CYFROWY POLSAT S.A.
CAPITAL GROUP

Annual Report
for the financial year ended
December 31, 2015

Place and date of publication: Warsaw, February 29, 2016
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CONTENT OF THE ANNUAL REPORT

LETTER OF THE CHAIRMAN OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

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

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

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

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

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

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

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

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

Yours sincerely,

Zygmunt Solorz-Żak
Chairman of the Supervisory Board
Cyfrowy Polsat S.A.

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

Ladies and Gentlemen,

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

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

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

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

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

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

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

Yours sincerely,

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

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

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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 60 channels in high definition standard, as well as additional services such as PPV, VOD Home Movie Rental, TV online, catch-up TV and Multiroom. We also provide online video services through IPLA – the leader on Poland's online video market.
- mobile telecommunication services, including voice and data transmission services, which we provide mainly through our subsidiary Polkomtel – one of Poland's leading telecommunications operators;
- mobile broadband Internet, offered under two alternative brands: Cyfrowy Polsat and Plus. We provide these services in the state-of-the-art LTE technology. We offer the largest LTE coverage in Poland and our customers attain the highest data transmission speed among offers provided by national mobile network operators technologies;
- broadcasting and television production through Telewizja Polsat, leading commercial TV broadcaster on the Polish market, offering 32 popular TV channels, including 10 in HD standard.
- wholesale services to other operators, including i.a. network interconnection, national and international roaming shared access to network assets and lease of network infrastructure.

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

Our consolidated revenue from services, products, goods and materials sold in 2015 increased to PLN 9,823.0 million while our net profit amounted to PLN 1,163.4 million. EBITDA profit amounted to PLN 3,685.1 million with EBITDA margin of 37.5%.

DISCLAIMERS

This constitutes the annual Report of Cyfrowy Polsat Capital Group S.A. 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 and Cyfrowy Polsat contained in this Management Board's report on the activities of Cyfrowy Polsat S.A. Capital Group (hereafter "Report") apply to Cyfrowy Polsat S.A., 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, this Report contains our consolidated financial statements for the financial year ended December 31, 2015 and interim condensed consolidated financial statements for the three and twelve month periods ended December 31, 2015. The financial statements for the three and twelve month periods ended December 31, 2015 attached to this Report have been prepared in accordance with International Accounting Standard no. 34 "Interim Financial Reporting" ("IAS 34") and are presented in millions of zlotys. Unless otherwise indicated, financial information presented in this Report was prepared pursuant to the International Financial Reporting Standards as approved for use in the European Union ("IFRS").

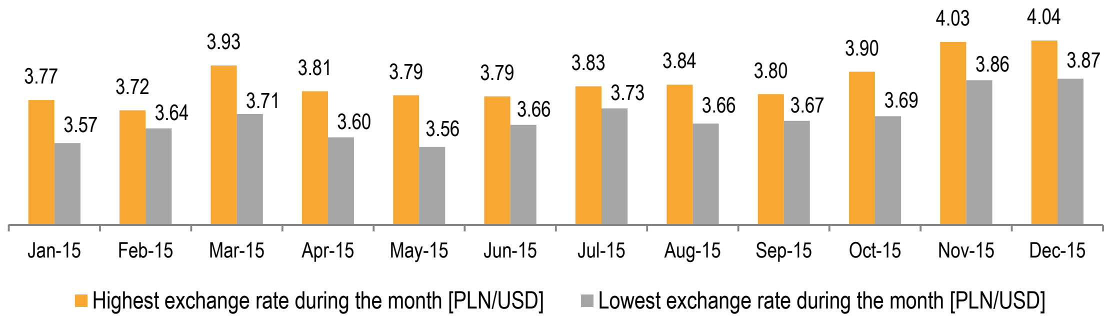
Certain arithmetical data contained in this Report, including financial and operating information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this Report may not conform exactly to the total figure given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

Currency presentation

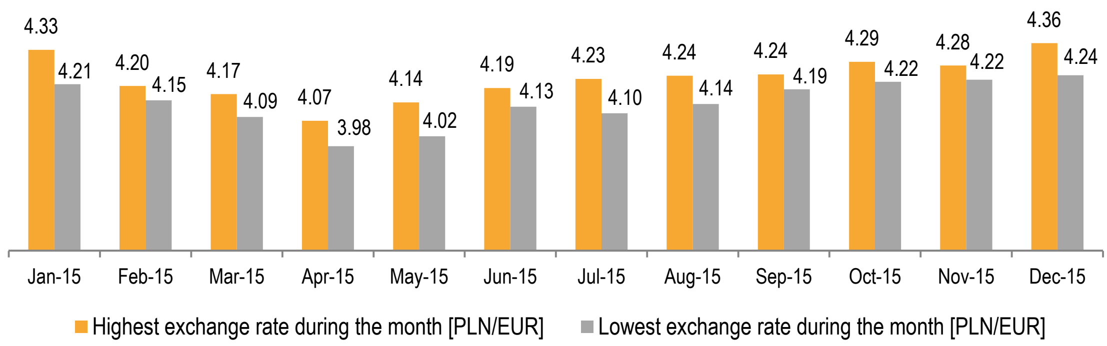
Unless otherwise indicated, all references to "PLN" or "zloty" in this Report are to the lawful currency of the Republic of Poland, all references to "USD" or "US dollars" are to the lawful currency of the United States and all references to "EUR" or the "euro" are to the lawful currency of the member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

The following tables present - for the periods indicated - certain information regarding the average buying/selling rates as published by the National Bank of Poland ("NBP"), for the zloty (the "effective NBP exchange rate"), expressed in zloty per dollar and zloty per euro. The exchange rates set out below may differ from the actual exchange rates used in the preparation of our 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]	2010	2011	2012	2013	2014	2015
Exchange rate at end of period	2.9641	3.4174	3.0996	3.0120	3.5072	3.9011
Yearly average exchange rate	3.0157	2.9634	3.2570	3.1608	3.1551	3.7701
Highest exchange rate during period	3.4916	3.5066	3.5777	3.3724	3.5458	4.0400
Lowest exchange rate during period	2.7449	2.6458	3.0690	3.0105	3.0042	3.5550



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



Forward looking statements

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

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

We disclose important risk factors that could cause our actual results to differ materially from our expectations in item 4 – *Operating and financial review of 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;
- SMG Poland (previously SMG Starlink);
- IAB AdEX;
- PwC (Global entertainment and media outlook: 2015-2019);
- ZenithOptimedia;
- Megapanel PBI/Gemius;
- PMR;
- GfK Polonia;
- e-marketer;
- Ericsson Mobility Report; and
- operators functioning on the Polish market.

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

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

FINANCIAL DATA OVERVIEW

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

Selected financial data:

- from the consolidated income statement for the three period ended December 31, 2015 and December 31, 2014 have been converted into euro at a rate of PLN 4.2623 per EUR 1.00, being the average of monthly average exchange rates announced by the NBP in the reporting period i.e. from October 1 to December 31, 2015;
- from the consolidated income statement and the consolidated cash flow statement for the twelve month period ended December 31, 2015 and December 31, 2014 have been converted into euro at a rate of PLN 4.1836 per EUR 1.00, being the average of monthly average exchange rates announced by the NBP in the reporting period i.e. from January 1 to December 31, 2015;
- from the consolidated balance sheet data as at December 31, 2015 and December 31, 2014 have been converted into euro at a rate of PLN 4.2615 per EUR 1.00 (average exchange rate published by NBP on December 31, 2015).

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

It should be noted that data for the periods of three and twelve months ended December 31, 2015 are not fully comparable to data for the periods of three and twelve months ended December 31, 2014 due to the acquisition, on May 7, 2014, of 100% of shares of Metelem Holding Company Limited, the indirect parent of Polkomtel, the acquisition of 100% of shares in Radio PIN S.A. on February 27, 2015 and the acquisition of 100% of shares in Orsen Holding Ltd. on April 1, 2015. However, given that the results of Radio PIN S.A. as well as Orsen Holding Ltd. and its subsidiaries 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.

	December 31, 2015		December 31, 2014 (1)	
	mPLN	mEUR	mPLN	mEUR
Consolidated balance sheet				
Cash and cash equivalents(2)	1,523.7	357.6	1,747.9	410.2
Assets	26,490.1	6,216.1	27,338.7	6,415.3
Non-current liabilities	7,773.5	1,824.1	14,093.3	3,307.1
Non-current financial liabilities	6,376.0	1,496.2	12,245.4	2,873.5
Current liabilities	8,466.5	1,986.7	4,167.2	977.9
Current financial liabilities	6,011.9	1,410.7	1,793.8	420.9
Equity	10,250.1	2,405.3	9,078.2	2,130.3
Share capital	25.6	6.0	25.6	6.0

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

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

	for the twelve month period ended			
	December 31, 2015		December 31, 2014	
	mPLN	mEUR	mPLN	mEUR
Consolidated cash flow statement				
Net cash from operating activities	2887.7	690.2	1,973.9	471.8
Net cash from/(used in) investment activities	(726.6)	(173.7)	972.8	232.5
Net cash used in financial activities	(2,386.7)	(570.5)	(1,542.9)	(368.8)
Free cash flow (1)	1,304.6	311.8,	1,173.3	280.5
Net increase in cash and cash equivalents	(225.6)	(53.9)	1,403.8	335.5

(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, Cash Pool, 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 for the twelve month period ended December 31, 2014.

	for the 3-month period ended December 31				for the 12-month period ended December 31			
	2015		2014		2015		2014	
	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR
Consolidated income statement								
Retail revenue	1,620.6	380.2	1,701.7	399.2	6,553.1	1,566.4	5,084.7	1,215.4
Wholesale revenue	738.0	173.1	641.1	150.4	2,596.9	620.7	1,954.0	467.1
Sale of equipment	226.9	53.2	159.9	37.5	583.4	139.4	327.3	78.2
Other sales revenue	24.4	5.7	18.4	4.3	89.6	21.4	43.9	10.5
Revenue	**2,609.9**	**612.3**	**2,521.1**	**591.5**	**9,823.0**	**2,348.0**	**7,409.9**	**1,771.2**
Content costs	(299.1)	(70.2)	(295.6)	(69.4)	(1,065.9)	(254.8)	(1,029.5)	(246.1)
Distribution, marketing, customer relation management and retention costs	(220.1)	(51.6)	(218.3)	(51.2)	(802.6)	(191.8)	(612.7)	(146.5)
Depreciation, amortization, impairment and liquidation	(436.7)	(102.5)	(443.8)	(104.1)	(1,699.3)	(406.2)	(1,295.9)	(309.8)
Technical costs and cost of settlements with mobile network operators	(585.1)	(137.3)	(557.2)	(130.7)	(2,141.0)	(511.8)	(1,412.4)	(337.6)
Salaries and employee-related costs	(158.0)	(37.1)	(150.9)	(35.4)	(550.2)	(131.5)	(421.7)	(100.8)
Cost of equipment sold	(393.6)	(92.3)	(376.6)	(88.4)	(1,332.8)	(318.6)	(925.2)	(221.1)
Cost of debt collection services and bad debt allowance and receivables written off	(7.6)	(1.8)	(27.5)	(6.5)	(62.6)	(15.0)	(67.6)	(16.2)
Other costs	(59.1)	(13.9)	(55.5)	(13.0)	(213.5)	(51.0)	(212.1)	(50.7)
Total operating cost	**(2,159.3)**	**(506.6)**	**(2,125.4)**	**(498.7)**	**(7,867.9)**	**(1,880.7)**	**(5,977.1)**	**(1,428.7)**
Other operating income, net	(6.2)	(1.5)	(2.2)	(0.5)	30.7	7.3	9.6	2.3
Profit from operating activities	**444.4**	**104.2**	**393.5**	**92.3**	**1,985.8**	**474.7**	**1,442.4**	**344.8**
Gain/(loss) on investment activities, net	(3.2)	(0.8)	(11.4)	(2.7)	8.6	2.1	15.2	3.6
Financial costs	(270.0)	(63.3)	(379.2)	(89.0)	(664.6)	(158.9)	(1,146.0)	(273.9)
Share of the profit of joint venture accounted for using the equity method	0.7	0.2	0.6	0.1	2.6	0.6	2.6	0.6
Gross profit for the period	**171.9**	**40.3**	**3.5**	**0.8**	**1,332.4**	**318.5**	**314.2**	**75.1**
Income tax	13.7	3.2	10.5	2.5	(169.0)	(40.4)	(21.7)	(5.2)
Net profit for the period	**185.6**	**43.5**	**14.0**	**3.3**	**1,163.4**	**278.1**	**292.5**	**69.9**
Basic and diluted earnings per share in PLN (not in millions)	0.29	0.07	0.02	0.01	1.82	0.44	0.54	0.13
Weighted number of issued shares	639,546,016		639,546,016		639,546,016		539,024,535	
Other consolidated financial data								
EBIDTA (1)	881.1	206.7	837.3	196.4	3,685.1	880.9	2,738.3	654.5
EBITDA margin	33.8%	33.8%	33.2%	33.2%	37.5%	37.5%	37.0%	37.0%
Operating margin	17.0%	17.0%	15.6%	15.6%	20.2%	20.2%	19.5%	19.5%
Capital expenditures, net (2)	147.0	34.5	97.9	23.0	566.2	135.3	331.3	79.2

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

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

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

1. Characteristics of Cyfrowy Polsat Group

1.1. Structure of Polsat Group

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

Company name	Registered office	Activity	Share in voting rights (%) as at December 31, 2015	Share in voting rights (%) as at December 31, 2014
Parent Company				
Cyfrowy Polsat S.A.	Łubinowa 4a, 03-878 Warsaw	radio, TV and telecommunication activities	n/a	n/a
Subsidiaries consolidated using the full consolidation method				
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	non-current assets and intellectual property rights management	100%	100%
Rioni 1 AB (formerly Cyfrowy Polsat Finance AB) (1)	Stureplan 4C, 4 TR 114 35 Stockholm, Sweden	financial transactions	100%	100%
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	broadcasting and television production	100%	100%
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	Vollsvseien 13B, Lysaker Norway	trade of programming licenses	100%	100%
Polsat License Ltd.	Alte Landstrasse 17, 8863 Buttikon, Switzerland	trade of programming licenses	100%	100%
Polsat Ltd.	238A King Street, London W6 0RF, Great Britain	television broadcasting	100%	100%
Muzo.fm Sp. z o.o. (formerly Radio PIN S.A.)(2)	Ostrobramska 77, 04-175 Warsaw	radio broadcasting and production	100%	-
Telewizja Polsat Holdings Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	holding activities	100%	100%
Media-Biznes Sp. z o.o.(3)	Ostrobramska 77, 04-175 Warsaw	broadcasting and television production	-	100%
Polsat Brands (einfache Gesellschaft)	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%
Redefine Sp. z o.o.(4)	Stanów Zjednoczonych 61 A, 04-028 Warsaw	web portals activities	-	100%
Poszkole.pl Sp. z o.o.(5)	Stanów Zjednoczonych 61 A, 04-028 Warsaw	web portals activities	-	100%
Gery.pl Sp. z o.o.	Stanów Zjednoczonych 61 A, 04-028 Warsaw	web portals activities	100%	100%
Frazpc.pl Sp. z o.o.(6)	Stanów Zjednoczonych 61 A, 04-028 Warsaw	web portals activities	-	100%
Netshare Sp. z o.o.	Stanów Zjednoczonych 61 A, 04-028 Warsaw	electronic media (Internet) advertising broker	100%	100%
CPSPV1 Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	technical services	100%	100%

Company name	Registered office	Activity	Share in voting rights (%) as at December 31, 2015	Share in voting rights (%) as at December 31, 2014
CPSPV2 Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	technical services	100%	100%
PL 2014 Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	other sport related activities	100%	100%
Metelem Holding Company Limited (6)	Chrysanthou Mylona 3 Office no. 102 CY 3030 Limassol Cyprus	holding activities	100%	100%
Eileme 1 AB (publ) (7)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	100%
Eileme 2 AB (publ) (7)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	100%
Eileme 3 AB (publ) (7)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	100%
Eileme 4 AB (publ) (7)	Stureplan 4C, 114 35 Stockholm, Sweden	holding activities	100%	100%
Polkomtel Sp. z o.o. (7)	Konstruktorska 4, 02-673 Warsaw	telecommunication activities	100%	100%
Nordisk Polska Sp. z o.o. (7)	Al. Stanów Zjednoczonych 61 A, 04-028 Warsaw	telecommunication activities	100%	100%
Polkomtel Finance AB (publ) (7)	Norrlandsgatan 18, 111 43 Stockholm, Sweden	financial activities	100%	100%
Liberty Poland S.A. (7)	Katowicka 47, 41-500 Chorzów	telecommunication activities	100%	100%
Polkomtel Business Development Sp. z o.o. (7)	Postępu 3, 02-676 Warsaw	other activities supporting financial services	100%	100%
Plus TM Management Sp. z o.o. (7)	Postępu 3, 02-676 Warsaw	management and lease of intellectual property	100%	100%
LTE Holdings Limited (7)	Kostakis Pantelidi 1, 1010 Nicosia, Cyprus	holding activities	100%	100%
TM Rental Sp. z o.o. (7)(8)	Postępu 3, 02-676 Warsaw	intellectual property rights rental	100%	100%
Plus TM Group Sp. z o.o. (7)(9)	Postępu 3, 02-676 Warsaw	holding activities	-	100%
Orsen Holding Ltd. (10)	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	-
Orsen Ltd. (10)	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	-
Grab Sarl (10)	6, rue Eugène Ruppert L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	100%	-
Dwa Sp. z o.o. (10)	Al. Jerozolimskie 81, 02-001 Warsaw	holding activities	100%	-
Grab Investment SCSp (10)	6, rue Eugène Ruppert L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	100%	-
IB 1 FIZAN (10)	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	financial activities	(11)	-
Interphone Service Sp. z o.o. (10)	Inwestorów 8, 39-300 Mielec	production of set-top boxes	100%	-
Teleaudio Dwa Spółka z ograniczoną odpowiedzialnością S.k. (10)	Al. Jerozolimskie 81, 02-001 Warsaw	provision of Premium-Rate services	100%	-

Company name	Registered office	Activity	Share in voting rights (%) as at December 31, 2015	Share in voting rights (%) as at December 31, 2014
Subsidiaries consolidated using the equity method				
Polsat JimJam Ltd.	105-109 Salusbury Road London NW6 6RG, Great Britain	television activities	50%	50%
Polski Operator Telewizyjny Sp. z o.o.	Wiertnicza 159, 02-952 Warsaw	radio communications and radio diffusion	50%	50%
New Media Ventures Sp. z o.o. (7)	Wołoska 18, 02-675 Warsaw	maintenance of loyalty programs	49.97%	49.97%
Paszport Korzyści Sp. z o.o. (7)	Postępu 3, 02-676 Warsaw	maintenance of loyalty programs	49%	49%

(1) Disposal of shares in Rioni 1 AB.on January 4, 2016.
(2) Company consolidated since February 27, 2015.
(3) On November 30, 2015 Telewizja Polsat Holdings Sp. z o.o. merged with Media Biznes Sp. z o.o.
(4) On June 30, 2015 Cyfrowy Polsat merged with Redefine.
(5) On December 31, 2015 Gery.pl Sp. z o.o. merged with Poszkole.pl Sp. z o.o.
(6) On December 31, 2015 Netshare Sp. z o.o. merged with Frazcp.pl Sp. z o.o.
(7) Company consolidated since May 7, 2014.
(8) On August 3, 2015 Plus TM Group Sp. z o.o. S.K.A. was transformed into TM Rental Sp. z o.o.
(9) On December 28, 2015 Polkomtel merged with Plus TM Group Sp. z o.o.
(10) Company consolidated since April 1, 2015.
(11) Cyfrowy Polsat owns indirectly 100% of certificates.

Additionally, the following entities were included in the consolidated financial statements for the three and twelve month periods ended December 31, 2015:

	Registered office	Activity	Share in voting rights (%) as at December 31, 2015	Share in voting rights (%) as at December 31, 2014
Karpacka Telewizja Kablowa Sp. z o.o. (1)	Warszawska 220, 26-600 Radom	dormant	99%	99%
Litenite Limited (2)	Kostakis Pantelidi 1, 1010 Nicosia, Cyprus	holding company	49%	49%
Polskie Badania Internetu Sp. z o.o.	Al. Jerozolimskie 65/79, 00-697 Warsaw	web portals activities	4.55%	4.55%

(1) Investment accounted for at cost less any accumulated impairment losses
(2) Due to restriction related to a dividend and construction of the transactions related to the acquisition, investment in Litenite Limited is accounted for as an investment in associates without equity pick-up.

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

Until the date of preparation of this Report, the following changes were implemented to the structure of Polsat Capital 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
February 27, 2015	Acquisition by Telewizja Polsat of 100% of shares in the share capital of Radio PIN S.A. (currently Muzo.fm Sp. z o.o.)
April 1, 2015	Acquisition by Polsat Group of 100% shares in the share capital of Orsen Holding Limited.
June 30, 2015	Registration of merger of Cyfrowy Polsat S.A. and Redefine Sp. z o.o.
August 3, 2015	Registration of the transformation of Plus TM Group Sp. z o.o. S.K.A. into TM Rental Sp. z o.o.
August 5, 2015	Transfer of 100% of shares owned by Polkomtel in TM Rental Sp. z o.o. to Plus TM Group Sp. z o.o. as in-kind contribution.
August 20, 2015	Cyfrowy Polsat Finance AB changed its business name to Rioni 1 AB.

Date	Change
November 30, 2015	Registration of merger of Telewizja Polsat Holdings Sp. z o.o. and Media-Biznes Sp. z o.o.
December 28, 2015	Registration of merger of Polkomtel with its subsidiary Plus TM Group Sp. z o.o.
December 31, 2015	Merger through acquisition of shares in Poszkole.pl Sp. z o.o. by Gery.pl Sp. z o.o.
December 31, 2015	Merger through acquisition of shares in Frazpc.pl Sp. z o.o. by Netshare.pl Sp. z o.o.
January 4, 2016	Disposal of shares in Rioni 1 AB.
January 11, 2016	Transformation of Radio PIN S.A. into a limited liability 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.

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 2G/3G and state-of-the-art LTE 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, online TV services, mobile services, wholesale services for other telecommunications operators as well as sales of telecommunication equipment and production of set-top boxes. As at December 31, 2015 we had 5.9 million contract customers and companies from our Group provided a total of nearly 16.5 million RGUs both contract and prepaid.

Our broadcasting and television production segment consists mainly of production, acquisition and broadcasting of information, sports and entertainment programs as well as TV series and feature films broadcasted on television channel in Poland 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. As at December 31, 2015 we provided over 4.5 million active pay TV services (including 0.94 million Multiroom services).

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

Online video

The IPLA service offered by our Group is the leader of the Polish video online streaming market, both in terms of compatibility with a broad range of end-user devices (including computers, tablets, smartphones, TV sets with Internet access, set-top boxes and game consoles) and in terms of content volume. IPLA also enjoys a leading position in terms of the number of users and the average time spent by a single user on watching streamed content. According to our data, in 2015 the average number of unique users of the IPLA website and application was approximately 3.4 million per month.

Mobile telephony

We provide mobile telephony services mainly through our subsidiary Polkomtel, Plus network operator. Polkomtel is one of the leading Polish mobile telecommunications network operators and the 2014 market leader in terms of revenue (according to the "Report on the telecommunications market in Poland in 2014", published by UKE in June 2015). As at December 31, 2015 we provided 10.1 million mobile telephony services under both the post-paid and pre-paid models.

We offer a comprehensive array of telecommunications services under the established umbrella brand 'Plus' and our additional brand 'Plush'. Our offer includes retail services, comprising contract and prepaid voice services as well as data transmission services encompassing basic mobile broadband services, MMS, value added services such as entertainment, information, telemedicine or Wi-Fi 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.

Broadband Internet

In 2011, we were the first commercial service provider in Poland to launch an LTE-based broadband Internet access service, offering technical features and quality parameters which allows to compete effectively with fixed-line Internet services, thus meeting the increasing demand of consumers. In addition, LTE-based broadband access offers mobility, which is a feature demanded by a significant number of consumers. As at the end of December 2015, our LTE Internet and HSPA/HSPA+ Internet covered 96.8% and nearly 100% of Poland's population, respectively. According to data published by operators, that is the broadest coverage currently offered in the country. As at December 31, 2015 we provided over 1.8 million broadband Internet access services in the post and pre-paid models.

Bundled services

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

smartDOM

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

smartFIRMA

A similar program – smartFIRMA (smartCOMPANY), which allows customers to combine mobile telephony, LTE Internet and fixed-line voice services, is addressed to business clients. 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.

Wholesale business

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

Network interconnection

Our telecommunications infrastructure used in interconnection cooperation enables us to effectively manage telecommunications traffic routing to all operators domestically and abroad. As at December 31, 2015 we were party to 26 interconnection agreements with national and international operators.

Shared access to network assets and lease of telecommunications infrastructure

As a consequence of significant capital expenditures in the past our subsidiary, Polkomtel, has an extensive telecommunications infrastructure, which allows 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. In particular, we cooperate with companies from Group Midas by providing mutual services, i.a. in the scope of sharing selected base stations, lease of area on their respective network installations and transmission of traffic by the party using the network from the base station to its core network.

International roaming

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

National roaming and mobile virtual network operators (MVNOs)

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

1.2.2. Broadcasting and television production segment

Production and sale of television channels

Our portfolio comprises 32 channels (10 of which are available both id SD and HD) including our flagship POLSAT, available in SD and HD formats and 30 thematic channels.

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, aged 16-49, totaling 13.2% both in the fourth quarter of 2015 as well as in the entire year. Telewizja Polsat broadcasts daily, 24/7. The channel is available via digital terrestrial TV on the second multiplex (MUX-2). Apart from terrestrial signal, POLSAT is also available in SD and HD formats from most cable networks and satellite platforms. The channel features a broad range of films, 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 out wholesale business we sell advertising and sponsoring time on our own channels as well as third-party channels. Based on data from SMG Poland (previously SMG Starlink), we estimate that in the fourth quarter of 2015 Polsat Group channels captured 26.1% of the Polish TV advertising market worth approximately PLN 1.2 billion in that period. Based on the same estimates, in 2015 our share in the Polish TV advertising market was 26%, 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. Our agreements with third-parties provide for a non-exclusive license of a specific duration to distribute our channels. The agreements also provide for monthly licensing fees, charged as the product of the contractual rate and the number of customers, or as fixed fees.

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

1.3. Strategy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.4. Competitive advantages

We are 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 DTH market in terms of number of active services and market share. Our subsidiary, Polkomtel, which focuses on provision of mobile telecommunication services under Plus brand, is one of the leading telecommunication operators in terms of the value of generated revenues and the size of the contract base of mobile telephony and the mobile broadband Internet access services. At the same time, in 2015, we were 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 share in that period.

Our pay TV, telephony and Internet access services are sold through a distribution network with nationwide coverage. We have a total of 1,294 stationary points of sale. We simultaneously offer our services in alternative telemarketing, door-to-door channels as well as online in our Internet Store. Furthermore, Polkomtel has its own separate business customers sales and service channels, dedicated to the service of specific groups of customers, depending on the scale of their operations and revenue potential, as well as an extensive prepaid distribution network.

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

Cyfrowy Polsat, Polkomtel, Telewizja Polsat and IPLA brands are well recognized by Polish consumers and we believe they are associated with high quality and value-for-money services aimed at the entire family. According to GfK Polonia survey, our Cyfrowy Polsat brand has the highest customer referral indicator of all pay TV operators in Poland. Plus is in turn the second brand on voice services market which is most frequently recommended by customers (Net Promoter Score which includes the differences between the share of the people who would definitely recommend a given operator and the share of people who would not recommend a given operator – "Satisfaction Survey" conducted by GfK Polonia in December 2015).

In 2015 the report prepared by Millward Brown, at the request of Media i Marketing Polska magazine, gave Polsat Media advertising sales office the highest score in the ranking of TV advertising sales offices in the field of cooperation for the second year in row. In the above mentioned ranking, Polsat Media earned the highest scores in four out of eight dimensions: "general assessment of cooperation," "fast and exhaustive responsive to a brief," I have trust in them – the offer me the feeling of security" and "they act flexible and efficiently when changes occur in an advertising campaign."

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

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

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

We provide integrated services

We provide multi-play services combining pay DTH offer, Internet and telecommunication services. In addition, we offer to our customer attractive, in terms of pricing, power supply services, the possibility of using banking services, or telemedicine services. We are the only pay DTH operator in Poland who provides full multi-play services, which is a significant competitive advantage on pay DTH market in Poland. At the same time we are a telecommunication operator, which ensures higher price elasticity and more effective operating activities on the competitive market.

