

**REPORT OF THE MANAGEMENT BOARD  
ON THE ACTIVITIES OF CYFROWY POLSAT S.A. CAPITAL GROUP  
IN THE FINANCIAL YEAR ENDED DECEMBER 31, 2016**

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## 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 over 170 TV channels, including over 70 channels in high definition standard, as well as additional modern OTT services (e.g. Cyfrowy Polsat GO, PPV, VOD) and Multiroom. We also provide online video services through IPLA – the leader on Poland's online video market; offering them in a subscription and transaction (PPV) model, as well as free of charge (financed by advertising revenue);
- mobile telecommunication services, including voice and data transmission services, as well as various added services (VAS), which we provide mainly through our subsidiary Polkomtel – one of Poland's leading telecommunications operators;
- mobile broadband Internet, offered under two alternative brands: Cyfrowy Polsat and Plus. We provide these services in the state-of-the-art LTE and LTE-Advanced technologies. We offer the largest LTE coverage in Poland and our customers attain the highest data transmission speed among offers provided by national mobile network operators technologies;
- broadcasting and television production through Telewizja Polsat, leading commercial TV broadcaster on the Polish market, offering 24 popular TV channels (14 in HD standard), including our main channel POLSAT, the most popular channel in Poland;
- wholesale services to other operators, including i.a. network interconnection, transit of traffic and national and international roaming services.

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

## POLSAT GROUP IN FIGURES IN 2016

### CUSTOMERS AND SERVICES

<b>5.9 m</b>	<b>16.5 m</b>
<b>contract customers</b>	<b>services provided</b>
<ul style="list-style-type: none"> <li>✓ 80% of our services are provided in a contract model</li> <li>✓ We systematically upsell services to the combined customer base</li> <li>✓ Growing loyalty of our customers</li> </ul>	

**8.3%**

**churn**

### SUCCESS OF OUR MULTI-PLAY STRATEGY

<b>1.3 m</b>	<b>3.9 m</b>
<b>multi-play customers</b>	<b>services provided</b>
<ul style="list-style-type: none"> <li>✓ Flexible smartDOM program which offers unique combinations of services</li> <li>✓ Attractive discounts and wide array of equipment</li> <li>✓ Positive influence on ARPU</li> </ul>	

**PLN 88.7**

**ARPU**

### STRONG, STABLE POSITION ON THE TV BROADCASTING AND PRODUCTION MARKET

<b>24.9%</b>	<b>26.9%</b>
<b>audience share</b>	<b>TV advertising share</b>
<ul style="list-style-type: none"> <li>✓ Rich content offer, including numerous own productions which are matched to profile of the Polish viewer</li> <li>✓ POLSAT main channel and our theme channels continue to be audience leaders in the commercial viewer group</li> <li>✓ Revenues continue to grow consistently, at a faster pace than the TV advertising market</li> </ul>	

### SOLID FINANCIAL PERFORMANCE

<b>PLN 9.7 bn</b>	<b>PLN 3.6 bn</b>	<b>PLN 1.6 bn</b>
<b>of revenue</b>	<b>EBITDA</b>	<b>of free cash flow</b>
<b>PLN 1.0 bn</b>	<b>2.83x</b>	
<b>of net profit</b>	<b>net debt /EBITDA ratio (SFA definition)</b>	
<ul style="list-style-type: none"> <li>✓ Stable and diversified revenue, mainly based on recurring, regular contract services</li> <li>✓ Very high EBITDA margin, significantly above the market average</li> <li>✓ Very high level of conversion of financial results to cash</li> <li>✓ Fast debt reduction</li> <li>✓ Defined, long-term dividend policy</li> </ul>		

## DISCLAIMERS

This constitutes the annual Report of Cyfrowy Polsat Capital Group prepared as required by Paragraph 82 section 2 and Paragraph 91 and 92 of the Regulation of the Minister of Finance of February 19, 2009 on current and periodic information published by issuers of securities and the conditions of recognizing as equal the information required under non-member states' regulations.

### **Presentation of financial and other information**

References to the Company 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 from the context it is clear 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 our consolidated financial statements for the financial year ended December 31, 2016. The financial statements for the twelve month period ended December 31, 2016 attached to this Report have been prepared in accordance with International Financial Reporting Standards as approved for use in the European Union ("IFRS") and are presented in millions of zlotys.

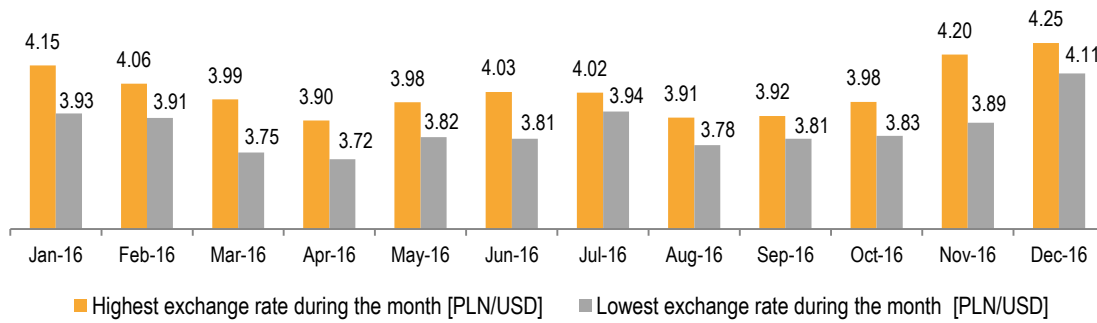
Certain arithmetical data contained in this Report, including financial and operating information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this Report may not conform exactly to the total figure given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

### **Currency presentation**

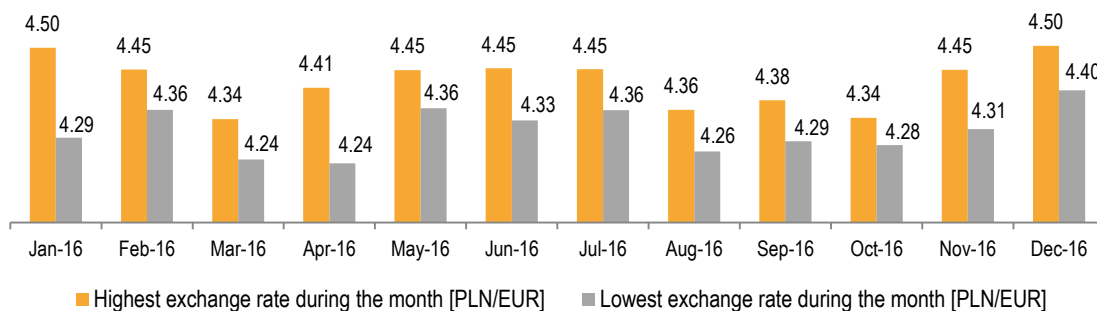
Unless otherwise indicated, all references to "PLN" or "zloty" in this Report are to the lawful currency of the Republic of Poland, all references to "USD" or "US dollars" are to the lawful currency of the United States and all references to "EUR" or the "euro" are to the lawful currency of the member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

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

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



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



### Forward looking statements

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

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

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

### **Industry and market data**

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

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

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

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



## FINANCIAL DATA OVERVIEW

The following tables set out selected consolidated financial data for the three and twelve month periods ended December 31, 2016 and December 31, 2015. The selected financial data presented in the tables below is expressed in millions of PLN, unless otherwise stated. This information should be read in conjunction with consolidated financial statements for the financial year ended December 31, 2016 (including the notes thereto) attached to this Report, as well as the information included in item 4 of this Report - *Operating and financial review of Polsat Group*.

Selected financial data:

- from the consolidated income statement for the three period ended December 31, 2016 and December 31, 2015 have been converted into euro at a rate of PLN 4.3765 per EUR 1.0, being the average of monthly average exchange rates announced by the NBP in the reporting period i.e. from October 1 to December 31, 2016;
- from the consolidated income statement and the consolidated cash flow statement for the twelve month period ended December 31, 2016 and December 31, 2015 have been converted into euro at a rate of PLN 4.3625 per EUR 1.0, being the average of monthly average exchange rates announced by the NBP in the reporting period i.e. from January 1 to December 31, 2016;
- from the consolidated balance sheet data as at December 31, 2016 and December 31, 2015 have been converted into euro at a rate of PLN 4.4240 per EUR 1.0 (average exchange rate published by NBP on December 30, 2016).

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

It should be noted that data for the periods of three and twelve months ended December 31, 2016 are not fully comparable to data for the periods of three and twelve months ended December 31, 2015 due to the acquisition of 100% of shares of IT Polpager S.A. on September 30, 2016, of 100% shares of Litenite Limited, the direct parent of Midas, on February 29, 2016, as well as the acquisition of 100% of shares in Radio PIN S.A. on February 27, 2015 and of 100% of shares in Orsen Holding Ltd. on April 1, 2015.

### Consolidated balance sheet

	December 31, 2016		December 31, 2015	
	mPLN	mEUR	mPLN	mEUR
Cash and cash equivalents <sup>(1)</sup>	1,336.7	302.1	1,523.7	344.4
Assets	27,729.3	6,267.9	26,490.1	5,987.8
Non-current liabilities	12,670.5	2,864.0	7,773.5	1,757.1
Non-current financial liabilities	11,159.3	2,522.4	6,376.0	1,441.2
Current liabilities	3,681.2	832.1	8,466.5	1,913.8
Current financial liabilities	1,317.4	297.8	6,011.9	1,358.9
Equity	11,377.6	2,571.8	10,250.1	2,316.9
Share capital	25.6	5.8	25.6	5.8

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



### Other consolidated financial data

	for the 3-month period ended December 31				for the 12-month period ended December 31			
	2016		2015		2016		2015	
	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR
EBIDTA <sup>(1)</sup>	902.3	206.2	881.1	201.3	3,640.8	834.6	3,685.1	844.7
EBITDA margin	35.6%	35.6%	33.8%	33.8%	37.4%	37.4%	37.5%	37.5%
EBIT margin	15.4%	15.4%	17.0%	17.0%	17.2%	17.2%	20.2%	20.2%
Capital expenditures, net <sup>(2)</sup>	191.4	43.7	147.0	33.6	580.9	133.2	566.2	129.8

- (1) We define EBIDTA 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 EBIDTA and reported operating profit/ (loss) is depreciation and amortization expense and impairment charges and reversals on property, plant and equipment and intangible assets and net value of disposed property, plant and equipment and intangible assets. The reconciliation between reported net profit and EBIDTA is presented in Note 14 of the Consolidated Financial Statements of the Company for the year ended December 31, 2016.

We believe EBIDTA serves as a useful supplementary financial indicator in measuring the profitability of media and telecommunication companies. EBIDTA 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 EBIDTA is not a uniform or standardized measure and the calculation of EBIDTA, accordingly, may vary significantly from company to company, and by itself our presentation and calculation of EBIDTA may not be comparable to that of other companies.

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

### Consolidated cash flow statement

	for the 12-month period ended			
	December 31, 2016		December 31, 2015	
	mPLN	mEUR	mPLN	mEUR
Net cash from operating activities	2,884.7	661.2	2,887.7	661.9
Net cash from/(used in) investment activities	(1,003.4)	(230.0)	(726.6)	(166.6)
Net cash used in financial activities	(2,070.8)	(474.7)	(2,386.7)	(547.1)
Free cash flow <sup>(1)</sup>	1,556.8	356.9	1,304.6	299.0
Net increase in cash and cash equivalents	(189.5)	(43.4)	(225.6)	(51.7)

- (1) Adjusted FCF – a measure of the Company's ability to generate repeatable cash flows, defined as net cash from operating activities reduced by net cash from investing activities as well as the repayment of interest on loans, borrowings, bonds, finance lease and commissions, excluding one-off positions (such as for example one-off payments for the purchase or extension of validity of telecommunication licenses, acquisition of subsidiaries, net of cash acquired, fees and commissions related to the organization and drawing of new debt, a premium on premature redemption of bonds, changes in short-term deposits and any other position that the Management Board of the Company may deem a one-off or non-repeatable event). Pro-forma data.

## 1. CHARACTERISTICS OF POLSAT GROUP

### 1.1. Structure of Polsat Group

The following table presents the organizational structure of Polsat Group as at December 31, 2016 and December 31, 2015, indicating the consolidation method.

Company name	Registered office	Activity	Share in voting rights (%) as at	
			December 31, 2016	December 31, 2015
<b>Parent Company</b>				
Cyfrowy Polsat S.A.	Łubinowa 4a, 03-878 Warsaw	radio, TV and telecommunication activities	n/a	n/a
<b>Subsidiaries consolidated using the full consolidation method</b>				
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	non-current assets and intellectual property rights management	100%	100%
Rioni 1 AB (formerly Cyfrowy Polsat Finance AB) <sup>(1)</sup>	Stureplan 4C, 4 TR 114 35 Stockholm, Sweden	financial transactions	-	100%
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	broadcasting and television production	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o. Sp. k.	Ostrobramska 77, 04-175 Warsaw	advertising activities	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	media	100%	100%
Nord License AS <sup>(2)</sup>	Vollsvseien 13B, Lysaker Norway	trade of programming licenses	-	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. (formerly Radio PIN S.A.)	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	100%	100%
Polsat Brands AG	Alte Landstrasse 17, 8863 Buttikon, Switzerland	intellectual property rights management	100%	100%
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	radio and TV activities	100%	100%
Gery.pl Sp. z o.o. <sup>(3)</sup>	Stanów Zjednoczonych 61 A, 04-028 Warsaw	web portals activities	-	100%
Netshare Sp. z o.o. <sup>(4)</sup>	Stanów Zjednoczonych 61 A, 04-028 Warsaw	electronic media (Internet) advertising broker	-	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. <sup>(5)</sup>	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 activities	100%	100%

Company name	Registered office	Activity	Share in voting rights (%) as at	
			December 31, 2016	December 31, 2015
Eileme 1 AB (publ)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	100%
Eileme 2 AB (publ)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	100%
Eileme 3 AB (publ)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	100%
Eileme 4 AB (publ)	Stureplan 4C, 114 35 Stockholm, Sweden	holding activities	100%	100%
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)	Norrandsgatan 18, 111 43 Stockholm, Sweden	financial activities	100%	100%
Liberty Poland S.A.	Katowicka 47, 41-500 Chorzów	telecommunication activities	100%	100%
Polkomtel Business Development Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	other activities supporting financial services, gaseous fuels trading activities	100%	100%
Plus TM Management Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	intellectual property right management and rental	100%	100%
LTE Holdings Limited	Kostakis Pantelidi 1, 1010 Nicosia, Cyprus	holding activities	100%	100%
TM Rental Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	intellectual property rights rental	100%	100%
IT Polpager S.A. <sup>(6)</sup>	Al. Stanów Zjednoczonych 61 A, 04-028 Warsaw	maintenance of telco network	100%	-
Litenite Limited <sup>(7)</sup>	Kostakis Pantelidi 1, 1010 Nicosia, Cyprus	holding activities	100%	49% <sup>(8)</sup>
Aero2 Sp. z o.o. <sup>(7)</sup>	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	100%	-
Sferia S.A. <sup>(7)</sup>	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	51%	-
AltaLog Sp. z o.o. <sup>(7)</sup>	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	software	66%	-
Orsen Holding Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Orsen Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Grab Sarl	6, rue Eugène Ruppert L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	100%	100%
Dwa Sp. z o.o.	Al. Jerozolimskie 81, 02-001 Warsaw	holding activities	100%	100%
Grab Investment SCSp	6, rue Eugène Ruppert L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	100%	100%
IB 1 FIZAN	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	financial activities	<sup>(9)</sup>	<sup>(9)</sup>
Interphone Service Sp. z o.o.	Inwestorów 8, 39-300 Mielec	production of set-top boxes	100%	100%

Company name	Registered office	Activity	Share in voting rights (%) as at	
			December 31, 2016	December 31, 2015
Teleaudio Dwa Spółka z ograniczoną odpowiedzialnością Sp.k.	Al. Jerozolimskie 81, 02-001 Warsaw	provision of Premium-Rate services	100%	100%
<b>Subsidiaries consolidated using the equity method</b>				
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) Disposal of shares in Rioni 1 AB on January 4, 2016.
- (2) Liquidation of Nord License AS on December 23, 2016.
- (3) Merger of Netshare Sp. z o.o. with Gery.pl Sp. z o.o. on June 30, 2016.
- (4) Merger of Cyfrowy Polsat with Netshare Sp. z o.o. on November 30, 2016.
- (5) The company is dormant.
- (6) Company consolidated since September 30, 2016.
- (7) Company consolidated since February 29, 2016.
- (8) Due to restrictions related to a dividend and construction of the transactions related to the acquisition, investment in Litenite Limited was accounted for as investments in associates without equity pick-up as at December 31, 2015.
- (9) Cyfrowy Polsat owns indirectly 100% of certificates.

Additionally, the following entities were included in the consolidated financial statements for financial year 2016:

Company name	Registered office	Activity	Share in voting rights (%) as at	
			December 31, 2016	December 31, 2015
Karpacka Telewizja Kablowa Sp. z o.o. <sup>(1)</sup>	Warszawska 220, 26-600 Radom	dormant	99%	99%
Polskie Badania Internetu Sp. z o.o.	Al. Jerozolimskie 65/79, 00-697 Warsaw	web portals activities	4.55%	4.55%
InPlus Sp. z o.o.	Wilczyńskiego 25e/216 10-686 Olsztyn	Infrastructure project advisory	1.5% <sup>(2)</sup>	-

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

### Changes in the organizational structure of Polsat Group and their effects

From January 1, 2016 until the date of approval of this Report, i.e. March 15, 2017, the following changes were implemented in the structure of Polsat Group. These changes are the effect of acquisitions as well as part of the process of optimizing the structure and processes realized within the Group.

Date	Change
January 4, 2016	Disposal of shares in Rioni 1 AB.
January 11, 2016	Transformation of Radio PIN S.A. into a limited liability company Muzo.fm Sp. z o.o.
January 29, 2016	Shares in Litenite Limited representing 49% of its share capital assigned for security in favor of LTE Holdings Limited (a subsidiary of Polkomtel) for the price of EUR 1.00 were transferred back to Ortholuck Limited for the price of EUR 1.00.
February 29, 2016	Acquisition by Polkomtel of 100% of shares in the share capital of Litenite Ltd., the direct owner of shares in Midas S.A. representing 65.9975% of the total number of votes and share capital in Midas S.A.
March 30, 2016	Increase of the share capital of Polkomtel Sp. z o.o. from PLN 3,510.2 to PLN 3,525.3, i.e. by PLN 15.0 million.

Date	Change
April 27, 2016	Direct acquisition by Polkomtel, by way of a tender offer, of shares in Midas representing 27.2395% of the total number of votes and share capital in Midas S.A.
May 31, 2016	Acquisition of Midas shares remaining in trading by way of a squeeze-out, as a result of which the Company holds indirectly, through Polkomtel and Litenite, 100% of shares in Midas S.A.
June 30, 2016	Merger of Netshare Sp. z o.o. with Gery.pl Sp. z o.o.
September 30, 2016	Acquisition of 100% of shares in IT Polpager S.A. by Polkomtel.
November 30, 2016	Merger of Cyfrowy Polsat with its subsidiary Netshare Sp. z o.o.
November 30, 2016	Merger of Aero2 Sp. z o.o. with Midas S.A., where Aero2 Sp. z o.o. was the acquiring party.
December 6, 2016	Change of legal form the company Polsat Brands ( <i>einfache Gesellschaft</i> ) to Polsat Brands AG.
December 23, 2016	Liquidation of Nord License AS.
January 9, 2017	Reduction of the share capital of Muzo.fm Sp. z o.o. from PLN 22,108,700 to PLN 1,282,600, i.e. by PLN 20,826,100.
January 23, 2017	Adoption of a resolution by the General Meeting of the Company regarding the cross-border merger of Cyfrowy Polsat with Metelem Holding Company Limited.

## 1.2. Who we are

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

We operate 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 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 December 31, 2016 we had almost 5.9 million contract customers and companies from our Group provided a total of over 16.5 million active services, including over 13.2 million contract RGUs.

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

### 1.2.1. Segment of services to individual and business customers

#### **Pay TV**

Cyfrowy Polsat is the largest pay TV provider in Poland and a leading satellite platform in Europe in terms of the number of customers. Since 2006 we are the leader on the Polish market in terms of the number of active services, as well as market share, providing satellite TV services to approximately 3.5 million subscribers. We actively expand our pay TV offer by adding additional services, such as Multiroom or paid video online subscriptions, providing over 4.8 million pay TV services as at December 31, 2016.

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

offer our customers access to over 70 HD channels and also provide OTT services, such as Cyfrowy Polsat Go, VOD/PPV, online TV, catch-up TV and Multiroom HD services.

### **Online video**

The IPLA service offered by our Group is the leader of the Polish video online streaming market, both in terms of compatibility with a broad range of end-user devices (including computers, tablets, smartphones, TV sets with Internet access, set-top boxes and game consoles) and in terms of content volume. IPLA also enjoys a leading position in terms of the number of users and the average time spent by a single user on watching streamed content. According to our data the average number of unique users of the IPLA website and application was approximately 3.8 million per month, in 2016 and nearly 4.0 million in the fourth quarter of 2016.

### **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 December 31, 2016 we provided 9.7 million mobile telephony services under both the post-paid and pre-paid models.

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

### **Broadband Internet**

In 2011, we were the first commercial service provider in Poland to launch an LTE-based broadband Internet access service, offering technical features and quality parameters which allows to compete effectively with fixed-line Internet services, thus meeting the increasing demand of consumers. In addition, LTE-based broadband access offers mobility, which is a significant feature for a large number of consumers. In January 2017, our LTE Internet and HSPA/HSPA+ Internet covered 99% and nearly 100% of Poland’s population, respectively. In 2016 we also launched the LTE-Advanced technology on a commercial scale, and in January 2017 40% of the population of Poland was within the coverage footprint of our network. As at December 31, 2016 we provided almost 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: Cyfrowy Polsat and Plus. Additionally, pursuant to the provisions of the concession related to the purchase of the 2.6 GHz band, our subsidiary Aero2 provides free of charge Internet access services, however with limited parameters (BDI offer).

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

### **Bundled services**

Currently, the bundling of services is one of the strongest trends in 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 and banking services or sale of electric energy. Those services can be combined freely on an as-needed basis. Our broad range of bundled services is offered through a diverse array of digital distribution platforms, such as television sets, mobile handsets, computers and tablets.

### **smartDOM**

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



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

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

### **Wholesale business**

As part of our wholesale business we provide services to other telecommunication operators (such as network interconnection, 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.

#### **Shared access to network assets and lease of telecommunications infrastructure**

As a consequence of significant capital expenditures in the past, Polkomtel Group has 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 mobile virtual network 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 subscribers use Polkomtel's 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.

### 1.2.2. Broadcasting and television production segment

#### ***Production and sale of television channels***

Our portfolio comprises 24 channels (14 available in HD) including our flagship POLSAT, available in SD and HD formats and 23 thematic channels. Following the process of optimization of our broadcasting network in October 2016 the broadcasting of several channels in SD standard was suspended, leaving only their HD versions.

The main channel POLSAT, broadcast since December 5, 1992, was the first commercial channel in Poland to obtain the nationwide license for analogue broadcasting. POLSAT is the leader among Polish TV channels in terms of share in the commercial audience (viewers aged 16-49), totaling 13.5% in the fourth quarter of 2016, and 13.2% in the entire year. POLSAT broadcasts daily, 24/7. The channel is available via digital terrestrial TV on the second multiplex (MUX-2) on local multiplexes (MUX-4L and MUX-TV5). Apart from terrestrial signal, POLSAT is also available in SD and HD formats from most cable networks and satellite platforms. The channel features a broad range of films, entertainment shows, news and commentaries, Polish and foreign TV series, as well as popular sporting events.

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

#### ***Sale of TV channel advertising airtime and sponsoring***

Within our wholesale business we sell advertising and sponsoring time on our own channels as well as third-party channels. Based on data from Starcom (previously SMG), we estimate that in the fourth quarter of 2016 Polsat Group channels captured 27.2% of the Polish TV advertising market worth approximately PLN 1.2 billion in that period. We estimate that in the entire year 2016 our share in the Polish TV advertising market was 26.9%, while the whole market was estimated at PLN 4 billion in that period.

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

#### ***Sale of channel broadcasting rights***

Our channels are distributed by the majority of Polish cable networks, including such operators as UPC Polska Sp. z o.o., Multimedia Polska S.A. and Vectra S.A., and by all major satellite platforms (with the exception of sports channels, which are exclusive to the Cyfrowy Polsat platform), as well as over the IPTV system.

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

### 1.3. Strategy

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

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

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

- effective management of the Group's finances, including its capital resources.

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

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

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

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

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

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

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

The channels we produce and broadcast enjoy strong, well-established positions on the Polish TV market as well as high ratings in their target groups. We currently broadcast 24 channels (including 14 HD channels), programmed to appeal to most target groups within the Polish audience. Our goal is to maintain our audience share at a stable level and consistently improve our viewer profile. We believe that by making sensible investments in programming, and wider distribution of our own content, we will be able to gradually improve our viewer profile. This in turn will have a positive effect on the advertising airtime pricing.

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

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

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

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

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

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

## **1.4. Competitive advantages**

### ***We are the leading integrated media and telecommunications group in the region***

We operate a diversified business comprising DTH, mobile telephony, broadband Internet as well as TV broadcasting and production and on-line video services.

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

Our pay TV, mobile telephony and Internet access services are sold through a distribution network with nationwide coverage. We have a total of over 1.2 thousand stationary points of sale countrywide. We simultaneously offer our services in alternative telemarketing, door-to-door channels as well as online in Cyfrowy Polsat's and Polkomtel's online stores. Furthermore, Polkomtel has its own separate B2B sales and service channels, dedicated to the service of specific groups of customers, depending on the scale of their operations and revenue potential, as well as an extensive prepaid distribution network.

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

Our brands "Cyfrowy Polsat," "Plus," "Telewizja Polsat" and "IPLA" are well recognized by Polish consumers and we believe they are associated with high quality and value-for-money services aimed at the entire family. According to a survey conducted by GfK Polonia on the telecommunication market in October and November 2016, aided brand recognition of the "Plus" brand was 98% in the voice segment and 88% in the data transmission segment. The GfK survey also demonstrated that Cyfrowy Polsat is the best recognized pay TV provider in Poland with spontaneous and aided brand recognition on the level of 75% and 95%, respectively.

In 2016 Polsat Group's advertising sales office, Polsat Media, was once again very highly assessed in the ranking of TV advertising sales offices prepared by Millward Brown, at the request of *Media & Marketing Polska*. In the above mentioned ranking, Polsat Media earned the highest scores in three dimensions, which are the most crucial from the point of view of media houses, out of eight dimensions presented. These dimensions were: "I trust them – they offer me the feeling of security," "fast and exhaustive responsive to a brief," and "they act flexibly and efficiently when changes occur in an advertising campaign." What is significant is that Polsat Media was the only TV advertising sales office to receive scores exceeding the market average in all dimensions.

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

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

Polsat Group has a significant base of unique customers, consisting of the individual customers of Cyfrowy Polsat and Polkomtel, business and corporate customers, as well as prepaid users. This base includes 5.9 million unique customers, bound by contracts for definite or indefinite periods of time, which entails the generation of regular monthly revenues. Our strategy assumes up-selling to this base of an extensive portfolio of telecommunication, television and other services by our companies independently or in partnership with other entities, in order to increase the amount of revenues generated by unique customers. We believe that up-selling of services to our own base will enable us to increase the revenue in a cost-effective way, while simultaneously offering to our customers attractive price terms, which should translated into an improvement of customer satisfaction and loyalty.

***We offer a unique combination of integrated services***

We provide multi-play services combining pay DTH offer, Internet and telecommunication services. In addition, we offer our customers the option to purchase electric energy and household appliances at attractive prices, the possibility of using banking, insurance or home security services. We are the only DTH operator in Poland who provides full multi-play services, which is a significant competitive advantage on pay TV market in Poland. At the same time we are a telecommunication operator, which ensures higher price elasticity and more effective operating activities on the competitive market.

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

***We are the leader of Internet access services in LTE technology***

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

Internet access services in LTE technology offered by us are provided based on the unique, continuous 20 MHz block of 1800 MHz frequency band. Following the auction of frequencies in 2015, we have gained access to frequencies in the 2600 MHz bandwidth. Currently, the Group is aggregating frequencies from the 800, 1800 and 2600 MHz bandwidths, which allows us to offer our customers, on a commercial scale, services based on the LTE-Advanced technology with the maximum transmission speed of up to 300 Mbps. In January 2017 already as many as 40% of Poles could use services in LTE-Advanced, while the coverage of our LTE network was 99% of the population of Poland.

***We offer the fastest Internet access of all telecommunication operators***

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

Another survey commissioned by UKE and published in December 2016 also confirmed that Plus network offered the highest transmission speed. This survey was focused on main railway lines in Poland.

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

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

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

### ***We control the process of production of set-top boxes***

As the only operator on the Polish market we produce our own set-top boxes. In 2007, we launched own production of SD set-top boxes, in 2010 we began to produce HD set-top boxes, in 2012 we started to produce DVB-T set-top-boxes, in 2013 we began the production of PVR set-top-boxes, and in 2016 we started producing a PVR set-top box offers the possibility of simultaneous recording of as many as three channels. By the end of 2016, 7.5 million high technology devices left our production line, including over 5.9 million were HD set-top boxes. We control the entire process of production of set-top boxes, from the hardware and software design phase to the production in our own factory as well as in our subcontractors' facilities. This enables us to produce high quality set-top boxes while incurring manufacturing costs which are noticeably lower than the price of purchasing such equipment from third-party providers. The functionalities of our set-top boxes are designed in line with the customers' expectations as analyzed by the surveys, so that we can be sure the equipment will meet their needs. The fact that software installed on our set-top boxes is developed by in-house engineers, enabling us to rapidly respond to emerging customer needs.

### ***We own the biggest portfolio of TV channels in Poland***

TV Polsat Group channels' portfolio consists of 24 channels, including 14 channels offered in HD. The portfolio of our thematic channels includes general entertainment, sports, news, business, lifestyle, movie and children's channels. This is the largest and most diversified portfolio of channels on the Polish market, giving us the leading position in terms of audience share among private television groups in Poland. We believe that attractive content of our channels is a significant competitive advantage. We have contracts with major film studios, such as Sony Pictures Entertainment Inc., 20th Century Fox International Television, Inc., The Walt Disney Company, Warner Bros International TV Distribution, CBS Studios or Mondolith Films Sp. z o.o., which guarantees access to a wide selection of the most attractive films and series. Our direct production is concentrated mainly on news, documentary and entertainment programs and series based on international formats, as well as created on the basis of our own concepts.

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.

### ***We have a high quality telecommunication infrastructure and broad portfolio of frequency bands***

We provide telecommunication services through a high quality, state-of-the-art mobile network. We provide voice, data transmission and wholesale services, as well as a broad array of additional services based on our own network, comprising an integrated 2G/3G network based on GSM/GPRS/EDGE/UMTS/HSPA/HSPA+/HSPA Dual Carrier and a developed CDMA network dedicated to dispatching services. Concurrently, we are the leader in the LTE and LTE-Advanced technologies, having introduced services based on these standards as the first operator in Poland and offering the widest coverage of our LTE radio network. We have spectrum reservations in an extensive portfolio of telecommunication frequencies, including 420 MHz, 800 MHz, 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz bands. Our extensive frequency resources ensure not only flexibility in bandwidth management, but also offer many possibilities in terms of network reconfiguration in the future. In

particular, we are actively preparing for the process of refarming spectrum in the 900 MHz bandwidth, which consists in substituting the 2G/3G technology with more efficient, state-of-the-art LTE technologies. We additionally aggregate frequencies in the 800 MHz, 1800 MHz and 2600 MHz bands and offer our customers the LTE-Advanced technology with maximum data transmission speed of 300 Mbps.

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

Currently, practically the entire population of Poland is within the coverage of our 2G/3G mobile services (including data transmission in HSPA+), while 99% of Poles have access to our LTE technology. Concurrently, we concentrate on aggregating frequency bands that we use, thanks to which the coverage of our LTE-Advanced network already reaches 40% of Poles.

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

We believe that we benefit from significant market entry barriers that will aid us in maintaining our leadership positions in the competitive Polish pay TV, telecommunication and TV broadcasting markets. Unlike potential entrants to the Polish pay TV market, we benefit from economies of scale and a loyal customer base, and we can spread the relatively high cost of the necessary technology over our large customer base and leverage the stronger bargaining power that comes with a leading market position. On the other hand, the entry to the mobile telephony market requires obtaining the direct access to telecommunication frequencies and very expensive and time-consuming investments into telecommunication network or obtaining a paid access to the radio frequency via one of the four mobile operators. However, the significant majority of the radio spectrum allocated to mobile technologies has been nearly fully distributed among the current market players and a scenario assuming emergence of a new infrastructure operator seems to be very unlikely. Operators who provide mobile services based only on paid access to the existing mobile networks so far have failed to achieve the scale of business in Poland which could create a significant competitive threat to us.

***We have strong, stable and diversified cash flows***

We generate revenue through two distinct revenue streams: the segment of the services provided to individual and business customers and the broadcasting and television production segment. In the segment of services to individual and business customers segment, our large customer base, monthly subscription revenue and low churn rates provide us with significant predictability of future revenue and strong recurring cash flows, which have historically proven to be resilient, even during periods of challenging economic conditions.

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

***We have an experienced management team***

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

## 1.5. Market opportunities

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

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

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

According to European Commission ("E-Communications and the Digital Single Market," May 2016) the penetration rate of multi-play services (defined as more than one service within the offer of one operator) in Poland in October 2015 amounted to 37% while the average penetration rate in the European Union reached 50%, while in countries leading in this respect – namely the Netherlands and Malta – is amounted to 87% and 78%, respectively. We believe that as a result of the low saturation of integrated services and poor quality of Internet access services offered in low-urbanized areas, Cyfrowy Polsat may become the leading provider of high quality multi-play services in Poland.

### ***Development of the Internet access market in Poland***

Based on the data published by UKE, in 2015, 101.6% of households in Poland had access to the Internet, which translated into a penetration rate of around 35.7% for the entire population. At the same time, while referring in its report to the Digital Agenda Scoreboard dated June 2015, UKE disclosed that fixed-line Internet access penetration was merely 18.8% in Poland. This was the lowest rate among European Union countries, where the average penetration was 31.6%, while in the case of selected countries (Denmark, the Netherlands) it exceeded 42%. Low penetration with fixed-line broadband Internet access services in Poland together with the progressing development of mobile technologies make mobile data transmission the fastest growing telecommunication market segment at present.

According to PMR estimates ("*Telecommunication market in Poland 2016, Development forecast for the years 2016-2021*"), in 2016, there were nearly 16.3 million users of broadband Internet, out of which almost 55% used mobile connections. According to PMR, by 2021 the number of broadband users is supposed to grow by ca. 21%, with the number of mobile broadband users growing by approximately 31% (the data concerning mobile Internet include exclusively customers using modems and PCs). The main drivers for growth in the number of mobile Internet users in the long term will include: increased speeds of data transmission, increase in the number of mobile devices i.e. laptops, smartphones, tablets, as well as relatively low cost of mobile infrastructure covering low urbanized areas.

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

As the market for innovative technologies is growing at a fast pace, the number of mobile devices (notebooks, tablets, smartphones or Smart TV sets) owned by consumers is on the rise as well. This has spurred a sharp increase in access to video content, and hence in video viewership. According to Ericsson Mobile Report dated November 2016, video content is the biggest and fastest growing segment of the mobile data transmission. It is expected that in the years 2016-2022 the use of data related to watching video content will grow by 50% per year on average, reaching ca. 75% of the entire mobile data traffic in 2022. Consumers expect service providers to offer them the possibility of watching TV on any screen, anywhere and at any time. We perceive this group as a prospective customer segment for television services, opening also the opportunity for the monetization of our audiovisual content. At the same time, the above mentioned trend will translate into an increased demand of our customers for data transmission services on mobile devices, which will result in a growing stream of revenues from the sale of these devices to our customers.

### ***Growing popularity of smartphones***

Replacing of traditional handset models, used mainly for voice communication, with smartphones designed for communication via data transmission is a universal trend on the mobile telephony market. Currently, smartphones constitute the majority of handsets sold by us. As a result, the share of smartphone users in Plus network increased from 26% at the end of 2012 to approximately 63% in 2016. At the same time, according to the forecasts of emarketer.com from February 2015, the number of smartphones used in Poland will grow by ca. 64% between 2014 and 2018 (from 12.7 million to 20.8 million units). The continuous growth of popularity of smartphones, along with their technological development, will drive the growing demand for the mobile data transmission packs purchased by the users of our network, which in turn should have a positive impact on the level of ARPU generated by our customers.



### **Development of advertising market in Poland**

Demand for advertising air-time is highly correlated with the macro-economic situation. 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 next years, we believe that growth of the Polish advertising market can also be expected. For example, Zenith media house forecasts that TV ad spending in 2017 will grow by approximately 0.7%. Given that TV is a highly effective advertising medium and bearing in mind the relatively low level of advertising expenditures in Poland as a percentage of GDP and per capita in comparison to other European markets, there is still a substantial growth potential for TV advertising in Poland in the long term. It is worth noticing, that despite the growing importance of new media, it is forecasted that watching television will remain an attractive and popular activity, primarily thanks to new technical possibilities, including: increasing number of HD channels and VoD, as well as thanks to the growing number of TV sets with Internet access.

The Internet advertising market in Poland is characterized by dynamic growth. According to the IAB AdEx report, online advertising expenditures increased at a rate of 17.0% y-o-y and reached the value of over PLN 2.5 billion in the first three quarters of 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 the first three quarters of 2016 those expenditures increased by 25% 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 the leading position on the online video market (through IPLA internet television and the Cyfrowy Polsat GO service) we may benefit from the growth of this promising advertising market segment.

### **Growing importance of thematic channels**

A key trend emerging on the TV market in Poland over the past several years has been the increasing importance of thematic TV channels. Thematic channels are TV channels distributed mainly through cable and satellite platforms (pay) and terrestrial multiplexes (free) that specialize in a particular genre of programming, such as children's programming, films, sports, lifestyle, news or weather. The thematic channels market segment in Poland gained an audience share amounting to 48.6% in 2016 compared to 47.4% in 2015 (NAM, all 16-49, full day, all channels except Polsat, TVP1, TVP2, TVN, TV4, TV Puls, TVN7). Broadcasters with access to thematic channels and integrated media platforms (such as Cyfrowy Polsat Group) can potentially leverage the niche programming content with targeted and optimized advertising.

## **1.6. Development prospects**

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

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

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

LTE Internet has become the standard for mobile broadband Internet access in Poland, effectively replacing the older UMTS standard. We consistently develop our infrastructure in order to improve the parameters that characterize our LTE network, such as coverage, capacity and transfer speed. At the same time we began the aggregation of frequency bands used by us, as a result of which we were able to offer our customers the LTE-Advanced technology, which offers transmission speed of up to 300 Mbps. The trend of substituting fixed-line internet access by mobile solutions is becoming more and more visible on the market. Due to its technical characteristics and quality parameters, mobile LTE Internet is successfully replacing fixed-line connections while at the same time responding to increasing consumer needs and growing capabilities offered by the Internet. We strongly believe that over the long term, as the necessary radio infrastructure and LTE and LTE-Advanced-enabled devices develop, the technology will revolutionize not only the broadband Internet market but also content

distribution. We believe that our broadband LTE Internet services, including data transmission services, will help us to further increase our customer base, both of stand-alone and integrated services.

We consistently strive to strengthen our position as the aggregator and distributor of content. Currently, the attractive content and the wide range of Cyfrowy Polsat's services are delivered through a variety of reliable distribution channels – via satellite (DTH), within digital terrestrial television (DVB-T), through mobile technologies: 3G and LTE – to all consumer devices, from TV sets and PCs to tablets and smartphones. We closely study the evolution of our customers' expectations and work to satisfy their growing needs.

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

#### ***Development prospects in the broadcasting and television production segment***

We are the leader on the Polish TV broadcasting market in terms of audience shares and the second largest broadcaster in terms of advertising revenue and advertising market shares. Based on data from Starcom, we estimate that in 2016, we captured 26.9% (y-o-y increase by 1.1 p.p.) of the Polish TV advertising market worth approximately PLN 4 billion.

The audience shares of thematic channels are growing continuously as the process of fragmentation of the Polish television market continues to progress. We believe that we can profit from this fragmentation by strengthening our wide portfolio of channels targeted to the entire family, extending and strengthening our distribution network on cable and satellite platforms including also our segment of services to individual and business customers, within which we manage the largest pay TV platform in Poland. We believe that our presence on all significant satellite platforms and our distribution by cable TV operators will result in a further increase in the audience share of our thematic channels, and, consequently, give us the opportunity to grow at least in line with the TV advertising market, and increase subscription fee revenue. Currently, our thematic channels portfolio includes 24 channels (9 new channels in the Group in the last five years), and their audience share is in an upward trend.

Following the global trends of changes in media consumption, dynamic development and increasing popularity of mobile devices, we implement our strategy aimed at the widest possible distribution of content using the best and latest devices and technologies. That is why we want to monetize our content also through distribution via our internet television IPLA, which is the leader on the online video market in Poland both in terms of availability on different devices (computers/laptops, tablets, smartphones, Smart-TVs, set-top-boxes, game consoles) and in terms of content offered. IPLA is also the leader in terms of the number of users and the time spent by one user on watching video content. We search for new development opportunities and partnerships, which will allow us to reach a wider audience with our content.

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

## 2. BUSINESS OVERVIEW OF POLSAT GROUP

### 2.1. Activities on the pay TV market

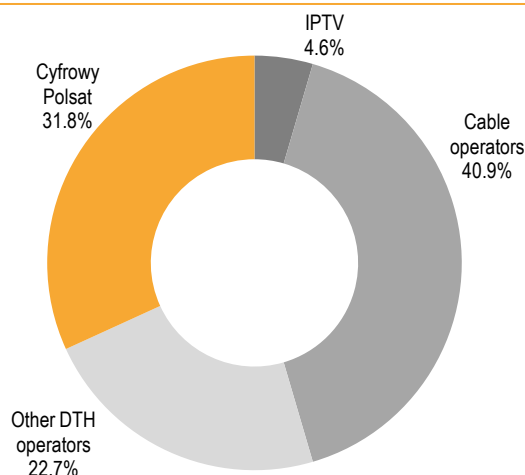
#### 2.1.1. Pay TV market in Poland

The Polish pay TV market is a mature market characterized by a high degree of penetration and low growth dynamics. According to PMR estimates, in 2015 the penetration of pay TV services among households (with at least one person aged 16-74) in Poland was at the level of approximately 75%.

The process of digitization of terrestrial TV in Poland, completed in July 2013, had been an important negative factor for the development of the Polish pay TV market. Initially, competition from digital terrestrial TV (DVB-T standard) led to an outflow of pay TV customers, which was particularly visible in the case of low-end programming packages. Since 2015 the pace of migration towards digital terrestrial TV has been substantially slower, which is connected with a limited number of channels available under the DVB-T offer, as well as their low quality in general.

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

#### **Pay TV market in Poland in 2016 in terms of subscriber base**



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

Pay TV services in Poland are offered by satellite platform operators (DTH) and cable TV operators as well as through IPTV providers. According to our own estimates, sector data and PMR forecasts, in 2016 operators of satellite TV platforms had the dominant share, both in terms of the number of subscribers and revenue, on the pay TV market – nearly 55% in terms of subscriber base, followed by cable TV operators with slightly over 40%. Despite strong growth dynamics, the significance of IPTV remains marginal, with market share of almost 5%.

DTH providers, who are able to provide their services to customers residing in both, urban and less densely populated areas without incurring significant additional costs, compete with cable TV operators only to a limited extent. Cable TV operators concentrate on inhabitants of densely populated areas where highly developed network infrastructure already exists or in locations where the establishment of such infrastructure involves a relatively low cost per customer.

#### **DTH operators**

According to own estimates and PMR forecasts, the subscriber base of the DTH market in Poland is relatively stable and in 2016 it reached approximately 6 million. There are three DTH platforms operating in Poland: Cyfrowy Polsat, nc+ and Orange, while the market is practically divided between the first two. Orange does not offer pay TV as a stand-alone service, but as an add-on to its integrated offer.

Cyfrowy Polsat is the market leader in terms of the number of customers. At the end of 2016 we provided pay TV services to over 3.5 million subscribers. At the same time we actively expanded our offer, selling paid access to online television or the Multiroom service, as a result of which as at December 31, 2016 we provided nearly 4.8 million contract pay TV services (together with services of paid access to online television), including over 1 million Multiroom services. Based on PMR forecasts we estimate that at the end of 2016 our share in the Polish pay TV market, in terms of the number of subscribers, was close to 32%.

The second player in terms of subscriber base was nc+ platform, provided services to approximately 2.1 million subscribers at the end of 2016, as reported by Vivendi (shareholder of the platform), which translated into a market share in the pay TV market of ca. 19%. Orange cooperates with nc+ platform, offering pay DTH TV based on nc+ programming offer as an element of its integrated packages.

### ***Cable TV operators***

According to the data of the Polish Chamber of Electronic Communication, ca. 400 cable TV operators are active on the Polish cable TV market. The market is dominated by three major operators: UPC Polska Sp. z o.o., Vectra S.A. and Multimedia Polska S.A. At the end of the third quarter of 2016 the total combined share in the Polish pay TV market of these three operators was estimated at ca. 23%.

According to PMR estimates, after several years of decline due to the process of digitization and the migration of customers to digital terrestrial television, the cable TV market stabilized at approximated 4.5 million subscribers. Additionally, the migration of cable TV users from analogue services towards digital services is still in progress. Possibilities of acquiring new subscribers are limited due to a high penetration rate of cable TV in urban areas as well as the reluctance of cable TV operators to make significant investments in cable TV infrastructure in the less-densely populated and rural areas of Poland. As a result, inhabitants of those areas currently have access only to a limited number of Polish terrestrial channels and alternative providers of broadband Internet and mobile telephony services. Polish towns with up to 20 thousand inhabitants, suburban and rural areas, inhabited by ca. 53% of the Poland's population, are therefore natural target markets for DTH because these areas have poorly developed cable TV infrastructure and are less attractive for cable TV companies to develop cable TV infrastructure there.

### ***IPTV***

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

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

### ***Development forecasts for the pay TV market***

According to PMR forecasts, in the years 2016-2021 the pay TV market in Poland will face stagnation with slightly declining number of subscribers. This is mainly due to high market penetration and high saturation of the target group for terrestrial TV services with DVB-T standard services. To attract DVB-T users, pay TV operators will aim to increase their competitiveness and to propose a unique offer to such users. Bundled offers containing telecommunication and content services combined with sales of equipment (tablets, smartphones, laptops, TV sets) and supplementary services as well as an extended offer of exclusive content are of great significance in own customer base retention. State-of-the-art technologies are rapidly gaining in importance as they enable operators to provide personalized content (such as content on demand) via Internet, to mobile devices in particular.

