products and services, as well as our good name may suffer. There can be no assurance that these or other risks, which would compromise the good name of our mostimportant brands, will not materialise in the future. Any damage to our good name may have a material adverse effect on our business, financial condition, results of operations or prospects.

Goodwill and brand values may be impaired

Following the acquisitions made in the past, in particular of Telewizja Polsat, Polkomtel, and Aero2 (the legal successor of the company Midas), we have carried considerable amounts of goodwill and intangible assets, representing brand value, on our balance sheet. We test the goodwill and brand value allocated to our business segments for impairment on an annual basis, by measuring the recoverable amounts of cash-generating units, based on value in use. Any adverse changes to the key assumptions we apply in impairment testing may have a material adverse effect on our business, financial condition, results of operations.

We may lose our management staff and key employees

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

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

To reduce acquisition costs of satellite TV reception equipment and to be able to offer our pay TV customers the option to 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 manufacturing plant in Mielec. Set-top boxes manufactured by us accounted for a majority 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 a confirmed epidemic defect could be harmful to our reputation.

Any problems with production of set-top boxes would force us to acquire larger numbers of set-top boxes from third-party suppliers. There can be no assurance that we will be able to purchase a sufficient number of set-top boxes from third-party suppliers when required. Furthermore, the cost of acquiring from third-party suppliers of the vast majority of set-top box models we offer would be much higher than the cost of manufacturing them at our own plant. If we were unable to obtain set-top boxes from third-party suppliers on satisfactory pricing terms, we might have to raise the prices for our customers to cover our increased expenses. Moreover, if the deliveries of set-top boxes we managed to procure were insufficient to meet the demand, our reputation among our current and potential customers would suffer. As our production of set-top boxes is based on components purchased from third-party contractors, there is a risk that we lose access to such components, for instance due to discontinuation of their production or changes in technologies or products. Losing access to certain components would force us to redesign our set-top boxes, which could affect continuity of their production and supplies to our customers.

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

Network infrastructure, including information and telecommunications technology systems, may be vulnerable to circumstances beyond the Group control that may disrupt service provision

The mobile telecommunications business depends on providing customers with both reliable service, network capacity and security. The services we provide may encounter disruptions from many sources, including power outages, acts of terrorism and vandalism and human error, as well as fire, flood, or other natural disasters.

Base transceiver stations, where radio equipment is installed, form a crucial element of our network infrastructure. The stations are erected at various, often remote locations, in scarcely populated areas. Such location of certain stations poses a greater risk of theft or acts of vandalism, including by persons objecting to base transceiver stations being erected at particular locations.

Part of the Group's network infrastructure is located on the premises of third parties. Disputes between these third parties and Group companies, failure of third parties to properly perform their contractual obligations, as well as a number of other factors and events may cause part of our network infrastructure to be inaccessible, which could adversely affect our ability to efficiently operate, maintain and upgrade its network infrastructure.

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

In order to provide pay TV services to our customers, we rely primarily on our satellite centre, as well as satellite transponders, customer management system, reporting systems, sales support system, and customer relationship management system. Any failure of the individual components of our satellite centre, including failure of satellite transponders or any intermediate link, may result in serious disruption or even suspension of our activities for a certain period. In the TV production and broadcasting segment, the IT systems are used primarily for management of advertising scheduling, programme broadcasting, and maintaining relations with advertisers. Failure of any of our IT systems may prevent us from carrying out our operations successfully, while restoring them to full working condition may require significant financial outlays. Such events may have a material adverse effect on our business, financial condition, results of operations and prospects.

The necessity to obtain building permits may delay or prevent roll-out of the telecommunication networks

The roll-out of our network infrastructure, including in particular the construction and installation of base transceiver stations, might require obtaining building permits. No assurance can be given that all the necessary building permits will be obtained or that they will be obtained when originally anticipated, which would pose the risk that work on development of the network infrastructure may have to be discontinued, or may be considerably delayed. Furthermore, any building permit that is obtained may in certain circumstances be revoked, even after a given component of network infrastructure is put into operation, which may in certain circumstances lead to suspension of the operation of the network component and require a legalisation procedure to be carried out or, if such procedure is not possible, the infrastructure component to be disassembled.

The necessity to limit expansion of our network infrastructure due to its failure to obtain the required building permits, delays in infrastructure development or − when a building permit is revoked − the obligation to discontinue operation or to disassemble an infrastructure component, may have a material adverse effect on our business, financial condition, results of operations or prospects.

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

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

Two trade unions are active at Polkomtel: Niezależny Samorządny Związek Zawodowy Solidarność (the Solidarity Independent Self-Governing Trade Union) and Ogólnopolskie Porozumienie Związków Zawodowych (All-Poland Alliance of Trade Unions). As at June 30, 2017, 133 employees (expressed as full-time equivalents), or ca. 4% of the total workforce of Polkomtel Group were trade union members. At the date of approval of this Report, we had no knowledge of any disputes with trade unions or any other collective disputes at Polkomtel. However, involvement in lengthy negotiations with the trade unions or in collective disputes cannot be ruled out; strikes, work interruptions or other industrial action (triggered, for example, by an attempt to optimise the employment level or labour costs or the need to restructure the workforce), as well as employees' pay rise demands may also be experienced. The occurrence of strikes, significant disputes with the trade unions active at Polkomtel or increase in employment costs may disrupt Polkomtel's operations, preventing it from timely or cost-effective provision of services to its customers, which can have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

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

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

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

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

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

Our broadcasting licences may be revoked or may not be renewed

Our business requires that we obtain licences issued by the National Broadcasting Council (KRRiT). These licences may be revoked or may not be renewed. In our segment of services to individual and business customers, broadcasting of TV programmes by DTH service providers requires no licence, only registration by the Chairperson of KRRiT. As at December 31, 2016, we held 7 terrestrial broadcasting licences and 26 satellite broadcasting licences. All TV broadcasting licences issued by KRRiT are issued for specified period. Our terrestrial TV broadcasting licences and satellite broadcasting licences will expire at various times between 2023 and 2030.

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 derives from the necessity to ensure equal and effective competition or substantially better use of frequencies, especially if the extension of the allocation would lead to excessive frequency concentration within the Group.

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

To keep our TV broadcasting licences, we must comply with the applicable laws and the terms and conditions of the licences. Failure to comply with the applicable laws or breach of the terms and conditions of a broadcasting licence, especially with respect to the period within which we must commence broadcasting of a channel, could lead to the licence being revoked or a fine being imposed on us. Our broadcasting licences may also be revoked if we are found to be conducting activities in violation of the applicable laws or the terms and conditions of our broadcasting licences, or we fail to remedy such violation within the applicable grace period. In addition to licence revocation, there is also a risk that licences granted by KRRiT will not be renewed.

If any of our broadcasting licences or the Group's frequency allocation are not extended, are revoked or extended on unfavorable conditions, the Group may be forced to suspend the provision of some services temporarily or permanently, may be unable to offer services based on a particular technology or may have to incur substantial expenditure, all of which may have a material adverse effect on our business, financial condition, results of operations or prospects.

Polsat Group's current frequency allocations may be revoked or may not be renewed on acceptable terms or at all

All frequency allocations have been issued to companies belonging to polsat Group for a definite term. There can be no assurance that our frequency allocations will be extended prior to their expiry. In particular, pursuant to the Telecommunications Law, Polsat Group's frequency allocations may not be extended or may be revoked by the President of UKE in case of a substantial breach of the terms of its use, or if revocation of the frequency allocations follows from the necessity to ensure equal and effective competition or substantially better use of frequencies, especially if the extension of the allocation would lead to excessive frequency concentration at Polsat Group.

To maintain the frequency allocations, companies belonging to Polsat Group must comply with the terms of the allocation, as well as relevant laws and regulations introduced by the President of UKE and the Minister of Digital Affairs. Any breach of those terms, laws or regulations, including in particular failure to pay frequency allocation fees, may cause the allocation to be revoked and penalties to be imposed on the given 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 companies belonging to Polsat Group will not breach any laws or regulations related to frequency allocation or any terms of such allocation.

If any of our frequency allocations is not extended, is revoked or extended on unfavorable conditions, Polsat Group may be forced to suspend the provision of some services temporarily or permanently, may be unable to offer services based on a particular technology or may have to incur substantial expenditure in order to be able to provide services to customers based on frequencies from other bandwidths, all of which may have a material adverse effect on our business, financial condition, results of operations or prospects.

In particular, Group companies currently hold frequency allocations in the 800 MHz, 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz bandwidths. These allocations are fundamental for the roll-out of our mobile telecommunications network. Our competitors have taken a number of steps, some of which may still lead to various consequences; among others in respect of rights of disposal of frequencies granted to companies belonging to Aero2 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 or proceedings the instigation of which cannot be excluded, as events lying outside the control of beneficiaries of 1800 MHz spectrum reservation decisions, our reservation decisions could be contested, which could have a material effect on our ability to provide LTE services. Proceedings to invalidate the 1800 MHz frequency allocation tender have been instigated by T-Mobile, Orange and Inquam Broadband GmbH. 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." In correspondence dated December 23, 2016, the President of UKE informed the parties involved that proceedings to invalidate the tender for the 1800 MHz frequency band have been opened. The instigation of the abovementioned proceedings by UKE remains without direct effect on the final and legally binding character of the reservation decision, which constitutes the basis for Polsat Group to use capacity in the 1800 MHz spectrum. On August 7, 2017, the President of UKE issued a decision annulling the tender dated 2007. The decision is a first instance decision and the parties are entitled to appeal for the reconsideration of the case. The issued decision does not affect reservation decisions issued in a procedure separate from the tender. In accordance with the press release published by the President of UKE, these reservation decisions remain valid and telecommunication operators may continue to provide their services based on these reservation decisions.

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 our subsidiary, Sferia. As at the date of preparation of this Report legal proceedings are in progress before the Regional Court in Warsaw and the Administrative Court in Warsaw. So far all the decisions of the courts have been favorable for Sferia, in particular the recent legally binding rulings of the Supreme Administrative Court issued on August 11, 2017 with respect to cases II GSK 3252/15 instigated by P4 and II GSK 3393/15 instigated by Orange. 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, 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 we lost certain frequency allocations on the basis of which we provide telecommunication services, we would be able to gain access to sufficient alternative frequency band resources on satisfactory terms or at all, and failure to obtain access to such resources could have a negative impact on the implementation of business strategies and consequently a material adverse effect on our financial condition, results of operations and prospects.

The spectrum of radio frequencies available to the mobile phone industry is limited and therefore we may not be able to obtain new frequency allocations

The ability to maintain existing and implement new or improved mobile technologies and the Group's ability to successfully compete on the telecommunications services market partly depends on our ability to obtain further radio frequency resources. The size of the spectrum of radio frequencies available for allocation in Poland is limited, and the process of obtaining allocations is long and very competitive.

In May 2016 the European Union Council adopted a general approach regarding the draft decision on the development of broadband services in the European Union. In accordance with the proposal, access to the 700 MHz band (the so-called second digital dividend, i.e. the spectrum from 694-790 MHz frequency range) is to be provided to telecommunication operators for the purpose of wireless communications by 30 June 2020 at the latest. In justified cases it will be possible to postpone this deadline by two years. At the same time, TV broadcasters who will be forced to release the 694-790 MHz band as a result of the decision, and to use the 470-694 MHz band only, have been given the guarantee of maintaining the latter frequency band, i.e. 470-694 MHz, at least till the year 2030. As at the date of approval of this Report, details regarding the distribution of the 700 MHz spectrum in Poland remain unknown.

The Group's inability, or limited ability, to obtain access to frequency bands important for further development of our operations (on favorable terms or at all), including maintaining the existing or implementing new or improved mobile technologies, or obtaining such access by competitors can have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

Our ability to service and repay debt depends on future results of our operations and our ability to generate sufficient cash flows to pay these and other liabilities, which in turn depends, to a significant extent, on the general economic climate, financing terms, market competition, acts of law and secondary legislation, and a number of other factors which are often outside of our control. If our future operating cash flows and other capital resources prove insufficient to repay our liabilities as they fall due or cover our liquidity requirements, we may lose our property, plant and equipment which serve as security for the repayment of our debts, or we may be forced to (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.

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

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

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

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

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

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

In the event of a change of control of the Company within the meaning of the Combined Senior Facilities Agreement we are under the obligation to repay our liabilities 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 external financing in order to repay the debt.

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

6.3. Risks related to market environment and economic situation

We are exposed to the effects of the regional or global economic slowdown being felt on the Polish advertising market and affecting consumer spending in Poland

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

Lower advertising spending in Poland may have a material adverse effect on our revenue and the growth prospects of our television production and broadcasting segment. Slower GDP growth in Poland usually negatively impacts advertising spending. Moreover, as many customers of our TV production and broadcasting segment are global companies, the global economic downturn, even if it has no direct effect on Poland or its effect on the Polish economy is not as significant as in other countries, as well as economic slowdown in Poland, may force customers to cut their advertising budgets in Poland, which will have a negative impact on the demand for advertising services in Poland. A decrease in our advertising revenue may force us to adjust the level of our costs to lower revenues. As adjustments of the cost base to market conditions are not generally sufficient to fully offset the effect of lower revenue, the consequences of such risk factors may include a reduced EBITDA margin, lower quality of our programmes, or limited number of programmes broadcast by us, both our own productions and content purchased from third parties. Any constraints on the quality or quantity of our programming may result in the loss of audience share both to our competitors and to alternative forms of entertainment and recreation, which in turn may affect the attractiveness of our offering to potential advertisers and sponsors.

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

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

The Polish mobile telecommunications industry is highly competitive

The Group faces strong competition in all of its core business areas, especially from telecommunication operators, in particualar Orange Polska, T-Mobile Polska and Play Communications. There can be no assurance that customers will not find the offerings of those operators more attractive.

A shift in the business model of mobile telecommunications network operators in Poland, whereby competing providers of telecommunications services would form joint ventures or strategic alliances, or launch new types of services, products and technologies may additionally intensify competition on the telecommunications services market. The situation on the telecommunications market in Poland may also change significantly as a result of potential acquisitions or if new mobile telecommunications operators enter the market or broadband services are offered by entities other than mobile telecommunications operators.