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

We are the leader of Internet access services in LTE technology

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

Internet access services in LTE technology offered by us are provided based on the unique, continuous 20 MHz block of 1800 MHz frequency band. The quality of LTE services provided by us has been confirmed by numerous independent surveys and consumer tests, which indicated that our customers are using the fastest mobile Internet Access in Poland.

We offer the fastest Internet access of all telecommunication operators

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

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

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

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

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

We control the process of production of set-top boxes

As the only operator on the Polish market we produce our own set-top boxes. In November 2007, we launched own production of SD set-top boxes, in April 2010 we began to produce HD set-top boxes, in 2012 we started to produce DVB-T set-top-boxes, in 2013 we began the production of PVR set-top-boxes, and in 2016 we started producing a PVR set-top box offers the possibility of simultaneous recording of as many as three channels. By the end of 2015, 6.9 million high technology devices left our production line, out of which over 5.3 million were HD set-top boxes. We control the entire process of production of set-top boxes, from the hardware and software design phase to the production in our own factory as well as in our subcontractors' facilities. This enables us to produce high quality set-top boxes while incurring manufacturing costs which are noticeably lower than the price of purchasing such equipment from third-party providers. The functionalities of our set-top boxes are designed in line with the customers' expectations as analyzed by the surveys, so that we can be sure the equipment will meet their needs. The fact that software installed on our set-top boxes is developed by in-house engineers, enabling us to rapidly respond to emerging customer needs.

We own the biggest portfolio of TV channels in Poland

TV Polsat Group channels' portfolio consists of 32 channels including 10 channels offered in both, HD and SD quality. 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 Television, International 20th Century Fox, The Walt Disney Company or Warner Bros International TV Distribution. The contracts offer to us a wide selection of the most attractive films and series. Our direct production covers mainly shows and series based on international formats as well as created on the basis of our own concepts. We also offer wide selection of sports coverage, including among others qualifying matches of UEFA European Championships France 2016, the final match of Euro 2016, qualifying matches of the 2018 FIFA World Cup, volleyball tournaments and many other sport disciplines.

We have a high quality telecommunication infrastructure and broad frequency bands

We provide telecommunication services through the high quality, state-of-the-art mobile network. Our network is an integrated 2G/3G network based on GSM/GPRS/EDGE/UMTS/HSPA/HSPA+/HSPA Dual Carrier as well as CDMA technologies, based on which we provide voice services, data transmission, wholesale services and a broad portfolio of Value Added Services. We have spectrum reservations in an extensive portfolio of telecommunication frequencies, including 420, 900, 1800, 2100 MHz and 2600 MHz bands. We additionally cooperate with Midas capital group, with which we are jointly developing the services in LTE and HSPA+ technology, based on the spectrum and infrastructure belonging to Midas capital group. As a result, at present the coverage of our mobile services provided in 2G and 3G technology (including data transmission in HSPA+ technology) extends over nearly the entire population of Poland, while 96.8% of Poles are able to use the LTE technology.

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

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

We believe that we benefit from significant market entry barriers that will aid us in maintaining our leadership positions in the competitive Polish pay TV, telecommunication and TV broadcasting markets. Unlike potential entrants to the Polish pay TV market, we benefit from economies of scale and a loyal customer base, and we can spread the relatively high cost of the necessary technology over our large customer base and leverage the stronger bargaining power that comes with a leading market position. On the other hand, the entry to the mobile telephony market requires obtaining the direct access to telecommunication frequencies and very expensive and time-consuming investments into telecommunication network or obtaining a paid access to the radio frequency via one of the four mobile operators. However, the 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 on the paid access to the existing mobile networks so far have failed to achieve the scale of business in Poland which could create a significant competitive threat to us.

We have strong, stable and diversified cash flows

We generate revenue through two distinct revenue streams: 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 relatively low churn rates provide us with significant predictability of future revenue and strong recurring cash flows, which have historically proven to be resilient, even during periods of challenging economic conditions.

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

Experienced management team

Our management team consists of executives who have been members of the management boards or served in other managerial positions within the media, TV and telecommunications industries and have extensive experience in these industries. In addition, our operations 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.

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

Integrated services in Poland are provided by cable TV operators and selected telecommunications operators and offered mainly in large and medium-sized cities, which among others results from the geographical coverage of their infrastructure telecommunications and cable infrastructure.

According to European Commission („E-Communications Household Survey", June 2014) the penetration rate of multi-play services (defined as more than one service within the offer of one operator) in Poland in January 2014 amounted to 21% while in European Union reached 46%, with a penetration rate in Belgium and the Netherlands even over 70%. We believe that as a result of the low saturation of integrated services and poor quality of Internet access services offered in low-urbanized areas, Cyfrowy Polsat may become the leading provider of high quality multi-play services in Poland.

Development of Internet market in Poland

Based on the data published by UKE, in 2014, 90% of households in Poland had access to the Internet, which translated to a population penetration factor of around 31.6%. At the same time, while referring in its report to the Digital Agenda Scoreboard from June 2014, UKE disclosed that fixed-line Internet access penetration was merely 18.4% in Poland, which was the lowest score among the European Union countries where the average penetration was 30.9%, while in the case of selected countries (Denmark, the Netherlands) it exceeded 40%. The low penetration with fixed-line broadband Internet access services in Poland and the progressing development of mobile technologies make mobile data transmission the fastest growing telecommunication market segment at present. According to PMR estimates ("*Telecommunication market in Poland 2015, Development forecast for the years 2015-2020",* October 2015), in 2015, there were nearly 13.8 million users of broadband Internet, out of which 46% used mobile connections. According to PMR, by 2020 the number of broadband users is supposed to grow by ca. 20%, with the number of mobile broadband users growing by approximately 34% (the data concerning mobile Internet include exclusively customers using modems and PCs). The main drivers for growth in the number of mobile Internet users in the long term will include: increased speeds of data transmission, increase in the number of mobile devices i.e. laptops, smartphones, tablets, as well as relatively low cost of mobile infrastructure covering low urbanized areas.

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

As the market for innovative technologies is growing at a fast pace, the number of mobile devices (notebooks, tablets, smartphones or Smart TV sets) owned by consumers is on the rise as well. This has spurred a sharp increase in access to video content, and hence in video viewership. According to Ericsson Mobile Report, video content is the biggest and fastest growing segment of the mobile data transmission. It is expected that by 2021 the use of data related to watching video content will grow by 55% per year on average, reaching ca. 70% of the entire mobile data traffic in 2021. Consumers expect service providers to offer them the possibility to watch TV on any screen, anywhere, and at any time. We perceive this group as a prospective customer segment for television services, opening also the opportunity for monetization of our audiovisual content. At the same time, the above mentioned trend will translate into the increased demand from our customers on the data transmission services on mobile devices, which will result in a growing stream of revenues from the sale of these devices to our customers.

Growing popularity of smartphones

Replacing of the traditional handset models, used mainly for voice communication, with smartphones designed for communication via data transmission is a universal trend on the mobile telephony market. According to our data, the share of smartphones in the total volume of handsets sold to Plus customers increased from 61% in Q4 2012 to 88% in Q4 2015, thus leading to the increase of percentage of smartphone users in Plus network from 26% at the end of 2012 to 54%, estimated at the end of 2015. At the same time, according to the forecasts of emarketer.com from December 2014, the number of smartphones used in Poland will grow by ca. 64% between 2014 and 2018 (from 12.7 million to 20.8 million units). The continuous growth of popularity of smartphones, along with their technological development, will drive the growing demand for the mobile data transmission packs purchased by the users of our network, which in turn should have a positive impact on the level of ARPU generated by our customers.

Development of advertising market in Poland

Demand for advertising air-time is highly correlated with the macro-economic situation. ZenithOptimedia Media House forecasts that the total net TV advertising expenditure will increase by 2.6% in 2016. Given that TV is a highly effective advertising medium, and given the relatively low level of advertising expenditures in Poland as a percentage of GDP and per capita in comparison to other European markets, there is still a substantial growth potential for TV advertising in Poland in the long term. It is worth noticing, that despite the growing importance of new media, it is forecasted that watching television will remain an attractive and popular activity, primarily thanks to new technical opportunities, including: increasing number of HD channels and VoD, as well as thanks to growing number of smart-TVs with Internet access.

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

Growing importance of thematic channels

A key trend emerging on TV market in Poland over the past several years is the increasing importance of thematic TV channels. Thematic channels are TV channels distributed mainly through cable and satellite platforms (pay) and terrestrial multiplexes (free) that specialize in a particular genre of programming, such as children's programming, films, sports, lifestyle, news or weather. Thematic channels market segment in Poland reached 47.4% audience share in 2015 compared to 46.7% in 2014 (NAM, all 16-49, full day, all channels except the following channels: Polsat, TVP1, TVP2, TVN, TV4, TV Puls, TVN7). Broadcasters with access to thematic channels and integrated media platforms (such as Cyfrowy Polsat Group) can potentially leverage the niche programming content with targeted and optimized advertising.

1.6. Development prospects

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

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

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

LTE Internet provided by us has become the standard for mobile broadband Internet access in Poland, while effectively replacing the earlier UMTS standard. We consistently develop our infrastructure in order to expand the coverage of our LTE network and increase transfer speed. According to the results of a survey conducted by UKE in December 2015, our mobile Internet is the fastest on the market. Due to its technical characteristics and quality parameters, mobile LTE Internet is successfully replacing fixed-line connections while at the same time responding to increasing consumer needs and growing capabilities offered by the Internet. In addition, it has the advantage of mobility, which is important for big percentage of consumers. We strongly believe that over the long term, as the necessary radio infrastructure and LTE-enabled devices develop, the technology will revolutionize not only the broadband Internet market but also content distribution. We believe that our broadband LTE Internet services, including data transmission services, will help us to further increase our customer base, both of stand-alone and integrated services.

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

We further believe that we can significantly expand the pay TV market by adequately responding to changes in the customers' behaviors and expectations as well as by addressing new target groups. Thanks to migration to 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 grown significantly. The number of mobile equipment, like laptops, tablets and smartphones, held by customers increases rapidly. In this group we see the perspective market segment, inter alia for TV services. Furthermore, we see the potential for the market growth in the group of Polish households equipped in more than one TV set as well as in the low ARPU market segment.

Development prospects in the broadcasting and television production segment

In TV broadcasting, we are one of the two leading private TV groups and the third largest broadcaster in Poland in terms of audience share, revenue and advertising market share. Based on data from SMG Poland (previously SMG Starlink), we estimate that in 2015, we captured a 26% share (y-o-y increase by 0.9 p.p.) of the Polish TV advertising market worth approximately PLN 4 billion.

The audience share of thematic channels continuously grows, together with the progressing fragmentation of the Polish television market. We believe that we can profit from this fragmentation by strengthening our wide portfolio of channels targeted to entire family, extending and strengthening distribution network on cable and satellite platforms including also our segment of services to individual and business customers, within which we manage the largest pay TV platform in Poland. We believe that our presence on all significant satellite platforms and our distribution by cable TV operators will result in further increase in the audience share of our thematic channels, and, consequently, give us the opportunity to grow at least in line with the TV advertising market, and increase subscription fee revenue. Currently our thematic channels portfolio includes 30 channels (16 new channels in the Group in the last five years), and their audience share is in an upward trend.

Following the global trends of changes in media consumption, dynamic development and increasing popularity of mobile devices, we realize our strategy aiming at the widest distribution of content using the best and latest devices and technologies. That is why we want to monetize our content also through distribution in our internet television IPLA, which is the leader on online video market in Poland both in terms of availability on different devices (computers/laptops, tablets, smartphones, Smart-TVs, set-top-boxes, game consoles) and in terms of content offered. IPLA is also the leader in terms of the number of users and the time spent by one user on watching video content. In January 2016 we started cooperation with Ringier Axel Springer Polska in the area of distribution of exclusive sports video content produced by TV Polsat sports stations, as well as by IPLA web TV, on Onet portal and by Onet-RASP sports services in order to expand the distribution of our content.

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

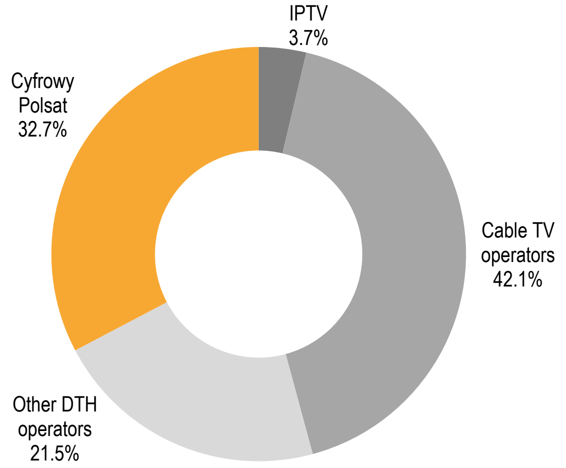
2. Business overview of Polsat Group

2.1. Activities on the pay TV market

2.1.1. Pay TV market in Poland

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

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



Source: Based on estimates by PwC and own estimates

DTH providers compete with cable TV operators only to a limited extent. In particular, cable TV operators concentrate on inhabitants of densely populated areas where highly developed network infrastructure already exists or in locations where the establishment of such infrastructure involves a relatively low cost per customer, whereas DTH providers are able to provide their services, at no extra cost, to customers residing in both, urban areas as well as in less densely populated areas with no or limited cable TV infrastructure.

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

DTH operators

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

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

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

Cable TV

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

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

IPTV

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

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

Development forecasts for the pay TV market

According to PMR forecasts, in the years 2015-2020 the number of pay TV customers in Poland will grow slightly at a constantly declining growth dynamics. This is mainly due to high market penetration and high saturation of the target group for terrestrial TV services with DVB-T standard services. To attract DVB-T users, pay TV operators will be forced to increase their competitiveness and to propose a unique offer to such users. According to PMR experts, bundled offers containing telecommunication and content services combined with sales of equipment (tablets, smartphones, laptops, TV sets) and supplementary services as well as an extended offer of exclusive content will be of great significance in own customer base retention. State-of-the-art technologies are rapidly gaining in importance as they enable operators to provide personalized content (such as content on demand) via Internet, to mobile devices in particular.

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

2.1.2. Polsat Group's DTH offer

We build the loyalty of our customers by offering a wide array of packages at competitive prices. Currently, our set-top boxes enable the reception of over 170 TV channels, including over 60 in HD standard. Our offer includes general, sports, movie, 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, Polsat Viasat channels, Polsat Food Network and many others.

It is worth emphasizing that our offer includes popular sports channels: Polsat Sport, Polsat Sport News and Polsat Sport Extra. Polsat Sport and Polsat Sport News were ranked the first two most widely viewed sports channel in Poland in 2015 in the commercial group 16-49 (Nielsen Audience Measurement).

Programming packages

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

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

- Familijny Max HD which provides access to 138 encoded channels (including 41 HD channels).

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

Moreover, we offer 5 additional packages, VOD rental on television, and access to popular on-line services HBO GO and IPLA. This approach allows our customers to construct an offer tailored to their specific needs, for example by purchasing the HBO HD HBO GO package for PLN 20 monthly as a complement to each basic package.

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

The described above sets come with a benefit – the monthly subscription fee is lower than the sum of standard fees for each packages separately, eg. the subscription fee for our Premium offering is only PLN 89.99 per month.

Multiroom HD

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

Flexible offer

In order to provide our customers with the possibility to better acquaint themselves with our programming offer, each of our basic packages comes with a set of bonuses. A customer signing a contract can receive, free-of-charge, access to additional channels, online services or our VOD package for even up to 6 months of the subscription period (eg. customers who subscribe to Familijny Max HD Package can get access to Film HD and Sport HD).

Set-top boxes

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

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

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

Free-to-air channels

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

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

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

Under the Mobile TV service, we offer access to the Extra Package which includes 8 encrypted TV channels grouped in 4 thematic categories (sports, movies, news and children's channels) and 12 radio channels. This package, including a set-top box for the reception of digital terrestrial TV, is provided either on a subscription or a prepayment basis. Set-top boxes offered by Cyfrowy Polsat and dedicated to the Mobile TV service enable the reception of not only encrypted channels included in the Extra Package, but also of all free channels available via digital terrestrial television.

2.1.4. IPLA online TV offer

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

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

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

Access to IPLA resources is available to users of computers running Windows and Windows 8 through the www.ipla.tv website and dedicated applications, mobile devices powered by iOS, Android and Windows Phone, TV sets with internet connections (Samsung, LG, Sony, Panasonic, Philips, Sharp, Ikea (TV UPPLEVA), Toshiba, Thomson, TCL), set-top boxes (Cyfrowy Polsat, cable TV TOYA, Netia), game consoles (PlayStation 3) and Blu-ray.

2.1.5. Video on demand offer

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

VOD - Home Video Rental is based on 13 satellite channels, with over 40 films available each month. Our customers may usually choose from a selection of about 13 titles every day, which are updated on a regular basis and can be rented for up to 24 hours. Movie rental fees are paid on a one-off basis and depend on the film category ("Hit," "New," "Catalogue," "For adults") or as monthly flat fees under the "VOD Package" service, which offers unlimited access to movies within a given catalogue category. In selected programming packages we provide access to the VOD package within the subscription fee for the first six months or the entire term of the contract, depending on the package.

2.1.6. Technology and infrastructure pay TV services

Conditional access system

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

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

Satellite

We entered into Hot Bird satellite capacity contracts with Eutelsat S.A. The contracts involve three transponders dedicated to SD and two transponders dedicated to HD signal. The contracts expire in 2017, however we have the right to extend the agreements for additional successive periods. Since May 2012 we use part of the transponder on the Eutelsat satellite for mobile television purposes.

Broadcasting center

Our broadcasting center is located in Warsaw, Poland and enables us to transmit TV channels to the transponders we use on the Hot Bird satellites. Some TV channels are transmitted by the broadcasters of these channels or by third parties. In 2012 we modernized emission systems, which enabled the playout of even up to 100 channels. The center is equipped with up-to-date integrated video, audio and information systems, which allows us to broadcast TV channels in both SD and HD standards.

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

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

Migration to the MPEG-4 standard

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

Services for television and radio broadcasters

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

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

Services provided in DVB-T technology

Our Mobile TV services are provided in DVB-T technology within the multiplex dedicated to mobile television. The service is provided on 470-790 MHz frequencies (assigned to provide mobile audio-visual media services including broadcasting of radio and television nationwide channels) owned by our subsidiary INFO-TV-FM Sp. z o.o. For the broadcasting of channels we use the infrastructure of Romford Investments Sp. z o.o., currently owned by Emitel Sp. z o.o., that comprises a network of radio transmitters in 31 largest cities in Poland. Currently, there are around 5 million households and 15 million people within the technical reach of the multiplex.

Set-top boxes

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

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

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

By the end of 2015, 17 different models of set-top boxes have left our production belts. Currently, to meet our needs we produce HD and zapper set-top boxes and a PVR set-top box with a built-in hard drive (HD 5000, HD 5500s, HD 6000, MINI HD 2000, HD 3000, PVR HD 7000 and EVOBOX) and three models in DVB-T standard (T-HD 1000, T-HD 210 and T-HD 200) as well as a 320 GB USB hard drive (DTU 320).

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

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

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

Internet content distribution

Within IPLA internet television, we use our own technology adapted to the leading operating systems and a wide range of consumer devices. We have developed unique technological competencies in encoding and streaming audiovisual content on the Internet, as well as optimizing distribution of this type of signal. Unlike our competitors, we apply proprietary solutions, which enable us to provide services optimally adjusted to the limited Internet infrastructure in Poland and the capacities of external systems with which our applications are integrated. In this way, we may offer services of higher quality compared to widely used solutions. For instance, our system of HD video stream encoding in IPLA helps to significantly reduce the broadband required to deliver the signal as compared with the solutions implemented by other operators on the Polish market. It also enables us to offer multi-camera broadcasts live, which is a unique service on the Polish Internet market. The protection system (DRM), additionally applied in IPLA, enables us to offer pay content on mobile devices and smartTVs. Moreover, in response to market needs and the continuous growth of VOD viewership on mobile devices, in 2015 we implemented new mobile application interfaces that are in line with current trends. Consequently, our platform meets current trends and accommodates all the needs of our customers regarding access to on-line video irrespectively of location, time and the device used.

2.2. Activities on the telecommunications market

2.2.1. Mobile telephony market in Poland

The Polish mobile telephony market is a mature one. Based on data published by the Central Statistical Office of Poland (GUS), the number of mobile telephony SIM cards as at December 31, 2015 reached 56.2 million, which translates into a penetration rate of the population of Poland of 146%.

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

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

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

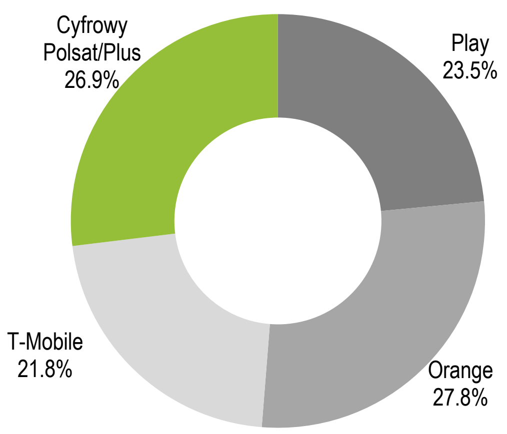
In recent years average revenue per SIM cards of mobile voice services (ARPU per SIM) decreased systematically as a result of competitive pressure stimulated by regulatory reductions of wholesale voice and SMS termination rates (MTR). Since July 1, 2013 the MTR rate per minute of voice connection is stable at the level of PLN 0.0429 which, according to a BEREC report dated June 2015, is significantly lower than the European Union average. As at the date of preparation of this Report, no plans concerning further potential reductions of MTR rates in Poland are known.

Assuming no further MTR reductions, PMR estimates that the mobile telephony market, including revenue from mobile Internet access, will grow at an average rate of 2.8% (CAGR 2015-2020) until 2020 and its value will reach PLN 28.2 billion in 2020.

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

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

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



Source: Based on own estimates and data published by operators

Infrastructural operators (MNOs)

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

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

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

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

P4 operates under the umbrella Play brand, and also has an additional brand Red Bull Mobile. According to the data provided by the operator, at December 31, 2015, P4 had 14.2 million SIM cards. P4 operates solely on the mobile services market relying on purchased access to mobile networks of its competitors.

T-Mobile operates under the umbrella T-Mobile brand and also uses additional brands such as Heyah, Blueconnect and Tu Biedronka. According to the data provided by the operator, at December 31, 2015 T-Mobile had 12.1 million SIM cards. T-Mobile is currently expanding its offer by fixed-line telephony services addressed to business customers based on the infrastructure of the company GTS Poland, acquired in 2014.

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

Frequency allocations

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

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

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

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

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

Following the analogue TV switch-off in 2013, certain frequency resources became available within what is known as 'digital dividend'. In February 2013, following an auction for frequencies in the 1800 MHz band, the frequencies were allocated to T-Mobile and P4. The frequencies were finally allocated in July 2013. In addition, on October 19, 2015, UKE announced the results of the LTE Auction of frequencies in the 800 MHz and 2600 MHz bands, which had been in progress since 2014. Frequencies in the 800 MHz spectrum were allocated to Orange, T-Mobile and P4, while frequencies in the 2600 MHz spectrum were allocated to Orange, T-Mobile, Polkomtel and P4. As at the date of preparation of this Report the process of allocation of the last block in the 800 MHz spectrum was still underway.

Virtual operators (MVNOs)

MVNOs are those operators who provide mobile telephony and/or mobile data transmission services, but do not hold any frequency allocations on their own and do not need to have their own infrastructure to provide such services. Under the MVNO business model, existing MNOs provide frequency resources and the necessary infrastructure to MVNOs. According to the UKE report, 20 operators provided mobile services under the MVNO model in 2014.

Although the number of MVNOs is on the increase, none of them has significant market power. According to the UKE report, the joint share of all MVNOs (including Midas Group) in the mobile subscriber market was 2% in 2014. According to the UKE report, total revenue of all MVNOs (including Midas Group) accounted for a mere 0.24% of the total value of the Polish mobile telephony market in 2014. Limited success of MVNO operators has led some of them to cease operations on the Polish market. For example, in 2015 Lebara Mobile and Vectone Mobile terminated their operations in Poland, although they continue successful operations on foreign telecommunication markets.

2.2.2. Internet access market in Poland

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

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

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

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

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

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

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

Fixed broadband Internet access in Poland

In Poland, availability of fixed-line broadband services is limited mainly to urban areas. Outside urban areas, fixed-line broadband services are offered only to a limited extent, which is due to historical underinvestment resulting primarily from the high cost of build-out of local loops and strategies adopted by leading fixed-line operators. According to the UKE report, access to xDSL technology remains the most popular form of fixed-line Internet access. Orange is the dominant player operating this technology, whose share in the total number of xDSL customers decreased to 73.3% in 2014.

Cable modems, offered by cable TV operators, are the second most popular fixed-line access technology. Based on the UKE report, UPC Polska (39.9% share in user base), Vectra (19.6%) and Multimedia (15.2%) were the major operators on this market in 2014. Due to the high cost of cable network construction in less urbanized areas, cable networks' growth potential in the field of Internet access is limited.

Mobile broadband Internet access

The market of broadband Internet access based on mobile technologies (defined as access via modems or dedicated SIM cards integrated with laptop computers or tablets) is dominated by four mobile operators. According to the UKE report the four leading providers of those services (Polkomtel, T-Mobile, Orange and P4) jointly held 79.2% of the market in 2014. The remaining 20.8% is divided between MVNO operators and Cyfrowy Polsat, who actively promotes and sells mobile Internet access in LTE/HSPA+ since 2011.

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

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

Development forecasts for the broadband Internet access market

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

According to PMR forecasts, the Data Transmission, Line Rental and Internet Services Provision (DLISP) market will remain the fastest growing segment of the telecommunication market. Further investments into broadband network roll out as well as further development of the LTE technology will be the most significant factors. According to PMR forecasts, in coming years the value of the broadband Internet access market will demonstrate continuous positive dynamics, reaching the level of PLN 6.4 billion in 2020.

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

2.2.3. Mobile telephony offer

We 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 a specified number of minutes and, depending on the value of the commitment, other services such as text and multimedia messaging, data packages, packages of minutes and data in roaming or TV 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, send unlimited text messages and sometimes also multimedia messages (MMS). The extent of services available in unlimited tariffs, including the direction of voice calls (only within a given network, to all mobile networks or to fixed-line networks as well) depends on the subscription fee. We also offer our customers data packages. 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. In 2015 we expanded our offer by including 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, with the option to purchase an economic, subsidized handset or one sold in the installment model. Customers can also select a tariff without a handset. The subscription fees range from PLN 29.99 to PLN 179.99.

The "JA+Mistrzowski Mix" ("I+Champion Mix") and "Plush Mix" offers combine 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. 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 subscription-based offers, customers of our MIX offers can purchase additional packages of services. Values of the top-ups range from PLN 30 to PLN 60.

Prepaid offerings allow customers to gain access to our mobile network upon the purchase of a starter pack (SIM card with a fixed amount of credits to be used for mobile services). In general, there are no monthly subscription fees or obligations to top-up in a prepaid offer. All prepaid plans provide that the top-up can be made at any time with the use of a prepaid top-up available from agents, dealers and other sales channels. Prepaid voice services are offered in the tariff "Ja+Na Kartę" ("I+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.

Mobile voice services for business customers

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

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

International roaming

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

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

The retail offering of international roaming services is determined by the maximum level of retail prices in European Union and EEA countries. These regulations determine 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 2015 we opened 152 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 2015 Polkomtel continued to expand the coverage of high speed data transmission offered in international roaming by adding new countries. We included 33 new networks offering LTE data transmission services and 30 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 alternative brands: Plus and Cyfrowy Polsat.

We offer our mobile broadband Internet services through the use of third generation technologies: HSPA+ and HSPA+ Dual Carrier and since 2011 also the world's latest, cutting edge LTE technology. Our broadband Internet offering is universal, and provides broadband Internet access via all supported technology platforms, for a single monthly fee. Thanks to this solution today almost 100% of Poles live in areas covered by Cyfrowy Polsat's Internet service, while 96.8% of them can access our LTE Internet.