PMR expects a slight decline of the market value in the years 2016-2021, whereas the change dynamics will remain at a low level. According to PMR, in the years 2016-2021 satellite platforms will continue to be the biggest segment of pay TV market in Poland, reaching a market share of 57% (in terms of market value) at the end of the forecast period. Cable TV operators will remain the second major segment, with a market share of approximately 37% at the end of the forecast period. Despite the highest growth dynamics, the significance of IPTV services will remain low during the forecasted period, although the development of broadband access and optical fiber networks may have a positive effect on the development of this segment.

### 2.1.2. Polsat Group's DTH offer

We build customer loyalty by offering a wide array of channels at competitive prices. That is why we make sure that our pay TV packages offer very good value for money. Currently, our Customers have access to over 170 TV channels (including over 70 in HD standard) on diverse topics: general, sports, movie, lifestyle, education, music, news/information and children's channels. A number of channels are available exclusively via satellite from Cyfrowy Polsat, such as Polsat sports channels. This is a significant element that helps build the value of our pay TV offer.

It is worth emphasizing that our sports channels Polsat Sport and Polsat Sport were ranked the first two most widely viewed sports channel in Poland in 2016 in the commercial group 16-49 (Nielsen Audience Measurement).

In order to meet the changing trends in television content consumption, in March 2016 we launched a new online service - Cyfrowy Polsat GO. This service ensures access to thousands of programs on demand and over 90 linear channels, available according to the satellite television channel chosen by the customer. Access to Cyfrowy Polsat GO via a set-top box is free of charge, but thanks the option On The Go, available for a monthly fee of PLN 5, the service is simultaneously accessible on three chosen devices: a personal computer, a tablet or smartphone.

#### **Programming packages**

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

- Rodzinny HD which provides access to 81 encoded channels (including 19 HD channels);
- Familijny HD which provides access to 109 encoded channels (including 30 HD channels);
- Familijny Max HD which provides access to 142 encoded channels (including 47 HD channels).

Monthly subscription fees for the basic packages range from PLN 19.99 to PLN 49.99. Moreover, we offer 6 additional thematic packages, VOD rental on television, and access to popular on-line services: Cyfrowy Polsat GO and HBO GO. This approach allows our customers to construct an offer tailored to their specific needs, for example by purchasing, as a complement to each basic package, the Package HBO HD accompanied by the HBO GO for PLN 20 monthly or the Package Eleven Sports HD for PLN 15 monthly.

In order to help our customers make their choice, we have prepared attractive package sets, such as the Familijny Max HD combined with the Sport HD, Film HD and Cinemax HD channels (172 channels, including 69 HD) or the Premium Max offer (178 channels, including 75 HD) addressed to our most demanding customers, comprising additional channels – HBO together with the online service HBO GO, the Package Eleven Sports HD and the option On the Go, which enables to watch over 90 channels on mobile devices in the Cyfrowy Polsat GO service.

The described above sets come with a benefit – the monthly subscription fee is lower than the sum of standard fees for each packages separately, e.g. the subscription fee for our Premium Max offering is only PLN 99.99 per month.

#### **Flexible offer**

In order to provide our customers with the possibility to better acquaint themselves with our programming offer, each of our basic packages comes with a set of bonuses. A customer signing a contract can receive, free-of-charge, access to additional channels, online services or our VOD package for up to 2 months of the subscription period (e.g. customers who subscribe to the Familijny Max HD Package can get access to the Film HD and Sport HD packages).

#### **Set-top boxes**

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

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

Following the latest trends and consumer preferences with respect to video content consumption, in January 2016 we offered our customers the EVOBOX PVR set-top box. Apart from a 500 GB disc, the possibility of recording 3 programs

simultaneously and an internal WiFi module, this device offers an intuitive interface, allowing quick access to interesting content. The EVOBOX PVR set-top box is currently the most cutting-edge set-top box available in the offer of operators in Poland.

### **Multiroom HD**

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

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

In June 2012, we expanded our service portfolio to include the Mobile TV service in the DVB-T standard. The Mobile TV service enables the reception of television on mobile devices via a DVB-T set-top box, connecting through the radio network with a smartphone, tablet or laptop. As a result, no Internet connection is necessary to use the service. Using the service does not generate data transmission hence the user does not incur any related fees.

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

#### **2.1.4. IPLA online TV offer**

IPLA online television offers the broadest database of legal video content and live broadcasts: 80 online TV channels, an average of 200 hours monthly of live coverage of major national and international sports events, a vast and regularly expanded library of feature films, TV series and television programs provided by both Polish and international producers. IPLA offers its users access to content in the free of charge model accompanied by advertisements and the paid model, as well as the possibility to download content and view it offline. Approximately 90% of IPLA VOD content is available free of charge, whereas broadcast advertisements constitute the source of revenue.

Access to video materials and channels via the Internet is based on one of three models. The first is a pay model, where a customer makes a fixed payment for the right to access a given video material. The second model consists in access to a package of video materials and channels in exchange for a periodic (e.g. monthly) fee. The third model is based on free access in exchange for viewing advertisements. Approximately 75% of IPLA's total revenue is generated by the advertisement-based model, while about 25% is derived from content purchases made by users.

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

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

#### **2.1.5. Video on demand offer**

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

VOD - Home Video Rental is based on 10 satellite channels, with as many as 40 films available each month. Our customers may usually choose from a selection of about 10 titles every day, which are updated on a regular basis and can be rented for up to 48 hours. Movie rental fees are paid on a one-off basis and depend on the film category ("Hit," "New," "Catalogue," "For

adults”) or as monthly fees under the “VOD Package” service, which offers unlimited access to movies within a given catalogue category, available on 4 satellite positions. In selected pay TV packages we provide access to the “VOD Package” within the subscription fee for promotional periods dependent on the basic package.

#### **2.1.6. Technology and infrastructure pay TV services**

##### ***Conditional access system***

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

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

##### ***Satellite***

We entered into Hot Bird satellite capacity contracts with Eutelsat S.A. The contracts involve 5 transponders dedicated to SD and HD TV channels. Thanks to the technological solutions applied we can place both SD and HD channels within the same satellite capacities (transponders), which enables us to manage the leased capacity more efficiently. The contracts expire in 2017, however, we have the right to extend the agreements for additional successive periods. Since May 2012 we use part of the transponder on the Eutelsat satellite for mobile television purposes.

##### ***Broadcasting center***

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

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

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

##### ***Compression system***

In 2016 we conducted another modernization of our compression systems dedicated to service 2 transponders. Thanks to this operation we gained capacity for additional HD channels without incurring additional costs related to transponder capacity lease.

##### ***Services for television and radio broadcasters***

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

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

### **Services provided in DVB-T technology**

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

### **Set-top boxes**

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

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

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

By the end of 2016, 19 different models of set-top boxes have left our production belts. Currently, to meet our needs we produce HD set-top boxes, zapper set-top boxes and PVR set-top boxes with a built-in hard drive, as well as three models in the DVB-T standard and LTE ODU/IDU modems.

The most advanced set-top box available in our offer, EVOBOX PVR, has gained wide acclaim in the industry, which was demonstrated by numerous prizes and awards it received in 2016. During the Poznań Media Expo Fairs in April 2016, the latest satellite set-top box manufactured by Cyfrowy Polsat – EVOBOX PVR, state-of-the-art and most technologically advanced satellite equipment available on the Polish market, was awarded the Gold Medal of the Poznań International Fair (MTP) – one of the best recognized and prestigious prizes on the market awarded to innovative products of the highest quality. During the second phase of the competition, following a consumer vote, our set-top box was awarded the Gold Medal – Consumers' Choice. During the international fair IBC 2016 the state-of-the-art, multimedia software of the EVOBOX PVR set-top box won a double award. The graphyne2 platform, developed by the company ADB, which constitutes the software of the EVOBOX PVR set-top box was awarded in the category "Best interactive TV application or technology" at the CSI Awards and was awarded an IBC 2016 Best of Show Award as an innovative product. During the SAT Kurier Awards 2016 gala accompanying the SAT KRAK 2016 trade fair, the EVOBOX PVR set-top box was ranked number 1 in the category "Best dedicated set-top box" in a poll for best products and services on the digital television market.

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



In 2016 set-top boxes manufactured in-house represented almost 92% of the overall number of set-top boxes leased. As of the end of 2016, we produced a total of 7.5 million set-top boxes, including over 5.9 million HD set-top boxes. We cooperate with external providers of set-top boxes, mainly Samsung, Echostar and Thomson, but back in 2010 we limited purchases from external providers. We also cooperate with TV producers, such as Sony, Vestel, Panasonic and LG, in order to develop a solution enabling the reception of Cyfrowy Polsat's satellite signal. We also provide services to other operators interested in modern, functional devices at attractive prices.

### **Internet content distribution**

With respect to our IPLA online television, we use our own platform adapted to the leading operating systems and a wide range of consumer devices. We have developed unique technological competencies in encoding and streaming audiovisual content on the Internet, as well as optimizing distribution of this type of signal. Unlike our competitors, we apply proprietary solutions, which enable us to provide services optimally adjusted to the limited Internet infrastructure in Poland and the capacities of external systems with which our applications are integrated. As a result we can offer services of the highest quality while optimizing transmission costs. This issue becomes especially important in the case of broadcasting over 80 linear channels, PPV or single sports events (during one round of qualifiers to the Football World Championships we offered up to 9 simultaneous broadcasts available only on IPLA). Our platform enables us to offer multi-camera broadcasts live, which is a unique service on the Polish Internet market. The protection system (DRM), applied in IPLA, also enables us to offer paid content on different browsers, mobile devices, smartTV sets and independent boxes. Consequently, our platform meets current trends and accommodates all the needs of our customers regarding access to on-line video irrespectively of location, time and the device used.

## **2.2. Activities on the telecommunications market**

### **2.2.1. Mobile telephony market in Poland**

The Polish mobile telephony market is a mature one. Based on data published by the Central Statistical Office of Poland (GUS), the number of mobile telephony SIM cards as at December 31, 2016 reached 54.7 million, which translates into a penetration rate of the population of Poland of 142%.

Within the last two years, the reported rate of penetration with SIM cards in Poland has decreased considerably (from the level of 153% according to the data of the Central Statistical Office of Poland (GUS) as of September 31, 2015), which should be explained by treating the number of reported SIM cards in a more realistic way, corresponding to the actual use of such cards by Polish customers and which was a result of the change of policy of reporting SIM cards introduced by one of the big mobile operators at the end of 2015 as well as new regulatory restrictions introduced in 2016 related to the sale of new SIM cards in the prepaid model. It can be assumed that during 2017 the number of SIM cards reported by the Polish telecommunication operators will decrease further, which will be also a result of regulations imposing on the operators an obligation to discontinue service provision to the users of prepaid SIM cards who fail to register them (see item 3.2. – *Significant events and agreements - Business related events – Registration of prepaid SIM cards*). At the same time, the share of postpaid SIM cards in the structure of the Polish mobile market is clearly growing, which in our opinion reflects the actual shape of the Polish mobile telephony market in a better way.

It is worth mentioning, that the Polsat Group very early decided to report only active cards which actually generated any traffic within the previous 90 days, arguing that this method of reporting improves transparency and credibility of published data. As at the date of preparation of this Report, however, reporting of prepaid SIM cards based on actively used cards has not become a generally applied practice on the Polish market.

PMR expects that, after the corrections introduced in the years 2015–2017 making the volume of SIM cards on the market more realistic, the number of reported SIM cards used in Poland will return to the growth at the pace of 2.2% per annum (CAGR 2017-2021). In the opinion of PMR, the growth will continue to be generated by the mobile Internet segment, machine-to-machine cards and business segment.

According to the UKE data, published in the "Report on the telecommunications market in Poland in 2015" (hereinafter "UKE report"), the total value of mobile telephony market in Poland estimated at PLN 39.5 billion, has increased for the first time in a few years. At the same time mobile telephony remains the largest segment of the Polish telecommunications market, with a share in total market revenue of nearly 44% in 2015 (excluding revenue from mobile Internet access). According to UKE data, the estimated value of mobile telephony market in Poland in 2015, expressed as the sum of the operators' retail service revenues, was PLN 17.2 billion (excluding revenue from mobile Internet access).

According to the UKE report 81% of mobile telephony revenue in 2015 was generated by post-paid customers. At the same time, however, as many as 41% of the SIM cards reported by Polish mobile operators at the end of 2016 constituted prepaid cards, which in our opinion proves that the size of prepaid bases reported by the operators was still being distorted by including in the reported statistics the cards which generate neither real traffic nor revenues.

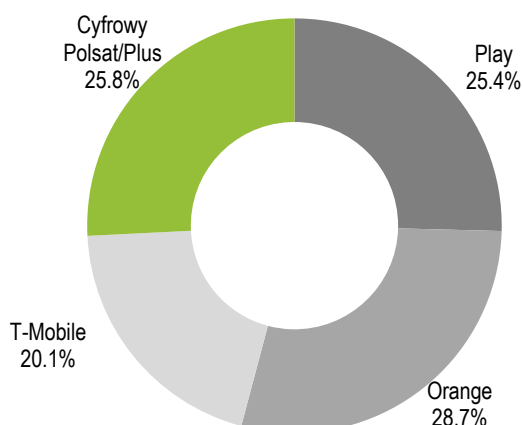
In recent years average revenue per SIM cards of mobile voice services (ARPU per SIM) decreased systematically as a result of competitive pressure stimulated by regulatory reductions of wholesale voice and SMS termination rates (MTR). As at the date of preparation of this Report, no plans concerning further potential reductions of MTR rates in Poland are known.

Assuming no further MTR reductions, PMR estimates that the mobile telephony market, including revenue from mobile Internet access, will grow at an average rate of 2.1% (CAGR 2016-2021) until 2021 and its value will reach PLN 28.45 billion in 2021.

The Polish mobile telephony market is highly competitive and relatively polarized. Four leading infrastructural operators operate on the Polish market: Polkomtel (Plus network), Orange Polska (Orange network), T-Mobile Polska (T-Mobile network) and P4 (Play network). There are also about 20 mobile virtual network operators (MVNO), but their market share in terms of revenue and customer base is relatively low (3.2% in terms of subscriber base in 2015, according to the UKE report).

The graph below presents market shares of the major MNOs in terms of number of contract SIM cards at the end of 2016.

**Market shares in 2016 in terms of the number of reported contract SIM cards**



Source: Based on own estimates and data published by operators

**Infrastructural operators (MNOs)**

Five MNOs operate commercially in Poland based on their own allocated frequency bands and infrastructure necessary to provide mobile telephony services on their own, that is Polkomtel, Orange, T-Mobile, P4, and Aero2 Group. Both Polkomtel and Aero2 Group are currently part of Polsat Group.

According to the UKE report, Polkomtel, Orange, T-Mobile and P4 together accounted for approximately 99.4% of the revenue generated on the Polish mobile telephony market in 2015. The remaining revenue was generated by MVNOs and the remaining MNOs.

Polkomtel operates under the umbrella Plus brand, it also owns an alternative brand Plush. On May 7, 2014 Polkomtel was incorporated in Polsat Group. Activities of Polsat Group on the telecommunications market are described in following chapters;

Orange Polska, operates under the umbrella Orange brand and also has an alternative brand nju.mobile. As

at December 31, 2016 Orange reported ca. 16.0 million SIM cards. Apart from the operations on the mobile market, Orange Polska is also a leading Polish fixed-line telephony operator, currently focusing its strategy on the development of broadband access services based on the fiber optic infrastructure, also delivered to residential customers.

P4 operates under the umbrella Play brand, and also has additional brands Red Bull Mobile and Fakt Mobile. As of December 31, 2016, P4 reported 14.4 million SIM cards. P4 operates solely on the mobile services market, supporting itself with a wholesale purchase of access to mobile networks of its competitors.

T-Mobile operates under the umbrella T-Mobile brand and also uses additional brands such as Heyah, Blueconnect and Tu Biedronka. As of December 31, 2016, T-Mobile reported 10.6 million SIM cards. T-Mobile is currently providing fixed-line telephony services addressed to business customers based on the infrastructure of the company GTS Poland, acquired in 2014.

Aero2 Group operates on the wholesale market through companies Aero2 and Sferia, providing wholesale access to its network mainly to Polsat Group. At the same time, Aero2 operates on the residential market, where, in line with its

concession obligations, it offers free-of-charge broadband Internet access and provides residential services in the prepaid model based on “wRodzinię” and “a2mobile” brands, while Sferia provides telecommunication services to residential users based on its brand “Sferia.” As of February 29, 2016, both Aero2 and Sferia are part of Polsat Group.

### Frequency allocations

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

MNO	Frequency band	Size of allocated band	Date of issue of first allocation decision	Allocation decision expiry date
Polkomtel .....	900 MHz	2x9 MHz	February 23, 1996	February 24, 2026
	1800 MHz	2x9.6 MHz	September 13, 1999	September 14, 2029
	2100 MHz	2x14.8 MHz + 1x5 MHz	December 20, 2000	January 1, 2023
	2600 MHz	2x20 MHz	January 25, 2016	January 25, 2031
	410 MHz <sup>(1)</sup>	2x2.5 MHz	May 25, 2006	December 31, 2020
Aero2 .....	900 MHz	2x5 MHz	December 9, 2008	December 31, 2036
	1800 MHz	2x19.8 MHz	November 30, 2007	December 31, 2022
	2570-2620 MHz	1x50 MHz	November 10, 2009	December 31, 2024
Sferia .....	800 MHz	2x5 MHz	December 31, 2003	December 31, 2018
Orange .....	800 MHz	2x10 MHz	January 25, 2016	January 25, 2031
	900 MHz	2x6.8 MHz	July 5, 1999	July 6, 2029
	1800 MHz <sup>(1)</sup>	2x9.6 MHz	August 21, 1997	August 22, 2027
	2100 MHz	2x14.8 MHz + 1x5 MHz	December 20, 2000	January 1, 2023
	2600 MHz	2x15 MHz	January 25, 2016	January 25, 2031
	450-470 MHz	2x4.5 MHz	December 16, 1991	December 31, 2016
T-Mobile .....	800 MHz	2x10 MHz	January 25, 2016	June 23, 2031
	900 MHz	2x9 MHz	February 23, 1996	February 28, 2026
	1800 MHz	2x9.6 MHz	August 11, 1999	August 12, 2029
	1800 MHz	2x10 MHz	June 14, 2013	December 31, 2027
	2600 MHz	2x15 MHz	January 25, 2016	January 25, 2031
	2100 MHz	2x14.8 MHz + 1x5 MHz	December 20, 2000	January 1, 2023
P4 .....	800 MHz	2x5 MHz	January 25, 2016	June 22, 2031
	900 MHz	2x5 MHz	December 9, 2008	December 31, 2023
	1800 MHz	2x15 MHz	June 14, 2013	December 31, 2027
	2600 MHz	2x20 MHz	January 25, 2016	January 25, 2031
	2100 MHz	2x14.8 MHz + 1x5 MHz	August 23, 2005	December 31, 2022

Source: Own analysis based on UKE's summary dated October 10, 2016

(1) By Nordisk Polska Sp. z o.o.

For the purpose of planning, building and maintaining a new mobile telecommunications network, and participating in related tenders, Orange Poland and T-Mobile formed a joint venture in 2011 under the name NetWorks! The agreement related to sharing of RAN resources was signed for a period of 15 years with an option for further extension. Next year these operators extended their cooperation by declaring that Orange will be able to provide LTE services while also using the 1800 MHz spectrum owned by T-Mobile. In 2016, both operators signed an agreement under which they will develop their own LTE networks based on 800 MHz band, jointly using the network of NetWorks! transmitters, however without sharing the owned RAN resources.

### Virtual operators (MVNOs)

MVNOs are those operators who provide mobile telephony and/or mobile data transmission services, but do not hold any frequency allocations on their own and do not need to have their own infrastructure to provide such services. Under the MVNO business model, existing MNOs provide frequency resources and the necessary infrastructure to MVNOs. According to the UKE report, 20 operators provided mobile services under the MVNO model in 2015.

Although the number of MVNOs is on the increase, none of them has significant market power. According to the UKE report, the joint share of all MVNOs in the mobile subscriber market was 3.2% in 2015. According to the UKE report, total revenue of all MVNOs (accounted for a mere 0.7% of the total value of the Polish mobile telephony market in 2015. Limited success of MVNO operators has led some of them to cease operations on the Polish market. For example, in 2015 Lebara Mobile and Vectone Mobile terminated their operations in Poland, although they continue successful operations on foreign telecommunication markets.

### **2.2.2. Internet access market in Poland**

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

Based on the data from the UKE report, nearly 14 million individual broadband Internet access services were provided in Poland in 2015, both in fixed-line and mobile technologies. This translated to a population penetration ratio of 35.7% (the relation of the number of services to the population). At the same time however, referring to the Digital Agenda Scoreboard of June 2015, UKE shows in its report that fixed-line Internet access saturation was merely 18.8% in Poland, which consistently remained the lowest level among all European Union countries, where the average penetration was 31.6%, while in the case of selected countries (Denmark, the Netherlands) it exceeded 40%. Mobile Internet penetration in Poland is significantly better compared to the European Union. According to UKE report, 94.1% of Poland's inhabitants connected to the Internet with the use of mobile technologies (the EU average is 75.3%).

In the 2017 Digital Agenda Scoreboard Poland was ranked 23<sup>rd</sup> out of 28 EU countries in terms of the Digital Economy and Society Index, which measures the development of individual member states in the areas of digitization of the economy and the society. This report also underscores the weakness and the low popularity of fixed-line broadband infrastructure, contrasting it with the favorable indicators for mobile broadband technologies.

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

According to UKE report, in 2015, 7.13 million Internet users in Poland used fixed-line access (no growth as compared to 2014), whereas the number of mobile Internet users reached 6.67 million (growth by 15% versus 5.79 million reported by UKE for 2014). 2G/3G/4G modems are gaining popularity (growth of market share from 39.4% in 2013 to 48.3% in 2015), while the popularity especially of the xDSL technology and cable modems is declining. The market share of the first decreased from 25.7% in 2013 to 19.6% in 2015, and in the case of the latter from 21.1% in 2013 down to 18.5% in 2015. According to UKE data, fiber optic technologies constituted as little as 2.2% of broadband access market (growth from 1.3% in 2014).

According to the UKE report, in 2015, 39.3% of Internet users in Poland used access links with throughputs below 10 Mbps, while links offering over 30 Mbps were used by only 36.8% of Poles.

According to the UKE report, the value of the Polish broadband market, measured in terms of revenue from sale of services, was PLN 5.07 billion in 2015, decreasing slightly (by 0.5%) as compared to 2014, which, according to the UKE report, was due to a substantial erosion of revenue obtained from xDSL technology. Concurrently, mobile technologies once again increased their share in terms of value in the revenue structure to 33.1% (from 31.7% in 2014). According to the UKE report, the average monthly revenue per user of Internet services (ARPU) decreased by PLN 2.3 in 2015 as compared to 2014, down to PLN 30.6.

#### ***Fixed broadband Internet access in Poland***

In Poland, availability of fixed-line broadband services is limited mainly to urban areas. Outside urban areas, fixed-line broadband services are offered only to a limited extent, which is due to historical underinvestment resulting primarily from the high cost of build-out of local loops and strategies adopted by leading fixed-line operators. According to the UKE report, access to xDSL technology in 2015 remained the most popular form of fixed-line Internet access (19.6% market share), although its advantage over the cable technology visibly declined. Orange is the dominant player operating in xDSL technology, whose share in the total number of xDSL customers amounted to 75.3% in 2015.

Cable modems, offered by cable TV operators, are the second most popular fixed-line access technology (18.5% market share). Based on the UKE report, UPC Polska (40.2% share in user base), Vectra (20.1%) and Multimedia (14.7%) were the major operators on this market in 2015.

It is worth mentioning that in June 2016, UPC Polska announced an investment plan as a result of which the coverage of services provided by UPC should be doubled (the services should finally reach nearly 6 million households) within 5 years. Furthermore, in October 2016 UPC signed a preliminary agreement for the purchase of Multimedia shares, the third biggest cable TV operator on the Polish market.

### ***Mobile broadband Internet access***

The market of broadband Internet access based on mobile technologies (defined as access via modems or dedicated SIM cards integrated with laptop computers or tablets) is dominated by four mobile operators. According to the UKE report the four leading providers of those services (Polkomtel, T-Mobile, Orange and P4) jointly held 80.1% of the market in 2015. The remaining 19.9% is divided between MVNO operators and Cyfrowy Polsat, who actively promotes and sells mobile Internet access in LTE/HSPA+ since 2011.

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

According to the UKE report, in 2015 revenue from mobile technologies grew in nominal terms at the fastest rate on the entire broadband Internet access market, and mobile broadband became the most popular Internet access technology in terms of the number of users (market share of 48.3%, up from 44.9% in 2014). The success of mobile broadband can be attributed to broad availability and the ease of installation of this form of broadband access, affordability, the growing HSPA+ and LTE network coverage, and increasing data transmission speeds, also thanks to the implementation of the new data transmission technologies, e.g. LTE-Advanced. The mobility feature constitutes an advantage of this form of broadband access to a group of customers.

### ***Development forecasts for the broadband Internet access market***

The continuing development of LTE and LTE Advanced technologies, offering high-quality mobile broadband Internet access to the majority of the population of Poland, combined with the provision of new services and products (such as those based on video streaming), will make this form of broadband Internet access even more popular among Polish users. As network investments by fixed-line operators in suburban and rural areas are limited, mobile broadband technologies will be also the key factor contributing to further increase in the penetration of Internet access services in Poland. In addition, high quality of LTE-based services will lead to increased data usage by customers, which will improve ARPU, reduce churn, and increase the broadband Internet market share of mobile operators.

According to PMR forecasts, the Data Transmission, Line Rental and Internet Services Provision (DLISP) market will remain the fastest growing segment of the telecommunication market. Further investments into broadband network roll out as well as further development of the LTE technology will be the most significant factors. According to PMR forecasts, in coming years the value of the broadband Internet access market will demonstrate continuous positive dynamics, reaching the level of PLN 6.6 billion in 2021.

In accordance with the PMR forecasts, in 2021 the number of broadband Internet access subscribers in Poland will increase to 19.775 million, out of which 59% will be serviced by mobile technologies. PMR forecasts that increments of the number of mobile Internet subscribers will systematically exceed 400 thousand annually in the years 2016-2021, hence the rate of growth of the number of mobile broadband Internet subscribers will be several times higher than that of fixed-line access users. The advancing popularity of mobile technologies in Poland will be the result of competitive pricing as well as growth of mobile network coverage, which will directly translate to improved quality and continuity of coverage of the purchased service. The fast development of LTE and LTE-Advanced network coverage, as well as 5G in the future is an additional factor stimulating the development of mobile Internet services. These standards will enable the provision of mobile services characterized by transmission rates and network throughput levels which have so far been unachievable for radio access technologies.

### 2.2.3. Mobile telephony offer

We provide mobile telephony services mainly through our subsidiary Polkomtel, Plus network operator. We offer mobile voice telephony services to business and residential customers. Mobile voice telephony services are available in 2G and 3G technologies, while in the case of LTE technology we currently apply the Circuit Switched FallBack solution.

#### **Residential mobile voice services**

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

Our postpaid residential offer *JA+Abonement* (I+Subscription) is based on a monthly subscription fee which includes minutes for voice calls and other services such as text and multimedia messaging, data packages, packages of minutes and data in roaming, or IPLA available on the handset. Similarly to other offers available on the Polish market, our offer is currently based on unlimited tariffs which allow the customer to make unlimited calls and depending on the value of the commitment, send unlimited text messages and multimedia messages (MMS). We also offer our customers data packages within a subscription fee. As a rule, the higher the fee, the larger the data package available without additional costs. Customers, who choose to pay a lower subscription fee, can purchase additional services not included in the subscription, such as unlimited text messages, unlimited voice calls to fixed-line networks, data packages or roaming packages. Our offer also includes the tariff plan *JA+Rodzina* (I+Family), within which our customers can purchase three SIM cards, which share the packages under a single subscription fee.

The contracts are concluded for a fixed term - typically 24 months. Contract plans give customers the possibility to choose from a broad selection of handsets offered in the installment plan model. Customers can also select a tariff without a handset. The subscription fees range from PLN 29.99 to PLN 119.99.

The offer *JA+Mix* (I+Mix) combines the characteristics of a prepaid and contract offer. Customers commit to make a specified number of top-ups of specified values, which can be used for telecommunication services, including minute packages, text messages or data packages. Under the contract the customer also receives a chosen handset. Unlike traditional contract plans, the period for providing services is not fixed and customers are only required to make one top-up of a specified value at least once every 30 days. Similarly to prepaid offers, customers of our mix-type tariffs can compose (change, active or deactivate) packages of services at will at any time. Values of the periodical top-ups range from PLN 30 to PLN 60.

Prepaid offerings allow customers to gain access to our mobile network upon the purchase and registration of a starter pack (SIM card with a fixed amount of credits to be used for mobile services). Prepaid offers do not entail monthly subscription fees and customers are obligated to make a top-up only when they wish to use our services. All prepaid plans provide that the top-up can be made at any time with the use of a prepaid top-up available from agents, dealers, the operator's website and other sales channels available on the open market. Prepaid voice services are offered in the *Plus na Kartę* (Plus Card), *Plus Internet na Kartę* (Plus Internet Card) and *Plush na kartę* ("Plush card"). The customer can adjust the offer to meet his or her specific needs by choosing among available packages and additional options, such as data packages or unlimited voice calls or SMS, and adequately managing the value of top-ups.

Additionally, in 2016 our subsidiary Aero2 introduced a new brand on the market – a2mobile, under which it provided prepaid voice services. The distinguishing feature of this offer is the service WiFi Calling, which enables to make voice calls in places without network coverage, but where WiFi is available. In the Mobility Trends 2016 plebiscite the a2mobile services was awarded the Golden Bell (*Złoty Bell*) in the category "2016 Best Operator's Offer in the B2C segment."

#### **Mobile voice services for business customers**

Business customers are mainly offered contract solutions, often on the basis of solicited tenders for their mobile requirements on a competitive basis. We also offer fixed telephony services, LAN (local area network)/WAN (wide area network) solutions, mobile broadband Internet access, SMS Center services and other dedicated solutions. Business contracts specify the tariff, contract duration and the value of the monthly subscription fee. The contract may provide for a subsidized handset that can be chosen from a broad selection.

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

### **International roaming**

We provide international roaming services to our individual customers, who can use telecommunications services while being abroad and logged into foreign networks.

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

The retail offering of international roaming services is determined by the maximum level of retail prices in European Union and EEA countries. These regulations determine maximum retail prices for the voice calls, text messages and data transmission in international roaming in the European Union and the EEA countries.

Thanks to the acquisition of new roaming partners, in 2016 we opened 167 new roaming services which allow our customers to enjoy even wider coverage of telecommunication services during their stays abroad, in particular the rapidly growing coverage footprint of the ultrahigh speed LTE data transmission offered in roaming. In 2016 we continued to expand the coverage of high speed data transmission offered in international roaming by adding new countries. We included 64 new networks offering LTE data transmission services and 92 networks offering access to 3G technology.

While developing the scope of international roaming services, above all we focused on the activation of access to ultrahigh speed LTE Internet in European Union countries most willingly visited by our customers. As regards the remaining roaming services (voice calls and text messages), our priority was to expand coverage to so that our customers could use these services in any place in the world.

#### **2.2.4. Internet access offer**

We provide a comprehensive array of data services to both residential and business customers under two main brands: Plus and Cyfrowy Polsat. In the Mobility Trends 2016 plebiscite Cyfrowy Polsat and Polkomtel were awarded Golden Bells (*Złoty Bell*) in the categories "Mobile Internet - 2016 Best Offer" and "2016 Operator of the year."

Since 2011 we offer our mobile broadband Internet services in the LTE technology and since 2016 in the latest LTE-Advanced technology. Our broadband Internet offering is universal, and provides broadband Internet access via all supported technology platforms, for a single monthly fee. Thanks to this solution today almost 100% of Poles live in areas covered by Cyfrowy Polsat's Internet service, while 99% of them can access our LTE Plus Internet. At the beginning of 2017, 40% of Poles were within the footprint of our LTE Plus Advanced Internet service, which offers transmission speed of up to 300 Mbps.

We offer several data plans with different allowances and price tiers, tailored to customers' individual needs. Customers deciding to use our data services may choose between dedicated contract plans, prepaid plans, as well as data packages offered as an addition to voice tariffs.

Dedicated mobile broadband Internet access is offered in contract tariffs. These contract plans are based on a monthly access fee and allow for a defined data transmission limit or unlimited data transmission in the LTE network. Under our contract plans customers may purchase or lease internet access devices (including dongle modems, fixed and mobile routers). In addition, our offer includes tablets laptops and other devices, which can be purchased in an installment plan, as well as tariffs without equipment - "SIM only."

Our offer includes basic data packages ranging from 5 to 100 GB. After having used up the basic data package the customer can continue to use the Internet thanks to the service Unlimited LTE. Monthly subscription fees range from PLN 19.99 for a 5 GB package in the "SIM only" model, to PLN 89.99 for a 100 GB package. The term of the contract is usually 24 months.

Customers who prefer prepaid services can choose the offer "*JA+Internet na Kartę*" ("I+Prepaid Internet"). This is a prepaid tariff plan dedicated to data transmission allowing customers to receive a data package, whose size and period of validity are determined by the value of the top-up. PLN 10 is the minimum available top-up, together with which bonuses, in the form of extra GB, are awarded. The highest top-up entitles to 36 GB and the validity of the account (funds) of 1 year. Additional services allow the use of 200 GB during the night.

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

significantly improves the coverage and quality of our LTE Plus Internet, thus enabling the use of the state-of-the-art LTE technology in places, where it was so far impossible to do. The existing TV installation (satellite or terrestrial) can be used to install the set and transmit both the TV signal and LTE Plus Internet over one concentric cable.

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

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). BDI customers have the possibility to purchase additionally data packages, which allow them to use the Internet with higher transfer speed and without a time limit on the duration of the session. BDI packages are sold in the prepaid model.

## **2.2.5. Consumer devices offer**

### ***Internet equipment***

All of the terminals offered by us for Internet access support the LTE data transmission technology. LTE terminals enable speed of data transmission of up to 150 Mbps, while devices which support the LTE-Advanced technology – up to 300 Mbps. We offer several categories of devices: modems, portable mobile and fixed-line routers, tablets and laptops.

Over half of the contracts sold with equipment comprise the sale of mobile or fixed-line routers. Among the available devices the Home LTE Plus Internet set, based in the ODU-IDU (Outdoor Unit-Indoor Unit) technology, is particularly worth noting. It is a combination of an LTE modem for installation outdoors, which is able to operate in difficult conditions, and a router which distributes the signal inside the house. This solution provides much better signal power than traditional modems and routers. LTE tablets with 8 and 10 inch screens also have excellent sales results. All categories of consumer devices are sold in installment plans (with or without an initial fee). An installment for the purchased equipment, the value of which depends on the type and model of the chosen terminal, is added to the monthly fee for a data package each month. The offer features the possibility of dividing the product price into 24, 36 or 48 installments.

### ***Handsets***

We offer our customers a wide array of state-of-the-art handsets and smartphones. The share of traditional handsets remains in a declining trend and amounts to several percent of total sales. The majority of smartphones sold in 2016 supported LTE technology for data transmission. Terminals that support data transmission speed of up to 450 Mbps are a novelty in our offer.

Next to devices produced by leading manufacturers such as Samsung, Huawei, Apple, Sony or LG our offer also includes low and mid-end handsets of smaller manufacturers. Following the rapid development of the mobile device market, increasingly cheaper handsets support the LTE technology, thanks to which it became available to a wide range of customers.

Handsets are sold in two sales models: the subsidized model and the installment plan model (with or without an initial fee). In the case of subsidized equipment, the final price paid by the customer decreases as the subscription fee increases. In the installment plan model an installment for the purchased equipment is added to the monthly subscription fee. Bundled data packages, also for use in LTE technology, are now offered at all subscription levels.

In 2016, smartphones constituted over 90% of handsets sold by us. As a result, by the end of 2016, the penetration of our voice customer base with smartphones reached 63% and is growing successively.

### ***Other device categories***

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



## 2.2.6. Technology and infrastructure of telecommunication services

### **Network**

Our broadband Internet access services are based on a radio infrastructure provided by our subsidiaries, in particular Polkomtel, Aero2 and Sferia.

Our Group operates an integrated 2G, 3G and 4G mobile communication network. The Group's network supports GSM/GPRS/EDGE (2G), UMTS/HSPA+/HSPA+ Dual Carrier (3G) and LTE/LTE Advanced (4G) technologies. We also have an extensive CDMA network.

As mobile telecommunications networks enable automatic switches between technologies, uninterrupted service functionality for end users is ensured, while parameters such as data transmission rate improve when the user comes within the coverage of a more technologically advanced network.

As at December 31, 2016, Polsat Group's 2G access network consisted of 6,909 base stations, while the 3G network consisted of 9,601 NodeB (UMTS/HSPA+) stations (including 3,687 HSPA Dual Carrier). The CDMA network included 575 base transceiver stations. Moreover, the LTE network consisted of 8,848 LTE base, 3,482 of which were stations operating in the 800 MHz frequency band.

Our access network is supported by an appropriate transmission network using mainly packet data transmission technologies. The network is divided into the access layer (180 Mb/s, 360 Mb/s and 1 Gbps microwave links, and fiber optic links), an aggregation network (mainly fiber optic, using Carrier Ethernet Transport (CET) MPLS-TP technology, mainly 10 Gb/s), and a backbone network (solely fiber optic, using the IP/MPLS technology, with bit rates being multiples of 10 Gb/s, and since 2014, also of 100 Gb/s).

The backhaul microwave network is composed of 7,719 PHD links. The aggregation layer of the backhaul network is composed of 573 nodes with high-capacity CET switches, and the backbone layer has 11 nodes with redundant IP/MPLS routers. 75 DWDM nodes operate in the physical layer, all equipped with facilities enabling traffic transmission at a multiple of the 100 Gb/s bit rate (the multiple is adjusted to current needs of a given node). The transport network is used to provide dedicated services to the business segment, such as virtual private network (with broadband Internet access), PBX (private branch exchange) switchboards and leased lines.

Polsat Group's fiber optic network comprises 4,368 km of our own fiber optic cables and 4,250 km of leased fiber optic cables.

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

In December 2015, UKE commissioned a study of the quality of services provided by the largest Polish mobile operators. Results of this study demonstrate that Plus stands out among its competitors with very good results in terms of average transmission speed (both download and upload), a low ratio of package loss and short time of establishing voice connection.

According to the published report, the average download speed in Plus network was 25.19 Mbps while in T-Mobile and Orange it was 20.64 Mbps and 19.66 Mbps, respectively, and in Play network – 12.43 Mbps. Plus also had the highest upload speed of 17.71 Mbps. In the case of the remaining telecoms this parameter was as follows: T-Mobile – 16.87 Mbps, Orange – 15.85 Mbps and Play – 12.60 Mbps.

Another survey commissioned by UKE and published in December 2016 also confirmed that Plus network offered the highest transmission speed. This survey was focused on main railway lines in Poland.

### **Network upgrade and maintenance**

We are the owner of both passive infrastructure (such as towers, masts, containers, power systems, and air-conditioning systems) and active infrastructure (including base transceiver stations, base station controllers and transmission systems).

Active infrastructure is provided by leading international suppliers, such as Nokia Solutions and Networks and Ericsson (2G/3G/LTE hardware), as well as Huawei, Ericsson and NEC (transmission layer). Typically, we usually enter into framework agreements, without defining in detail the obligations regarding network expansion, combined with support services, such as software upgrades and updates as well as repairs and troubleshooting with respect to the development of our network.

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

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

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

#### ***Development of the LTE technology***

Compared to HSPA+ or UMTS, LTE is characterized by much lower latency and has the capacity to support a greater number of users. The potential of the LTE technology is based on greater capacity and transmission speed with lower latency, which enables LTE Internet service customers to use interactive and multimedia applications requiring greater bandwidth and transmission in real time, such as online games, video communication and HD TV through Internet. We use a frequency bandwidth dedicated to LTE that enables us to offer services with transmission speed of up to 150 Mbps for download and 50 Mbps for upload. On the other hand, after aggregating selected bandwidths using Carrier Aggregation, we can significantly increase data transmission speed available to end-users, while the maximum speed depends on the quantity of aggregated radio bandwidths.

In 2011, as the first commercial provider in Poland we started offering broadband Internet access in LTE technology, which currently is able to provide a maximum speed of up to 150 Mbps based on a continuous 20 MHz block in the 1800 MHz band. Since 2015 we additionally use the network based on a 5 MHz block in the 800 MHz band, which combined with the clearly intensified roll-out of the LTE 1800 in the second half of 2016, allowed us to increase the coverage of mobile LTE Internet from Cyfrowy Polsat and Plus to the level of 99% of the population in January 2017. Concurrently, we began the aggregation of our 800 and 1800 MHz bandwidths, as well as the newly acquired 2600 MHz bandwidth. As a result, we offered our customers the LTE-Advanced technology which enables data transmission with maximum speed of even 300 Mbps. In January 2017 the service LTE Plus Advanced was available to over 40% of Poles.

#### ***Strategy of further network roll-out***

In light of extremely high price levels attained in the LTE auction, ended in 2016, we decided that potential cooperation with entities, who won 800 MHz frequency blocks, would be financially inviable and irrational, both for the Group as well as for our customers. Therefore, we have decided to invest in further development of our LTE network based on frequencies currently owned and utilized by Polkomtel and Aero2 Group, comprising 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz frequency bands.

We expect that the roll out of the LTE network based first and foremost on a continuous 20 MHz block in the 1800 MHz band, the densification of the network of base station locations, a clear increase in the number of active transmitters and the application of the unique ODU-IDU technology (Outdoor Unit Indoor Unit) will allow us to maintain our competitive advantage in terms of quality of our mobile Internet service. The planned process of refarming of the 900 MHz and 2100 MHz spectrum constitutes another important solution, in consequence of which part of the spectrum currently used to provide 2G and 3G services will be allocated to the cutting edge LTE/LTE-Advanced technologies. As a result, we expect to achieve further improvement of the quality of the Internet access service provided by us. Concurrently, the level of capital expenditures required to execute the planned roll out of our mobile network will be significantly lower compared to the cost of purchase of

the 800 MHz spectrum in the LTE Auction. Ultimately, this may translate into more attractive services and prices for customers than in the case of a network rollout based on the 800 MHz frequency band.

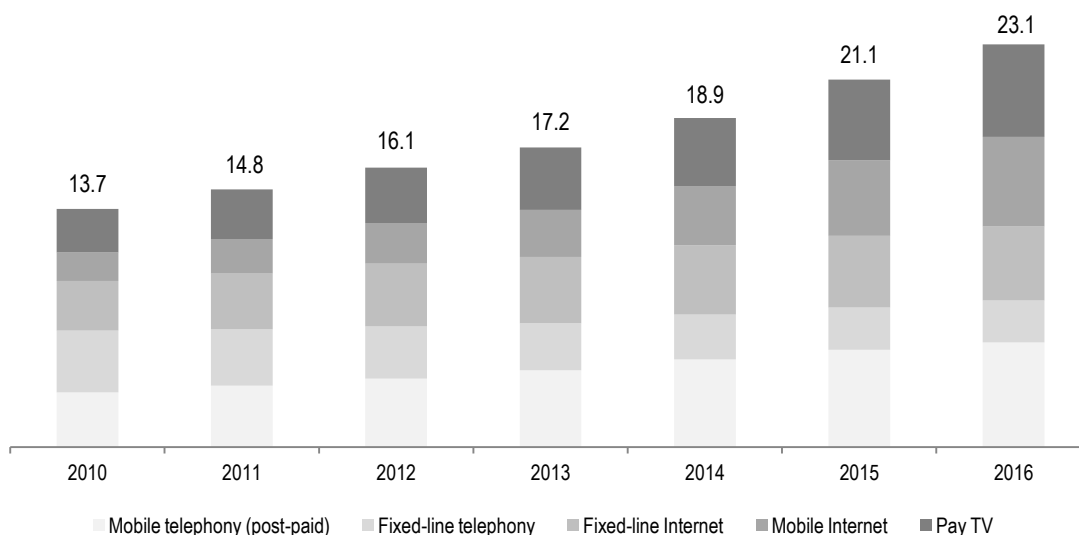
## 2.3. Activities on the bundled services market

### 2.3.1. Bundled services market in Poland

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

The Polish multi-play services market is systematically growing. According to estimations by PMR ("Bundled telecommunication services market in Poland 2016"), as at the end of 2016 the number of services sold in bundles exceeded 23 million, i.e. 2 million more than in the previous year. PMR estimates that the total number of subscribers (both residential and business) of bundled services amounted to over 10.1 million in 2016 and each of them had on average 2.3 services.

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



Source: PMR, "Bundled telecommunication services market in Poland 2016" (estimated data)

The multi-play market is consistently growing since 2010 in terms of value. According to PMR estimations, in 2016 operators' revenue from sales of bundled services grew at a rate of 12.4% Y-o-Y, reaching PLN 10.2 billion. ARPU is characterized by a similar trend – PMR estimates that the average revenue per customer from sales of multi-play packages will increase to PLN 86.6 in 2016 from PLN 84.1 in 2015.

Multi-play services in Poland are provided primarily by cable TV operators and telecommunications service providers. According to PMR, as at the end of 2015 nearly half of the bundled services market was held by four largest players – Orange, Polsat Group, T-Mobile and UPC. With respect to the number of subscribers the share of Polsat Group on the bundled services market in Poland in 2015 was 15.4%. Other important players on the market included the mobile operator P4 and cable operators Vectra, Multimedia Polska and Netia. Neither of the remaining operators offering bundles had market shares exceeding 2%.

Both fixed-line telecommunication operators and cable TV operators offer their bundled services mainly in large and medium sized cities, due in part to the geographical limitations of their infrastructure and the inferior quality of the telecommunications

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

According to European Commission report “E-Communications and Digital Single Market” published in May 2016, in October 2015 the penetration rate of multi-play services (defined as more than one service within the offer of one operator) in Poland amounted to 37%, while in the European Union average penetration reached 50%, and in the Netherlands and Malta amounted to 87% and 78%, respectively. These data can be underestimated, however, due to the methodology applied in the survey. According to PMR, in the fourth quarter of 2016, 62% of households in Poland declared that they use at least two telecommunication services provided by the same supplier and multi-play packages.

Research by PMR demonstrates that a bundle combining two services remains the most popular option. In the fourth quarter of 2016, 57% of Poles chose this option. At that time, 35% of Poles used triple-play services (a bundle comprised of three services), while only 7% of customers decided to purchase a bundle containing four services. As for the structure of the bundles, fixed-line Internet access services and pay TV dominate, followed by fixed-line and mobile telephony. Mobile Internet access is a component of only a third of purchased bundles.

#### ***Development forecasts for the bundled services market***

According to PMR forecasts, the bundled services market will consistently grow in subsequent years, both in terms of the number of subscribers and value. The expected average annual compound growth rate in the years 2016-2021 will be 7.4%. In 2021 the number of subscribers using bundled services will exceed 12.7 million. The number of services sold in bundles will come close to 33.5 million in 2021.

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

#### **2.3.2. Bundled services offer of Polsat Group**

Our bundled services offer as an important tool, which helps us to retain existing customers and expand our customer base, while simultaneously increasing customer satisfaction and loyalty. In the long-term, the multi-play offer will enable us to increase ARPU and to further reduce our churn rate.