We face growing competition from entities offering non-traditional voice and data transmission services which rely on the VoIP technology, such as Skype, WhatsApp or Viber, through which customers who use only mobile data transmission can be provided with mobile voice and video services, and users with fixed broadband access can be provided with voice and video services over fixed-line networks, usually at prices lower than traditional voice and data transmission services. To this end, such entities use, among other things, the possibility to provide services via existing infrastructure, belonging to telecommunication operators, so as to avoid having to implement capital-intensive business model themselves. Continued growing popularity of these services may lead to a decrease in ARPU per customer and the customer base of telecommunications operators, including the Group’s one. It can be expected that in the future the Group will also have to compete with providers of services supported by communication technologies which at the date of publication of this Report are at an early stage of development or which will be developed in the future. The Group's existing competitors as well as new players on the Polish market may introduce different new services or telecommunications services based on better technologies than those currently used by the Group before such services are introduced by the Group, or may offer such services at more competitive prices. Mobile virtual network operators (MVNO) also compete with traditional mobile telecommunications network operators.

The Group’s ability to effectively develop its operations on the Polish telecommunications services market may be also adversely affected by the imposition of new regulatory requirements or new fees or payments on entities operating in Poland, further legal changes, or the regulator's policy designed to increase the competitiveness of the telecommunications services market.

Moreover, the high rate of mobile voice penetration and the highly consolidated nature of the Polish mobile telephony market may result in increased pricing pressure and our ability to compete effectively will depend on our ability to introduce new technologies, convergent services and attractive bundled products at competitive prices. It cannot be ruled out that we will be forced to reduce prices for certain products and services in response to the pricing policies of our major competitors, which may have an adverse effect on our future revenue and profitability.

Group’s reduced competitiveness and increased pricing pressures could have a material adverse effect on the Group’s financial condition, results of operations or prospects.

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.

Operating results of our TV production and broadcasting segment depend on the importance of television as an advertising media

In 2016, ca. 77% of the revenue generated by our TV production and broadcasting segment came from sale of advertising time and sponsored time slots on our TV channels. The Polish advertising market sees television competing with other advertising media, such as the Internet, newspapers, magazines, radio, and outdoor advertising. There can be no guarantee that TV commercials will maintain their position on the Polish advertising market, or that changes in the regulatory regime will not favor other advertising media or other broadcasters. The growing competitive pressure among advertising media, driven by the increasing prominence of Internet advertising in Poland, significantly higher spending on thematic channels, and the development of new forms of advertising may have an adverse effect on advertising revenue generated by our TV production and broadcasting segment, and thus on our operations, financial condition, performance, and cash flows.

Our potential advertising revenue depends on several factors, including the demand for and prices of advertising time. No assurance can be given that we will be able to respond successfully to the changing preferences of our viewers, which means that our audience share may decrease, which may adversely affect demand for our advertising time and our advertising revenue. The diminishing appeal of TV as a whole, and our own channels in particular, attributable both to higher interest in other forms of entertainment and to the declining importance of television as an advertising medium, may have an adverse effect on our business, financial condition, results of operations or prospects.

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

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

nc+, a platform launched in late 2012 following the merger of Cyfra+ and the n platform, is our main competitor on the direct-to-home (DTH) TV market. Apart from other direct DTH competitors, we also compete with broadcasters using other technologies, such as terrestrial, cable and Internet television. Furthermore, we expect growing competition from joint ventures and strategic alliances between providers of cable and satellite TV and telecommunications operators. It is also probable that we will have to face foreign competitors entering the Polish market.

Following completion of the terrestrial television digital switchover process in Poland in July 2013, there are currently 27 TV channels broadcasted terrestrially. According to Nielsen Audience Measurement, in 2016 the audience shares of all DTT channels in the 16-49 age group reached 67.4% (compared to 67.2% in 2015). The aggregate audience share in this age group of the main four channels (POLSAT, TVN, TVP1 and TVP2) was 41.1% in 2016 compared to 41.7% in 2015. The aggregate audience share of the other DTT channels was 26.8 % in 2016 vs. 25.4% in 2015, which reflects the growing market fragmentation, to a large extent at the expense of the leading TV channels, including POLSAT. Our main competitors on the TV advertising markets are other broadcasters, such as TVN – a leading commercial broadcaster, and TVP – the broadcaster financed partly from public funds, which provides public service. Because TVP is the public broadcaster, it cannot interrupt programmes and films with commercial breaks. Any changes in this respect may contribute to the strengthening of TVP's competitive position, reducing our advertising revenue. Furthermore, we will be forced to compete with current and future market participants for terrestrial and satellite broadcasting licences in Poland. Such participants may include major broadcasters with greater resources and more recognisable brands. This is especially true in the case of foreign companies which may find the Polish TV market attractive for various reasons, including its current regulatory environment (which allows TV stations to broadcast more advertising during programmes and films than in other countries), as well as the increasing extent of other permitted advertising activities. And lastly, continued growth of cable TV, DTH and DDT providers in Poland may lead to further market and audience fragmentation, which may make advertisers reluctant to buy air-time on our channels. Losing customers and advertisers to our competitors may have a material adverse effect on our business, financial condition, results of operations or prospects.

The switch-over in Poland from analogue to digital terrestrial television broadcasting technology, leading to an increase in the number of generally available free-to-air (FTA) channels, may result in lower demand for our pay TV services and affect our audience share

The analogue to digital switchover in Poland has resulted in a substantial rise in the number of competitive TV providers. It is also probable that the current limits on awarding licences for DTT frequency bands will be lifted. This would be likely to bring about a growth in the number of digital channels available on the Polish TV market and would lead to a corresponding loss of our audience share. Following completion of the digital switchover process in July 2013, the number of terrestrial FTA TV channels has risen considerably, and their programming is becoming increasingly more attractive, which may reduce the demand for our DTH and DVB-T pay TV services, leading to a loss of the audience share and 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 the leading film and TV studios as well as other suppliers and producers of programming content, purchase of modems, parts of set-top boxes, other hardware and software, as well as lease of transponder capacities) that are denominated in foreign currencies, mainly in euro and US dollars. Significant components of costs, including costs of purchase of handsets, UMTS license fees, costs of purchase of network equipment and IT systems, roaming, as well as the costs of lease of certain office areas and locations of elements of our mobile network infrastructure are denominated in foreign currency, in particular in euro. 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.

We are exposed to interest rate risk

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

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

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

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

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

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

Tax authorities may question the accuracy of intra-Group and related-party settlements under applicable transfer pricing regulations

In the course of their business, the Group companies enter into transactions with their related parties within the meaning of the Corporate Income Tax Act. Related-party transactions, which guarantee that the Group's business is run efficiently, include inter-company rendering of services and sale of goods. When entering into and performing related-party transactions, the Group companies take steps to ensure that terms and conditions of such transactions are consistent with the applicable transfer pricing regulations. At the same time, no assurance can be given that the Group companies will not be subjected to audits and other inspections by tax authorities and tax inspection bodies with respect to the foregoing. The nature and diversity of transactions with related-parties, the complexity and ambiguity of the regulations governing methods of verifying the prices applied, dynamic changes in market conditions affecting the calculation of prices applied in such transactions, as well as the difficulty in identifying comparable transactions, the risk that the methodology used to determine arm's-length terms for the purpose of such transactions is questioned by tax authorities cannot be excluded, and therefore tax authorities may question the accuracy of settlements between the Group companies and their related parties under applicable transfer pricing regulations, which may have material adverse effect on our business, financial condition, results of operations or prospects.

Assessment of tax effects of the Group's restructuring activities by Polish tax authorities may differ from assessment of such activities by the Group

The current composition of the Group is a result of consolidation, restructuring and other transactions involving assets of considerable value, implemented over the recent years by and between the Group's companies. Those activities had an effect on the tax settlements not only of the companies directly involved in such consolidation, restructuring and other transactions involving assets of considerable value, but also of their respective members or shareholders.

Despite monitoring the risk in individual business areas, with respect to completed and planned restructuring activities, no assurance can be given that Polish tax authorities will not have a different assessment of tax effects of individual restructuring events and transactions, both completed and planned, in particular with respect to the possibility, manner, and timing of the recognition of income and tax-deductible expenses by entities participating in such events and transactions, or that financial terms of such activities will not be questioned, which may have a material adverse effect on our business, financial condition, results of operations or prospects.

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 Polsat Group entities (including conformity with the taxpayer's obligations), and will not determine the existence of tax arrears of these entities. There is also a risk that tax authorities may question financial terms of individual events and transactions. This may have a material adverse effect on our business, financial condition, results of operations or prospects.

Property tax laws give rise to numerous interpretation uncertainties

Polkomtel Group uses a significant number of telecommunications infrastructure facilities located on real property. Property tax laws give rise to numerous interpretation uncertainties, in particular with respect to the tax base and the determination of items subject to tax. The definition of a structure and its practical use under the Local Taxes and Charges Act might lead to disputes with tax authorities. Therefore, no assurance can be given that there will be no disputes between companies from Polkomtel Group and tax authorities as to the amount of the property tax payable, as well as unfavorable rulings in this respect.

The ongoing work on amendments to the Local Taxes and Charges Act aim in particular at clarifying the definitions of a building and of a structure under the act. Given the early stage of the legislative process, the final amendments remain unknown. Please note, however, that the intended amendments to the act (in particular with respect to the tax base and the determination of items subject to property tax) may affect the amount of property tax payable for the telecommunications infrastructure facilities used by Polkomtel Group. Such circumstance may have a material adverse effect on our business, financial condition, results of operations and prospects.

The Group's companies are subject to legal regulations (including tax legislation) in force in the countries in which they operate

Given the international character of the Group, its companies are governed by legal regulations (including tax legislation) in force in the countries in which they operate. Therefore, in view of such dissimilar legal frameworks, there is a risk that the Group will interpret local legal regulations (including tax legislation) in a way which is divergent from their construction by the country's tax authorities. The diversity of legal regulations by which individual companies are bound may give rise to internal problems within the Group, including problems with respect to the law governing legal relations between the Group's entities. Another aspect of the relationship between Polsat Group companies which may raise doubts is the application and interpretation of double-tax treaties concluded between countries in which the companies operate.

At the same time, in many cases the legal regulations (including tax legislation) in countries where the Group conducts its business are frequently ambiguous and there is no single or uniform interpretation or practice followed by local tax authorities. Additionally, such countries' tax legislation (including the provisions of applicable double-tax treaties) may be subject to change. The practice adopted by tax authorities in respect of particular tax regulations may change as well, even retroactively.

Therefore, no assurance can be given that there will be no disputes with tax authorities in countries where the Group conducts its business, and consequently that the tax authorities will not question the correctness of the Group companies' tax settlements on non-statute-barred tax liabilities, and will not determine the existence of tax arrears of such Group companies, which may have an adverse effect on our business, financial condition, results of operations or prospects.

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

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

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

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

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

We may be adversely affected by changes in Polish and European Union regulation of the levels of MTR

As part of telecommunications market regulation in Poland, the President of UKE may determine MTR rates for voice services between telecommunications operators. In the past, the regulator used this power several times, and reduced MTRs. As a result of decisions of the President of UKE, voice MTRs were reduced by 74% in the period from January 2010 to July 2013. There can be no assurance that there will not be any further MTR reductions in the future, which may directly affect our financial performance.

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

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

The President of UKE supervises our telecommunications operations, as well as TV broadcasting and production. As part of our telecommunications services, we mainly provide mobile voice services, broadband Internet access as well as certain wholesale services to other operators. Telecommunications 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) and wholesale customers (for instance, by imposing MTR caps or defining caps for rates used in roaming traffic settlements). Our TV production and broadcasting segment is in turn overseen by the President of UKE for compliance with the terms of licences and frequency allocations assigned by the President of UKE for the purposes of TV broadcasting services. We cannot give any assurance that we will be able to meet the numerous requirements imposed on us by the Polish Telecommunications Law. In the event of our non-compliance with any provisions of the Telecommunications Law, companies from the Group may face a fine from the President of UKE of up to 3% of revenue generated in the year proceeding the year in which such fine is imposed.

The KRRiT regulations also pertain to both our business segments, although they have a more direct effect on our TV production and broadcasting segment. As a TV broadcaster operating in Poland, we have to observe a number of legal and administrative requirements related to such matters as broadcasting time, programming content, and advertisements. Furthermore, KRRiT undertakes regular checks to ensure that our operations conform to the terms of our broadcasting licences, provisions of the Polish Act on Television and Radio Broadcasting, and its own internal guidelines. There can be no assurance that we will be able to satisfy numerous regulatory requirements imposed on our TV production and broadcasting segment under the relevant licences. In the event of our non-compliance with any applicable regulations, we may face a fine from KRRiT of up to 50% of the annual fee for the right to use a given frequency.

The regulatory regime for the broadcasting industry is subject to frequent changes, and so there can be no assurance that such future changes will not have an adverse effect on our channel mix, ability to attract advertisers or the way in which our business is run.

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

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

Operations of companies belonging to Polsat Group are subject to a number of legal regulations and requirements of awarded frequency allocations which could be amended in the future

As a mobile telecommunications network operator, Polkomtel is subject to a number of laws and regulations, in particular those regulating maximum rates charged for specific telecommunications services, those related to ensuring effective competition, non-discrimination, transparency in telecommunication services prices, reporting, data protection and national security. Any potential breach of the applicable laws or terms of frequency allocations may in certain cases result in imposition of penalties on Polkomtel or other companies from Polsat Group, loss of reputation, inability to obtain new frequency allocations or even loss of current frequency allocations. Furthermore, future changes in our Group's regulatory environment may be disadvantageous to our business, for instance by increasing its costs.