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

Dedicated mobile broadband Internet access is offered in contract tariffs. These contract plans are based on a monthly access fee and allow for a defined data transmission limit or unlimited data transmission in the LTE network. In Plus network the tariff is currently promoted as "JA+POWER LTE 2.0", while in Cyfrowy Polsat – as "Internet POWER LTE 2.0". Under our contract plans customers may purchase access devices (including dongle modems, fixed and mobile routers). In addition, our offer includes a wide array of tablets and laptops, which can be purchased in an installment plan, as well as tariffs without equipment "SIM only".

Sizes of packages available in the LTE Internet access offer vary from 5 to 100 GB, with subscription fees starting from PLN 19.99. After having used up the basic data package the customer still has access to the Internet, thanks to the service Unlimited LTE, however, in the case of low-end subscription fees, transmission speed may be reduced. Monthly subscription fees range from PLN 19.99 for a 5 GB package to PLN 89.99 for a package of 100 GB. 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. Additional services allow the use of 200 GB during the night.

Under "pay-as-you-go" tariff plans customers (both contract and prepaid) are charged for the actual data transmitted at a standard rate per-kilobyte.

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

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

2.2.5. Internet equipment and handsets offer

Internet equipment

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

Over half of the contracts sold with equipment involve mobile or fixed-line routers. Among the available devices the ODU-IDU set 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 routers.

LTE tablets have excellent sales results. Until recently, this category of equipment was reserved for high-end brands and models. Today, apart from prestigious models manufactured by Samsung or Apple, we also offer cheaper, mass market models produced by LG, Huawei or Lenovo.

All categories of equipment are sold in installment plans. An installment for the purchased equipment 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

Currently, smartphones constitute the majority of the handsets sold. The share of classic handsets in total sales continues to decrease and currently does not exceed several percent. The majority of smartphones sold in 2015 supported LTE technology for data transmission. The LTE technology is offered in increasingly lower-end terminals. Until recently, this was true for products of renowned producers. New brands, such as Huawei, are currently joining the race. Today an LTE handset can be bought for the proverbial one zloty with an affordable monthly commitment.

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

Based on our data, the share of smartphones in total number of handsets sold to Plus customers increased from 84% in the fourth quarter of 2014 to 88% in fourth quarter of 2015 and hence the share of smartphone users increased in Plus network from 44% at the end of 2014 to ca. 54% at the end of 2015.

2.2.6. Technology and infrastructure of telecommunication services

Network

Our broadband Internet access services are based on a radio infrastructure provided by Polkomtel and companies of Midas Group.

Polkomtel operates an integrated 2G and 3G mobile communication network. Polkomtel's network supports GSM/GPRS/EDGE (2G) and UMTS/HSPA+/HSPA+ Dual Carrier (3G) technologies. Polkomtel also has an extensive CDMA network. Under our agreement with Mobyland we have access to mobile data transmission service on the 1800 MHz, 800 MHz and 900 MHz frequencies in LTE and HSPA+ technologies.

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

As at December 31, 2015, excluding the transmitters operating based on the frequencies held by LTE Group, Polkomtel's 2G access network consisted of 6,749 base stations, while the 3G network consisted of 3,669 NodeB stations, a vast majority of which support the HSPA technology (including 3,269 HSPA Dual Carrier). The CDMA network included 578 base transceiver stations. As at December 31, 2015, the LTE/HSPA+ network operated by Midas Group and being developed jointly with Polkomtel, consisted of 5,170 HSPA+ base stations and 7,590 LTE base stations, 3,291 of which were stations operating in the 800 MHz frequency band.

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

The backhaul microwave network is composed of 7,719 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.

Polkomtel's fiber optic network comprises 3,765 km of Polkomtel's own fiber optic cables and 4,217 km of leased fiber optic cables.

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

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 Mb/s while in T-Mobile and Orange it was 20.64 Mb/s and 19.66 Mb/s, respectively, and in Play network – 12.43 Mb/s. Plus also had the highest upload speed of 17.71 Mb/s. In the case of the remaining telecoms this parameter was as follows: T-Mobile – 16.87 Mb/s, Orange – 15.85 Mb/s and Play – 12.60 Mb/s.

The conducted study also demonstrated indirectly that Plus has the widest LTE coverage in Poland. Data transmission tests in Plus used the LTE technology 94% of the time, while in the case other operators is was 83% for Play and 78% for T-Mobile and Orange.

Network upgrade and maintenance

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

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

Polkomtel's network is monitored and maintained through the main network management 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 high bandwidth and transmission in real time, such as online games, video communication and HD TV through Internet. Devices offered for customers of Cyfrowy Polsat LTE service enable the speeds of up to 150 Mb/s for data received from the Internet and 50 Mb/s for data sent by a user.

In 2011, as the first commercial provider in Poland we started offering broadband Internet access in LTE technology, which currently is able to provide a maximum speed of up to 150 Mb/s based on a continuous 20 MHz block in the 1800 MHz band. Since 2015 we additionally use the network based on a 5MHz block in the 800 MHz band, provided by Midas Group, which allowed us to increase the coverage of the fastest mobile LTE Internet from Cyfrowy Polsat and Plus to 96.8% of Poles. According to data published by operators, this is the broadest LTE coverage currently offered in our country.

In light of extremely high price levels attained in the LTE Auction, 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 Midas 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 technology and, later on, LTE Advanced. 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.

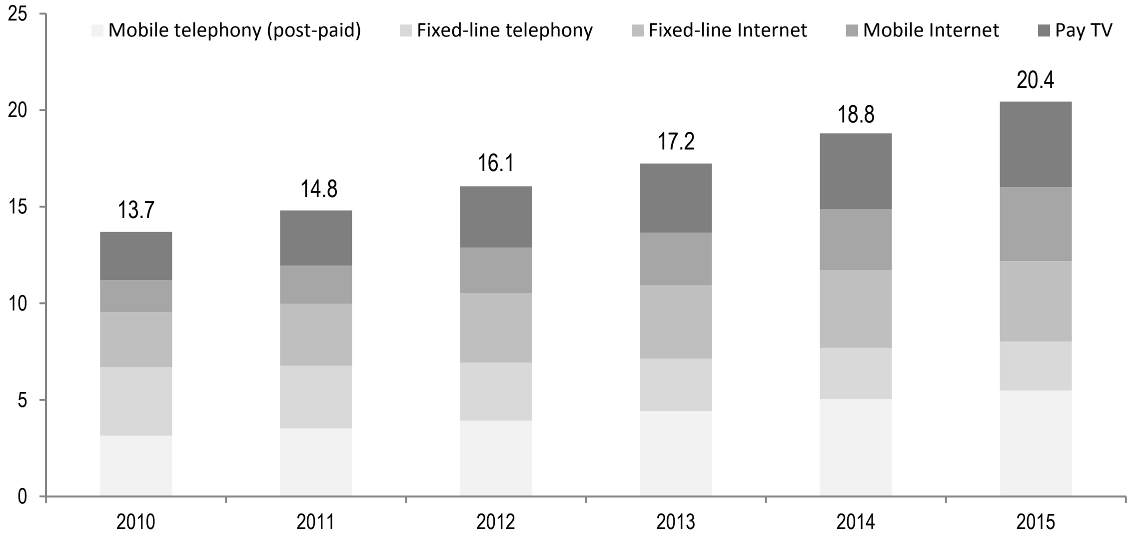
2.3. Activities on the bundled services market

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 customers.

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

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



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

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

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

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

According to European Commission report "E-Communications Household Survey" dated June 2014, as at the end of 2013 the penetration rate of multi-play services market (defined as more than one service within an offer of one operator) in Poland amounted to 21%, while in the European Union it reached 46%, and in the Netherlands and Belgium exceeded 70%. These data can be underestimated, however, due to the methodology applied in the survey. According to PMR, in September 2015, 37% of households in Poland declared that they use multi-play services.

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

Development forecasts for the bundled services market

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

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

2.3.2. Bundled services offer of Polsat Group

We view our bundled services offer as a tool to expand our customer base and increase revenue, as well as to increase customer satisfaction and loyalty. In the long-term, the multi-play offer will enable us to increase ARPU and to further reduce our churn rate.

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

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

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

In October 2015 we launched a new edition of the program – smartFIRMA 2. 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. In order to profit from our attractive fixed-line telephony offer, it is sufficient to own one other product.

smartFIRMA is addressed to existing customers, who own a product (Internet or mobile telephony) with a minimum net subscription fee of PLN 39.0 and to new customers who purchase at least one mobile telephony activation or Internet for firms with a minimum net subscription fee of PLN 39.0 (SIM only) or PLN 49.0 (including equipment).

2.4. Sales and marketing

Marketing and branding

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

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

According to a study of Poland's telecommunications market carried out by the agency GfK in October 2015, the aided awareness ratio of the “Plus” brand reached 98% in the voice segment and 89% in the data transmission segment.

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

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

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

Sales network

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

As part of the cooperation between Cyfrowy Polsat and Polkomtel customers of Cyfrowy Polsat can benefit from Polkomtel's all-inclusive offering, and Polkomtel's customers can use dedicated television services offered by Cyfrowy Polsat. At December 31, 2015, the combined sales network of Cyfrowy Polsat and Polkomtel covered 1,294 points of sale. Both Cyfrowy Polsat’s pay TV and Internet offers and Polkomtel’s telecommunications offer are available at a majority of those points. A majority of points of sale offer additional products and services to customers of both operators, such as Energy from Plus.

Our pay TV products and services are also distributed using the direct door-to-door sales channel (D2D), which enables us to directly access selected customer groups, to maintain direct contact with customers, and to expand the reach of the sales network. As at December 31, 2015, Cyfrowy Polsat had 13 own and 10 agency-based D2D sales offices.

Sales of prepaid telecommunication services are take place through different channels of distribution. At December 31, 2015, Polkomtel had 26 agreements with non-exclusive independent dealers of its prepaid services, with a total of approximately 75 thousand outlets selling starter kits and scratch cards and approximately 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. 50 dedicated account managers. Smaller SMEs (Small and Medium Enterprises) and larger customers in the SOHO segment (Small Office/Home Office), i.e. customers having at least five SIM cards and generating revenue higher than the average SOHO, are managed by about 360 authorized business advisers. The remaining Small Office/Home Office customers, along with residential customers, are served by both Polkomtel's own and authorized points of sales, call center, six telesales partners and Polkomtel's e-shop.

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

Call center

We provide Cyfrowy Polsat 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 820 operator stands and about 350 back-office stands. Our call center services are available to our present and potential customers 24 hours a day, seven days a week, and are responsible for providing comprehensive and professional customer service. The call service operators provide information on our services, enter into service agreements with customers, accept customer complaints and provide information on payments and other support for customers.

Online

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

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

Customers can use Cyfrowy Polsat's website (http://www.cyfrowypolsat.pl/) in order to find information about the current telecommunications offer, they can chose a TV or Internet access package they are interested in, select a device (set-top box, tablet, laptop or router) and verify current promotions in the VOD section. Moreover, our website contains details on the offer and most interesting content available in our online TV IPLA as well as HBO GO and Filmbox Live services with links which transfer the user directly to the webpage of the chosen service.

On the commercial websites www.plus.pl and 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.

Both Cyfrowy Polsat's and Polkomtel's commercial websites contain detailed information on the bundled services offer of both operators available in the smartDOM program.

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 April 2015 Polkomtel launched a mobile application dedicated to subscriber account management. If offers a wide array of functionalities and is compatible with the most popular mobile operating systems available on the market.

Central warehouse

To support our distribution channels, Cyfrowy Polsat has organized its own central warehouse and logistics system. The central warehouse has a total area of approximately 9,500 m^2 and stores set-top boxes, modems, accessories, parts and materials necessary to ensure efficient logistics and sales operations including promotional materials and packaging. Together with our logistics system, our warehouse enables us to prepare 15,000 pre-activated set-top boxes per day for delivery and allows us to store up to 900,000 pieces of equipment. We believe our central warehouse is large enough to satisfy anticipated storage needs of the Company.

Polkomtel's central warehouse is managed by the logistics operator Arvato Polska, Centrum Usługowo-Logistyczne in Błonie, who provides services to Polkomtel in the scope of reception, distribution, returns of goods, packaging, assembly, archiving, purchase of consumables and sending packages within all existing channels of sales. The total area of the warehouse owned by Arvato Polska and used by Polkomtel is 4,500 m^2 currently offering 2,500 pallet holding spaces with the possibility of increasing this number by 1,000. This central warehouse stores telephones, modems, laptops, routers, television sets, SIM cards, prepaid phone cards, printing materials, gadgets, accessories, prepaid sets as well as equipment of Cyfrowy Polsat (set-top boxes, discs and antennas).

2.5. Customer Relations and Retention Management

Customer Relations Management

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

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

In 2014 we launched an improved Internet Customer Service Center (ICSC), which we plan to adapt to meet the needs of mobile device users in 2016. ICSC is an advanced tool which provides our customers with secure and free of charge access to back-office resources and on-line technical support. Through ICSC customers can buy and modify their packages themselves, check their payment balance and payment history, control units available for use within active packages, or make payments (also advance payments for any number of months). Moreover, users of ICSC can modify their contact data, print postal or bank orders, check technical specifications of the equipment owned, print the relevant user manual, restore signal transmission, restore the factory PIN settings of their set-top box, as well as contact us through our contact form.

Polkomtel's call center is the core of the company's customer service. This system comprises of three call centers operating in different locations (two in Łódź and one in Toruń) that act as one call center through an intelligent call routing system. It guarantees reliability and an uninterrupted twenty-four hour, seven-day a week phone service. The intelligent distribution system handles calls depending on the subject matter and forwards the call to appropriate agents, which reduces customer service time. The post-sale telephone customer service also involves active up-selling of products.

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

In April 2015 Polkomtel provided 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 application is available to users of devices with Windows Phone, Windows 8, iOS and Android systems. 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 an 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 2014, Polkomtel was successfully audited by DEKRA Certification Sp. z o.o. for compliance with quality management standards.

Retention management

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

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

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

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

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

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

2.6. Wholesale business

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

Exchange of traffic between operators (network interconnection)

Polkomtel's telecommunications infrastructure used in interconnection cooperation enables us to effectively manage telecommunications traffic routing to all operators domestically and abroad. As at December 31, 2015, Polkomtel was party to 26 interconnection agreements with national and international operators. Such a number of interconnection relations allows Polkomtel to optimizing the costs of call termination in the networks of other operators, while maintaining the highest quality of interconnect traffic, both initiated and terminated in our network.

As part of interconnection cooperation with other operators, in 2015, as in previous years, active steps were taken in relations with domestic and foreign operators in order to reduce the incurred costs of wholesale call termination and increase wholesale revenue from the service of interconnection traffic transit carried out by Polkomtel. Cooperation with the biggest international operators and active management of traffic routing enabled us to immediately benefit from the reduction of wholesale termination rates in the networks of foreign operators (in particular foreign MTRs), introduced as a result of decisions of market regulators abroad, which translated directly into a reduction of Polkomtel's costs. Active trade negotiations and effective traffic management in 2015 helped maintain a downward trend of the costs of call termination in networks of other operators in Poland and abroad.

In 2015 we launched a project involving the migration of all points of interconnect to the new IP technology which relies on SIP (Session Initiation Protocol) signaling protocol. The change of technology for IC traffic transmission will enable Polkomtel to reduce the cost of traffic exchange with domestic and foreign operators and will ensure improved quality of calls routed to other networks' subscribers. In the future it will also enable HD Voice service coverage extension to include off-net calls from Plus network.

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 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 segment. We consistently develop our international roaming services by offering roaming services over our own network to subscribers of foreign operators who are currently staying in Poland. In addition, we offer the wholesale roaming service over our own network to foreign operators under discount agreements in exchange in exchange for favorable terms offered by foreign partners for the handling of roaming traffic generated by our clients who use roaming services abroad. This helps reduce costs of wholesale international roaming services incurred by Polkomtel and enables the provision of competitive international roaming services (in terms of their price and quality) to our customers. Low wholesale costs negotiated with foreign operators enabled us to continue, in 2015, the promotion of calls in international roaming within the EU and EEA countries, where Plus users may make unlimited calls to the European Union and countries of the EEA at a rate of PLN 0.29 per minute. The offer is available not only to contract customers, but also to prepaid and mix customers.

Thanks to the active policy of acquisition of new roaming partners for discount agreements, mainly outside of the EU, 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, and in particular the wholesale costs of data transmission, which will allow us to extend our offer of data packages in roaming in the forthcoming years, while making the offer even more attractive. An active approach to negotiating preferential wholesale prices in retail offers has allowed us to propose the most attractive offer on the Polish market with respect to data transmission packages in roaming: the Atlantic package, thanks to which the roaming data transmission costs in the EU, Switzerland and the U.S. incurred by the customer are several times lower, and the Oriental package, which reduced the roaming costs of data transmission for the customer in Russia, Ukraine, Belorussia, China, Japan and other exotic countries. This list is going to be successively expanded in 2016 to include other countries.

As at December 31, 2015, Plus network offered international roaming services for voice calls in 534 networks in 210 countries and designated areas. In addition, our international roaming service offers roaming data transmission packages in 391 networks in 164 countries and designated areas. Access in LTE technology is possible in 38 networks on 34 countries and designated areas, while access in 3G is offered in 250 networks in 109 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 MNO operators, including P4 and Aero2. 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 Plus' 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 2015 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. The wholesale channel has become an effective method of offering our telecommunication services to customers who would otherwise be difficult to acquire using standard acquisition methods. We cooperate with numerous MVNOs who operate in various sectors, mainly in the telecommunication sector, and who have substantial customer bases, to which a broader scope of services can be offered thanks to wholesale-based cooperation with Polkomtel. Given the constant development of the MVNO market, in 2016 Polkomtel intends to continue the develop its wholesale activities by seeking new domestic and international partners, as well as by expanding our cooperation with the existing wholesale partners. We put a lot of stress on the development of fixed-line services on SIM cards, which is a good example of the effective development of sales of Polkomtel's services via the wholesale channel.

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. We actively develop our wholesale product in order meet the requirements of our MVNO partners. In 2015 all our MVNO partners were provided the possibility to use the largest LTE coverage in Poland, which means that they can offer mobile telephony service of superior quality.

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 24 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 ZenithOptimedia estimates, in 2015 Poland was the fourth largest advertising market in Central-Eastern Europe (after Russia, Croatia and Turkey) with a total net advertising expenditure of PLN 6.7 billion (after discounts or rebates) and a growth rate of 2.8% compared to 2014. The value of TV advertising amounted to over PLN 3.5 billion (up by 2.9% compared to 2014). ZenithOptimedia forecasts an increase in the value of TV advertising market by 2.6% in 2016 and by 2.3% in 2017.

In 2015, TV was the dominant advertising medium in Poland with 53% share in the total advertising expenditure. According to ZenithOptimedia forecasts, this share is expected to remain stable in upcoming years. The significant increase in Internet as an advertising medium has not resulted in a substantial change in TV's share of advertising spending but it has had a significant adverse impact on print advertising.

Advertising expenditure by medium from 2010 to 2017:

	2010	2011	2012	2013	2014	2015	2016P	2017P
TV	53%	52%	52%	52%	53%	53%	52%	52%
Print	18%	16%	14%	11%	9%	8%	6%	5%
Outdoor	8%	8%	7%	7%	7%	7%	6%	6%
Radio	7%	7%	7%	7%	7%	7%	8%	8%
Internet	14%	16%	18%	20%	22%	24%	26%	27%
Cinema	1%	2%	2%	2%	2%	2%	2%	2%

Source: ZenithOptimedia, "*Advertising Expenditure Forecasts - December 2015*"

The Polish TV market is characterized by high average daily TV viewing time, which was approximately 264 minutes in 2015, an increase of 4 minutes compared to 2014 (the increase in 2014 vs. 2013 was 13 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 SMG Poland (previously SMG Starlink), we estimate that in 2015, Polsat Group had a 26% share of the ca. PLN 4 billion Polish TV advertising market and an advertising power ratio, which is a ratio of advertising market share to total individual audience share in the group All 4+, of 1.16.

ZenithOptimedia forecasts that in 2016, the TV advertising market in Poland will increase by 2.6% 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 0.38% of GDP, representing a substantially lower value as a percentage of GDP than in certain other European markets such as the United Kingdom (0.85%), Slovakia (0.71%), Germany (0.63%) and the Czech Republic (0.54%).

Key TV channels

The Polish TV market is dominated by the four largest terrestrial channels: TVP1, TVP2, TVN and POLSAT, which collectively had 41.7% of the aggregate audience share in the commercial group in 2015. In 2015, 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 2015, our main channel, POLSAT, had 13.2% all day audience share, which was the best result on the market. Average annual technical coverage was 99.8%. Our thematic channels had an 11.4% combined audience share. We broadcast 30 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, 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 2015, POLSAT’s main competitor, TVN achieved a 12.4% 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 thematic channels achieved a 9.7% combined all day audience share in 2015.

TVP Group broadcasts 12 channels, including TVP1 and TVP2, and is one of the main players on the Polish TV advertising market. In 2015, the main channels of TVP Group had 8.4% (TVP1) and 7.7% (TVP2) all day audience shares. The technical reach of both channels reaches 99.8% 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. Despite regulations preventing TVP from interrupting programs to broadcast advertising, which lessens its advertising inventory, in 2014, TVP group generated only 29% of its revenue from license fees.

Digital Terrestrial TV

Poland finished the conversion from analogue terrestrial broadcasting TV to DTT based on Digital Video Broadcasting – Terrestrial (‘DVB-T’) standards on July 23, 2013. The switch to digital broadcasting allowed to improve picture and sound quality and eliminated the interference that accompanied analogue broadcasting. Digital TV systems use an electronic program guide, which enables viewers to compile their own sets of favorite programs and exercise parental control. Digital TV systems also allowed broadcasters to 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 (“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 three free multiplexes and one pay multiplex dedicated for TV reception on mobile devices. On November 5, 2015 the National Broadcasting Council resolved the competition for the development of MUX-8 and chose the broadcasters, who are to receive licenses for their channels. 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 three public TV broadcasters' core channels (TVP1, TVP2, TVP Info) and four commercial channels. After that date TVP was to release space held on this multiplex in order to allocate it to broadcasters selected in a competition. New channels available on MUX-1 include: Telewizja Trwam (socio-religious channel), STOPKLATKA TV (film channel), Fokus TV (educational channel) and TVP ABC (channel for children aged 4 to 12). The Office of Electronic Communications (UKE) estimated the reach of MUX-1 at 98.8% of the population in Poland on the date of the final switch-off of analogue terrestrial television broadcasting. MUX-2 is reserved for the commercial broadcasters including TV POLSAT. Regular digital transmissions of POLSAT started on September 30, 2010. On the date of the final switch-off of analogue terrestrial television broadcasting the coverage of MUX-2 was estimated at 98.8%. MUX-3 is reserved solely for the public TV broadcaster. It had the widest coverage that was estimated at 99.5% on the date of the final switch-off of analogue terrestrial television broadcasting, due to the fact that its signal is transmitted from a larger number of objects than signals of the remaining multiplexes. MUX-4 is currently reserved for INFO-TV-FM (subsidiary of Cyfrowy Polsat) that has launched on it the broadcasting of television on mobile devices.

On November 6, 2013 the Office of Electronic Communications announced the availability of new frequency resources, which were to be used to activate another multiplex (MUX-8). A total of 18 entities had declared their interest in the new resources (2 of which had submitted their declarations past the deadline), 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, stating that the new multiplex will be available free of charge, was sustained.

In addition to nationwide multiplexes, channels can be broadcast through local multiplexes. Currently, five such multiplexes have been activated. The first, MUX-L3, began functioning on December 19, 2013 in the area of Radomsko, where it broadcasts the programming of the local television NTL Radomsko and four commercial channels. The second MUX-L2 was activated on December 20, 2013. It broadcasts the programming of the local television TVT and five commercial channels in the area of Rybnik. MUX-L1, located in Lubań, was the third local multiplex to be activated. It operates since September 12, 2014 and broadcasts the local TV Łużyce and four commercial channels. The fourth was MUX-L4 located in the Wroclaw-Świdnik region, operating since September 1, 2015 and broadcasting six commercial channels. MUX-L7, the fifth local multiplex, was activated on September 25, 2015 in Lublin and broadcasts the channel TV Lublin.

It is 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.

Channels portfolio of Polsat Group

Channel	Start date	Thematic group	Signal distribution	Availability	Household coverage (1)
POLSAT	December 5, 1992	General interest	Terrestrial/cable/satellite	FTA	99.8%
Polsat Sport	August 11, 2000	Sport	Cable/satellite	non-FTA	48.2%
Polsat Sport Extra	October 15, 2005	Sport	Cable/satellite	non-FTA	35.1%
Polsat Film	October 2, 2009	Movie	Cable/satellite	non-FTA	59.8%
Polsat Cafe	October 6, 2008	Lifestyle	Cable/satellite	non-FTA	54.1%
Polsat Play	October 6, 2008	Lifestyle	Cable/satellite	non-FTA	47.1%
Polsat2	March 1, 1997	General interest	Cable/satellite	non-FTA	54.0%
Polsat News	June 7, 2008	News	Cable/satellite	non-FTA	55.6%
Polsat News 2 (2)	February 8, 2007	Business	Cable/satellite	non-FTA	54.0%
Polsat Jim Jam	August 2, 2010	Children	Cable/satellite	non-FTA	43.3%
Polsat Sport News	June 1, 2011	Sport	Terrestrial /cable/satellite	FTA	93.8%
CI Polsat	November 24, 2011	Criminal	Cable/satellite	non-FTA	37.9%
Polsat Food Network	November 22, 2012	Lifestyle	Satellite	non-FTA	22.3%
Polsat Viasat Explore	March 1, 2013	Lifestyle	Satellite	non-FTA	27.2%
Polsat Viasat Nature	March 1, 2013	Nature	Satellite	non-FTA	26.3%
Polsat Viasat History	March 1, 2013	History	Satellite	non-FTA	34.8%
TV4(3)	April 1, 2000	General interest	Terrestrial /cable/satellite	FTA	99.8%
TV6(3)	May 30, 2011	Entertainment	Terrestrial /cable/satellite	FTA	93.2%
Polsat Romans	September 1, 2013	Women's	Cable/satellite	non-FTA	45.0%
Disco Polo Music	May 1, 2014	Music	Cable/satellite	non-FTA	44.9%
MUZO.TV	September 26, 2014	Music	Cable/satellite	non-FTA	38.6%
Polsat 1 (4)	December 18, 2015	General interest	Satellite	Non-FTA	n/a

(1) NAM, average TV household coverage, arithmetic average of monthly coverage in 2015.
(2) Until February 2013, the channel was broadcast under TV Biznes, until June 9, 2014 - Polsat Biznes, currently – Polsat News 2.
(3) Channel included in Polsat Group's portfolio since August 30, 2013.
(4) Channel addressed to viewers abroad.

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 13.2% in 2015. 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 2015	Core programming	Additional information
Polsat Sport	Men Age 16-59	0.83%	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 2015, both in commercial group and its target group. The channel is available in SD and HD.
Polsat Sport Extra	Men Age 16-44	0.15%	Premium sport events, primarily the largest international tennis tournaments such as Wimbledon and handball Champions League.	Broadcast since 2009, the channel is available in SD and HD.
Polsat Sport News	Men Age 16-44	0.68%	FTA channel broadcast on DTT. The programming includes sport news, sport events transmissions and journalistic materials.	The number four sports channel in 2015 in the "Men Aged 16-44" segment. Channel broadcast since May 2011, audience share data available since November 2012.
Polsat Film	All Age 16-49 cable TV/satellite viewer	0.86%	Wide offer of movies. Hit movies, top box-office productions and non-mainstream movies. The offer based to a large extent on productions of Sony Pictures Television International and 20th Century Fox TV.	The channel is available in SD and HD.
Polsat Cafe	Women Age 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	Men Age 16-44	0.9%	Male hobbies, including fishing, automotive industry, documentary and guide series, lifestyle and trendy consumer gadgets.	
Polsat2	All Ages 16-49	1.42%	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	All Ages 16-49	0.83%	24-hour news channel mainly broadcasting live and covering primarily news from Poland and key international events.	The channel is available in SD and since February 2013 in HD
Polsat News 2	Top management	0.25%	The latest news on the economy and financial markets.	Channel acquired by TV Polsat Group in February 2007. Until June 9, 2014 broadcast under Polsat Biznes, currently Polsat News 2.