##### ***smartDOM***

smartDOM is a unique savings program for the home offering a wide array of products and services, which enable our customers to create a comfortable, safe and modern home. The program 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. This way every customer has the possibility to create a set of services for the family consisting of satellite TV, access to LTE Internet and telephony services.

Successively, the program is being expanded by new products or services. In 2017 we began a new phase in the communication of our strategic bundled offer. The program, marketed under the slogan “smartDOM Home Savings Program,” will ultimately comprise nine products and services, which our customers can combined and hence generate savings on household bills. 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 in the Electricity from Plus offer, banking services offered by PlusBank, comprehensive insurance services offered in cooperation with ERGO Hestia and home security services, such as monitoring. Moreover, the offer also comprises telecommunication devices, home electronics and domestic appliances. In the near future the offer will be expanded to include the sale of gas.

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

### **smartFIRMA**

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

In October 2015 the program smartFIRMA was extended by new categories of services were included, our customers were offered greater flexibility in their choice of product, a brand new fixed-line telephony offer was added and new products and services can be added to the package at any time during the duration of the program. Our business customers can choose up to 6 products, while 5 of them are subject to discounts. The first product is always mobile telephony or LTE Internet access. A 50% discount is offered on the second and third products. Two additional mobile telephony SIM cards can be purchased with rebates of PLN 10 and PLN 20, respectively. Furthermore, customers who run sole proprietorship businesses can purchase Cyfrowy Polsat's satellite TV as private persons for the home.

At the end of 2016 the broad offer of smartFIRMA was further extended by a monitoring service Safe Company.

## **2.4. Sales and marketing**

### **Marketing and branding**

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

According to the Ranking of Strongest Polish Brands 2016, prepared by the daily Rzeczpospolita in cooperation with Acropolis Advisory and Kantar Millward Brown, our main brands "Cyfrowy Polsat," "Plus" and "Polsat" were one of the strongest and most recognizable brands in their respective lines of business. According to a survey conducted in October and November 2016 by the agency GfK on the Polish telecommunication market, the aided awareness ratio of the "Plus" brand reached 98% in the voice segment and 88% in the data transmission segment. This survey also demonstrated that Cyfrowy Polsat is the most recognizable provider of pay TV in Poland, with the spontaneous awareness ratio of 75% and aided awareness ratio of 95%.

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

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

### **Sales network**

We sell our services through an integrated sales network covering the entire territory of Poland. As at December 31, 2016, the combined sales network of Cyfrowy Polsat and Polkomtel covered 1,269 stationary points of sale. Both Cyfrowy Polsat's pay TV and Internet offers and Polkomtel's telecommunications offer are available at a majority of those points. A majority of points of sale offer additional products and services to customers of both operators, such as Energy from Plus.

The sale of Polsat Group's services also takes place through remote channels. As at December 31, 2016 Cyfrowy Polsat can 5 telemarketing centers (own and external), whose role was customer retention and the sale of core products.

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

network. Sales of prepaid telecommunication services are take place through different channels of distribution. At December 31, 2016, Polkomtel had 15 active agreements with non-exclusive independent dealers of its prepaid services, with a total of approximately 60 thousand outlets selling starter kits and scratch cards, 22 thousand of which could process prepaid SIM registration required by the Anti-terrorist Act of June 20, 2016, and approximately 130 thousand outlets selling electronic top-ups.

Furthermore, Polkomtel has an extensive sales structure dedicated to business customers of various scale of operations. Corporate accounts (excluding smaller entrepreneurs who are classified as SMEs) are managed by a group of ca. 50 Key Customer Managers and ca. 40 dedicated account managers. Smaller SMEs (Small and Medium Enterprises) and larger customers in the SOHO segment (Small Office/Home Office), i.e. customers having at least five SIM cards and generating revenue higher than the average SOHO, are managed by about 360 authorized business advisers. The remaining Small Office/Home Office customers, along with residential customers, are served by both Polkomtel's own and authorized points of sales, call center, 4 telesales partners and Polkomtel's e-shop.

We systematically restructure and modernize our sales network in order to fully integrate the sales networks of Cyfrowy Polsat and Polkomtel. We aim to unify sales processes with a single point of sales, build common logistics and warehousing systems, as well as fully integrate training and education of our sales channels. The above measures are designed to improve the efficiency of sales and to adjust our sales network to the expanding portfolio of our services.

### **Call center**

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

Cyfrowy Polsat's call center currently has over 600 operator stands as well as approximately 320 back-office stands handling written requests (including faxes and e-mails), while Polkomtel's call center consists of over 800 operator stands and about 350 back-office stands. Our call center services are available to our present and potential customers 24 hours a day, seven days a week, and are responsible for providing comprehensive and professional customer service. The call service operators provide information on our services, enter into service agreements with customers, accept customer complaints and provide information on payments and other support for customers.

### **Online communication**

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

We have commercial websites that contain detailed information on the offers of Cyfrowy Polsat and Polkomtel, as well as on the smartDOM program - the bundled offer of the two operators. On Cyfrowy Polsat's website (<http://www.cyfrowypolsat.pl/>) customers can find information about the current pay TV and telecommunication offer, they can chose a TV or Internet access package they are interested in, select a device (set-top box, tablet, laptop or router) and verify current promotions in the VOD section. Moreover, our website contains details on the offer and most interesting content available in our online TV IPLA as well as HBO GO and Filmbox Live services with links which transfer the user directly to the webpage of the chosen service. We provide the users of our website [www.cyfrowypolat.pl](http://www.cyfrowypolat.pl) with a daily updated TV guide with the programming of over 490 channels. The service is accompanied by an editorial, in which we recommend the most interesting - in our opinion - programming positions, and enables sorting the scheduling according to users' criteria.

On the commercial websites [www.plus.pl](http://www.plus.pl) and [www.plushbezlimitu.pl](http://www.plushbezlimitu.pl) customers can verify Polkomtel's telecommunication offer, chose a handset or Internet access device (tablet, laptop, router or game console) and finally check current promotional offers. Polkomtel operates its own e-shop with products and services available to both existing and new customers. In the past year we have launched the sale of products without a contract, domestic appliances in particular, through our website [www.plus.pl](http://www.plus.pl). When placing an order for contract services a customer can also choose additional services. Moreover, we introduced new standards of customer service for our online customers, which resulted in a significant increase of customer satisfaction and their willingness to buy services through the online channel.

We offer our customers access to online accounts – the Internet Customer Service Center for Cyfrowy Polsat's customers and Plus Online for Polkomtel's customers. These functionalities allow our customers to manage their subscriber accounts

through the Internet, where, after logging in, they can check the status of purchased services, payments, subscribed packages, dates of payments or order additional services. Furthermore, in response to market trends – in particular to the dynamically growing popularity of smartphones and the increasing role of mobile services, in 2015 Polkomtel launched a mobile application dedicated to subscriber account management. It offers a wide array of functionalities and is compatible with the most popular mobile operating systems available on the market.

### **Central warehouse**

Our central warehouse is managed by the logistics operator Arvato Polska, Centrum Usługowo-Logistyczne in Blonie, who provides services to us in the scope of reception, distribution, returns of goods, packaging, assembly, archiving, purchase of consumables and sending packages within all existing channels of sales. The total area of the warehouse owned by Arvato Polska and used by us is 6,300 m<sup>2</sup> currently offering 4,000 pallet holding spaces with the possibility of increasing this number by 1,000. This central warehouse stores Polkomtel's telecommunication goods, such as telephones, modems, laptops, routers, television sets, SIM cards, prepaid phone cards, printing materials, gadgets, accessories, prepaid sets, and also, following the Group's integration on the level of storage logistics Cyfrowy Polsat's equipment, e.g. set-top boxes, hard drives, DVB-T set-top boxes, modems, routers, SIM cards, advertising/event-related materials, etc. Distribution of these items is also conducted from our warehouse in Blonie. The central warehouse has sufficient size to satisfy all of the Group's warehousing needs.

## **2.5. Customer relations and retention management**

### **Customer relations management**

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

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

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

Since 2014 Cyfrowy Polsat offers its customers an improved version of the Internet Customer Service Center (ICSC) - an advanced tool which provides our customers with secure and free of charge access to back-office resources and on-line technical support. Through the ICSC customers can buy and modify their packages themselves, check their payment balance and payment history, control units available for use within active packages, or make payments (also advance payments for any number of months). Moreover, users of ICSC can modify their contact data, print postal or bank orders, check technical specifications of the equipment owned, print the relevant user manual, restore signal transmission, restore the factory PIN settings of their set-top box, as well as contact us through our contact form.

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

Since 2015 Polkomtel provides a mobile application dedicated to customer account management. This application enables constant and free-of-charge access to up-to-date information on billing and the current offering and allows the purchase of additional packages and services. The use of this service is free of charge and data traffic generated through this application is not subject to fees for data transmission.

Since 2000, Polkomtel has implemented and consistently improved quality management system and since 2012 also an environmental management system. To confirm the above, Polkomtel obtained international certification ISO 9001:2008 and ISO 14001:2004 issued by DEKRA Certification Sp. z o.o. The scope of the certificates comprises sales of

telecommunication products and services, sales of electric energy and customer management and retention. In November 2015, Polkomtel was successfully audited by DEKRA Certification Sp. z o.o. for compliance of quality management systems.

### ***Retention management***

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

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

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

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

In the past year the first contracts concluded by customers of the smartDOM program terminated. The proactive and reactive measures taken, as well as customers' decision to prolong their contracts prove, that the program has a positive impact on customer loyalty. Consistent implementation of retention schemes and upselling of further services to our customer base helps us reduce the churn ratio.

## **2.6. Wholesale business**

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

### ***Exchange of traffic between operators (network interconnection)***

Our telecommunications infrastructure used in interconnection cooperation enables us to effectively manage telecommunications traffic routing to all operators domestically and abroad. As at December 31, 2016, Polkomtel was party to 26 interconnection agreements with national and international operators. Such a number of interconnection relations allows for optimizing the costs of call termination in the networks of other operators, while maintaining the highest quality of telecommunication services for our end-users with respect to the traffic, both initiated and terminated in our network. Extension of the capacity of points of interconnect in national and international relations enabled efficient handling of the increased interconnect traffic generated in connection with the World Youth Days taking place in Poland in July 2016.

As part of interconnection cooperation with other operators, in 2016, as in previous years, active steps were taken in relations with domestic and foreign operators in order to reduce the incurred costs of wholesale call termination and increase wholesale revenue from the services of call termination in Polkomtel's network and the service of interconnection traffic transit. Cooperation with the biggest international operators and active management of traffic routing enabled us to immediately benefit from the reduction of wholesale termination rates in the networks of foreign operators (in particular foreign MTRs), introduced as a result of decisions of market regulators abroad, which translated directly into a reduction of our costs.

Effective April 2016, Polkomtel started charging – under the interconnect settlements with domestic and foreign operators - higher MTRs for calls terminated in the mobile network of Polkomtel which were initiated outside the European Economic Area (EEA). Introduction of such a settlement model for the traffic terminated in the mobile network of Polkomtel is aimed at building a counterweight for a unilateral actions undertaken by foreign operators from outside the EEA, consisting in applying higher and higher MTRs for the traffic incoming from the Polish networks, which resulted in a higher cost of calls outgoing from Polkomtel's network to these countries and the calls answered by Polkomtel's customers using roaming in the networks



from outside the EEA. Introduction of a higher MTR for termination in the mobile network of Polkomtel of calls initiated from outside the EEA led to improvement of the financial balance of our settlements with foreign operators.

In 2016, we were executing a project involving the migration of points of interconnect of Polkomtel's network with other operators to the new IP technology which relies on SIP (Session Initiation Protocol) signaling protocol, which enables making of interconnect voice calls in HD quality (HD voice). So far, Polkomtel's customers have used the HD Voice technology under on-net calls in Polkomtel's network. In 2016, we launched points of interconnect in SIP technology with Orange Polska, which enabled our customers to make calls in HD quality with the customers of Orange network. Furthermore, we worked on the change of technology of points of interconnect, thus extending the scope of HD Voice quality in relations with the remaining domestic mobile operators.

### ***International roaming***

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

Cooperation with roaming partners represents a significant part of sales in the wholesale channel of Polkomtel. We consistently develop the sale of 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 and MVNO customers operating on our telecommunication network.

In 2016, we continued the policy of reducing the roaming costs, among others by focusing on the reduction of the costs of data transmission in foreign networks, which enabled us to offer to our residential and business customers the most competitive roaming data packs on the Polish market, that is an "Atlantic" pack which includes 33 countries and "Oriental" pack which includes 44 most popular countries in the world, in terms of Poles' trips. Thanks to the active policy of acquisition of new roaming partners for discount agreements, mainly outside of the EEA, i.e. in areas where the costs of wholesale international roaming have been quite high so far, we are constantly reducing the costs of roaming in exotic countries, so that our customers have the lowest prices of roaming, among others in these countries. As a result of these activities, we introduce an offer of "Oriental" roaming data pack available to residential and business customers, allowing for safe and cheap use of the Internet access services on the phone while traveling abroad. "Oriental" roaming data packs are successively expanded to include other countries.

The World Youth Day took place in July 2016 in Poland. In connection with this event Polkomtel focused on increasing the number of open data relations in roaming, to allow the pilgrims from foreign countries for using the roaming services in our network in the fastest 3G and LTE technologies. The number of 3G and LTE roaming data relations for pilgrims coming to Poland increased in the period from January to July 2016 by approximately 90 reaching the level of ca. 400 relations.

In November 2016, in order to improve the quality of data services in roaming we, among others, opened an "LTE Roaming" service for pre-paid and Mix customers, which allows for using the services of data transmission in roaming in the fastest LTE technology. While combining this with a broad offer of „Atlantic" and „Oriental" data packs, we enabled our pre-paid and Mix customers to use the data transmission while roaming abroad at very attractive prices and in the highest quality. Polkomtel's offer competes in terms of prices and quality with the paid WiFi offers abroad.

In connection with the regulation of the retail roaming market „Roam Like at Home (RLAH)" on the territory of the EEA, in 2016 we focused on ensuring – effective April 30, 2016 – the fulfillment of the provisions of the appropriate EU regulation and pursuant to it, introducing for Polkomtel's customers the prices for voice calls, SMS and data transmission sessions in the countries belonging to the EEA at the level of domestic prices, while adding to them a permissible surcharge, strictly defined network the Regulation. These activities enabled the customers of Polkomtel's network to use roaming services in the EEA without concerns about the level of incurred costs. To sum up, as at December 31, 2016, Polkomtel network offered international roaming services for voice calls in 550 networks in 212 countries and designated areas. In addition, our international roaming service offers roaming data transmission packages in 452 networks in 175 countries and designated areas. Access in LTE technology is possible in 81 networks in 56 countries and designated areas, while access in 3G is offered in 364 networks in 147 countries and designated areas.

### **National roaming and virtual operators (MVNOs)**

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

#### **National roaming**

As a part of the wholesale national roaming service, we offer voice calls, text messaging and packet data transmission services (including MMS) to P4. P4's subscribers have used Polkomtel's mobile telecommunications network since the beginning of P4's operations in 2007.

#### **Virtual operators (MVNOs)**

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

As part of the cooperation with MVNOs, we provide wholesale services including voice calls, text messaging and packet data transmission (including MMS), premium rate services, value-added services, international roaming services, services provided to authorized entities, hosting services on Polkomtel's billing platform, customer support, servicing the MVNO's subscribers' complaints, access to SIM cards and telephones buying channels and to Polkomtel's top-ups channels as well as other services, depending on the needs and selected technical model of cooperation with MVNO.

Polkomtel was the first mobile operator in Poland who opened access to its network for MVNOs in 2006. In 2016 Polkomtel continued to dynamically develop sales in the wholesale channel, which apart from the growth of our existing customer base also resulted in several new wholesale agreements with MVNOs. Premium Mobile, which is one of the MVNO market leaders in terms of the number of numbers ported to its network (MNP), was among the new MVNO partners launched in 2016.

In connection with a very dynamic development of the mobile data transmission services in Poland, Polkomtel introduced to its offer a simple wholesale model which allows for starting the MVNO operations also by small partners, for whom the time and cost of implementation is of key importance. A trend of selling services in bundled packages, clearly visible on the market, makes mobile services a very important addition to the fixed-line services provided by the partners. The observed changes lead to the significant increase in launching of MVNO operations by telecommunication operators. In 2017 we intend to continue to develop our wholesale activities by seeking new domestic and international partners, as well as by expanding our cooperation with the existing wholesale partners. Polkomtel's assistance in fulfilment of the statutory obligation of registration of prepaid cards is an important element of the cooperation with MVNO.

Our broad scope of services and creation of dedicated solutions for the needs of our wholesale partners, allows us to cooperate under various wholesale business models, from technologically advanced models for partners who have their own telecommunications infrastructure (for instance, their own points of interconnection with operators and IT platforms), through interim models to models that require only marketing and sales channels from MVNO partners and a technical implementation is limited to an absolute minimum. We actively develop our wholesale product in order meet the requirements of our MVNO partners and quickly respond to the dynamically changing business conditions.

## **2.7. Broadcasting and television production segment**

### **2.7.1. Market overview**

The Polish TV broadcasting market consists of state-owned and private commercial broadcasters airing both at the regional and national levels. A significant number of stations are offered through paid channels, such as cable networks and DTH platforms.

TV broadcasting in Poland started in the 1950s by the state-owned TV broadcaster TVP, which was the sole Polish TV broadcaster until 1992. Since the opening of the Polish TV market to private commercial broadcasters in 1992, the number of TV channels has increased substantially. On July 23, 2013, the process of implementing digital terrestrial television (DTT – Digital Terrestrial Television) had ended. Currently, DTT offers free access to 27 channels and the outreach of the multiplexes exceeds 99% of Poland's population.

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

### **Polish TV advertising market**

According to the estimates of Zenith media house, in 2016 Poland was the third largest advertising market in Central-Eastern Europe (after Russia and Turkey) with a total net advertising expenditure of PLN 6.9 billion (after discounts or rebates) and a growth rate of 2.7% compared to 2015. The value of TV advertising amounted to over PLN 3.6 billion (up by 1.6% compared to 2015). Zenith forecasts an increase in the value of TV advertising market by 0.7% in 2017, and a similar rate of growth in 2018.

In 2016, TV was the dominant advertising medium in Poland with 52% share in the total advertising expenditure. According to Zenith forecasts, this share is expected to remain stable in upcoming years with a slight downward tendency. The significant increase of the share of Internet as an advertising medium does not influence television's position in a substantial way, due to the decline of advertising expenditures in printed press.

Advertising expenditure by medium from 2011 to 2018:

	2011	2012	2013	2014	2015	2016	2017P	2018P
TV	52%	52%	52%	53%	53%	52%	52%	50%
Print	16%	14%	11%	9%	8%	6%	5%	4%
Outdoor	8%	7%	7%	7%	7%	6%	6%	6%
Radio	7%	7%	7%	7%	7%	8%	8%	7%
Internet	16%	18%	20%	22%	24%	26%	28%	31%
Cinema	2%	2%	2%	2%	2%	2%	2%	2%

Source: Zenith, "Advertising Expenditure Forecasts - December 2016"

The Polish TV ad market is characterized by a high level of TV consumption. In 2016 the average daily TV viewing time among the surveyed population remained at a very high level, estimated at 262 minutes. Considering such a high average TV viewing time, it is justified to assume that the TV market will continue to be an attractive communications platform for advertisers.

Based on data from the media house Starcom, we estimate that in 2016, Polsat Group had a 26.9% share of the Polish TV advertising market, estimated at ca. PLN 4 billion and an advertising power ratio (measured as the ratio of advertising market share to total individual audience share in the group All 4+) of 1.08.

Zenith forecasts that in 2017, the TV advertising market in Poland will increase by 0.7% net. We believe TV is a highly effective advertising medium. Moreover, given the relatively low level of advertising expenditures in Poland as a percentage of GDP and per capita in comparison to other European markets, in our opinion there is still substantial growth potential for TV advertising in Poland. The Polish advertising market constitutes 0.37% of GDP, representing a substantially lower value as a percentage of GDP than in certain other European markets such as the United Kingdom (0.89%), Slovakia (0.71%), Germany (0.64%), the Netherlands (0.57%) and the Czech Republic (0.54%).

### **Key TV channels**

The Polish TV market remains dominated by the four largest terrestrial channels: TVP1, TVP2, TVN and POLSAT, which collectively had 41.1% of the aggregate audience share in the commercial group in 2016. In 2016, further significant fragmentation of the TV market was observed. The importance of smaller broadcasters available on the multiplexes was growing, mainly at the expense of the abovementioned four largest TV channels available earlier in analogue terrestrial television.

In 2016, our main channel POLSAT had an all-day audience share of 13.23%, which was the best result on the market. Average annual technical coverage was 99.9%. Our thematic channels had an 11.6% combined audience share. We broadcast 23 thematic channels with competitive offers on each important market segment (including sport, information, music and channels dedicated to female and male audiences). They include channels distributed by cable and satellite networks, as well as three channels available through DTT on MUX-2 - Polsat Sport News (replaced by Super Polsat on January 2, 2017), TV4 and TV6. POLSAT, the main channel of the Group, also available on MUX-2, competes with the nationwide channels: TVN, TVP1, TVP2 and smaller channels available on digital terrestrial television.

In 2016, POLSAT's main competitor, TVN achieved a 12.75% all-day audience share and had 99.9% average annual technical coverage. The TVN channel, launched in 1997, is broadcast by TVN, which is currently a 100% subsidiary of the media corporation Scripps Network Interactive. TVN Group's thematic channels achieved a 10.2% combined all-day audience share in 2016.

TVP Group broadcasts 12 channels, including TVP1 and TVP2, and is one of the main players on the Polish TV advertising market. In 2016, the main channels of TVP Group had 7.4% (TVP1) and 7.2% (TVP2) all-day audience shares. The technical reach of both channels reaches 99.9% of TV households in Poland. TVP's thematic channels had 7.6% audience share. Except advertising revenue, as the national state-owned broadcaster, TVP receives additional revenue from license fees mandatorily charged to Polish citizens owning TV or radio sets under the License Fees Act of April 21, 2005. Given the regulations preventing TVP from interrupting programs to broadcast advertising, which significantly decreases its advertising inventory, TVP group generated only 25.6% of its revenue from license fees in 2016.

### **Digital Terrestrial TV**

Poland finished the conversion from analogue terrestrial broadcasting TV to DTT based on the Digital Video Broadcasting – Terrestrial (DVB-T) standard on July 23, 2013. The switch to digital broadcasting allowed to improve picture and sound quality and eliminated the interference that accompanied analogue broadcasting. Digital TV systems use an electronic program guide, which enables viewers to compile their own sets of favorite programs and exercise parental control. Digital TV systems also allowed broadcasters to offer new multimedia services such as adding additional soundtracks for individual channels (e.g. additional narration for the visually impaired – audio description, or the original soundtrack) or the possibility to add subtitles for people with hearing disabilities. Digital terrestrial television provides users with a new function of automatic recording of programs (PVR).

Digital transmission systems differ from analogue systems in their device requirements. DTT requires TV-sets equipped with a tuner or a special adapter for older devices. Thanks to the application of the DVB-T broadcasting standard with MPEG-4 compression, one multiplex can host seven - eight SD channels or three-four HD channels.

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

Until April 27, 2014, the first multiplex, MUX-1, was shared between the public broadcaster's three channels (TVP1, TVP2, TVP Info) and four commercial channels. After that date TVP released space held on this multiplex in order to allocate it to broadcasters selected in a competition. Currently, the channels available on MUX-1 include: Telewizja Trwam (socio-religious channel), STOPKLATKA TV (film channel), Fokus TV (educational channel) and TVP ABC (channel for children aged 4 to 12). The Office of Electronic Communications (UKE) estimated the reach of MUX-1 at 98.8% of the population in Poland on the date of the final switch-off of analogue terrestrial television broadcasting.

MUX-2 is reserved for commercial broadcasters including TV POLSAT. Regular digital transmissions of POLSAT started on September 30, 2010. On the date of the final switch-off of analogue terrestrial television broadcasting the coverage of MUX-2 was estimated at 98.8%.

MUX-3 is reserved solely for the public broadcaster. It had the widest coverage that was estimated at 99.5% on the date of the final switch-off of analogue terrestrial television broadcasting, due to the fact that its signal is transmitted from a larger number of objects than signals of the remaining multiplexes.

MUX-4 is currently reserved for INFO-TV-FM (subsidiary of Cyfrowy Polsat) and is dedicated to broadcasting of television on mobile devices.

On November 6, 2013 the Office of Electronic Communications announced the availability of new frequency resources, which were to be used to activate another multiplex (MUX-8). A total of 18 entities had declared their interest in the new resources, therefore the process of preparing procedures to elect those entities, who will receive frequency reservations, had been initiated. In October 27, 2014, the National Broadcasting Council made a decision regarding the allocation of space available on MUX-8. According to its resolution, TVP will be able to launch three SD channels or one SD and one HD channel on MUX-8. On November 5, 2015 the National Broadcasting Council resolved the competition and elected four other commercial broadcasters, who are to launch their DTT channels. All these channels are going to be newly created channels, without a counterpart in cable and satellite distribution. The earlier decision to provide the new multiplex to viewers free of charge was sustained. Officially, MUX-8 was launched on August 1, 2016, however, at the time no channels were broadcast.

The channels are being launched successively since October 25, 2016. Currently, 4 channels are already operating - Metro, Zoom TV, Nowa TV and WP. As a result of the currently executed roll-out of the network of signal transmitters, the coverage of MUX-8 should reach the level of 95% of the population by mid-2017.

In addition to nationwide multiplexes, channels can be broadcast through local multiplexes. Currently, five such multiplexes have been activated. It is also worth mentioning that for the purpose of conducting tests transmitters operating in new broadcasting standards DVB-T2 with HEVC compression were activated in Warsaw and Łódź.

## 2.7.2. Offer

### Channels

We believe we have a portfolio of channels that appeal to the important audience segments and that we will maintain the leading position in sports programming and we will strengthen our position in news programming. Our portfolio of channels addresses the entire family. As at the date of approval of this Report the Group's portfolio comprised 24 channels, including 14 HD.

### Channels portfolio of Polsat Group

Channel	Broadcasting standard	Start date	Thematic group	Signal distribution	Availability	Household coverage <sup>(1)</sup>
POLSAT	SD/HD	December 5, 1992	General interest	Terrestrial/cable/satellite	FTA	99.9%
Polsat Sport	SD/HD	August 11, 2000	Sport	Cable/satellite	non-FTA	48.2%
Polsat Sport Extra	SD/HD	October 15, 2005	Sport	Cable/satellite	non-FTA	35.9%
Polsat Film	SD/HD	October 2, 2009	Movie	Cable/satellite	non-FTA	51.4%
Polsat Cafe	HD	October 6, 2008	Lifestyle	Cable/satellite	non-FTA	55.1%
Polsat Play	HD	October 6, 2008	Lifestyle	Cable/satellite	non-FTA	49.0%
Polsat2	HD	March 1, 1997	General interest	Cable/satellite	non-FTA	63.1%
Polsat News	HD	June 7, 2008	News	Cable/satellite	non-FTA	55.8%
Polsat News 2	SD	February 8, 2007	Business	Cable/satellite	non-FTA	56.0%
Polsat Jim Jam	SD	August 2, 2010	Children	Cable/satellite	non-FTA	44.5%
Polsat Sport News <sup>(2)</sup>	HD	June 1, 2011	Sport	Terrestrial /cable/satellite	FTA	94.8%
CI Polsat	SD	November 24, 2011	Criminal	Cable/satellite	non-FTA	39.3%
Polsat Viasat Explore	SD/HD	March 1, 2013	Lifestyle	Satellite	non-FTA	39.0%
Polsat Viasat Nature	SD	March 1, 2013	Nature	Satellite	non-FTA	36.5%
Polsat Viasat History	SD/HD	March 1, 2013	History	Satellite	non-FTA	43.6%
TV4	SD/HD	April 1, 2000	General interest	Terrestrial /cable/satellite	FTA	99.8%
TV6	SD	May 30, 2011	Entertainment	Terrestrial /cable/satellite	FTA	94.6%
Polsat Romans	SD	September 1, 2013	Women's	Cable/satellite	non-FTA	46.4%
Disco Polo Music	SD	May 1, 2014	Music	Cable/satellite	non-FTA	46.2%
MUZO.TV	SD	September 26, 2014	Music	Cable/satellite	non-FTA	40.8%
Polsat 1 <sup>(3)</sup>	SD	December 18, 2015	General interest	Satellite	Non-FTA	n/a
Polsat Sport Fight <sup>(4)</sup>	HD	August 1, 2016	Sport	Satellite	non-FTA	10.2%
Super Polsat <sup>(5)</sup>	SD	January 2, 2017	General interest	Terrestrial /cable/satellite	FTA	n/a
Polsat Doku <sup>(6)</sup>	HD	February 10, 2017	General interest	Terrestrial	non-FTA	n/a

(1) NAM, average TV household coverage, arithmetic average of monthly coverage in 2015.

(2) As of January 2, 2017 the channel is available only via cable and satellite platforms.

(3) Channel addressed to viewers abroad.

(4) Channel launched on August 1, 2016, included in the telemetric panel since January 1, 2017.

(5) Channel launched on January 2, 2017, replaced Polsat Sport News on MUX-2.

(6) Channel launched on February 10, 2017.

## POLSAT

POLSAT, our main channel, is the number one channel in Poland in terms of audience share in the commercial group (all, ages 16-49), with an audience share of 13.23% in 2016. The channel broadcasts 24 hours a day, seven days a week. The channel is available on the digital terrestrial television on the second multiplex (MUX-2). Apart from terrestrial broadcasting, POLSAT is also provided in SD and HD by all major Polish cable TV operators as well as DTH platforms. POLSAT airs a broad variety of movies, Polish and foreign series as well as talent shows realized based on license agreements. Sports offer has also an important place in our programming.

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

### Thematic channels of the Group

Channel	Target audience segment	Average audience share in the target audience segment in 2016	Core programming	Additional information
TV4 TV4 HD	All aged 16-49	3.65%	Programming offer includes films, series and intelligent entertainment.	Channel included in Polsat Group's portfolio since August 30, 2013. Ranked 6 <sup>th</sup> in terms of audience share in 2016. Available in DTT technology.
TV6	All aged 16-49	1.72%	Offers drama series, animated movies, soap operas, reality shows and television quiz shows.	Channel included in Polsat Group's portfolio since August 30, 2013. Available in DTT technology.
Polsat Sport Polsat Sport HD	Men aged 16-59	0.64%	The first sport channel in the Group's offer. It airs sports events and thematic programs. The most important sports are: (i) volleyball (World Championships, World League, World Grand Prix, Plus League, Orlen League), (ii) athletics (e.g. Diamond League), (iii) football, qualifying competition for UEFA Euro 2016 (iv) handball, (v) world class boxing and (vi) MMA (Mixed Martial Arts) and KSW (Martial Arts Confrontation) contests.	The number one sports channel in Poland in 2016, both in commercial group and its target group.
Polsat Sport Extra Polsat Sport Extra HD	Men aged 16-44	0.11%	Premium sport events, primarily the largest international tennis tournaments such as Wimbledon and handball Champions League.	Broadcast since 2009.
Polsat Sport News Polsat Sport News HD	Men aged 16-44	0.54%	The programming includes sport news, sport events transmissions and journalistic materials.	The number two sports channel in 2016 in the "Men Aged 16-44" segment. Channel broadcast since May 2011, audience share data available since November 2012. Until January 1, 2017 it was broadcast in DTT, as of January 2, 2017 available in HD standard only in cable and satellite networks.
Polsat Sport Fight HD	Men aged 16-44	n/a	Channel dedicated to martial arts, broadcasting, among others, HBO professional boxing galas, TOP Rank, Showtime, Matchroom and mixed martial arts KSW, MMA Attack, as well as coverages of Polsat Boxing Night	Broadcast since August 1, 2016.

Channel	Target audience segment	Average audience share in the target audience segment in 2016	Core programming	Additional information
Polsat Film Polsat Film HD	All aged 16-49	1.12%	Wide offer of movies. Hit movies, top box-office productions and non-mainstream movies. The offer based to a large extent on productions of Sony Pictures Television International and 20th Century Fox TV.	
Polsat Cafe HD	Women aged 16-44	0.48%	Lifestyle, fashion, health and beauty, cooking. The offer includes own productions as well as foreign editions of various shows.	
Polsat Play HD	Men aged 16-44	0.90%	Male hobbies, including fishing, automotive industry, documentary and guide series, lifestyle and trendy consumer gadgets.	
Polsat 2 HD	All aged 16-49	1.44%	Reruns of programs that premiered on our other channels.	On December 18, 2015 replaced abroad by the channel Polsat 1, remains available to viewers in Poland.
Polsat News HD	All aged 16-49	0.80%	24-hour news channel mainly broadcasting live and covering primarily news from Poland and key international events.	Channel available only in HD.
Polsat News 2	Top managemen t	0.24%	The latest news on the economy and financial markets.	Channel acquired by TV Polsat Group in February 2007. Until June 9, 2014 broadcast under the name Polsat Biznes.
Polsat Jim Jam	Children aged 4-7	2.00%	Entertainment for children.	Polsat Jim Jam is a joint venture launched by TV Polsat and ChelloZone.
CI Polsat	All aged 16-49,	0.19%	Criminal programs based on true stories. Documentaries presenting the work of police, detectives and criminal laboratories.	Joint project of Polsat Group and A+E Networks UK. The channel is aired since the end of November 2011.
Polsat Viasat Explore Polsat Viasat Explore HD	Men aged 16-49	0.17%	Channel dedicated to men, it offers programs featuring extreme jobs, sports, journeys to places that are hard to reach.	Joint project of Polsat Group and Viasat Broadcasting.
Polsat Viasat Nature	All aged 16-49	0.03%	Offers nature programs for the entire family.	Joint project of Polsat Group and Viasat Broadcasting.
Polsat Viasat History Polsat Viasat History HD	All aged 16-49	0.14%	Offers various programs presenting the history of different times.	Joint project of Polsat Group and Viasat Broadcasting.
Polsat Romans	Women aged 16-49	0.18%	Channel dedicated to women, broadcasts both Polish and foreign drama films and series.	Broadcasts since September 1, 2013.
Disco Polo Music	All aged 16-49	0.27%	Channel presents disco polo, dance and festive music.	Started broadcasting on May 1, 2014.
MUZO.TV	All aged 16-49	0.03%	Entertainment channel dedicated to pop and rock music.	Started broadcasting on September 26, 2014.
Polsat 1	Poles living abroad	n/a	Latest Polish series produced by Polsat, hit productions selected from the programming libraries of Polsat, TV4, Polsat Cafe and Polsat Play.	Started broadcasting on December 18, 2015.
Super Polsat	All aged 16-49	n/a	Offers entertainment and news programs, films, series and live sports.	Started broadcasting on January 2, 2017. Available in DTT technology.

Channel	Target audience segment	Average audience share in the target audience segment in 2016	Core programming	Additional information
Polsat Doku HD	All aged 16-49	n/a	Documentary channel, offers historical and science programs addressed to viewers who are interested in the problems of today's world, travel and nature.	Started broadcasting on February 10, 2017.

#### Audience share for our channels for 2014-2016

Channel	Audience share (SHR %)		
	2014	2015	2016
POLSAT	13.30	13.21	13.23
TV4	2.88	3.67	3.65
TV6	1.09	1.51	1.72
Polsat2	1.73	1.42	1.44
Polsat News	0.91	0.83	0.80
Polsat Sport	0.50	0.52	0.44
Polsat Film	0.72	0.74	0.79
Polsat Play	0.67	0.67	0.68
Polsat JimJam	0.20	0.16	0.24
Polsat Cafe	0.40	0.39	0.39
Polsat Sport Extra	0.12	0.12	0.09
CI Polsat	0.09	0.12	0.14
Polsat Sport News <sup>(1)</sup>	0.29	0.12	0.35
Polsat News 2 <sup>(2)</sup>	0.07	0.09	0.08
Food Network <sup>(3)</sup>	0.08	0.01	0.10
Polsat Viasat Explore	0.05	0.06	0.11
Polsat Viasat History	0.13	0.11	0.14
Polsat Viasat Nature	0.02	0.03	0.03
Polsat Romans	0.13	0.14	0.16
Disco Polo Music <sup>(4)</sup>	0.23	0.26	0.27
Polsat Volleyball <sup>(5)</sup>	2.43	-	-
MUZO.TV <sup>(6)</sup>	0.03	0.02	0.03
Polsat 1 <sup>(7)</sup>	-	-	-
Polsat Sport Fight <sup>(8)</sup>	-	-	-
Super Polsat <sup>(9)</sup>	-	-	-

Source: NAM, target All Day, 16-49

- (1) As of January 2, 2017 channel available only in cable networks and satellite platforms.
- (2) Until June 9, 2014 the channel broadcast under the name Polsat Biznes.
- (3) The channel was transferred to TVN capital group in January 2017.
- (4) Included in the telemetric panel since May 1, 2014 (data for that period).
- (5) Channel broadcast since August 30, 2014 until September 21, 2014 (data for that period).
- (6) Included in the telemetric panel since September 26, 2014 (data for that period).
- (7) Channel not included in the telemetric panel.
- (8) Included in the telemetric panel since January 2017.
- (9) Channel launched on January 2, 2017, replaced Polsat Sport News on MUX-2.

#### Scheduling

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

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



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

### **Sources of Polish programming**

We aim at having diversified sources of Polish content, enabling us to efficiently manage production costs. We are able to choose from a wide offering to select attractive and cost-effective programs to fit successful scheduling. In addition, for formats owned by us, we organize pitches in order to select the most cost-effective producers that ensure high quality. Polish programs are primarily commissioned to independent external producers. However, we also create programs in-house. Approximately 60% of our programming hours consist of Polish content (data for the following channels: Polsat, Polsat HD, Polsat2, Polsat Play, Polsat Cafe, Polsat Film, Polsat News, Polsat Sport, Polsat Sport Extra, Polsat Sport News, Polsat News 2, TV4, TV6, Polsat Romans, Disco Polo Music, MUZO.TV).

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

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

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

### **Sources of foreign programming**

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

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

### **Purchase of rights to broadcast sports**

Important sports licenses purchased by Polsat Group include broadcasting rights to the FIVB Volleyball competitions (World Grand Prix, World Cup) and Infront/CEV (European championships in volleyball – the men's tournament will take place in Poland in 2017), as well as Polish Volleyball Federation (World League from 2015, Hubert Wagner's Memorial, matches of the national team played in Poland). These contracts usually relate to playing seasons and have terms of three to five years. They are generally denominated in euro. Once we have obtained the required programming licenses for certain sports events, we provide our viewers with locally-customized programming either in the form of complete productions or studio commentary.

In 2013 we acquired exclusive, on all fields of exploitation, broadcasting rights to matches in the eliminations to European football championships in 2016, as well as final matches of the European football championships in 2016. We also acquired broadcasting rights to matches in the eliminations to World football championships in 2018 in Russia. In 2016 we signed a license agreement with the UEFA for package of qualifying matches to the 2020 European Championships and 2022 World Championships. The purchased package also includes new European football competitions – the League of Nations: qualifying matches and the finals (Final Four) in 2019 and 2021. We also acquired rights to the final match of the under 21

European Football Championship, which is scheduled to take place in June 2017 in Poland. Furthermore, we have been holding broadcasting rights purchased from PLPS (Polish Professional Volleyball League) to Plus League and Orlen League matches already for a decade. In 2014 we extended this contract for another five seasons 2015-2020.

### ***Sale of advertising and sponsoring***

#### **Advertising options**

There are two main forms of advertising on the TV market: advertisements broadcast in advertising breaks and sponsoring broadcast before and after selected programs and trailers during advertising breaks in-between sponsored programs.

#### **Advertising**

Broadcasters use two forms of sales of advertising time in advertising breaks: GRP sales and monthly rate-card sales.

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

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

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

#### **Sponsoring**

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

#### **Pricing of commercials**

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

In order to provide flexibility to advertising customers, we offer advertising priced on either on a rate card basis or on a cost per GRP.

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

GRP prices are established for the channel or group of channels each month during a calendar year by Polsat Media Biuro Reklamy advertising sales team and GRP delivery is guaranteed. Advertising sold on a cost per GRP basis is scheduled by Polsat Media on the basis of available resources after the booking of sales based on rate-cards. We believe this sales model to be the most profitable way to sell our advertising breaks. In 2016, rate-card sales accounted for 46% of all advertising sales on our main channel, POLSAT.

#### **Pricing of sponsoring**

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

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

### 2.7.3. Sales

#### ***Sale of advertising and sponsorship***

The key source of revenue for our broadcasting and television production segment is advertising and sponsorship revenue (approximately 77% in 2016). Almost all of our advertising revenue is collected through our advertising sales office Polsat Media Biuro Reklamy, which acts as our advertising agent (sales house). Polsat Media Biuro Reklamy is responsible for the sale of advertisements, sponsoring services and contracts connected therewith. Polsat Media Biuro Reklamy is responsible for the sale of advertising services (advertising time) for our channels.

In 2016, Polsat Media Biuro Reklamy carried out the sale of advertising time for 22 of our TV channels and 32 other broadcasters outside our Group. Polsat Media Biuro Reklamy often works with international media buying agencies that operate as intermediaries, negotiating purchase conditions and conducting campaigns for their customers. The sale of advertising time is carried out both through annual contracts entered into with media buying agencies, as well as individual direct customers. In 2016, our ten largest media buying agencies collectively accounted for approximately 66% of our net advertising and sponsorship revenue with no single advertiser accounting for more than 1% of our net advertising and sponsorship revenue. Like the other nationwide broadcasters in Poland, we have a relatively stable group of advertisers that we work with.

#### ***Sale of broadcasting rights to Polsat Group's channels***

The second largest source of our revenue in our broadcasting and television production segment after commercials and sponsoring, are agreements with cable TV networks and satellite TV operators to broadcast our channels, which comprised 17% of total revenue in this business segment in 2016. Our agreements with cable TV networks and satellite TV operators are generally non-exclusive licenses for the broadcasting of our channels. Under typical licenses, operators agree to pay us a monthly license fee, the amount of which generally depends on the number of customers to individual packages and set rates for the package or channel customers.

#### ***Distribution of content online***

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

Approximately 75% of IPLA's total revenue is generated by the advertisement-based model, while about 25% is derived from content purchases made by users.

#### ***Sales team***

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

Since 2009, Polsat Media Biuro Reklamy uses the PROVYS Sales system, a new sales and optimization software compatible with our fully-integrated ERP system, PROVYS TV Office, used by the Group to manage i.a. programming broadcasting. PROVYS Sales enables to simultaneously sell airtime on 54 channels serviced by Polsat Media Biuro Reklamy in 2016 with fully automated broadcasts of commercial airtime as well as campaign results verification based on daily uploaded NAM data.

In addition, Polsat Media Biuro Reklamy advertising sales department conducts a wide range of market analyses based on external independent industry reports, including research conducted by Starcom and Zenith. Polsat Media Biuro Reklamy also uses data from TGI consumer research held by the Polish branch of Millward Brown, the Gemius/PBI which provides

information on the behavior of Internet users in Poland and other dedicated tools provided by Gemius group (gemiusPrism, gemiusTraffic, gemiusStream, AdOcean).

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

#### **2.7.4. Technology and infrastructure**

##### ***Broadcasting of TV channels***

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

##### **Terrestrial transmission**

POLSAT, our main channel, and the channels Super Polsat (Polsat Sport News until January 2, 2017), TV4 and TV6 are broadcast via the nation-wide network of digital terrestrial transmitters within the MUX-2 operated by Emitel Sp. z o.o. (unrelated entity). We have agreements with Emitel for transmission, up-linking, multiplexing and monitoring of the four mentioned channels in digital network. The remaining channels of Telewizja POLSAT are broadcast exclusively via digital satellite platforms and cable TV networks.

##### **Satellite transmission**

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

##### ***Technology and infrastructure***

As the leading commercial broadcaster and producer of TV content, TV Polsat uses state-of-the-art technologies and relies on latest equipment. The main picture format is the High Definition 1080i50 standard. Since 2013 production and broadcasting has been based on electronic circulation of materials, which effectively speeds up and simplifies editing and transfer of materials, as compared to materials recorded on tape and concurrently offers additional possibilities of exploitation of the materials, such as VOD or on mobile devices. The main components of our technical resources include:

- four digital TV studios (A, B, C and D), all of which are equipped with cutting-edge, new or recently modernized, equipment:
  - studio A is the biggest HD studio used by the Polsat News channel and the main news program – “Wydarzenia” (“News”),
  - studio B is the HD studio for sports programs,
  - studio C is a virtual HD studio designated for short-form TV shows,
  - studio D is used by the channel Polsat News 2.
- five fully digital outside broadcast vans, including four HD vans and a small SD van for the rapid production of short programs,
- a two-camera Slow Motion HD van for replays during sports events,
- 13 digital satellite news gathering trucks ensuring on-site signal feed, 8 of which are HD-capable,
- a multi-channel automatic TV broadcasting system for broadcasting 21 Polsat channels,
- a multiplex system ensuring the effective transmission of the signal to viewers,
- a digital switching system for TV signals in the hub,
- IT systems and networks designed to handle technological tasks in the fields of production of news and sports programs, auto-promotional materials and postproduction,
- digital program archive with a modern MAM (Media Asset Management) system for content management,

- HD editing systems connected via IT and SDI networks,
- more than 80 HD cameras for reporters, with recording on SxS memory cards, together with the necessary equipment and accessories,
- technological systems for signal exchange between head office and regional offices, and
- a twin-engine EC-135 helicopter with a gyro-stabilized camera, used for realization of programs and offering the possibility transmitting HD signal up to 100 km.

## 2.8. Other aspects of our business

### ***Frequency reservations for the purpose of provision of telecommunication services***

Polkomtel holds a license to provide mobile telephony services in Poland with frequencies allocated in the 900 MHz band (issued in 1996), a license to provide mobile telephony services, with frequencies allocated in the 1800 MHz band (issued in 1999), a license to provide mobile telephony services in the 2100 MHz band (issued in 2000) and a license to provide mobile telephony services, with frequencies allocated in the 2600 MHz band (issued in 2016). Currently, there is no regulatory requirement to hold a license to provide telecommunications services and the right to use frequencies results from issued frequency allocation decisions and can be extended for further periods by the President of the Office of Electronic Communications (UKE) on the basis of an application for the extension of the frequency allocation (which, in accordance with the Telecommunications Law, must be submitted within 12 to 6 months before the expiry of a given allocation). Currently, based on frequency allocations issued by the President of UKE Polkomtel is entitled to use frequencies in the 900 MHz band until February 24, 2026, in the 1800 MHz band until September 14, 2029, in the 2100 MHz band until January 1, 2023 and in the 2600 MHz band until January 25, 2031. All frequency allocations are technology neutral and can also be used to provide services in each of the technologies currently in use (including GSM, UMTS and LTE).

Based on reservation decisions issued by the President of UKE, Aero2, Polkomtel's subsidiary, is entitled to use frequencies in the 900 MHz band until December 31, 2023, in the 1800 MHz band until December 31, 2022 and in the 2600 MHz band until December 31, 2024.

Based on a reservation decision issued by the President of UKE, Sferia, Polkomtel's subsidiary, is entitled to use frequencies in the 800 MHz band until December 31, 2018.