An important and active role in ensuring the observance of telecommunications laws and regulations by entities operating in the telecommunications market in Poland is played by the regulators of the Polish telecommunications market, including in particular the President of the Office of Electronic Communications (UKE). The President of UKE has a number of regulatory and supervisory powers, including those with respect to provision of electronic communications services and managing radio frequency and orbital slot resources. If the President of UKE determines that a relevant market is not sufficiently competitive, the President may designate one or more telecommunications providers as a provider with significant market power (SMP) in such market and impose on such provider(s) certain regulatory obligations, such as an obligation to accept requests from other telecommunications providers for the provision of telecommunications access and the obligation to prepare and submit a draft framework offer for telecommunications access to serve as a basis for cooperation between a provider with SMP and its competitors. Polkomtel has been designated as holding SMP in certain relevant markets at the wholesale level. As a result, Polkomtel is required to meet strict regulatory obligations on the wholesale markets of call termination to a public mobile telecommunications network and of call termination to a public fixed line network. As part of its continued provision of telecommunications services in Poland, Polkomtel is also regularly reviewed by the President of UKE to ensure that it has complied with the terms of the licences and frequency allocations granted by the President of UKE. If the President of UKE was to declare that Polkomtel breached a provision of the Telecommunications Law, the company could be forced to pay a fine of up to 3% of the revenue it generated in the year prior to the imposition of the fine and it could be prohibited from providing further telecommunications services in Poland.

The President of UKE may also designate one or more network operators to guarantee the provision of universal services (including voice and broadband access, and customer network access) which may then apply to the President of UKE to be compensated by the other telecommunications operators, including Polkomtel, on the justified net costs basis.

The Minister of Administration and Digital Technology, responsible for telecommunications, also exercises broad regulatory authority over the telecommunications market in Poland. The powers of the Minister of Administration and Digital Technology include the power to issue regulations concerning, among other things, tenders and contests for the allocation of frequencies, charges for using the domestic numbering resources, the telecommunications charge, specific requirements for the provision of telecommunications access and regulatory accounting and calculations of costs of services, as well as the quality of telecommunications services and the complaint process. Polkomtel's operations are also supervised by the President of the Office of Competition and Consumer Protection, General Inspector for the Protection of Personal Data, and other agencies.

No assurance can be given that Polkomtel will be able to meet all the requirements that have been or might be imposed on it under the Polish or EU laws or regulations, or all the terms and conditions of the frequency allocations granted to Polkomtel, or that it will be able to comply with all the laws or terms of frequency allocations applicable to its business, and that it will not be exposed to costs, penalties, sanctions or claims as a result of potential violation of such requirements or laws that, in turn, could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

Tobias Solorz
President of the Management Board

Katarzyna Ostap-Tomann
Member of the Management Board

Dariusz Działkowski
Member of the Management Board

Tomasz Gillner-Gorywoda
Member of the Management Board

Aneta Jaskólska
Member of the Management Board

Agnieszka Odorowicz
Member of the Management Board

Maciej Stec
Member of the Management Board

Warsaw, August 23, 2017

GLOSSARY

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

Glossary of general terms

Term	Definition
Aero2	Aero2 spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000305767, subsidiary of Litenite.
Aero2 Group	Aero2 and its indirect and direct subsidiaries - Sferia and Altalog.
AltaLog	AltaLog spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000493305, subsidiary of Aero2.
Amendment, Restatement and Consolidation Deed	Agreement concluded on September 21, 2015 between the Company, Polkomtel, Telewizja Polsat, Cyfrowy Polsat Trade Marks, Polsat License Ltd. and Polsat Media Biuro Reklamy, Eileme 2, Eileme 3, Eileme 4, Plus TM Management, TM Rental, Plus TM Group and a consortium of Polish and foreign financing institutions, amending and consolidating the CP SFA and the PLK SFA.
ATS, WSE ATS	Alternative system of trading in debt instruments organized by the WSE within the Catalyst market.
B2B	Business to Business, a transaction between businesses.
B2C	Business to Consumer, a transaction between a business and a consumer.
Bonds, Series A Bonds	Dematerialized, interest-bearing, senior and unsecured Series A bearer bonds with the total nominal value of PLN 1 billion and the nominal value of PLN 1,000 each, issued pursuant to the Resolution of the Management Board of the Company No. 01/02/07/2015 dated July 2, 2015.
Bonds Terms	Terms and conditions of Bonds issuance together with the supplement.
Catalyst	Trading system of debt instruments operating on markets organized by the WSE and Bondspot, as defined in § 1 of the Catalyst Operating Rules adopted pursuant to resolution no. 59/2010 of the Management Board of WSE on January 27, 2010, as amended.
Combined SFA	CP SFA of September 21, 2015 as amended by the Amendment, Restatement and Consolidation Deed of September 21, 2015.
CP Revolving Facility Loan	The revolving facility loan of up to PLN 300 million, issued under the CP Senior Facilities Agreement, with the maturity date of September 21, 2020.
CP Senior Facilities Agreement, CP SFA	The Senior Facilities Agreement of September 21, 2015 between the Company, Telewizja Polsat, CPTM, Polsat License Ltd. and Polsat Media Biuro Reklamy, and a syndicate of Polish and foreign banks, covering the CP Term Facility Loan and the CP Revolving Facility Loan.
CP Term Facility Loan	The term facility loan of up to PLN 1.2 billion, issued under the CP Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
Cyfrowy Polsat, the Company	Cyfrowy Polsat Spółka Akcyjna, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000010078.
Cyfrowy Polsat Trade Marks, CPTM	Cyfrowy Polsat Trade Marks spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. 0000373011.
EEA, European Economic Area	Internal Market guaranteeing free move of goods, services, capital and persons, comprising EU Member States and Island, Norway and Lichtenstein.
Eileme 1	Eileme 1 AB (publ), a company under Swedish law, registered under No. 556854-5668.
Eileme 2	Eileme 2 AB (publ), a company under Swedish law, registered under No. 556854-5676.
Eileme 3	Eileme 3 AB (publ), a company under Swedish law, registered under No. 556854-5692.
Eileme 4	Eileme 4 AB (publ), a company under Swedish law, registered under No. 556854-5684.
Embud2	Embud2 spółka z ograniczoną odpowiedzialnością spółka komandytowo-akcyjna (Limited Liability Company Limited Joint-Stock Partnership) entered in the register of entrepreneurs of the National Court Register under entry No. 0000676753, legal successor of Embud spółka z ograniczoną odpowiedzialnością.
the Group, Polsat Group, Cyfrowy Polsat Group	Cyfrowy Polsat and the indirect and direct subsidiaries of the Company.

Term	Definition
IFRS	The International Accounting Standards, International Financial Reporting Standards and the related Interpretations by the Standing Interpretations Committee and International Financial Reporting Interpretations Committee, adopted pursuant to Commission Regulation (EC) No. 1126/2008 of November 3, 2008, adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council (OJ L 320/1 of November 29, 2008, as amended), as defined in Art. 2 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards (OJ L 243/1 of September 11, 2002, as amended).
Karswell	Karswell Limited, a company under Cypriot law with its registered office in Nicosia, Cyprus.
KRRiT	Krajowa Rada Radiofonii i Telewizji, National Broadcasting Council.
Litenite	Litenite Limited, a company under Cypriot law, registered under No. 240249.
Litenite Notes	Zero-coupon unsecured loan notes 2022 with the total nominal value of PLN 1,524.4 million and the issue price of PLN 782.0 million issued pursuant to the resolution of the management board of Litenite of December 31, 2015. Redeemed in full on April 26, 2017.
Metelem	Metelem Holding Company Limited, a company under Cypriot law, registered under No. 286591, indirectly controlling 100% shares in Polkomtel. Merged with Cyfrowy Polsat on April 7, 2017.
Midas	Midas Spółka Akcyjna previously entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000025704. On November 30, 2016 Midas merged with Aero2.
NBP	Narodowy Bank Polski, the central bank of the Republic of Poland.
NDS	National Depository for Securities (*Krajowy Depozyt Papierów Wartościowych, KDPW*).
Orange, Orange Polska	Orange Polska Spółka Akcyjna, entered in the register of entrepreneurs of the National Court register under entry No. KRS 0000010681, previously operating under the name of Telekomunikacja Polska Spółka Akcyjna.
Play Communications	Play Communications S.A. (*société anonyme*), with its registered office in Grand Duchy of Luxembourg and registered with the Luxembourg Trade and Companies under number B183803, owner of P4 Sp. z o.o. - operator of Play mobile network.
PLK Revolving Facility Loan	The revolving facility loan of up to PLN 700 million, issued under the PLK Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
PLK Senior Facilities Agreement, PLK SFA	The Senior Facilities Agreement of September 21, 2015 between Polkomtel, Eileme 2, Eileme 3, Eileme 4, Plus TM Management, TM Rental and Plus TM Group and a syndicate of Polish and foreign financial institutions, covering the PLK Term Facility Loan and the PLK Revolving Facility Loan.
PLK Senior Notes Indenture	PLK Senior Notes Indenture of January 26, 2012 between Eileme 2, Eileme 3, Eileme 4, Spartan, Ortholuck, Citibank, N.A., London Branch, Citibank, N.A., New York Branch, and Citigroup Global Markets Deutschland.
PLK Senior Notes	Unsubordinated senior notes with a total nominal value of EUR 542.5 million and USD 500.0 million, maturity date in 2020, issued by Eileme 2. Redeemed in full on February 1, 2016.
PLK Term Facility Loan	The term facility loan of up to PLN 10,300 million, issued under the PLK Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
Plus Bank	Plus Bank Spółka Akcyjna entered in the register of entrepreneurs of the National Court Register under entry No. 0000096937.
Plus TM Management	Plus TM Management spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 378997.
Polkomtel	Polkomtel spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. 0000419430. The company was established following the transformation of Polkomtel Spółka Akcyjna, which was entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000020908.
Polkomtel Business Development	Polkomtel Business Development spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 377416.
Polkomtel Group	Polkomtel jointly with its indirect and direct subsidiaries.
Polsat Media Biuro Reklamy	Polsat Media Biuro Reklamy spółka z ograniczoną odpowiedzialnością sp.k. entered in the register of entrepreneurs of the National Court Register under entry No. 0000467579.
Sensor	Sensor Overseas Limited, a company under Cypriot law, with its registered office in Nicosia, Cyprus.

Term	Definition
SOKiK	The District Court in Warsaw, 17th Department for Competition and Consumer Protection.
Telecommunications Law	Telecommunications Law of July 16, 2004 (Dz. U. of 2004, No. 171, item 1800, as amended).
Telewizja Polsat, TV Polsat	Telewizja Polsat spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000388899. The company was established following the transformation of Telewizja Polsat Spółka Akcyjna, which was entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000046163.
Telewizja Polsat Group, TV Polsat Group	Telewizja Polsat together with its direct and indirect subsidiaries.
T-Mobile, T-Mobile Polska	T-Mobile Polska Spółka Akcyjna, entered in the register of entrepreneurs of the National Court register under entry No. KRS 0000391193, previously operating under the name of Polska Telefonia Cyfrowa Spółka Akcyjna.
TM Rental	TM Rental spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 567976.
UKE	The Office of Electronic Communications (Urząd Komunikacji Elektronicznej).
UOKiK	The Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów).

Technical terms

Term	Definition
2G	Second-generation cellular telecommunications networks commercially launched on the GSM standard in Europe.
3G	Third-generation cellular telecommunications networks that allow simultaneous use of voice and data services.
4G	Fourth-generation cellular telecommunications networks.
Add-on sales	Sales technique combining cross-selling and up-selling.
Advertising market share	The Group's revenue from advertising and sponsoring in the overall revenue from TV advertising in Poland (market data according to SMG Poland (previously SMG).
Audience share	Percentage of TV viewers watching a channel at a given time, expressed as the percentage of all TV viewers at a given time (based on Nielsen Audience Measurement (NAM), in the "from 16 to 49 years old" demographics throughout the day).
CAGR	Compounded Annual Growth Rate – the average annual growth rate calculated for a given value using the following formula: $$\mathrm{CAGR} = \left(\frac{W_{rk}}{W_{rp}}\right)^{\left(\frac{1}{rk-rp}\right)} - 1$$ where: rp – start year, rk – end year, Wrp – value in start year, Wrk – value in end year.
Catch-up TV	Services providing access to view selected programming content for a certain period after it was broadcast. Cyfrowy Polsat provides such services from 2011.
CDMA	A family of mobile telecommunications standards developed by the 3rd Generation Partnership Project 2, comprising e.g. CDMAOne and CDMA2000. CDMA is mainly used for data transmission services in rural areas. Its maximum transmission speed is 3.1 MB/s. CDMA also supports direct communication between user terminals and restriction of access to selected devices, and the technology is therefore used for digital trunked communications.

Term	Definition
Churn	Termination of the contract with Customer by means of the termination notice, collections or other activities resulting in the situation that after termination of the contract the Customer does not have any active service provided in the contract model. Churn rate presents the relation of the number of customers for whom the last service has been deactivated (by means of the termination notice as well as deactivation as a result of collection activities or other reasons) within the last 12 months to the annual average number of customers in this 12-month period.
Contract ARPU	Average monthly revenue per customer generated in a given settlement period (including interconnect revenue).
Converged (integrated) services	A package of two or more services from our pay TV, mobile telecommunications and broadband Internet access offering, provided under a single contract and for a single subscription fee.
Customer, contract customer	Natural person, legal entity or an organizational unit without legal personality who has at least one active service provided in a contract model.
DTH	Satellite pay TV services provided by us in Poland from 2001.
DTT	Digital Terrestrial Television.
DVB-T	Digital Video Broadcasting – Terrestrial technology.
DVR	Set-top boxes equipped with a hard drive enabling the recording of TV programs (Digital Video Recorder).
EDGE	Cellular telecommunications technology supporting faster data transmission as a backward-compatible extension of the 2G network. EDGE increases the capacity of the radio interface and ensures more convenient use of data transmission services. Its maximum design speed is nearly 1 Mb/s (Enhanced Data rates for GSM Evolution).
ERP	A family of IT systems supporting enterprise management or shared operation of a group of collaborating enterprises through data collection and enabling transactions on the collected data (enterprise resource planning).
GB	Gigabyte – a measure of digital information, comprising one billion bytes, or 1024^3 bytes, depending on the interpretation – decimal or binary, respectively.
GPRS	Mobile data transmission service for GSM users (General Packet Radio Service).
GRP	A rating point defined as the overall number of persons viewing a given advertising spot over a specific time, expressed as a percentage share of the target group. In Poland, one GRP equals 0.2 million residents in the primary target group for advertisers aged 16-49 (Gross Rating Point).
GSM	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols, in particular regarding access to voice services (Global System for Mobile Communications).
GSM-1800	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols in the 1800 MHz bands, in particular regarding access to voice services.
GSM-900	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols in the 900 MHz bands, in particular regarding access to voice services.
HD	Above-standard resolution signal (High Definition).
HSPA/HSPA+	Radio data transmission technology for wireless networks, increasing the capacity of the UMTS network (High Speed Packet Access/High Speed Packet Access Plus). It also covers the HSPA+ Dual Carrier technology (Evolved High Speed Packet Access Dual Carrier). It supports transmission speeds of up to 42 Mb/s for download and up to 5.7 Mb/s for upload.
Interconnect revenue	Wholesale revenue for terminating voice and non-voice traffic on Polkomtel's network from other network operators based on interconnect agreements as well as revenue from transit of traffic.
IPLA	Internet platform providing access to online video content belonging to Polsat Group.
IPTV	Technology enabling transfer of a television signal over IP broadband networks (Internet Protocol Television).
IVR	A telecommunications system enabling human-computer interaction using voice or tone signals (Interactive Voice Response).