Channel	Target audience segment	Average audience share in the target audience segment in 2015	Core programming	Additional information
Polsat Jim Jam	Children Age 4-7	1.26%	Entertainment for children.	Polsat Jim Jam is a joint venture launched by TV Polsat and ChelloZone.
CI Polsat	Age 16-49, users of cable and DTH TV	0.12%	Criminal programs based on true stories. Documentaries presenting the work of police, detectives and criminal laboratories.	Joint project of Polsat Group and A+E Networks UK. The channel is aired since the end of November 2011.
Polsat Food Network	Women Age 16-49	0.11%	Culinary channel. Based mainly on Food Network's content.	Joint project of Polsat Group and Scripps Networks Interactive. The channel broadcast since November 22, 2012.
Polsat Viasat Explore	Men Age 16-49	0.09%	Channel dedicated to men, it offers programs featuring extreme jobs, sports, journeys to places that are hard to reach.	Joint project of Polsat Group and Viasat Broadcasting.
Polsat Viasat Nature	All Ages 16-49	0.03%	Offers nature programs for the entire family.	Joint project of Polsat Group and Viasat Broadcasting.
Polsat Viasat History	All Ages 16-49	0.11%	Offers various programs presenting the history of different times.	Joint project of Polsat Group and Viasat Broadcasting.
TV4	All Ages 16-49	3.67%	Programming offer includes films, series, intelligent entertainment.	Channel included in Polsat Group's portfolio since August 30, 2013. Ranked 8 in terms of audience share in 2014.
TV6	All Ages 16-49	1.51%	Offers drama series, animated movies, soap operas, reality shows and television quiz shows.	Channel included in Polsat Group's portfolio since August 30, 2013.
Polsat Romans	Women Age 16-49	0.17%	Channel dedicated to women, broadcasts both Polish and foreign drama films and series.	Broadcasts since September 1, 2013.
Disco Polo Music	All Ages 16-49	0.26%	Channel presents disco polo, dance and festive music.	Started broadcasting on May 1, 2014.
MUZO.TV	All Ages 16-49	0.02%	Entertainment channel dedicated to pop and rock music.	Started broadcasting on September 26, 2014.
Polsat 1	Viewers 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.

Audience share for our channels for 2013-2015

Channel	Audience share (SHR%)		
	2013	2014	2015
POLSAT	13.51	13.3	**13.21**
Polsat2	1.82	1.73	1.42
Polsat News	0.81	0.91	0.83
Polsat Sport	0.79	0.50	0.52
Polsat Film	0.53	0.72	0.74
Polsat Play	0.57	0.67	0.67
Polsat JimJam [JimJam]	0.33	0.20	0.16
Polsat Cafe	0.39	0.40	0.39
Polsat Sport Extra	0.21	0.12	0.12
CI Polsat	0.11	0.09	0.12
Polsat Sport News	0.33	0.29	0.12
Polsat News 2(1)	0.06	0.07	0.09
Polsat Food Network	0.08	0.08	0.01
Polsat Viasat Explore (2)	0.06	0.05	0.06
Polsat Viasat History (2)	0.16	0.13	0.11
Polsat Viasat Nature (2)	0.02	0.02	0.03
TV4(3)	2.92	2.88	3.67
TV6(3)	0.68	1.09	1.51
Polsat Romans(4)	0.08	0.13	0.14
Disco Polo Music(5)	-	0.23	0.26
Polsat Volleyball(6)	-	2.43	-
MUZO.TV(7)	-	0.03	0.02
Polsat 1 (8)	-	-	-

Source: NAM, target All Day 16-49

(1) Until February 2013 the channel broadcast under TV Biznes, until June 9, 2014 - Polsat Biznes, currently – Polsat News 2.
(2) Channel included in Polsat Group's portfolio in March 2013.
(3) Channel included in Polsat Group's portfolio on August 30, 2013.
(4) Included in the telemetric panel since September 2013 (data for that period).
(5) Included in the telemetric panel since May 1, 2014 (data for that period).
(6) Channel broadcast since August 30, 2014 until September 21, 2014 (data for that period).
(7) Included in the telemetric panel since September 26, 2014 (data for that period).
(8) Channel not included in the telemetric panel.

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 HD, Polsat Sport News, Polsat News 2, TV4, TV6, Polsat Romans, Disco Polo Music, MUZO.TV).

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

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

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

Sources of foreign programming

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

Our key partners for movie and series licenses are major US movie studios such as Sony Pictures TV International, 20th Century Fox TV, The Walt Disney Company, Warner Bros International TV Distribution, CBS Studios. We also cooperate with Monolith Films. Usually, these contracts have terms of two to three years and are denominated in U.S. dollars or euro. We generally acquire broadcasting rights under one of two types of contractual arrangements. 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

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

Sale of advertising and sponsoring

Advertising options

There are two main forms of advertising in the TV market: 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 sale 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 2015, rate-card sales accounted for 43% 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 83% in 2015). Almost all of our advertising revenue is collected through TV Polsat Group's advertising sales house Polsat Media Biuro Reklamy, which acts as an advertising agent (sales house) for us under the terms of a Framework Agreement, dated December 27, 2003. Polsat Media Biuro Reklamy is responsible for the sale of advertisements, sponsoring services and contracts connected therewith. Polsat Media Biuro Reklamy is responsible for the sale of advertising services (advertising time) for our channels.

In 2015, Polsat Media Biuro Reklamy carried out the sale of advertising time for 22 of our TV channels and 29 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 2015, 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.

In 2015, Polsat Media received, for the second time in a row, the highest total score for cooperation in the ranking of TV advertising sales offices in a report prepared by Millward Brown, commissioned by Media&Marketing Polska. In this year's report Polsat Media obtained the highest scores in 4 out of 8 fields of the study: "General assessment of cooperation", "they provide a rapid and exhaustive answer to a brief", "I trust them – they give me a sense of security" and "they operate flexibly and efficiently in situation when changes take place during a campaign".

Sale of broadcasting right 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 15% of total revenue in this business segment in 2015. Our agreements with cable TV networks and satellite TV operators are generally non-exclusive licenses for the broadcasting of our channels. Under typical licenses, operators agree to pay us a monthly license fee, the amount of which generally depends on the number of customers to individual packages and set rates for the package or channel customers.

Sale of content via Internet

Sale of content via Internet, 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.

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

Sales team

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

In 2009, Polsat Media Biuro Reklamy implemented PROVYS Sales, a new sales and optimization software compatible with our fully-integrated ERP system, PROVYS TV Office, used by the Group to manage i.a. programming broadcasting. PROVYS Sales enables to simultaneously sell airtime on 51 channels serviced by Polsat Media Biuro Reklamy in 2014 with fully automated broadcasts of commercial airtime as well as campaign results verification based on daily uploaded NAM data.

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 SMG Poland (previously SMG Starlink) and ZenithOptimedia. Polsat Media Biuro Reklamy also uses data from TGI consumer research held by the Polish branch of Millward Brown, the Megapanel PBI/Gemius which provides information on the behavior of Internet users in Poland and other dedicated tools provided by Gemius group (gemiusPrism, gemiusTraffic, gemiusStream, AdOcean).

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

2.7.4. Technology and infrastructure

Broadcasting of TV channels

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

Terrestrial transmission

POLSAT, our main channel, and channels Polsat Sport News, TV4 and TV6 are broadcast via the nation-wide network of digital terrestrial transmitters within the MUX-2 operated by Emitel 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:(i) two 5-year agreements, entered into in 2012, providing the right to use two slots on the Eutelsat 12 West A satellite, (ii) a 5-year agreement, entered into in 2012 for access to Eutelsat 33C satellite transmission capacity, and one seven-year distribution agreement, entered into in 2010, to provide us with the right to use the entire transponder on Eutelsat HB 13C satellite until the end of 2017 with the right to extend the agreement for additional successive seven-year periods. In addition, through Cyfrowy Polsat, TV Polsat has access to four other Eutelsat transponders.

Technology and infrastructure

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 in 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 use of the materials (as VOD and on mobile devices). The main components of our technical resources include:

- four digital TV studios: A, B, C and D, all of them equipped with edge-cutting, 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 for Polsat News 2.
- five fully digital outside broadcast vans, including four modern 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, five of which are HD-capable,
- a multi-channel automatic TV broadcasting system for broadcasting sixteen 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 networks designed to handle technological tasks,
- 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,
- digital program archive with a modern MAM system for content management,
- 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

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 UKE in the basis of an application for the extension of the frequency allocation (which, in accordance with the Telecommunications Law, must be submitted within 12 to 6 months before the expiry of a given allocation). Currently, based on frequency allocations issued by the President of UKE Polkomtel is entitled to use frequencies in the 900 MHz band until February 24, 2026, in the 1800 MHz band until September 14, 2029, and in the 2100 MHz band until January 1, 2023. All frequency allocations are technology neutral and can also be used to provide services in each of the technologies currently in use (including GSM, UMTS and LTE). Nordisk Polska, a subsidiary of Polkomtel, holds a frequency allocation for provision of services in the CDMA technology which entitles to use the frequency until December 31, 2020. In addition, Polkomtel has a number of radio licenses for equipment constituting the components of Polkomtel's radio network.

Broadcasting licenses

In our broadcasting and television production segment we currently dispose of 27 broadcasting licenses, including 7 universal broadcasting licenses and 20 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 Polsat Sport News and TV6 – with 2 licenses) and 20 broadcasting licenses are for satellite broadcasting only. Our current broadcasting licenses were granted by the KRRiT.

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

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

Channel	License holder	Type of license	Licensing body	Date of expiration
POLSAT	TV Polsat	Terrestrial broadcast license (digital)	KRRiT	March 2, 2024
Polsat Sport News	TV Polsat	Satellite broadcast license /Terrestrial broadcast license (digital)	KRRiT	August 29, 2020
Polsat2	TV Polsat	Satellite broadcast license	KRRiT	January 18, 2024
Polsat Sport	TV Polsat	Satellite broadcast license	KRRiT	January 18, 2024
Polsat Cafe	TV Polsat	Satellite broadcast license	KRRiT	July 28, 2024
Polsat Sport Extra	TV Polsat	Satellite broadcast license	KRRiT	October 26, 2025
Polsat Play	TV Polsat	Satellite broadcast license	KRRiT	November 15, 2025
Polsat HD	TV Polsat	Satellite broadcast license	KRRiT	May 18, 2028
Polsat Sport HD	TV Polsat	Satellite broadcast license	KRRiT	May 18, 2028
Polsat News	TV Polsat	Satellite broadcast license	KRRiT	May 18, 2028
Polsat Film	TV Polsat	Satellite broadcast license	KRRiT	June 4, 2029
Polsat News 2[(1)]	Telewizja Polsat Holdings Sp. z o.o.	Satellite broadcast license	KRRiT	October 5, 2024
TV4	TV Polsat	Satellite broadcast license/Digital terrestrial broadcast license	KRRiT	February 2, 2029
TV6	TV Polsat	Satellite broadcast license/Digital terrestrial broadcast license	KRRiT	July 22, 2030
Polsat Romans	TV Polsat	Satellite broadcast license	KRRiT	October 15, 2023

Channel	License holder	Type of license	Licensing body	Date of expiration
Polsat Sport Weekend(2)	TV Polsat	Satellite broadcast license	KRRiT	October 15, 2023
Disco Polo Music	TV Polsat	Satellite broadcast license	KRRiT	April 24, 2024
Muzo.tv	TV Polsat	Satellite broadcast license	KRRiT	April 24, 2024
Polsat Film 2(3)	TV Polsat	Satellite broadcast license	KRRiT	April 24, 2024
Polsat 1 (4)	TV Polsat	Satellite broadcast license	KRRiT	May 11, 2024

(1) Until June 2014 the channel operated under “Polsat Biznes”.
(2) License acquired in October 2013, the channel had not yet began broadcasting.
(3) License acquired in April 2014 but the channel had not begun broadcasting yet.
(4) Channel began broadcasting on December 18, 2015.

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".

As at December 31, 2015, Polkomtel Group owned the protection rights to 672 trademarks, granted by the Patent Office of the Republic of Poland (including to the 'Plus' trademark), the rights in registration of 16 community trademarks granted by the Office for Harmonization in the Internal Market (Trademarks and Designs), the right in registration of an industrial design granted by the Patent Office, the rights in trademark applications in the Patent Office of Poland and the Office for Harmonization in the Internal Market (Trademarks and Designs), as well as author's economic rights to individual trademarks and industrial designs.

In our broadcasting and television production segment, we hold protection rights to 33 trademarks and 16 rights in trademark applications. We have a total of 49 protected trademarks.

Furthermore, as at December 31, 2015 Polsat Group held protection rights to 77 trademarks granted by the Patent Office and the rights in registration of 36 community trademarks granted by OHIM. We are also entitled to the rights in registration of 34 community industrial designs. We have applied for registration of another 24 domestic trademarks and 8 community trademarks (including trademarks submitted for registration jointly by companies from Polsat Group). We have applied for one European patent.

Research and development

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

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

In September 2015 Polkomtel, operator of Plus network, was the first mobile operator in Poland to have offered to its customers, on a trial basis, access to the **Wi-Fi Calling** service. Wi-Fi Calling is an innovative and revolutionary solution. Even though mobile network coverage extends practically over the entire territory of the country, there are situations when indoor connections are difficult or practically impossible. Wi-Fi Calling is the solution to such problems as it offers the possibility of making voice calls wherever Wi-Fi data network coverage is available. In contrast with the popular instant messengers, Wi-Fi Calling enables voice calls to be carried out from one's own phone in the same way as regular calls, that is using one's own number, speed dials, or contacts. At the time when Plus introduced the service, Wi-Fi Calling was available from only several other operators worldwide.

In September 2015 Plus was the first mobile operator on the Polish market to have introduced a package of innovative telemedicine services. **JA+Zdrowie (I+Health)** is a service featuring access to a Virtual Clinic where medical advice can be obtained via a smartphone or a tablet in the form of a video consultation, a chat or a standard voice call. I+Health enables to have a conversation with a doctor, a nurse, or a midwife in order to get advice or discuss results of medical tests when necessary, without having to make an appointment for a specific day and time. The service is available round-the-clock on all days of the week. Falck Medycyna Sp. z o.o. is the medical partner of the solution. It is a firm with a long-standing established position and high reputation on Polish healthcare market, a leader in the area of medical emergency services who acts as a Non-Public Healthcare Institution.

In October 2015 Equipment **Collocation** started to be offered to first clients by Polkomtel. The base where the services are provided is one of the most advanced data centers in Poland, located in Grodzisk Mazowiecki near Warsaw. The service guarantees installation of a server or a group of servers, a full telecommunication cabinet or a group of telecommunication cabinets, with the data communication hardware being covered by comprehensive physical security (guards on duty round-the-clock), guaranteed power supply (always-on, uninterrupted power supply from several sources + back-up support from power generators), and climate control system (constant relative humidity). The clients do not have to invest in such safeguards and can enjoy guaranteed proper operation of their hardware while having unlimited access to all types of immediately activated telecommunication services without the need for investing in expensive access links. The Data Center in Grodzisk Mazowiecki has full infrastructure and offers the possibility of creating Data Recovery Center solutions for its clients.

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

IT systems

In the segment of services to individual and business customers we use IT systems facilitating effective and efficient management of our customer base. The systems include a customer relationship management system, sales support system, the Internet Customer Service Centre, and a transaction support system. Within our systems designed for set-top boxes, we also use applications and software enabling us to offer our products as efficiently as possible. As the owner of the systems and holder of intellectual property rights related to them, we are able to respond quickly and successfully to any customer needs. Moreover, in our segment of services to individual and business customers we use systems licensed from third parties, such as a conditional access system securing access to channels offered in our paid DTH channel packages.

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

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

We use a wide range of systems, applications and specialized software solutions developed in-house and by leading local and international vendors. Simplification and modernization of software development processes and their reorientation towards specific business goals has played an important part in improving the efficiency of Polkomtel's IT systems in recent years. At the same time, growing competitiveness among Polkomtel's suppliers has helped to considerably reduce IT system costs in many areas.

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

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

Real estate property

Cyfrowy Polsat owns the majority of the real estate property on which our DTH satellite TV infrastructure, office and warehousing facilities are located. All of our real estate property is located in Poland. We believe that all of our real estate property is well maintained and in good condition. As at December 31, 2015, there was a mortgage registered on the real estate property owned by us, established in respect to the Term Loan. Some insignificant parts of Cyfrowy Polsat's real estate property are encumbered with typical easement rights for electricity cables and other media. Part of our real estate property is being leased from third parties.

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

- Office space, including the company's principal registered office and regional offices, technical space and sales points in regions are located in leased premises;
- Key technological objects such as mobile switching centers and data centers, which are chiefly located in premises owned by Polkomtel or 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 order to secure our liabilities under the Term Loan, a mortgage was registered in favor of the Security Agent on selected real estate property owned by Polkomtel.

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

Environmental matters

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

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

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

In the course of its operations, Polkomtel has undergone numerous inspections of compliance with environmental regulations, which did not reveal any material breach or negligence. Polkomtel holds ISO 14001:2004 Environmental Management System certification in the scope of sale of telecommunication products and services and sale of electric energy, customer service and 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 2015 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 2015 Polkomtel concluded a general fleet motor insurance agreement with STU Ergo Hestia S.A. (collision, comprehensive and third party insurance, theft insurance, accident insurance and assistance), which extends to the entire motor fleet of Polsat Group.

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

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

Charity and sponsorship activities

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

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

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

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

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

Moreover, for over 15 years Polkomtel has been cooperating with rescue units: the Voluntary Mountain Rescue Service (GOPR), the Voluntary Tatra Mountain Rescue Service (TOPR) and the Voluntary Lifeguard Service (WOPR). 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: 601100300 in the mountains and 601100100 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 supporting 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 concluded in 2015

3.1. Corporate events

Appointment of members of the Supervisory Board

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

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

Introduction to trading of Series J shares

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

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

Transfer of intellectual property rights and issue of intra-group bonds

On April 30, 2015 subsidiaries of the Company - Plus TM Group S.K.A. (transformed into TM Rental in August 2015) and Plus TM Management - concluded an agreement of sale of intellectual property rights. Under this agreement, Plus TM Group S.K.A. sold and Plus TM Management purchased rights to certain trademarks and an industrial sign valued at PLN 1,150.0 million.

Furthermore, on April 30, 2015, Plus TM Management issued in favor of Plus TM Group S.K.A., and Plus TM Group S.K.A. acquired 59 registered bonds with the total value of PLN 1,150.0 million and maturity date on December 31, 2025. The details of this transaction were described in the Company's Current Report No. 25/2015 of April 30, 2015.

Framework Agreement with the EBRD

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

In the Framework Agreement the Company undertook to act in compliance with EBRD's Designated Performance Requirements and anti-corruption guidelines. The Framework Agreement sets out certain obligations of the Company, in particular with respect to environmental protection. The Framework Agreement may expire on the terms and conditions set forth therein, if EBRD the stake of the Company's bonds held by the EBRD will decrease below the value set forth in the Framework Agreement.

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

Issue of Series A Bonds

Pursuant to the resolution of the Management Board adopted on July 2, 2015, the Company issued on July 21, 2015 1,000,000 unsecured series A bearer bonds with a nominal value of PLN 1,000 each and a total nominal value of PLN 1 billion ("Bonds", "Series A Bonds"). The issue price of one bond was equal to its nominal value and amounts to PLN

1,000. The maturity date of the bonds is July 21, 2021. The interest rate on the Bonds is floating and is based on the WIBOR rate for 6-month deposits, increased by a margin, which depends on the debt ratio. The coupon is paid biannually in January and July.

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

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

The Bonds are described in detail in item 4.3.5. – *Operating and financial review of Polsat Group – Review of the Group's financial situation – Liquidity and capital resources – Series A Bonds.*

Process of refinancing of the Group's debt

Prepayments of the Refinanced Term Loans

On April 13, 2015, Polkomtel made an early prepayment of part of the Refinanced PLK Term Loan under the Refinanced PLK Senior Facilities Agreement dated June 17, 2013 in the amount of PLN 600 million. Furthermore, on May 15, 2015 the company effected another prepayment in the amount of PLN 30 million.

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

Conclusion of new Senior Facilities Agreements

As part of the process of refinancing of the our indebtedness, the Group concluded Senior Facilities Agreements 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 billion. The Company has been awarded the CP Term Facility Loan up to PLN 1.2 billion and the CP Revolving Facility Loan up to PLN 300.0 million under the CP Senior Facilities Agreement and Polkomtel has been awarded the PLK Term Facility Loan up to PLN 10.3 billion and the PLK Revolving Facility Loan up to PLN 700.0 million under the PLK Senior Facilities Agreement.

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

The Group used the funds acquired under the CP and PLK Senior Facilities Agreements in particular to repay the indebtedness under the Refinanced CP Senior Facilities Agreement of April 11, 2014, the Refinanced PLK Senior Facilities Agreement of June 17, 2013 and the PLK Senior Noted issued by Eileme 2 on January 26, 2012.

Pursuant to the CP Facilities Agreement the Company and its Group companies established certain collaterals for the credit facilities granted thereunder. Claims related to the PLK Facilities Agreement are secured by collaterals established by Polkomtel and other members of the Group as a security for, among other things, the claims under the Refinanced PLK Senior Facilities Agreement.

Furthermore, on September 21, 2015 the Group concluded the Amendment, Restatement and Consolidation Deed. According to the Amendment, Restatement and Consolidation Deed, upon repayment of the indebtedness under the PLK Senior Notes the indebtedness under the PLK Facilities Agreement will be refinanced using the funds made available under the CP Facilities Agreement, as amended in the Amendment, Restatement and Consolidation Deed. Upon the repayment of PLK Senior Notes on January 29, 2016, the PLK SFA was refinanced in full on the same day and, as a result, a Combined SFA came into force (see item 3.3 – *Events after the balance date - Consolidation of Term Loans*).

A detailed description of the terms of the CP Facilities Agreement, the PLK Facilities Agreement and the Amendment, Restatement and Consolidation Deed is presented in item 4.6.5. *Operating and financial overview of Polsat Group – Review of our financial situation - Liquidity and capital resources – Senior Facilities Agreements executed by the Group until the date of preparation of this Report.*

Repayment of debt under the Refinanced CP and PLK Senior Facilities Agreements

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

Furthermore, also on September 28, 2015 Polkomtel repaid the total outstanding amount of the term loan and revolving facility granted under the Refinanced Senior Facilities Agreement of June 17, 2013, in the total amount of ca. 6.020,0 million.

Funds used to repay the indebtedness of the Group were acquired thanks to the conclusion on September 21, 2015 of new CP and PLK Senior Facilities Agreements granting loans in the total amount of up to PLN 12.5 billion.

Establishment of security interests related to the CP SFA

On September 28, 2015, the Company, other companies from the Group and UniCredit Bank AG, London Branch, executed and concluded certain agreements and other documents concerning the establishment of the security interests in connection with the CP Senior Facilities Agreement concluded by the Company on September 21, 2015. The aggregate book value of the assets encumbered with the said security interests in the Company's and its subsidiaries' books of account is PLN 14,846.4 million. A detailed list of established security interests is presented in item 4.6.6. – *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.*

Change of the Group's ratings

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

Moreover, on September 25, 2015 Standard & Poor's Rating Services, among others:

- upgraded its long-term corporate credit rating on the Company from "BB" to "BB+" with a stable outlook;
- upgraded its long-term corporate credit rating from "BB" to "BB+" with a stable outlook on Metelem;
- upgraded its issue rating from "B+" to "BB-" with a stable outlook on the EUR 542.5 million and USD 500.0 million senior notes issued on January 26, 2012 by Eileme 2.

Details concerning the changes of ratings are discussed in item 4.6.5. – *Operating and financial overview of Polsat Group – Review of our financial situation - Liquidity and capital resources – Ratings*

Changes in the composition of the Management Board of Cyfrowy Polsat

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

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

3.2. Business related events

Acquisition of Radio PIN S.A.

On February 27, 2015, Telewizja Polsat Sp. z o.o. acquired 100% shares in Radio PIN S.A. for the price of PLN 4.3 million. Radio PIN S.A. is the broadcaster of the radio station Muzo.fm. In January 2016 the company was transformed into Muzo.fm Sp. z o.o.

Purchase of data transmission services

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

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

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

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

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

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

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

Participation in the LTE Auction

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

On March 10, 2015, Polkomtel made a decision to discontinue its participation in active bidding for the spectrum blocks from the 800 MHz band and switched to the so-called passive approach. On October 19, 2015 the Office of Electronic Communications published the results of the LTE Auction. Polkomtel won 4 blocks in the 2600 MHz bandwidth for the total amount of PLN 155.7 million. On January 25, 2016 UKE issued reservation decisions. On February 5, 2016, Polkomtel made the payment for the obtained frequency reservations. In accordance with the obligations related to the LTE Auction, Polkomtel is required to start using the reserved frequencies in the 2600 MHz band not later than 36 months since the date of issue of the reservation decision.

LTE network development strategy

In line with the assumptions underlying our long-term strategy we want to build our market position among others by developing broadband mobile Internet access services, in particular based on the LTE technology. We were the first operator in Poland to provide broadband mobile Internet access in LTE through a network based on a continuous 20 MHz frequency block in the 1800 MHz band. Additionally, in order to improve out LTE coverage parameters, in 2015 we provided broadband mobile Internet access in LTE also through the LTE 800 network made available and developed by Midas Group on the basis of 800 MHz frequencies.

In light of extremely high price levels attained in the LTE Auction, 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 Midas Group, comprising 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz frequency bands. Details regarding the planned rollout have been presented in item 2.2.6 – *Business overview of Polsat Group – Activities on the telecommunications market – Technology and infrastructure of telecommunication services – Development of the LTE technology.*

Acquisition of Teleaudio Dwa and Interphone Service

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

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

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

Acquisition of sports rights

In 2015, TV Polsat acquired broadcasting rights to several sports events. In particular, it acquired right to broadcast the most prestigious rallies - the World Rally Championship (WRC) for the two coming seasons and exclusive broadcasting rights to the 2015 and 2017 men's and women's European Volleyball Championships on all fields of exploitation, i.e. television, Internet and mobile networks.

Other sports rights acquired in 2015 included rights to the European Olympic Games, which were held in Azerbaijan in June 2015 under the auspices of the European Olympic Committee and the Polish football competition "First League".

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

Order of network sharing services placed by Midas Group with Polkomtel

On March 30, 2012, Aero2 Sp. z o.o., belonging to Midas Group, and Polkomtel executed an agreement whereby they undertook to cooperate in the provision of services using their telecommunications infrastructures. The agreement defines the terms of cooperation between Polkomtel and Aero2 with respect to the development, shared use and maintenance of the telecommunications infrastructure of both companies for the purposes of their telecommunications operations, and the mutual provision of services by the parties on the basis of their telecommunications infrastructures and frequencies held by Polkomtel and Midas Group.

The agreement related to network sharing enables both companies to reduce telecommunications infrastructure maintenance costs, to further technology optimization, and to improve the quality of the telecommunications services provided by the companies.

Under the abovementioned agreement and in connection with the roll-out by Midas Group of the LTE network on the 800 MHz frequencies, on April 22 and June 10, 2015, Polkomtel accepted consecutive orders placed by Aero2 for the purchase of SITE sharing services and SITE transmission services provided by Polkomtel in favor of Aero2. SITE sharing services consist in the lease to the other party of base station space for the installation of transceiver equipment, in particular any equipment supporting LTE or HSPA+ technologies. SITE transmission services consist in the transmission of traffic of the party using the service from its base station to its core network.

Migration to the MPEG-4 standard

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

Co-operation with ADB

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

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

Development of telemedicine services

As part of the implementation of our strategy of expanding the portfolio of services for the home offered to our customers, in September 2015 we introduced the service "JA+Zdrowie" (I+Health) available to subscriber of the tariff "JA+Abonament" (I+Subscription). This service offers access to medical and preventive consultations via a smartphone or tablet in the form of a video-consultation, chat or normal conversation and is the first solution of this type available on the Polish market. The medical partner of the solution is Falck Medycyna Sp. z o.o., a medical establishment recognized and esteemed on the market and a leader in medical rescue.

Wi-Fi Calling

As the first mobile operator on the Polish market, Plus offered its customers the possibility to test the service Wi-Fi Calling. Wi-Fi Calling is an innovative solution, which gives the possibility to make voice calls in places, where a Wi-Fi network is available but there is no mobile network coverage. As opposed to popular online communicators, Wi-Fi Calling allows the user to make voice calls from his or her own phone in the usual way. Wi-Fi Calling is a novelty not only in Poland but also worldwide. Until now only several operators in Europe have implemented it, including the Swiss network Swisscom and the British network EE.