Nordisk Polska, a subsidiary of Polkomtel, holds a frequency allocation for provision of services in the CDMA technology since 2006 which entitles to use the frequency until December 31, 2020.

In addition, we hold a number of radio licenses for equipment constituting the components of our radio network.

### ***Broadcasting licenses***

In our broadcasting and television production segment we currently dispose of 29 broadcasting licenses, including 5 universal broadcasting licenses and 24 broadcasting licenses for thematic TV channels. 2 broadcasting licenses are for terrestrial broadcasting DTT only (POLSAT channel and TV4), 3 broadcasting licenses are for terrestrial broadcasting DTT and satellite broadcasting (channels Super Polsat and TV6 – with 2 licenses) and 26 broadcasting licenses are for satellite broadcasting only. Our current broadcasting licenses were granted by the National Broadcasting Council (KRRiT).

Since 2013 Polsat Group disposes of licenses for the distribution of nation-wide TV channels already in our possession (Polsat News, Polsat Film, TV4, TV6 and Super Polsat) for a consecutive 10-year period after the expiry of the licenses currently in force.

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

Channel	License holder	Type of license	Licensing body	Date of expiration
POLSAT	TV Polsat	Terrestrial broadcasting license (digital)	KRRiT	March 2, 2024
Super Polsat	TV Polsat	Satellite broadcasting license /Terrestrial broadcasting license (digital)	KRRiT	August 29, 2030
Polsat 2	TV Polsat	Satellite broadcasting license	KRRiT	January 18, 2024
Polsat Sport	TV Polsat	Satellite broadcasting license	KRRiT	January 18, 2024
Polsat Cafe	TV Polsat	Satellite broadcasting license	KRRiT	July 28, 2024
Polsat Sport Extra	TV Polsat	Satellite broadcasting license	KRRiT	October 26, 2025
Polsat Play	TV Polsat	Satellite broadcasting license	KRRiT	November 15, 2025
Polsat News	TV Polsat	Satellite broadcasting license	KRRiT	May 18, 2028
Polsat Film	TV Polsat	Satellite broadcasting license	KRRiT	June 4, 2029
Polsat News 2 <sup>(1)</sup>	Telewizja Polsat Holdings Sp. z o.o.	Satellite broadcasting license	KRRiT	October 5, 2024
TV4	TV Polsat	Satellite broadcasting license/Digital terrestrial broadcasting license	KRRiT	February 2, 2029
TV6	TV Polsat	Satellite broadcasting license/Digital terrestrial broadcasting license	KRRiT	July 22, 2030
Polsat Romans	TV Polsat	Satellite broadcasting license	KRRiT	October 15, 2023
Polsat Sport Fight	TV Polsat	Satellite broadcasting license	KRRiT	October 15, 2023
Disco Polo Music	TV Polsat	Satellite broadcasting license	KRRiT	April 24, 2024
Muzo.tv	TV Polsat	Satellite broadcasting license	KRRiT	April 24, 2024
Polsat Film 2 <sup>(2)</sup>	TV Polsat	Satellite broadcasting license	KRRiT	April 24, 2024
Polsat 1 <sup>(3)</sup>	TV Polsat	Satellite broadcasting license	KRRiT	May 11, 2024
Polsat Sport 2 <sup>(4)</sup>	TV Polsat	Satellite broadcasting license	KRRiT	March 6, 2026
Polsat Doku <sup>(5)</sup>	TV Polsat	Satellite broadcasting license	KRRiT	March 6, 2026
Polsat Sport 3 <sup>(4)</sup>	TV Polsat	Satellite broadcasting license	KRRiT	March 6, 2026
Polsat Reality <sup>(4)</sup>	TV Polsat	Satellite broadcasting license	KRRiT	March 7, 2026
Polsat X <sup>(4)</sup>	TV Polsat	Satellite broadcasting license	KRRiT	March 7, 2026
Polsat Sport News	TV Polsat	Satellite broadcasting license	KRRiT	December 20, 2026

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

(2) License acquired in April 2014 but the channel had not begun broadcasting yet.

(3) The channel began broadcasting on December 18, 2015.

(4) The channel has not begun broadcasting yet.

(5) The channel began broadcasting on February 10, 2017.

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

### **Restrictions on programming and advertising**

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

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

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

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

- advertising and teleshopping spots must be readily recognizable and distinguishable from editorial content;
- broadcasting time of commercials and teleshopping shall not exceed 12 minutes in any given clock hour, however, this limitation does not apply to announcements made by the broadcaster in connection with his own programs and ancillary products directly derived from those programs (these announcements are not to exceed two minutes in any given clock hour) as well as to announcements required by the provisions of law (sponsored announcements in particular);
- broadcasts of commercials and teleshopping spots shall be inserted between programs, however it is permitted to interrupt the following types of programs to broadcast commercials and teleshopping spots:
  - films produced for TV (excluding series, serials and documentaries) as well as cinematographic films – only once for very full 45 minutes program;
  - other programs (except for broadcasts of sports events which contain natural breaks resulting from their rules as well as broadcasts of other events containing breaks during which commercials and teleshopping spots can be aired) if the time between consecutive breaks in a TV program is at least 20 minutes;
  - news, current affairs programs and documentaries with a duration shorter than 30 minutes, religious programs and programs for children may not be interrupted to broadcast commercials or telesales spots;
- spots exclusively dedicated to teleshopping must contain explicit visual and audio disclaimers and must be broadcast continuously for at least 15 minutes; and
- product-specific advertising restrictions including restrictions related to:
  - alcohol, which is prohibited with the exception of beer, the advertising of which is allowed between 8 p.m. and 6 a.m.;
  - tobacco, tobacco accessories and products imitating tobacco products as well as gambling, the advertising of which is prohibited at all times;
  - pharmaceutical products, the advertising of which is prohibited save for non-prescription pharmaceuticals (the so-called OTC pharmaceuticals), the advertising of which must meet certain strict legal requirements;
  - health care services, as defined in the regulations on medical activity, available exclusively on the basis of a referral, the advertising of which is prohibited;
  - psychotropic substances and/or intoxicating substances, the advertising of which is prohibited;
  - baby formulas, the advertising of which is prohibited.

Moreover, the Amendment, imposes on broadcasters the duty to ensure that their media services are accessible to people with visual or hearing disabilities, in particular, by introducing appropriate amenities (such as audio description, subtitles for the hearing-impaired and sign language translation), so that at least 10% of the quarterly broadcasting time (excluding advertising and teleshopping spots) contained such amenities.

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

### **Trademarks**

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

### **Research and development - new services and implementations**

In 2016 we continued activities in the scope of implementation of state-of-the-art technologies and latest technical solutions, which ensure that Polsat Group's customers enjoy the highest quality and better functionality of services they own, and which allow us to expand our offer by new services and products.

In January 2016, Cyfrowy Polsat added a new **EVOBOX PVR** set-top box to its offer – a new generation device based on the latest global solutions. A set-top box with a 500 GB hard drive allows for recording of up to 3 programs simultaneously and has a built-in WiFi module. It ensures access to online services - Cyfrowy Polsat GO and HBO GO.

The **Cyfrowy Polsat GO** application was launched in March 2016. It offers access to over 90 linear TV channels on mobile devices for the customers of Cyfrowy Polsat.

In May 2016, we introduced a new offer of car insurances which can be ordered by phone, from a mobile application. With the use of a special **uBezpiecz** application the customer may select the most beneficial car insurance policy out of several customized offers, pay for it and save it on his or her smartphone. In August 2016, the insurance offer was extended with the products of one of the biggest insurance companies on the Polish market – ERGO Hestia. Customers may purchase a property insurance, motor vehicle insurance and travel insurance at Polkomtel's and Cyfrowy Polsat's points of sale.

In June 2016, Polkomtel introduced the service of **Plus IT Solution** for its business customers. The service ensures the possibility of using high quality ICT infrastructure based on a lease agreement. The service offers a lease of IT equipment, such as e.g. terminal equipment (laptops, PC's, tablets, printers), network equipment (router, WiFi network and local networks), or servers (pre-configured set or customized sets). Polkomtel, in cooperation with renowned suppliers and partners, as well as insurance companies provides its customers, apart from the lease of the selected equipment, also with technical service with the guaranteed repair time on the next business day, technical support (installation, optional IT support, uninstallation), insurance and guarantee for the entire term of contract. Customers using the Plus IT Solution, thanks to a possibility of equipment replacement after three years, always have access to state-of-the-art technological solutions without incurring any additional capital expenditures.

The offer **Lawyer – access to the Legal Advice Center** was made available to business customers in July 2016. Under this offer legal counsel is provided by lawyers and legal advisers. The advice is provided in the form of a phone call and in the case when a verification or drafting of a legal document is required – also via e-mail, fax or a dedicated client account. Availo Sp. z o.o. is the partner of the solution introduced by Plus network.

In November 2016, in cooperation with Locon, Plus launched new **room monitoring services** without the need of a cabling installation (Safe Home and Safe Company services). They are available via a mobile application installed on smartphones and tablets with Android and iOS systems and on PCs through the online service. This solution, thanks to the use of IP cameras and the Internet, offers among others: monitoring of home or company, view of the room at any time, motion detection via the camera, automatic event recording on a secure server, motion detection notification.

In 2016, Plus network launched commercially the "LTE Plus Advanced" standard offering data transmission speed of up to 300 Mbps for the mobile internet customers. Faster LTE standard is available to all customers of contract, mobile Internet and Mix offers.

As an element of further operational integration of Plus and Cyfrowy Polsat, and also in connection with the pursued strategy of development on the bundled services market, Polsat Group continues the implementation of a new integrated system supporting sales and customer care, as well as a convergent billing system for its products and services. The system will be implemented in cooperation with HUAWEI. The new approach is based on the omnichannel strategy – a multi-channel approach to sales, customer retention and customer support. The implemented system will enable even simpler and more effective management of sales, as well as flexible response to dynamic changes on the market by facilitating and accelerating the process of launching of new products and services.



## **IT systems**

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

In the segment of services to individual and business customers we use IT systems facilitating effective and efficient management of our customer base. These systems include a customer relationship management system, sales support system, the Internet Customer Service Center, and a transaction support system.

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

In our broadcasting and TV production operations we rely on numerous IT systems which support management of production of programs, data storage, creation of graphical elements, management of our program library, as well as license management. All the systems related to these areas are provided by external providers.

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

IT systems are critical to our operations in the field of telecommunication. In network management, we control all network infrastructure elements with respect to their availability, performance and security to control traffic and plan capacity of the network in line with expected business needs.

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

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

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

In pursuit of the operational integration of Polkomtel and Cyfrowy Polsat and relying on the Group's existing IT solutions, Polsat Group launched a project aimed at developing a shared system environment to develop joint multi-product offers comprising the services of both Cyfrowy Polsat and Polkomtel. These efforts will also enable us to achieve further cost optimization and leverage significant synergies in both know-how and resources.

The project involving implementation of the new integrated system which will support sales and customer service, as well as the convergent billing system for products and services, are the essential elements of this undertaking.

The implemented system will enable improved, simpler and more efficient management of sales as well as the ability to respond flexibly to market dynamics – launching of new products and services will become easier and faster. A central

catalogue of the Group's services and products will be developed with one, consistent and effective sales solution which will be common for all contact channels. IT infrastructure will be simplified and will become more flexible, which will enable reduction of the time and the cost of new business implementations.

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

### ***Real estate property***

Cyfrowy Polsat owns the majority of the real estate property on which our DTH satellite TV infrastructure, studios, some offices and warehousing facilities are located. All of our real estate property is located in Poland. We believe that all of our real estate property is well maintained and in good condition. As at December 31, 2016, there was a mortgage registered on the real estate property owned by us, established in respect to the Combined SFA. Some insignificant parts of Cyfrowy Polsat's real estate property are encumbered with typical easement rights for electricity cables and other media. Part of our real estate property is being leased from third parties.

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

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

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

In our television production and broadcasting segment, our basic production and TV broadcasting operations are carried out in leased premises in the office-industrial building located at 77 Ostrobramska Street in Warsaw, owned by Inwestycje Polskie Sp. z o.o. and in production studios located at 4A Łubinowa Street, owned by Cyfrowy Polsat.

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

### ***Environmental matters***

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

Electronic equipment manufacturers are obligated to comply with environmental laws, in particular with regulations concerning the storage and utilization of chemical substances that are hazardous to the environment and are used during production and repair services. As a modern electronic equipment manufacturing plant, Interphone Service Sp. z o.o. complies with all legal requirements and hold certificates of quality with respect to hazardous substances management. The environmental safety policy is subject to annual audits. Apart from on-going environmental protection against hazards related to the production process, this policy also comprises the verification of components with respect to substances forbidden by European standards of electric and electronic equipment production, such as lead and mercury.

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

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

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

At the date of preparation of this Report, to our best knowledge, no proceedings regarding breach of such environmental regulations were pending against us.

### **Insurance agreements**

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

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

In 2016 Polsat Group was party to the insurance agreements described below.

In the scope of property insurance general agreements were concluded for the years 2014-2017 with TUIR Warta S.A. in co-insurance with STU Ergo Hestia S.A. and PZU S.A. regarding the insurance of assets against all risks, electronic equipment insurance, insurance of machinery against damages, loss-of-profit insurance, insurance of assets in domestic and international transport (cargo).

In the scope of third-party liability insurance a general agreement was concluded for the years 2014-2017 with TUIR Warta S.A. in co-insurance with STU Ergo Hestia S.A. and PZU S.A. regarding third-party liability insurance, including professional liability insurance. Furthermore, an agreement regarding bookkeeping liability insurance was concluded with PZU S.A. The following insurers are engaged in the liability insurance policy of directors and management board members of companies belonging to Polsat Group: TUIR Allianz Polska S.A., AIG Branch in Poland, ACE Branch in Poland, TUIR Warta S.A., Sopockie TU Ergo Hestia S.A. and PZU S.A.

In 2016 Polkomtel concluded a general fleet motor insurance agreement with STU Ergo Hestia S.A. (collision, comprehensive and third party insurance, theft insurance, accident insurance and assistance), which extends to the entire motor fleet of Polsat Group.

In 2016 the international business travel health insurance with AIG Europe Limited Sp. z o.o. Branch in Poland and personal injury insurance with Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. were continued.

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

### **Charity and sponsorship activities**

Corporate Social Responsibility is inherently connected with our operations on the market, the achievement of our business goals and building of the value of our companies. In particular, we are involved life-saving, healthcare and safety-promoting initiatives, as well as in providing support for those in need or those at risk of social or economic exclusion. In this respect we have been cooperating for many years with public benefit institutions, such as Polsat Foundation, Przyjaciółka Foundation, WIOSNA Association, as well as with emergency services (TOPR – Tatra Volunteer Search and Rescue, WOPR- Volunteer Water Rescue Service and GOPR - Mountain Volunteer Rescue Service).

TV Polsat was the first commercial station in Poland to engage in charity and has been cooperating in this area with the Polsat Foundation, established in 1997. The Foundation aids ill children and is currently one of the biggest NGOs operating in Poland. So far the Foundation has provided assistance to nearly 30 thousand little patients and has offered financial support to almost 1.2 hospitals and medical centers nationwide, which have been renewed or equipped with modern medical equipment. The Foundation has so far transferred nearly PLN 217 million for its statutory purposes. The funds used to

conduct the Polsat Foundation's operations come from nationwide campaigns, donations from both enterprises and private persons.

The most recognizable projects of Polsat Foundation include the campaign "We are for the Children" and the "St. Nicholas Day Commercial Block," which has been realized jointly with Polsat TV and Polsat Media Biuro Reklamy for 13 years. The "St. Nicholas Day Commercial Block" has become a tradition for our Group. Every year it is aired on the main channel POLSAT on December 6, at 6:45 p.m. TV spots encouraging to watch the charity block feature reporters known from our flagship news program "Wydarzenia" ("News"). Engaging trailers and announcements are aired on all key channels of TV Polsat, as well as in the online TV IPLA and the radio channel MUZO.FM.

Revenue from the "St. Nicholas Day Commercial Block," calculated on the basis of viewership results, is donated in full to the Polsat Foundation for the purpose of treatment and rehabilitation of ill children. In 2016 the charity commercial block attracted almost 6.1 million viewers, which translated into an audience share of 36.5% in the commercial group. Thanks to such a large audience the campaign generated nearly PLN 1.25 million.

Since 2010 Cyfrowy Polsat's budget planned for traditional Christmas gifts has been used for medical treatment and rehabilitation of the patients supported by Polsat Foundation. In 2016 the funds were spent on the purchase of prosthesis for 14-year-old Błażej from Józefów.

Despite the fact that employee volunteer activities are not subject any formal procedures, our employees are very active in supporting charity initiatives. In 2016 four such projects were realized: "Fill the School Backpack" (over 2.9 thousand school articles and gadgets divided into 35 school starter kits were donated for children in care of Przyjaciółka Foundation), "Santa Claus Courier" (106 gifts worth almost 13 thousand zlotys for children in care of Przyjaciółka Foundation), and "Noble Box Project" (132 boxes worth approximately 19.5 thousand zlotys for 9 families participating in the project Stowarzyszenie WIOSNA) and finally the Christmas fair "Small things, big help" (by selling hand-made Christmas decorations, the students of Primary Charter School no.14 in Warsaw gathered a total of 4.8 thousand zlotys to help finance schools in Cisna and Nowy Łupków in the Bieszczady region).

Moreover, for over 16 years Polkomtel has been engaging in activities aimed at the promotion of safety. In this respect the company cooperates with emergency services: the Tatra Volunteer Search and Rescue (TOPR), the Volunteer Water Rescue Service (WORP) and the Mountain Volunteer Rescue Service (GOPR). Apart from typical forms of cooperation, such as financial support for purchasing equipment, the operator of Plus network has created, jointly with the rescue units, the Integrated Rescue System which includes two emergency numbers: 601 100 300 in the mountains and 601 100 100 at the seaside and on the lakes. The Integrated Rescue System reduces the time taken to reach a victim as well as efficiently coordinates rescue operations. As the technology partner of rescue units, Polkomtel is involved in educational projects, which promote safety and avoidance of hazardous behavior by, for example, providing dedicated applications.

Apart from charity activities, we are also involved in numerous sponsoring activities. In its to-date sponsoring activities Cyfrowy Polsat supported, among others, Kevin Mirocha (a Formula 2 driver) and Aleksander Arian (a sailor of UKS Sailing Team Rzeszów). Since 1998 Polkomtel has been continuously supporting Polish volleyball under its Plus brand. During that time Polkomtel has been, among others, the Main Sponsor of Polish Women's and Men's National Volleyball Teams as well as the titular sponsor of PlusLiga volleyball league.

### 3. SIGNIFICANT EVENTS AND AGREEMENTS

#### 3.1. Corporate events

##### **Finalization of the process of refinancing of the Group's debt, initiated in 2015**

###### **Conclusion of hedging agreements**

In connection with the process of refinancing of the debt under the PLK Senior Notes and hence the need to exchange funds from the PLK Term Loan, denominated in PLN, into EUR and USD funds, Polkomtel executed several FX hedging transactions. In addition, to limit the risk of unfavorable interest rate movements, the Company and Polkomtel executed several Interest Rate Swap transactions. As at January 29, 2016, the total value of the concluded hedging transactions, converted into PLN, amounted to PLN 6,581.8 million.

Transactions were concluded on various dates and with various banks, including Powszechna Kasa Oszczędności Bank Polski S.A., ING Bank Śląski S.A., Société Générale Spółka Akcyjna Branch in Poland, Bank Zachodni WBK S.A., BNP Paribas Fortis SA/NV and Credit Agricole Bank Polska S.A., and as at January 29, 2016 comprised, in particular:

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

###### **Repayment and redemption of PLK Senior Notes**

On January 29, 2016, our subsidiary Eileme 2 repaid all debts in respect of the senior notes issued by Eileme 2 with the aggregate nominal value of EUR 542.5 million and USD 500 million due 2020, bearing interest at 11.75% for the EUR tranche and 11.625% for the USD tranche respectively (PLK Senior Notes). The redemption of the PLK Senior Notes took place on February 1, 2016.

The PLK Senior Notes were redeemed for a price equal to, respectively, 105.875% of the nominal value of the EUR tranche of the HY Notes and 105.813% of the nominal value of the USD tranche of the HY Notes, increased by the due and accrued interest.

Funds used for the early redemption of the PLK Senior Notes came from the term facility granted to Polkomtel on the basis of the PLK Senior Facilities Agreement of September 21, 2015.

Details concerning the repayment of the PLK Senior Notes are provided in the Company's Current Reports No. 1/2016 of January 29, 2016 and No. 4/2016 of February 1, 2016.

###### **Consolidation of Term Loans**

In connection with the early repayment and redemption of the PLK Senior Notes on February 1, 2016, amendments provisioned for in the Amendment, Restatement and Consolidation Deed of September 21, 2015 (for details see item 4.6.5 - *Operating and financial overview of Polsat Group – Review of our financial situation - Liquidity and capital resources – Material financing agreements executed by the Group*) were incorporated to the CP Senior Facilities Agreement. Moreover, debts under the PLK Facilities Agreement were repaid on a cashless basis, from funds made available to Polkomtel under the CP Facilities Agreement and Polkomtel and other subsidiaries of the Company have acceded to the CP Facilities Agreement as a borrower and guarantor or a guarantor.

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

### **Establishment of additional security interests related to the Combined SFA**

As a result of the repayment of all debts in respect of the PLK Senior Notes and the PLK Facilities Agreement, the security interests established in connection with the debts contracted under the aforementioned finance documents were released. On January 29, 2016, Polkomtel and other members of the Company's group and UniCredit Bank AG, London Branch, executed and signed certain agreements and further documents concerning the establishment of security interests in connection with the amendment of the CP Senior Facilities Agreement pursuant to the Amendment, Restatement and Consolidation Deed, described in the previous point, and the accession thereto of Polkomtel and other subsidiaries of the Company as a borrower and guarantor.

The aggregate book value of the assets encumbered with the security interests, as disclosed in the books of account of the Company's subsidiaries, was PLN 18,382 million as at January 29, 2016. A detailed list of established security interests is presented in item 4.6.6. – *Operating and financial overview of Polsat Group – Review of our financial situation - Liquidity and capital resources - Information on guarantees granted by the Company or subsidiaries.*

### **Acquisition of Midas Group (currently Aero2 Group) and repayment of its debt**

#### **Acquisition of Litenite Ltd., direct parent of Midas**

On February 29, 2016 Polkomtel purchased from Ortholuck Limited 100% of shares in Litenite Limited, a direct owner of 976,542,690 shares of Midas S.A., representing 65.9975% of the total number of votes and the share capital of Midas S.A. As a consequence of the aforementioned acquisition, the Company and Polkomtel, became indirect dominant entities of Midas S.A. and its subsidiaries]: Aero2, AltaLog and Sferia.

The consideration for 100% of the shares in Litenite acquired by Polkomtel was EUR 1.0. The calculation of the consideration reflected the fact that as the net indebtedness of Litenite, calculated as the difference between the value of net liabilities and cash, was approximately PLN 788 million as at January 31, 2016, and the only assets of this company, other than cash, were the shares of Midas of a similar value.

The indirect acquisition of shares in Midas is considered a strategic long-term investment of the Group.

#### **Tender offer to purchase shares in Midas**

In connection with the indirect acquisition, on February 29, 2016, of 976,542,690 shares in Midas, representing 65.9975% of the total number of votes and share capital of Midas, Polkomtel announced a tender offer to purchase 503,124,060 shares of Midas, representing up to 34.0025% of the total number of votes and the share capital of Midas. The tender offer was announced pursuant to Article 74 Section 1 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 29 July 2005. The price of the Midas shares in the tender offer was set for PLN 0.81 per one share of Midas.

The subscription period for the Midas shares in the tender offer was closed on April 19, 2016, and the tender offer was settled on April 27, 2016. 216 subscriptions were made for a total of 403,054,449 shares in Midas giving the right to 403,054,449 votes at the General Meeting and representing 27.2395% of the total number of votes and share capital of Midas.

In connection with the fact that Polkomtel exceeded the threshold of 90% of the total number of votes in Midas, the management board of Polkomtel made the decision to acquire up to 100% of shares in Midas and therefore announced in May 25, 2016 a squeeze-out of Midas shares held by all the remaining shareholders of that company. The squeeze-out date was set for May 31, 2016, and the squeeze-out price is PLN 0.81 per share. On that date the squeeze-out was executed successfully.

On June 13, 2016 the General Meeting of Midas decided to reverse the dematerialization of all Midas shares and to delist them from the regulated market supervised by the WSE. Midas shares were excluded from trading on August 9, 2016.

#### **Repayment of the indebtedness of Midas Group**

On April 29, 2016 companies belonging to Aero2 Group had repaid in full their indebtedness under a facilities agreement dated July 10, 2014, as amended, concluded with Bank Polska Kasa Opieki S.A., in the amount of PLN 326.3 million and on May 10, 2016 they had repaid in full their indebtedness under facilities agreements dated October 27, 2010 and November 25, 2010, as amended, concluded with Invest Bank S.A. (currently Plus Bank S.A.), in the amount of PLN 41.1 million. The repayment of the indebtedness was made using own funds.

Concurrently, in connection with the repayment of all outstanding amounts related to the abovementioned facilities agreements, as well as other financing documents related to them, all securities established in connection with the said agreements have been released.

Furthermore, on May 12, 2016 Polsat Group acquired the majority of zero-coupon notes issued by Midas. On November 9, 2016, the management board of Midas adopted a resolution on the premature, mandatory redemption upon demand of all notes issued by Midas, maturing on April 16, 2021. The date of the premature redemption was set on December 9, 2016 and the redemption price per share amounted to PLN 602.07.

#### **Transformation of Midas Group into Aero2 Group**

On November 30, 2016 the merger of Aero2 Sp. z o.o. with Midas S.A. took place, where Aero2 Sp. z o.o. was the taking-over company, hence we will refer to the capital group comprising Aero2 and its subsidiaries as Aero2 Group in this Report.

#### **Upgrade of Cyfrowy Polsat's rating**

On May 16, 2016 Moody's Investors Service upgraded the corporate family rating (CFR) of the Company from Ba3 to Ba2, with a stable outlook. Further details regarding ratings are discussed in item 4.6.5. – *Operating and financial review of Polsat Group – Review of the Group's financial situation – Liquidity and capital resources – Ratings.*

#### **Changes in the composition of the Management Board**

On August 24, 2016, Mr. Tomasz Szelaż resigned from his position as Member of the Management Board of the Company, effective on September 30, 2016.

On August 25, 2016, the Supervisory Board appointed Ms. Katarzyna Ostap-Tomann to the position of Member of the Management Board effective on October 1, 2016.

#### **Changes in the composition of the Supervisory Board**

On September 30, 2016, Mr. Zygmunt Solorz resigned from membership in the Supervisory Board of the Company, effective immediately.

Pursuant to resolutions adopted on September 30, 2016 the Extraordinary General Meeting of the Company appointed Mr. Tomasz Szelaż and Mr. Marek Kapuściński to the Supervisory Board of the Company as of October 1, 2016. On October 25, 2016 the Supervisory Board appointed Mr. Marek Kapuściński to the function of Chairman of the Supervisory Board.

#### **New dividend policy**

On November 8, 2016 the Management Board of the Company adopted a resolution regarding the dividend policy which assumes that dividend payout proposals, along with the Management Board's recommendations, will be presented every year to the General Meeting. The complete wording of the dividend policy is presented on item 7.5 – *Cyfrowy Polsat on the capital market – Dividend policy.*

### **3.2. Business related events**

#### **Registration of prepaid SIM cards**

The Anti-terrorist Act of June 10, 2016 obligates prepaid service users to register their SIM cards by providing their personal details to their mobile operator. The mobile operator is, in turn, obligated to properly verify the received data. Mandatory registration of both those cards which are already in use, as well as newly purchased cards, began on July 25, 2016. In accordance with the provisions of the abovementioned act, on February 1, 2017, telecommunication operators were obligated to deactivate all prepaid SIM cards that have not have been properly registered by that date.

To facilitate the registration process, we have provided access to numerous contact channels for prepaid service users, including Polkomtel's and Cyfrowy Polsat's own points of sale, remote access channels, as well as the outlets of selected nationwide partner networks, such as, e.g., Neonet, Ruch, Poczta Polska, Relay, Inmedio, 1Minute, or Statoil.

Concurrently, we have launched an information campaign and an attractive promotional offer with the purpose of encouraging customers to register early. Customers who register their SIM cards were offered one-time bonuses in the form of PLN 500 for use for calls and short text messages, as well as 50 GB of additional data transmission. The bonuses were valid for 30 days after the registration date. In addition, we offered the option of 1-year prepaid account validity with selected

tariffs. We also carry out activities aimed at encouraging customers to migrate their prepaid services to a postpaid offer, e.g., by offering unlimited voice calls and short text messages, big data packs, and also by exempting the customers who decide to choose such an offer from payment of the monthly subscription fee for a specified period of time.

After 5 months of the Anti-terrorist Act being in force, effects of the prepaid card registration duty were already clearly visible, reflected in the intensified elimination of inactive prepaid cards from the reported bases of telecommunication operators and in the migration of customers to contract tariffs on a much larger scale than in the past. According to the data published by the Central Statistical Office (GUS), at the end of December 2016 the total base of reported SIM cards declined by around 2.4 million during 6 months. The sales of new prepaid SIM cards recorded a sharp decrease on the market. According to our estimates, market-wide sales of new prepaid services have shrunk by as much as 50% since the moment of introduction of the mandatory registration.

At the beginning of March 2017, following the completed deactivation of unregistered hitherto prepaid SIM cards, our base of prepaid voice and internet access services (excluding pay TV RGUs) amounted to over 2.8 million RGUs. The registration is being continued and customers who register by December 15, 2017 can retrieve their previous IMSI number, assigned to the SIM card deactivated on February 1, 2017, pursuant to the requirements of the Anti-terrorist Act.

### ***European Football Championship UEFA EURO 2016***

Based on the license acquired in 2013, Polsat Group had exclusive rights to all the meetings of the European Football Championship UEFA EURO 2016. For the duration of the EURO 2016 we launched a special package comprised of two sports channels - Polsat Sport 2 and Polsat Sport 3 – which offered live broadcasts of all 51 meetings, without advertisements and in HD quality, complemented with 200 hours of commentary, live coverages and other exclusive content. The UEFA EURO 2016 package was offered in the subscription model to retail customers of Polsat Group. Concurrently, we offered promotions, under which customers prolonging their pay TV or telecommunication contracts and subscribers of the Premium MAX package received that UEFA EURO 2016 package free of charge, thus positively influencing our ARPU and churn ratio.

The monetization of rights to the European Football Championship UEFA EURO 2016 was conducted via different channels and consisted in the sale of rights to 11 matches to TVP, the sale of subscriptions of the UEFA EURO 2016 package to cable and satellite operators and the sale of rights to publicly rebroadcast matches. Moreover, in accordance with applicable law, we aired 24 matches on our open channel POLSAT. The actions described above had a positive impact both on wholesale revenue in the segment of broadcasting and television production, retail revenue from pay TV, as well as on audience shares in June and July of 2016.

### ***Implementation of an integrated IT environment***

As an element of the continued operational integration of Polkomtel and Cyfrowy Polsat, and also in connection with the pursued strategy of development on the bundled services' market, Polsat Group is currently implementing a new integrated system supporting sales and customer care as well as a convergent billing system for its products and services. The system is being implemented in cooperation with HUAWEI who provides the IT systems and who assumed responsibility for the implementation process as the integrator.

The purpose of the implementation is to redefine and standardize the sales processes and the offers across Polsat Group, as well as to provide a single, consistent and effective tool which will enable the management of sales and retail customer relations in all possible levels. The new approach is based on the omnichannel strategy – a multi-channel approach to sales, customer retention and customer support. The implemented system will enable even simpler and more effective management of sales, as well as a flexible response to changes on the market by making the launch of new products and services easier and faster. A central catalogue of the Group's services and products will be created, with one consistent and effective common sales solution for all customer contact channels.

The completion of the implementation phase of the project is planned for the end of 2018 and its costs have been distributed throughout the entire duration of the implementation process and have been included in the Group's investment plans assuming capital expenditures below 10% of the Group's revenue, as communicated earlier.

### ***Expansion of Cyfrowy Polsat's offer***

On March 31, 2016 the programming offer of Cyfrowy Polsat was extended to include two new thematic channels: Water Planet and Novela TV. Both channels are available in one of our most popular programming packages – Familijny Max HD. The offer of the popular science channel Water Planet focuses on the subject of the world of water, tourism and active lifestyle, while the channel Novela TV is dedicated primarily to series. Moreover, in 2016 we expanded the programming offer of



Cyfrowy Polsat by two thematic channels: Zoom TV and Metro. Both channels are available starting from the Mini HD package.

Furthermore, Cyfrowy Polsat and ELEVEN SPORTS NETWORK have entered into cooperation, as a result of which subscribers of the platform have gained access to HD channels, Eleven and Eleven Sports. The new channels complement the rich sports offering available on Cyfrowy Polsat, with premium content including football from Spain's Liga BBVA, Italy's Serie A TIM, France's Ligue 1 and England's Emirates FA Cup, handball from the Velux EHF Champions League, Formula 1® and much more.

Both channels, available in the form of a paid package, are an addition to the 13 sports channels already available on Cyfrowy Polsat, covering a wide range of sports events including the most important Polish league competitions: Ekstraklasa, PlusLiga, Tauron Basket Liga, PGNiG Superliga, 2018 FIFA World Cup Russia qualifiers, Bundesliga and the UEFA Europa League, national volleyball team matches, tennis tournaments such as the Australian Open and US Open, and combat sports including KSW and top boxing galas.

#### ***Expansion of TV Polsat's channel portfolio***

On August 1, 2016 Telewizja Polsat expanded its portfolio of sports channels, already including Polsat Sport, Polsat Sport Extra and Polsat Sport News, by launching a new channel - Polsat Sport Fight HD. The channel is broadcast in HD standard, 7 days a week for at least 18 hours daily. Polsat Sport Fight HD is entirely devoted to martial arts, airing the biggest galas to which Telewizja Polsat holds broadcasting rights, including, among others, Polsat Boxing Night, HBO professional boxing nights, TOP Rank, Showtime, Matchroom and mixed martial arts - KSW, MMA Attack or FEN.

#### ***Expansion of the offer of IPLA online television***

In 2016 the largest online television IPLA, which belongs to Polsat Group, expanded its offer by including nearly 40 online TV channels. Apart from thousands of videos on demand, popular films, series and animations, the widest array of legal sports broadcasts in Poland, news and journalistic videos, IPLA currently also offers over 80 online television channels. The offer is available to all users on the territory of Poland, irrespective of the provider of internet access services. IPLA is available on a wide selection of devices: computers, smartphones, tablets, selected set-top boxes and smart TV sets, without long-term contracts and commitments. The expansion of IPLA's offer is a strategic phase in its development and addresses the increasing needs of IPLA's users and the changing global trends in online video and television consumption patterns.

During the SAT Kurier Awards 2016 gala IPLA online television was ranked number 1 in the category "Best service" in a poll for best products and services on the digital television market.

#### ***Cyfrowy Polsat GO***

In line with the adopted strategy of expanding the world of multimedia family entertainment, Cyfrowy Polsat introduced a new online service - Cyfrowy Polsat GO, which expands the existing package of satellite channels by adding online, on-demand access to over 90 linear channels and thousands of materials on demand. Our customers who decide to purchase the option ON THE GO can watch television on mobile devices powered by Android OS and on the website [go.cyfrowypolsat.pl](http://go.cyfrowypolsat.pl).

The new offer addresses the expectations of customers who try to make the best of every moment of their lives and expect that TV will be available to them at the time and place of their choice.

#### ***Expansion of the offer of the service Mobile TV***

In March 2016 we expanded the offer of Cyfrowy Polsat's Mobile TV, available on DVB-T set-top boxes, by including 4 new thematic channels – Polsat Cafe, Polsat Play, Comedy Central Family and TVN Style. Consequently, Cyfrowy Polsat now offers its customers 12 encoded TV channels and 12 radio channels in the Extra Package. Additionally, users of reception devices of Mobile TV can view FTA digital terrestrial television channels.

#### ***Commercial launch of LTE Plus Advanced Internet***

On August 23, 2016, we offered our customers services based on the technology of frequency band aggregation, marketed under the name LTE Plus Advanced. LTE Advanced service from Polsat Group is provided in two variants. The first one involves aggregation of two 20 MHz carriers in LTE FDD standard which operate in the 1800 and 2600 MHz frequency bands. The second one, in turn, involves aggregation of a 20 MHz carrier in the 1800 MHz frequency band and a 5 MHz carrier in the 800 MHz frequency band.

Carrier aggregation across bandwidths allowed us to increase data transmission speed within our internet access services to a maximum of 300 Mbps, and, together with the continued network roll-out, will contribute to increased stability and capacity of our mobile network. This in turn translates into improved quality of Internet access services for our existing customers and the possibility of comfortable use of the network by a larger number of users. In January 2017 already over 40% of Poland's population lived within the coverage footprint of our LTE Plus Advanced Internet service, which means that this cutting-edge technology was available to over 15 million people.

### ***Acquisition of sports rights***

In 2016, Telewizja Polsat acquired rights to broadcast meetings of the Coppa Italia in the 2016 and 2017 seasons, as well as rights to broadcast all matches of the 2016 European Men's Handball Championship.

In September 2016 Telewizja Polsat acquired rights to the European Qualifiers (qualifying matches of the UEFA zone) to 2020 UEFA European Football Championship and the 2018 FIFA World Cup in Russia, as well as to two seasons of new matches of the UEFA Nations League in the years 2018/2019 and 2020/2021.

What is more, in order to improve the attractiveness of its portfolio of broadcasting rights, Telewizja Polsat will broadcast the UEFA European Under-21 Championship 2017 which will take place in Poland. Telewizja Polsat will be the official broadcaster of the tournament and the producer of the television signal for all countries, who will be broadcasting the championship.

### ***Digital Filmmakers Zone***

As part of the Digital Filmmakers Zone, a program addressed to filmmakers and producers, Polsat Group selected four projects, which it intends to finance. Thanks to this new productions will be coming to cinemas in 2017 and 2018, including a biopic of actress Anna Przybylska, a fact-based story of the sportsman Jerzy Górski, a funny animation based on a cult comic series and a comedy about the ups and downs of the 30-year old single woman.

The Digital Filmmakers Zone is an integrated digital platform launched by us in May 2016, which facilitates direct communication with filmmakers, screenwriters and producers. The program was positively received by the film industry, hence the large number of submitted proposals. Through the Digital Filmmakers Zone Polsat Group aims to implement plans intended to increase the involvement of its companies into film production, co-production and distribution, in order to expand the Polish offer and make it more attractive, as well as to increase the cinema audience who consciously selects Polish productions.

### ***Acquisition of IT Polpajer***

On September 30, 2016, through our subsidiary Polkomtel, we acquired 100% of shares in IT Polpajer S.A., a company providing services in the scope of IT, development and maintenance of technical and telecommunication infrastructure primarily to companies from Polsat Group. The company has many years of experience, know-how and a qualified team of professionals in the field of radio access networks, core networks, IMS system and optic and radio transmission. The newly acquired company perfectly complements the resources and team at Polkomtel and Aero2 Group connected with the project of network development.

## **3.3. Events after the balance date**

### ***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.

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

### ***Development of the smartDOM program***

In February 2017 we began a new phase in the communication of our strategic bundled offer. The program, currently marketed under the slogan “smartDOM Home Savings Program,” comprises nine products and services for every home. Apart from our basic, core products and services: mobile telephony, Plus and Plus Advanced LTE Internet and satellite TV from Cyfrowy Polsat, smartDOM customers can also use services such as the sale of electric energy, banking, insurance and home security services, as well as the sale of telecommunication devices, home electronics and domestic appliances. In the near future the offer will be expanded to include the sale of gas. 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.

## 4. OPERATING AND FINANCIAL REVIEW OF POLSAT GROUP

### 4.1. Key factors impacting our operating activities and financial results

#### 4.1.1. Factors related to social-economic environment

##### *Economic situation in Poland*

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

Based on Eurostat data, a noticeable recovery of economies both of Poland and other EU countries took place in 2014 and 2015. 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 almost saturated.

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

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

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

##### *Development of advertising market in Poland*

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 next years, we believe that growth of the Polish advertising market can also 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 17.0% y-o-y and reached the value of over PLN 2.5 billion in the first three quarters of 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 the first three quarters of 2016 those expenditures increased by 25% 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 the leading position on the online video market (through IPLA internet television and the Cyfrowy Polsat GO service) we may benefit from the growth of this promising advertising market segment.

#### ***Growing importance of thematic channels***

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

#### ***Fixed-mobile substitution and growth of mobile broadband Internet saturation***

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

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

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

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

#### ***Growing demand for smartphones and data transmission***

In Poland the popularity and sales of smartphones has been gradually growing. Currently, smartphones have almost completely replaced traditional handsets in our sales structure. Concurrently, we estimate that among all handsets used by our customers only about 63% constitute smartphones. This disproportion shows that the saturation of our mobile services customers base with smartphones will grow consistently in the next years.

Popularization of smartphones translates into growing sales of data transmission products in the segment of small screen devices. According to estimates presented in the Ericsson Mobility Report dated November 2016, the volume of transmitted data in the Central and Eastern Europe region, to which Poland belongs, will grow at an average annual rate of 40% over the next 6 years (CAGR 2016-2022), which translated into a twelve-fold increase in 2022.

According to our estimates, in the fourth quarter of 2016 customers of Polkomtel and Cyfrowy Polsat transferred 152 PB of data, or 23% more than a quarter earlier and 63% more than in the corresponding period of 2015. A total of 514 PB of data was transferred by our residential customers during the entire 2016, i.e. 80% more than in 2015.

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

### ***Seasonality of advertising market***

Our advertising revenue tends to be lowest during the third quarter of each calendar year due to the summer holiday period and highest during the fourth quarter of each calendar year due to the increased consumer spending during the Christmas season. In the year ended December 31, 2016, TV Polsat Group generated approximately 21.0% of advertising revenue in the first quarter, 28.0% in the second quarter, 20.3% in the third quarter and 30.7% in the fourth quarter.

### ***Seasonality of the telecommunications market***

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

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

## **4.1.2. Factors related to the operations of the Group**

### ***The growing importance of integrated services***

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

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

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

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

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

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

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

### ***Development of the IPLA service***

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

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

### ***Attractive content of our TV channels***

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

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

#### **4.1.3. Factors related to the regulatory environment**

##### ***International roaming in mobile networks***

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

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

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

- 5 euro cents per 1MB of data transfer;
- 5 euro cents per minute in the case of outgoing voice calls;
- the average European MTR rate (1.08 euro cent) in the case on incoming voice calls;
- 2 euro cents per short text message.

Additionally, the maximum retail price levels, including the domestic price, remain in force. These levels are presented in the table below.

	Maximum retail prices (excluding VAT)		Maximum average wholesale prices (settlements between operators)
	until April 29, 2016	from April 30, 2016	from July 1, 2014 to present
Data transmission (1 MB)	20 euro cents	20 euro cents	5 euro cents
Outbound voice calls (minute)	19 euro cents	19 euro cents	5 euro cents
Inbound voice calls (minute)	5 euro cents	1.14 euro cents (as of January 5, 2017 – 1.08 euro cents)	n/a
SMS (1 SMS)	6 euro cents	6 euro cents	2 euro cents

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

The implementation of the *Roam like at Home* concept on June 15, 2017 in line with the Regulation depends on the revision of wholesale charges for roaming services. The proposed levels of these charges are currently being consulted. The most recent proposal, presented by the European Parliament, was as follows:

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

It should be emphasized that the above proposal regarding wholesale prices will be subject to further ratification at the UE level, as well as at the level of Member States.

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

As at the date of publication of this Report the level of mobile termination rates (MTR) has not been finally approved. Moreover, negotiations are in progress with respect to the implementation of the so called *Fair Usage Policy* on the local level.

#### **Reservations of spectrum in the 800 MHz band**

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

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



cannot be unequivocally predicted, whether high costs of financing the purchase of the 800 MHz spectrum incurred by our competitors will be reflected in their pricing policies related to mobile services.

It must be emphasized that legal proceedings in connection with the modification of the rules ending the auction while the auction process was in progress cannot be excluded. This may be due to strong protests of the majority of parties participating in the auction, supported by numerous opinions of recognized constitutionalists as well as experts and analysts of the telecoms market, all of which agree that the solution introduced by the ministry of administration and digitization is unconstitutional. There is a risk that legal proceedings may lead to challenging the results of the auction, announced by UKE.

#### ***Registration of prepaid SIM cards***

Until recently the anonymous use of prepaid mobile services in Poland was possible, i.e. the user was not obligated to provide any personal data. In accordance with the provisions of the Anti-terrorist Act of July 10, 2016, existing prepaid SIM users have been obligated to provide their personal data to their telecom operators until February 1, 2017 at the latest. Concurrently, telecommunication operators have been obligated to properly verify the provided personal data. Operators have been obligated to discontinue the provision of services for those SIM cards, which will not be properly registered by the indicated deadline. In addition, from July 25, 2016 telecommunication operators may start the provision of services for the newly sold prepaid SIM's only after their registration.

As a result of the implementation of the regulations stemming from the anti-terrorist act, a remodeling of Polish mobile market can be expected, in particular a reduction of the volume of sales of prepaid SIM's with the simultaneous extension of the average period of activity of registered SIM's, as well as a reduction of prepaid customer bases reported by respective operators (due to the elimination of the so-called "dead souls"). Thus the size and the mobile penetration figures for the Polish market will become more realistic. At the same time, a certain number of prepaid services customers, who visit points of customer service in order to register their prepaid SIM cards, decide to enter into postpaid contracts with their operators, which has a positive impact on the size of our contract base.

After 5 months of the Anti-terrorist Act being in force, effects of the prepaid card registration duty were already clearly visible, reflected in the intensified elimination of inactive prepaid cards from the reported bases of telecommunication operators and in the migration of customers to contract tariffs on a much larger scale than in the past. According to the data published by the Central Statistical Office (GUS), at the end of December 2016 the total base of reported SIM cards declined by around 2.4 million during 6 months. The sales of new prepaid SIM cards recorded a sharp decrease on the market. According to our estimates, market-wide sales of new prepaid services have shrunk by as much as 50% since the moment of introduction of the mandatory registration.

At the beginning of March 2017, following the completed deactivation of unregistered hitherto prepaid SIM cards, our base of prepaid voice and internet access services (excluding pay TV RGUs) amounted to over 2.8 million RGUs. The registration is being continued and customers who register by December 15, 2017 can retrieve their previous IMSI number, assigned to the SIM card deactivated on February 1, 2017, pursuant to the requirements of the Anti-terrorist Act.

#### **4.1.4. 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.

##### ***Refinancing of the Group's debt***

On September 21, 2015, Polsat Group entered into a facility agreement with a consortium of Polish and foreign financial institutions comprising a term facility of up to PLN 11.5 billion and a revolving facility of up to PLN 1.0 billion, which, together

with the Series A Bonds with the total nominal value of PLN 1.0 billion, issued in July 2015, was used to refinance the entire indebtedness of the Group.