Term	Definition
LTE	Long Term Evolution - a standard for high-speed, wireless data transmission also referred to as 4G. Based on a carrier bandwidth limited to a maximum of 20MHz it supports data transmission speed of up to 150 Mb/s (downlink, using MIMO 2x2 antennas).
LTE-Advanced	Subsequence standard for high-speed, wireless data transmission of the fourth generation (4G). Through carrier aggregation from different bandwidths (a total of up to 100 MHz) it allows to significantly increase maximum data transmission speed up to 3 Gb/s (downlink, using MIMO 4x4 antennas).
Mb/s	A unit of telecommunications channel capacity, being one million or 1024^2 bytes (Megabyte) per second, depending on the interpretation – decimal or binary, respectively.
Mobile TV	Our pay mobile TV service rendered in DVB-T technology.
MTR	A wholesale charge for call termination in another operator's mobile telecommunications network (Mobile Termination Rate).
Multiroom	Our service providing access to the same range of TV channels on two television sets in one household for a single subscription fee.
MUX, Multiplex	A package of TV and radio channels and additional services, simultaneously transmitted digitally to the user over a single frequency channel.
MVNO	Mobile Virtual Network Operator.
Node B	A device for wireless connection between a mobile terminal and a fixed part of the third-generation telecommunications network.
ODU-IDU	Outdoor Unit Indoor Unit, a proprietary solution of Polsat Group based on a set comprising an external LTE modem (ODU) and an indoor WiFi router (IDU), which increases effective coverage and improve the quality of the LTE signal.
PPV	Services providing paid access to selected TV content (pay-per-view).
Prepaid ARPU	Average monthly revenue per prepaid RGU generated in a given settlement period (including interconnect revenue).
PVR	Electronic commodity hardware for digital recording of TV programs on its hard drive (Personal Video Recorder).
real users	An estimated number of persons who visit a website or open an Internet application at least once in a given month (Real Users).
RGU (Revenue Generating Unit)	Single, active service of pay TV, Internet Access or mobile telephony provided in contract or prepaid model.
SD	Standard-resolution television signal (Standard Definition).
SMS	Service enabling the sending of short text messages over telecommunications networks (Short Message Service).
streaming	A technical process initiated by the user, enabling the replaying (of video or audio/video content) of material available on the Internet on the user's terminal device, without it being necessary to download the entire content. The process involves the sending of digital data streams, being sections of the entire content spread over time, instead of the entire material.
Technical coverage	Percentage of households in Poland capable of receiving the broadcast of a given channel by Telewizja Polsat.
TSV (Time Shifted Viewing)	Shifting in time of the consumption of content broadcast on TV in real time by recording it on a storage medium (e.g. digital video recorder) and replaying it at a later time.
UMTS	Globally-used European 3G telecommunications standard based on GSM, enabling the provision of data transmission services with a maximum speed of 384 kb/s (Universal Mobile Telecommunications System).
Usage definition (90-day for prepaid RGU)	Number of reported RGUs of prepaid services of mobile telephony and Internet access refers to the number of SIM cards which received or answered calls, sent or received SMS/MMS or used data transmission services within the last 90 days. In the case of free of charge Internet access services provided by Aero2, the Internet prepaid RGUs were calculated based on only those SIM cards, which used data transmission services under paid packages within the last 90 days.
USSD	A protocol used in GSM networks, which enables communication between a mobile phone and a network operator's computer.

Term	Definition
Value-added services, VAS	Services offered by telecommunications undertakings and including entertainment, news, location and financial services.
Virtual private network	Network enabling a private connection over a public network (e.g. Internet).
VOD - Home Movie Rental	Our video on demand services.
VoLTE	Technology which ensures immediate call set-up, high quality of voice and the possibility to provide advanced communication services with the guarantee of quality, such as e.g. HD video streaming based on the standard phone number (*Voice over LTE*).
WCDMA	Network access technology developed by 3rd Generation Partnership Project from 1999, and used in UMTS-standard 3G networks (Wideband Code Division Multiple Access).
WiFi	A set of standards for the development of wireless computer networks.

Management Board's representations

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

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

hereby represents that:

- to the best of its knowledge the interim condensed consolidated financial statements and interim condensed financial statements for six months ended 30 June 2017 and the comparative information were prepared in accordance with the current effective accounting principles, and they truly and fairly present the financial position of the Group as well as its financial performance, and the semi-annual Management Board's report on the activities contains a true image of the Group's development, achievements, and standing, including description of basic risks and threats;

- the entity authorised to audit the financial statements, which has reviewed the interim condensed consolidated financial statements and interim condensed financial statements, was selected in accordance with the regulations of law. That entity as well as the registered auditor who has carried out the review fulfilled the conditions to prepare a review report on the interim condensed consolidated financial statements and interim condensed financial statements for six months ended 30 June 2017 pursuant to relevant provisions of the national law and industry norms.

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

Warsaw, 23 August 2017

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Report on review of interim condensed consolidated financial statements

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

Introduction

We have reviewed the accompanying interim consolidated balance sheet of Cyfrowy Polsat S.A. and its subsidiaries (the 'Group') as of June 30, 2017 and the related interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated cash flow statement for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, '*Interim Financial Reporting*'. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, '*Review of interim financial information performed by the independent auditor of the entity*'. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, '*Interim Financial Reporting*'.

Auditor conducting the review on behalf of PricewaterhouseCoopers Sp. z o.o. Registered Audit Company No. 144

Ewa Gyel

Registered Auditor
No. 12148
August 23, 2017

PricewaterhouseCoopers Sp. z o.o., International Business Center, Al. Armiii Ludowej 14, 00-638 Warsaw, Poland
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CYFROWY POLSAT S.A. GROUP

Interim Condensed Consolidated Financial Statements for the 6 months ended 30 June 2017

Prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*

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APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On 23 August 2017, the Management Board of Cyfrowy Polsat S.A. approved the interim condensed consolidated financial statements of Cyfrowy Polsat S.A. Group prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting,* as adopted by the European Union, which include:

Interim Consolidated Income Statement for the period from 1 January 2017 to 30 June 2017 showing a net profit for the period of:	PLN 553.1
Interim Consolidated Statement of Comprehensive Income for the period from 1 January 2017 to 30 June 2017 showing a total comprehensive income for the period of:	PLN 552.2
Interim Consolidated Balance Sheet as at 30 June 2017 showing total assets and total equity and liabilities of:	PLN 27,317.5
Interim Consolidated Cash Flow Statement for the period from 1 January 2017 to 30 June 2017 showing a net increase in cash and cash equivalents amounting to:	PLN 29.6
Interim Consolidated Statement of Changes in Equity for the period from 1 January 2017 to 30 June 2017 showing an increase in equity of:	PLN 347.5

Notes to the Interim Condensed Consolidated Financial Statements

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

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

Warsaw, 23 August 2017

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

Interim Consolidated Income Statement

	Note	for the 3 months ended 30 June 2017 unaudited	for the 3 months ended 30 June 2016 unaudited	for the 6 months ended 30 June 2017 unaudited	for the 6 months ended 30 June 2016 unaudited
Continuing operations					
Revenue	8	2,469.9	2,442.9	4,858.5	4,806.9
Operating costs	9	(1,962.8)	(2,042.0)	(3,901.0)	(3,990.0)
Other operating income, net		9.9	6.6	16.7	13.4
Profit from operating activities		**517.0**	**407.5**	**974.2**	**830.3**
Gain/loss on investment activities, net	10	(14.4)	(21.4)	16.1	(56.6)
Finance costs	11	(113.3)	(133.2)	(298.8)	(315.9)
Share of the profit of jointly controlled entity accounted for using the equity method		-	(0.8)	-	-
Gross profit for the period		**389.3**	**252.1**	**691.5**	**457.8**
Income tax		(107.6)	(21.2)	(138.4)	(48.4)
Net profit for the period		**281.7**	**230.9**	**553.1**	**409.4**
Net profit attributable to equity holders of the Parent		291.2	237.7	570.6	413.2
Net loss attributable to non-controlling interest		(9.5)	(6.8)	(17.5)	(3.8)
Basic and diluted earnings per share (in PLN)		**0.44**	**0.37**	**0.86**	**0.64**

Interim Consolidated Statement of Comprehensive Income

	Note	for the 3 months ended 30 June 2017 unaudited	for the 3 months ended 30 June 2016 unaudited	for the 6 months ended 30 June 2017 unaudited	for the 6 months ended 30 June 2016 unaudited
Net profit for the period		**281.7**	**230.9**	**553.1**	**409.4**
Items that may be reclassified subsequently to profit or loss:					
Valuation of hedging instruments	13	(0.2)	2.2	(1.1)	4.7
Income tax relating to hedge valuation	13	0.0	(0.4)	0.2	(0.9)
Items that may be reclassified subsequently to profit or loss		**(0.2)**	**1.8**	**(0.9)**	**3.8**
Other comprehensive income/(loss), net of tax		**(0.2)**	**1.8**	**(0.9)**	**3.8**
Total comprehensive income for the period		**281.5**	**232.7**	**552.2**	**413.2**
Total comprehensive income attributable to equity holders of the Parent		291.0	239.5	569.7	417.0
Total comprehensive loss attributable to non-controlling interest		(9.5)	(6.8)	(17.5)	(3.8)

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

Interim Consolidated Balance Sheet - Assets

	30 June 2017 unaudited	31 December 2016
Reception equipment	332.9	350.9
Other property, plant and equipment	2,904.7	2,964.3
Goodwill	10,975.4	10,975.4
Customer relationships	2,762.8	3,031.2
Brands	2,044.4	2,056.5
Other intangible assets	3,471.1	3,656.2
Non-current programming assets	167.3	151.8
Investment property	5.1	5.1
Non-current deferred distribution fees	82.9	82.8
Other non-current assets	508.1	452.0
includes derivative instruments assets	*4.9*	*9.5*
Deferred tax assets	199.9	232.7
Total non-current assets	**23,454.6**	**23,958.9**
Current programming assets	214.3	192.0
Inventories	279.0	278.7
Trade and other receivables	1,727.0	1,688.0
Income tax receivable	17.0	29.1
Current deferred distribution fees	202.3	207.2
Other current assets	60.7	38.7
includes derivative instruments assets	*5.3*	*6.7*
Cash and cash equivalents	1,354.6	1,326.0
Restricted cash	8.0	10.7
Total current assets	**3,862.9**	**3,770.4**
Total assets	**27,317.5**	**27,729.3**

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

Interim Consolidated Balance Sheet - Equity and Liabilities

	Note	30 June 2017 unaudited	31 December 2016
Share capital	12	25.6	25.6
Share premium	12	7,174.0	7,174.0
Other reserves		3.6	4.5
Retained earnings		4,461.4	4,095.5
Equity attributable to equity holders of the Parent		**11,664.6**	**11,299.6**
Non-controlling interests		**60.5**	**78.0**
Total equity		**11,725.1**	**11,377.6**
Loans and borrowings	14	8,808.6	9,302.7
Issued bonds	15	975.3	1,835.7
Finance lease liabilities		21.4	20.9
UMTS license liabilities		555.4	574.0
Deferred tax liabilities		775.7	786.9
Deferred income		3.8	20.1
Other non-current liabilities and provisions		122.0	130.2
includes derivative instruments liabilities		*1.7*	-
Total non-current liabilities		**11,262.2**	**12,670.5**
Loans and borrowings	14	1,805.9	1,270.0
Issued bonds	15	42.5	42.4
Finance lease liabilities		7.6	5.0
UMTS license liabilities		117.6	121.5
Trade and other payables		1,694.4	1,569.5
includes derivative instruments liabilities		*0.6*	-
Income tax liability		24.9	24.9
Deferred income		637.3	647.9
Total current liabilities		**4,330.2**	**3,681.2**
Total liabilities		**15,592.4**	**16,351.7**
Total equity and liabilities		**27,317.5**	**27,729.3**

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

Interim Consolidated Cash Flow Statement

		for the 6 months ended	
	Note	30 June 2017 unaudited	30 June 2016 unaudited
Net profit		**553.1**	**409.4**
Adjustments for:		**1,062.8**	**1,140.0**
Depreciation, amortization, impairment and liquidation	9	919.0	951.2
Payments for film licenses and sports rights		(94.2)	(119.0)
Amortization of film licenses and sports rights		102.7	125.3
Interest expense		228.7	285.9
Change in inventories		(0.3)	11.7
Change in receivables and other assets		(112,7)	(105.3)
Change in liabilities, provisions and deferred income		(112.9)	(106.7)
Change in internal production and advance payments		9.4	1.0
Foreign exchange (gains)/losses, net		(27.4)	276.1
Income tax		138.4	48.4
Net additions of reception equipment provided under operating lease		(65.6)	(71.2)
Net (gain)/loss on derivatives		0.9	(160.2)
Early redemption costs		58.7	-
Other adjustments		18.1	2.8
Cash from operating activities		**1,615.9**	**1,549.4**
Income tax paid		(112.5)	(186.5)
Interest received from operating activities		16.0	13.1
Net cash from operating activities		**1,519.4**	**1,376.0**
Acquisition of property, plant and equipment		(268.8)	(179.5)
Acquisition of intangible assets		(114.2)	(61.3)
Acquisition of bonds		-	(323.6)
Concession payments		-	(147.7)
Acquisition of subsidiaries, net of cash acquired		-	(145.3)
Proceeds from sale of property, plant and equipment		16.0	5.0
Granted loans		-	(9.5)
Other outflows		(0.5)	(2.8)
Net cash used in investing activities		**(367.5)**	**(864.7)**