Polsat Group's new production studio

In the beginning of September 2015, Telewizja Polsat finished the construction of its own state-of-the-art production studio for the production of television shows. The facility with the area of over 1,200 m^2 is located in Warsaw in the vicinity of the base for Telewizja Polsat broadcast vans and the satellite center of Cyfrowy Polsat.

Having its own production studio for execution of television shows will ensure higher independence for Telewizja Polsat and the entire Group and permanent access to the production facilities. This fits in the long-term strategy of building the Group's own technological base for TV production.

New edition of the smartDOM program

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

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

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

New information portal Polsatnews.pl

In October 2015 Polsat Group launched a new information portal http://www.polsatnews.pl/. The content of Polsatnews.pl consists primarily of proprietary content created especially for the portal and informational materials from three channels: Polsat, Polsat News and Polsat News2 as well as other channels from Polsat's portfolio, including Polsat Sport. The portal, similarly as the TV channels, will offer Internet users video coverages of current domestic and international affairs, including not only political but also social and cultural events. The portal also offers archived footage, which are available thanks to cooperation with IPLA online TV.

Start of new channels under the Polsat brand

Since December 18, 2015 Polsat Group offers its viewers a new satellite channel Polsat 1, which is addressed to Poles living abroad. On Polsat 1 viewers can watch interesting shows selected from the rich programming libraries of Polsat, TV4, Polsat Cafe and Polsat Play channels. The offer of the channel was designed in a manner allowing viewers living outside of Poland to watch the latest programming positions shortly after their premier on the Polsat main channel. The aim of the channel is to reach the widest possible group of Poles living in other countries, hence its universal character and shows dedicated to a wide range of viewers.

3.3. Events after the balance date

Finalization of the process of refinancing of the Group's debt

Conclusion of hedging agreements

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

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

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

Repayment and redemption of PLK Senior Notes

On January 29, 2016, 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 of February 1, 2015, available on the Company's corporate website.

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 – Senior Facilities agreements executed by the Group until the date of preparation of this Report)* were incorporated to the CP Senior Facilities Agreement. Moreover, debts under the PLK Facilities Agreement were repaid on a cashless basis, from funds made available to Polkomtel under the CP Facilities Agreement and Polkomtel and other subsidiaries of the Company have acceded to the CP Facilities Agreement as a borrower and guarantor or a guarantor.

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

Establishment of additional security interests related to the Combined Term Loan

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, is PLN 18,382 million. 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.*

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.

In the sluggish world economy of 2011-2013, Poland continued to record one of the highest real GDP growth rates in the EU. According to Eurostat, Poland's real GDP growth in 2011, 2012 and 2013 was 5.0%, 1.6% and 1.3%, respectively, with the corresponding figures for the EU 28 at 1.7%, -0.5% and 0.2%, respectively. Despite the Polish economy's relatively good condition, the downturn on the global markets in 2011-2013 adversely impacted the volume of advertising spending in Poland, including on TV advertising.

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

We believe that average consumer spending, including spending on pay TV, mobile telephony, Internet access and bundle services generally will grow in line with the overall GDP growth in Poland, and will support our future revenue growth. We expect that the economic recovery, continued in 2015-2017, will also have a positive impact on the advertising expenditures in Poland.

Situation on the pay TV market in Poland

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

The market on which we operate is very dynamic and competitive. Strong competition and the evolving market environment (including consolidation processes on the satellite and cable TV market as well as the development of digital terrestrial television) impact promotional offerings to our new customers.

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

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

We consequently develop our services which provide our customers with content on demand – our VOD rental service and the leading online television in Poland, IPLA. These products are complementary to our core business in the field of pay TV and allow us to broaden our content distribution channels.

Development of advertising market in Poland

Part of our wholesale revenue comes from the sale of advertising airtime and sponsoring slots on TV channels. Demand for advertising air-time is highly correlated with the macro-economic situation. ZenithOptimedia Media House forecasts a 2.6% growth y-o-y of total net TV advertising expenditure in 2015, while in 2016 this segment will increase by 2.4%. Given that

TV is a highly effective advertising medium, and given the relatively low level of advertising expenditures in Poland as a percentage of GDP and per capita in comparison to other European markets, we believe there is still a substantial growth potential for TV advertising in Poland in the long term, and the continued economic recovery in 2015-2017 will positively influence the level of advertising expenditure in Poland. It is worth noticing, that despite the growing importance of new media, it is forecasted that television will remain an attractive and popular pastime, primarily thanks to new technical opportunities, which include an increasing number of HD channels and VOD, as well as thanks to a growing number of smart-TVs.

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

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, SMG Poland (previously SMG Starlink) data suggests that the advertising market share of thematic stations and channels broadcast via terrestrial television multiplexes is consistently growing. In order to maintain total audience share and advertising market share, we have focused on developing our thematic channels portfolio.

Fixed-mobile substitution and growth of mobile broadband Internet saturation

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

In Poland the fixed-mobile substitution has a larger scale than in most of the EU countries. Based on the data by UKE, in 2014 the volume of voice traffic in fixed networks amounted to 10.4 billion minutes and was already almost 8 times lower than the voice traffic volume in mobile networks – which exceeded 82.6 billion minutes.

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

High preference of Poles for mobile technologies combined with improving quality of mobile data transmission as a result of the rapidly growing coverage and capacity of networks built based on LTE/HSPA+ technologies create, in our opinion, the opportunity for dynamic growth of the value of broadband Internet market in Poland in the next years, which we intend to utilize.

Growing demand for smartphones and data transmission

Popularity and sales of smartphones in Poland has been gradually growing. In 2015 nearly 90% of handsets sold by us to our telecommunication service customers were smartphones. At the same time, we estimate that at the end of December 2015 54% of the handsets used by our customers were smartphones. This disproportion shows that the smartphones' penetration among our mobile services customers will grow consistently in the next years.

Popularization of smartphones translates into growing sales of data transmission products in the segment of small screen devices. According to data presented in the Ericsson Mobility Report dated November 2015, the volume of transmitted data will increase twelvefold in the years 2015-2021.

We offer data transmission mainly under primary subscriptions and additional data packs. Customers who do not purchase a recurring data pack may use the data transmission in the so-called "pay-as-you-go" model (i.e. charged per every MB used).

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

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, 2015, TV Polsat Group generated approximately 21.2% of advertising revenue in the first quarter, 27.1% in the second quarter, 21.3% in the third quarter and 30.4% 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 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 (ARPU). We carefully follow the evolution of expectations of our customers and strive to meet their growing needs by combining our pay TV, broadband Internet access and mobile telephony services into attractive packages.

Our programs smartDOM (addressed to individual customers) and smartFIRMA (addressed to small businesses) allow our customers to combine in a flexible way products into packages, on which we offer attractive discounts. The program smartDOM, launched in mid-February 2014, yields excellent sales results. The possibility to cross-sell additional products and services to the combined customer base of Cyfrowy Polsat and Polkomtel has a positive impact both on our revenue and the level of ARPU per contract client.

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

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

Providing Internet access services in LTE technology

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

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

Terms of provision of data transmission services

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

Development of the IPLA service

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

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

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 Television International, Sony Pictures Entertainment Inc., 20th Century Fox International Television, Inc., The Walt Disney Company, Warner Bros International TV Distribution or Monolith Films Sp. z o.o., which provide access to a wide selection of the most attractive films and series. We also offer a wide selection of sports transmissions, including UEFA European Championships 2016 qualifying stage, UEFA Euro 2016 final tournament, FIFA World Championships 2018 qualifying stage, European Championships in volleyball and handball, boxing and mixed martial arts galas, World Rally Championship, Formula 1 races, Wimbledon and many others. We believe that attractive content, including content which is not available in the offer of other pay TV operators is a significant competitive advantage over other pay TV operators in Poland.

4.1.3. Factors related to the regulatory environment

International roaming in mobile networks

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

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

In October 2015, the European Parliament adopted the Telecommunications Single Market Regulation, which provides for the levelling of retail roaming charges with domestic charges applied within the EU (*Roam like at home)*. The EU plans to introduce roaming charges within the Union equal to domestic fees at the beginning of June 2017, which depends on the ability to establish a set of detailed regulations with respect to, among others, the level of wholesale roaming charges, the levelling of MTR rates applied in specific Member States and adopting the Fair Usage Policy, which would protect the interests of operators across the EU. As at the date of preparation of this Report, no detailed guidelines regarding these proposals were available.

As an interim solution, another reduction of maximum retail roaming charges is planned in April 2016. The level of these charges is determined as the sum of retail fees for domestic calls increased by the maximum wholesale rate, equal to:

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

As at the date of preparation of this Report, a mechanism of determining domestic retail charges has not been established, thus making it difficult to determine the impact of the planned regulation on results of telecommunication operators.

Reservation of frequencies

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

A frequency license may be amended or withdrawn if, among other things, the licensed entity does not fulfill its commitments under the license, alters use of the frequency band, or fails to utilize the frequency band within a determined period of time from the date of allocation or interrupts its utilization for a specified period of time.

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

As a result of switching off analogue television in 2013, certain frequency resources have become available under the so-called Digital Dividend. On October 10, 2014 the President of UKE announced the auction of 5 blocks in the 800 MHz band and 14 blocks in the 2600 MHz band. The opening bid for one block in the 800 MHz band was set at PLN 250 million and for one in the 2600 MHz band – at PLN 25 million. The auction documentation determined, i.a. detailed conditions of conducting the auction, limitations regarding joining frequency blocks by entities, who receive frequency allocations through the auction and conditions of use of allocated frequencies. Six entities submitted initial bids: Orange, P4, Hubb Investments Sp. z o.o., T-Mobile, Polkomtel and NetNet Sp. z o.o. The actual bidding in the auction began on February 10, 2015. On March 10, 2015, Polkomtel made a decision to discontinue its participation in active bidding for the spectrum blocks from the 800 MHz band and switched to the so-called passive approach.

On October 1, 2015, the minister of administration and digitization accepted an amendment to the resolution on tenders, auctions and frequency reservation competitions of July 19, 2013. The amended resolution introduced a mechanism ending an auction should it not be concluded during 115 auction days. In this situation the actual bidding ends on the 115th auction day, after which one additional round ending the process is conducted. During this round those participants, who fulfill requirements determined by the amended resolution, are entitled to submit an offer. Pursuant to the amendment of said resolution after the submission of offers by participants on the 116th auction day, the Office of Electronic Communications announced the results of the LTE auction. 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, or even the cancellation of the entire auction process.

On October 19, 2015, UKE announced the results of the LTE auction, which we present in the table below.

Bidding party	Frequency blocks won	Total sum of offers [mPLN]
	Frequencies from the 800 MHz band	
Orange Polska	2 blocks	3.051
NetNet Sp. z o.o.(1)	1 block	2.053
T-Mobile Polska	1 block	2.022
P4 Sp. z o.o.	1 block	1.496
	Frequencies from the 2600 MHz band	
P4 Sp. z o.o.	4 blocks	222,4
Polkomtel	4 blocks	155,7
Orange Polska	3 blocks	117,0
T-Mobile Polska	3 blocks	115,8

Source: Own analysis based on UKE

(1) NetNet Sp. z o.o. withdrew its application for a reservation decision and as at the date of preparation of this Report the process of allocation of this block was still underway.

According to information published by UKE, Polkomtel placed the highest bids in the Auction for four blocks in the 2,600 MHz band for the total price of PLN 155.7 million. On January 25, 2016, UKE issued reservation decisions. On February 5, 2016, Polkomtel made a payment for the obtained frequencies. Pursuant to the commitments undertaken in the LTE Auction, Polkomtel is obliged to begin utilizing the reserved frequencies not later than within 36 months since the date of reception of the reservation decision regarding the 2,600 MHz spectrum. Reservations for frequencies will remain valid for 15 years with a possibility of their extension.

On January 25, 2016 the company NetNet Sp. z o.o. withdrew its application for the reservation of the block in the 800 MHz band, submitted earlier, and UKE decided to allocate the released frequencies to T-Mobile, whose offer of PLN 2.02 billion was the second highest for this specific block.

Given the exorbitant costs related to the purchase of the 800M MHz spectrum, resulting from the LTE Auction, as well as the broad portfolio of frequencies currently controlled by Polsat Group and Midas Group, we have decided to prepare an alternative plan regarding further development of our mobile network, the details of which as described in item item 2.2.6 – *Business overview of Polsat Group – Activities on the telecommunications market – Technology and infrastructure of telecommunication services – Development of the LTE technology.* We believe that this plan will allow us to maintain our competitive advantage consisting in the provision of data transmission services of the highest quality while avoiding the excessive, in our opinion, cost of purchasing or leasing frequencies in the 800 MHz spectrum.

However, we cannot exclude the possibility that 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, which may have a significant effect on the shape of the Polish telecoms market in the foreseeable future.

4.1.4. Financial factors

Exchange rates fluctuations

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

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

We have no control over how exchange rates will change in the future, and consequently foreign exchange rate fluctuations will continue to affect (positively or negatively) our operations and financial results. Considering our open exposure to the currency exchange risk, the 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 better financial terms and guarantees greater flexibility of current operational and investing activities of the Group. As a result of the refinancing process we expect annual interest savings of ca. PLN 400 million which significantly increases the potential for generating free cash flows.

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

Furthermore, the Combined SFA and the Series A Bonds are based on a floating market interest rate, therefore fluctuations of interest rates in Poland will have an effect on value of current debt costs. Taking into account our open 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:

- dynamic development of non-linear video content, distributed via VOD and OTT services;
- increasing sales of smart-TVs - television sets with integrated Internet access;
- development of the programming offer of digital terrestrial TV;
- bundling of media and telecommunications services, as well as services from other sectors, such as electric energy or financial and banking products;
- development of the data transmission market, both in the fixed-line and mobile segments, reflected in the number of users of data transmission services;
- gradual growth in smartphone penetration among mobile network users;
- growing demand for data transmission and high-speed broadband connectivity, driven by the growing sophistication of data transmission-based services;

- growing number of mobile customers and users, driven by, inter alia, gradual fixed-to-mobile substitution, 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.
- revival on the TV advertising market;
- further fragmentation of the television market (growing share of thematic channels in audience and advertising revenue); and
- growing spending on video advertising on the Internet.

4.3. Major investments in 2015

Acquisition of Radio PIN S.A.

On February 27, 2015, Telewizja Polsat Sp. z o.o. acquired 100% shares in Radio PIN S.A. for the price of PLN 4.3 million. Radio PIN S.A. is the broadcaster of the radio station Muzo.fm. In January 2016 the company was transformed into Muzo.fm Sp. z o.o.

Acquisition of Teleaudio Dwa and Interphone Service

On April 1, 2015, Polsat Group acquired 100% shares of Orsen Holding Limited for the amount of PLN 34.9 million. Consequently, the companies Teleaudio Dwa Sp. z o.o. S.K.A. and InterPhone Service Sp. z o.o., among others, have joined Polsat Group. The acquired companies are described in detail in item 3.2. – *Significant events and agreements concluded in 2015 – Business related events.*

4.4. Operating review

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

It must be emphasized that the key performance indicators presented below for the twelve-month period ended December 31, 2014 have been prepared for information purposes only to present the potential effect that the performance of Metelem, and Polkomtel in particular, would have had on the Group's operating results if Metelem had been part of our Capital Group in the compared period. These key performance indicators have been prepared for illustrative purposes only and because of their nature they present a hypothetical situation rather than the actual performance of the Group for the given period. Key performance indicators for the 3-month periods ended December 31, 2014 and 2015 are broadly comparable, given the marginal effect of Orsen Holding Ltd. acquired on April 1, 2015.

Key performance indicators relating to our broadcasting and television production segment are fully comparable both for the three and twelve month periods ended December 31, 2014 and 2015.

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

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

	for the 3-month period ended December 31			for the 12-month period ended December 31		
	2015	2014	change / %	2015	2014	change / %
Total number of RGUs (contract + prepaid)	**16,469,696**	**16,482,031**	(0.1%)	**16,469,696**	**16,482,031**	(0.1%)
CONTRACT SERVICES						
Total number of RGUs, including:	**12,614,703**	**12,347,828**	2.2%	**12,614,703**	**12,347,828**	2.2%
Pay TV, including:	4,503,320	4,391,702	2.5%	4,503,320	4,391,702	2.5%
Multiroom	*936,307*	*844,809*	10.8%	*936,307*	*844,809*	10.8%
Mobile telephony	6,516,643	6,587,915	(1.1%)	6,516,643	6,587,915	(1.1%)
Internet	1,594,740	1,368,211	16.6%	1,594,740	1,368,211	16.6%
Number of customers	**5,916,103**	**6,137,531**	(3.6%)	**5,916,103**	**6,137,531**	(3.6%)
ARPU per customer [PLN]	88.3	87.2	1.3%	87.3	85.9	1.6%
Churn per customer	10.0%	9.1%	0.9 p.p.	10.0%	9.1%	0.9 p.p.
RGU saturation per one customer	2.13	2.01	6.0%	2.13	2.01	6.0%
Average number of RGUs, including:	**12,496,080**	**12,272,311**	**1.8%**	**12,410,649**	**12,091,316**	**2.6%**
Pay TV, including:	4,441,918	4,361,890	1.8%	4,404,966	4,283,695	2.8%
Multiroom	*915,940*	*822,568*	*11.4%*	*887,766*	*776,635*	*14.3%*
Mobile telephony	6,502,872	6,597,742	(1.4%)	6,528,524	6,661,539	(2.0%)
Internet	1,551,290	1,312,679	18.2%	1,477,159	1,146,082	28.9%
Average number of customers	**5,922,397**	**6,159,903**	**(3.9%)**	**6,004,937**	**6,219,660**	**(3.5%)**
PREPAID SERVICES						
Total number of RGUs, including:	**3,854,993**	**4,134,203**	**(6.8%)**	**3,854,993**	**4,134,203**	**(6.8%)**
Pay TV	31,972	122,787	(74.0%)	31,972	122,787	(74.0%)
Mobile telephony	3,591,736	3,792,978	(5.3%)	3,591,736	3,792,978	(5.3%)
Internet	231,285	218,438	5.9%	231,285	218,438	5.9%
ARPU per total prepaid RGU [PLN]	18.5	18.2	1.6%	18.3	17.7	3.4%
Average number of RGUs, including:	**3,917,979**	**4,172,129**	**(6.1%)**	**3,990,706**	**4,267,047**	**(6.5%)**
Pay TV	56,743	129,021	(56.0%)	56,798	88,894	(36.1%)
Mobile telephony	3,630,863	3,798,701	(4.4%)	3,724,268	3,939,774	(5.5%)
Internet	230,373	244,407	(5.7%)	209,640	238,379	(12.1%)
TELEVISION						
Audience share	24.8%	24.5%	1.2%	24.6%	23.7%	3.9%
Advertising market share	26.1%	24.9%	5.2%	26.0%	25.1%	3.8%

4.4.1. Segment of services to individual and business customers

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

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

Contract services

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

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

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

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

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

The smartDOM program records very good sales results and has a positive effect on both the level of RGU saturation per one customer and ARPU per contract customer. At the end of December 2015, already over 1 million customers had joined the program and had bought a total of 3.04 million RGUs. RGU saturation per customer in this group was approximately 3.0 as at December 31, 2015. Bearing in mind the long-term goal of our Group, which is to maximize revenue per contract customer through sales of additional products and services, the smartDOM program is perfectly in line with the implementation of our strategy.

Prepaid services

The number of prepaid services provided by us as at December 31, 2015 decreased by 279,210, that is 6.8%, to 3,854,993 from 4,134,203 as at December 31, 2014. This change was caused among others by a migration of part of our customers from prepaid tariffs towards the contract services segment driven by relatively more attractive terms of post-paid tariffs as well as discounts offered in the smartDOM program.

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

4.4.2. Broadcasting and television production segment

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

Audience share

Audience shares

	3 months ended December 31			12 months ended December 31		
	2015	2014	*change [%]*	2015	2014	*change [%]*
Audience share[(1) (2)], including:	**24.78%**	**24.51%**	*1.10%*	**24.64%**	**23.67%**	*4.10%*
POLSAT (main channel)	**13.20%**	**13.66%**	*-3.37%*	**13.21%**	**13.30%**	*-0.68%*
Thematic channels[(2)]	**11.58%**	**10.85%**	*6.73%*	**11.43%**	**10.37%**	*10.22%*
Polsat2	1.31%	1.64%	*-20.12%*	1.42%	1.73%	*-17.92%*
Polsat News	0.86%	0.78%	*10.26%*	0.83%	0.91%	*-8.79%*
Polsat Sport	0.45%	0.50%	*-10.00%*	0.52%	0.50%	*4.00%*
Polsat Sport Extra	0.12%	0.11%	*9.09%*	0.12%	0.12%	*0.00%*
Polsat Sport News	0.40%	0.31%	*29.03%*	0.44%	0.29%	*51.72%*
Polsat Film	0.74%	0.81%	*-8.64%*	0.74%	0.72%	*2.78%*
Polsat JimJam	0.22%	0.17%	*29.41%*	0.16%	0.20%	*-20.00%*
Polsat Cafe	0.32%	0.39%	*-17.95%*	0.39%	0.40%	*-2.50%*
Polsat Play	0.65%	0.72%	*-9.72%*	0.67%	0.67%	*0.00%*
CI Polsat	0.12%	0.08%	*50.00%*	0.12%	0.09%	*33.33%*
Polsat News 2 [(3)]	0.10%	0.06%	*66.67%*	0.09%	0.07%	*28.57%*
Polsat Food Network	0.11%	0.08%	*37.50%*	0.10%	0.08%	*25.00%*
Polsat Viasat Explore[(4)]	0.08%	0.06%	*33.33%*	0.06%	0.05%	*20.00%*
Polsat Viasat History	0.12%	0.13%	*-7.69%*	0.11%	0.13%	*-15.38%*
Polsat Viasat Nature	0.03%	0.03%	*0.00%*	0.03%	0.02%	*50.00%*
Polsat Romans	0.15%	0.11%	*36.36%*	0.14%	0.13%	*7.69%*
Disco Polo Music[(5)]	0.25%	0.20%	*25.00%*	0.26%	0.23%	*13.04%*
TV4	3.90%	3.38%	*15.38%*	3.67%	2.88%	*27.43%*
TV6	1.65%	1.27%	*29.92%*	1.51%	1.09%	*38.53%*
Muzo.tv[(6)]	0.02%	0.03%	*-33.33%*	0.02%	0.03%	*-33.33%*
Polsat Volleyball 1[(7)]	n/a	2.43%	*n/a*	n/a	2.43%	*n/a*
Polsat 1 [(8)]	n/a	n/a	*n/a*	n/a	n/a	*n/a*
Advertising market share[(9)]	**26.1%**	**24.9%**	*5.2%*	**26.0%**	**25.1%**	*3.8%*

1) Nielsen Audience Measurement, All day ages 16-49 audience share.
2) When calculating the total audience share of Polsat Group and audience shares of thematic channels, we take into account the moment of including the channel into our portfolio.
3) Until June 9, 2014 the channel operated under the name "Polsat Biznes", currently it operates under "Polsat News 2".
4) Until April 29, 2014 the channel operated under the name "Polsat Viasat Explorer".
5) Channel broadcast since May 2014, data for the period of broadcasting.
6) Channel launched on September 26, 2014, data for the period of broadcasting.
7) Channel broadcast from August 30 until September 21, 2014, data for the period of broadcasting
8) Channel launched in December 18, 2015, not included in the telemetric survey.
9) Our estimates based on SMG Poland (previously SMG Starlink) data.

In the fourth quarter of 2015 viewers were attracted by the fixed slots on Polsat, such as Monday's cycle Mega Hit, which gained an audience share of 20.5%, as well as the TV series *First Love* with and audience share of 18.9%.

The results of the fourth quarter were significantly influenced by positions included in the autumn scheduling. A large audience was gathered by the show *Our new house (Nasz nowy dom),* which gained an audience share at the level of 21.3%. The reality show *Top Chef*, broadcast in autumn, had a 16.4% audience share. The second culinary show *Hell's Kitchen* was also popular among viewers, gathering an audience share of 15.9%. An important programming position was the continuation of the talent show *Your Face Sounds Familiar.* The Saturday slots dedicated to this show had an audience share of 17.2%.

When analyzing the entire year 2015, one of the most significant positions of the programming schedule was consequently the Monday Mega Hit slot (18.5% audience share). Another fixed slot, the TV series *First Love,* gained an audience share of 22.2%.

In 2015, positions of both the spring and autumn programming schedules were the driver behind high viewership results. The show *Your Face Sounds Familiar* gained an audience share of 18.9%. Another programming position, *Dancing with the Stars*, reached a 15.1% audience share. *Hell's Kitchen* was a significant position in this year's schedule with an audience share of 16.0%. The continuation of the talent show *Must be the Music* is also worth mentioning as the Sunday slots dedicated to this show had an audience share of 13.6%.

Matches of the qualifiers to the European Football Championship gained record viewership results in 2015. They were broadcast simultaneously on our main channel Polsat and on Polsat Sport. The first meeting played on March 29, 2015 between Poland and Ireland had an audience share of 42.8%. The next match played by the Polish representation against Georgia on June 13, 2015 gained an audience share of 49.3%. The match between Poland and Germany, played on September 4, 2015, obtained an audience share of 53.2%. The audience share of the next of this year's qualifying matches, Poland – Gibraltar, reached the level of 41.2%, while that of the meeting Poland – Scotland of October 8, 2015 was 54.2%. The last qualifying match between Poland and Ireland, which gave the Polish representation the advance, gathered a record high audience, which translated into an audience share of 62.0%.

Also the cabaret *XVIII Rybnik Cabaret Autumn,* broadcast in January 2015 gained an audience share of 16.6% audience share. In February the anniversary concert *25-lecie RMF FM* (25th Anniversary of RMF FM) was very popular, gathering an audience share of 19.3%.

The most popular broadcast of the Polsat Superhit Festiwal was the *Sopot Hit Cabaret – Party at the Forest Opera* aired on May 31, 2015, which had an audience share of 28.0%.

The *Disco Hit Festival Kobylnica 2015*, broadcast on July 3, 2015 gained an audience share of 18.6% audience share. The concert *Disco Polo under the Stars,* broadcast on August 15, 2015 reached an audience share of 25.1%.

The Miss Poland 2015 elections, which took place in December 2015, had high viewership results. The pageant gathered an audience share of 14.3%.

The EURO 2016 final tournament draw, aired on the main channel on December 12, 2015, gained an audience share of 20.3%.

This year's *Sylwestrowa Moc Przebojów* (*New Year Greatest Hits)* broadcast on Polsat gathered an audience share of 25.2%.

In terms of the Group's thematic channels, the highest audience shares in the 3 and 12-month periods ended December 31, 2015 were recorded by TV4, TV6 and Polsat 2. The thematic channels with the highest audience growth dynamics (compared to the 12 months of 2014) were Polsat Sport News, Polsat Viasat Nature, TV6, CI Polsat, Polsat News 2 and TV4.