The new debt financing structure of the Group is characterized by more favorable financial terms and guarantees greater flexibility of current operational and investing activities of the Group. As a result of the refinancing of the Group's debt, in 2016 we recorded a decline in interest costs in the amount of PLN 224.4 million at the consolidated level, that is by 29.2%. In 2017 we expect a further decrease of interest costs resulting from the finalized refinancing, which will significantly increase the potential for generating free cash flows.

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

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

#### 4.2. Key market trends impacting our business

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

- bundling of media and telecommunications services, as well as services from other sectors, such as electric energy or financial and banking products;
- growing smartphone penetration among mobile network users; which entails the development of the mobile data transmission market;
- growing demand for data transmission and high-speed broadband connectivity driven by changing consumer preferences and the resulting growing complexity of data transmission-based services;
- dynamic development of non-linear video content, distributed via VOD and OTT services;
- increasing sales of smart-TVs - television sets with integrated Internet access;
- development of the programming offer of digital terrestrial TV;
- growing number of mobile customers and users, driven by, inter alia, gradual fixed-to-mobile substitution, and the growing popularity of *machine-to-machine* solutions;
- pressure on revenue from traditional mobile telecommunications services caused by the intensifying competition on the mobile services market, and by traditional mobile telecommunications services being driven out by data transmission communication;
- pressure on revenue from roaming services, resulting from the next stage of regulation of roaming charges in the European Union;
- slowdown of growth on the TV advertising market;
- further fragmentation of the television market (growing share of thematic channels in audience and advertising revenue); and
- growing spending on video advertising on the Internet.

#### 4.3. Major investments in 2016

##### ***Acquisition of Litenite Limited***

On February 29, 2016 Polkomtel purchased from Ortholuck Limited 100% of shares in Litenite Limited, a direct owner of 976,542,690 shares of Midas S.A., representing 65.9975% of the total number of votes and the share capital of Midas S.A. As a consequence of the aforementioned acquisition, the Company and Polkomtel, became indirect dominant entities of Midas S.A. and its subsidiaries]: Aero2, AltaLog and Sferia. The consideration for 100% of the shares in Litenite acquired by Polkomtel was EUR 1.0. The calculation of the consideration reflected the fact that as the net indebtedness of Litenite, calculated as the difference between the value of net liabilities and cash, was approximately PLN 788 million as at January 31, 2016, and the only assets of this company, other than cash, were the shares of Midas of a similar value.

The indirect acquisition of shares in Midas is considered a strategic long-term investment of the Group.

#### ***Acquisition of IT Polpager S.A.***

On September 30, 2016, through our subsidiary Polkomtel, we acquired 100% of shares in IT Polpager S.A., a company providing services in the scope of IT, development and maintenance of technical and telecommunication infrastructure primarily to companies from Polsat Group. The company has many years of experience, know-how and a qualified team of professionals in the field of radio access networks, core networks, IMS system and optic and radio transmission. The newly acquired company perfectly complements the resources and team at Polkomtel and Aero2 Group connected with the project of network development.

#### ***Implementation of an integrated IT environment***

As an element of continued operational integration of Polkomtel and Cyfrowy Polsat, and also in connection with the pursued strategy of development on the bundled services' market, Polsat Group is currently implementing a new integrated system supporting sales and customer care as well as a convergent billing system for its products and services. The system is being implemented in cooperation with HUAWEI who provides the IT systems and who assumed responsibility for the implementation process as the integrator.

The purpose of the implementation is to redefine and standardize the sales processes and the offers across Polsat Group, as well as to provide a single, consistent and effective tool which will enable the management of sales and retail customer relations in all possible levels. The new approach is based on the omnichannel strategy – a multi-channel approach to sales, customer retention and customer support. The implemented system will enable even simpler and more effective management of sales, as well as a flexible response to changes on the market by making the launch of new products and services easier and faster. A central catalogue of the Group's services and products will be created, with one consistent and effective common sales solution for all customer contact channels.

The completion of the implementation phase of the project is planned for the end of 2018 and its costs have been distributed throughout the entire duration of the implementation process and have been included in the Group's investment plans assuming capital expenditures below 10% of the Group's revenue, as communicated earlier.

#### **4.4. Operating review of the Group**

Key performance indicators (KPI) presented below for the fourth quarter and the entire 2016 include the operating results of Polsat Group comprising Aero2 Group (formerly Midas Group), acquired on February 29, 2016. In light of the above, the operating results for the analyzed periods of 2016 are not fully comparable with the operating results for the analyzed periods of 2015. However, the effect of consolidation of the operating results of Aero2 Group on the overall reported operating results of Polsat Group is immaterial.

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

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

	for the 3-month period ended December 31			for the 12-month period ended December 31		
	2016	2015	change / %	2016	2015	change / %
<b>Total number of RGUs, EOP</b> (contract + prepaid)	<b>16,524,936</b>	<b>16,469,696</b>	<b>0.3%</b>	<b>16,524,936</b>	<b>16,469,696</b>	<b>0.3%</b>
<b>CONTRACT SERVICES</b>						
<b>Total number of RGUs (EOP), including:</b>	<b>13,254,598</b>	<b>12,614,703</b>	<b>5.1%</b>	<b>13,254,598</b>	<b>12,614,703</b>	<b>5.1%</b>
Pay TV, including:	4,766,429	4,503,320	5.8%	4,766,429	4,503,320	5.8%
<i>Multiroom</i>	1,021,720	936,307	9.1%	1,021,720	936,307	9.1%
Mobile telephony	6,730,427	6,516,643	3.3%	6,730,427	6,516,643	3.3%
Internet	1,757,742	1,594,740	10.2%	1,757,742	1,594,740	10.2%
<b>Number of customers</b>	<b>5,882,804</b>	<b>5,916,103</b>	<b>(0.6%)</b>	<b>5,882,804</b>	<b>5,916,103</b>	<b>(0.6%)</b>
ARPU per customer [PLN]	90.7	88.3	2.7%	88.7	87.3	1.6%
Churn per customer	8.3%	10.0%	(1.7 p.p.)	8.3%	10.0%	(1.7 p.p.)
RGU saturation per one customer	2.25	2.13	5.6%	2.25	2.13	5.6%
<b>Average number of RGUs, including:</b>	<b>13,119,033</b>	<b>12,496,080</b>	<b>5.0%</b>	<b>12,886,254</b>	<b>12,410,649</b>	<b>3.8%</b>
Pay TV, including:	4,712,813	4,441,918	6.1%	4,623,881	4,404,966	5.0%
<i>Multiroom</i>	995,820	915,940	8.7%	971,381	887,766	9.4%
Mobile telephony	6,667,869	6,502,872	2.5%	6,579,467	6,528,524	0.8%
Internet	1,738,351	1,551,290	12.1%	1,682,906	1,477,159	13.9%
<b>Average number of customers</b>	<b>5,868,541</b>	<b>5,922,397</b>	<b>(0.9%)</b>	<b>5,876,500</b>	<b>6,004,937</b>	<b>(2.1%)</b>
<b>PREPAID SERVICES</b>						
<b>Total number of RGUs (EOP), including:</b>	<b>3,270,338</b>	<b>3,854,993</b>	<b>(15.2%)</b>	<b>3,270,338</b>	<b>3,854,993</b>	<b>(15.2%)</b>
Pay TV	79,306	31,972	148.0%	79,306	31,972	148.0%
Mobile telephony	2,972,443	3,591,736	(17.2%)	2,972,443	3,591,736	(17.2%)
Internet	218,589	231,285	(5.5%)	218,589	231,285	(5.5%)
ARPU per total prepaid RGU [PLN]	19.2	18.5	3.8%	18.6	18.3	1.6%
<b>Average number of RGUs, including:</b>	<b>3,341,220</b>	<b>3,917,979</b>	<b>(14.7%)</b>	<b>3,662,780</b>	<b>3,990,706</b>	<b>(8.2%)</b>
Pay TV	54,083	56,743	(4.7%)	46,356	56,798	(18.4%)
Mobile telephony	3,058,691	3,630,863	(15.8%)	3,362,107	3,724,268	(9.7%)
Internet	228,446	230,373	(0.8%)	254,317	209,640	21.3%
<b>TELEVISION</b>						
Audience share	25.07%	24.78%	1.2%	24.87%	24.64%	0.9%
Advertising market share	27.2%	25.9%	5.0%	26.9%	25.8%	4.3%

#### 4.4.1. Segment of services to individual and business customers

As at December 31, 2016, in the segment of services to individual and business customers, our Group provided a total of 16,524,936 services, which constitutes an increase of 55,240 compared to 16,469,696 services provided as at December 31, 2015. As at the end of 2016 we noted a dynamic YoY growth in the number of all our core services provided in the contract model, i.e. pay TV and mobile telephony services, and broadband Internet. This growth was partially offset by a strong decline in the number of provided prepaid mobile telephony services in the analyzed period, which was related to the mandatory registration of prepaid SIM cards imposed by the Anti-terrorist Act of June 10, 2016. Similar declines were also recorded by other large mobile operators on the Polish market.

As at December 31, 2016 the share of contract services in the total number of services provided was 80.2%. This ratio increased from 76.6% as at December 31, 2015.

### Contract services

As at December 31, 2016, we provided contract services to a total of 5,882,804 customers, i.e., 0.6% less compared to 5,916,103 customers as at December 31, 2015. The decline of the customer base clearly decelerated in the second half of 2016, while in the fourth quarter we noted a QoQ increase, *inter alia*, due to the intensified migration of prepaid services users to contract tariffs as an effect of our actions aimed at encouraging customers to switch to postpaid tariffs while registering their prepaid SIM cards. We continue to observe the trend of merging of contracts under one, common contract for the household and the outflow of customers with only one service. In line with the our strategic assumptions, the Group avoids conducting an aggressive sales policy for individual products and concentrates rather on increasing customer loyalty, in particular through offering a wide portfolio of bundled services, as well as on increasing ARPU per contract customer.

The number of contract services provided by us increased by 639,895, that is, by 5.1%, to 13,254,598 as at December 31, 2016, from 12,614,703 as at December 31, 2015. We recorded growth in the number of all services provided in the contract model. We noted the highest growth dynamics with respect to the number of contract services provided in the area of broadband Internet access due, among other things, to the broad coverage offered by our LTE/LTE-Advanced network, as well as its high quality, which is confirmed by surveys by UKE published in January and December 2016. As at December 31, 2016, we provided 1,757,742 mobile Internet RGUs in the contract model, that is 163,002, or 10.2%, more than as at December 31, 2015 (1,594,740). The number of pay TV services provided in the contract model amounted to 4,766,429 as at December 31, 2016, which constitutes an increase by 263,109, or 5.8%, compared to 4,503,320 as at December 31, 2015. This increase in due, among other things, to the growing popularity of our Multiroom service (YoY increase by over 85 thousand provided services), as well as to increasing sales of OTT paid services. The number of provided mobile telephony services in the contract model increased by 213,784, or 3.3%, reaching the level of 6,730,427 as at December 31, 2016, up from 6,516,643 as at December 31, 2015. This growth was driven by the successful implementation of our strategy of cross-selling, as well as by the intensified migration of users of prepaid services to contract tariffs. We believe that further saturation of our customer base with integrated services, including our flagship product smartDOM, will positively influence the growth of the number of contract RGUs provided by us in the future.

In line with the assumptions of our long-term strategy, we aim to maximize revenue per contract customer through cross-selling, i.e., the sale of additional products and services to the joined customer bases of Cyfrowy Polsat and Polkomtel, among others within the framework of our program smartDOM, which has a positive impact on ARPU per contract customer. As a result of the implementation of our multiplay strategy, we continue to record a successive increase of ARPU in the contract services segment. In 2016 ARPU increased by 1.6% to PLN 88.7 from PLN 87.3 in 2015. Factors influencing the growth dynamics of APRU per contract customer in 2016 include the intensified migration of users of prepaid services, characterized by a relatively low ARPU, to contract tariffs, as well as the regulation of roaming tariffs and gradual reduction of the scale of sales of telecommunication contracts comprising subsidized equipment. In the fourth quarter of 2016 ARPU per customer increased by 2.7% to PLN 90.7 from PLN 88.3 in the corresponding period of 2015. This is the effect of the success of our multiplay strategy and the price stabilization on the telecommunications market, additionally supported by, i.a. by intensified use during the holiday season of premium rate services, as well as high sales of PPV services.

Our churn rate decreased by 1.7 p.p. to 8.3% in the twelve-month period ended December 31, 2016, compared to 10.0% in the twelve-month period ended December 31, 2015. This is primarily the effect of the systematically growing loyalty of our customers connected with the successful implementation of our multiplay strategy, as well as the continued price stabilization on the highly competitive telco market.

The saturation of our customer base with additional services offered in bundles is systematically growing. As at December 31, 2016, each customer in our customer base had on average 2.25 active contract services which constitutes an increase of 5.6% compared to 2.13 active contract services per customer as at December 31, 2015. The increase in RGU saturation per customer is the result of our marketing and sales activities aimed at maximizing the sale of products and services to a single customer.

Our bundled services offer remains very popular and continues to record very good sales results, which has a positive effect on the level of RGU saturation per customer, ARPU per contract customer, and the churn rate. At the end of December 2016, already 1,306,463 customers were part of the smartDOM program, which constitutes an increase of 285,291, or 27.9%, YoY. This group of customers had a total of 3,870,173 RGUs, over 831 thousand, or 27.4%, more than in the previous year. A customer of the smartDOM program owns 3 services, on average. Bearing in mind the long-term goal of our Group, which is to maximize revenue per contract customer through cross-selling, the smartDOM program is perfectly in line with the implementation of our strategy.

### Prepaid services

The number of prepaid services provided by us as at December 31, 2016, decreased by 584,655, that is, 15.2%, to 3,270,338 from 3,854,993 as at December 31, 2015. The erosion of the prepaid RGUs base is 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 in the second half of 2016 on the entire market. The decrease of our prepaid RGUs base is further deepened by intensified migration, which we encourage, of our prepaid tariff users towards the contract services segment, driven by relatively more attractive terms of post-paid tariffs, as well as discounts offered with the purchase of bundled services. A strong increase, by 148%, in the number of prepaid pay TV services in 2016 was due primarily to the popularity of sports events broadcasts offered in the PPV model.

In the fourth quarter of 2016 ARPU per prepaid RGU increased by 3.8% to PLN 19.2 from PLN 18.5 in the corresponding period of 2015. In 2016 ARPU per prepaid RGU increased by 1.6% to PLN 18.6 from PLN 18.3 in 2015. Similarly as in the case of contract ARPU, high dynamics of growth of prepaid ARPU in the fourth quarter of 2016 was, among other things, the effect of high sales of premium rate services and sports events broadcasts offered in the PPV model.

### 4.4.2. Broadcasting and television production segment

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

#### Audience shares

	3 months ended			12 months ended		
	December 31		change [%]	December 31		change [%]
	2016	2015		2016	2015	
<b>Audience share<sup>(1) (2)</sup>, including:</b>	<b>25.07%</b>	<b>24.78%</b>	<b>1.17%</b>	<b>24.87%</b>	<b>24.64%</b>	<b>0.93%</b>
<b>POLSAT (main channel)</b>	<b>13.50%</b>	<b>13.20%</b>	<b>2.27%</b>	<b>13.23%</b>	<b>13.21%</b>	<b>0.15%</b>
<b>Thematic channels<sup>(2)</sup></b>	<b>11.57%</b>	<b>11.58%</b>	<b>(0.09%)</b>	<b>11.63%</b>	<b>11.43%</b>	<b>1.75%</b>
TV4	3.94%	3.90%	1.03%	3.65%	3.67%	(0.54%)
TV6	1.58%	1.65%	(4.24%)	1.72%	1.51%	13.91%
Polsat 2	1.41%	1.31%	7.63%	1.44%	1.42%	1.41%
Polsat Film	0.79%	0.74%	6.76%	0.80%	0.83%	(3.61%)
Polsat News	0.78%	0.86%	(9.30%)	0.79%	0.74%	6.76%
Polsat Play	0.66%	0.65%	1.54%	0.68%	0.67%	1.49%
Polsat Cafe	0.40%	0.32%	25.00%	0.39%	0.39%	0.00%
Polsat Sport News <sup>(3)</sup>	0.30%	0.40%	(25.00%)	0.44%	0.52%	(15.38%)
Polsat Sport	0.28%	0.45%	(37.78%)	0.27%	0.26%	3.85%
Disco Polo Music	0.26%	0.25%	4.00%	0.35%	0.44%	(20.45%)
Polsat JimJam	0.26%	0.22%	18.18%	0.24%	0.16%	50.00%
Polsat Romans	0.16%	0.15%	6.67%	0.16%	0.14%	14.29%
Polsat Viasat History	0.16%	0.12%	33.33%	0.14%	0.12%	16.67%
CI Polsat	0.13%	0.12%	8.33%	0.14%	0.11%	27.27%
Polsat Viasat Explore	0.13%	0.08%	62.50%	0.11%	0.06%	83.33%
Polsat Food Network	0.09%	0.11%	(18.18%)	0.10%	0.10%	0.00%
Polsat Sport Extra	0.09%	0.12%	(25.00%)	0.08%	0.09%	(11.11%)
Polsat News 2	0.08%	0.10%	(20.00%)	0.09%	0.12%	(25.00%)
Muzo.tv	0.05%	0.02%	150.00%	0.03%	0.03%	0.00%
Polsat Viasat Nature	0.03%	0.03%	0.00%	0.03%	0.02%	50.00%
Polsat 1 <sup>(4)</sup>	n/a	n/a	n/a	n/a	n/a	n/a
Polsat Sport Fight <sup>(5)</sup>	n/a	n/a	n/a	n/a	n/a	n/a
<b>Advertising market share<sup>(6)</sup></b>	<b>27.20%</b>	<b>25.90%</b>	<b>5.02%</b>	<b>26.90%</b>	<b>25.80%</b>	<b>4.26%</b>

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

2) When calculating the total audience share of Polsat Group and audience share of thematic channels, we take into account the moment of including the channel into our portfolio.

3) Channel available only in cable and satellite networks since January 2, 2017.

4) Channel broadcast since December 18, 2015, not included in the telemetric panel.

5) Channel broadcast since August 1, 2016, included in the telemetric panel since January 1, 2017.

6) Our estimates based on Starcom data.

In 2016, we recorded an increase of audience shares of our Group, as well as of our thematic channels compared to the corresponding periods of 2015. The main growth driver were growing audience shares of TV6, which was the result of an attractive programming offer combined with the channel's availability in the DTT system. High growth dynamics was also maintained by the thematic channels Polsat Jim Jam, Polsat Film, Polsat Viasat Explore and Polsat Viasat History (due to an increase in technical reach).

Both in the fourth quarter and the entire 2016, viewers in the commercial group (everyone aged 16-49) were attracted by the fixed slots on our main channel's schedule. Monday's film slot Mega Hit had an audience share of 17.3% in the fourth quarter and 18.0% in 2016, while the premier episodes of the TV series *Pierwsza Miłość (First Love)* gained an audience share of 19.4% in the fourth quarter and 19.9% in 2016. The series *Świat według Kiepskich*, aired from Monday to Saturday at 7:30 p.m. had an audience share of 13.9% in the fourth quarter and 14.4% in 2016.

The news program broadcast daily at 6.50 p.m., *Wydarzenia (News)*, gained an audience share of 18.6% in the fourth quarter and 18.7% in 2016. 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 18.2% in the fourth quarter of 2016 and 17.6% in 2016.

The qualifying match to the 2018 FIFA World Cup between Romania and Poland, played on November 11, 2016, was an important event in the fourth quarter of 2016, gaining a total SHR of 56.2% on Polsat and Polsat Sport channels. Other qualifying matches to the 2018 FIFA World Cup also gained high audience shares. The match between Poland and Armenia, aired on October 11, 2016 had a total SHR of 49.9% on both mentioned channels, and the match between Poland and Denmark – 47.2%.

The program *Wielkie kolędowanie z Polsatem (Christmas Carols with Polsat)* aired on December 24, 2016, attracted a significant audience, giving the channel a share of 28.4%. The show *Sylwestrowa Moc Przebojów (New Year's Eve Greatest Hits)*, broadcast on December 31, 2016, had an audience share of 24.2%. Cabarets recorded good results in terms of audience shares in the fourth quarter of 2016. The cabaret *15-lecie Kabaretu Neonówka – Schody do nieba (15<sup>th</sup> Anniversary of Cabaret Neonówka – Stairway to Heaven)* of November 13, 2016 had a 23.8% audience share, while the cabaret *Strzał w 10 – Urodzin Kabaretu Młodych Panów (Bull's Eye – Anniversary of Young Men Cabaret)* gained an audience share of 17.6%.

The results of the fourth quarter and the entire 2016 were significantly influenced by programs from seasonal scheduling. A large audience was gathered by the show *Your Face Sounds Familiar*. The Saturday slots dedicated to premier episodes of this show had an audience share of 17.3% in the fourth quarter and 17.1% in 2016. Another position, the show *Our New House*, gathered on average 15.8% of viewers in the fourth quarter and 16.4% in 2016. The reality show *Hell's Kitchen* had an audience share of 10.8% in the fourth quarter and 13.3% in 2016. The show *Top Chef. Gwiazdy od Kuchni*, the continuation of the show *Top Chef*, gained an audience share of 11.7% in the fourth quarter of 2016. In 2016 both formats gained an audience share of 12.4%. *Dancing with the Stars* attracted 13.3% of viewers in the fourth quarter and 13.5% in 2016.

Other record high results of sports events broadcast in 2016 are worth notice. The most widely viewed match of the Polish team during the UEFA EURO 2016 competition was the meeting with Portugal of June 30, 2016, with total SHR on Polsat and Polsat Sport of 47.1%. Another EURO 2016 meeting worth mentioning was the match between Poland and Switzerland of June 25, which gained a total audience share of 43.1%. The total audience share of the match Poland-Ukraine of June 21 on both Polsat and Polsat Sport was 42.0%. It must be emphasized that the mentioned matches were aired simultaneously on the channel TVP1 in accordance with the sublicense granted by Polsat.

The broadcasts of matches played in the European Men's Handball Championships gathered a significant audience. The most widely viewed meeting between Poland and Croatia, which took place on January 27, 2016, gained a total audience share of 42.7% on both Polsat and Polsat Sport News. The simultaneous broadcast on both these channels of the match played by Poland against Norway on January 23, 2016 gained a total audience share of 40.5%, while the viewership of the match against France (January 19, 2016) reached the level of 38.5% SHR.

The festival *Polsat Superhit Festiwal 2016 – Sopotki Hit Kabaretowy* gained a very high audience share in 2016. The broadcast of May 29, 2016 attracted 29.3% of viewers to their TV sets. The cabaret *Płocka Noc Kabaretowa*, aired on June 4, 2016 on the main channel, had an audience share of 22.8%. The concert of the band Ich Troje, aired on Polsat channel in June 24, 2016 and entitled *A wszystko to...*, gave the channel a 20.2% share in the audience.

### Distribution and technical reach

Technical reach <sup>(1)</sup>	3 months ended December 31		Change / %	12 months ended December 31		Change / %
	2016	2015		2016	2015	
Polsat	99.9%	99.8%	0.1%	99.9%	99.8%	0.1%
TV4	99.8%	99.7%	0.1%	99.8%	99.8%	0.0%
Polsat Sport News <sup>(2)</sup>	95.5%	93.7%	1.9%	94.8%	93.8%	1.1%
TV6	95.2%	93.1%	2.3%	94.6%	93.2%	1.5%
Polsat 2	63.0%	62.5%	0.8%	63.1%	61.9%	1.9%
Polsat News 2	56.8%	54.2%	4.8%	56.0%	54.0%	3.7%
Polsat News	55.7%	56.0%	(0.5%)	55.8%	55.6%	0.4%
Polsat Cafe	55.4%	54.5%	1.7%	55.1%	54.1%	1.8%
Polsat Film	51.9%	50.4%	3.0%	51.4%	49.8%	3.2%
Polsat Play	49.7%	47.7%	4.2%	49.0%	47.1%	4.0%
Polsat Viasat History	48.5%	38.6%	25.6%	43.6%	34.8%	25.3%
Polsat Sport	47.7%	48.4%	(1.4%)	48.2%	48.2%	0.0%
Disco Polo Music	46.7%	45.7%	2.2%	46.2%	44.9%	2.9%
Polsat Romans	48.0%	46.3%	3.7%	46.4%	45.0%	3.1%
Polsat JimJam	45.3%	43.6%	3.9%	44.5%	43.3%	2.8%
Polsat Viasat Explore	44.3%	28.1%	57.7%	39.0%	27.2%	43.4%
Polsat Viasat Nature	42.5%	27.0%	57.4%	36.5%	26.3%	38.8%
Muzo.tv	41.7%	39.3%	6.1%	40.8%	38.6%	5.7%
CI Polsat	39.9%	38.7%	3.1%	39.3%	37.9%	3.7%
Polsat Sport Extra	36.2%	35.6%	1.7%	35.9%	35.1%	2.3%
Polsat Food Network	25.8%	24.5%	5.3%	25.4%	22.3%	13.9%
Polsat 1 <sup>(3)</sup>	n/a	n/a	n/a	n/a	n/a	n/a
Polsat Sport Fight <sup>(4)</sup>	10.2%	n/a	n/a	10.2%	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 available only in cable and satellite networks since January 2, 2017.

3) Channel broadcast outside of Poland, not included in the telemetric survey.

4) Channel broadcast since August 1, 2016, included in the telemetric panel since January 1, 2017.

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 fourth quarter and the entire 2016 with corresponding periods of 2015, the highest growth dynamics in technical reach were recorded by Polsat Viasat Nature, Polsat Viasat Explore and Polsat Viasat History.

### Advertising and sponsoring market share

According to Starcom media house estimates, expenditures on TV advertising and sponsoring in the fourth quarter of 2016 amounted to about PLN 1.2 billion and increased year-on-year by 2%. Based on these data, we estimate that in the fourth quarter of 2016 our TV advertising market share increased year-on-year to 27.2% from 25.9%. In 2016, expenditures on TV advertising and sponsoring amounted to PLN 4 billion, which constitutes an increase of 1.3% year-on-year. Our TV ad market share increased to 26.9% in 2016 from 25.9% in 2015.

If we compare the current portfolio of Polsat Group's channels, we generated 2.4% more GRPs in 2016 compared to 2015.

## 4.5. 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. Activation fees are collected at the moment of activation and amortized over the life of the contract.

#### **Wholesale revenue**

Our wholesale revenue comprises:

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

#### **Sale of equipment**

Sale of equipment consists mostly of revenue from 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 purchase and other sales revenue.

#### **Operating costs**

Operating costs consist of:

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

### **Content costs**

Content costs consist of:

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

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

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

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

### **Distribution, marketing, customer relation management and retention cost**

Distribution costs consist of:

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

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

### **Depreciation, amortization, impairment and liquidation**

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

- (i) depreciation of network systems components and telecommunication network equipment (access and core network equipment, network management systems and software);
- (ii) amortization of costs of telecommunications concessions acquired by Polkomtel, Aero2 and Sferia;
- (iii) depreciation of set-top boxes 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, and accessories that we sell to our customers.

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

In this group of costs we present:

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

#### **Other costs**

Key items of other costs include:

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

## **4.6. Review of our financial situation**

The following review of results for the three and twelve month periods ended December 31, 2016 was prepared based on the consolidated financial statements for the twelve month period ended December 31, 2016 prepared in accordance with International Financial Reporting Standards as approved for use by the European Union and based on internal analyses.

We emphasize that the financial data for the three and twelve month periods ended December 31, 2016 are not fully comparable to data for the corresponding periods of 2015 due to the acquisition of shares in: Radio PIN S.A. on February 27, 2015, Orsen Holding Ltd. on April 1, 2015, Litenite Limited on February 29, 2016 and IT Polpager S.A. on September 30, 2016.

Due to the fact that the results of Radio PIN S.A., Orsen Holdings Ltd. capital group and 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.

### **4.6.1. Income statement analysis**

#### **4.6.1.1. Review of financial results for the fourth quarter of 2016 and 2015**

[mPLN]	for the 3 month period ended December 31		change	
	2016	2015	[mPLN]	[%]
Retail revenue	2,535.1	2,609.9	(74.8)	(2.9%)
Total operating cost	(2,140.6)	(2,159.3)	(18.7)	(0.9%)
Other operating income, net	(4.6)	(6.2)	(1.6)	(25.8%)
<b>Profit from operating activities</b>	<b>389.9</b>	<b>444.4</b>	<b>(54.5)</b>	<b>(12.3%)</b>
Gain/(loss) on investment activities, net	(26.3)	(3.2)	(23.1)	(721.9%)
Financial costs	(122.9)	(270.0)	(147.1)	(54.5%)
Share of the profit of joint venture accounted for using the equity method	-	0.7	(0.7)	(100.0%)
<b>Gross profit for the period</b>	<b>240.7</b>	<b>171.9</b>	<b>68.8</b>	<b>40.0%</b>
Income tax	101.1	13.7	87.4	638.0%
<b>Net profit for the period</b>	<b>341.8</b>	<b>185.6</b>	<b>156.2</b>	<b>84.2%</b>
<b>EBIDTA</b>	<b>902.3</b>	<b>881.1</b>	<b>21.2</b>	<b>2.4%</b>
<b>EBIDTA margin</b>	<b>35.6%</b>	<b>33.8%</b>	<b>1.8 .pp.</b>	<b>-</b>

## Revenue

Our total revenue decreased by PLN 74.8 million, or 2.9%, to PLN 2,535.1 million in the fourth quarter of 2016 from PLN 2,609.9 million in the fourth quarter of 2015.

[mPLN]	for the 3 month period ended December 31		change	
	2016	2015	[mPLN]	[%]
Revenue	1,589.0	1,620.6	(31.6)	(1.9%)
Wholesale revenue	658.4	738.0	(79.6)	(10.8%)
Sale of equipment	265.6	226.9	38.7	17.1%
Other revenue	22.1	24.4	(2.3)	(9.4%)
<b>Revenue</b>	<b>2,535.1</b>	<b>2,609.9</b>	<b>(74.8)</b>	<b>(2.9%)</b>

### Retail revenue

Retail revenue decreased by PLN 31.6 million, or 1.9%, to PLN 1,589.0 million in the fourth quarter of 2016, from PLN 1,620.6 million in the fourth quarter of 2015. This decrease was primarily due to lower revenue from voice services caused by a change in the model of offering equipment to residential customers (payment for equipment, previously included in subscription fees, are recognized as revenues from sales of equipment under the installment plan model), the regulation of retail roaming rates, as well as a high level of competitiveness of the telecommunication market. The fall in retail revenue partially compensated by higher revenue from pay TV and higher revenue from mobile Internet access services and data transmission.

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

### Wholesale revenue

Wholesale revenue decreased by PLN 79.6 million, or 10.8%, to PLN 658.4 million in the fourth quarter of 2016 from PLN 738.0 million in the fourth quarter of 2015. In the fourth quarter of 2015 this item comprised revenue from the lease of telecommunication infrastructure to Aero2 Group, which is subject to elimination during consolidation in the fourth quarter of 2016 as a result of the acquisition of Aero2 Group on February 29, 2016. The decrease of wholesale revenue was partially compensated by higher revenue from interconnection services and higher advertising and sponsoring revenue generated by our thematic channels and the main channel.

### Sale of equipment

Revenue from the sale of equipment increased by PLN 38.7 million, or 17.1%, to PLN 265.6 million in the fourth quarter of 2016 from PLN 226.9 million in the fourth quarter of 2015, which was due primarily to higher revenue from installment plan sales of equipment related to the increasing share of this model in equipment sales.

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

### Other revenue

Other revenue decreased by PLN 2.3 million, or 9.4%, to PLN 22.1 million in the fourth quarter of 2016 from PLN 24.4 million in the fourth quarter of 2015. This decrease was mainly the result of the consolidation of Aero2 Group from February 29, 2016 and was partially compensated by growing revenue from interest on installment plan sales of equipment to residential customers.

### Operating costs

Our total operating costs increased by PLN 18.7 million, or 0.9%, to PLN 2,140.6 million in the fourth quarter of 2016 from PLN 2,159.3 million in the fourth quarter of 2015. Operating costs grew for the reasons set forth below.

	for the 3 month period ended December 31		change	
	2016	2015	[mPLN]	[%]
Content costs	297.3	299.1	(1.8)	(0.6%)
Distribution, marketing, customer relation management and retention costs	222.5	220.1	2.4	1.1%
Depreciation, amortization, impairment and liquidation	512.4	436.7	75.7	17.3%
Technical costs and cost of settlements with telecommunication operators	472.6	585.1	(112.5)	(19.2%)
Salaries and employee-related costs	163.9	158.0	5.9	3.7%
Cost of equipment sold	380.1	393.6	(13.5)	(3.4%)
Cost of debt collection services and bad debt allowance and receivables written off	15.3	7.6	7.7	101.3%
Other costs	76.5	59.1	17.4	29.4%
<b>Operating costs</b>	<b>2,140.6</b>	<b>2,159.3</b>	<b>(18.7)</b>	<b>(0.9%)</b>

#### Content costs

Content costs decreased by PLN 1.8 million, or 0.6%, to PLN 297.3 million in the fourth quarter of 2016 from PLN 299.1 million in the fourth quarter of 2015. The stable level of content costs reflects our well-balanced programming policy.

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 amounted to PLN 222.5 million in the fourth quarter of 2016 and remained at a similar level compared to PLN 220.1 million in the fourth quarter of 2015.

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

#### Depreciation, amortization, impairment and liquidation

Depreciation, amortization, impairment and liquidation costs increased by PLN 75.7million, or 17.3%, to PLN 512.4 million in the fourth quarter of 2016 from PLN 436.7 million in the fourth quarter of 2015, primarily as the result of the consolidation of depreciation costs of Aero2 Group, including the additional depreciation of telecommunications licenses resulting from the valuation of those licenses during the purchase price allocation process related to the acquisition of Aero2 Group.

#### Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with mobile network operators decreased by PLN 112.5 million, or 19.2%, to PLN 472.6 million in the fourth quarter 2016 from PLN 585.1 million in the fourth quarter 2015. This is primarily 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.

Concurrently, we noted an increase of interconnection costs within this cost category, due to the growing popularity of tariffs enabling unlimited connections with other telecommunication networks.

#### Salaries and employee-related costs

Salaries and employee-related costs increased by PLN 5.9 million, or 3.7%, to PLN 163.9 million in the fourth quarter of 2016 from PLN 158.0 million in the fourth quarter of 2015, primarily as a result of the recognition of salaries and employee-related costs of Aero2 Group following its consolidation from February 29, 2016.

### **Cost of equipment sold**

Cost of equipment sold decreased by PLN 13.5 million, or 3.4%, to PLN 380.1 million in the fourth quarter of 2016 from PLN 393.6 million in the fourth quarter of 2015, mainly due to the lower total volume of equipment sold to customers.

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 7.7 million, or 101.3%, to PLN 15.3 million in the fourth quarter of 2016 from PLN 7.6 million in the fourth quarter of 2015, primarily due to a change in the method of calculating write-offs on receivables.

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

### **Other costs**

Other costs increased by PLN 17.4 million, or 29.4%, to PLN 76.5 million in the fourth quarter of 2016 from PLN 59.1 million in the fourth quarter of 2015, due, among others, to the recognition of higher costs of consulting services and one-off administrative payments.

### **Other operating income and costs, net**

Other operating costs, net decreased by PLN 1.6 million, or 25.8%, to PLN 4.6 million in the fourth quarter of 2016 from PLN 6.2 million in the fourth quarter of 2015. This decrease resulted, among others, from higher income from the sale of property, plant and equipment and was compensated to a significant extent by the creation of a partial provision for penalties imposed on Polkomtel and Cyfrowy Polsat in December 2016 by the Office of Competition and Consumer Protection.

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

### **Gains/losses on investment activities, net**

Net losses on investment activities amounted to PLN 26.3 million in the fourth quarter of 2016, which constitutes an increase of PLN 23.1 million, or 721.9%, compared to net losses on investment activities in the amount PLN 3.2 million in the fourth quarter of 2015, *inter alia* due to the recognition of higher costs related to the valuation of liabilities related to the UMTS license in the fourth quarter of 2016 than in the comparative period (stronger depreciation of the PLN versus the EUR in the fourth quarter of 2016 than in the fourth quarter of 2015).

### **Finance costs**

Finance costs amounted to PLN 122.9 million in the fourth quarter of 2016 and decreased by PLN 147.1 million, or 54.5%, compared to PLN 270.0 million in the fourth quarter of 2015. This decrease was due, among others, to the lack of foreign exchange costs related to the valuation of the PLK Senior Notes in connection with their early redemption on January 29, 2016, as well as lower costs of interest on loans and notes resulting from the refinancing of the Group's debt that was finalized in 2016.

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

### **Net profit**

As a consequence of the changes described above, net profit increased by PLN 156.2 million, or 84.2%, to PLN 341.8 million in the fourth quarter of 2016 from PLN 185.6 million in the fourth quarter of 2015.

In the fourth quarter of 2016 net profit was under the influence of the one-off recognition of an asset related to deferred income tax recognized in connection with transactions that are subject to elimination during the process of consolidation. The recognition of the abovementioned asset had a positive effect on the consolidated net profit of Polsat Group in the fourth quarter of 2016 in the amount of PLN 104.0 million.

### EBITDA & EBITDA margin

EBITDA increased by PLN 21.1 million, or 2.4%, to PLN 902.3 million in the fourth quarter of 2016 from PLN 881.1 million in the fourth quarter of 2015. EBITDA margin increased by 1.8 p.p., to 35.6%, in the fourth quarter of 2016 from 33.8% in the fourth quarter of 2015.

### Employment

The average employment of permanent workers not engaged in production in Cyfrowy Polsat Group, excluding workers who did not perform work in the reporting period due to long-term absences, was 4,948 full-time equivalents in the fourth quarter of 2016 and decreased slightly compared to 4.986 full-time equivalents in the corresponding period of 2015.

#### 4.6.1.2. Comparison of financial results for 2016 and 2015

[mPLN]	for the 12 month period ended December 31		change	
	2016 <sup>(1)</sup>	2015	[mPLN]	[%]
Retail revenue	9,729.8	9,823.0	(93.2)	(0.9%)
Total operating cost	(8,069.3)	(7,867.9)	201.4	2.6%
Other operating income, net	8.8	30.7	(21.9)	(71.3%)
<b>Profit from operating activities</b>	<b>1,669.3</b>	<b>1,985.8</b>	<b>(316.5)</b>	<b>(15.9%)</b>
Gain/(loss) on investment activities, net	(69.8)	8.6	(78.4)	-
Financial costs	(566.1)	(664.6)	(98.5)	(14.8%)
Share of the profit of joint venture accounted for using the equity method	-	2.6	(2.6)	(100.0%)
<b>Gross profit for the period</b>	<b>1,033.4</b>	<b>1,332.4</b>	<b>(299.0)</b>	<b>(22.4%)</b>
Income tax	(12.4)	(169.0)	(156.6)	(92.7%)
<b>Net profit for the period</b>	<b>1,021.0</b>	<b>1,163.4</b>	<b>(142.4)</b>	<b>(12.2%)</b>
<b>EBIDTA</b>	<b>3,640.8</b>	<b>3,685.1</b>	<b>(44.3)</b>	<b>(1.2%)</b>
<b>EBITDA margin</b>	<b>37.4%</b>	<b>37.5%</b>	<b>(0.1 p.p.)</b>	<b>-</b>

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

### Revenue

Our total revenue decreased by PLN 93.2 million, or 0.9%, to PLN 9,729.8 million in 2016 from PLN 9,823.0 million in 2015.

	for the 12 month period ended December 31		change	
	2016 <sup>(1)</sup>	2015	[mPLN]	[%]
Retail revenue	6,325.3	6,553.1	(227.8)	(3.5%)
Wholesale revenue	2,466.1	2,596.9	(130.8)	(5.0%)
Sale of equipment	850.8	583.4	267.4	45.8%
Other revenue	87.6	89.6	(2.0)	(2.2%)
<b>Revenue</b>	<b>9,729.8</b>	<b>9,823.0</b>	<b>(93.2)</b>	<b>(0.9%)</b>

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

### Retail revenue

Retail revenue decreased by PLN 227.8 million, or 3.5%, to PLN 6,325.3 million in 2016 from PLN 6,553.1 million in 2015. This decrease was primarily due to lower revenue from voice services caused by a change in the model of offering equipment to residential customers, the regulation of retail roaming rates, as well as a high level of competitiveness of the telecommunication market. The fall in retail revenue was partially compensated by higher revenue from pay TV services, as well as growing revenue from the mobile Internet access service 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 130.8 million, or 5.0%, to PLN 2,466.1 million in 2016 from PLN 2,596.9 million in 2015. This decrease was caused by lower revenue from the lease of telecommunication infrastructure to Aero2 Group, which was recognized only in January and February of 2016 due to the acquisition of Aero2 Group on February 29, 2016, as well as lower revenue from domestic roaming services provided to P4. This decrease was partially compensated by higher revenue from interconnection services and higher advertising and sponsoring revenue, as well as additional revenue from the sale of sublicenses to selected meetings of the UEFA EURO 2016 to TVP S.A. and higher revenue from satellite and cable operators related to the wholesale sales of packages of channels dedicated to the EURO 2016.

### Sale of equipment

Revenue from the sale of equipment increased by PLN 267.4 million, or 45.8%, to PLN 850.8 million in 2016 from PLN 583.4 million in 2015. This increase was due primarily to higher revenue from installment plan sales connected with the increasing share of this model in equipment sales, as well as the optimization of inventory management.

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

### Other revenue

Other revenue decreased by PLN 2.0 million, or 2.2%, to PLN 87.6 million in 2016 from PLN 89.6 million in 2015. This decrease was mainly the result of the consolidation of Aero2 Group from February 29, 2016 and was partially compensated by growing revenue from interest on installment plan sales of equipment to residential customers.

### Operating costs

Our total operating costs increased by PLN 201.4 million, or 2.6%, to PLN 8,069.3 million in 2016 from PLN 7,867.9 million in 2015. Operating costs grew for the reasons set forth below.

	for the 12 month period ended December 31		change	
	2016 <sup>(1)</sup>	2015	[mPLN]	[%]
Content costs	1,114.2	1,065.9	48.3	4.5%
Distribution, marketing, customer relation management and retention costs	827.8	802.6	25.2	3.1%
Depreciation, amortization, impairment and liquidation	1,971.5	1,699.3	272.2	16.0%
Technical costs and cost of settlements with telecommunication operators	1,938.7	2,141.0	(202.3)	(9.4%)
Salaries and employee-related costs	570.5	550.2	20.3	3.7%
Cost of equipment sold	1,354.7	1,332.8	21.9	1.6%
Cost of debt collection services and bad debt allowance and receivables written off	46.9	62.6	(15.7)	(25.1%)
Other costs	245.0	213.5	31.5	14.8%
<b>Operating costs</b>	<b>8,069.3</b>	<b>7,867.9</b>	<b>201.4</b>	<b>2.6%</b>

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

### Content costs

Content costs increased by PLN 48.3 million, or 4.5%, to PLN 1,114.2 million in 2016 from PLN 1,065.9 million in 2015. This increase is due primarily to the recognition of higher costs of sports licenses and internal production related to the broadcasting of UEFA EURO 2016 and Qualifiers to the 2018 FIFA World Cup

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 25.2 million, or 3.1%, to PLN 827.8 million in 2016 from PLN 802.6 million in 2015, mainly due to the recognition of higher costs of sales commissions (accounting effect).

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

### **Depreciation, amortization, impairment and liquidation**

Depreciation, amortization, impairment and liquidation costs increased by PLN 272.2 million, or 16.0%, to PLN 1,971.5 million in 2016 from PLN 1,699.3 million in 2015, primarily as the result of the recognition of depreciation costs of Aero2 Group for the period from March to December 2016, including the additional depreciation of telecommunications licenses resulting from the valuation of those licenses during the purchase price allocation process related to the acquisition of Aero2 Group.

### **Technical costs and cost of settlements with telecommunication operators**

Technical costs and cost of settlements with mobile network operators decreased by PLN 202.3 million, or 9.4%, to PLN 1,938.7 million in 2016 from PLN 2,141.0 million in 2015. This decrease was the net effect of the elimination during consolidation of growing costs of wholesale purchase of data traffic within our broadband Internet access service in connection with the acquisition of Aero2 Group on February 29, 2016 (in the comparative period the aforementioned costs of traffic were payable to Midas Group, at the time, for the full 12 months), and higher interconnection costs related to the popularization of tariffs offering unlimited connections to other telecommunication networks.

### **Salaries and employee-related costs**

Salaries and employee-related costs increased by PLN 20.3 million, or 3.7%, to PLN 570.5 million in 2016 from PLN 550.2 million in 2015, *inter alia* as a result of the recognition of salaries and employee-related costs of Aero2 Group following its consolidation from February 29, 2016.

### **Cost of equipment sold**

Cost of equipment sold increased by PLN 21.9 million, or 1.6%, to PLN 1,354.7 million in 2016 from PLN 1,332.8 million in 2015. This increase was primarily caused by a higher average unit cost of sold equipment, while the total volume of sales declined. The increase in the unit cost was due, among other things, to the growing share of contracts comprising the sale of more expensive equipment in the installment sales model and a decreasing number of cheaper devices sold in the subsidy model.

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 decreased by PLN 15.7 million, or 25.1%, to PLN 46.9 million in 2016 from PLN 62.6 million in 2015, primarily due to a change in the method of calculating write-offs on receivables.

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

### **Other costs**

Other costs increased by PLN 31.5 million, or 14.8%, to PLN 245.0 million in 2016 from PLN 213.5 million in 2015. This increase was primarily the effect of the recognition of the cost of sold licenses related to the UEFA EURO 2016 and higher costs of consulting and legal advice in connection with the acquisition of Aero2 Group On February 29, 2016, which was partially off-set by a decrease in the costs of office real estate lease and maintenance.

### **Other operating income/costs, net**

Other operating income, net decreased by PLN 21.9 million, or 71.3%, to PLN 8.8 million in 2016 from PLN 30.7 million in 2015, mainly in connection with the creation of a partial provision for penalties imposed on Polkomtel and Cyfrowy Polsat in December 2016 by the Office of Competition and Consumer Protection.

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

### **Gains/losses on investment activities, net**

Net losses on investment activities amounted to PLN 69.8 million in 2016, which constitutes a decrease by PLN 78.4 million, compared to net gains on investment activities amounting to PLN 8.6 million in 2015. This decrease was mainly due to higher foreign exchange costs related to the valuation of liabilities related to the UMTS license (due to the depreciation of the PLN versus the EUR in 2016 compared to the appreciation of the PLN versus the EUR in 2015), as well as to the recognition of foreign exchange losses on the valuation of cash used to repay the PLK Senior Notes in January 2016 (this loss corresponds with lower foreign exchange costs on the valuation of the PLK Senior Notes).