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

Loans and borrowings inflows	14	600.0	5,500.0
Bonds redemption	15	(886.7)	(4,483.8)
Repayment of loans and borrowings	14	(568.0)	(1,498.9)
Payment of interest on loans, borrowings, bonds, finance lease and commissions*		(206.0)	(507.9)
Early redemption fee	15	(58.7)	(262.1)
Hedging instrument effect – principal		-	175.4
Other outflows		(2.9)	(2.7)
Net cash used in financing activities		**(1,122.3)**	**(1,080.0)**
Net increase/(decrease) in cash and cash equivalents		**29.6**	**(568.7)**
Cash and cash equivalents at the beginning of the period		**1,336.7****	**1,523.7*****
Effect of exchange rate fluctuations on cash and cash equivalents		(3.7)	0.4
Cash and cash equivalents at the end of the period		**1,362.6******	**955.4*******

* Includes impact of hedging instruments and amount paid for costs related to the new financing
** Includes restricted cash amounting to PLN 10.7
*** Includes restricted cash amounting to PLN 11.7
**** Includes restricted cash amounting to PLN 8.0
***** Includes restricted cash amounting to PLN 10.9

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

Interim Consolidated Statement of Changes in Equity for the 6 months ended 30 June 2017

	Share capital	Share premium	Other reserves	Retained earnings*	Equity attributable to equity holders of the Parent	Non-controlling interests	**Total equity**
Balance as at 1 January 2017	**25.6**	**7,174.0**	**4.5**	**4,095.5**	**11,299.6**	**78.0**	**11,377.6**
Dividend declared	-	-	-	(204.7)	(204.7)	-	**(204.7)**
Total comprehensive income	-	-	(0.9)	570.6	569.7	(17.5)	**552.2**
Hedge valuation reserve	-	-	*(0.9)*	-	*(0.9)*	-	**(0.9)**
Net profit for the period	-	-	-	*570.6*	*570.6*	*(17.5)*	**553.1**
Balance as at 30 June 2017 unaudited	**25.6**	**7,174.0**	**3.6**	**4,461.4**	**11,664.6**	**60.5**	**11,725.1**

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

Interim Consolidated Statement of Changes in Equity for the 6 months ended 30 June 2016

	Share capital	Share premium	Other reserves	Retained earnings*	Equity attributable to equity holders of the Parent	Non-controlling interests	Total equity
Balance as at 1 January 2016	**25.6**	**7,174.0**	**(3.7)**	**3,054.2**	**10,250.1**	**-**	**10,250.1**
Acquisition of Litenite	-	-	-	-	-	98.3	**98.3**
Total comprehensive income	-	-	3.8	413.2	417.0	(3.8)	**413.2**
Hedge valuation reserve	-	-	*3.8*	-	*3.8*	-	**3.8**
Net profit for the period	-	-	-	*413.2*	*413.2*	*(3.8)*	**409.4**
Balance as at 30 June 2016 unaudited	**25.6**	**7,174.0**	**0.1**	**3,467.4**	**10,667.1**	**94.5**	**10,761.6**

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

Notes to the Interim Condensed Consolidated Financial Statements

General information

1. The Parent Company

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

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

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

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

2. Composition of the Management Board of the Company

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

3. Composition of the Supervisory Board of the Company

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

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

Statement of compliance

These interim condensed consolidated financial statements for the 6 months ended 30 June 2017 have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting*. These interim condensed consolidated financial statements should be read together with the annual consolidated financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

The Group applied the same accounting policies in the preparation of the financial data for the 6 months ended 30 June 2017 and the consolidated financial statements for the year 2016, presented in the consolidated annual report, except for the EU-endorsed Standards, amendments to Standards and Interpretations which are effective for the reporting periods beginning on 1 January 2017. Standards, amendments to Standards and Interpretations which are effective for the reporting periods beginning on 1 January 2017 do not have a material impact on these interim condensed consolidated financial statements.

The Group is currently analyzing the impact of the published standards that are not yet effective and 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. New standard implementation project is currently in progress.

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

5. Group structure

These interim condensed consolidated financial statements for the 6 months ended 30 June 2017 include the following entities:

			Share in voting rights (%)	
	Entity's registered office	Activity	30 June 2017	31 December 2016
Parent Company				
Cyfrowy Polsat S.A.	Łubinowa 4a, Warsaw	radio, TV and telecommunication activities	n/a	n/a
Subsidiaries accounted for using full method:				
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, Warsaw	non-current assets and intellectual property rights management	100%	100%
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, Warsaw	television broadcasting and production	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o. Sp. k.	Ostrobramska 77, Warsaw	advertising activities	100%	100%
Polsat License Ltd.	Alte Landstrasse 17, 8863 Buttikon, Switzerland	trade of programming licences	100%	100%
Telewizja Polsat Holdings Sp. z o.o. (a)	Ostrobramska 77, Warsaw	holding activities, television broadcasting and production	-	100%
Polsat Media Biuro Reklamy Sp. z o.o.	Ostrobramska 77, Warsaw	media	100%	100%
PL 2014 Sp. z o.o.	Ostrobramska 77, Warsaw	other sport relating activities	100%	100%

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

	Entity's registered office	Activity	Share in voting rights (%) 30 June 2017	31 December 2016
Subsidiaries accounted for using full method (cont.)				
Polsat Brands AG (formerly Polsat Brands (einfache Gesellschaft))	Alte Landstrasse 17, 8863 Buttikon, Switzerland	intellectual property rights management	100%	100%
Polsat Ltd.	238A King Street, W6 0RF London, UK	television broadcasting	100%	100%
Muzo.fm Sp. z o.o. (formerly Radio PIN S.A.)	Ostrobramska 77, Warsaw	radio broadcasting and production	100%	100%
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, Warsaw	radio and TV activities	100%	100%
CPSPV1 Sp. z o.o.	Łubinowa 4a, Warsaw	technical services	100%	100%
CPSPV2 Sp. z o.o.	Łubinowa 4a, Warsaw	technical services	100%	100%
Metelem Holding Company Limited [(b)]	Chrysanthou Mylona 3 Office no. 102 CY 3030 Limassol Cyprus	holding and financial activities	-	100%
Eileme 1 AB (publ)	Stureplan 4C 114 35 Stockholm Sweden	holding and financial activities	100%	100%
Eileme 2 AB (publ)	Stureplan 4C 114 35 Stockholm Sweden	holding and financial activities	100%	100%
Eileme 3 AB (publ)	Stureplan 4C 114 35 Stockholm Sweden	holding and financial activities	100%	100%
Eileme 4 AB (publ)	Stureplan 4C 114 35 Stockholm Sweden	holding and financial activities	100%	100%

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

	Entity's registered office	Activity	Share in voting rights (%) 30 June 2017	31 December 2016
Subsidiaries accounted for using full method (cont.)				
Polkomtel Sp. z o.o.	Konstruktorska 4, Warsaw	telecommunication activities	100%	100%
Nordisk Polska Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warsaw	telecommunication activities	100%	100%
Polkomtel Finance AB (publ) (in liquidation) (c)	Norrlandsgatan 18 111 43 Stockholm Sweden	financial activities	-	100%
Liberty Poland S.A.	Katowicka 47 Chorzów	telecommunication activities	100%	100%
Polkomtel Business Development Sp. z o.o.	Konstruktorska 4, Warsaw	other activities supporting financial services, gaseous fuels trading activities	100%	100%
Plus TM Management Sp. z o.o.	Konstruktorska 4, Warsaw	intelectual property rights management and rental	100%	100%
LTE Holdings Limited (d)	Kostaki Pantelidi 1 1010, Nicosia Cyprus	holding activities	-	100%
TM Rental Sp. z o.o.	Konstruktorska 4, Warsaw	intelectual property rights rental	100%	100%
IT Polpager S.A.(e)	Al. Stanów Zjednoczonych 61A, Warsaw	maintenance of telco network	-	100%
Orsen Holding Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%

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

			Share in voting rights (%)	
	Entity's registered office	Activity	30 June 2017	31 December 2016
Subsidiaries accounted for using full method (cont.)				
Orsen Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Dwa Sp. z o.o.	Al. Jerozolimskie 81, Warsaw	holding activities	100%	100%
Interphone Service Sp. z o.o.	ul. Inwestorów 8, Mielec	production of set-top boxes	100%	100%
Teleaudio Dwa Sp. z o.o. sp.k.	Al. Jerozolimskie 81, Warsaw	premium rate services	100%	100%
IB 1 FIZAN	Al. Stanów Zjednoczonych 61A, Warsaw	financial activities	*	*
Grab Sarl (f)	6, rue Eugène Ruppert, L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	100%	100%
Grab Investment SCSp (g)	6, rue Eugène Ruppert, L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	-	100%
Litenite Ltd.	Kostaki Pantelidi 1 1010, Nikozja Cypr	holding activities	100%	100%
Aero 2 Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warsaw	telecommunication activities	100%	100%
Sferia S.A.	Al. Stanów Zjednoczonych 61A, Warsaw	telecommunication activities	51%	51%
Altalog Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warsaw	software	66%	66%

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

(a) On 28 April 2017a merger of Telewizja Polsat Sp. z o.o. with Telewizja Polsat Holdings Sp. z o.o. was registered.

(b) On 7 April 2017 a cross-border merger of Cyfrowy Polsat with its subsidiary Metelem Holding Company Limited was registered.

(c) On 29 June 2017 a liquidation of Polkomtel Finance AB (publ) was registered.

(d) LTE Holdings Limited was disposed on 19 June 2017.

(e) On 31 March 2017 a merger of Polkomtel Sp. z o.o. with IT Polpager S.A. was registered.

(f) On 20 July 2017 a liquidation of Grab Sarl was registered.

(g) On 8 June 2017 a liquidation of Grab Investment SCSp was registered.

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

Investments accounted for under the equity method:

			Share in voting rights (%)	
	Entity's registered office	Activity	30 June 2017	31 December 2016
Polsat JimJam Ltd.	105-109 Salusbury Road London NW6 6RG UK	television activities	50%	50%
Polski Operator Telewizyjny Sp. z o.o.	Wiertnicza 159, Warsaw	radio communications and radio diffusion	50%	50%
New Media Ventures Sp. z o.o.	Wołoska 18, Warsaw	maintenance of loyalty programs	49.97%	49.97%
Paszport Korzyści Sp. z o.o.	Konstruktorska 4, Warsaw	maintenance of loyalty programs	49%	49%

Additionally, the following entities were included in these interim condensed consolidated financial statements for the 6 months ended 30 June 2017:

			Share in voting rights (%)	
	Entity's registered office	Activity	30 June 2017	31 December 2016
Karpacka Telewizja Kablowa Sp. z o.o.*	Warszawska 220, Radom	dormant	99%	99%
Polskie Badania Internetu Sp. z o.o.	Al. Jerozolimskie 65/79, Warsaw	web portals activities	4.55%	4.55%
InPlus Sp. z o.o.	Wilczyńskiego 25E lok. 216, Olsztyn	infrastructure projects advisory	1.5%**	1.5%**

* Investment accounted for at cost less any accumulated impairment losses

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

6. Approval of the Consolidated Financial Statements

These interim condensed consolidated financial statements were approved for publication by the Management Board of Cyfrowy Polsat S.A. on 23 August 2017.

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

Explanatory notes

7. Information on seasonality in the Group's operations

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

Within retail revenue category mobile revenue is a subject to slight fluctuations during the year. This revenue stream tends to decrease in the first quarter of each year due to fewer number of calendar and business days.

8. Revenue

	for the 3 months ended		for the 6 months ended	
	30 June 2017 unaudited	**30 June 2016 unaudited**	**30 June 2017 unaudited**	**30 June 2016 unaudited**
Retail revenue	1,533.3	1,586.9	3,076.0	3,152.6
Wholesale revenue	652.3	645.0	1,214.4	1,244.8
Sale of equipment	243.3	191.1	491.9	363.9
Other revenue	41.0	19.9	76.2	45.6
Total	**2,469.9**	**2,442.9**	**4,858.5**	**4,806.9**

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

Wholesale revenue mainly consists of advertising and sponsorship revenue, settlements with mobile network operators, revenue from rental of infrastructure, roaming revenues, revenue from cable and satellite operator fees, sales of broadcasting and signal transmission services and sales of licenses, sublicenses and property rights.