Distribution and technical reach

Technical reach (1)	3 months ended December 31			12 months ended December 31		
	2015	2014	*Change / %*	2015	2014	*Change / %*
Polsat	99.8%	99.9%	*-0.10%*	99.8%	99.8%	*0.00%*
Polsat2	62.5%	62.1%	*0.64%*	61.9%	63.7%	*-2.83%*
Polsat News	56.0%	55.3%	*1.27%*	55.6%	55.9%	*-0.54%*
Polsat Sport	48.4%	48.6%	*-0.41%*	48.2%	49.5%	*-2.63%*
Polsat Sport Extra	35.6%	35.1%	*1.42%*	35.1%	35.3%	*-0.57%*
Polsat Sport News	93.7%	92.1%	*1.74%*	93.8%	90.3%	*3.88%*
Polsat Film	50.4%	50.1%	*0.60%*	49.8%	50.9%	*-2.16%*
Polsat JimJam [JimJam]	43.6%	42.4%	*2.83%*	43.3%	42.7%	*1.41%*
Polsat Cafe	54.5%	53.7%	*1.49%*	54.1%	54.6%	*-0.92%*
Polsat Play	47.7%	46.2%	*3.25%*	47.1%	46.9%	*0.43%*
CI Polsat	38.7%	37.0%	*4.59%*	37.9%	37.7%	*0.53%*
Polsat News 2 (2)	54.2%	55.3%	*-1.99%*	54.0%	55.2%	*-2.17%*
Polsat Food Network	24.5%	21.4%	*14.49%*	22.3%	20.9%	*6.70%*
Polsat Viasat Explore (3)	28.1%	24.6%	*14.23%*	27.2%	25.0%	*8.80%*
Polsat Viasat History	38.6%	34.1%	*13.20%*	34.8%	35.0%	*-0.57%*
Polsat Viasat Nature	27.0%	23.4%	*15.38%*	26.3%	23.6%	*11.44%*
Polsat Romans	46.3%	37.5%	*23.47%*	45.0%	37.8%	*19.05%*
Disco Polo Music (4)	45.7%	40.9%	*11.74%*	44.9%	39.3%	*14.25%*
TV4	99.7%	99.7%	*0.00%*	99.8%	99.6%	*0.20%*
TV6	93.1%	91.7%	*1.53%*	93.2%	90.4%	*3.10%*
MUZO.TV(5)	39.3%	36.2%	*8.56%*	38.6%	33.8%	*14.20%*
Polsat Volleyball (6)	n/a	n/a	*n/a*	n/a	27.8%	*n/a*
Polsat 1 (7)	n/a	n/a	*n/a*	n/a	n/a	*n/a*

1) Nielsen Audience Measurement, percentage of TV households able to receive a given channel; arithmetical average of monthly technical reach.
2) Until June 9, 2014 the channel operated under the name "Polsat Biznes", currently it operates under "Polsat News 2".
3) Until April 29, 2014 the channel operated under "Polsat Viasat Explorer".
4) Channel broadcast since May 2014, data for the period of broadcasting.
5) Channel launched on September 26, 2014.
6) Channel broadcast from August 30 until September 21, 2014.
7) Channel broadcast outside of Poland, not included in the telemetric survey.

Thematic channels of Polsat Group are currently available on all significant cable and satellite platforms. Comparing data for both the fourth quarter and 12 months of 2015 with corresponding periods of 2014, the highest growth in technical reach was recorded by Polsat Romans, Disco Polo Music and MUZO.TV. The dynamics of channels created in cooperation with Viasat Broadcasting are worth emphasizing. Recently the distribution of the channels Polsat Viasat Explore, Polsat Viasat History and Polsat Viasat Nature was expanded to additional cable networks.

Advertising and sponsoring market share

According to SMG Poland (previously SMG Starlink) estimates, expenditures on TV advertising and sponsoring in the fourth quarter of 2015 amounted to PLN 1.2 billion and increased year-on-year by 5.5%. Based on these data, we estimate that, in the fourth quarter of 2015 our TV advertising market share amounted to 26.1%. In 2015, expenditures on TV advertising and sponsoring increased to PLN 4.0 billion, which constitutes a year-on-year increase of 4.6%. In the analyzed period our TV advertising market share increased year-on-year to 26.0% from 25.1%.

If we compare the portfolio of Polsat Group's channels, we generated 8.6% more GRPs in the fourth quarter of 2015 compared to the corresponding period of 2014.

4.5. Key positions in the consolidated income statement

Following the acquisition of Metelem Holding Company Limited on May 7, 2014, the consolidated financial statements of Polsat Group consolidate the results of Metelem and its subsidiaries, including the telecommunications operator Polkomtel. In connection with the above, in 2014 we have modified the presentation of operating revenue and operating costs in the consolidated income statement in order to better reflect the business model and strategy of our Group. Due to the final purchase allocation of Metelem the value of acquired assets and liabilities and share premium were restated for the period ended December 31, 2014.

Revenue

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

Retail revenue

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

Wholesale revenue

Our wholesale revenue comprises:

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

Sale of equipment

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

Other revenue

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

Operating costs

Operating costs consist of:

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

Content costs

Content costs consist of:

(i) programming license costs;

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

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

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

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

Distribution, marketing, customer relation management and retention cost

Distribution costs consist of (i) commissions due to our distributors and retail points of sale when they conclude sale or retention agreements with our customers for pay television and telecommunication services, (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, (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) cost of settlements with mobile network operators and interconnection charge; and
(ix) other costs.

Salaries and employee-related costs

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

Cost of equipment sold

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

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

In this group of costs we present:

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

Other costs

Key items of other costs include:

(i) the cost of SMART and SIM cards provided to customers;
(ii) the cost of licenses and other current assets sold;
(iii) legal, advisory and consulting costs;
(iv) property maintenance costs;
(v) taxes and other charges;
(vi) 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 expense on borrowings (including bank loans and bonds), foreign exchange gains/losses on bonds, realization and valuation costs of hedging instruments and instruments not under hedge accounting related to finance activities, bank and other charges on borrowings as well as guarantee fees resulting from the indebtedness. Borrowing costs are recognized in profit or loss using the effective interest method.

4.6. Review of our financial situation

The following review of results for the three month period ended December 31, 2015 was prepared based on the interim condensed consolidated financial statements for the three and twelve month periods ended December 31, 2015 prepared in accordance with International Financial Reporting Standard no. 34 and based on internal analyses.

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

In 2014, the results of Metelem and its subsidiaries ("Metelem Group"), acquired on May 7, 2014, were consolidated since the date of acquisition. Furthermore, on February 27, 2015 we acquired shares in Radio PIN S.A. and on April 1, 2015 – shares in Orsen Holding Ltd., therefore our results for the twelve month period ended December 31, 2015 are not fully comparable with the results for the corresponding period of 2014. For comparability reasons, in the following comparison of results for the twelve month period ended December 31, 2015 with results for the corresponding periods of 2014 we exclude, where possible, the effect of consolidation of the results of Metelem Group. However, given that the results of Radio PIN S.A. and Orsen Holdings Ltd. 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.

In the twelve-month-period ended December 31, 2015 the Group had finalized the estimations of fair values of acquired assets, liabilities and consideration transferred, which resulted in the restatement of comparable data in our consolidated financial statements. The depreciation, amortization, impairment and liquidation as well as income tax have not been restated in the comparable income statement due to the fact that the impact would have been immaterial.

4.6.1. Income statement analysis

Review of financial results for the 3-month period ended December 31, 2015 compared with the corresponding period of the prior year

Revenue

Our total revenue increased by PLN 88.8 million, or 3.5%, to PLN 2,609.9 million in the fourth quarter of 2015 from PLN 2,521.1 million in the fourth quarter of 2014.

	for the 3 month period ended December 31		change	
	2015	2014	[mPLN]	[%]
Retail revenue	1,620.6	1,701.7	(81.1)	(4.8%)
Wholesale revenue	738.0	641.1	96.9	15.1%
Sale of equipment	226.9	159.9	67.0	41.9%
Other revenue	24.4	18.4	6.0	32.6%
Revenue	**2,609.9**	**2,521.1**	**88.8**	**3.5%**

Retail revenue

Retail revenue decreased by PLN 81.1 million, or 4.8%, to PLN 1,620.6 million in the fourth quarter of 2015 from PLN 1,701.7 million in the fourth quarter of 2014. This decrease was primarily due to lower revenue from voice services caused by a highly competitive market, which was partially compensated by growing revenue from the mobile Internet access service.

Wholesale revenue

Wholesale revenue increased by PLN 96.9 million, or 15.1%, to PLN 738.0 million in the fourth quarter of 2015 from PLN 641.1 million in the fourth quarter of 2014. This increase was driven mainly by a significantly higher growth of the Group's advertising revenue compared to the dynamic of the TV advertising market, higher revenue from interconnection services as well as higher revenue from the lease of telecommunication infrastructure.

Sale of equipment

Revenue from the sale of equipment increased by PLN 67.0 million, or 41.9%, to PLN 226.9 million in the fourth quarter of 2015 from PLN 159.9 million in the fourth quarter of 2014. This increase was due to higher revenue from sales of contracts for telecommunication services with a subsidized device (due to higher unit prices of the equipment sold), higher revenue from installment plan sales, optimal management of inventories, as well as an increase in the sales of set-top boxes.

Other revenue

Other revenue increased by PLN 6.0 million, or 32.6%, to PLN 24.4 million in the fourth quarter of 2015 from PLN 18.4 million in the fourth quarter of 2014, i.a. due to an increase in revenue from interest on installment plan sales of equipment for residential customers.

Operating costs

Our total operating costs increased by PLN 33.9 million, or 1.6%, to PLN 2,159.3 million in the fourth quarter of 2015 from PLN 2,125.4 million in the fourth quarter of 2014. Operating costs grew for the reasons set forth below.

	for the 3 month period ended December 31		change	
	2015	2014	[mPLN]	[%]
Content costs	299.1	295.6	3.5	1.2%
Distribution, marketing, customer relation management and retention costs	220.1	218.3	1.8	0.9%
Depreciation, amortization, impairment and liquidation	436.7	443.8	(7.1)	(1.6%)
Technical costs and cost of settlements with telecommunication operators	585.1	557.2	27.9	5.0%
Salaries and employee-related costs	158.0	150.9	7.1	4.7%
Cost of equipment sold	393.6	376.6	17.0	4.5%
Cost of debt collection services and bad debt allowance and receivables written off	7.6	27.5	(19.9)	(72.4%)
Other costs	59.1	55.5	3.6	6.5%
Operating costs	**2,159.3**	**2,125.4**	**33.9**	**1.6%**

Content costs

Content costs increased by PLN 3.5 million, or 1.2%, to PLN 299.1 million in the fourth quarter of 2015 from PLN 295.6 million in the fourth quarter of 2014. This increase is the effect of higher internal TV production costs resulting from the expansion of our scheduling both on the main channel and on thematic channels, which was partially compensated by lower costs of programming licenses.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs increased by PLN 1.8 million, or 0.9%, to PLN 220.1 million in the fourth quarter of 2015 from PLN 218.3 million in the fourth quarter of 2014. This increase was due, among other things, to the fact that a higher amount of deferred distribution fees were charged to costs, which was partially compensated by lower costs in the area of customer service and retention as a result of achieved synergies within the integrated Group.

Depreciation, amortization, impairment and liquidation

Depreciation, amortization, impairment and liquidation costs decreased by PLN 7.1 million, or 1.6%, to PLN 436.7 million in the fourth quarter of 2015 from PLN 443.8 million in the fourth quarter of 2014, primarily as a result of lower costs of depreciation of the telecommunication infrastructure.

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with mobile network operators increased by PLN 27.9 million, or 5.0%, to PLN 585.1 million in the fourth quarter 2015 from PLN 557.2 million in the fourth quarter 2014. This increase is primarily due to higher interconnect costs than in 2014 and higher costs of data transmission within our broadband Internet access service, which result from the dynamic growth of our Internet user base, especially in the smartDOM program, and consequently a rapidly increasing volume of data transmitted by our customers.

Salaries and employee-related costs

Salaries and employee-related costs increased by PLN 7.1 million, or 4.7%, to PLN 158.0 million in the fourth quarter of 2015 from PLN 150.9 million in the fourth quarter of 2014, among others as a result of higher salaries in the television production and broadcasting segment.

Cost of equipment sold

Cost of equipment sold increased by PLN 17.0 million, or 4.5%, to PLN 393.6 million in the fourth quarter of 2015 from PLN 376.6 million in the fourth quarter of 2014. This increase was mainly driven by a higher volume of contracts for telecommunication services including equipment concluded in the fourth quarter of 2015 and an increase in the sales of set-top boxes.

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 19.9 million, or 72.4%, to PLN 7.6 million in the fourth quarter of 2015 from PLN 27.5 million in the fourth quarter of 2014, among others due to lower costs of write-offs on receivables.

Other costs

Other costs increased by PLN 3.6 million, or 6.5%, to PLN 59.1 million in the fourth quarter of 2015 from PLN 55.5 million in the fourth quarter of 2014, among others due to higher costs of SMART and SIM cards given to our customers, as well as higher costs of property maintenance and lease related to the acquisition of Teleaudio Dwa and Interphone Service, which are part of Orsen Holding Group.

Other operating income and costs, net

Other operating costs, net increased by PLN 4.0 million, or 181.8%, to PLN 6.2 million in the fourth quarter of 2015 from PLN 2.2 million in the fourth quarter of 2014.

Gains/losses on investment activities, net

Net losses on investment activities amounted to PLN 3.2 million in the fourth quarter of 2015, which constitutes a decrease of PLN 8.2 million, or 71.9%, compared to net losses on investment activities in the amount PLN 11.4 million in the fourth quarter of 2014, mainly due to lower foreign exchange costs related to the valuation of liabilities related to the UMTS license, which was due to a lower depreciation of the PLN versus the EUR in the fourth quarter of 2015 than in the corresponding period of 2014.

Finance costs

Finance costs amounted to PLN 270.0 million in the fourth quarter of 2015 and decreased by PLN 109.2 million, or 28.8%, compared to PLN 379.2 million in the fourth quarter of 2014. The decrease in finance costs was driven, among other things, by lower net foreign exchange costs related to the valuation of the PLK Senior Notes.

Net profit

Net profit increased by PLN 171.6 million, or 1,225.7%, to PLN 185.6 million in the fourth quarter of 2015 from PLN 14.0 million in the fourth quarter of 2014, primarily due to higher revenue and a significant reduction of finance costs.

EBITDA & EBITDA margin

EBITDA increased by PLN 43.8 million, or 5.2%, to PLN 881.1 million in the fourth quarter of 2015 from PLN 837.3 million in the fourth quarter of 2014. EBITDA margin increased by 0.6 p.p., to 33.8%, in the fourth quarter of 2015 from 33.2% in the fourth quarter of 2014.

Employment

The average employment of permanent workers not engaged in production in Cyfrowy Polsat Group, excluding workers who did not perform work in the reporting period due to long-term absences, was 4.986 full-time equivalents in the fourth quarter of 2015, as compared to 5,025 full-time equivalents in the corresponding period of 2014.

Comparison of financial results for the twelve month period ended December 31, 2015 with the results for the corresponding period of 2014

Revenue

Our total revenue increased by PLN 2,413.1 million, or 32.6%, to PLN 9,823.0 million in 2015 from PLN 7,409.9 million in 2014.

Excluding the effect of consolidation of the results of Metelem Group, our total revenue increased by PLN 140.3 million, or 4.4%, to PLN 3,300.4 million in 2015 from PLN 3,160.1 million in 2014. Revenue grew for the reasons set forth below.

	Results including Metelem Group	Results excluding Metelem Group			
	for the 12-month period ended December 31, 2015	for the 12 month period ended December 31		change	
		2015	2014	[mPLN]	[%]
Retail revenue	6,553.1	1,967.3	1,912.9	54.4	2.8%
Wholesale revenue	2,596.9	1,224.2	1,155.5	68.7	5.9%
Sale of equipment	583.4	68.0	54.5	13.5	24.8%
Other revenue	89.6	40.9	37.2	3.7	9.9%
Revenue	**9,823.0**	**3,300.4**	**3,160.1**	**140.3**	**4.4%**

Retail revenue

Retail revenue increased by PLN 1,468.4 million, or 28.9%, to PLN 6,553.1 million in 2015 from PLN 5,084.7 million in 2014.

Excluding the effect of consolidation of the results of Metelem Group, retail revenue increased by PLN 54.4 million, or 2.8%, to PLN 1,967.3 million in 2015 from PLN 1.912.9 million in 2014. This increase was primarily due to higher revenue from mobile Internet services and from pay TV subscription fees related mainly to the increasing popularity of the Multiroom service.

Wholesale revenue

Wholesale revenue increased by PLN 642.9 million, or 32.9%, to PLN 2,596.9 million in 2015 from PLN 1,954.0 million in 2014.

Excluding the effect of consolidation of the results of Metelem Group, wholesale revenue increased by PLN 68.7 million, or 5.9%, to PLN 1,224.2 million in 2015 from PLN 1,155.5 million in 2014. This increase was driven mainly by a significant increase of advertising revenue of the Group. Moreover, the factor that reduced the rate of growth of wholesale revenue was the recognition in 2014 of revenue related to the FIVB Volleyball Men's World Championship Poland 2014 (no such revenue in the analyzed period).

Sale of equipment

Revenue from the sale of equipment increased by PLN 256.1 million, or 78.2%, to PLN 583.4 million in 2015 from PLN 327.3 million in 2014.

Excluding the effect of consolidation of the results of Metelem Group, revenue from the sale of equipment increased by PLN 13.5 million, or 24.8%, to PLN 68.0 million in 2015 from PLN 54.5 million in 2014. This increase was primarily due to increased revenue from sales of set-top boxes and television sets and was partially offset by lower revenue from the sale of laptops, tablets, routers and DTT reception equipment.

Other revenue

Other revenue increased by PLN 45.7 million, or 104.1%, to PLN 89.6 million in 2015 from PLN 43.9 million in 2014.

Excluding the effect of consolidation of the results of Metelem Group, other revenue increased by PLN 3.7 million, or 9.9%, to PLN 40.9 million in 2015 from PLN 37.2 million in 2014, i.a. due to an increase in revenue from the lease of premises and equipment.

Operating costs

Our total operating costs increased by PLN 1,890.8 million, or 31.6%, to PLN 7,867.9 million in 2015 from PLN 5,977.1 million in 2014.

Excluding the effect of consolidation of the results of Metelem Group, our total operating costs increased by PLN 38.7 million, or 1.6%, to PLN 2,462.3 million in 2015 from PLN 2,423.6 million in 2014. Operating costs grew for the reasons set forth below.

	Results including Metelem Group	Results excluding Metelem Group			
	for the 12 month period ended December 31, 2015	for the 12 month period ended December 31		change	
		2015	2014	[mPLN]	[%]
Content costs	1,065.9	1,039.3	1,017.6	21.7	2.1%
Distribution, marketing, customer relation management and retention costs	802.6	324.5	330.4	(5.9)	(1.8%)
Depreciation, amortization, impairment and liquidation	1,699.3	272.2	263.4	8.8	3.3%
Technical costs and cost of settlements with mobile network operators	2,141.0	418.2	361.6	56.6	15.7%
Salaries and employee-related costs	550.2	196.7	191.2	5.5	2.9%
Cost of equipment sold	1,332.8	78.6	71.3	7.3	10.2%
Cost of debt collection services and bad debt allowance and receivables written off	62.6	25.4	38.9	(13.5)	(34.7%)
Other costs	213.5	107.4	149.2	(41.8)	(28.0%)
Operating costs	**7,867.9**	**2,462.3**	**2,423.6**	**38.7**	**1.6%**

Content costs

Content costs increased by PLN 36.4 million, or 3.5%, to PLN 1,065.9 million in 2015 from PLN 1,029.5 million in 2014.

Excluding the effect of consolidation of the results of Metelem Group, content costs increased by PLN 21.7 million, or 2.1%, to PLN 1,039.3 million in 2015 from PLN 1,017.6 million in 2014. This increase was caused mainly by higher costs of programming licenses resulting primarily from the depreciation of the PLN versus the USD and higher internal TV production costs and costs of amortization of film licenses resulting from the enhancement of our scheduling on our thematic channels, TV4 and TV6 in particular, as well as on the main channel. The dynamic of content costs was also influenced by lower costs of sport licenses due to costs related to the FIVB Volleyball Men's World Championship Poland 2014 recognized in the corresponding period of 2014, which was partially off-set by costs of licenses related to the Qualifiers to the UEFA European Championship, as well as the World Cup and 2015 Volleyball men's and women's European Championships recognized in the analyzed period.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs increased by PLN 189.9 million, or 31.0%, to PLN 802.6 million in 2015 from PLN 612.7 million in 2014.

Excluding the effect of consolidation of the results of Metelem Group, distribution, marketing, customer relation management and retention costs decreased by PLN 5.9 million, or 1.8%, to PLN 324.5 million in 2015 from PLN 330.4 million in 2014, among others due to lower costs in the areas of customer service and retention as a result of achieved synergies within the integrated Group.

Depreciation, amortization, impairment and liquidation

Depreciation, amortization, impairment and liquidation costs increased by PLN 403.4 million, or 31.1%, to PLN 1,699.3 million in 2015 from PLN 1,295.9 million in 2014.

Excluding the effect of consolidation of the results of Metelem Group, depreciation, amortization, impairment and liquidation costs increased by PLN 8.8 million, or 3.3%, to PLN 272.2 million in 2015 from PLN 263.4 million in 2014. This increase resulted primarily from higher costs of depreciation of equipment leased to customers of our satellite platform.

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with mobile network operators increased by PLN 728.6 million, or 51.6%, to PLN 2,141.0 million in 2015 from PLN 1,412.4 million in 2014.

Excluding the effect of consolidation of the results of Metelem Group, technical costs and cost of settlements increased by PLN 56.6 million, or 15.7%, to PLN 418.2 million in 2015 from PLN 361.6 million in 2014. This increase was primarily due to higher costs of data transfer in our broadband Internet access service, which resulted from the dynamic growth of our Internet user base in 2015, especially in the smartDOM program, and consequently a rapidly increasing volume of data transferred by users.

Salaries and employee-related costs

Salaries and employee-related costs increased by PLN 128.5 million, or 30.5%, to PLN 550.2 million in 2015 from PLN 421.7 million in 2014.

Excluding the effect of consolidation of the results of Metelem Group, salaries and employee-related costs increased by PLN 5.5 million, or 2.9%, to PLN 196.7 million in 2015 from PLN 191.2 million in 2014, among others as a result of higher salaries in the television production and broadcasting segment.

Cost of equipment sold

Cost of equipment sold increased by PLN 407.6 million, or 44.1%, to PLN 1,332.8 million in 2015 from PLN 925.2 million in 2014.

Excluding the effect of consolidation of the results of Metelem Group, the cost of equipment sold increased by PLN 7.3 million, or 10.2%, to PLN 78.6 million in 2015 from PLN 71.3 million in 2014. This increase was mainly due to higher sales of set-top boxes and TV sets, which was partially offset by lower sales of laptops, tablets and DTT reception equipment in 2015 as compared to 2014.

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

The cost of debt collection services and bad debt allowance and receivables written off decreased by PLN 5.0 million, or 7.4%, to PLN 62.6 million in 2015 from PLN 67.6 million in 2014.

Excluding the effect of consolidation of the results of Metelem Group, the cost of debt collection services and bad debt allowance and receivables written off decreased by PLN 13.5 million, or 34.7%, to PLN 25.4 million in 2015 from PLN 38.9 million in 2014, primarily due to lower costs of debt collection.

Other costs

Other costs increased by PLN 1.4 million, or 0.7%, to PLN 213.5 million in 2015 from PLN 212.1 million in 2014.

Excluding the effect of consolidation of the results of Metelem Group, other costs decreased by PLN 41.8 million, or 28.0%, to PLN 107.4 million in 2015 from PLN 149.2 million in 2014. This decrease is mainly the result of the recognition in 2014 of sales of marketing and broadcasting rights to the FIVB Volleyball Men's World Championship Poland 2014.

Other operating income/costs, net

Other operating income, net increased by PLN 21.1 million, or 219.8%, to PLN 30.7 million in 2015 from PLN 9.6 million in 2014.

Excluding the effect of consolidation of the results of Metelem Group, other operating income, net decreased by PLN 16.5 million, or 70.2%, to PLN 7.0 million in 2015 from PLN 23.5 million in 2014.

Gains/losses on investment activities, net

Net gains on investment activities decreased by PLN 6.6 million, or 43.4%, to PLN 8.6 million in 2015 from PLN 15.2 million in 2014.

Excluding the effect of consolidation of the results of Metelem Group, net losses on investment activities amounted to PLN 2.1 million in 2015, which constitutes a decrease by PLN 7.5 million compared to net gains on investment activities equal to PLN 5.4 in 2014. This decrease is mainly due to the recognition of profits from USD forward transactions in the 2014.

Finance costs

Finance costs decreased by PLN 481.4 million, or 42.0%, to PLN 664.6 million in 2015 from PLN 1,146.0 million in 2014.

Excluding the effect of consolidation of the results of Metelem Group, finance costs decreased by PLN 160.9 million, or 54.7%, to PLN 133.4 million in 2015 from PLN 294.3 million in 2014. The decrease in finance costs in 2015 was influenced, among other things, by a non-cash operation related to the refinancing of the Company's debt, consisting in a write-off of the costs of acquisition of financing under the Refinanced CP SFA related to its premature repayment on September 28, 2015. Additionally, the decrease in the level of finance costs was caused by bank charges, incurred in 2014 related to the premature redemption in May 2014 of the 350 million EUR Senior Notes issued in 2011 by Cyfrowy Polsat Finance and hence the lack of interest costs and foreign exchange costs related to the aforementioned notes.

Net profit

Net profit increased by PLN 870.9 million, or 297.7%, to PLN 1,163.4 million in 2015 from PLN 292.5 million in 2014.

Excluding the effect of consolidation of the results of Metelem Group, net profit increased by PLN 186.5 million, or 45.3%, to PLN 598.2 million in 2015 from PLN 411.7 million in 2014, primarily due to higher revenue and a significant reduction of finance costs.

EBITDA & EBITDA margin

EBITDA increased by PLN 946.8 million, or 34.6%, to PLN 3,685.1 million in 2015 from PLN 2,738.3 million in 2014. EBITDA margin increased by 0.5 p.p. to 37.5% in 2015 from 37.0% in 2014.

Excluding the effect of consolidation of the results of Metelem Group, EBITDA increased by PLN 93.9 million, or 9.2%, to PLN 1,117.3 million in 2015 from PLN 1,023.4 million in 2014. EBITDA margin increased by 1.5 pp. to 33.9% in 2015 from 32.4% in 2014.

Employment

The average employment of permanent workers not engaged in production in Cyfrowy Polsat Group, excluding workers who did not perform work in the reporting period due to long-term absences, was 5,033 full-time equivalents in 2015, as compared to 3,830 full-time equivalents in the corresponding period of 2014. The increase in employment in 2015 was due to the acquisition of Metelem Group on May 7, 2014 and the companies Teleaudio Dwa and Interphone Service.

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.

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 (postpaid and mix) which generate revenues mainly from interconnection revenues, settlements with mobile network operators and subscription fees;
- mobile telecommunication prepaid services which generate revenues mainly from interconnection revenues and settlements with mobile network operators;
- providing access to broadband Internet which generates revenues mainly from traffic and subscription fees;
- telecommunication wholesale services, including international and domestic roaming as well as telecommunication infrastructure sharing services;

- online TV services (IPLA), 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 year 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)	-
Revenues	**8,709.2**	**1,299.9**	**(186.1)**	**9,823.0**
EBITDA (unaudited)	**3,240.0**	**445.1**	**-**	**3,685.1**
Depreciation, amortization, impairment and liquidation	1,660.5	38.8	-	1,699.3
Profit from operating activities	**1,579.5**	**406.3**	**-**	**1,985.8**
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)	**26,490.1**
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.

All material revenues are generated in Poland.

It should be noted that the year ended December 31, 2015 is not comparable to the year ended December 31, 2014 as Metelem Holding Company Limited was acquired on May 7, 2014 (allocated to the Services to individual and business customers segment), Radio PIN S.A. was acquired on February 27, 2015 (allocated to the Broadcasting and television production segment) and Orsen Holding Ltd. was acquired on April 1, 2015 (allocated to the Services to individual and business customers segment).

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

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

* This item also includes the acquisition of reception equipment for operating lease purposes.
** Includes non-current assets located outside of Poland in the amount of PLN 40.5 million.

Reconciliation of EBITDA and net profit for the period:

	for the year ended December 31, 2015	for the year ended December 31, 2014
EBITDA (unaudited)	**3,685.1**	**2,738.3**
Depreciation, amortization, impairment and liquidation	(1,699.3)	(1,295.9)
Profit from operating activities	**1,985.8**	**1,442.4**
Other foreign exchange rate differences, net	(0.7)	(23.8)
Interest income	33.1	45.7
Share of the profit of a joint venture accounted for using the equity method	2.6	2.6
Cumulative catch-up	616.2	-
Interest costs	(789.1)	(690.0)
Foreign exchange differences on issued bonds	(223.6)	(360.8)
Early redemption costs	(244.8)	(82.1)
Other	(47.1)	(21.6)
Gross profit for the period	**1,332.4**	**314.2**
Income tax	(169.0)	(21.7)
Net profit for the period	**1,163.4**	**292.5**

4.6.3. Balance sheet analysis

As at December 31, 2015 and December 31, 2014, our balance sheet amounted to PLN 26,490.1 million and PLN 27,338.7 million, respectively.

Assets

As at December 31, 2015 and December 31, 2014, our non-current assets were PLN 22,261.2 million and PLN 23,356.1 million, respectively, and accounted for 84.0% and 85.4% of the total assets, respectively.

As at December 31, 2015 and December 31, 2014, our current assets amounted to PLN 4,228.9 million and PLN 3,982.6 million, respectively, and accounted for 16.0% and 14.6% of the total assets, respectively.