### **Finance costs**

Finance costs amounted to PLN 566.1 million in 2016 and decreased by PLN 98.5 million, or 14.8%, from PLN 664.6 million in 2015. This decrease was influenced by a series of factors related to the early redemption of the PLK Senior Notes, comprising in particular the recognition in 2016 of one-off net revenue related to the valuation and execution of forward contracts hedging the repayment of the principal of the PLK Senior Notes, lower costs of interest on the PLK Senior Notes and the recognition in finance costs in the comparative period of a premium for the early redemption of the PLK Senior Notes. This decrease was partially off-set by the base effect (one-off, non-cash operations related to the refinancing of the Group's hitherto debt were recognized in finance costs in 2015 thus leading to the recognition of a profit) and higher valuation of the PLK Senior Notes, denominated in EUR and USD, resulting from a depreciation of the PLN versus both these currencies.

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

### **Net profit**

As a consequence of the changes described above, net profit decreased by PLN 142.2 million, or 12.2%, to PLN 1,021.0 million in 2016 from PLN 1,163.4 million in 2015.

### **EBITDA & EBITDA margin**

EBITDA decreased by PLN 44.3 million, or 1.2%, to PLN 3,640.8 million in 2016 from PLN 3,685.1 million in 2015. EBITDA margin amounted to 37.4 % in 2016, remaining at a practically unchanged level compared to 37.5% in 2015.

### **Employment**

The average employment of permanent workers not engaged in production in Cyfrowy Polsat Group, excluding workers who did not perform work in the reporting period due to long-term absences, was 5,010 full-time equivalents in 2016 and remained on a stable level compared to 5,033 full-time equivalents in the corresponding period of 2015.

#### **4.6.2. 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 international and domestic roaming as well as telecommunication infrastructure sharing services;
- online TV services (IPLA), which generate revenues mainly from subscription fees and advertising on the Internet;
- premium rate services based on SMS/IVR/MMS/WAP technologies;
- production of set-top boxes;
- sale of telecommunication and TV reception equipment.

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

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

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the twelve months ended December 31, 2016:

the year ended December 31, 2016	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	8,440.4	1,289.4	-	9,729.8
Inter-segment revenues	35.4	194.6	(230.0)	-
<b>Revenues</b>	<b>8,475.8</b>	<b>1,484.0</b>	<b>(230.0)</b>	<b>9,729.8</b>
<b>EBITDA (unaudited)</b>	<b>3,077.4</b>	<b>563.4</b>	<b>-</b>	<b>3,640.8</b>
Depreciation, amortization, impairment and liquidation	1,929.6	41.9	-	1,971.5
<b>Profit from operating activities</b>	<b>1,147.8</b>	<b>521.5</b>	<b>-</b>	<b>1,669.3</b>
Acquisition of property, plant and equipment, reception equipment and other intangible assets	717.2*	27.7	-	744.9
Balance as at December 31, 2016				
Assets, including:	23,324.5	4,459.9**	(55.1)	<b>27,729.3</b>
Investments in joint ventures	-	5.9	-	5.9

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

\*\* Includes non-current assets located outside of Poland in the amount of PLN 14.5 million.

All material revenues are generated in Poland.

It should be noted that the twelve -month period ended December 31, 2016 is not comparable to the twelve-month period ended December 31, 2015 as Radio PIN S.A. was acquired on February 27, 2015 (allocated to the Broadcasting and television production segment), Orsen Holding Ltd. was acquired on April 1, 2015 (allocated to the Services to individual and business customers segment), Litenite Limited was acquired on February 29, 2016 (allocated to the Services to individual and business customers segment), 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 twelve months ended December 31, 2015:

the year ended December 31, 2015	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	8,675.5	1,147.5	-	9,823.0
Inter-segment revenues	33.7	152.4	(186.1)	-
<b>Revenues</b>	<b>8,709.2</b>	<b>1,299.9</b>	<b>(186.1)</b>	<b>9,823.0</b>
<b>EBITDA (unaudited)</b>	<b>3,240.0</b>	<b>445.1</b>	<b>-</b>	<b>3,685.1</b>
Depreciation, amortization, impairment and liquidation	1,660.5	38.8	-	1,699.3
<b>Profit from operating activities</b>	<b>1,579.5</b>	<b>406.3</b>	<b>-</b>	<b>1,985.8</b>
Acquisition of property, plant and equipment, reception equipment and other intangible assets	688.3*	31.9	-	720.2
Balance as at December 31, 2015				
Assets, including:	22,110.8	4,421.8**	(42.5)	<b>26,490.1</b>
Investments in joint ventures	-	5.9	-	5.9

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

\*\* Includes non-current assets located outside of Poland in the amount of PLN 15.9 million.

Reconciliation of EBITDA and net profit for the period:

[mPLN]	for the 12 months ended	
	December 31, 2016	December 31, 2015
<b>EBITDA (unaudited)</b>	<b>3,640.8</b>	<b>3,685.1</b>
Depreciation, amortization, impairment and liquidation	(1,971.5)	(1,699.3)
<b>Profit from operating activities</b>	<b>1,669.3</b>	<b>1,985.8</b>
Other foreign exchange rate differences, net	(63.5)	(0.7)
Share of the profit of joint venture accounted for using the equity method	-	2.6
Cumulative catch-up	-	616.2
Interest costs, net	(495.8)	(756.0)
Valuation and realization of derivatives not used in hedge accounting – relating to principal	203.8	-
Foreign exchange differences on issued bonds	(244.8)	(223.6)
Early redemption costs	-	(244.8)
Other	(35.6)	(47.1)
<b>Gross profit for the period</b>	<b>1,033.4</b>	<b>1,332.4</b>
Income tax	(12.4)	(169.0)
<b>Net profit for the period</b>	<b>1,021.0</b>	<b>1,163.4</b>

### 4.6.3. Balance sheet analysis

As at December 31, 2016 our balance sheet amounted to PLN 27,729.3 million and increased by PLN 1,239.2 million, or 4.7%, from PLN 26,490.1 million as at December 31, 2015.

#### Assets

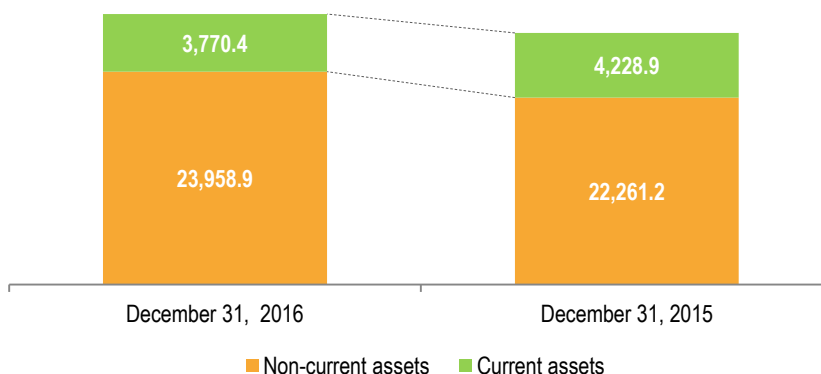
[mPLN]	December 31, 2016 <sup>(1)</sup>	December 31, 2015	change	
			[mPLN]	%
Reception equipment	350.9	371.0	(20.1)	(5.4%)
Other property, plant and equipment	2,964.3	2,548.6	415.7	16.3%
Goodwill	10,975.4	10,606.4	369.0	3.5%
Customer relationships	3,031.2	3,638.5	(607.3)	(16.7%)
Brands	2,056.5	2,080.6	(24.1)	(1.2%)
Other intangible assets	3,656.2	2,422.2	1,234.0	50.9%
Non-current programming assets	151.8	145.0	6.8	4.7%
Investment property	5.1	5.2	(0.1)	(1.9%)
Non-current deferred distribution fees	82.8	83.3	(0.5)	(0.6%)
Other non-current assets	452.0	272.8	179.2	65.7%
<i>includes derivative instruments assets</i>	9.5	6.9	2.6	37.7%
Deferred tax assets	232.7	87.6	145.1	165.6%
<b>Total non-current assets</b>	<b>23,958.9</b>	<b>22,261.2</b>	<b>1,697.7</b>	<b>7.6%</b>
Current programming assets	192.0	192.2	(0.2)	(0.1%)
Inventories	278.7	281.0	(2.3)	(0.8%)
Trade and other receivables	1,688.0	1,619.1	68.9	4.3%
Income tax receivable	29.1	0.7	28.4	4,057.1%
Current deferred distribution fees	207.2	212.7	(5.5)	(2.6%)
Other current assets	38.7	399.5	(360.8)	(90.3%)
<i>includes derivative instruments assets</i>	6.7	10.5	(3.8)	(36.2%)
Cash and cash equivalents	1,326.0	1,512.0	(186.0)	(12.3%)
Restricted cash	10.7	11.7	(1.0)	(8.5%)
<b>Total current assets</b>	<b>3,770.4</b>	<b>4,228.9</b>	<b>(458.5)</b>	<b>(10.8%)</b>
<b>Total assets</b>	<b>27,729.3</b>	<b>26,490.1</b>	<b>1,239.2</b>	<b>4.7%</b>

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

As at December 31, 2016 and December 31, 2015, our non-current assets amounted to PLN 23,958.9 million and PLN 22,261.2 million, respectively, and accounted for 86.4% and 84.0% of total assets, respectively.

As at December 31, 2016 and December 31, 2015, our current assets amounted to PLN 3,770.4 million and PLN 4,228.9 million, respectively, and accounted for 13.6% and 16.0% of the total assets, respectively.

### Change in assets [mPLN]



The value of reception equipment amounted to PLN 350.9 million as at December 31, 2016 and decreased by PLN 20.1 million, or 5.4%, compared to PLN 371.0 million as at December 31, 2015.

The value of other property, plant and equipment increased by PLN 415.7 million, or 16.3%, to PLN 2,964.3 million as at December 31, 2016 from PLN 2,548.6 million as at December 31, 2015, mainly due to the recognition of the value of the technical infrastructure and telecommunications network equipment of Aero2 Group and capital spending on the ongoing roll-out of our telecommunications network.

The value of goodwill increased by PLN 369.0 million, or 3.5%, to PLN 10,975.4 million as at December 31, 2016 from PLN 10,606.4 million as at December 31, 2015, primarily as an effect of the recognition of the valuation of shares of Litenite Limited, acquired on February 29, 2016.

The value of customer relationships decreased by PLN 607.3 million, or 16.7%, to PLN 3,031.2 million as at December 31, 2016 compared to PLN 3,638.5 million as at December 31, 2015 due to calculated depreciation for the twelve-month period ended December 31, 2016.

As at December 31, 2016, the value of brands was PLN 2,056.5 million, which constitutes a decrease by PLN 24.1 million, or 1.2%, to PLN 2,080.6 million as at December 31, 2015, due to recognition of the depreciation of the Plus trademark for the twelve-month period ended December 31, 2016.

The value of other intangible assets amounted to PLN 3,656.2 million as at December 31, 2016 which constitutes an increase by PLN 1,234.0 million, or 50.9%, compared to PLN 2,422.2 million as at December 31, 2015. The main reason behind this increase is the recognition and subsequent valuation of telecommunication licenses belonging to Aero2 Group.

The value of non-current and current programming assets increased by PLN 6.6 million, or 2.0%, to PLN 343.8 million as at December 31, 2016, from PLN 337.2 million as at December 31, 2015. This increase was the effect of the purchase of additional film licenses in order to expand our scheduling and was partially off-set by the attribution to costs of the value of sport licenses related to UEFA EURO 2016.

Investment property amounted to PLN 5.1 million as at December 31, 2016 and remained practically unchanged compared to PLN 5.2 million as at December 31, 2015.

The value of non-current and current deferred distribution fees amounted to PLN 290.0 million as at December 31, 2016, which constitutes a decrease by PLN 6.0 million, or 2.0%, from PLN 296.0 million as at December 31, 2015.

The value of other non-current assets amounted to PLN 452.0 million as at December 31, 2016 and increased by PLN 179.2 million, or 65.7%, compared to PLN 272.8 million as at December 31, 2015, primarily as a result of an increase of receivables from installment plan sales of equipment.

The value of deferred tax assets amounted to PLN 232.7 million as at December 31, 2016, which constitutes an increase by PLN 145.1 million, or 165.6%, compared to PLN 87.6 million as at December 31, 2015.

The value of inventories was PLN 278.7 million as at December 31, 2016 and remained at a similar level compared to PLN 281.0 million as at December 31, 2015.

The value of trade and other receivables increased by PLN 68.9 million, or 4.3%, to PLN 1,688.0 million as at December 31, 2016 from PLN 1,619.1 million as at December 31, 2015, among others due to higher current receivables from installment plan sales of equipment, partially off-set by lower public receivables.

The value of other current assets amounted to PLN 38.7 million as at December 31, 2016, which constitutes a decrease by PLN 360.8 million, or 90.3%, compared to PLN 399.5 million as at December 31, 2015, primarily due to the elimination of settlements related to the purchase of data packages from Aero2 Group due to its consolidation from February 29, 2016.

The value of cash and cash equivalents and restricted cash decreased by PLN 187.0 million, or 12.3%, to PLN 1,336.7 million as at December 31, 2016 from PLN 1,523.7 million as at December 31, 2015, due, among other things, to the purchase of shares in Midas under the tender offer and squeeze-out, the redemption of Midas Notes, payments for license reservations and the repayment of the indebtedness under the Combined SFA according to schedule.

### Equity and liabilities

[mPLN]	December 31, 2016 <sup>(1)</sup>	December 31, 2015	change	
			[mPLN]	%
Share capital	25.6	25.6	-	-
Share premium	7,174.0	7,174.0	-	-
Other reserves	4.5	(3.7)	8.2	(221.6%)
Retained earnings	4,095.5	3,054.2	1,041.3	34.1%
<b>Equity attributable to equity holders of the Parent</b>	<b>11,299.6</b>	<b>10,250.1</b>	<b>1049.5</b>	<b>10.2%</b>
Non-controlling interests	78.0	-	78.0	-
<b>Total equity</b>	<b>11,377.6</b>	<b>10,250.1</b>	<b>1,127.5</b>	<b>11.0%</b>
Loans and borrowings	9,302.7	5,379.8	3,922.9	72.9%
Issued bonds	1,835.7	975.3	860.4	88.2%
Finance lease liabilities	20.9	20.9	-	-
UMTS license liabilities	574.0	652.8	(78.8)	(12.1%)
Deferred tax liabilities	786.9	615.8	171.1	27.8%
Deferred income	20.1	4.7	15.4	327.7%
Other non-current liabilities and provisions	130.2	124.2	6.0	4.8%
<b>Total non-current liabilities</b>	<b>12,670.5</b>	<b>7,773.5</b>	<b>4,897.0</b>	<b>63.0%</b>
Loans and borrowings	1,270.0	1,230.9	39.1	3.2%
Issued bonds	42.4	4,776.7	(4,734.3)	(99.1%)
Finance lease liabilities	5.0	4.3	0.7	16.3%
UMTS license liabilities	121.5	117.0	4.5	3.8%
Trade and other payables	1,569.5	1,485.4	84.1	5.7%
<i>includes derivative instruments liabilities</i>	-	72.9	(72.9)	(1.0)
Income tax liability	24.9	176.1	(151.2)	(85.9%)
Deferred income	647.9	676.1	(28.2)	(4.2%)
<b>Total current liabilities</b>	<b>3,681.2</b>	<b>8,466.5</b>	<b>(4,785.3)</b>	<b>(56.5%)</b>
<b>Total liabilities</b>	<b>16,351.7</b>	<b>16,240.0</b>	<b>111.7</b>	<b>0.7%</b>
<b>Total equity and liabilities</b>	<b>27,729.3</b>	<b>26,490.1</b>	<b>1,239.2</b>	<b>4.7%</b>

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

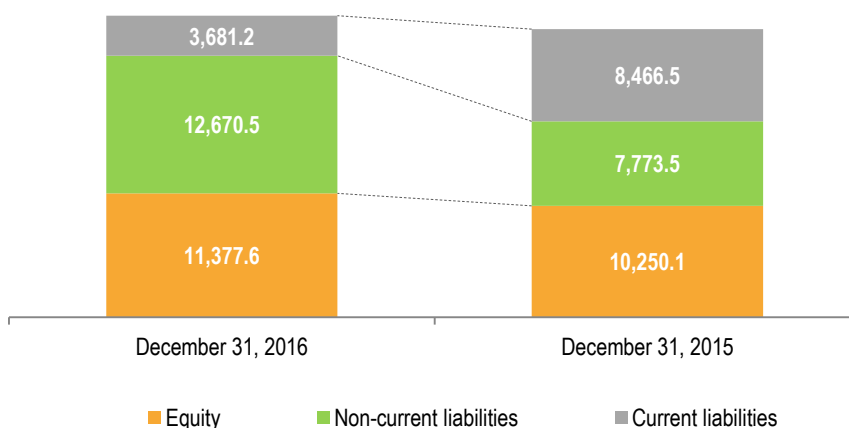


Equity increased by PLN 1,127.5 million, or by 11.0%, to PLN 11,377.6 million as at December 31, 2016 from PLN 10,250.1 million as at December 31, 2015, primarily due to profit generated in the twelve-month period ended December 31, 2016, in the amount of PLN 1,021.0 million.

As at December 31, 2016 and December 31, 2015 the value of our non-current liabilities amounted to PLN 12,670.5 million and PLN 7,773.5 million, which constituted 77.5% and 47.9% of the Group's total liabilities, respectively.

As at December 31, 2016 and December 31, 2015 the value of our current liabilities amounted to PLN 3,681.2 million and PLN 8,466.5 million, which constituted 22.5% and 52.1% of the Group's total liabilities, respectively.

#### Change in liabilities [mPLN]



Loans and borrowings (long- and short-term) increased by PLN 3,962.0 million, or 59.9%, to PLN 10,572.7 million as at December 31, 2016 from PLN 6,610.7 million, which was the net effect of the increased use of the Combined SFA by drawing the amount of PLN 4,800.0 million and its repayment according to schedule in the total amount of PLN 858,0 million in 2016.

Senior Notes liabilities (long- and short-term) decreased by PLN 3,873.9 million or by 67.3%, to PLN 1,878.1 million as at December 31, 2016 from PLN 5,752.0 million as at December 31, 2015. This is the net effect of the premature redemption of the PLK Senior Notes on January 29, 2016 as part of the process of refinancing the Group's debt, as well as the recognition of liabilities on Litenite Notes, acquired along with shares in Litenite.

Finance lease liabilities (long- and short-term) amounted to PLN 25.9 million as at December 31, 2016 and increased by PLN 0.7 million, or 2.8%, from PLN 25.2 million as at December 31, 2015.

UMTS license liabilities (long- and short-term) decreased by PLN 74.3 million, or 9.7%, to PLN 695.5 million as at December 31, 2016 from PLN 769.8 million as at December 31, 2015, due to the subsequent payment for the UMTS license executed in September 2016.

Deferred income tax liabilities increased by PLN 171.1 million, or 27.8%, to PLN 786.9 million as at December 31, 2016 from PLN 615.8 million as at December 31, 2015.

Non-current and current deferred income amounted to PLN 668.0 million as at December 31, 2016, and decreased by PLN 12.8 million, or 1.9%, from PLN 680.8 million as at December 31, 2015.

The value of other non-current liabilities and provisions amounted to PLN 130.2 million as at December 31, 2016, which constitutes an increase by PLN 6.0 million, or 4.8%, compared to PLN 124.2 million as at December 31, 2015, due i.a. to provisions in Aero2 Group.

The value of trade and other payables amounted to PLN 1,569.5 million as at December 31, 2016 which constitutes an increase by PLN 84.1 million, or 5.7%, compared to PLN 1,485.4 million as at December 31, 2015. This increase was driven

primarily by a higher balance of accruals, higher liabilities related to the purchase of programming assets, non-current assets and intangible assets and was partially off-set by lower public payables and the recognition in the comparative period of the valuation of derivatives hedging future interest payments on term loans (IRS), and USD and EUR denominated notes (CIRS).

Income tax liabilities decreased by PLN 151.2 million, or 85.9%, to PLN 24.9 million as at December 31, 2016 from PLN 176.1 million as at December 31, 2015, i.a. due to the backflush settlement by Polkomtel in March 2016 of corporate income tax, which was paid in the advance payment model in 2015.

#### 4.6.4. Cash flow analysis

The table below presents selected data from the consolidated cash flow statement for the twelve month periods ended December 31, 2016 and 2015.

[mPLN]	for the 12 months ended December 31		change	
	2016 <sup>(1)</sup>	2015	mPLN	%
Net profit	1,021.0	1,163.4	(142.4)	(12.2%)
Adjustments	2,130.5	1,821.7	308.8	17.0%
<b>Net cash from operating activities</b>	<b>2,884.7</b>	<b>2,887.7</b>	<b>(3.0)</b>	<b>(0.1%)</b>
<b>Net cash used in investing activities</b>	<b>(1,003.4)</b>	<b>(726.6)</b>	<b>276.8</b>	<b>38.1%</b>
<i>Capital expenditure</i>	(590.4)	(583.1)	7.3	1.3%
<b>Net cash used in financing activities</b>	<b>(2,070.8)</b>	<b>(2,386.7)</b>	<b>(315.9)</b>	<b>(13.2%)</b>
Net decrease in cash and cash equivalents	(189.5)	(225.6)	(36.1)	(16.0%)
Cash and cash equivalents at the beginning of the period	1,523.7	1,747.9	(224.2)	(12.8%)
<b>Cash and cash equivalents at the end of the period</b>	<b>1,336.7</b>	<b>1,523.7</b>	<b>(187.0)</b>	<b>(12.3%)</b>

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

#### **Net cash from operating activities**

Net cash from operating activities amounted to PLN 2,884.7 million in 2016 and remained on a similar level compared to net cash from operating activities in the amount of PLN 2,887.7 million.

In 2016, the stream of cash from operating activities was mainly influenced by the stable level of the EBITDA result, reduced by higher income tax paid in connection with the backflush settlement by Polkomtel in March 2016 of corporate income tax for 2015, which was balanced by a lower increment of working capital engaged in 2016. The increment of working capital resulted primarily from an increase in receivables on installment plan sales of equipment to residential customers, while in 2015 its level was additionally impacted by settlements with Aero2 Group with regard to data traffic purchases.

#### **Net cash used in investing activities**

Net cash used in investing activities amounted to PLN 1,003.4 million in 2016 which constitutes an increase by PLN 276.8 million, or 38.1%, from PLN 726.6 million in 2015. This item comprised, i.a., expenditures related to payments made by Polkomtel amounting to PLN 268.5 million for the UMTS license and for the reservation of four blocks in the 2600 MHz band, and the acquisition of shares in Litenite Limited and IT Polpager, net of cash acquired.

Moreover, the level of net cash used in investing activities was influenced by capital expenditures on the purchase of property, plant and equipment and intangible assets, which amounted to PLN 590.4 million in 2016 and were by PLN 7.3 million higher compared to 2015, mainly as an effect of the recognition of expenditures of Aero2 Group since its consolidation on February 29, 2016.

Expenditures on the purchase of property, plant and equipment and intangible assets in the twelve months of 2016 comprised, among others, the continuation of the roll-out and development of the capacity of the telecommunications network based on LTE and LTE-Advanced technologies, expenditures aimed at increasing the capacity of our access network in the 900 MHz band (as preparation for the process of band refarming) and the modernization of our transmission network, investments related to the implementation of the new integrated system supporting sales and customer and the convergent billing system, as well as related to the construction of the new recording studio.

### Net cash from/(used in) finance activities

Net cash used in financing activities amounted to PLN 2,070.8 million in 2016, which constitutes a decrease by PLN 315.9 million, or 13.2%, compared to PLN 2,386.7 million in 2015. The amount of cash used in financing activities in 2016 was affected primarily by the repayment of debt under the PLK Senior Notes and the associated premium paid for early redemption, current repayments according to schedule and servicing of the Combined SFA, the purchase of Midas Notes for the total amount of PLN 323.6 million, the full repayment of bank loans of Aero2 Group, as well as by the inflows related to the beneficial execution of currency hedging instruments. Cash used to finance the abovementioned operations was generated from operating activities and the increased use of the Combined SFA (additional drawn amount of PLN 4,800.0 million)

#### 4.6.5. Liquidity and capital resources

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

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

The table below presents a summary of the indebtedness of the Group as at December 31, 2016.

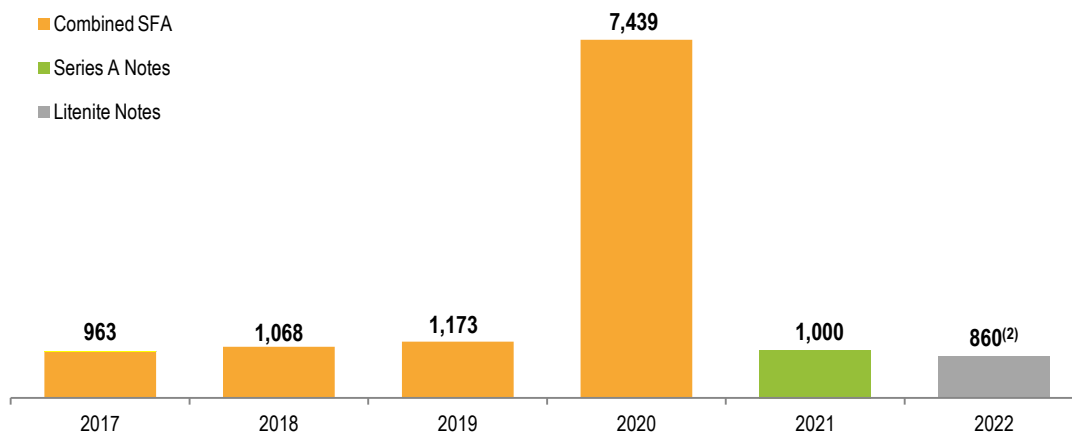
	Balance value as at December 31, 2016 [mPLN]	Coupon / interest	Maturity date
Combined SFA	10,572.7	WIBOR + margin	2020
Revolving Facility Loan	-	WIBOR + margin	2020
Series A Notes	1,017.9	WIBOR + 2.5%	2021
Zero-coupon Litenite Notes	860.2	10%	2022
Leasing and other	25.9	-	-
<b>Gross debt</b>	<b>12,476.7</b>	-	-
Cash and cash equivalents <sup>(1)</sup>	(1,336.7)	-	-
<b>Net debt</b>	<b>11,140.0</b>	-	-
EBITDA LTM	3,640.8	-	-
<b>Net debt (according to to SFA <sup>(2)</sup>) / EBITDA LTM</b>	<b>2.83</b>	-	-
<b>Total net debt / EBITDA LTM</b>	<b>3.06</b>	-	-

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

2) Net debt calculated in accordance with the Combined SFA definition, i.e. excluding non-cash serviced debt.

The graphs below present the aging balance of the Group's debt and its currency composition as at December 31, 2016, expressed in nominal values and excluding the debt under the revolving facility loans.

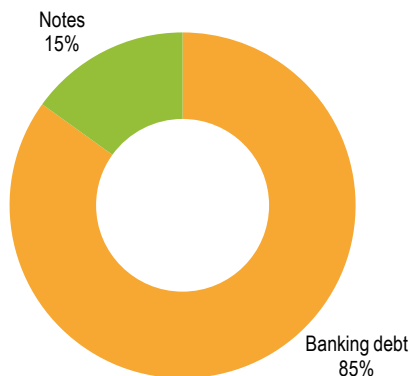
#### Debt maturing profile<sup>(1)</sup> as at December 31, 2016 [mPLN]



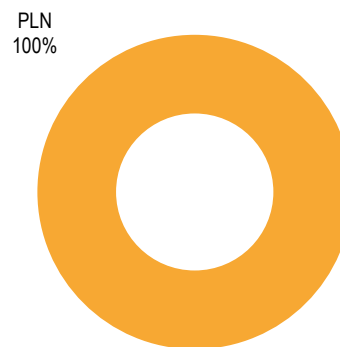
(1) Nominal value of the indebtedness as at December 31, 2016 (excluding the Revolving Facility Loan).

(2) Balance sheet value of liabilities related to the Litenite Notes as at December 31, 2016.

#### Debt structure by instrument type<sup>(1)</sup> as at December 31, 2016



#### Debt structure by currency<sup>(1)</sup> as at December 31, 2016



(1) Nominal value of the indebtedness as at December 31, 2016 (excluding the Revolving Facility Loan).

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. As at December 31, 2016 transactions hedging the WIBOR interest rate changes, concluded by companies from the Group, amounted to PLN 3,250.0 million and matured in the years 2018-2019.

#### Material financing agreements executed by the Group

Presented below is information on significant agreements executed by the Company and the Group companies, which remain in force as at the date of publication of this Report, as well as a brief description of those agreements, which have expired during 2016 due to the repayment of debt granted on their basis.

### Combined Senior Facilities Agreement

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

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

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

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

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

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

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

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

presented in item 4.6.6. of this Report – *Operating and financial review of Polsat Group – Review of our financial situation - Information on guarantees granted by the Company or subsidiaries.*

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

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

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

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

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

#### **Series A Bonds issued by Cyfrowy Polsat**

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

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

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

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

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

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

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

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

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

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

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

On August 12, 2015, 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.

Litenite may exercise an early redemption of the all or part of the Litenite Notes. An early redemption shall be exercised based on the Litenite Notes' value calculated as at the date of the early redemption plus an applicable premium depending on the date of redemption, specified as follows:

- (i) if the early redemption occurs not sooner than January 2, 2016 and not later than January 1, 2017, the premium shall be equal to 10.0% of the issue price;
- (ii) if the early redemption occurs not sooner than January 2, 2017 and not later than January 1, 2018, the premium shall be equal to 7.5% of the issue price;
- (iii) if the early redemption occurs not sooner than January 2, 2018 and not later than January 1, 2019, the premium shall be equal to 5.0% of the issue price;
- (iv) if the early redemption occurs not sooner than January 2, 2019 and not later than January 1, 2020, the premium shall be equal to 2.5% of the issue price;
- (v) if the early redemption occurs on January 2, 2020 or later, the notes shall be redeemed without a premium.

In the event of a breach of restrictions specified in the terms of issuance of the Litenite Notes, are entitled to demand an early redemption of the held notes.

### PLK Senior Notes

On January 26, 2012 Eileme 2, Eileme 3, Eileme 4, Spartan (whose legal successor is Polkomtel), Ortholuck, Citibank, N.A., London Branch, Citibank, N.A., New York Branch, Citigroup Global Markets Deutschland AG, executed an Indenture on the issue of senior notes by Eileme 2 for a total nominal amount of EUR 542.5 million and USD 500.0 million, maturing in 2020, subsequently joined by selected Polkomtel subsidiaries.

On February 1, 2016, Eileme 2 redeemed all of the PLK Senior Notes denominated in EUR and USD at the redemption price (expressed as percentages of principal amount) equal to 105.875% for the PLK Senior Notes denominated in EUR and 105.813% for the PLK Senior Notes denominated in USD.

### **Series A bonds issued by Midas S.A. (the "Midas Notes")**

On April 16, 2013 Midas (whose legal successor is Aero2) issued 583,772 zero-coupon, dematerialized, secured on selected assets, series A bearer notes with the nominal value of PLN 1,000.0 each and the total nominal value of PLN 583.8 million, maturing on April 16, 2021.

On December 9, 2016, Aero2, Midas's legal successor, executed a premature redemption of all Midas Notes. As at the date of the mandatory redemption a majority of Midas Notes were within the possession of companies belonging to Polsat Group, which acquired them during 2016.

### **Investment loan agreements concluded between Aero2 and Plus Bank S.A.**

On October 27, 2010 and November 25, 2010 investment loan agreements, as amended, were concluded between Aero2 Sp. z o.o., as borrower, and Invest Bank S.A. (currently Plus Bank S.A.) as the creditor, with the aim to refinance and finance investment expenditures on telecommunication infrastructure.

Based on these agreements, as amended, Aero2 was granted a term loan in the total amount of PLN 64.5 million. The indebtedness under the agreements with Plus Bank S.A. was repaid, using own funds, in full on May 10, 2016 by Aero2 Group, and all securities established pursuant to the agreements, have been released.

### **Investment loan agreement concluded between Aero2 Group and Bank Polska Kasa Opieki S.A.**

On July 10, 2014 Midas (whose legal successor is Aero2) and its subsidiaries: Aero2, CenterNet S.A. and Mobyland Sp. z o.o., as borrowers, and Bank Polska Kasa Opieki S.A. as creditor concluded an investment loan agreement, later amended by amendments dated March 30, 2015, June 26, 2015 and October 22, 2015.

Based on this agreement, as amended, Aero2Group was granted a term loan in the total amount of PLN 350.0 million. The funds acquired under this agreement were used in particular for the development of the LTE and HSPA+ networks, and to refinance the earlier indebtedness of Aero2 Group amounting to PLN 150.0 million.

The indebtedness under the loan agreement with Bank Polska Kasa Opieki S.A. was repaid in full on April 29, 2016 by the companies Midas and Aero2, and all securities established pursuant to the agreement, have been released. Funds used to repay the debt were generated from operating activities of Aero2 Group.

### **Contractual obligations**

#### **Contractual commitments to purchase programming assets**

As at December 31, 2016 the Group had outstanding contractual commitments in relation to purchases of programming assets. The table below presents a maturity analysis for such commitments:

[mPLN]	December 31, 2016	December 31, 2015
within one year	139.4	178.1
between 1 to 5 years	83.3	116.4
more than 5 years	20.0	
<b>Total</b>	<b>242.7</b>	<b>294.5</b>



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

[mPLN]	December 31, 2016	December 31, 2015
within one year	14.6	15.9
<b>Total</b>	<b>14.6</b>	<b>15.9</b>

#### 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 118.3 million as at December 31, 2016 (PLN 136.3 million as at December 31, 2015). Total amount of contractual liabilities resulting from agreements for the purchases of intangible assets as at December 31, 2016 was PLN 115.3 million (PLN 63.8 million as at December 31, 2015).

#### Contractual liabilities related to the purchase of data transfer services

The total amount of capital commitments resulting from agreements on data transfer services as at December 31, 2016 was PLN 0 (PLN 2,777.2 million as at 31 December 2015).

#### Ratings

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

	Moody's Investor Services			Standard & Poor's Rating Services		
	Rating / perspective	Previous rating/ perspective	Update	Rating / perspective	Previous rating/ perspective	Update
<b>CYFROWY POLSAT</b>						
Corporate rating	Ba2 / stable	Ba3 / positive	16.05.2016	BB+/stable	BB/ CreditWatch Positive	25.09.2015

On May 16, 2016 Moody's Investors Service upgraded the corporate family rating (CFR) of Cyfrowy Polsat S.A. from Ba3 to Ba2, with a stable outlook. In its justification Moody's stated that the rating upgrade primarily reflects the progress in the process of integration of Cyfrowy Polsat and Polkomtel, the continuing financing plans aimed at streamlining debt and corporate structure, the strategic and cost benefits deriving from the recent acquisition of Midas Group and consistent deleveraging over the past year aimed at achieving the financial policy of target net leverage under 1.75x over the medium term.

Moody's also underscored Cyfrowy Polsat's capital group's strong market positions in Polish pay-TV and mobile telephony markets and its stable operations, supported by its integrated services offer smartDOM. Furthermore, the rating was positively influenced by a reduction in the Company's foreign exchange exposure, resulting from the completed process of refinancing indebtedness denominated in foreign currencies by debt denominated in Polish zloty, as well as good liquidity, supported by its solid free cash flow generation, an extended maturity profile and an undrawn PLN 1 billion Revolving Credit Facility.

#### 4.6.6. Information on guarantees granted by the Company or subsidiaries

##### Securities related to the Combined Senior Facilities Agreement

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

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

- (ii) financial and registered pledges on shares in Cyfrowy Polsat Trade Marks Sp. z o.o. (with an aggregate nominal value of PLN 615,445,000), Telewizja Polsat (with an aggregate nominal value of PLN 236,946,700), Polkomtel (with a total nominal value of PLN 3,525,300,000) and in Plus TM Management Sp. z o.o. (with a total nominal value of PLN 2,106,000), and Aero2 (with a total nominal value of PLN 260,000,000), governed by Polish law, together with powers of attorney to exercise corporate rights attached to the shares in the said companies; the pledged shares represent 100% of the share capital of each company and are held by the Company as a long-term capital investment;
- (iii) financial and registered pledges on receivables under bank account agreements of the Company, Cyfrowy Polsat Trade Marks Sp. z o.o., Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp.k., Telewizja Polsat, Polkomtel, Eileme 1, Eileme 2, Eileme 3, Eileme 4, Plus TM Management Sp. z o.o., and Aero2, governed by Polish law;
- (iv) powers of attorney to bank accounts of the Company, Cyfrowy Polsat Trade Marks Sp. z o.o., Polsat Media Biuro Reklamy spółka z ograniczoną odpowiedzialnością Sp.k., Telewizja Polsat, Polkomtel, Eileme 1, Eileme 2, Eileme 3, Eileme, Plus TM Management Sp. z o.o., Dwa Sp. z o.o., Teleaudio Dwa Spółka z ograniczoną odpowiedzialnością Sp. k., Polsat Media Biuro Reklamy Sp. z o.o., Interphone Service Sp. z o.o., Muzo.fm Sp. z o.o., Telewizja Polsat Holdings Sp. z o.o., INFO-TV-FM Sp. z o.o., Polkomtel Business Development Sp. z o.o., Nordisk Polska Sp. z o.o., TM Rental Sp. z o.o., Liberty Poland S.A., and Aero2, governed by Polish law;
- (v) ordinary and registered pledges on protection rights to trademarks vested in Polsat Brands AG, governed by Polish law;
- (vi) assignment for security of certain property rights in Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp.k., governed by Polish law;
- (vii) contractual joint mortgage under Polish law on the following real properties owned by the Company: (a) land located in Warsaw, Targówek district, vicinity of ul. Łubinowa, Title and Mortgage Register WA3M/00102149/9, (b) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00136943/2, (c) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00102615/7, (d) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00101039/8, (e) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00132063/1, (f) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00104992/7, (g) land located in Warsaw, Targówek district, vicinity of ul. Łubinowa, Title and Mortgage Register WA3M/00100109/3, (h) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00103400/4, (i) land located in Warsaw, Targówek district, vicinity of ul. Łubinowa, Title and Mortgage Register WA3M/00100110/3, (j) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00131411/9;
- (viii) contractual mortgage governed by Polish law on the land property owned by Polkomtel and located in Warsaw, Ursynów district, in the vicinity of Baletowa street, comprising plots of land no. 131/4 and 132/6, Land and Mortgage Register No. WA5M/00478842/7;
- (ix) assignment for security of receivables under hedge agreements of the Company and Polkomtel, governed by English law;
- (x) assignment for security of rights under insurance agreements covering the property referred to in item (i) and item (vii) above;
- (xi) pledge on shares in Polsat License Ltd. (with an aggregate nominal value of CHF 1,000,000), governed by the Swiss law; the pledged shares represent 100% of the company's share capital and are held by the Company as a long-term capital investment;
- (xii) pledge on shares in Eileme 1 (with a total nominal value of SEK 500,000), governed by Swedish law; the pledged shares represent 100% of the share capital of the company and are held by the Company as a long-term capital investment;
- (xiii) pledge on shares in Eileme 2 (with a total nominal value of SEK 500,000), governed by Swedish law; the pledged shares represent 100% of the share capital of the company and are held by the Company as a long-term capital investment;
- (xiv) pledge on shares in Eileme 3 (with a total nominal value of SEK 500,000), governed by Swedish law; the pledged shares represent 100% of the share capital of the company and are held by the Company as a long-term capital investment;

- (xv) pledge on shares in Eileme 4 (with a total nominal value of SEK 500,000), governed by Swedish law; the pledged shares represent 100% of the share capital of the company and are held by the Company as a long-term capital investment;
- (xvi) pledge on shares in Metelem (with a total nominal value of EUR 2,212,325) and on shares in Litenite (with the total nominal value of EUR 1,800), 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 Metelem, governed by Cypriot law;
- (xx) assignment for security of receivables and rights to and in bank accounts of Metelem, governed by the Swiss law;
- (xxi) pledge on shares in Polsat Brands AG Litenite (with the total nominal value of CHF 250,074), governed by the Swiss law;
- (xxii) pledge on receivables under bank account agreements of Litenite governed by Swiss law;
- (xxiii) statements of the Company, Cyfrowy Polsat Trade Marks sp. z o.o., Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością sp.k., Telewizja Polsat, Polkomtel, Plus TM Management sp. z o.o., Midas and Aero2 on the submission to enforcement on the basis of a notarial deed, governed by Polish law; and
- (xxiv) statements of Litenite and Eileme 4 on the submission to enforcement on the basis of a notarial deed executed under the Polish law (concerning all property located in Poland or governed by Polish law).

## 5. OTHER SIGNIFICANT INFORMATION

### 5.1. Transactions with related parties

Transactions concluded in 2016 by us or our subsidiaries with entities related to Polsat Group have all been concluded on market conditions and are described in Note 42 of the consolidated financial statements for the financial year ended December 31, 2016.

### 5.2. Information on loans granted

Information on loans granted is presented in Note 38 of the consolidated financial statements for the financial year ended December 31, 2016.

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

Cyfrowy Polsat Group did not publish any financial forecasts for 2016.

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

Management believes that the provisions for litigations as at December 31, 2016 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

#### *Proceedings before the Office of Competition and Consumer (UOKiK)*

On February 24, 2011 the President of UOKiK imposed a penalty on Polkomtel in the amount of PLN 130.7 million for the alleged lack of cooperation during an inspection carried out by UOKiK in Polkomtel. Polkomtel appealed against the decision of the President of UOKiK to the Consumer and Competition Protection Court (SOKiK). According to the Management, during the inspection the Company had fully and at all times cooperated with UOKiK within the scope provided by the law. On June 18, 2014 the decision of the President of UOKiK was changed by SOKiK, reducing the penalty to PLN 4 million (i.e. EUR 1 million). On October 20, 2015 SOKiK's verdict has been revoked and the case has been transferred for re-examination. In the Management's opinion, it is more likely than not that the ultimate outcome of the proceedings will be favorable to Polkomtel thus no provision was recognized.

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. The verdict is non-binding. The President of UOKiK appealed against the verdict.

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

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

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

termination of the preferential sales offer. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 6.0 million. The company appealed to SOKiK against the decision.

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

In September 2015, Polkomtel received a claim from P4, in which the company demands compensation of EUR 316 million (including interest of PLN 85 million), for the alleged actions relating to the pricing of the mobile services rendered between July 2009 and March 2012. The claim assumes payment of the above amount jointly by Orange, Polkomtel and T-Mobile. The Management believes that the claim is unfounded, as Polkomtel's conduct alone or with other tort entities was not wrongful, in particular relating to the pricing of retail mobile services directed to the telecommunications network of P4. In management's opinion, there is no legal basis for the overall assessment of the alleged actions of each of the operators on the telecommunications market, which is fully a competitive market, and each of the operators has its own business and pricing strategy. The claim of P4 indicates neither nature (premises liability) nor the amount.

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

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

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

## **5.5. Changes to the principle rules of management of our Company and the Capital Group**

There were no changes to the principle rules of management of our Company and the Capital Group in the year 2016.

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

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

## **5.7. Trade unions**

Two trade unions are active at Polkomtel Group: Niezależny Samorządny Związek Zawodowy Solidarność (the Solidarity Independent Self-Governing Trade Union) and Ogólnopolskie Porozumienie Związków Zawodowych (All-Poland Alliance of Trade Unions). At December 31, 2016, 138 employees (expressed as full-time equivalents), or 3.7% of the total workforce of Polkomtel Group, were trade union members. At the date of preparation of this Report, we are not involved in, or aware of, any dispute with trade unions or any form of collective bargaining.

## 6. KEY RISK AND THREAT 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 successfully manage the churn rate, we may be forced to significantly reduce our costs to maintain satisfactory profit margins, or to take alternative steps, which could in turn result in higher costs of customer acquisition and retention.

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

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

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

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

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

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

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

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

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

***We may be unable to attract or retain customers and advertisers if we fail to conclude or extend the 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, we might have to raise fees paid to our distributors in order to expand the sales and distribution network, and change the channels we are using to distribute our services. Any potential increase of fees paid to distributors in our sales and distribution network will result in higher operating costs and probably lead to lower profit from operating activities. Furthermore, if we decide that our distribution network requires extensive reorganisation or reconstruction, we may face the need to incur substantial financial outlays. Any failure to maintain, expand or modify our sales and distribution network may make it much harder to acquire and retain customers of our services, which may have a material adverse effect on our business, financial condition, results of operations or prospects.

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

External providers provide us with support services and deliver equipment and infrastructure necessary for us to conduct our operations. We have little to no influence over how and when these third-party providers perform their obligations.

We collaborate with a number of third parties in providing our pay TV, broadband 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 our markets***

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

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

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

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

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

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

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

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

***We are exposed to the risk of fraudulent activities by customers***

Given the nature of the telecommunications market stemming from the manner of making interconnect settlements related to the exchange of domestic and international telecommunications traffic and fees for sold premium services, some of our customers use telecommunications services in a way that differs from the standard method of their use by the end user, e.g. by terminating mass traffic in the network of another operator while bypassing wholesale interconnect settlements. 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 and growth prospects.

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

The good name of the "Cyfrowy Polsat," "Plus," "Telewizja Polsat," "IPLA," "TV4" and "TV6" brands is a significant component of Group's value. Maintaining their good name is fundamental for acquiring new and retaining existing customers and advertisers. Our reputation may suffer if we are unable to provide existing products and services or implement new products and services due to technical faults, a lack of necessary equipment, or other circumstances. Also, the quality of our products

and services depends on the quality of third-party infrastructure and services, over which we have little control. If our partners fail to observe relevant performance standards or supply faulty products or services, the quality of our products and services, as well as our good name may suffer. There can be no assurance that these or other risks, which would compromise the good name of the "Cyfrowy Polsat," "Plus," "Telewizja Polsat," "IPLA," "TV4" and "TV6" brands, will not materialise in the future. Any damage to our good name may have a material adverse effect on our business, financial condition, results of operations or prospects.

***Goodwill and brand values may be impaired***

Following the acquisitions made in the past, in particular of Telewizja Polsat, Metelem, indirectly holding Polkomtel, and Litenite, holding Aero2 (the legal successor of 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, or any delays in this respect, may have a material adverse effect on our business, financial condition, results of operations or prospects.

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

To reduce acquisition costs of satellite TV reception equipment and to be able to offer our pay TV customers the option to purchase or lease set-top boxes at lower prices, we are currently producing most of the set-top boxes we offer to our customers at our manufacturing plant in Mielec. In 2016 set-top boxes manufactured by us accounted for more than 91% of all the set-top boxes sold or leased by us. Should any batch of the set-top boxes we have manufactured prove defective and need to be withdrawn from the market, we are under the obligation to replace the set-top boxes we have made available to our customers and to cover (potentially considerable) costs of replacing or repairing any set-top boxes we have sold on the market. Furthermore, the withdrawal of reception equipment due to its defectiveness could be harmful to our reputation. Any problems with production of set-top boxes would force us to acquire larger numbers of set-top boxes from third-party suppliers. There can be no assurance that we will be able to purchase a sufficient number of set-top boxes from third-party suppliers when required. Furthermore, the cost of acquiring from third-party suppliers of the vast majority of set-top box models we offer would be much higher than the cost of manufacturing them at our own plant. If we were unable to obtain set-top boxes from third-party suppliers on satisfactory pricing terms, we might have to raise the prices for our customers to cover our increased depreciation expense. Moreover, if the deliveries of set-top boxes we managed to procure were insufficient to meet the demand, our reputation among our current and potential customers would suffer. As our production of set-top boxes is based on components purchased from third-party contractors, there is a risk that we lose access to such components, for instance due to discontinuation of their production or changes in technologies or products. Losing access to certain components would force us to redesign our set-top boxes, which could affect continuity of their production and supplies to our customers. Any difficulties in the production of most of our set-top boxes at our own production plant could lead to a loss of our current customers or adversely affect our ability to acquire new customers for our pay TV services. Any disruption to our set-top box production and subsequent necessity to procure more set-top boxes from third-party suppliers could adversely affect our reputation and lead to erosion of our brand value, which could have a material adverse effect on our business, financial condition, results of operations or prospects.