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

9. Operating costs

		for the 3 months ended		for the 6 months ended	
	Note	30 June 2017 unaudited	30 June 2016 unaudited	30 June 2017 unaudited	30 June 2016 unaudited
Technical costs and cost of settlements with telecommunication operators		483.5	456.6	951.7	1,006.9
Depreciation, amortization, impairment and liquidation		446.7	527.5	919.0	951.2
Cost of equipment sold		318.8	317.3	642.4	644.1
Content costs		298.4	316.3	562.7	564.8
Distribution, marketing, customer relation management and retention costs		215.9	202.2	427.0	402.7
Salaries and employee-related costs	a	133.7	138.2	261.5	276.1
Cost of debt collection services and bad debt allowance and receivables written off		16.3	16.3	35.6	25.9
Other costs		49.5	67.6	101.1	118.3
Total		**1,962.8**	**2,042.0**	**3,901.0**	**3,990.0**

a) Salaries and employee-related costs

	for the 3 months ended		for the 6 months ended	
	30 June 2017 unaudited	30 June 2016 unaudited	30 June 2017 unaudited	30 June 2016 unaudited
Salaries	111.5	115.8	216.8	230.5
Social security contributions	18.6	18.8	37.3	38.7
Other employee-related costs	3.6	3.6	7.4	6.9
Total	**133.7**	**138.2**	**261.5**	**276.1**

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

	for the 3 months ended		for the 6 months ended	
	30 June 2017 unaudited	30 June 2016 unaudited	30 June 2017 unaudited	30 June 2016 unaudited
Interest, net	6.1	6.4	15.8	14.8
Other foreign exchange gains/(losses), net	(0.8)	(28.3)	32.2	(56.8)
Other costs	(19.7)	0.5	(31.9)	(14.6)
Total	**(14.4)**	**(21.4)**	**16.1**	**(56.6)**

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

11. Finance costs

	for the 3 months ended		for the 6 months ended	
	30 June 2017 unaudited	30 June 2016 unaudited	30 June 2017 unaudited	30 June 2016 unaudited
Interest expense on loans and borrowings	93.5	106.9	184.5	202.3
Interest expense on issued bonds	16.9	32.7	48.0	83.2
Foreign exchange differences on issued bonds	-	-	-	244.8
Valuation and realization of hedging instruments	(0.1)	2.0	(0.2)	3.9
Valuation and realization of derivatives not used in hedge accounting – relating to interest	1.9	(1.9)	5.3	(8.9)
Valuation and realization of derivatives not used in hedge accounting – relating to principal	-	-	-	(203.8)
Early redemption costs	-	-	58.7	-
Other	1.1	(6.5)	2.5	(5.6)
Total	**113.3**	**133.2**	**298.8**	**315.9**

12. Equity

(i) Share capital

Presented below is the structure of the Company's share capital as at 30 June 2017 and 31 December 2016:

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

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

The shareholders' structure as at 30 June 2017 and 31 December 2016 was as follows:

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

[1] Entity is controlled by Mr. Zygmunt Solorz

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

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

(ii) Share premium

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

13. Hedge valuation reserve

Impact of hedging instruments valuation on other reserves

	2017	2016
Balance as at 1 January	**1.2**	**(6.7)**
Valuation of cash flow hedges	(1.1)	4.7
Deferred tax	0.2	(0.9)
Change for the period	**(0.9)**	**3.8**
Balance as at 30 June unaudited	**0.3**	**(2.9)**

14. Loans and borrowings

Loans and borrowings	30 June 2017 unaudited	31 December 2016
Short-term liabilities	1,805.9	1,270.0
Long-term liabilities	8,808.6	9,302.7
Total	**10,614.5**	**10,572.7**

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

Change in loans and borrowings liabilities:

	2017	2016
Loans and borrowings as at 1 January	**10,572.7**	**6,610.7**
Loans and borrowings on acquisition of Litenite	-	380.1
Facilities agreement	-	4,800.0
Revolving facility loan	600.0	700.0
Repayment of capital	(568.0)	(1,498.9)
Repayment of interest and commissions	(174.7)	(190.9)
Interest accrued	184.5	202.3
Loans and borrowings as at 30 June unaudited	**10,614.5**	**11,003.3**

15. Issued bonds

	30 June 2017 unaudited	31 December 2016
Short-term liabilities	42.5	42.4
Long-term liabilities	975.3	1,835.7
Total	**1,017.8**	**1,878.1**

Change in issued bonds:

	2017	2016
Issued bonds as at 1 January	**1,878.1**	**5,752.0**
Bonds on acquisition of Litenite	-	1,123.2
Bonds redemption	(886.7)	(4,483.8)
Repurchase of own bonds by the Group companies	-	(328.8)
Foreign exchange losses	-	244.8
Repayment of interest and commission	(21.6)	(285.0)
Early redemption costs	58.7	-
Early redemption fee	(58.7)	(262.1)
Interest accrued	48.0	77.1
Issued bonds payable as at 30 June unaudited	**1,017.8**	**1,837.4**

Early redemption

On 26 April 2017 Litenite Limited early redeemed all of its issued zero-coupon bonds in the total of PLN 945.4 (including early redemption fee).

Other notes

16. Operating segments

The Group operates in the following two segments:

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

The Group conducts its operating activities primarily in Poland.

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

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

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

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

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

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the 6 months ended 30 June 2017:

The 6 months ended 30 June 2017 (unaudited)	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	4,249.3	609.2	-	4,858.5
Inter-segment revenues	21.0	84.8	(105.8)	-
Revenues	**4,270.3**	**694.0**	**(105.8)**	**4,858.5**
EBITDA (unaudited)	**1,629.7**	**263.5**	**-**	**1,893.2**
Depreciation, amortization, impairment and liquidation	899.8	19.2	-	919.0
Profit from operating activities	**729.9**	**244.3**	**-**	**974.2**
Acquisition of property, plant and equipment, reception equipment and other intangible assets	433.8*	15.1	-	448.9
Balance as at 30 June 2017 (unaudited)				
Assets, including:	22,975.4	4,656.0**	(313.9)	27,317.5
Investments in joint venture	-	5.8	-	5.8

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

** Includes non-current assets located outside of Poland in the amount of PLN 12.5.

All material revenues are generated in Poland.

It should be noted that the data for 6 months ended 30 June 2017 is not comparable to the 6 months ended 30 June 2016 as Litenite Limited was acquired on 29 February 2016 (allocated to the Services to individual and business customers segment) and IT Polpager S.A. was acquired on 30 September 2016 (allocated to the Services to individual and business customers segment).

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

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the 6 months ended 30 June 2016:

The 6 months ended 30 June 2016 (unaudited)	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	4,162.7	644.2	-	4,806.9
Inter-segment revenues	15.3	105.2	(120.5)	-
Revenues	**4,178.0**	**749.4**	**(120.5)**	**4,806.9**
EBITDA (unaudited)	**1,499.7**	**281.8**	**-**	**1,781.5**
Depreciation, amortization, impairment and liquidation	931.0	20.2	-	951.2
Profit from operating activities	**568.7**	**261.6**	**-**	**830.3**
Acquisition of property, plant and equipment, reception equipment and other intangible assets	298.0*	14.6	-	312.6
Balance as at 30 June 2016 (unaudited)				
Assets, including:	23,221.1	4,434.3**	(74.3)	27,581.1
Investments in joint venture	-	5.8	-	5.8

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

** Includes non-current assets located outside of Poland in the amount of PLN 17.0.

Reconciliation of EBITDA and Net profit for the period:

	for the 6 months ended	
	30 June 2017 unaudited	**30 June 2016 unaudited**
EBITDA (unaudited)	**1,893.2**	**1,781.5**
Depreciation, amortization, impairment and liquidation (note 9)	(919.0)	(951.2)
Profit from operating activities	**974.2**	**830.3**
Other foreign exchange rate differences, net (note 10)	32.2	(56.8)
Interest costs, net (note 10 and 11)	(221.8)	(265.7)
Foreign exchange differences on issued bonds (note 11)	-	(244.8)
Valuation and realization of derivatives not used in hedge accounting – relating to principal (note 11)	-	203.8
Early redemption costs (note 11)	(58.7)	-
Other	(34.4)	(9.0)
Gross profit for the period	**691.5**	**457.8**
Income tax	(138.4)	(48.4)
Net profit for the period	**553.1**	**409.4**

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

17. Transactions with related parties

Receivables

	30 June 2017 unaudited	31 December 2016
Joint ventures	0.8	1.3
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	6.3	11.2
Total*	**7.1**	**12.5**

*Amounts presented above do not include deposits paid (30 June 2017 – PLN 3.4, 31 December 2016 – PLN 3.4)

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

Other assets

	30 June 2017 unaudited	31 December 2016
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	1.1	0.1
Total	**1.1**	**0.1**

Liabilities

	30 June 2017 unaudited	31 December 2016
Joint ventures	0.6	1.5
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	23.3	27.3
Total	**23.9**	**28.8**

Loans granted

	30 June 2017 unaudited	31 December 2016
Joint ventures	39.8	48.3
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	2.1	3.1
Total	**41.9**	**51.4**

Issued bonds

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

On 26 April 2017 Litenite Limited early redeemed all of its issued bonds.

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

Revenues

	for the 6 months ended	
	30 June 2017 unaudited	30 June 2016 unaudited
Subsidiaries*	-	84.6
Joint ventures	0.2	0.6
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	7.3	6.5
Total	**7.5**	**91.7**

*Concerns transaction with subsidiaries executed prior to their acquisition.

In 6 months ended 30 June 2016 the most significant transactions include revenues from sharing base transceiver stations and radio module, services relating to expansion of telecommunication network, sale of advertisements and revenues from audiotext services.

Expenses and purchases of programming assets

	for the 6 months ended	
	30 June 2017 unaudited	30 June 2016 unaudited
Subsidiaries*	-	120.2
Joint ventures	1.3	2.1
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	118.9	109.4
Total	**120.2**	**231.7**

*Concerns transaction with subsidiaries executed prior to their acquisition.

In 6 months ended 30 June 2017 the most significant transactions include cost of electrical energy, property rental, expenses for programming assets and advertising services.
In 6 months ended 30 June 2016 the most significant transactions include data transfer services, property rental, cost of electrical energy, expenses for programming assets and advertising services.

Gain on investment activities, net

	for the 6 months ended	
	30 June 2017 unaudited	30 June 2016 unaudited
Joint ventures	1.4	1.4
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.1	0.6
Total	**1.5**	**2.0**

Finance costs

	for the 6 months ended	
	30 June 2017 unaudited	30 June 2016 unaudited
Entities controlled by a person (or a close member of that person's family) or persons who have control, joint control or significant influence over Cyfrowy Polsat S.A.	78.4	24.0
Total	**78.4**	**24.0**

18. Contingent liabilities

Management believes that the provisions as at 30 June 2017 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

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

On 24 February 2011 the President of UOKiK imposed penalty on Polkomtel (Company's indirect subsidiary) in the amount of PLN 130.7 for the alleged lack of cooperation during an inspection carried out by UOKiK in Polkomtel. Polkomtel appealed against the decision of the President of UOKiK to the Consumer and Competition Protection Court ("SOKiK"). According to management, during the inspection the company had fully and at all times cooperated with UOKiK within the scope provided by the law. On 18 June 2014 the decision of the President of UOKiK has been changed by SOKiK, reducing the penalty to PLN 4.0 (i.e. EUR 1.0). On 20 October 2015 SOKiK's verdict has been revoked and the case has been transferred for re-examination. On 28 April 2017 the decision of the President of UOKiK has been changed by SOKiK, reducing the penalty to PLN 1.3. Polkomtel and President of UOKiK appealed against the verdict.

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

On 15 December 2014 Polkomtel (Company's indirect subsidiary) received a claim from Orange for the total amount of PLN 21.0 related to the actions allegedly contrary to the obligations arising under the agreement for the transfer of rights to radio frequencies. On 13 January 2015 the company filed an answer to the claim. Pursuant to the decision of the District Court in Warsaw the penalty has been lowered to PLN 9.0. On 20 April 2017 the penalty has been affirmed by the Court in the amount of PLN 9.0. On 12 may 2017 Polkomtel made a payment in the amount of PLN 9.0. Polkomtel has the right to cassation appeal. In management's opinion the claim is groundless.

The legal dispute in respect to the telecommunication concession

There is a pending legal dispute in respect to the telecommunication concession for the 1800 MHz frequency granted in 2007 to Mobyland Sp. z o.o. (now Aero 2 Sp. z o.o.) and Centernet S.A. (now Aero 2 Sp. z o.o.). 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 8 May 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 23 September 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'. On 23 December 2016 President of UKE notified the parties that the tender annulment proceedings relating to the 1800 MHz frequency have been adopted. Pursuant to the decision dated 7 August

2017 President of UKE notified the parties that the tender dated 2007 has been annulled. Parties are entitled to appeal for the reconsideration of the case. The decision issued does not affect reservation decisions issued following the tender. In accordance with President of UKE's press release, these reservation decisions remain valid and telecommunication operators may continue to provide their services based on these reservation decisions. In management's opinion this issue should have no negative impact on the results and financial condition of the Group. Accordingly, no valuation adjustment has been made in these consolidated financial statements that might have been necessary should the dispute's outcome be unfavorable for the entity.

In addition to the matters described above, there are also other proceedings, for which provisions have been made according the best estimates of the management board members as to potential future outflows of the economic benefits required for their settlement. Information regarding the amount of provisions was not separately disclosed, as in the opinion of the Group's Management, such disclosure could prejudice the outcome of the pending cases. Other significant proceedings described in the consolidated financial statements for the year ended 31 December 2016 remained unchanged.

19. Risk and fair value

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

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual consolidated financial statements. These interim condensed consolidated financial statements should be read in conjunction with the Group's annual consolidated financial statements for the year ended as at 31 December 2016. There have been no significant changes in any risk management policies since the end of year 2016.

Liquidity risk

Compared to 31 December 2016, there was no material change in the contractual undiscounted cash outflows for financial liabilities except for repayment of Litenite bonds and utilization of revolving facility loan.

Fair value

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

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

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

			30 June 2017 unaudited		31 December 2016	
	Category according to IAS 39	**The level of the fair value hierarchy**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**
Loans granted	A	2	42.2	42.2	53.0	51.8
Trade and other receivables	A	*	2,116.8	2,116.8	2,008.9	2,008.9
Cash and cash equivalents	A	*	1,354.6	1,354.6	1,326.0	1,326.0
Restricted cash	A	*	8.0	8.0	10.7	10.7
Loans and borrowings	C	2	(10,683.5)	(10,614.5)	(10,651.7)	(10,572.7)
Issued bonds	C	1,2**	(1,053.5)	(1,017.8)	(2,076.3)	(1,878.1)
UMTS licence liabilities	C	2	(720.5)	(673.0)	(755.4)	(695.5)
Finance lease liabilities	C	2	(29.0)	(29.0)	(25.8)	(25.9)
Accruals	C	*	(664.8)	(664.8)	(706.4)	(706.4)
Trade and other payables and deposits	C	*	(773.4)	(773.4)	(586.0)	(586.0)
Total			**(10,403.1)**	**(10,250.9)**	**(11,403.0)**	**(11,067.2)**
Unrecognized loss				**(152.2)**		**(335.8)**

A – loans and receivables
B – derivatives
C – other
* It is assumed that the fair value of these financial assets and liabilities is equal to their nominal value, therefore no evaluation methods were used in order to calculate their fair value
** As at 30 June 2017 and 31 December 2016 bonds issued by Cyfrowy Polsat are included in level 1 of the fair value hierarchy and as at 31 December 2016 bonds issued by Litenite are included in level 2 of the fair value hierarchy.