The value of reception equipment amounted to PLN 371.0 million as at December 31, 2015 and decreased by PLN 50.1 million, or 11.9%, compared to PLN 421.1 million as at December 31, 2014.

The value of other property, plant and equipment decreased by PLN 166.3 million, or 6.1%, to PLN 2,548.6 million as at December 31, 2015 from PLN 2,714.9 million as at December 31, 2014, mainly due to the depreciation of our telecommunication infrastructure.

The value of goodwill increased by PLN 21.1 million, or 0.2%, to PLN 10,606.4 million as at December 31, 2015 from PLN 10,585.3 million as at December 31, 2014 as an effect of the acquisition of Radio PIN S.A. and Orsen Holding Ltd.

The value of customer relationships decreased by PLN 617.3 million, or 14.5%, to PLN 3,638.5 million as at December 31, 2015 compared to PLN 4,255.8 million as at December 31, 2014, i.a. due to amortization costs for 2015. The key component of this position is the valuation of Polkomtel's relationships with individual and business customers, who have signed term agreements with the operator as well as customers of prepaid services.

As at December 31, 2015, the value of brands was PLN 2,080.6 million, which constitutes a decrease by PLN 5.3 million, or 0.3%, to PLN 2,085.9 million as at December 31, 2014, primarily due to recognition of the amortization of the Plus trademark in 2015.

The value of other intangible assets amounted to PLN 2,422.2 million as at December 31, 2015 which constitutes a decrease of PLN 169.2 million, or 6.5%, compared to PLN 2,591.4 million as at December 31, 2014. The main reason behind this decrease is the amortization of telecommunication licenses.

The value of non-current and current programming assets increased by PLN 49.3 million, or 17.1%, to PLN 337.2 million as at December 31, 2015 from PLN 287.9 million as at December 31, 2014. The increase was mainly due to the purchase of additional film rights and sport rights and licenses related to the expansion of our scheduling which translates into higher attractiveness of our programming offer and therefore has a positive impact on the viewership results of our channels.

Investment property amounted to PLN 5.2 million as at December 31, 2015 and remained almost unchanged compared to PLN 5.3 million as at December 31, 2014.

The value of non-current and current deferred distribution fees increased by PLN 73.3 million, or by 32.9%, to PLN 296.0 million as at December 31, 2015 from PLN 222.7 million as at December 31, 2014 mainly due to an increase in the value of current deferred distribution fees.

The value of other non-current assets amounted to PLN 272.8 million as at December 31, 2015 and increased by PLN 74.3 million, or 37.4%, compared to PLN 198.5 million as at December 31, 2014, i.a. as a result of an increase of receivables from installment plan sales of equipment.

The value of deferred tax assets amounted to PLN 87.6 million as at December 31, 2015, which constitutes a decrease of PLN 193.5 million, or 68.8%, compared to PLN 281.1 million as at December 31, 2014. This decrease is primarily the result of a write-off of deferred tax assets related to the reevaluation of the PLK Senior Notes according to the amortized cost method in connection with the planned premature redemption at the end of January 2016.

The value of inventories was PLN 281.0 million as at December 31, 2015 and decreased by PLN 20.4 million, or 6.8%, from PLN 301.4 million as at December 31, 2014. This change was caused primarily by a fall in the stock of set-top boxes, tablets and laptops, which was partially compensated by a higher stock of handsets, modems and accessories.

The value of trade and other receivables increased by PLN 165.7 million, or 11.4%, to PLN 1,619.1 million as at December 31, 2015 from PLN 1,453.4 million as at December 31, 2014, among others due to higher trade receivables from third parties, as well as receivables for advertising and sponsorship and higher public receivables.

The value of other current assets amounted to PLN 399.5 million as at December 31, 2015, which constitutes an increase of PLN 239.4 million, or 149.5%, compared to PLN 160.1 million as at December 31, 2014, primarily due to the purchase of a data package under certain agreements with Midas Group.

The value of cash and cash equivalents and restricted cash decreased by PLN 224.2 million, or 12.8%, to PLN 1,523.7 million as at December 31, 2015 from PLN 1,747.9 million as at December 31, 2014. This change was caused mainly by the repayment of the total outstanding debt under the Refinanced CP and PLK Senior Facilities Agreements and the drawing of new loans under the Senior Facilities Agreements of September 21, 2015 and the issue of Series A Bonds on July 21, 2015.

Equity and liabilities

Equity increased by PLN 1,171.9 million, or by 12.9%, to PLN 10,250.1 million as at December 31, 2015 from PLN 9,078.2 million as at December 31, 2014, primarily due to profit generated in 2015 in the amount of PLN 1,163.4 million.

As at December 31, 2015 and December 31, 2014 the value of our non-current liabilities amounted to PLN 7,773.5 million and PLN 14,093.3 million, which constituted 47.9% and 77.2% of the Group's total liabilities, respectively.

As at December 31, 2015 and December 31, 2014 the value of our current liabilities amounted to PLN 8,466.5 million and PLN 4,167.2 million, which constituted 52.1% and 22.8% of the Group's total liabilities, respectively.

Loans and borrowings (long- and short-term) decreased by PLN 2,395.4 million, or 26.6%, to PLN 6,610.7 million as at December 31, 2015 from PLN 9,006.1 million. This change is mainly the effect of the repayment of the entire capital and interest under the Refinanced CP SFA dated April 11, 2014 and the Refinanced PLK SFA dated June 17, 2013, and taking out term loans with a lower total nominal value under the SFA agreements dated September 21, 2015.

Senior Notes liabilities (long- and short-term) increased by PLN 737.4 million or by 14.7%, to PLN 5,752.0 million as at December 31, 2015 from PLN 5,014.6 million as at December 31, 2014. The increase of this item is primarily the effect of the issue of Series A Bonds on July 21, 2015 and the reevaluation of the PLK Senior Notes according to the amortized cost method in connection with the planned premature redemption at the end of January 2016 (which resulted in the recognition of a provision for the premium for the premature redemption of the PLK Senior Notes, partially compensated by a one-off write-off of a majority of the surplus on the fair valuation of the PLK Senior Notes over their nominal value and the payment of interest on the PLK Senior Notes in 2015).

Finance lease liabilities (long- and short-term) amounted to PLN 25.2 million as at December 31, 2015 and increased by PLN 6.7 million, or 36.2%, from PLN 18.5 million as at December 31, 2014.

UMTS license liabilities (long- and short-term) decreased by PLN 97.6 million, or 11.3%, to PLN 769.8 million as at December 31, 2015 from PLN 867.4 million as at December 31, 2014, mainly due to the installment payment for the license made in September 2015.

Deferred income tax liabilities decreased by PLN 292.9 million, or 32.2%, to PLN 615.8 million as at December 31, 2015 from PLN 908.7 million as at December 31, 2014.

Non-current and current deferred income amounted to PLN 680.8 million as at December 31, 2015, which constitutes a decrease by PLN 7.8 million, or 1.1%, compared to PLN 688.6 million as at December 31, 2014.

The value of other non-current liabilities and provisions amounted to PLN 124.2 million as at December 31, 2015, which constitutes a decrease by PLN 60.0 million, or 32.6%, compared to PLN 184.2 million as at December 31, 2014. This change was due, among other things, to a decrease in liabilities related to IRS/CIRS hedging instruments.

The value of trade and other payables amounted to PLN 1,485.4 million as at December 31, 2015 which constitutes a decrease by PLN 39.0 million, or 2.6%, compared to PLN 1,524.4 million as at December 31, 2014. This decrease is primarily the effect of lower trade liabilities towards third-parties as well as lower liabilities related to the purchase of non-current and intangible assets, partially offset by higher liabilities related to the purchase of programming assets and higher public liabilities, as well as higher accruals.

Income tax liabilities increased by PLN 128.1 million, or 266.9%, to PLN 176.1 million as at December 31, 2015 from PLN 48.0 million as at December 31, 2014, due to the settlement of corporate income tax by Polkomtel 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, 2015 and 2014.

mPLN	Data including group Metelem for the 12-month period ended December 31		Data excluding group Metelem for the 12-month period ended December 31	
	2015	2014	2015	2014
Net cash from operating activities	2,887.7	1,973.9	751.7	705.9
Net cash from/(used in) investing activities	(726.6)	972.8	(110.5)	(996.6)
Net cash from/(used in) financing activities	(2,386.7)	(1,542.9)	(341.2)	72.6
Net increase in cash and cash equivalents	(225.6)	1,403.8	300.0	(218.1)

Net cash from operating activities

Net cash from operating activities amounted to PLN 2,887.7 million in 2015, which constitutes an increase of PLN 913.8 million compared to PLN 1,973.9 million in 2014.

Excluding the effect of consolidation of Metelem Group, net cash from operating activities amounted to PLN 751.7 million in 2015 and increased by PLN 45.8 million compared to net cash from operating activities generated in 2014. The increase in net cash from operating activities was mainly the result of higher net profit by PLN 186.5 million in 2015, amounting to PLN 598.2 million, adjusted by a series of factors, the most significant being:

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

Net cash used in investing activities

Net cash used in investing activities amounted to PLN 726.6 million in 2015 and comprised primarily expenditures on the purchase of property, plant and equipment, as well as intangible assets in the amount of PLN 583.1 million, payment for the UMTS concession in the amount of PLN 118.7 million as well expenditures related to the acquisition of shares in Radio PIN S.A. and Orsen Holding Ltd., net of cash acquired.

Excluding the effect of consolidation of Metelem Group, net cash used in investing activities amounted to PLN 110.5 million in 2015 and comprised mainly capital expenditure on the purchase of property, plant and equipment, and intangible assets in the amount of PLN 78.2 million as well as expenditures related to the acquisition of shares Orsen Holding Ltd. and Radio PIN S.A. (currently Muzo.fm Sp. z o.o.), net of cash acquired.

Net cash from/(used in) finance activities

Net cash used in financing activities amounted to PLN 2,386.7 million in 2015, which constitutes an increase by PLN 843.8 million compared to PLN 1.542.9 million in 2014. The increase was driven primarily by the repayment in full of the Refinanced CP and PLK Term Loans, the payment of interest on loans and expenses related to the issue of the Series A Notes, which was partially offset by higher inflows than in the compared period related to the new term facilities drawn under the SFA agreements of September 21, 2015, and from the issue of Series A Notes on July 21, 2015, compared to an outflow related to the redemption of the Senior Notes in 2014 and the payment of dividends in 2014 (no such outflow in 2015).

Excluding the effect of consolidation of Metelem Group, net cash used in financing activities amounted to PLN 341.2 million in 2015, which constitutes an increase by PLN 413.8 million compared to net cash obtained from financing activities equal to PLN 72.6 million in 2014. Increased outflows were caused mainly by the repayment of the Refinanced CP Term Loan and lower inflows from new loans drawn in 2015 compared to 2014, which was compensated by inflows from the issue of the Series A Notes on July 21, 2015, compared to an outflow related to the redemption of the Senior Notes in 2014 and the payment of dividends in 2014 (no such outflow in 2015).

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

In 2015 cash expenditures of Polsat Group on the purchase of property, plant and equipment and intangible assets amounted to PLN 583.1 million and comprised among others, the continued extension of telecommunications networks as well as the implementation of the HD-Voice technology in order to accommodate the increasing volume of data transmission and to ensure the highest quality of telecommunication services expected by our customers, modernization of the intelligent network platform, which manages prepaid services, the acquisition of a new data warehouse, investments related to the development of our offer, sales and customer service processes, expenditures related to the construction of the new recording studio, as well as the purchase of cameras and television equipment to meet the needs of TV Polsat as well as the purchase of IT software and licenses.

Excluding the effect of consolidation of Metelem Group, cash expenditures of Polsat Group on the purchase of property, plant and equipment and intangible assets in 2015 amounted to PLN 78.2 million and comprised among others, the purchase of IT software and licenses, expenditures related to the maintenance, modernization and development of IT systems, expenditures related to the construction of the new recording studio, as well as the purchase of cameras and television equipment to meet the needs of TV Polsat as well as payments for TV4 and TV6 licenses.

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.

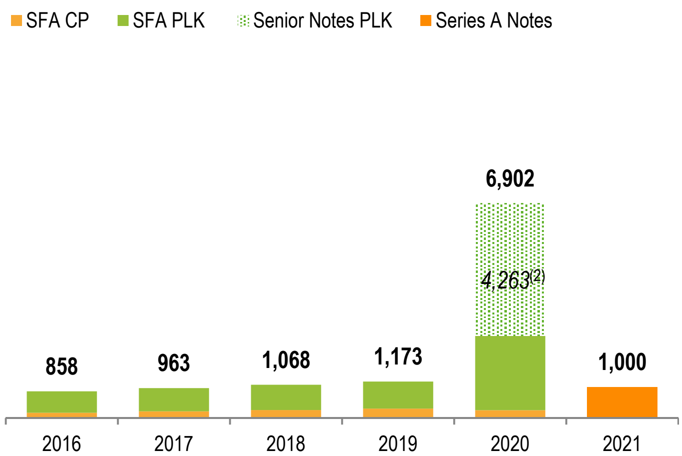
The table below presents a summary of the indebtedness of the Group as at December 31, 2015.

	Balance value [mPLN]	Nominal value [mPLN]	Currency	Coupon / interest	Maturity date
CP Term Facility	1,187.7	1,200.0	PLN	WIBOR + margin	2020
CP Revolving Facility Loan	0.0	0.0	PLN	WIBOR + margin	2020
PLK Term Facility	5,423.0	5,500.0	PLN	WIBOR + margin	2020
PLK Revolving Facility Loan 1)	0.0	0.0	PLN	WIBOR + margin	2020
Series A Notes	1,017.7	1,000.0	PLN	WIBOR+2.5%	2021
PLK Senior Notes (EUR) 2)	2,569.2	2,311.9	EUR	11.75%	2020
PLK Senior Notes (USD) 3)	2,165.1	1,950.6	USD	11.63%	2020
Leasing	25.2	25.2	PLN	-	-
Cash and cash equivalents 4)	1,523.7	1,523.7	PLN	-	-
Net debt	**10,864.2**	**10,464.0**			
EBITDA LTM	3,685.1	3,685.1			
Net debt / EBITDA LTM	**2.95**	**2.84**			

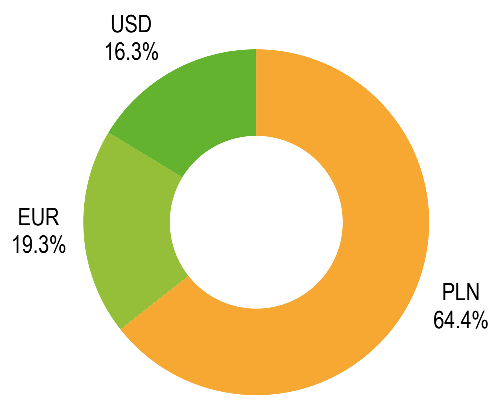
1) As at December 31, 2015 we drew funds in the amount of PLN 5,500.0 million under the PLK Term Loan. The remaining available funds in the amount of PLN 4,800.0 million were drawn in January 2016 in relation to the repayment and redemption of the PLK Senior Notes.
2) Equivalent of the nominal value of EUR 542.5m, translated at the average PLN/EUR foreign exchange rate of the Polish National Bank of 4.2615 as at December 31, 2015. Balance value estimated to fair value at the moment of purchase of Metelem.
3) Equivalent of the nominal value of USD 500m, translated at the average PLN/USD foreign exchange rate of the Polish National Bank of 3.9011 as at December 31, 2015. Balance value estimated to fair value at the moment of purchase of Metelem.
4) This position comprises cash and cash equivalents, including restricted cash, as well as short-term deposits.

The graphs below present the aging balance of the Group's debt and its currency composition as at December 31, 2015, expressed in nominal values.

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



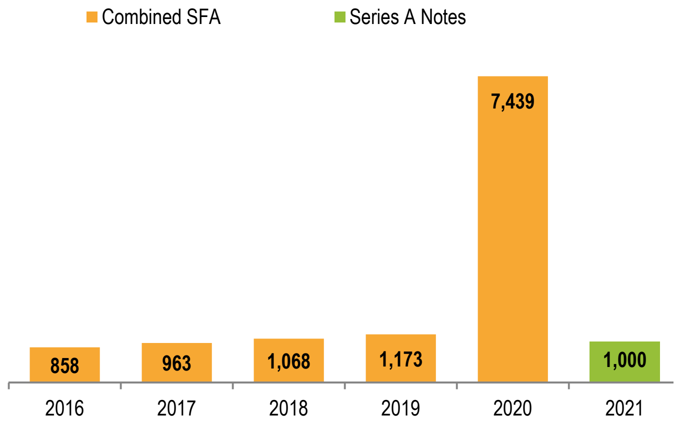
Debt currency composition (1)
as at December 31, 2015



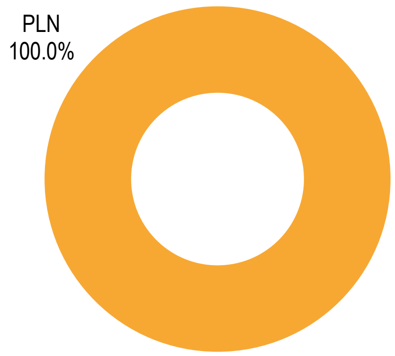
(1) Nominal value of debt, excluding the CP and PLK Revolving Facility Loans (not used as at December 31, 2015).
(2) Equivalent of the nominal value of EUR 542.5m and USD 500m PLK Senior Notes calculated at the average foreign exchange rates of the Polish National Bank as at December 31, 2015 of PLN/EUR 4.2615 and PLN/USD 3.9011, respectively. In connection with the finalization of the process of refinancing and the redemption of the PLK Senior Notes on February 1, 2016, indebtedness under the PLK Senior Notes is presented as current liabilities from issued bonds in the consolidated balance sheet as at December 31, 2015.

On February 1, 2016 the Group redeemed in full the PLK Senior Notes using the funds obtained under the PLK Senior Facilities Agreement. Consequently, as at the date of preparation of this Report the entire indebtedness of the Group is denominated in Polish zloty. Furthermore, pursuant to the Amendment, Restatement and Consolidation Deed of September 21, 2015, certain amendments were incorporated to the CP SFA, consisting, in particular, in increasing the maximum amount of the CP Term Loan to PLN 11,500.0 million and of the CP Revolving Facility to PLN 1,000.0 million and the repayment in full of the indebtedness under the PLK SFA. The graph below presents the aging balance of the Group's debt as at February 26, 2016, expressed in nominal values.

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



Debt currency structure (1)
as at February 26, 2016



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

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

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

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

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

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

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

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

Pursuant to the Combined Facilities Agreement the Company and its Group companies established certain collaterals for the credit facilities granted thereunder. In particular, these collaterals include registered pledges on collections of movables and economic interests of variable composition comprised in the enterprise of the Company and its selected subsidiaries, registered and financial pledges on shares in the Company's subsidiaries, registered and financial pledges on receivables related to bank accounts kept for the Company or its selected subsidiaries, ordinary and registered pledges on selected trademarks, assignments of rights for security, mortgages, notarial submissions to enforcement and similar collaterals on shares or assets of the Company's subsidiaries, to be governed by foreign laws. A detailed description of established securities is presented in item 4.6.6. 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.

PLK Senior Facilities Agreement

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 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 Citicorp Trustee Company Limited as the Security Agent (the "PLK Facilities Agreement").

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. 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 PLK SFA to finance general corporate needs of the Group.

In connection with the premature redemption on February 1, 2016 of the PLK Senior Notes and pursuant to the provisions of the Amendment, Restatement and Consolidation Deed of September 21, 2015, the entire indebtedness under PLK Facilities Agreement were repaid on a cashless basis, from funds made available to Polkomtel under the Combined SFA and Polkomtel and other subsidiaries of the Company have acceded to the Combined SFA as a borrower and guarantor or a guarantor, on terms described above in item - *CP Senior Facilities Agreement (converted into the Combined SFA after the balance date)*.

Pursuant to the Intercreditor Agreement of June 30, 2011, claims related to the PLK Facilities Agreement are secured by collaterals established by Polkomtel and other members of the Group as a security for, among other things, the claims under the Senior Facilities Agreement of June 17, 2013 concluded between Polkomtel (as the borrower) and a consortium of banks (the “Refinanced PLK Facilities Agreement”). As a result of the redemption of the PLK Senior Notes and the repayment of the PLK SFA, the security interests established in connection with the debts contracted under the aforementioned finance documents were released. On January 29, 2016, Polkomtel, other members of Group and UniCredit Bank AG, London Branch, executed and signed certain agreements and further documents concerning the establishment of additional securities in connection with the amendment of the CP Facilities Agreement on the basis of the Amendment, Restatement and Consolidation Deed and the accession thereto, as creditor and/or guarantor, of Polkomtel and other subsidiaries of the Company. A detailed description of established securities is presented in item 4.6.6. of this Report - *Information on guarantees granted by the Company or subsidiaries.*

Amendment, Restatement and Consolidation Deed

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(iii) granting loans;

(iv) disposing of assets;

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

(vi) incurring of financial indebtedness and

(vii) entering into composition agreements.

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

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

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

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

Contractual obligations

Commitments to purchase programming assets

As at December 31, 2015 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, 2015	December 31, 2014
within one year	178.1	117.0
between 1 to 5 years	116.4	104.4
Total	**294.5**	**221.4**

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

[mPLN]	December 31, 2015	December 31, 2014
within one year	15.9	13.6
Total	**15.9**	**13.6**

Contractual liabilities related to purchases of non-current assets

The total amount of contractual liabilities resulting from agreements on the production and purchasing of property, plant and equipment was PLN 136.3 million as at December 31, 2015 (PLN 203.7 million as at December 31, 2014). Total amount of contractual liabilities resulting from agreements for the purchases of intangible assets as at December 31, 2015 was PLN 63.8 million (PLN 72.1 million as at December 31, 2014).

Contractual liabilities related to purchases of data transmission services

The total amount of contractual liabilities resulting from the agreement on the purchase of data transmission services as at December 31, 2015 was PLN 2,777.2 million.

Ratings

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

	Moody's Investor Services			Standard & Poor's Rating Services		
	Rating / perspective	Previous rating/ perspective	Update	Rating / perspective	Previous rating/ perspective	Update
CYFROWY POLSAT						
Corporate rating	Ba3 /positive	Ba3/stable	22.09.2015	BB+/stable	BB/ CreditWatch Positive	25.09.2015
METELEM						
Corporate rating	-	-	-	BB+/stable	BB/ CreditWatch Positive	25.09.2015
EILEME 2						
Corporate rating	Ba3/stable	B1/stable	13.05.2014	-	-	-
PLK Senior Notes (EUR 542.2m)	B2/stable	B3/stable	13.05.2014	BB-/stable	B+/ CreditWatch Positive	25.09.2015
PLK Senior Notes (USD 500m)	B2/stable	B3/stable	13.05.2014	BB-/stable	B+/ CreditWatch Positive	25.09.2015

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

On September 25, 2015 Standard & Poor's Rating Services, among others:

- upgraded its long-term corporate credit rating on the Company from "BB" to "BB+" with a stable outlook;
- upgraded its long-term corporate credit rating from "BB" to "BB+" with a stable outlook on Metelem;
- upgraded its issue rating from "B+" to "BB-" with a stable outlook on the EUR 542.5 million and USD 500.0 million senior notes issued on January 26, 2012 by Eileme 2.

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

4.6.6. Information on guarantees granted by the Company or subsidiaries

Securities related to the PLK Senior Facilities Agreement and PLK Senior Notes (released after the balance date)

A number of encumbrances over assets of Metelem and its subsidiaries were established by Polkomtel and its related parties in favor of Citicorp Trustee Company Limited, acting as security agent of the PLK Senior Facilities Agreement, to secure the repayment of debt under the PLK Senior Facilities Agreement and the PLK Senior Notes. It must be emphasized that in connection with the repayment on January 29, 2016 of the total indebtedness under the PLK Senior Facilities Agreement and the PLK Senior Notes, all the securities mentioned below were released.

(i) financial and registered pledges over shares of Polkomtel, Polkomtel Business Development Sp. z o.o., Nordisk Polska Sp. z o.o., Plus TM Management, TM Rental Sp. z o.o. (previously Plus TM Group S.K.A.), New Media Ventures Sp. z o.o. and Paszport Korzyści Sp. z o.o. and shares of Liberty Poland S.A., governed by Polish laws;

(ii) pledges over shares of LTE Holdings, Polkomtel Finance, Eileme 2, Eileme 3 and Eileme 4, governed by the laws of the companies' respective jurisdictions;

(iii) registered pledges over various objects and rights comprising corporate assets of the following companies: Polkomtel, TM Rental Sp. z o.o. (previously Plus TM Group S.K.A.) and Plus TM Management, governed by Polish laws;

(iv) registered pledges and civil-law pledges over rights to trademarks owned by Plus TM Management, governed by Polish laws;

(v) financial pledges and registered pledges over receivables under bank account agreements of the following companies: Polkomtel, Eileme 3, Eileme 4, TM Rental Sp. z o.o. (previously Plus TM Group S.K.A.), Plus TM Management, governed by Polish laws;

(vi) pledges over receivables under bank account agreements of the following companies: Eileme 3, Eileme 4, governed by Swedish laws;

(vii) financial and registered pledges over Series D and E, as well as Series F Notes (intra-group bonds issued by Metelem subsidiaries), governed by Polish laws;

(viii) financial pledges over Series 1/2015, 2/2015,3/2015 and 4/2015 Notes issued on April 30, 2015 by Plus TM Management in favor of Polkomtel;

(ix) pledges and letters of confirmation for pledges over Eileme 2 Promissory Notes and Eileme 3 Promissory Notes (intra-group bonds issued by Metelem subsidiaries), governed by Swedish laws;

(x) authorizations to administer bank accounts of the following companies: Polkomtel, Eileme 3, Eileme 4, TM Rental Sp. z o.o. (previously Plus TM Group S.K.A.), Plus TM Management, governed by Polish laws;

(xi) assignment by way of security of receivables under insurance contracts payable to Polkomtel, governed by Polish laws;

(xii) assignment by way of security of Polkomtel's rights under currency and exchange rate risk hedging agreements, governed by English laws;

(xiii) assignment by way of security of the rights of Polkomtel and LTE Holdings under the Additional LTE Agreement (agreement concluded on November 9, 2011 between Spartan (whose legal successor is Polkomtel), Ortholuck, Litenite, Eileme Companies and PLK Senior Facilities Agreement Security Agent),the agreement on the option to purchase 51% of Litenite shares, pledge over those shares, and pledge over LTE Holdings shares, governed by English laws;

(xiv) assignment by way of security of rights under licensing agreements executed by TM Rental Sp. z o.o. (previously Plus TM Group S.K.A.) and of rights under licensing agreements executed by Plus TM Management, governed by Polish law;

(xv) assignment by way of security of rights under managerial contracts executed by Plus TM Management, governed by Polish laws;

(xvi) contractual mortgage over properties owned by Polkomtel, governed by Polish laws;

(xvii) declarations by Polkomtel, TM Rental Sp. z o.o. (previously Plus TM Group S.K.A.) and Plus TM Management on compliance with enforcement action in respect of the duty to pay, governed by Polish laws;

(xviii) declarations by Eileme 3 and Plus TM Group, whose legal successor as at December 31, 2015 is Polkomtel, on compliance with enforcement action in respect of the duty to deliver Notes documents, governed by Polish laws;

(xix) declarations by Polkomtel on compliance with enforcement action in respect of the duty to deliver shares of Liberty S.A., governed by Polish laws; and

(xx) guarantees provided by Polkomtel, Eileme 3, Eileme 4, TM Rental Sp. z o.o. (previously Plus TM Group S.K.A.) and Plus TM Management under the PLK Senior Facilities Agreement and the PLK Senior Notes Indenture, governed by the respective applicable laws of the financing agreements.

Securities related to the Combined Senior Facilities Agreement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Furthermore, in connection with the repayment of the indebtedness under the PLK Senior Notes on January 29, 2016 and the resulting amendment of the CP SFA (see item 4.6.5 above - *Senior Facilities Agreements executed by the Group until the date of preparation of this Report*), to which Polkomtel and other subsidiaries of the Company have acceded as a borrower and guarantor, on January 29, 2016, Polkomtel, other members of the Group referred to below and UniCredit Bank AG, London Branch, executed and signed certain agreements and further documents concerning the establishment of additional security interests to secure the repayment of claims under the Combined SFA:

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

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

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

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

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

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

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

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

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

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

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

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

4.7. Information on market risks

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

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

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

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

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

It is permitted to use the following types of instruments:

- swaps,
- forwards and futures,
- options.