***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 Polkomtel's network infrastructure to be inaccessible, which could adversely affect Polkomtel's 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 Group may lose spectrum reservations it uses for LTE network roll-out***

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 lead to retraction of the decisions regarding frequency allocations 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 decision could be revoked, 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 and Orange. Supreme Administrative Court (NSA), in its ruling dated May 8, 2014, sustained the decision of the Court of First Instance and repealed the decision issued by the President of the Office of Electronic Communications (UKE) on September 23, 2011 which partially invalidated the above mentioned tender. Following the decision of the Supreme Administrative Court, UKE informed that "the decisions regarding re-running the tender will be taken by the Office upon careful analysis of the written justification of NSA's rulings and the Court's guidelines regarding further procedure as well as upon analysis of the legal situation." UKE also stated that the "reservation decisions issued by UKE President remained valid while the operators could continue providing their services while using these frequencies." 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 effect on the final and legally binding character of the reservation decision, which constitutes the basis for Polkomtel to use capacity in the 1800 MHz spectrum.

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, the Administrative Court in Warsaw and the Supreme Administrative Court in Warsaw. So far all the decisions of the courts have been favorable for Sferia. 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 services in LTE and LTE-Advanced/ technologies, 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 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). At December 31, 2016, 138 employees (expressed as full-time equivalents), or 3.7% of the total workforce of Polkomtel Group were trade union members. At the date of preparation 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, 2015, 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.

***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.

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

## 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 Metelem, and completion of the related financial transactions.

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

Also, the refinancing of our debt on unfavorable market terms would require us to pay higher interest rates or observe more stringent covenants, which could further restrict our business activity. If our debt financing increased, the related risks would also increase. Moreover, any significant adverse change in financial market liquidity, resulting in tighter lending terms and debt or equity financing constraints, may restrict our access to financing sources and increase our borrowing costs, which could significantly affect our ability to achieve and manage liquidity, raise additional capital, or restructure or refinance our existing debt.

Our facility agreement and notes indenture provide for a number of restrictions and obligations (including maintaining specified financial ratios), limiting the 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.

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

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

***The Polish mobile telecommunications industry is highly competitive***

The Group faces strong competition in all of its core business areas, especially from telecommunication operators such as: Orange Polska, T-Mobile Polska and P4. There can be no assurance that customers will not find the offerings of those operators more attractive.

A shift in the business model of mobile telecommunications network operators in Poland, whereby competing providers of telecommunications services would form joint ventures or strategic alliances, or launch 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 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. On November 5, 2015 the National Broadcasting Council resolved the competition for the development of MUX-8 and chose the broadcasters, who received licenses for their channels. Current 4 channels of private broadcasters are being aired on MUX-8, the public broadcaster's channels have not been launched yet.

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.

#### **6.4. Factors relating to market risks**

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

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

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

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

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

It is permitted to use the following types of instruments:

- swaps,
- forwards and futures,
- options.

### Currency risk

One of the main risks that the Group is exposed to is currency risk resulting from fluctuations in exchange rate of the Polish zloty against other currencies. Revenues generated by the Group are denominated primarily in the Polish zloty, while a portion of operating costs and capital expenditures are incurred in foreign currencies. The Parent's currency risk is associated mainly to royalties to TV and radio broadcasters (USD and EUR), transponder capacity leases (EUR), fees for conditional access system (EUR) and purchases of reception equipment and accessories for reception equipment (USD and EUR). After the purchase of Telewizja Polsat Sp. z o.o. currency risk exposure is also associated to purchases of foreign programming licenses (USD). After the purchase of Metelem Holding Company Ltd. currency risk exposure is also associated to UMTS license liabilities (EUR), agreements with suppliers of stock, mainly mobile phones, and suppliers of telecommunication network equipment (EUR), roaming and interconnect agreements and some agreements concerning rental of space required for network locations and rental of office space (various currencies). Furthermore, acquisition of Metelem Holding Company Ltd. resulted in risk exposure related to EUR- and USD-denominated bonds.

In respect of license fees and transponder capacity leases, the Group partly reduces its currency risk exposure by means of an economic hedge as it denominates receivables from signal broadcast and marketing services in foreign currencies. Some currency risk, related to operational and interest payments, is hedged by forwards and cross-currency interest rate swaps.

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

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

mPLN	December 31, 2016					
	EUR	USD	CHF	GBP	SEK	XDR
Trade receivables	5.8	4.5	-	0.5	-	0.4
Cash and cash equivalents	3.3	18.0	1.1	0.4	1.5	-
UMTS license liabilities	(157.2)	-	-	-	-	-
Trade payables	(5.1)	(16.6)	-	-	-	(0.6)
<b>Gross balance sheet exposure</b>	<b>(153.2)</b>	<b>5.9</b>	<b>1.1</b>	<b>0.9</b>	<b>1.5</b>	<b>(0.2)</b>
Forward transactions	-	-	-	-	-	-
<b>Net exposure</b>	<b>(153.2)</b>	<b>5.9</b>	<b>1.1</b>	<b>0.9</b>	<b>1.5</b>	<b>(0.2)</b>

mPLN	December 31, 2015					
	EUR	USD	CHF	GBP	SEK	XDR
Trade receivables	9.4	8.4	-	-	-	0.5
Cash and cash equivalents	9.7	9.7	1.9	0.1	2.5	-
Senior Notes	(569.1)	(524.2)	-	-	-	-
UMTS license liabilities	(180.6)	-	-	-	-	-
Trade payables	(3.6)	(14.0)	-	(0.1)	-	(0.9)
<b>Gross balance sheet exposure</b>	<b>(734.2)</b>	<b>(520.1)</b>	<b>1.9</b>	<b>-</b>	<b>2.5</b>	<b>(0.4)</b>
Forward transactions	390.9	482.1	-	-	-	-
<b>Net exposure</b>	<b>(343.3)</b>	<b>(38.0)</b>	<b>1.9</b>	<b>-</b>	<b>2.5</b>	<b>(0.4)</b>

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

PLN	Average rate		Rates at the reporting date	
	2016	2015	December 31, 2016	December 31, 2015
1 EUR	4.3625	4.1839	4.4240	4.2615
1 USD	3.9431	3.7701	4.1793	3.9011
1 GBP	5.3431	5.7637	5.1445	5.7862
1 CHF	4.0021	3.9200	4.1173	3.9394
1 XDR	5.4805	5.2749	5.6716	5.4092
1 SEK	0.4611	0.4474	0.4619	0.4646
1 AUD	2.9330	2.8352	3.0180	2.8546

For the purposes of the exchange rate sensitivity analysis as at December 31, 2016 and December 31, 2015, exchange rate volatility in the +/- 5% range was assumed as probable. This analysis assumes that all other variables, in particular interest rates, remain constant. The sensitivity analysis below is performed on the same basis for 2015.

mPLN	2016					2015				
	as at December 31, 2016		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehen sive income in PLN	as at December 31, 2015		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehen sive income in PLN
	in currency	in PLN				in currency	in PLN			
<b>Trade receivables</b>										
EUR	5.8	25.8	5%	1.3	-	9.4	40.2	5%	2.0	-
USD	4.5	18.8	5%	0.9	-	8.4	32.7	5%	1.6	-
XDR	0.4	2.3	5%	0.1	-	0.5	2.6	5%	0.1	-
GBP	0.5	2.6	5%	0.1	-	-	-	5%	-	-
<b>Cash and cash equivalents</b>										
EUR	3.3	14.6	5%	0.7	-	9.7	41.2	5%	2.1	-
USD	18.0	75.2	5%	3.8	-	9.7	37.9	5%	1.9	-
CHF	1.1	4.7	5%	0.2	-	1.9	7.3	5%	0.4	-
GBP	0.4	1.9	5%	0.1	-	0.1	0.1	5%	-	-
SEK	1.5	0.7	5%	-	-	2.5	1.1	5%	0.1	-
<b>Senior Notes</b>										
EUR	-	-	5%	-	-	(569.1)	(2.425.2)	5%	(121.3)	-
USD	-	-	5%	-	-	(524.2)	(2.045.0)	5%	(102.3)	-
<b>UMTS license liabilities</b>										
EUR	(157.2)	(695.5)	5%	(34.8)	-	(180.6)	(769.6)	5%	(38.5)	-
<b>Trade payables</b>										
EUR	(5.1)	(22.6)	5%	(1.1)	-	(3.6)	(15.3)	5%	(0.8)	-
USD	(16.6)	(69.4)	5%	(3.5)	-	(14.0)	(54.7)	5%	(2.7)	-
XDR	(0.6)	(3.2)	5%	(0.2)	-	(0.9)	(4.9)	5%	(0.2)	-
CHF	-	-	5%	-	-	(0.1)	(0.2)	5%	-	-
<b>Change in operating profit</b>				<b>(32.4)</b>	<b>-</b>	<b>(257.6)</b>				<b>-</b>
<b>Forward transactions</b>										
EUR	-	-	5%	-	-	390.9	1.665.8	5%	83.3	-
USD	-	-	5%	-	-	482.1	1.880.7	5%	94.0	-
Income tax				6.2	-	15.3				-
<b>Change in net profit</b>				<b>(26.2)</b>	<b>-</b>	<b>(65.0)</b>				<b>-</b>

mPLN	2016					2015				
	as at December 31, 2016		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehen sive income in PLN	as at December 31, 2015		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehen sive income in PLN
	in currency	in PLN				in currency	in PLN			
<b>Trade receivables</b>										
EUR	5.8	25.8	-5%	(1.3)	-	9.4	40.2	-5%	(2.0)	-
USD	4.5	18.8	-5%	(0.9)	-	8.4	32.7	-5%	(1.6)	-
XDR	0.4	2.3	-5%	(0.1)	-	0.5	2.6	-5%	(0.1)	-
GBP	0.5	2.6	-5%	(0.1)	-	-	-	-5%	-	-
<b>Cash and cash equivalents</b>										
EUR	3.3	14.6	-5%	(0.7)	-	9.7	41.2	-5%	(2.1)	-
USD	18.0	75.2	-5%	(3.8)	-	9.7	37.9	-5%	(1.9)	-
CHF	1.1	4.7	-5%	(0.2)	-	1.9	7.3	-5%	(0.4)	-
GBP	0.4	1.9	-5%	(0.1)	-	0.1	0.1	-5%	-	-
SEK	1.5	0.7	-5%	-	-	2.5	1.1	-5%	(0.1)	-
<b>Senior Notes</b>										
EUR	-	-	-5%	-	-	(569.1)	(2,425.2)	-5%	121.3	-
USD	-	-	-5%	-	-	(524.2)	(2,045.0)	-5%	102.3	-
<b>UMTS license liabilities</b>										
EUR	(157.2)	(695.5)	-5%	34.8	-	(180.6)	(769.6)	-5%	38.5	-
<b>Trade payables</b>										
EUR	(5.1)	(22.6)	-5%	1.1	-	(3.6)	(15.3)	-5%	0.8	-
USD	(16.6)	(69.4)	-5%	3.5	-	(14.0)	(54.7)	-5%	2.7	-
XDR	(0.6)	(3.2)	-5%	0.2	-	(0.9)	(4.9)	-5%	0.2	-
CHF	-	-	-5%	-	-	(0.1)	(0.2)	-5%	-	-
<b>Change in operating profit</b>				<b>32.4</b>	-	<b>257.6</b>				-
<b>Forward transactions</b>										
EUR	-	-	-5%	-	-	390.9	1,665.8	-5%	(83.3)	-
USD	-	-	-5%	-	-	482.1	1,880.7	-5%	(94.0)	-
Income tax				(6.2)	-	(15.3)				-
<b>Change in net profit</b>				<b>26.2</b>	-	<b>65.0</b>				-

mPLN	2016		2015	
	Estimated change in profit [PLN]	Estimated change in other comprehensive income [PLN]	Estimated change in profit [PLN]	Estimated change in other comprehensive income [PLN]
<b>Estimated change in exchange rate by 5 %</b>				
EUR	(27.5)	-	(59.2)	-
USD	1.0	-	(6.0)	-
CHF	0.2	-	0.3	-
GBP	0.2	-	-	-
SEK	-	-	-	-
XDR	(0.1)	-	(0.1)	-
<b>Estimated change in exchange rate by -5 %</b>				
EUR	27.5	-	59.2	-
USD	(1.0)	-	6.0	-
CHF	(0.2)	-	(0.3)	-
GBP	(0.2)	-	-	-
SEK	-	-	-	-
XDR	0.1	-	0.1	-

Had Polish zloty strengthened 5% against the basket of currencies as at December 31, 2016 and December 31, 2015, the Group's net profit would have decreased by PLN 26.2 million and decreased by PLN 65.0 million, respectively and other comprehensive income would have been unchanged both in 2016 and 2015. Had the Polish zloty weakened by 5%, the Group's net profit would have correspondingly increased by PLN 26.2 million in 2016 and increased by PLN 65.0 million in 2014 and other comprehensive income would have been unchanged in 2016 and 2015, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

### Interest rate risk

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

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

In order to reduce interest rate risk exposure resulting from Parent's interest payments on floating rate senior facility, the Group stipulated interest rate swaps for which hedge accounting was adopted. In order to reduce interest rate risk exposure resulting from Metelem Holding Company Ltd. group interest payments on floating rate senior facilities the Group also uses interest rate swaps and for them hedge accounting was not adopted.

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

mPLN	Carrying amount	
	December 31, 2016	December 31, 2015
<b>Fixed rate instruments</b>		
Financial assets	472.3	1,158.5
Financial liabilities*	(860.3)	(4,262.4)
<b>Variable rate instruments</b>		
Financial assets	909.8	411.5
Financial liabilities*	(11,668.2)	(7,725.1)
<b>Net interest exposure</b>	<b>(11,146.4)</b>	<b>(7,313.6)</b>

\*Nominal debt

The Group classifies loan liabilities as variable rate instruments. Changes in the interest rate components do not result in a change in the carrying amount of the loan liability. The changes are reflected prospectively in the interest expense on loans and borrowings.

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

mPLN	Income statement		Other comprehensive income		Equity	
	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp
<b>December 31, 2016</b>						
Variable rate instruments*	(107.6)	107.6	3.7	(3.7)	(103.9)	103.9
<b>Cash flow sensitivity (net)</b>	<b>(107.6)</b>	<b>107.6</b>	<b>3.7</b>	<b>(3.7)</b>	<b>(103.9)</b>	<b>103.9</b>
<b>December 31, 2015</b>						
Variable rate instruments*	(73.1)	73.1	6.6	(6.6)	(66.5)	66.5
<b>Cash flow sensitivity (net)</b>	<b>(73.1)</b>	<b>73.1</b>	<b>6.6</b>	<b>(6.6)</b>	<b>(66.5)</b>	<b>66.5</b>

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

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

Information regarding financial instruments related to:

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

are described in Note 38 of the consolidated financial statements for the financial year ended December 31, 2016.

## 6.5. Risk factors associated with the legal and regulatory environment

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

Tax laws in Poland are complex, unclear and subject to frequent and unpredictable changes. Therefore, the application of tax regulations by taxpayers and tax authorities gives rise to controversies and disputes, which are usually finally settled by administrative courts.

Frequent amendments to the tax framework and difficulties in interpreting tax laws applied in practice hinder our day-to-day work and smooth tax planning. This creates uncertainty as to the application of tax regulations in our everyday business and makes it error-prone. In addition, tax laws are often interpreted and applied by tax authorities in an inconsistent manner.

Moreover, there are discrepancies between the way tax authorities apply tax laws in practice and in rulings of administrative courts. There is a risk that tax interpretations and decisions issued by competent authorities may be unpredictable or even contradictory.

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



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

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

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

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

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

***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 and roaming charges***

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.

Our roaming rates are also regulated. European Union regulators have also imposed price restrictions applicable to all operators in the European Union (both at the retail and wholesale level). At present, the roaming rates in the EU are regulated by the Regulation of the European Parliament and Council of November 25, 2015, which imposed a subsequent reduction of roaming rates as of April 30, 2016. Additionally, the proposal of the regulation on the unified telecommunications market foresees the levelling of retail roaming charges within the EU with domestic charges, which is planned to take place in June 2017. As at the date of publication of the Report consultations regarding these regulations are underway. The reduction or removal of roaming charges in the EU may have an adverse effect on our revenue, and consequently on our performance and financial standing.

***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, we may face a fine from the President of UKE of up to 3% of our revenue generated in the year proceeding the year in which such fine is imposed.

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.

## **6.6. Risk factors associated with the Series A Bonds**

### ***The Bonds may not be repaid***

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

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

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

### ***The Bonds are not secured by collateral***

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

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

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

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

In accordance with the Bonds Terms, the Company is entitled, at any time, to redeem the Bonds early. This right can be exercised at any time before the redemption date, both with regard to all the Bonds as well as a part of the Bonds which have been issued and have not been redeemed, however such redemption should cover no less than 10% of the total nominal value of the Bonds or of all unredeemed Bonds, if their total nominal value was lower than the above mentioned amount. Moreover, pursuant to Article 74 section 5 of the Bonds Act, in the event of the liquidation of the Company, the Bonds are subject to immediate redemption at the moment when the liquidation proceedings start, even if the redemption date has not occurred yet.

In the event of the liquidation of the Company or exercising by the Company of the right of early redemption of the Bonds, the Bondholder's investment horizon will shorten in relation to the Bonds covered by redemption, which may result in a rate of return on the investment in Bonds lower than expected.

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

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

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

In accordance with the Bonds Terms, some of the decisions related to the Bonds are passed by the Bondholders' Meeting. Convening a Bondholders' Meeting requires specific actions to be taken while the decisions are carried by a majority of votes. Moreover, Bondholders' Meeting is deemed valid if attended by Bondholders representing at least 50% of the Adjusted Total Nominal Value of the Bonds. The Bondholders' Meeting will thus be unable to pass any resolutions if attended by Bondholders representing less than the above indicated nominal value of the Bonds.

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

***Resolutions of the Bondholders' Meeting may be challenged***

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

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

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

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

### ***The Bonds' prices and liquidity may be subject to fluctuations***

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

### ***Interest rate risk***

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

### ***The Bonds Terms do not contain a tax gross up clause***

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

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

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

### ***We are subject to the restrictions specified in the Bonds Terms***

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

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

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

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

### **Trading in the Bonds may be suspended**

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

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

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

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

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

### **The Bonds may be excluded from trading**

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

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

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

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

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

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

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



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

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

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

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

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

then the WSE may:

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

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

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

## 7. CYFROWY POLSAT ON THE CAPITAL MARKET

### 7.1. Cyfrowy Polsat shares

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

The table below presents the characteristics of the shares issued as of December 31, 2016:

Series	Number of shares	Type of shares	Number of votes at the General Meeting	Face value /PLN
A	2,500,000	Preference shares (2 voting rights)	5,000,000	100,000.00
B	2,500,000	Preference shares (2 voting rights)	5,000,000	100,000.00
C	7,500,000	Preference shares (2 voting rights)	15,000,000	300,000.00
D	166,917,501	Preference shares (2 voting rights)	333,835,002	6,676,700.04
D	8,082,499	Ordinary bearer shares	8,082,499	323,299.96
E	75,000,000	Ordinary bearer shares	75,000,000	3,000,000.00
F	5,825,000	Ordinary bearer shares	5,825,000	233,000.00
H	80,027,836	Ordinary bearer shares	80,027,836	3,201,113.44
I	47,260,690	Ordinary bearer shares	47,260,690	1,890,427.60
J	243,932,490	Ordinary bearer shares	243,932,490	9,757,299.60
<b>Total</b>	<b>639,546,016</b>		<b>818,963,517</b>	<b>25,581,840.64</b>
including:	179,417,501	registered	358,835,002	7,176,700.0
	216,196,025	floating	460,128,515	18,405,140.6

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

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

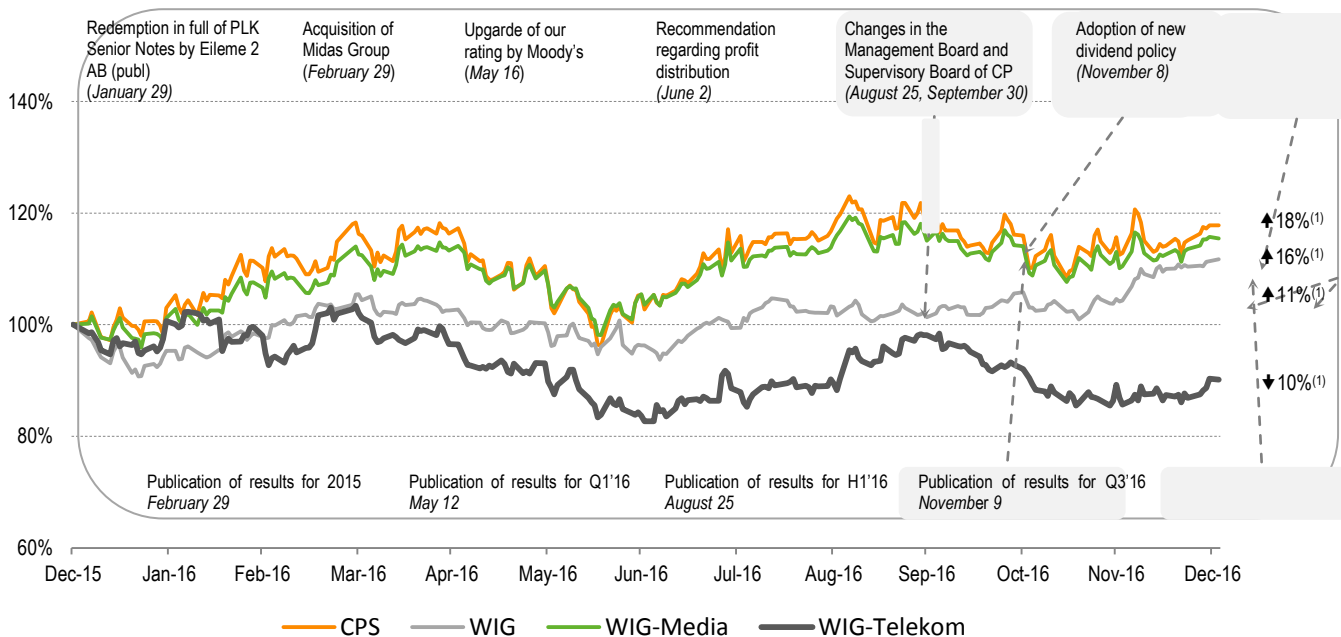
#### Basic data on the Cyfrowy Polsat shares in trading

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

## 7.2. Shares quotes

### Performance of Cyfrowy Polsat shares in 2016

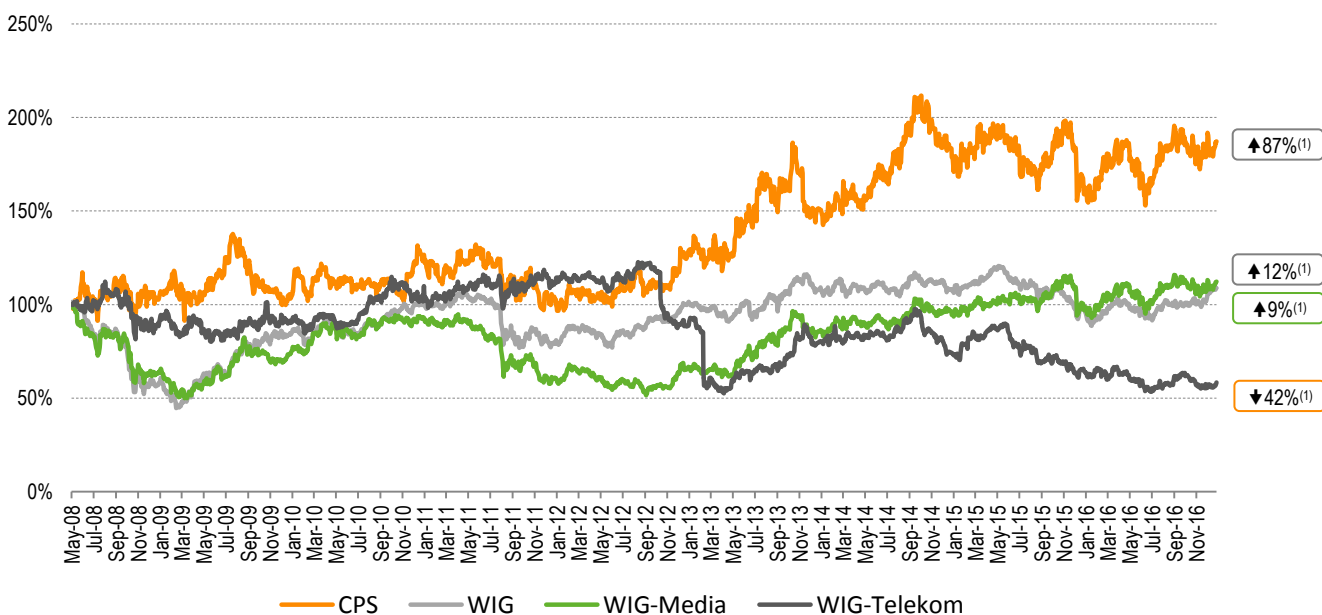
(indexed; 100 = closing price on December 30, 2016)



<sup>(1)</sup> change December 30, 2016 vs December 30, 2015

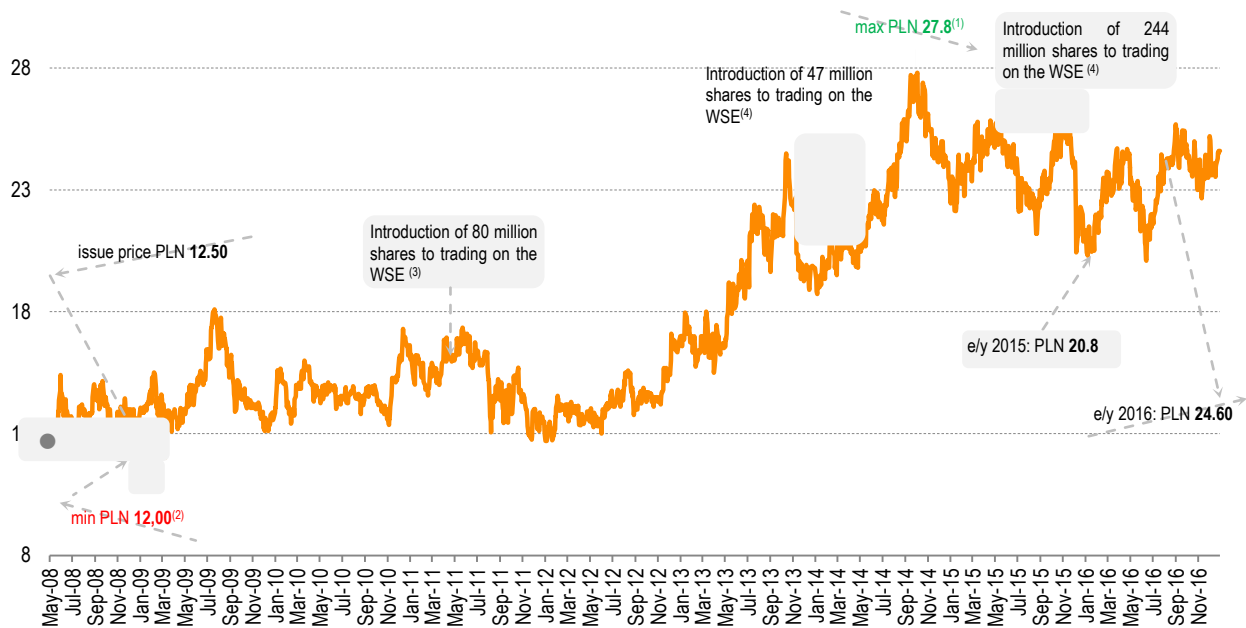
### Performance of Cyfrowy Polsat shares since the debut on the WSE in May 2008 until the end of 2016 compared to WSE indexes

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



<sup>(1)</sup> change December 30, 2016 vs May 6, 2008

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



(1) Share price on October 6-7, 2014.

(2) Share price on July 15-16, 2008, March 12, 2009.

(3) On April 20, 2011, the Company issued 80,027,836 ordinary bearer H Series shares with a nominal value of PLN 0.04 each. These shares were registered on May 30, 2011 in the Central Securities Depository of Poland under ISIN code PLCFRPT00013, and were admitted to trading on the main market of the stock exchange pursuant to the resolution of the Management Board of Warsaw Stock Exchange of May 30, 2011. The proceeds from the issue of H Series shares were used as part of financing the acquisition of Telewizja Polsat. All H Series shares were taken up by the shareholders of Telewizja Polsat.

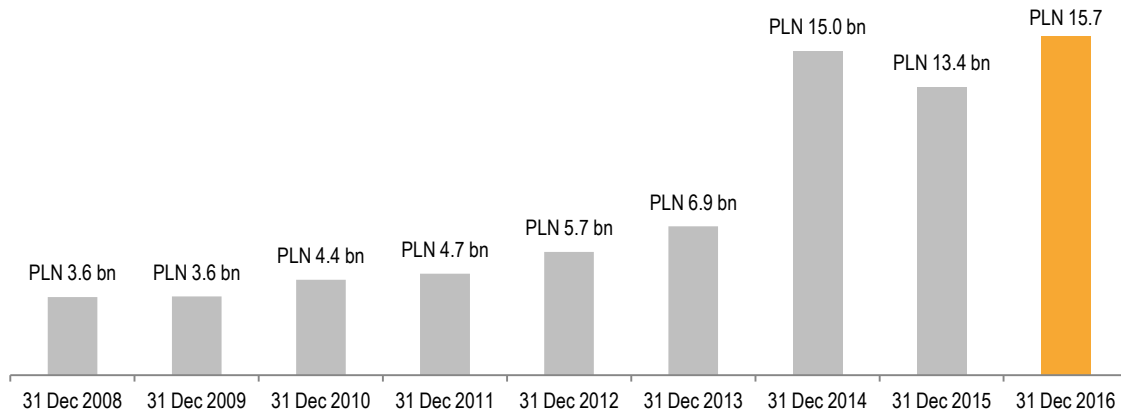
(4) On May 7, 2014 the Company issued 47,260,690 Series I shares and 243,932,490 Series J shares with the nominal value of PLN 0.04 each. On May 14, 2014 these shares were registered in the Central Securities Depository of Poland with ISIN codes PLCFRPT00013 and PLCFRPT00021, respectively. Series I shares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

### Cyfrowy Polsat shares on the stock exchange in 2016

		2016	2015
Year-end price	PLN	24.60	20.88
High for the year	PLN	25.69	26.05
Low for the year	PLN	20.09	20.43
Average for the year	PLN	23.25	23.91
Average daily turnover	PLN '000	9,210	10,585
Average daily trading volume	shares	398,461	444,522
Number of shares (as at year-end)	shares	639,546,016	639,546,016
Bearer shares	shares	460,128,515	460,128,515
Market capitalization (as at year-end)	PLN '000	15,732,832	13,353,721

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

Cyfrowy Polsat is the largest in terms of market capitalization, that amounted to PLN 15.7 billion as of the end of 2016, media and telecommunications company quoted on the Warsaw Stock Exchange and one of the largest in Middle and Eastern Europe.



### 7.3. Recommendations

#### Brokers covering the Company:

##### Local

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

##### International

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

#### Recommendations for the shares of Cyfrowy Polsat published in 2016

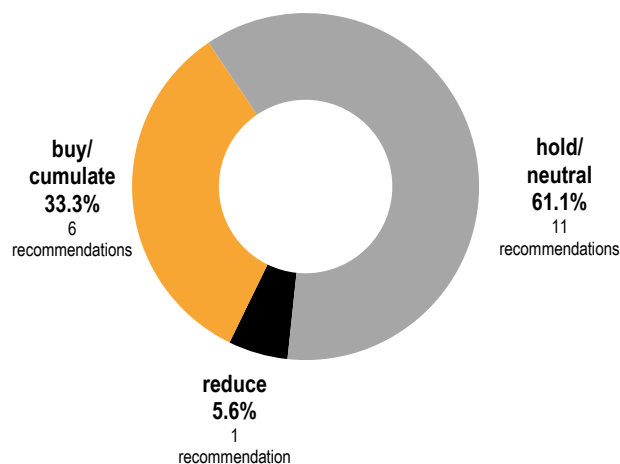
Date	Institution	Recommendation	Target price [PLN]
December 14	Goldman Sachs	– Neutral	25.20
December 14	DM PKO BP S.A	▲ Buy	27.50
December	Trigon Dom Maklerski S.A.	▲ Buy	28.10
December 4	Dom Maklerski BOŚ S.A	– Hold	25.10
December 2	Haitong Bank S.A.	▲ Buy	27.10
October 24	Trigon Dom Maklerski S.A.	▲ Buy	29.30
October 20	Raiffeisen CENTROBANK	– Hold	27.00
October 5	ERSTE Group Research	– Hold	26.00
October 4	Deutsche Bank Securities S.A.	– Hold	26.00
September 23	DM PKO BP S.A	▲ Buy	29.00

Date	Institution	Recommendation	Target price [PLN]
September 15	Dom Maklerski BDM S.A.	– Cumulate	26.36
September 13	DM mBanku S.A.	▼ Reduce	21.80
September 1	Goldman Sachs	– Neutral	24.30
August 22	IPOPEMA Securities S.A.	▲ Buy	27.40
August 22	Haitong Bank S.A.	▲ Buy	27.00
August 10	Wood&Co	▲ Buy	27.80
July 21.	Dom Maklerski BOŚ S.A	– Hold	24.40
July 13	Citigroup Global Markets Inc.	– Neutral	24.80
June 17	Pekao Investment Banking S.A.	▲ Buy	24.00
June 8	DM PKO BP S.A	▲ Buy	26.10
May 11	Berenberg	– Hold	25.70
May 10	Goldman Sachs	– Hold	24.00
April.	Patria Finance a.s.	– Hold	25.30
April 22	Dom Maklerski BZ WBK S.A.	▲ Buy	31.00
April 18	Dom Maklerski BOŚ S.A	– Hold	25.10
April 8	Trigon Dom Maklerski S.A.	▲ Buy	28.60
March 31	ERSTE Group Research	– Hold	26.00
March 29	Raiffeisen CENTROBANK	▲ Buy	27.70
March 21	ING Securities S.A.	▲ Buy	27.80
March 17	UBS Investment Bank	▲ Buy	28.00
February 24	Goldman Sachs	– Neutral	23.40
February 11	Dom Maklerski BDM S.A.	▲ Cumulate	24.65
February 9	IPOPEMA Securities S.A.	▲ Buy	24.00
February 2	DM mBanku S.A.	– Hold	22.10
January 20	Raiffeisen CENTROBANK	▲ Buy	26.50
January 13	Deutsche Bank Securities S.A.	▲ Buy	26.00

**Recommendations released in 2017 after the reporting period**

Date	Institution	Recommendation	Target price [PLN]
March 3	ERSTE	▲ Cumulate	26.00
February 17	BZ WBK	▲ Buy	28.50
January 30	Ipopema	– Hold	25.00
January 27	DM mBanku	▼ Reduce	22.30

### Recommendations structure as at March 14, 2017



### Target price as at March 14, 2017 [PLN]

minimum	22.3
maximum	28.5
<b>average</b>	<b>26.1</b>

#### 7.4. Close dialogue with the capital market

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

In order to ensure current access to information we participate in conferences with investors, we organize numerous individual meetings and roadshows both in Europe and in the United States. Moreover, every quarter, after the publication of financial results, we organize periodical meetings with investors and sell-side analysts as well as teleconferences with the members of the Company's management. Both are open events. In 2016 we attended a total of approximately 300 meetings with representatives of the capital market during 17 conferences and roadshows outside of Poland.

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

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

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

Numerous distinctions presented to Cyfrowy Polsat in the field of investor relations are the confirmation of our efforts which are aimed at guaranteeing high quality and top standards of the Group's communication with the capital markets in Poland and around the world. Several times in the past years we were ranked at the top spots of the Best Listed Company of the Year ranking organized by Plus Biznesu daily. In 2016 we received an award in the category "Best IR Department in Listed Company" in Poland, with the award presented to us during the second edition of the CEE Capital Markets Awards.

## 7.5. Dividend policy

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

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

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

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

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

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

Every time when presenting a proposal of distribution of the profit, along with the recommendation, the Company's Management Board will take into account the Group's net profit, financial standing and liquidity, existing and future liabilities (including potential restrictions related to facility agreements and other financial documents), the assessment of the Group's prospects in specific market and macroeconomic conditions, potential necessity of spending funds for the Group's development, in particular through acquisitions and embarking on new projects, one-off items, as well as valid legal regulations. Moreover, given that a significant portion of the generated capital resources is obtained by the Group from dividends paid by its subsidiaries, the above mentioned policy and the Board's recommendation will, in each case, be dependent on the financial situation of the Company's subsidiaries and the Company itself.



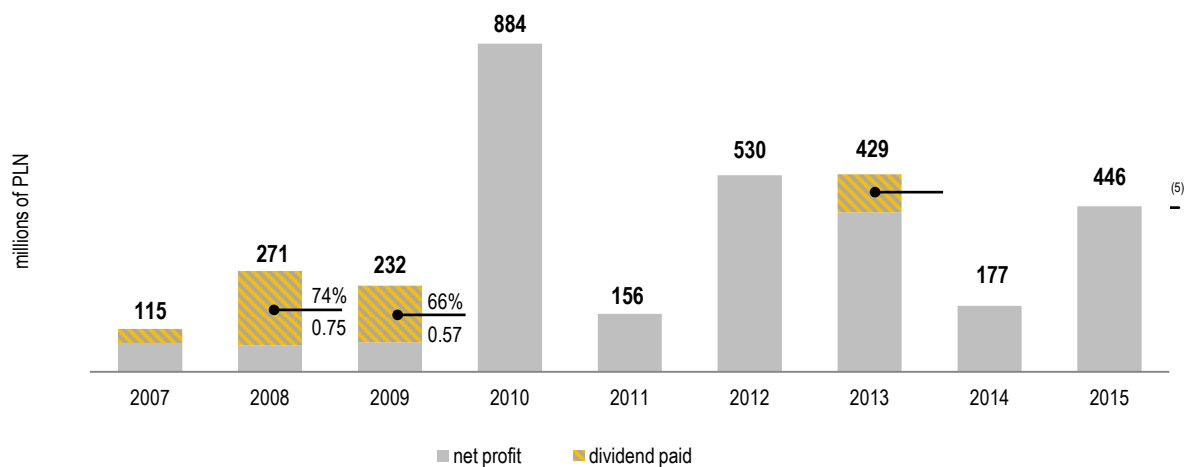
The dividend policy will be subject to regular verification by the Company's Management Board. In particular, the Management Board provides for a modification of the dividend policy following the refinancing of Polsat Group's debt which is expected in 2020.

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

### **Distribution of profit for 2015**

Acting in accordance with resolution no. 29 of the Ordinary General Meeting, held on June 29, 2016, regarding profit distribution, the Company's total standalone net profit for the financial year ended December 31, 2015 in the amount of PLN 446.1 million was allocated to the reserve capital.

### **History of profit sharing**



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

## 8. CORPORATE GOVERNANCE STATEMENT

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

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

#### **Application of principles of corporate governance**

Following the entry into force of the Best Practices 2016 on January 1, 2016, the Management Board of the Company has adopted the recommendations and principles specified in the aforementioned document, except for the recommendations included in items II.R.2., III.R.1., IV.R.2., VI.R.1., VI.R.2., VI.R.3. and the detailed principles included in items I.Z.1.3., I.Z.1.16., I.Z.1.20., II.Z.1., II.Z.7., III.Z.1., III.Z.2., III.Z.4., III.Z.5., IV.Z.2., V.Z.6., VI.Z.4. At the same time, the Management Board decided that the recommendations and detailed principles, marked as items I.Z.1.10., III.Z.6., VI.Z.1. and VI.Z.2. do not apply to the Company.

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

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

- **Recommendation I.R.2.**, stating that where a company pursues sponsorship, charity or other similar activities, it should publish information about the relevant policy in its annual activity report, is applied within a limited scope. The Company has not implemented a formal policy regarding sponsoring or charity activities. Nonetheless, Polsat Group pursues numerous activities of this nature, including support for sports, or cooperation with numerous foundations and public benefit organizations. The description of the pursued activities is included in this Report in item 2.8 – *Other aspects of our business – charity and sponsorship activities*.
- **Recommendation II.R.2.**, stating that where decisions to elect members of the management board or the supervisory board of a company should ensure that the composition of these bodies is comprehensive and diverse among others in terms of gender, education, age and professional experience. The Company has not developed and does not pursue a diversity policy with regard to the Company's governing bodies and key managers. The members of the Supervisory Board and the Management Board as well as key managers are elected, respectively, by the General Shareholders Meeting, the Supervisory Board and the Management Board while taking into account the qualifications, the experience and the competence of the candidates. Factors such as gender are not taken into account while electing members of the Company's governing bodies and key managers. The Company's authorities are of the opinion that such an approach guarantees the election of the most appropriate persons for managerial and supervisory functions.
- **Principle II.Z.1.**, stating that the internal division of responsibilities for individual areas of the company's activity among management board members should be clear and transparent. As a consequence the Company also does not apply the **principle marked as I.Z.1.3.**, requiring the publication of a chart describing that division on the company's website. The Commercial Companies Code provides that in a joint stock company matters are managed by the Management Board in a collective manner, while a formal division of duties can be introduced optionally. The Company has elected not to comply with this principle, among others due to the on-going process of operational integration inside Polsat Group. Due to the broad scope of responsibilities of each Management Board Member, it is impossible, both within the entire capital group, as well as in individual companies, to define and allocate specific tasks and responsibilities to respective Board Members.
- **Principle II.Z.7.** regarding the application of the provisions of Annex I to the Commission Recommendation 2005/162/EC of February 15, 2005 with respect to the tasks and the operation of the committees of the Supervisory Board. The Company does not fulfill all the detailed requirements regarding the functioning of supervisory board committees as indicated in the above mentioned Annex I to the Commission Recommendation.

Principles governing the creation, composition and operations of specific committees of the Supervisory Board are set out in § 7 of the Supervisory Board By-laws.

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

- **Recommendation III.R.1.**, stating that the company's structure should include separate units responsible for the performance of tasks in individual systems or functions, (that is internal control, risk management and compliance systems, as well as an internal audit function). An Internal Audit and Internal Control unit operates in the Company. No organizational units responsible for tasks related to risk management and compliance have been set up within the Company's structure. Nonetheless, relevant internal processes and procedures have been implemented and are in place to guarantee effective financial and operational risk management as well as monitoring the compliance of the Company's operations with regulations in force. In the Management Board's opinion, the internal regulations and processes covering risk management function properly and effectively, and setting up of dedicated units responsible for risk management and compliance will not improve the efficiency of these processes and procedures in a substantial degree. At the same time, the Management Board is of the opinion that the cost associated with setting up and maintaining the above-mentioned organizational units will be incommensurate to the benefits offered by them.
- Due to the fact that the Company has not implemented centralized, formal risk and compliance management systems, the Company does not apply **the principles marked as III.Z.1., III.Z.2., III.Z.4. and III.Z.5.** within the scope related to the internal control and internal audit system existing in the Company's organizational structure.

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

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

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

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

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

- **Principle IV.Z.2.**, about ensuring publicly available real-time broadcasts of general meetings. As a consequence, the Company also does not apply **the principles marked as I.Z.1.16. and I.Z.1.20.**, which recommend publishing on the

Company's website of information regarding the planned transmission and the recordings of general meetings in either audio or video form. An efficient course of proceedings of general meetings as well as cost optimization are priorities for the Management Board. The Management Board makes every effort to ensure that the documentation, as well as the proceedings of general meetings ensure transparency and protect the rights of all shareholders. Information regarding draft resolutions and adopted resolutions, as well as additional materials, is disclosed in the form of current reports and published on the Company's website, thus enabling equal access to information on the matters addressed at general meetings for all stakeholders. In view of the above, the Management Board is of the opinion that ensuring real-time coverage of general meetings and providing access to recordings of such meetings would not be economically justified. At present the Management Board plans no changes to the manner in which general meetings are organized.

- **Principle V.Z.6.**, stating that in its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company. The Company's internal regulations related to prevention, identification and solving of conflicts of interests do not meet the requirements of principle V.Z.6. In particular, they do not include a list of criteria and circumstances under which a conflict of interest may arise in the Company. In accordance with § 3 item 4 of the Supervisory Board By-laws and § 3 item 3 of the Management Board By-laws, a Supervisory Board Member or a Management Board Member should inform the Supervisory Board, or both the Management Board and the Supervisory Board - in the case of a Management Board Member - of any existing conflict of interests, or the possibility of its emergence, and such an individual should refrain from participation in discussions or voting on resolutions related to a matter in which there exists a conflict of interests. In the opinion of the Company's Management Board, current internal regulations properly address the principles of conduct in a situation of conflict of interests.
- **Recommendation VI.R.1.**, stating that the remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy and **recommendation VI.R.2.**, stating that the remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.

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

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

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

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

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

- **Principle VI.Z.4.**, regarding providing of general information on the Company's remuneration policy. The Company does not have a formalized remuneration policy for the members of the Company's authorities and its key managers. Pursuant to article 24 d) of the Company's Articles of Association, the remuneration of the Supervisory Board Members is determined by the General Meeting, save for the remuneration of the Supervisory Board Members who have been temporarily delegated to perform the duties of a Management Board Member by virtue of article 19 item 2d) of the

Company's Articles of Association. In such a situation the decision is taken by the Supervisory Board. The amount of the remuneration depends on the scope of tasks and responsibilities of a function and it also corresponds to the size of the Company, while being in a reasonable proportion to its financial performance.

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

Nonetheless, it should be underscored that in accordance with the regulations related to information disclosure, the Company presents, in its annual report, general information regarding the remuneration principles valid in the Company as well as the information regarding the remuneration obtained in a given financial year by Management Board Members and Supervisory Board Members, while indicating the fixed and the variable components. The presented information also indicates the rules of payment of severance pay and other payments on account of termination of employment

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

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

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

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

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

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

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

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

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

The budgetary control system is based on monthly and annual financial and operational plans and long-term business projections. Both financial and operating results are monitored regularly in relation to the financial and operational plans.

During the year, we perform additional reviews of the financial and operational plans for the year if such need arises. The financial and operational plans are always adopted by the Management Board and approved by the Supervisory Board.

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

An audit committee, appointed within the Company's Supervisory Board, supervises the financial reporting process in the Company. The Audit Committee oversees the financial reporting process, in order to ensure sustainability, transparency and integrity of financial information. The audit committee includes two members of the Supervisory Board, who meet the independence criteria set out in the Best Practices 2016 in section II.Z.4. and the requirements of the Act of May 7, 2009 on chartered auditors and their governing bodies, entities entitled to audit financial statements and on public supervision, in article 86 item 4.