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

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

When determining the fair value of UMTS license liability, forecasted cash flows from the reporting date to September 2022 were discounted at EURIBOR market rate.

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

As at 30 June 2017 loans and borrowings comprised senior facilities and revolving facility loan and as at 31 December 2016 loans and borrowings comprised senior facilities. The discount rate for each payment was calculated as a sum of implied WIBOR interest rate and a margin regarding the Group's credit risk. When determining the fair value of senior facilities as at 30 June 2017 and 31 December 2016, forecasted cash flows from the reporting date to 21 September 2020 (assumed date of repayment of the loans) were analyzed. When determining the fair value of revolving facility as at 30 June 2017, forecasted cash flows from the reporting date to 28 May 2018 (assumed date of repayment of the loan) were analyzed.

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

The fair value of issued bonds as at 30 June 2017 and 31 December 2016 was estimated as a last purchase price at the balance sheet date according to GPW Catalyst quotations for bonds issued by Cyfrowy Polsat S.A. Fair value of Litenite bonds as at 31 December 2016 was estimated according to generally accepted valuation model based on discounted cash flow analysis while the most significant batch data is interest rate reflecting customers credit risks.

As at 30 June 2017, the Group held the following financial instruments carried at fair value on the statement of financial position:

Assets measured at fair value

	30 June 2017 unaudited	**Level 1**	**Level 2**	**Level 3**
Derivative instruments not designated as hedging instruments:				
Forwards		-	0.2	-
Interest rate swaps		-	9.1	-
Hedging derivative instruments:				
Interest rate swaps		-	0.9	-
Total		**-**	**10.2**	**-**

Liabilities measured at fair value

	30 June 2017 unaudited	**Level 1**	**Level 2**	**Level 3**
Derivative instruments not designated as hedging instruments:				
Forwards		-	(0.1)	-
Interest rate swaps		-	(1.7)	-
Hedging derivative instruments:				
Interest rate swaps		-	(0.5)	-
Total		**-**	**(2.3)**	**-**

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

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

Assets measured at fair value

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

20. Important agreements and events

Changes in Group structure

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

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

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

On 8 June 2017 a liquidation of Grab Investment SCSp was registered.

LTE Holdings Limited was disposed on 19 June 2017 for EUR 1.0 (not in millions).

On 29 June 2017 a liquidation of Polkomtel Finance AB (publ) was registered.

Decision of the Head of the Mazovian Tax Office in Warsaw

On 25 May 2017 the Head of the Mazovian Tax Office in Warsaw ("Tax Office") issued the decision determining the value of tax obligation in relation to corporate income tax for the year 2011 at a higher level than the declared value, by PLN 40.6 plus accrued penalty.
In the issued decision the Tax Office contested the Company's right to charge into tax deductible expenses certain expenditures incurred in 2011. The decision was issued in spite of the Company having presented a number of arguments stipulating that the findings of the Tax Office were incorrect and had no legal basis. In particular, the Tax Office disregarded that the Company received an individual tax interpretation confirming the correctness of the Company's operations in the scope covered by the current findings of the Tax Office.
The decision in question is neither final nor enforceable. The Company will appeal against the decision of the Tax Office to the head of the Treasury Administration Chamber in Warsaw.
At present the Company does not intend to create any provisions encumbering its financial results.

Distribution of the profit

On 27 June 2017 the Annual General Meeting of the Company adopted a resolution on the distribution of the profit for the year ended 31 December 2016 in the amount of PLN 578.0 as follows:

(i) PLN 204.7 (PLN 0.32 (not in million) per share) to be distributed as dividends to the shareholders of the Company,
(ii) PLN 373.3 to be allocated to the reserve capital.

The dividend day be scheduled for 20 July 2017, and the dividend payment day for 3 August 2017.

21. Events subsequent to the reporting date

On 20 July 2017 a liquidation of Grab Sarl was registered.

22. Other disclosures

Security relating to loans and borrowings

Establishment of security for loan facilities

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

Commitments to purchase programming assets

As at 30 June 2017 the Group had outstanding contractual commitments in relation to purchases of programming assets. The table below presents a maturity analysis for such commitments:

	30 June 2017 unaudited	31 December 2016
within one year	119.6	139.4
between 1 to 5 years	539.9	83.3
more than 5 years	22.5	20.0
Total	**682.0**	**242.7**

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

	30 June 2017 unaudited	31 December 2016
within one year	2.7	14.6
Total	**2.7**	**14.6**

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of property, plant and equipment was PLN 158.1 as at 30 June 2017 (PLN 118.3 as at 31 December 2016). Total amount of contractual liabilities resulting from agreements for the purchases of intangible assets as at 30 June 2017 was PLN 255.7 (PLN 115.3 as at 31 December 2016).

Other

The tax authorities may at any time inspect the books and records within 5 years from the end of the year when a tax declaration was submitted, and may impose additional tax assessments with penalty interest and penalties. Furthermore, on 15 July 2016 provisions of General Anti-Avoidance Rule (GAAR) were introduced, which aim at preventing establishing and using artificial legal arrangements with tax savings as its principal purpose. Frequent amendments in the tax laws and contradicting legal interpretations among the tax authorities result in uncertainties and lack of consistency in the tax system, which in fact lead to difficulties in the judgement of the tax consequences in the foreseeable future.

23. Judgments, financial estimates and assumptions

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

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

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

Report on review of interim condensed financial statements

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

Introduction

We have reviewed the accompanying interim balance sheet of Cyfrowy Polsat S.A. (the 'Company') as of June 30, 2017 and the related interim income statement, interim statement of comprehensive income, interim statement of changes in equity and interim cash flow statement for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, '*Interim Financial Reporting*'. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, '*Review of interim financial information performed by the independent auditor of the entity*'. A review of interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, '*Interim Financial Reporting*'.

Auditor conducting the review on behalf of PricewaterhouseCoopers Sp. z o.o. Registered Audit Company No. 144

Ewa Giel

Registered Auditor
No. 12148
August 23, 2017

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CYFROWY POLSAT S.A.

Interim Condensed Financial Statements
for the 6 months ended 30 June 2017

Prepared in accordance
with International Accounting Standard 34
Interim Financial Reporting

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APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

On 23 August 2017, the Management Board of Cyfrowy Polsat S.A. approved the interim condensed financial statements of Cyfrowy Polsat S.A. prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, as adopted by the European Union, which include:

Interim Income Statement for the period from 1 January 2017 to 30 June 2017 showing a net profit for the period of:	PLN 506.3
Interim Statement of Comprehensive Income for the period from 1 January 2017 to 30 June 2017 showing a total comprehensive income for the period of:	PLN 505.4
Interim Balance Sheet as at 30 June 2017 showing total assets and total equity and liabilities of:	PLN 13,566.1
Interim Cash Flow Statement for the period from 1 January 2017 to 30 June 2017 showing a net increase in cash and cash equivalents amounting to:	PLN 61.6
Interim Statement of Changes in Equity for the period from 1 January 2017 to 30 June 2017 showing an increase in equity of:	PLN 300.7

Notes to the Interim Condensed Financial Statements

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

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

Warsaw, 23 August 2017

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

Interim Income Statement

		for the 3 months ended		for the 6 months ended	
	Note	30 June 2017 unaudited	30 June 2016 unaudited	30 June 2017 unaudited	30 June 2016 unaudited
Revenue	7	565.1	557.8	1,122.9	1,080.2
Operating costs	8	(487.7)	(483.8)	(968.7)	(922.1)
Other operating income, net		0.7	3.0	3.1	8.0
Profit from operating activities		**78.1**	**77.0**	**157.3**	**166.1**
Gain on investment activities, net	9	407.3	45.2	419.0	257.3
Finance costs	10	(21.3)	(26.2)	(42.8)	(52.4)
Gross profit for the period		**464.1**	**96.0**	**533.5**	**371.0**
Income tax		(14.4)	(12.0)	(27.2)	(25.6)
Net profit for the period		**449.7**	**84.0**	**506.3**	**345.4**
Basic and diluted earnings per share (in PLN)		**0.70**	**0.13**	**0.79**	**0.54**

Interim Statement of Comprehensive Income

	for the 3 months ended		for the 6 months ended	
	30 June 2017 unaudited	30 June 2016 unaudited	30 June 2017 unaudited	30 June 2016 unaudited
Net profit for the period	**449.7**	**84.0**	**506.3**	**345.4**
Items that may be reclassified subsequently to profit or loss:				
Valuation of hedging instruments	(0.2)	2.2	(1.1)	4.7
Income tax relating to hedge valuation	0.0	(0.4)	0.2	(0.9)
Items that may be reclassified subsequently to profit or loss	**(0.2)**	**1.8**	**(0.9)**	**3.8**
Other comprehensive income/(loss), net of tax	**(0.2)**	**1.8**	**(0.9)**	**3.8**
Total comprehensive income for the period	**449.5**	**85.8**	**505.4**	**349.2**

(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

	Note	30 June 2017 unaudited	31 December 2016
Reception equipment		361.5	372.2
Other property, plant and equipment		122.1	131.4
Goodwill		197.0	197.0
Other intangible assets		69.3	73.7
Investment property		30.4	31.2
Shares in subsidiaries	18	11,414.8	11,469.3
Non-current deferred distribution fees		28.2	28.3
Other non-current assets		31.6	38.0
includes derivative instruments		*0.3*	*0.9*
Total non-current assets		**12,254.9**	**12,341.1**
Inventories		100.4	84.9
Trade and other receivables	9	604.8	279.3
Income tax receivables		0.8	-
Current deferred distribution fees		71.9	76.2
Other current assets		193.0	223.5
includes derivative instruments		*0.6*	*0.6*
Cash and cash equivalents		340.3	278.8
Total current assets		**1,311.2**	**942.7**
Total assets		**13,566.1**	**13,283.8**

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

Interim Balance Sheet - Equity and Liabilities

	Note	30 June 2017 unaudited	31 December 2016
Share capital	11	25.6	25.6
Share premium	11	7,174.0	7,174.0
Hedge valuation reserve	12	0.3	1.2
Retained earnings		3,613.0	3,311.4
Total equity		**10,812.9**	**10,512.2**
Loans and borrowings	13	663.9	782.0
Issued bonds	14	975.3	975.5
Deferred tax liabilities		93.8	91.0
Deferred income		3.8	4.2
Other non-current liabilities and provisions		1.2	10.0
Total non-current liabilities		**1,738.0**	**1,862.7**
Loans and borrowings	13	258.0	239.1
Issued bonds	14	42.5	42.4
Trade and other payables		462.5	385.2
includes derivative instruments		*0.5*	-
Income tax liability		7.3	8.0
Deposits for equipment		2.1	1.9
Deferred income		242.8	232.3
Total current liabilities		**1,015.2**	**908.9**
Total liabilities		**2,753.2**	**2,771.6**
Total equity and liabilities		**13,566.1**	**13,283.8**

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

Interim Cash Flow Statement

	Note	for the 6 months ended 30 June 2017 unaudited	for the 6 months ended 30 June 2016 unaudited
Net profit		**506.3**	**345.4**
Adjustments for:		**(345.2)**	**(192.1)**
Depreciation, amortization, impairment and liquidation	8	109.2	114.2
Interest expense		36.9	46.9
Change in inventories		(15.5)	(12.5)
Change in receivables and other assets		59.1	(65.2)
Change in liabilities, provisions and deferred income		(65.6)	26.7
Income tax		27.2	25.6
Net increase in reception equipment provided under operating lease		(75.9)	(79.3)
Dividends income and share in the profits of partnerships	9	(417.5)	(251.8)
Other adjustments		(3.1)	3.3
Cash from operating activities		**161.1**	**153.3**
Income tax paid		(25.6)	(25.1)
Interest received from operating activities		2.7	0.6
Net cash from operating activities		**138.2**	**128.8**
Received dividends and shares in the profits of partnerships		15.3	224.9
Merger with related entities		53.8	-
Loans granted		-	(12.2)
Acquisition of property, plant and equipment		(6.6)	(14.9)
Acquisition of intangible assets		(6.4)	(6.4)
Proceeds from sale of shares		-	0.1
Proceeds from sale of property, plant and equipment		6.1	3.5
Loans repaid		-	5.6
Net cash from investing activities		**62.2**	**200.6**
Net cash from the Cash Management System Agreement with interest paid		-	(284.9)
Payment of interest on loans, borrowings, bonds and commissions*		(37.8)	(45.7)
Repayment of loans and borrowings	13	(101.0)	(80.0)
Net cash used in financing activities		**(138.8)**	**(410.6)**
Net increase/(decrease) in cash and cash equivalents		**61.6**	**(81.2)**
Cash and cash equivalents at the beginning of period		**278.8**	**136.4**
Effect of exchange rate fluctuations on cash and cash equivalents		(0.1)	-
Cash and cash equivalents at the end of period		**340.3**	**55.2**

* Includes impact of hedging instruments

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

Interim Statement of Changes in Equity for the 6 months ended 30 June 2017

	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total Equity**
Balance as at 1 January 2017	**25.6**	**7,174.0**	**1.2**	**3,311.4**	**10,512.2**
Dividend declared	-	-	-	(204.7)	**(204.7)**
Total comprehensive income	-	-	(0.9)	506.3	**505.4**
Hedge valuation reserve	-	-	*(0.9)*	-	**(0.9)**
Net profit for the period	-	-	-	506.3	**506.3**
Balance as at 30 June 2017 unaudited	**25.6**	**7,174.0**	**0.3**	**3,613.0**	**10,812.9**

* 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.

Interim Statement of Changes in Equity for the 6 months ended 30 June 2016

	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total Equity**
Balance as at 1 January 2016	**25.6**	**7,174.0**	**(6.7)**	**2,751.3**	**9,944.2**
Total comprehensive income	-	-	3.8	345.4	**349.2**
Hedge valuation reserve	-	-	*3.8*	-	**3.8**
Net profit for the period	-	-	-	345.4	**345.4**
Balance as at 30 June 2016 unaudited	**25.6**	**7,174.0**	**(2.9)**	**3,096.7**	**10,293.4**

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

Notes to the Interim Condensed Financial Statements

General information

1. The Company

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

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

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

The Company is the Parent Company of Cyfrowy Polsat S.A. Capital Group (the 'Group'). On 7 April 2017 the Company completed a merger with its subsidiary, Metelem Holding Company Limited. As at 30 June 2017, the Group encompasses the Company, Eileme 1 AB (publ) ('Eileme 1') and its subsidiaries and joint ventures, Telewizja Polsat Sp. z o.o. and its subsidiaries and joint ventures, Cyfrowy Polsat Trade Marks Sp. z o.o. and its subsidiaries, INFO-TV-FM Sp. z o.o., Interphone Service Sp. z o.o., Teleaudio Dwa Sp. z o.o. Sp.k. and Orsen Holding Limited and its subsidiaries.

2. Composition of the Management Board of the Company

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

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

3. Composition of the Supervisory Board of the Company

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

4. Basis of preparation of the interim condensed financial statements

Statement of compliance

These interim condensed financial statements for the 6 months ended 30 June 2017 have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting*. These interim condensed financial statements should be read together with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS EU).

The Company as the Parent Company prepared the interim condensed consolidated financial statements (approved on 23 August 2017). These interim condensed financial statements should be read together with the interim condensed consolidated financial statements.

The Company applied the same accounting policies in the preparation of the financial data for the 6 months ended 30 June 2017 and the financial statements for the year 2016, presented in the annual report, except for the EU-endorsed standards and interpretations which are effective for the reporting periods beginning on or after 1 January 2017. Standards, amendments to Standards and Interpretations which are effective for the reporting periods beginning on 1 January 2017 do not have a material impact on these interim condensed financial statements.

The Company is currently analyzing the impact of the published standards that are not yet effective and 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. New standard implementation project is currently in progress.

5. Approval of the Interim Condensed Financial Statements

These interim condensed financial statements were approved for publication by the Management Board on 23 August 2017.

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

Explanatory notes

6. Information on seasonality in the Company's operations

Revenue is not directly subject to any seasonal trend.

7. Revenue

	for the 3 months ended		for the 6 months ended	
	30 June 2017 unaudited	30 June 2016 unaudited	30 June 2017 unaudited	30 June 2016 unaudited
Retail revenue	533.7	516.3	1,057.1	1,011.8
Wholesale revenue	17.4	24.1	31.6	35.8
Sale of equipment	3.4	10.9	12.4	19.2
Other revenue	10.6	6.5	21.8	13.4
Total	**565.1**	**557.8**	**1,122.9**	**1,080.2**

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

8. Operating costs

		for the 3 months ended		for the 6 months ended	
	Note	30 June 2017 unaudited	30 June 2016 unaudited	30 June 2017 unaudited	30 June 2016 unaudited
Content costs		151.2	169.4	294.5	299.2
Technical costs and costs of settlements with mobile network operators		138.1	113.0	272.9	218.7
Distribution, marketing, customer relation management and retention costs		78.2	76.7	157.4	153.1
Depreciation, amortization, impairment and liquidation		54.4	56.3	109.2	114.2
Salaries and employee-related costs	a	26.7	23.0	50.7	47.9
Cost of equipment sold		4.9	10.9	13.1	20.9
Cost of debt collection services and bad debt allowance and receivables written off		3.4	4.1	6.2	7.5
Other costs		30.8	30.4	64.7	60.6
Total		**487.7**	**483.8**	**968.7**	**922.1**

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

a) Salaries and employee-related costs

	for the 3 months ended		for the 6 months ended	
	30 June 2017 unaudited	30 June 2016 unaudited	30 June 2017 unaudited	30 June 2016 unaudited
Salaries	22.4	19.6	41.7	40.4
Social security contributions	3.6	3.0	7.6	6.6
Other employee-related costs	0.7	0.4	1.4	0.9
Total	**26.7**	**23.0**	**50.7**	**47.9**

9. Gain on investment activities, net

	for the 3 months ended		for the 6 months ended	
	30 June 2017 unaudited	30 June 2016 unaudited	30 June 2017 unaudited	30 June 2016 unaudited
Dividends	387.4	30.0	387.4*	233.6
Share in the profits of partnerships	17.9	10.8	30.1	18.2
Other	2.0	4.4	1.5	5.5
Total	**407.3**	**45.2**	**419.0**	**257.3**

* Includes PLN 327.4 dividends receivable which mainly account for the increase in the trade and other receivables as at 30 June 2017.

10. Finance costs

	for the 3 months ended		for the 6 months ended	
	30 June 2017 unaudited	30 June 2016 unaudited	30 June 2017 unaudited	30 June 2016 unaudited
Interest expense on loans and borrowings	8.9	10.9	18.1	22.7
Interest expense on issued bonds	10.9	10.7	21.5	21.3
Valuation and realization of hedging instruments	(0.1)	2.0	(0.2)	3.9
Guarantee fees	1.3	1.5	2.6	2.7
Bank and other charges	0.3	1.1	0.8	1.8
Total	**21.3**	**26.2**	**42.8**	**52.4**

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

11. Equity

(i) Share capital

Presented below is the structure of the Company's share capital as at 30 June 2017 and 31 December 2016:

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

The shareholders' structure as at 30 June 2017 and 31 December 2016 was as follows:

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

[1] Entity is controlled by Mr. Zygmunt Solorz

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

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

(ii) Share premium

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

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

12. Hedge valuation reserve

Impact of hedging instruments valuation on hedge valuation reserve

	2017	2016
Balance as at 1 January	**1.2**	**(6.7)**
Valuation of cash flow hedges	(1.1)	4.7
Deferred tax	0.2	(0.9)
Change for the period	**(0.9)**	**3.8**
Balance as at 30 June unaudited	**0.3**	**(2.9)**

13. Loans and borrowings

Loans and borrowings	**30 June 2017 unaudited**	**31 December 2016**
Short-term liabilities	258.0	239.1
Long-term liabilities	663.9	782.0
Total	**921.9**	**1,021.1**

Change in loans and borrowings liabilities:

	2017	2016
Loans and borrowings as at 1 January	**1,021.1**	**1,486.7**
Repayment of capital	(101.0)	(80.0)
Repayment of interest and commissions	(16.3)	(20.6)
Net cash from the Cash Management System Agreement	-	(284.4)
Interest accrued	18.1	22.7
Loans and borrowings as at 30 June unaudited	**921.9**	**1,124.4**

14. Issued Bonds

	30 June 2017 unaudited	**31 December 2016**
Short-term liabilities	42.5	42.4
Long-term liabilities	975.3	975.5
Total	**1,017.8**	**1,017.9**

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

Change in issued bonds:

	2017	2016
Issued bonds payable as at 1 January	**1,017.9**	**1,017.7**
Repayment of interest and commissions	(21.6)	(21.7)
Interest accrued	21.5	21.3
Issued bonds payable as at 30 June unaudited	**1,017.8**	**1,017.3**

15. Transactions with related parties

Receivables

	30 June 2017 unaudited	31 December 2016
Subsidiaries	371.5	42.6
Joint ventures	0.7	1.0
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.5	1.1
Total	**372.7**	**44.7**

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

Other assets

	30 June 2017 unaudited	31 December 2016
Subsidiaries	186.4	219.9
Total	**186.4**	**219.9**

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

Liabilites

	30 June 2017 unaudited	31 December 2016
Subsidiaries	79.0	158.0
Joint ventures	0.2	0.5
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	1.6	2.5
Total	**80.8**	**161.0**

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

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

Loans granted

	30 June 2017 unaudited	31 December 2016
Subsidiaries	2.3	1.4
Joint ventures	11.4	11.2
Total	**13.7**	**12.6**

Revenues

	for the 6 months ended	
	30 June 2017 unaudited	30 June 2016 unaudited
Subsidiaries	40.9	33.5
Joint ventures	0.1	0.3
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.4	0.7
Total	**41.4**	**34.5**

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

Expenses

	for the 6 months ended	
	30 June 2017 unaudited	30 June 2016 unaudited
Subsidiaries	405.2	327.9
Joint ventures	-	0.3
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	11.1	9.5
Total	**416.3**	**337.7**

The most significant transactions include data transfer services.

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

Gain on investment activities, net

	for the 6 months ended	
	30 June 2017 unaudited	30 June 2016 unaudited
Subsidiaries	420.8	254.7
Joint ventures	0.3	0.2
Total	**421.1**	**254.9**

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

Gains and losses on investment activities comprises of dividends, income from share of the profits of partnerships and guarantees granted by the Company in respect to Polkomtel's term facilities.

Finance costs

	for the 6 months ended	
	30 June 2017 unaudited	**30 June 2016 unaudited**
Subsidiaries	2.6	2.7
Total	**2.6**	**2.7**

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

Other notes

16. Litigations

Management believes that the provisions for litigations as at 30 June 2017 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Company's financial situation. Information regarding the amount of provisions was not separately disclosed, as in the opinion of the Group's Management, such disclosure could prejudice the outcome of the pending cases.

Significant proceedings described in the financial statements for the year ended 31 December 2016 remained unchanged.

17. Risk and fair value

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

The interim condensed financial statements do not include all financial risk management information and disclosures required in the annual financial statements. These interim condensed financial statements should be read in conjunction with the Company's annual financial statements for the year ended as at 31 December 2016. There have been no significant changes in any risk management policies since the end of year 2016.

Liquidity risk

Compared to 31 December 2016, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

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

Fair value

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities,

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly,

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

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

			30 June 2017 unaudited		31 December 2016	
	Category according to IAS 39	Level of the fair value hierarchy	Fair value	Carrying amount	Fair value	Carrying amount
Loans granted	A	2	13.9	13.9	12.3	12.8
Trade and other receivables	A	*	598.3	598.3	289.9	289.9
Cash and cash equivalents	A	*	340.3	340.3	278.8	278.8
Loans and borrowings	C	2	(926.0)	(921.9)	(1,024.2)	(1,021.1)
Issued bonds	C	1	(1.053.5)	(1,017.8)	(1,045.2)	(1,017.9)
Accruals	C	*	(134.2)	(134.2)	(161.6)	(161.6)
Trade and other payables and deposits	C	*	(299.7)	(299.7)	(201.5)	(201.5)
Total			**(1,460.9)**	**(1,421.1)**	**(1,851.5)**	**(1,820.6)**
Unrecognized loss				**(39.8)**		**(30.9)**

A – loans and receivables
B – hedges
C – other

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

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

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

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As at 30 June 2017 and 31 December 2016 loans and borrowings comprised term facility loan. The discount rate for each payment was calculated as a sum of implied WIBOR interest rate and a margin regarding the Company's credit risk. When determining the fair value of senior facility as at 30 June 2017 and 31 December 2016, forecasted cash flows from the reporting date to 21 September 2020 (assumed date of repayment of the loan) were analyzed.

The fair value of bonds as at 30 June 2017 and 31 December 2016 is calculated based on the last bid price as at the balance sheet date as quoted on the Catalyst market.

As at 30 June 2017, the Company held the following financial instruments measured at fair value:

Assets measured at fair value

	30 June 2017 unaudited	Level 1	Level 2	Level 3
IRS		-	0.9	-
Total		**-**	**0.9**	**-**

Liabilities measured at fair value

	30 June 2017 unaudited	Level 1	Level 2	Level 3
IRS		-	(0.5)	-
Total		**-**	**(0.5)**	**-**

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

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

Assets measured at fair value

	31 December 2016	Level 1	Level 2	Level 3
IRS		-	1.5	-
Total		**-**	**1.5**	**-**

18. Important agreements and events

Merger

On 7 April 2017 the Company completed a merger with Metelem Holding Company Limited. Following the merger the Company became a direct shareholder of Eileme 1.

Decision of the Head of the Mazovian Tax Office in Warsaw

On 25 May 2017 the Head of the Mazovian Tax Office in Warsaw ("Tax Office") issued the decision determining the value of tax obligation in relation to corporate income tax for the year 2011 at a higher level than the declared value, by PLN 40.6 plus accrued penalty.
In the issued decision the Tax Office contested the Company's right to charge into tax deductible expenses certain expenditures incurred in 2011. The decision was issued in spite of the Company having presented a number of arguments stipulating that the findings of the Tax Office were incorrect and had no legal basis. In particular, the Tax Office disregarded that the Company received an individual tax interpretation confirming the correctness of the Company's operations in the scope covered by the current findings of the Tax Office.
The decision in question is neither final nor enforceable. The Company will appeal against the decision of the Tax Office to the head of the Treasury Administration Chamber in Warsaw.
At present the Company does not intend to create any provisions encumbering its financial results.

Distribution of the profit

On 27 June 2017 the Annual General Meeting of the Company adopted a resolution on the distribution of the profit for the year ended 31 December 2016 in the amount of PLN 578.0 as follows:

(i) PLN 204.7 (PLN 0.32 (not in million) per share) to be distributed as dividends to the shareholders of the Company,
(ii) PLN 373.3 to be allocated to the reserve capital.

The dividend day be scheduled for 20 July 2017, and the dividend payment day for 3 August 2017.

19. Other disclosures

Security relating to loans and borrowings

Establishment of collateral for loan facilities

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

Other securities

The Company provided guarantees to its subsidiaries in respect to purchase contracts. Information regarding the amounts of guarantees provided was not separately disclosed, as in the opinion of the Group's Management, such disclosure could have a negative impact on the relations with the third parties.

Contractual liabilities related to purchases of non-current assets

Total amount of capital commitments resulting from agreements on property construction and improvements was PLN 2.0 as at 30 June 2017 (PLN 0.0 as at 31 December 2016). Additionally the amount of deliveries and services committed to under agreements for the purchases of licences and software as at 30 June 2017 was PLN 0.3 (PLN 0.3 as at 31 December 2016).

Other

The tax authorities may at any time inspect the books and records within 5 years from the end of the year when a tax declaration was submitted, and may impose additional tax assessments with penalty interest and penalties. Furthermore, on 15 July 2016 provisions of General Anti-Avoidance Rule (GAAR) were introduced, which aim at preventing establishing and using artificial legal arrangements with tax savings as its principal purpose. Frequent amendments in the tax laws and contradicting legal interpretations among the tax authorities result in uncertainties and lack of consistency in the tax system, which in fact lead to difficulties in the judgement of the tax consequences in the foreseeable future.

20. Events subsequent to the reporting date

There were no material events subsequent to the reporting date.

21. Judgments, financial estimates and assumptions

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

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

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