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

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

On October 18, 2016, the Company entered into an agreement with PricewaterhouseCoopers Sp. z o.o., with registered office in Warsaw at 14 Al. Armii Ludowej, for the performance of an audit of standalone financial statements for the financial year ended December 31, 2016 of Cyfrowy Polsat S.A. and the consolidated financial statements of Cyfrowy Polsat Group for the financial year ended December 31, 2016.

The following summary presents a list of services provided by the certified auditor and remuneration for the services in the twelve month period ended on December 31, 2016 and December 31, 2015.

[mPLN]	For the year ended	
	December 31, 2016	December 31, 2015
Remuneration for audit of the financial statements for the year and other certifying services, including the review of financial statements	1.9	1.7
Other services	0.5	0.6
<b>Total</b>	<b>2.4</b>	<b>2.3</b>

## 8.4. Share capital and shareholding structure of Cyfrowy Polsat

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

The following table presents shareholders of Cyfrowy Polsat S.A. possessing material bundles of shares at as the date of approval of this Report. Information included in the table is based on the information received from shareholders pursuant to Art. 69 of the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies.

Shareholder	Number of shares	% of shares	Number of votes	% of votes
<b>Reddev Investments Limited</b> <sup>(1)</sup> , including:	<b>154,204,296</b>	<b>24.11%</b>	<b>306,709,172</b>	<b>37.45%</b>
- 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%
<b>Embud Sp. z o.o.</b> <sup>(2)</sup>	<b>58,063,948</b>	<b>9.08%</b>	<b>58,063,948</b>	<b>7.09%</b>
<b>Karswell Limited</b> <sup>(2)</sup>	<b>157,988,268</b>	<b>24.70%</b>	<b>157,988,268</b>	<b>19.29%</b>
<b>Sensor Overseas Limited</b> <sup>(3)</sup> , including:	<b>54,921,546</b>	<b>8.59%</b>	<b>81,662,921</b>	<b>9.97%</b>
- privileged registered shares	26,741,375	4.18%	53,482,750	6.53%
- ordinary bearer shares	28,180,171	4.41%	28,180,171	3.44%
<b>Others</b>	<b>214,367,958</b>	<b>33.52%</b>	<b>214,539,208</b>	<b>26.20%</b>
<b>Total</b>	<b>639,546,016</b>	<b>100.00%</b>	<b>818,963,517</b>	<b>100.00%</b>

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

(2) Entity controlled by Mr. Zygmunt Solorz.

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

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

Since the publication of the previous interim report, i.e. since November 9, 2016 (interim report for the third quarter of 2016) until the date of approval of this Report, i.e. March 15, 2017, no changes in the structure of ownership of significant packages of the Company's shares took place.

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

As at the date of approval of this Report, i.e. March 15, 2017, the Company did not have any information on agreements which can result in a change in the proportion of shares held by hitherto shareholders in the future.

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

To the Company's best knowledge members of the Management Board did not hold any shares of the Company, directly and indirectly, as at the date of approval of this Report, i.e. March 15, 2017 as well as at the date of publication of the interim report, i.e. November 9, 2016 (interim report for the third quarter of 2016).

As at the date of approval of this Report, i.e. March 15, 2017, the Member of the Supervisory Board, Mr. Aleksander Myszkowski held directly 50,000 shares of the Company with the nominal value of PLN 2,000.00. To the Company's best knowledge the remaining Members of the Supervisory Board did not hold any shares of the Company, directly and indirectly, as at the date of approval of this Report, i.e. March 15, 2017.

### 8.4.3. Securities with special controlling rights

Current shareholders do not have any other rights in the General Meeting of Shareholders than those resulting from holding our shares. As at December 31, 2016 the shares of the A through D series are shares preferential as to the voting rights in the way that:

- Series A shares totaling 2,500,000 have preferential voting rights entitling their holder to two voting rights per share;

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

The holders of shares with special controlling rights are:

- Reddev Investments Ltd. (152,504,876 shares giving 305,009,752 voting rights on General Meeting),
- Sensor Overseas Ltd. (26,741,375 shares giving 53,482,750 voting rights on General Meeting) and
- TRIGON XVIII Fundusz Inwestycyjny Zamknięty (171,250 shares giving 342,500 voting rights on General Meeting).

8,082,499 D Series shares, numbered 166,917,502 -175,000,000; 75,000,000 E Series shares; 5,825,000 F Series shares, 80,027,836 H Series shares, 47,260,690 I Series shares and 243,932,490 J Series shares are ordinary bearer shares.

#### 8.4.4. Limitations related to shares

There are no limitations to the exercise of voting rights.

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

#### 8.5. Articles of Association of the Company

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

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

#### 8.6. General Shareholders' Meeting

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

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

- a) discussion and approval of Reports on the Management Board's activity and the Supervisory Board's activity, and the financial statements for the previous year,
- b) decision about distribution of profits, or covering losses,
- c) signing off for the Supervisory Board's and the Management Board's performance of duties,
- d) appointment and dismissal of members of the Supervisory Board and determination of their compensation,
- e) amendments to the Articles of Association of the Company,
- f) amendments to the business activity of the Company,
- g) increase or decrease in the share capital,
- h) merger or transformation of the Company,
- i) dissolution or liquidation of the Company,
- j) issuance of convertible bonds or seniority bonds,
- k) sale or lease of the Company and establishment of a right of use or sale of the Company's plant,



- l) purchase of real estate or equipment for the Company, serving for permanent usufruct for a price exceeding by 1/5 (one fifth) the paid-up share capital if the purchase takes place within two years of the Company's registration,
- m) all decisions regarding claims for damages upon establishment of the Company, or activities of management or supervision,
- n) other issues set out by the provisions of the commercial companies code.

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

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

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

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

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

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

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

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

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

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

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

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

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

As at December 31, 2016 the shareholders participating in the General Meeting had the number of votes corresponding to the number of shares held, observing the fact that the shares listed in item 8.4.3. – *Securities with special controlling rights* – are preferential in such a way that each of them entitles to casting two votes at the General Meeting.

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

## 8.7. Management Board of the Company

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

Pursuant to article 15 of the Articles of Association of the Company the Management Board consist of one or more members, including the President and Vice-president or and Vice-presidents of the Management Board, appointed by the Supervisory Board. The Supervisory Board decides as to the number of Management Board members upon their appointment. The term of office of the Management Board is joint and lasts three years. The members of the Management Board may be dismissed at any time by the Supervisory Board.

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

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

The General Shareholders' Meeting makes decisions regarding an issue or buy back of our shares. The competencies of the Board in respect to the above are limited to execution of any resolutions adopted by the General Shareholders' Meeting.

### 8.7.2. Composition of the Management Board and changes in 2016

At the date of approval of this Report, i.e. March 15, 2017, our Management Board had seven members. The table below presents personal changes in the composition of the Management Board which took place in 2016.

Date	Change
March 1, 2016	Agnieszka Odorowicz joined the Management Board, appointed by a resolution adopted by the Supervisory Board on December 8, 2015. She took up the position of Member of the Management Board.
September 30, 2016	Tomasz Szelaĝ resigned from the function of Management Board Member.
October 1, 2016	Katarzyna Ostap-Tomann joined the Management Board, appointed by a resolution adopted by the Supervisory Board on August 25, 2016. She took up the position of Member of the Management Board.

The following table presents names, surnames, functions, dates of appointment and dates of expiry of the current term of particular members of the Management Board as at December 31, 2016.

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Tobias Solorz	President of the Management Board	2014	2016	2019
Dariusz Działkowski	Member of the Management Board	2007	2016	2019
Tomasz Gillner-Gorywoda	Member of the Management Board	2014	2016	2019
Aneta Jaskólska	Member of the Management Board	2010	2016	2019
Agnieszka Odorowicz	Member of the Management Board	2016	2016	2019
Katarzyna Ostap-Tomann	Member of the Management Board	2016	2016	2019
Maciej Stec	Member of the Management Board	2014	2016	2019

**Tobias Solorz** has many years of professional experience in the telecommunications, financial and controlling sectors. He began his career in 2003 at Telewizja Polsat S.A. (currently Telewizja Polsat Sp. z o.o.). Between 2007 and 2008 he held the position of Promotion Manager at Cyfrowy Polsat. Between 2008 and 2010 he was a Member of the Management Board of Sferia S.A., where he then continued as Marketing, Advertisement, Sales and Operations Director until March 2011.

He has been a Member of the Management Board of Polkomtel since November 2011, where he has held the position of President of the Management Board since February 2014. He was appointed to the position of a Member of the Management Board of Cyfrowy Polsat in September 2014 and took up the position of Vice-president of the Management Board in December 2014. Since December 2015 he has held the position of President of the Management Board of Cyfrowy Polsat. He is also the President of the Management Board of Plus TM Management Sp. z o.o., as well as Member of Supervisory Boards of Liberty Poland S.A. and Polkomtel Business Development Sp. z o.o.

Mr. Tobias Solorz is a graduate of the Faculty of Management and Marketing at the University of Warsaw.

**Dariusz Działkowski** has been a Member of the Management Board of Cyfrowy Polsat responsible for technology since August 2007. Mr. Działkowski is the Technical Director of the Company since November 2001. He is also a Member of Management Boards of INFO-TV-FM Sp. z o.o., and Polski Operator Telewizyjny Sp. z o.o.

Since 2010 he is a Member of the Management Board of Polish Electronics and Telecommunications Chamber of Commerce (Krajowa Izba Gospodarcza Elektroniki i Telekomunikacji), he is also the Chairman of the Audit Committee of the Society Sygnał (Stowarzyszenie Sygnał). Mr. Działkowski gained his previous professional experience with Canal+ and Ericsson where he held the positions of Technical Director and Services Sales Department Manager, respectively. He is one of the founders of Centrum Telemarketingowe Sp. z o.o.

Mr. Działkowski graduated from the Faculty of Electronics at the Warsaw University of Technology with a major in Radio and Television specialization and additionally holds an MBA degree from the University of Maryland.

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

He began his professional career in 1979 in the operational department at LOT Polish Airlines, where he worked for almost 10 years. From 1988 to 2007 he worked abroad performing managerial functions in companies based in Canada (1988-1993) and Australia (1993-2007). After his return to Poland in 2008, he held managerial positions and acted as proxy for several companies. Notably, he was the President of the Management Board of Laris Investments Sp. z o.o. (2008-2013) and Apena S.A. (2011-2012). He has been vice-president of the Management Board of PRN Polska Sp. z o.o. since 2008. Additionally, he acted as proxy for SPV Grodzisk Sp. z o.o. (2012-2013), JK Project Sp. z o.o. (2010-2013) and 3G Sp. z o.o. (since 2011). Moreover, between 2011 and 2012 he held the position of member of the supervisory board of Tower-Service Sp. z o.o.

Mr. Tomasz Gillner-Gorywoda is a graduate of the Faculty of Law and Administration at the University of Warsaw and post-graduate studies in management at Monash University in Melbourne.

**Aneta Jaskólska** has been a Member of the Management Board of Cyfrowy Polsat since July 2010. She is responsible for the Customer Service Department and Safety Department. Ms. Jaskólska is also a Member of the Management Boards of Cyfrowy Polsat Trade Marks Sp. z o.o., INFO-TV-FM Sp. z o.o., Liberty Poland S.A. and Polkomtel.

Between 2004 and 2007 Ms. Jaskólska held the position of Proxy and Director of Legal Department of UPC Polska Sp. z o.o. She was also a member of the Copyright Committee (*Komisja Prawa Autorskiego*). Ms. Jaskólska has many years of experience in legal advisory and services to large business entities.

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

**Agnieszka Odorowicz** has been a Member of the Company's Management Board since March 1, 2016 and is responsible for the film production. From 2001 until 2009 she was an academic staff member at the Department of Trade and Market Institutions at the Cracow Academy of Economics and the author of publications on cultural management and economics as well as the promotion of regions. In the years 2002-2004 the authorities of the Academy appointed her to the position of director of the Development and Promotion Center of the Cracow Academy of Economics. In the years 2003-2004 she acted as deputy Minister of Culture for structural funds, responsible for negotiations with the European Commission regarding the use of EU funds for the development of cultural infrastructure. During the years 1997-2003 she was the artistic director of the International Competition of Contemporary Chamber Music and producer of several programmes for public television. In the years 2004-2005 she held the position of Secretary of State at the Ministry of Culture, where she was responsible for the legal and economic departments as well as cooperation with the Parliament. During this period she was the Chairwoman of the inter-ministerial group for the media policy of the State. In the years 2005-2015 she was the first director of the Polish Film Institute. Re-elected as director in a competition in 2010, she managed the Polish Film Institute until October 2015.

Ms. Odorowicz is a graduate of the Cracow University of Economics, an economist and cultural manager.

**Maciej Stec** has been a Member of the Management Board of Cyfrowy Polsat S.A since November 2014. Concurrently, he holds the position of the Member of the Management Board and Sales & Foreign Acquisition Director of Telewizja Polsat. He is also a Member of the Supervisory Board of Muzo.fm Sp. z o.o.

From the beginning his professional career Mr. Stec was connected with television market. From 1998 he worked among others for OMD Poland media house, owned by Omnicom Group, where in the years 1998-2003 held a position of Managing Director of Brand&Media OMD. Since February 2003 he has been Managing Director of Telewizja Polsat's advertisement office - Polsat Media Sp. z o.o. (currently Polsat Media Biuro Reklamy Sp. z o.o. Sp.k.).

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

**Katarzyna Ostap-Tomann** has been connected with Cyfrowy Polsat Group since 2009, where she assumed the position of deputy CFO of the Capital Group in 2015, and she has been a Member of the Management Board responsible for the finances of the Group since October 2016. She also holds the position of President of the Management Board of Telewizja Polsat Holdings Sp. z o.o., as well as Member of the Management Board of Telewizja Polsat Sp. z o.o. and Polsat License Ltd., with its registered seat in Switzerland.

In the years 1996–2004 she was employed at various positions at Philip Morris in Poland and in the regional headquarters of the company in Switzerland, where she gained considerable experience in the fields of corporate finance, financial reporting, management accounting and internal audit. In the years 2004-2009 she worked for TVN Group as financial controller of the capital group. She was responsible for the preparation of financial statements at the capital group level and internal management reporting. In 2009 she took the position of Director of Controlling at Cyfrowy Polsat, where she became Financial Director in 2012. Since 2011 she has also held the function of Financial Director at Telewizja Polsat, where she was appointed as Member of the Management Board in 2014. She has been a member of the ACCA since 2001. In 2015 she was appointed to the ACCA Council in Poland for a second term.

Ms. Ostap-Tomann is a graduate of the Warsaw School of Economics with a major in International Economic and Political Relations and also holds the title of MBA from Oxford Brookes University.

### 8.7.3. Bylaws of the Management Board

Our Management Board acts pursuant to the provisions of the commercial companies code, the Company's Articles of Association and the Bylaws of Management Board approved by the Supervisory Board on 29 November 2007.

The Management Board runs our matters in a transparent and efficient way pursuant to the provisions of the law, our internal provisions and the Best Practices 2016. Upon taking decisions related to our matters, the members of the Management Board act within justified limits of business risk.

The following are entitled to submit statements on our behalf

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

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

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

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

Resolutions are adopted in a meeting or in a manner set out below. The President of the Management Board, or a person they authorized, calls meetings of the Management Board. The meetings of the Management Board are held in our offices or another place indicated by the person calling the meeting.

The voting is open. A secret voting shall be administered upon a request of just one member of the Board present in the meeting.

Moreover, according to the Bylaws of the Management Board, the Management Board may adopt resolutions in writing, or in a manner enabling instantaneous communication of the members of the Management Board by means of audio-video communication (e.g. teleconferencing, videoconferencing).

### 8.7.4. Remuneration of the Members of the Management Board

Information regarding remuneration of members of the Management Board for the financial year ended December 31, 2016 is included in Note 44 of the consolidated financial statements for the financial year ended December 31, 2016.

### 8.7.5. Managerial contracts with members of the management board setting out severance packages payout as a result of their resignation or dismissal from the position without a material cause

The Company has concluded managerial contracts with the following Members of the Management Board: Dariusz Działkowski, Tomasz Gillner-Gorywoda, Aneta Jaskólska, Agnieszka Odorowicz and Katarzyna Ostap-Tomann. These contracts do not provide for the payment of severance packages as a result of the resignation of the mentioned above

Members of the Management Board or their dismissal from the position without a material cause, or in the case when their resignation or dismissal results from a merger by acquisition of the Company.

## 8.8. Supervisory Board

### 8.8.1. Composition of the Supervisory Board

As at January 1, 2016 the Supervisory Board comprised the following members:

- Zygmunt Solorz – Chairman of the Supervisory Board,
- Józef Birka – Member of the Supervisory Board
- Robert Gwiazdowski – Independent Member of the Supervisory Board,
- Aleksander Myszka - Member of the Supervisory Board,
- Leszek Reksa – Independent Member of the Supervisory Board,
- Heronim Ruta - Member of the Supervisory Board.

On September 30, 2016 Mr. Zygmunt Solorz resigned from the membership of the Company's Supervisory Board with immediate effect. Pursuant to the resolutions adopted on September 30, 2016, the Extraordinary General Meeting of the Company appointed Mr. Tomasz Szelaż and Mr. Marek Kapuściński to the Supervisory Board as of October 1, 2016.

On October 25, 2016, the Supervisory Board acting pursuant to article 20 item 3 of the Company's Articles of Association, elected Mr. Marek Kapuściński as Chairman of the Supervisory Board. Moreover, acting in accordance with § 7 section 1 of the Bylaws of the Supervisory Board of the Company, the Supervisory Board completed the composition of the Remuneration Committee by appointing Mr. Tomasz Szelaż as Member of the Remuneration Committee. Additionally, acting in accordance with § 7 section 1 of the Bylaws of the Supervisory Board of the Company, the Supervisory Board enlarged the Audit Committee by appointing Mr. Tomasz Szelaż as Member of the Audit Committee.

As at December 31, 2016 the Supervisory Board comprised the following members:

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Marek Kapuściński	Chairman of the Supervisory Board Independent <sup>(1)</sup> member of the Supervisory Board	2016	2016	2018
Józef Birka	Member of the Supervisory Board	2015	2015	2018
Robert Gwiazdowski	Independent <sup>(1)</sup> member of the Supervisory Board Chairman of the Audit Committee	2008	2015	2018
Aleksander Myszka	Member of the Supervisory Board	2015	2015	2018
Leszek Reksa	Independent <sup>(1)</sup> member of the Supervisory Board Member of the Audit Committee	2008	2015	2018
Heronim Ruta	Member of the Supervisory Board Member of the Audit Committee Member of the Remuneration Committee	2001	2015	2018
Tomasz Szelaż	Member of the Supervisory Board Member of the Audit Committee Member of the Remuneration Committee	2016	2016	2018

(1) conforms with the independence criteria listed in a set of principles of the corporate governance of the Best Practices 2016 in principle II.Z.4.

**Marek Kapuściński** joined the Company's Supervisory Board on 1 October 2016, and has performed the function of its Vice Chairman since 25 October 2016. He graduated from the Faculty of Trade of the Academy of Planning and Statistics in Warsaw (now the Warsaw School of Economics) and completed postgraduate studies at SEHNAP in cooperation with Stern School of Business – New York University.

Until the end of September 2016, for over 25 years, he has been part of the Procter&Gamble team. From July 2011 as a General Manager and Vice President (that is a President of the Management Board/CEO) for nine key markets of the Central Europe, and before that – from January 2007 he was responsible for Poland and Baltic states. Currently, he is a Member of the Supervisory Boards of Bank Handlowy w Warszawie S.A. and Cydrownia S.A. and provides consulting services within the Essences Consulting Group. He is also involved in the activities of the public benefit organizations supporting the development of the young Polish culture and arts

**Józef Birka** joined the Company's Supervisory Board in April 2015. He is an advocate and graduate of the Faculty of Law of Wrocław University. He has been associated with Telewizja Polsat S.A. since its inception, he was in charge of the function of the President of the Management Board of Telewizja Polsat during the first licensing procedure granting terrestrial license to broadcast the first independent countrywide TV channel in Poland. Since its establishment, he is a member of the Board of the POLSAT Foundation, one of the largest non-governmental organizations operating in Poland.

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

**Robert Gwiazdowski** has been a Member of the Company's Supervisory Board since July 2008. He holds a post-doctoral degree of Habilitated Doctor (*doctor habilitatus*) in law and is a professor at Łazarski University. Mr. Gwiazdowski is an active attorney-at-law and tax advisor.

In the years 2005-2014, he served as President of Adam Smith Centre. He is currently a Chairman of the Institute's Council. In 2006-2007, he served as Chairman of the Supervisory Board of the Polish Social Insurance Institution (Zakład Ubezpieczeń Społecznych). At present, Mr. Gwiazdowski serves as Member of the Supervisory Boards of the following listed companies: DGA S.A., SARE S.A., Dom Maklerski IDM S.A., and MNI S.A., which operates on the telephony and TV markets.

**Aleksander Myszka** joined the Company's Supervisory Board in April 2015. He is a solicitor and graduate of the Faculty of Law of Wrocław University. He commenced his career as a solicitor in a Law Firm in Oleśnica, and then he worked for Law Office No. 4 in Wrocław where he also held a position of a Director for two terms of office. In particular, he focused in his practice on civil law and since the mid-eighties he has specialized in commercial law and developed legal services for business entities. His career has been connected with Telewizja Polsat since its establishing, as Mr. Myszka is one of its co-founders. For 12 years – in the period from 1995 to 2007 – he held the position of the President of the Management Board of Telewizja Polsat.

Since April 2007 Mr. Aleksander Myszka has been a member of the Supervisory Board of Telewizja Polsat and since November 9, 2011 - a member of the Supervisory Board of Polkomtel. He is also a member of the Polsat Foundation Council since its creation, that is since 1996. He is also a co-founder and a member of Stowarzyszenie Kreatywna Polska, a society gathering the community of artists and creative industries, whose main goals are the protection of copyrights and intellectual property. In 2015, Mr. Myszka was elected for a 3-year term of office to the Council of the Polish Film Institute. Since 2016 he has been a Member of the Management Board of Association of Private Media Employers, incorporated into Polish Confederation of Private Employers "Lewiatan."

**Leszek Reksa** was appointed a Member of the Company's Supervisory Board in July 2008. He graduated from the Foreign Trade Faculty of the Central School of Planning and Statistics in Warsaw (currently: Warsaw School of Economics). He has also completed numerous specialist seminars and courses in management and finance, including a seminar on corporate management at the Faculty of Finance at DePaul University in Chicago.

He has vast experience in managerial positions at various companies, including 20 years in the banking sector (Powszechna Kasa Oszczędności Bank Polski S.A.). Mr. Reksa also has many years' experience in serving on the governing bodies of commercial-law companies, which includes the positions of President of the Management Board of PHU BIMOT S.A., Member of the Supervisory Board of Bankowy Fundusz Leasingowy S.A., and Member of the Supervisory Board of Zakłady

Azotowe Kędzierzyn S.A. Currently he is a Member of the Management Board of AGRAMPEX Sp. z o.o. and a Member of Supervisory Boards of PLUS BANK S.A. and EBU Węgrzynowo.

**Heronim Ruta** graduated from the Electric Faculty of the Warsaw University of Technology. He has nearly 40-year business experience in such sectors as: media, telecommunication, trade or services. Since the very beginning he has been involved in building the strategy and consistent development of the main companies from the Polsat Group. From 1978 to 1979, he worked in the National Railway Technology Centre. In the years 1980-1987, he was a head of Wytwórczo-Uslugowa Spółdzielni Pracy (a production and service cooperative) in Radom. In 1987, he founded Herom Sp. z o., where he was a President until 1992. In the years 1992-1994, he was a President of Ster Sp. z o.o., from 2002 to 2005 – a Member of the Management Board of Polaris Finance B.V., and from 2002 to 2004 – a Member of the Supervisory Board of a Lithuanian TV station - Baltijos Televizija, UAB. He has an extensive experience working in statutory bodies of commercial companies. He is currently a Member of Supervisory Boards of, among others, Cyfrowy Polsat S.A., Telewizja Polsat Sp. z o.o., Plus Bank S.A., PAI Media S.A. and Polkomtel Sp. z o.o.

**Tomasz Szela**g has been a Member of the Company's Supervisory Board since October 2016, where he is also a Member of the Audit Committee and Remuneration Committee. He graduated from the National Economy Faculty of the Economic Academy of Wrocław, with major in International Economic and Political Relations specializing in Foreign Trade. He has been involved with Cyfrowy Polsat since 2009. In 2016 he was appointed a Member of Supervisory Boards of Polkomtel, Telewizja Polska, ZE PAK and Plus Bank S.A.

In 2000-2003 Mr. Szela

g was an assistant at Foreign Trade Faculty of the Economic Academy of Wrocław. In May 2003 Mr. Szela

g received PhD title for his thesis on hedging transaction used by world copper producers and went on to become a lecturer in the Faculty of International Economic Relations of the Economic Academy of Wrocław. Between 2003 and 2004 he also held a position of a lecturer in the Wrocław School of Banking - at the Faculty of International Economic Relations. Parallel to his academic career Mr. Szela

g also developed his professional career gaining experience in managerial positions in the area of finance and investment. From 2003, Mr. Szela

g was Chief Specialist in the Currency Risk Department of KGHM Polska Miedź S.A., and then of the Market Risk and Analysis Department. In September 2004, he became Director of the Department. In December 2004, he became Director of Hedging Department of KGHM and held the function until March 2007. From April 2007 to June 2008 he worked as Director of Branch of Société Générale Bank in Wrocław. In July 2008, Mr. Szela

g took the position of Vice-president for Finance in Telefonía Dialog S.A., which he held until March 2009. Mr. Szela

g was responsible for finance, accounting, controlling, and budgeting management, and also owner supervision and capital investment, logistics and purchases, project management and IT.

From May 2009 until September 2016 he held the position of Member of the Management Board and Chief Financial Officer in Cyfrowy Polsat S.A. and was responsible for broadly understood finances in the entire capital group. In the years 2010-2016 Mr. Szela

g was a member of the management boards of numerous companies from Polsat Group, including Telewizja Polsat (October 2011-October 2014), INFO-TV-FM Sp. z o.o. (July 2012-November 2016), CPSPV1 and CPSPV2 (April 2013-November 2016), Plus TM Management (April 2014-December 2016) and Polkomtel (September 2014-December 2016). He was also a President of the Management Board of Cyfrowy Polsat Trade Marks Sp. z o.o. (2010-2016) and Telewizja Polsat Holdings Sp. z o.o. (2012-2016).

#### **8.8.2. Competences and by-laws of the Supervisory Board**

The Supervisory Board acts pursuant to the commercial companies code and also pursuant to the Articles of Association of the Company and the Bylaws of the Supervisory Board of 3 December 2007.

Pursuant to the Articles of Association of the Company the Supervisory Board performs constant supervision over activities of the enterprise. Within the scope of supervision performance the Supervisory Board may demand any information and documents regarding our business from the Management Board.

Members of the Supervisory Board shall take necessary steps to receive regular and full information from the Management Board regarding material matters concerning our business and risks involved in the business and the strategies of risk management. The Supervisory Board may - not infringing the competencies of other bodies of the Company - express their opinion on all the issues related to our proceedings, including forwarding motions and proposals to the Board.

The competencies of the Supervisory Board also include matters restricted by the Commercial Companies Code, in particular:

- a) audit of the financial statements both as to their compliance with the books and documents and also the factual state, audit of the interim and annual reports of the Management Board, or Management Board's motions regarding



allocation of profit or covering debts and presenting written reports with results of the audits before the General Shareholders Meeting,

- b) creating, once a year, and presenting before the Annual General Meeting a concise evaluation of the situation of the Company, considering the evaluation of the internal control system, and the system for managing risks relevant for the Company,
- c) appointment of members of the Management Board,
- d) delegation of members of the Supervisory Board to temporary performance of duties of members of the Management Board who are unable to perform their duties,
- e) suspending particular or all members of the Management Board for material reasons,
- f) approval of the Bylaws of the Management Board,
- g) determination of remuneration of the members of the Management Board,
- h) appointment of a certified auditor to examine financial statements of the Company,
- i) granting consent for disbursement of a down payment toward the anticipated dividend.

Moreover, the competencies of the Supervisory Board include:

- a) creation and presentation of an evaluation of the work of the Management Board before the General Shareholders' Meeting,
- b) analysis and issuing of an opinion on matters that may be the subject of a resolution of the General Meeting,
- c) approval of one-year and long-term programs for the Company developed by the Management Board,
- d) determination of the remuneration level of the Supervisory Board delegated to temporary performance of duties of a member of the Management Board,
- e) granting consent for participation in other companies,
- f) granting consent for appointing, dismissing and suspending members of authorities of the subsidiaries,
- g) granting consent for entering into a material agreement with a related entity,
- h) granting consent for performance of activities resulting in the Company incurring a liability, with the exception of:
  - activities projected or set out in the annual program for the Company approved by the Supervisory Board, or
  - activities resulting in incurring a liability of the value up to PLN 10.0 million, including guarantees or issuing or guaranteeing bills of exchange done in the scope of daily business, in particular the business of pay digital television, Internet service or the business of MVNO.
- i) issuing, upon the Management Board's request, opinion on all issues material for the Company.

The Supervisory Board consists of five to nine members including the Chairman of the Supervisory Board, appointed by the General Shareholders' Meeting. The General Shareholders' Meeting, prior to appointment of members of the Supervisory Board for a new term, determines the number of members of the Supervisory Board. The term of office of the Supervisory Board is three years and is a joint one.

The Supervisory Board consists of three members meeting the criteria of an independent member of the Supervisory Board as set out in the corporate governance principles included in the Best Practices 2016 in the principle II.Z.4.

Meetings of the Supervisory Board take place at least once a quarter. The venue for meetings is the seat of the Company or any other place indicated by the person calling the meeting.

The Chairman of the Supervisory Board, or a member of the Supervisory Board appointed by the Chairman calls a meeting of the Supervisory Board. Meetings of the Supervisory Board are chaired by the Chairman, and in the case of his absence by a member of the Supervisory Board indicated by the Chairman in writing, or another member of the Supervisory Board elected by the members present in the meeting.

The Chairman calls a meeting of the Supervisory Board also upon request of a member of the Management Board, or a member of the Supervisory Board, or upon a motion of a shareholder representing at least 1/10 (one tenth) of the share

capital. A Meeting of the Supervisory Board shall take place at least within 14 days of the date of filing a written application to the Chairman.

Resolutions of the Supervisory Board are passed by majority of votes cast. In the case of equality the vote of the Chairman prevails. A resolution of the Supervisory Board requires inviting all the members of the Supervisory Board and presence of at least half of the members of the Supervisory Board to be valid.

The Supervisory Board may pass resolutions via means of direct, remote communication and also a member of the Supervisory Board may cast their vote in writing via other member of the Supervisory Board.

Members of the Supervisory Board execute their rights and perform their duties in person. Members of the Supervisory Board participate in General Meetings.

Moreover, within the performance of their duties, the Supervisory Board shall:

- a) once a year prepare and present before the General Meeting a concise evaluation of the situation of the Company, considering the evaluation of the internal control system and the management system of risks that are important for the Company,
- b) once a year prepare and present before the Annual General Meeting an evaluation of its their own performance,
- c) investigate and issue opinions about matters to be subjects of resolutions of the General Meeting.

### **8.8.3. Committees of the Supervisory Board**

Pursuant to the Bylaws of the Supervisory Board the Supervisory Board may appoint permanent committees, in particular the Audit Committee, or the Remuneration Committee, or ad hoc committees to investigate certain issues remaining in the competence of the Supervisory Board or acting as advisory and opinion bodies of the Supervisory Board.

The Audit Committee, as at December 31, 2016 comprised the following members of the Supervisory Board:

- Heronim Ruta,
- Robert Gwiazdowski, an independent member of the Supervisory Board,
- Leszek Rekxa, an independent member of the Supervisory Board,
- Tomasz Szeląg (since October 25, 2016).

On January 8, 2016, Mr. Robert Gwiazdowski was appointed to the position of Chairman of the Audit Committee, which constitutes the fulfillment of principle II.Z.8 of the Best Practices of WSE listed Companies 2016, according to which the Chairman of the Audit Committee meets the independence criteria referred to in Annex II to the European Commission Recommendation 2005/162/WE of February 15, 2005.

The composition of the Audit Committee meets the requirements of Article 86, Paragraph 4 of the Act of 7 May 2009 on auditors and their self-government, entities authorized to audit the financial statements and the public supervision, according to which, the Audit Committee should include at least three members, including at least one member of the Audit Committee who must satisfy the condition of independence and be qualified in the field of accounting or auditing.

In 2016, the Remuneration Committee was composed of:

- Zygmunt Solorz (from January 1, 2016 to September 30, 2016)
- Heronim Ruta,
- Tomasz Szeląg (since October 25, 2016).

The provisions of the Bylaws apply to meetings, resolutions, and minutes of the committees of the Supervisory Board, with reservation of the following information.

A committee is appointed by the Supervisory Board from among its members by means of a resolution. The committee appoints, by means of a resolution, the Chairman of the particular committee from among its members. The mandate of a member of a particular committee expires upon expiry of the mandate of the member of the Supervisory Board. The Supervisory Board may, by means of a resolution, resolve to dismiss a member from the composition of a particular committee before the expiry of the mandate of the member of the Supervisory Board. Dismissal from membership in a committee is not tantamount to dismissal from the Supervisory Board.

The first meeting of a committee is convened by the Chairman of the Supervisory Board or other member of the Supervisory Board they indicate. Meetings of the committees are convened as needs arise, ensuring thorough delivery of duties assigned with a particular committee. Minutes of committee's meetings and adopted resolutions are made available to the members of the Supervisory Board not being members of the committee. The Chairman of a given committee chairs its proceedings. The Chairman also performs supervision over preparation of the agenda, distribution of documents, and preparation of minutes of the meetings of the committee.

#### 8.8.4. Remuneration of the Members of the Supervisory Board

Information regarding remuneration of members of the Supervisory Board for the financial year ended December 31, 2016 is included in Note 45 of the consolidated financial statements for the financial year ended December 31, 2016.

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Tobias Solorz  
*President of the Management Board*

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Katarzyna Ostap-Tomann  
*Member of the Management Board*

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Dariusz Działkowski  
*Member of the Management Board*

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Tomasz Gillner-Gorywoda  
*Member of the Management Board*

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Aneta Jaskólska  
*Member of the Management Board*

---

Agnieszka Odorowicz  
*Member of the Management Board*

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Maciej Stec  
*Member of the Management Board*

Warsaw, March 15, 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
<b>Aero2</b>	Aero2 spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000305767, subsidiary of Litenite.
<b>Aero2 Group</b>	Aero2 and its indirect and direct subsidiaries - Sferia and AltaLog.
<b>AltaLog</b>	AltaLog spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000493305, subsidiary of Aero2.
<b>Amendment, Restatement and Consolidation Deed</b>	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.
<b>ATS, WSE ATS</b>	Alternative system of trading in debt instruments organized by the WSE within the Catalyst market.
<b>ATS Rules</b>	Alternative Trading System Rules governing the alternative trading system organized by the WSE, adopted by resolution no. 147/2007 of the management board of the WSE on March 1, 2007, as amended.
<b>B2B</b>	Business to Business, a transaction between businesses.
<b>B2C</b>	Business to Consumer, a transaction between a business and a consumer.
<b>Bonds, Series A Bonds</b>	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.
<b>Bonds Terms</b>	Terms and conditions of Bonds issuance together with the supplement.
<b>Catalyst</b>	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.
<b>Combined SFA</b>	CP SFA of September 21, 2015 as amended by the Amendment, Restatement and Consolidation Deed of September 21, 2015.
<b>CP Revolving Facility Loan</b>	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.
<b>CP Senior Facilities Agreement, CP SFA</b>	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.
<b>CP Term Facility Loan</b>	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.
<b>Cyfrowy Polsat, the Company</b>	Cyfrowy Polsat Spółka Akcyjna, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000010078.
<b>Cyfrowy Polsat Trade Marks, CPTM</b>	Cyfrowy Polsat Trade Marks spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. 0000373011.
<b>Eileme 1</b>	Eileme 1 AB (publ), a company under Swedish law, registered under No. 556854-5668.
<b>Eileme 2</b>	Eileme 2 AB (publ), a company under Swedish law, registered under No. 556854-5676.
<b>Eileme 3</b>	Eileme 3 AB (publ), a company under Swedish law, registered under No. 556854-5692.
<b>Eileme 4</b>	Eileme 4 AB (publ), a company under Swedish law, registered under No. 556854-5684.
<b>Embud</b>	Embud spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. 0000165473.
<b>the Group, Polsat Group, Cyfrowy Polsat Group</b>	Cyfrowy Polsat and the indirect and direct subsidiaries of the Company.

Term	Definition
<b>IFRS</b>	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).
<b>Karswell</b>	Karswell Limited, a company under Cypriot law with its registered office in Nicosia, Cyprus.
<b>KRRiT</b>	Krajowa Rada Radiofonii i Telewizji, National Broadcasting Council.
<b>Litenite</b>	Litenite Limited, a company under Cypriot law, registered under No. 240249.
<b>Litenite Notes</b>	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.
<b>Metelem</b>	Metelem Holding Company Limited, a company under Cypriot law, registered under No. 286591, indirectly controlling 100% shares in Polkomtel.
<b>Metelem Group</b>	Metelem jointly with the following companies: Eileme 1, Eileme 2, Eileme 3, Eileme 4, Polkomtel, Nordisk Polska Sp. z o.o., Liberty Poland S.A., Polkomtel Finance AB (publ), Polkomtel Business Development Sp. z o.o., TM Rental, LTE Holdings, Plus TM Management, Litenite Ltd., Aero2, Sferia, AtlaLog and IT Polpager Sp. zo.o.
<b>Midas</b>	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.
<b>Midas Notes</b>	Zero-coupon, dematerialized, secured series A bearer notes with the nominal value of PLN 1,000.0 each and the total nominal value of PLN 583.7 million issued pursuant to the resolution of the management board of Midas of March 6, 2013, amended by the resolution of March 28, 2013.
<b>NBP</b>	Narodowy Bank Polski, the central bank of the Republic of Poland.
<b>NDS</b>	National Depository for Securities ( <i>Krajowy Depozyt Papierów Wartościowych, KDPW</i> ).
<b>Orange, Orange Polska</b>	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.
<b>P4</b>	P4 spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000217207, operator of Play mobile network.
<b>PLK Revolving Facility Loan</b>	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.
<b>PLK Senior Facilities Agreement, PLK SFA</b>	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.
<b>PLK Senior Notes Indenture</b>	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.
<b>PLK Senior Notes</b>	Unsubordinated senior notes with a total nominal amount of EUR 542.5 million and USD 500.0 million, maturing in 2020, issued by Eileme 2.
<b>PLK Term Facility Loan</b>	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.
<b>Plus Bank</b>	Plus Bank Spółka Akcyjna entered in the register of entrepreneurs of the National Court Register under entry No. 0000096937.
<b>Plus TM Management</b>	Plus TM Management spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 378997.
<b>Polkomtel</b>	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.

Term	Definition
<b>Polkomtel Business Development</b>	Polkomtel Business Development spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 377416.
<b>Polkomtel Finance</b>	Polkomtel Finance AB (publ), a company under Swedish law, registered under No. 556807-4594. Company put under liquidation.
<b>Polkomtel Group</b>	Polkomtel jointly with the following companies: Nordisk Polska Sp. z o.o., Liberty Poland S.A., Polkomtel Finance, Polkomtel Business Development, TM Rental, LTE Holdings, Plus TM Management, Litenite Ltd., Aero2, Sferia, AtlaLog and IT Polpager Sp. zo.o.
<b>Polsat Media Biuro Reklamy</b>	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.
<b>Refinanced CP Senior Facilities Agreement</b>	The Senior Facilities Agreement of April 11, 2014 between the Company, Telewizja Polsat, CPTM, Polsat License Ltd. and Polsat Media, and a syndicate of Polish and foreign banks, covering the CP Term Loan and the CP Revolving Facility Loan. Refinanced in full on September 21, 2015.
<b>Refinanced CP Term Loan</b>	The term facility loan of up to PLN 2,500 million, issued under the Refinanced CP Senior Facilities Agreement, with maturity on April 11, 2019. Refinanced in full on September 21, 2015.
<b>Refinanced PLK Senior Facilities Agreement</b>	The Senior Facilities Agreement of June 17, 2013 between Eileme 2, Eileme 3, Eileme 4, Polkomtel and subsidiaries, and a syndicate of banks. Refinanced in full on September 21, 2015.
<b>Refinanced PLK Term Loans</b>	The Term Facility Loans A, B and C issued under the Refinanced PLK Senior Facilities Agreement of up to PLN 2.65 billion, PLN 3.3 billion and PLN 1.7 billion with maturity dates falling in years 2017, 2018 and 2019, respectively. Refinanced in full on September 21, 2015.
<b>Sensor</b>	Sensor Overseas Limited, a company under Cypriot law, with its registered office in Nicosia, Cyprus.
<b>SOKiK</b>	The District Court in Warsaw, 17 <sup>th</sup> Department for Competition and Consumer Protection.
<b>Telecommunications Law</b>	Telecommunications Law of July 16, 2004 (Dz. U. of 2004, No. 171, item 1800, as amended).
<b>Telewizja Polsat, TV Polsat</b>	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.
<b>Telewizja Polsat Group, TV Polsat Group</b>	Telewizja Polsat together with its direct and indirect subsidiaries.
<b>TiVi Foundation</b>	TiVi Foundation, a family foundation of Kirchstrasse 12, 9490 Vaduz, Liechtenstein.
<b>T-Mobile, T-Mobile Polska</b>	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.
<b>TM Rental</b>	TM Rental spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 567976.
<b>UKE</b>	The Office of Electronic Communications (Urząd Komunikacji Elektronicznej).
<b>UOKiK</b>	The Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów).

## Technical terms

Term	Definition
<b>2G</b>	Second-generation cellular telecommunications networks commercially launched on the GSM standard in Europe.
<b>3G</b>	Third-generation cellular telecommunications networks that allow simultaneous use of voice and data services.
<b>4G</b>	Fourth-generation cellular telecommunications networks.
<b>Add-on sales</b>	Sales technique combining cross-selling and up-selling.
<b>Advertising market share</b>	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)).
<b>Audience share</b>	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).
<b>CAGR</b>	Compounded Annual Growth Rate – the average annual growth rate calculated for a given value using the following formula: <div style="text-align: center; margin: 10px 0;"> <math display="block">CAGR = \left( \frac{W_{rk}}{W_{rp}} \right)^{\left( \frac{1}{rk-rp} \right)} - 1</math> </div> <p>where: rp – start year, rk – end year, Wrp – value in start year, Wrk – value in end year.</p>
<b>Catch-up TV</b>	Services providing access to view selected programming content for a certain period after it was broadcast. Cyfrowy Polsat provides such services from 2011.
<b>CDMA</b>	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.
<b>Churn</b>	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.
<b>Contract ARPU</b>	Average monthly revenue per customer generated in a given settlement period (including interconnect revenue).
<b>Converged (integrated) services</b>	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.
<b>Customer, contract customer</b>	Natural person, legal entity or an organizational unit without legal personality who has at least one active service provided in a contract model.
<b>DTH</b>	Satellite pay TV services provided by us in Poland from 2001.
<b>DTT</b>	Digital Terrestrial Television.
<b>DVB-T</b>	Digital Video Broadcasting – Terrestrial technology.
<b>DVR</b>	Set-top boxes equipped with a hard drive enabling the recording of TV programs (Digital Video Recorder).
<b>EDGE</b>	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).

Term	Definition
<b>ERP</b>	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).
<b>GB</b>	Gigabyte – a measure of digital information, comprising one billion bytes, or 1024 <sup>3</sup> bytes, depending on the interpretation – decimal or binary, respectively.
<b>GPRS</b>	Mobile data transmission service for GSM users (General Packet Radio Service).
<b>GRP</b>	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).
<b>GSM</b>	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).
<b>GSM-1800</b>	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.
<b>GSM-900</b>	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.
<b>HD</b>	Above-standard resolution signal (High Definition).
<b>HSPA/HSPA+</b>	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.
<b>Interconnect revenue</b>	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.
<b>IPLA</b>	Internet platform providing access to online video content belonging to Polsat Group.
<b>IPTV</b>	Technology enabling transfer of a television signal over IP broadband networks (Internet Protocol Television).
<b>IVR</b>	A telecommunications system enabling human-computer interaction using voice or tone signals (Interactive Voice Response).
<b>LTE</b>	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).
<b>LTE-Advanced</b>	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).
<b>Mb/s</b>	A unit of telecommunications channel capacity, being one million or 1024 <sup>2</sup> bytes (Megabyte) per second, depending on the interpretation – decimal or binary, respectively.
<b>Mobile TV</b>	Our pay mobile TV service rendered in DVB-T technology.
<b>MTR</b>	A wholesale charge for call termination in another operator's mobile telecommunications network (Mobile Termination Rate).
<b>Multiroom</b>	Our service providing access to the same range of TV channels on two television sets in one household for a single subscription fee.
<b>MUX, Multiplex</b>	A package of TV and radio channels and additional services, simultaneously transmitted digitally to the user over a single frequency channel.
<b>MVNO</b>	Mobile Virtual Network Operator.
<b>Node B</b>	A device for wireless connection between a mobile terminal and a fixed part of the third-generation telecommunications network.
<b>PPV</b>	Services providing paid access to selected TV content (pay-per-view).
<b>Prepaid ARPU</b>	Average monthly revenue per prepaid RGU generated in a given settlement period (including interconnect revenue).



Term	Definition
<b>PVR</b>	Electronic commodity hardware for digital recording of TV programs on its hard drive (Personal Video Recorder).
<b>real users</b>	An estimated number of persons who visit a website or open an Internet application at least once in a given month (Real Users).
<b>RGU (Revenue Generating Unit)</b>	Single, active service of pay TV, Internet Access or mobile telephony provided in contract or prepaid model.
<b>SD</b>	Standard-resolution television signal (Standard Definition).
<b>SMS</b>	Service enabling the sending of short text messages over telecommunications networks (Short Message Service).
<b>streaming</b>	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.
<b>Technical coverage</b>	Percentage of households in Poland capable of receiving the broadcast of a given channel by Telewizja Polsat.
<b>UMTS</b>	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).
<b>Usage definition (90-day for prepaid RGU)</b>	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.
<b>USSD</b>	A protocol used in GSM networks, which enables communication between a mobile phone and a network operator's computer.
<b>Value-added services, VAS</b>	Services offered by telecommunications undertakings and including entertainment, news, location and financial services.
<b>Virtual private network</b>	Network enabling a private connection over a public network (e.g. Internet).
<b>VOD - Home Movie Rental</b>	Our video on demand services.
<b>VoLTE</b>	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 ( <i>Voice over LTE</i> ).
<b>WCDMA</b>	Network access technology developed by 3rd Generation Partnership Project from 1999, and used in UMTS-standard 3G networks (Wideband Code Division Multiple Access).
<b>WiFi</b>	A set of standards for the development of wireless computer networks.