Currency risk

One of the main risks that the Group is exposed to is currency risk resulting from fluctuations in exchange rate of the Polish zloty against other currencies. Revenues generated by the Group are denominated primarily in the Polish zloty, while a portion of operating costs and capital expenditures are incurred in foreign currencies. The Parent's currency risk is associated mainly to royalties to TV and radio broadcasters (USD and EUR), transponder capacity leases (EUR), fees for conditional access system (EUR) and purchases of reception equipment and accessories for reception equipment (USD and EUR). After the purchase of Telewizja Polsat Sp. z o.o. currency risk exposure is also associated to purchases of foreign programming licenses (USD). After the purchase of Metelem Holding Company Ltd. currency risk exposure is also associated to UMTS license liabilities (EUR), agreements with suppliers of stock, mainly mobile phones, and suppliers of telecommunication network equipment (EUR), roaming and interconnect agreements and some agreements concerning rental of space required for network locations and rental of office space (various currencies). Furthermore, acquisition of Metelem Holding Company Ltd. resulted in risk exposure related to EUR- and USD-denominated bonds.

In respect of license fees and transponder capacity leases, the Group partly reduces its currency risk exposure by means of an economic hedge as it denominates receivables from signal broadcast and marketing services in foreign currencies. Some currency risk, related to operational and interest payments, is hedged by forwards and cross-currency interest rate swaps.

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

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

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)
Gross balance sheet exposure	**(734.2)**	**(520.1)**	**1.9**	**-**	**2.5**	**(0.4)**
Forward transactions	390.9	482.1	-	-	-	-
Net exposure	**(343.3)**	**(38.0)**	**1.9**	**-**	**2.5**	**(0.4)**

mPLN	December 31, 2014					
	EUR	USD	CHF	GBP	SEK	XDR
Trade receivables	6.3	1.0	-	-	0.4	0.3
Cash and cash equivalents	10.0	11.4	1.3	0.1	-	-
Senior Notes	(670.9)	(614.5)	-	-	-	-
UMTS license liabilities	(203.5)	-	-	-	-	-
Trade payables	(5.8)	(12.8)	(0.2)	-	-	(0.7)
Gross balance sheet exposure	**(863.9)**	**(614.9)**	**(1.1)**	**0.1**	**0.4**	**(0.4)**
Forward transactions	62.9	41.4	-	-	-	-
CIRS	31.9	23.4	-	-	-	-
Net exposure	**(769.1)**	**(550.1)**	**(1.1)**	**0.1**	**0.4**	**(0.4)**

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

PLN	Average rate		Rates at the reporting date	
	2015	2014	December 31, 2015	December 31,2014
1 EUR	4.1839	4.1852	4.2615	4.2623
1 USD	3.7701	3.1551	3.9011	3.5072
1 GBP	5.7637	5.1934	5.7862	5.4648
1 CHF	3.9200	3.4460	3.9394	3.5447
1 XDR	5.2749	4.7898	5.4092	5.0768
1 SEK	0.4474	0.4601	0.4646	0.4532
1 AUD	2.8352	2.8437	2.8546	2.8735

For the purposes of the exchange rate sensitivity analysis as at December 31, 2015 and December 31, 2014, exchange rate volatility in the +/- 5% range was assumed as probable. This analysis assumes that all other variables, in particular interest rates, remain constant. The sensitivity analysis below is performed on the same basis for 2014.

mPLN	2015					2014				
	as at December 31, 2015		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	as at December 31, 2014		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	9.4	40.2	5%	2.0	-	6.3	27.0	5%	1.2	-
USD	8.4	32.7	5%	1.6	-	1.0	3.6	5%	0.1	-
XDR	0.5	2.6	5%	0.1	-	0.3	1.6	5%	-	-
SEK	-	-	5%	-	-	0.4	0.2	5%	-	-
Cash and cash equivalents										
EUR	9.7	41.2	5%	2.1	-	10.0	42.8	5%	2.0	-
USD	9.7	37.9	5%	1.9	-	11.4	39.9	5%	2.1	-
CHF	1.9	7.3	5%	0.4	-	1.3	4.7	5%	0.1	-
GBP	0.1	0.1	5%	-	-	0.1	0.3	5%	-	-
SEK	2.5	1.1	5%	0.1	-	-	-	5%	-	-
Senior Notes										
EUR	(569.1)	(2.425.2)	5%	(121.3)	-	(670.9)	(2,859.5)	5%	(143.1)	-
USD	(524.2)	(2.045.0)	5%	(102.3)	-	(614.5)	(2,155.1)	5%	(107.8)	-
UMTS license liabilities										
EUR	(180.6)	(769.6)	5%	(38.5)	-	(203.5)	(867.4)	5%	(43.4)	-
Trade payables										
EUR	(3.6)	(15.3)	5%	(0.8)	-	(5.8)	(24.7)	5%	(1.3)	-
USD	(14.0)	(54.7)	5%	(2.7)	-	(12.8)	(44.8)	5%	(2.1)	-
XDR	(0.9)	(4.9)	5%	(0.2)	-	(0.7)	(3.4)	5%	(0.2)	
CHF	(0.1)	(0.2)	5%	-	-	(0.2)	(0.7)	5%	-	-
Change in operating profit				**(257.6)**	**-**				**(292.4)**	**-**
Forward transactions										
EUR	390.9	1.665.8	5%	83.3	-	62.9	268.0	5%	13.4	-
USD	482.1	1.880.7	5%	94.0	-	41.4	145.2	5%	7.3	-
CIRS										
EUR	-	-	5%	-	-	31.9	135.8	5%	6.8	-
USD	-	-	5%	-	-	23.4	82.2	5%	4.1	-
Income tax				15.3	-				49.6	-
Change in net profit				**(65.0)**	**-**				**(211.2)**	**-**

mPLN	2015					2014				
	as at December 31, 2015		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	as at December 31, 2014		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	9.4	40.2	-5%	(2.0)	-	6.3	27.0	-5%	(1.2)	-
USD	8.4	32.7	-5%	(1.6)	-	1.0	3.6	-5%	(0.1)	-
XDR	0.5	2.6	-5%	(0.1)	-	0.3	1.6	-5%	-	-
SEK	-	-	-5%	-	-	0.4	0.2	-5%	-	-
Cash and cash equivalents										
EUR	9.7	41.2	-5%	(2.1)	-	10.0	42.8	-5%	(2.0)	-
USD	9.7	37.9	-5%	(1.9)	-	11.4	39.9	-5%	(2.1)	-
CHF	1.9	7.3	-5%	(0.4)	-	1.3	4.7	-5%	(0.1)	-
GBP	0.1	0.1	-5%	-	-	0.1	0.3	-5%	-	-
SEK	2.5	1.1	-5%	(0.1)	-	-	-	-5%	-	-
Senior Notes										
EUR	(569.1)	(2,425.2)	-5%	121.3	-	(670.9)	(2,859.5)	-5%	143.1	-
USD	(524.2)	(2,045.0)	-5%	102.3	-	(614.5)	(2,155.1)	-5%	107.8	-
UMTS license liabilities										
EUR	(180.6)	(769.6)	-5%	38.5	-	(203.5)	(867.4)	-5%	43.4	-
Trade payables										
EUR	(3.6)	(15.3)	-5%	0.8	-	(5.8)	(24.7)	-5%	1.3	-
USD	(14.0)	(54.7)	-5%	2.7	-	(12.8)	(44.8)	-5%	2.1	-
XDR	(0.9)	(4.9)	-5%	0.2	-	(0.7)	(3.4)	5%	0.2	
CHF	(0.1)	(0.2)	-5%	-	-	(0.2)	(0.7)	-5%	-	-
Change in operating profit				**257.6**	**-**				**292,4**	**-**
Forward transactions										
EUR	390.9	1,665.8	-5%	(83.3)	-	62.9	268.0	-5%	(13.4)	-
USD	482.1	1,880.7	-5%	(94.0)	-	41.4	145.2	-5%	(7.3)	-
CIRS										
EUR	-	-	-5%	-	-	31.9	135.8	-5%	(6.8)	-
USD	-	-	-5%	-	-	23.4	82.2	-5%	(4.1)	-
Income tax				(15.3)	-				(49.6)	-
Change in net profit				**65.0**	**-**				**211.2**	**-**

mPLN	2015		2014	
	Estimated change in profit [PLN]	Estimated change in other comprehensive income [PLN]	Estimated change in profit [PLN]	Estimated change in other comprehensive income [PLN]
Estimated change in exchange rate by 5 %				
EUR	(59.2)	-	(133.1)	-
USD	(6.0)	-	(78.0)	-
CHF	0.3	-	0.1	-
SEK	-	-	-	-
XDR	(0.1)	-	(0.2)	-
Estimated change in exchange rate by -5 %				
EUR	59.2	-	133.1	-
USD	6.0	-	78.0	-
CHF	(0.3)	-	(0.1)	-
SEK	-	-	-	-
XDR	0.1	-	0.2	-

Had Polish zloty strengthened 5% against the basket of currencies as at December 31, 2015 and December 31, 2014, the Group's net profit would have decreased by PLN 65.0 million and decreased by PLN 211.2 million, respectively and other comprehensive income would have been unchanged in 2015 and would have been unchanged in 2014. Had the Polish zloty weakened by 5%, the Group's net profit would have correspondingly increased by PLN 65.0 million in 2015 and increased by PLN 211.2 million in 2014 and other comprehensive income would have been unchanged in 2015 and would have been unchanged in 2014, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

Interest rate risk

Changes in market interest rates have no direct effect on the 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, 2015	December 31, 2014
Fixed rate instruments		
Financial assets	1,158.5	1,663.5
Financial liabilities*	(4,262.4)	(4,084.4)
Variable rate instruments		
Financial assets	411.5	110.0
Financial liabilities*	(7,725.1)	(9,080.0)
Net interest exposure	**(7,313.6)**	**(8,970.0)**

*Nominal debt

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

mPLN	Income statement		Other comprehensive income		Equity	
	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp
December 31, 2015						
Variable rate instruments*	(73.1)	73.1	6.6	(6.6)	(66.5)	66.5
Cash flow sensitivity (net)	**(73.1)**	**73.1**	**6.6**	**(6.6)**	**(66.5)**	**66.5**
December 31, 2014						
Variable rate instruments*	(48.8)	48.8	17.0	(17.0)	(31.8)	31.8
Cash flow sensitivity (net)	**(48.8)**	**48.8**	**17.0**	**(17.0)**	**(31.8)**	**31.8**

* 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, 2015.

5. Other significant information

5.1. Transactions with related parties

Transactions concluded in 2015 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, 2015.

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, 2015.

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

Cyfrowy Polsat Group did not publish any financial forecasts for 2015.

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

Management believes that the provisions for litigations as at December 31, 2015 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

Proceedings before the Office of Competition and Consumer

On February 24, 2011 the President of UOKiK imposed penalty on Polkomtel in the amount of PLN 130.7 million for the alleged lack of cooperation during an inspection carried out by UOKiK in Polkomtel. Polkomtel appealed against the decision of the President of UOKiK to the Consumer and Competition Protection Court. According to management, during the inspection the Company had fully and at all times cooperated with UOKiK within the scope provided by the law. On June 18, 2014 the decision of the President of UOKiK has been changed by SOKiK, reducing the penalty to PLN 4 million (i.e. EUR 1 million). The verdict is not final and both parties appealed against it. 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 UOKiK's President 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 may appeal 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 verdict where the penalty has been reduced to PLN 1.5 million. On 10 February 2016 SOKiK's decision has been revoked thus re-establishing the penalty back at PLN 4.5 million. The company is considering a cassation appeal against the judgment.

On December 23, 2014, the President of UOKiK issued a decision ending investigations related to Polkomtel's alleged practices which infringed upon the collective interests of consumers by including certain clauses in the terms and conditions of the online shop and including certain clauses in the equipment return policy when telecommunication agreements are terminated by the subscriber. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 8.8 million. The company appealed to SOKiK against the decision.

On December 30, 2014, the President of UOKiK issued a decision ending investigations related to Polkomtel's alleged practices which infringed upon the collective interests of consumers by not providing its telecommunication clients (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 the actions allegedly contrary to the obligations arising under the agreement for the transfer of rights to radio frequencies. On January 13, 2015 the company filed an answer to the claim. Pursuant to the decision of the District Court in Warsaw the penalty has been lowered to PLN 9.0 million. The Company has 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.

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.

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

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 2015.

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

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

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, 2015, 154 employees (expressed as full-time equivalents), or 4.1% 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 licence agreements under which we distribute key programs

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

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 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 and Ericsson. Continued cooperation with some of them is important for us to maintain our operations without disruption. We also rely on agreements with external suppliers of handsets and modems (including Samsung, Sony, , LG, Huawei and Microsoft Mobile) and providers of IT services (including 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 in our markets

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

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

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

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

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

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

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

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

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

We are exposed to the risk of fraudulent activities by customers

Given the nature of the telecommunications market stemming from the manner of making interconnect settlements related to the exchange of domestic and international telecommunications traffic and fees for sold premium services, some of our customers use telecommunications services in a way that differs from the standard method of their use by the end user in order, for example, to terminate mass traffic in the network of another operator while bypassing wholesale interconnect settlements. We prevent such behaviour 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 and Metelem Holding Company Limited, indirectly holding Polkomtel, we have carried considerable amounts of goodwill and intangible assets, representing brand value, on our balance sheet. We test the goodwill and brand value allocated to our business segments for impairment on an annual basis, by measuring the recoverable amounts of cash-generating units, based on value in use. Any adverse changes to the key assumptions we apply in impairment testing may have a material adverse effect on our business, financial condition, results of operations.

We may lose our management staff and key employees

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

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

To reduce acquisition costs of satellite TV reception equipment and to be able to offer our pay TV customers the option to purchase or lease set-top boxes at lower prices, we are currently producing most of the set-top boxes we offer to our customers at our newly acquired facility in Mielec. In 2015 set-top boxes manufactured by us accounted for more than 89% of all the set-top boxes sold or leased by us. Should any batch of the set-top boxes we have manufactured prove defective and need to be withdrawn from the market, we are under the obligation to replace the set-top boxes we have made available to our customers and to cover (potentially considerable) costs of replacing or repairing any set-top boxes we have sold on the market. Furthermore, the withdrawal of reception equipment due to its defectiveness could be harmful to our reputation. Any problems with production of set-top boxes would force us to acquire larger numbers of set-top boxes from third-party suppliers. There can be no assurance that we will be able to purchase a sufficient number of set-top boxes from third-party suppliers when required. Furthermore, the cost of acquiring from third-party suppliers of the vast majority of set-top box models we offer would be much higher than the cost of manufacturing them at our own plant. If we were unable to obtain set-top boxes from third-party suppliers on satisfactory pricing terms, we might have to raise the prices for our customers to cover our increased depreciation expense. Moreover, if the deliveries of set-top boxes we managed to procure were insufficient to meet the demand, our reputation among our current and potential customers would suffer. As our production of set-top boxes is based on components purchased from third-party contractors, there is a risk that we lose access to such components, for instance due to discontinuation of their production or changes in technologies or products. Losing access to certain components would force us to redesign our set-top boxes, which could affect continuity of their production and supplies to our customers. Any difficulties in the production of most of our set-top boxes at our own production plant could lead to a loss of our current customers or adversely affect our ability to acquire new customers for our pay TV services. Any disruption to our set-top box production and subsequent necessity to procure more set-top boxes from third-party suppliers could adversely affect our reputation and lead to erosion of our brand value, which could have a material adverse effect on our business, financial condition, results of operations or prospects.

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 Polkomtel's network infrastructure is located on the premises of third parties. Disputes between these third parties and Polkomtel, 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.

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

Midas Group companies currently hold frequency allocations in the 800 MHz, 900 MHz, 1800 MHz and 2570-2620 MHz. These allocations are fundamental for the joint roll-out of the LTE/HSPA+ network by Polkomtel and Midas Group. Midas Group's competitors have taken a number of steps, some of which may lead to retraction of the decisions regarding frequency allocations granted to Midas Group, including the 800 MHz and 1800 MHz band frequency allocations, which are currently integral to the offering of LTE services.

No assurance can be given that as a result of the pending proceedings Midas Group will not lose its 800 MHz or 1800 MHz frequency allocation, which could have a material effect on the ability to provide LTE services. Proceedings to invalidate the 1800 MHz frequency allocation tender have been instigated by T-Mobile and Orange. Supreme Administrative Court (NSA), in its ruling dated May 8, 2014, sustained the decision of the Court of First Instance and repealed the decision issued by the President of the Office of Electronic Communications (UKE) on September 23, 2011 which partially invalidated the above mentioned tender. Following the decision of the Supreme Administrative Court, UKE informed that "the decisions regarding re-running the tender will be taken by the Office upon careful analysis of the written justification of NSA's rulings and the Court's guidelines regarding further procedure as well as upon analysis of the legal situation". UKE also stated that the 'reservation decisions issued by UKE President remained valid while the operators could continue providing their services while using these frequencies'. Until the date of preparation of this Report we have not become aware of further new information regarding these proceedings.

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

No assurance can be given that if Midas Group lost certain frequency allocations on the basis of which Polkomtel provides services which rely on the LTE/HSPA+ technologies, Polkomtel would be able to gain access to sufficient alternative frequency band resources on satisfactory terms or at all, and failure to obtain access to such resources could have a negative impact on the implementation of business strategies and consequently a material adverse effect on our financial condition, results of operations and prospects.

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

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

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

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

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

Two trade unions are active at Polkomtel: Niezależny Samorządny Związek Zawodowy Solidarność (the Solidarity Independent Self-Governing Trade Union) and Ogólnopolskie Porozumienie Związków Zawodowych (All-Poland Alliance of Trade Unions). At December 31, 2015, 154 employees (expressed as full-time equivalents), or 4.1% 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. At the date of preparation of this Report, we hold five terrestrial broadcasting licences and twenty 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 2015 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.

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

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

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

If any of Polkomtel's frequency allocations is not extended, is revoked or extended on unfavorable conditions, Polkomtel may be forced to suspend the provision of some services temporarily or permanently, may be unable to offer services based on a particular technology or may have to incur substantial expenditure 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 Polkomtel may not be able to obtain new frequency allocations

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

Following the analogue TV switch-off in 2013, certain frequency resources became available within the 'digital dividend'; in February 2013, following an auction for frequencies in the 1800 MHz band, the frequencies were allocated to T-Mobile and P4. In addition, on December 30, 2013, a notice on auction for frequency allocation in the 800 MHz and 2600 MHz bands was published. On February 11, 2014, the President of UKE cancelled the auction; on April 4, 2014, the President of UKE opened a new stage of consultations on a new auction for those frequencies. Following the publication of opinions of interested parties, on October 10, 2014 the President of UKE once again announced the auction of 5 blocks in the 800 MHz band and 14 blocks in the 2600 MHz band. The opening bid for one block in the 800 MHz band is set at PLN 250 million and for one in the 2600 MHz band – at PLN 25 million. The auction documentation specified, among others, detailed conditions of conducting the auction, limitations regarding aggregating frequency blocks by entities, who may receive frequency allocations through the auction and conditions of use of allocated frequencies. Six entities submitted initial bids: Orange Polska, P4, Hubb Investments Sp. z o.o., T-Mobile Polska, Polkomtel and NetNet Sp. z o.o.

The actual bidding in the auction began on February 10, 2015. On March 10, 2015, Polkomtel made a decision to discontinue its participation in active bidding for the spectrum blocks from the 800 MHz band and switched to the so-called passive approach.

On October 1, 2015, the Minister of Administration and Digitization accepted an amendment to the resolution on tenders, auctions and frequency reservation competitions of July 19, 2013. The amended resolution introduced a mechanism ending an auction should it not be concluded during 115 auction days. In this situation the actual bidding ends on the 115th auction day, after which one additional round ending the process is conducted. During this round those participants, who fulfill requirements determined by the amended resolution, are entitled to submit an offer. Pursuant to the amendment of said resolution after the submission of offers by participants on the 116th auction day, the Office of Electronic Communications announced the results of the LTE auction. 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, 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, or even the cancellation of the entire auction process.

On October 19, 2015, UKE announced the results of the LTE auction, according to which Polkomtel won 4 blocks in the 2600 MHz spectrum

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

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

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

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

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

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

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

In the event of a change of control of the Company within the meaning of the Senior Facilities Agreement we are under the obligation to repay our liabilities under both agreements. Moreover, if a change of control takes place, our ability to repay our debt will be limited by the level of available funds at the time. There can be no assurance that those funds will be sufficient to repay outstanding debts. In view of the above, we believe that in the case of change of control over the Company, we would require additional 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, T-Mobile and P4. There can be no assurance that customers will not find the offerings of those operators more attractive.

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

The Group's ability to effectively develop its operations on the Polish telecommunications services market may be also adversely affected by the imposition of new regulatory requirements 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 2015, ca. 83% of the revenue generated by our TV production and broadcasting segment came from sale of advertising time and sponsored time slots on our TV channels. The Polish advertising market sees television competing with other advertising media, such as the Internet, newspapers, magazines, radio, and outdoor advertising. There can be no guarantee that TV commercials will maintain their position on the Polish advertising market, or that changes in the regulatory regime will not favor other advertising media or other broadcasters. The growing competitive pressure among advertising media, driven by the increasing prominence of Internet advertising in Poland, significantly higher spending on thematic channels, and the development of new forms of advertising may have an adverse effect on advertising revenue generated by our TV production and broadcasting segment, and thus on our operations, financial condition, performance, and cash flows.

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

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

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

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

Following completion of the terrestrial television digital switchover process in Poland in July 2013, there are currently 24 TV channels broadcasted terrestrially. According to Nielsen Audience Measurement, in 2015 the audience shares of all DTT channels in the 16-49 age group reached 68.2% (compared to 66.1% in 2014). The aggregate audience share in this age group of the main four channels (POLSAT, TVN, TVP1 and TVP2) was 41.7% in 2015 compared to 43.5% in 2014. The aggregate audience share of the other DTT channels was 26.4% in 2015 vs. 22.6% in 2014, which reflects the growing market fragmentation, to a large extent at the expense of the leading TV channels (including POLSAT, whose audience share decreased slightly from 13.3% in 2014 to 13.2% in 2015).Our main competitors on the TV advertising markets are other broadcasters, such as TVN − a leading commercial broadcaster, and TVP − the broadcaster financed partly from public funds, which provides public service. Because TVP is the public broadcaster, it cannot interrupt programmes and films with commercial breaks. Any changes in this respect may contribute to the strengthening of TVP's competitive position, reducing our advertising revenue. Furthermore, we will be forced to compete with current and future market participants for terrestrial and satellite broadcasting licences in Poland. Such participants may include major broadcasters with greater resources and more recognisable brands. This is especially true in the case of foreign companies which may find the Polish TV market attractive for various reasons, including its current regulatory environment (which allows TV stations to broadcast more advertising during programmes and films than in other countries), as well as the increasing extent of other permitted advertising activities. And lastly, continued growth of cable TV, DTH and DDT providers in Poland may lead to further market and audience fragmentation, which may make advertisers reluctant to buy air-time on our channels. Losing customers and advertisers to our competitors may have a material adverse effect on our business, financial condition, results of operations or prospects.

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

The analogue to digital switchover in Poland has resulted in a substantial rise in the number of competitive TV providers. It is also probable that the current limits on awarding licences for DTT frequency bands will be lifted. This would be likely to bring about a growth in the number of digital channels available on the Polish TV market and would lead to a corresponding loss of our audience share. Following completion of the digital switchover process in July 2013, the number of terrestrial FTA TV channels has risen considerably, and their programming is becoming increasingly more attractive, which may reduce the demand for our DTH and DVB-T pay TV services, leading to a loss of the audience share and customer churn. This may have a material adverse effect on our business, financial condition, results of operations or prospects.

We are exposed to currency risks

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

In a scenario when we draw funds in a currency other than the Polish zloty from the multicurrency Revolving Facility granted to us, we may be exposed to currency risk, since movements in the exchange rate of the euro, dollar or any other currency provided for in the Senior Facilities Agreement dated September 21, 2015 against the złoty may increase the złoty-denominated amounts required to service principal and interest payments under the Revolving Facility Loan.

We are exposed to interest rate risk

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

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

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

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

6.4. Risk factors associated with the legal and regulatory environment

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

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

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

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

Given the international character of the Group, its companies are governed by legal regulations (including tax legislation) in force in the countries in which they operate. Therefore, in view of such dissimilar legal frameworks, there is a risk that the Group will interpret local legal regulations (including tax legislation) in a way which is divergent from their construction by the country's tax authorities. The diversity of legal regulations by which individual companies are bound may give rise to internal problems within the Group, including 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 the practices we use as limiting competition or violating the Polish consumer protection laws

Our operations are reviewed by UOKiK to ensure that we comply with Polish laws prohibiting practices that limit competition or violate the collective interests of consumers, including providing inaccurate information to customers, dishonest market practices or use of abusive contract clauses. In addition, the President of UOKiK and natural persons can bring court actions against us to determine whether our standard consumer contracts contain any abusive clauses. If a court finds any of our practices or contract terms to be misleading or in conflict with Polish competition and consumer protection laws, we may be subject to fines and our reputation could be harmed. In addition, if any clauses in our standard consumer contracts are considered abusive by UOKiK, they will be entered in the Register of Abusive Contract Clauses maintained by the President of UOKiK and their application will be no longer possible, which will require amendment to our standard contracts.

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

Any decisions by the President of UOKiK or by appeals bodies confirming our infringement could also result in claims for damages by consumers, contractors and competitors. The potential amount of such claims is difficult to assess but may be significant. In addition to proceedings pending before the President of UOKiK, consumers can bring court actions against us, claiming that certain provisions of our standard customer contracts violate consumer protection laws. If any of our practices or contract terms are deemed to be misleading or in conflict with Polish consumer protection laws, we may be subject to fines and our reputation could be harmed, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, expansion of consumer protection legislation, including a newly introduced act that allows for 'group claims', could increase the scope or scale of our potential liability or the scope of consumer rights. For example, there has been an extension of the range of situations in which customers are entitled to terminate their agreements without obligation to pay any contractual penalty. This may happen, among others, in the event of changes in the terms and conditions of agreements even if such amendment is in customers' favor. Such early terminations of agreements with our customers may result in a significant increase in our customer retention costs and churn rate. Such events may have a material adverse effect on our business, financial condition, results of operations and prospects.

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

As part of telecommunications market regulation in Poland, the President of UKE may determine MTR between telecommunications operators. In recent years, the regulator 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 (EU) No. 531/2012 of June 13, 2012, which imposed further cuts in roaming rates as of July 1, 2014. The proposal for regulation on unified telecommunications market foresees the levelling of retail roaming charges within the EU with domestic charges. In July 2015 the European Union Council published a draft regulation amending, inter alia, Regulation (EU) No. 531/2012, suggesting a further reduction of maximum retail fees as of April 2016 as an interim solution. The levelling of roaming rates with domestic rates is currently planned to take place in June 2017). 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.

Polkomtel's operations are subject to a number of legal regulations and requirements of awarded frequency allocations which could be amended in the future

As a mobile telecommunications network operator, Polkomtel is subject to a number of laws and regulations, in particular those regulating maximum rates charged for specific 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, loss of reputation, inability to obtain new frequency allocations or even loss of current frequency allocations. Furthermore, future changes in Polkomtel's regulatory environment may be disadvantageous to Polkomtel's business, for instance by increasing its costs.

An important and active role in ensuring the observance of telecommunications laws and regulations by entities operating in the telecommunications market in Poland is played by the regulators of the Polish telecommunications market, including in particular the President of the Office of Electronic Communications (UKE). The President of UKE has a number of regulatory and supervisory powers, including 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 in the following markets: (i) call termination to a public mobile telecommunications network; (ii) SMS termination to a public mobile telecommunications network; and (iii) call termination to a public fixed line network. As part of its continued provision of telecommunications services in Poland, Polkomtel is also regularly reviewed by the President of UKE to ensure that it has complied with the terms of the licences and frequency allocations granted 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.

6.5. Risk factors associated with the Series A Bonds

The Bonds may not be repaid

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

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

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

The Bonds are not secured by collateral

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

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

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

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

In accordance with the Bonds Terms, the Company is entitled, at any time, to redeem the Bonds early. This right can be exercised at any time before the redemption date, both with regard to all the Bonds as well as a part of the Bonds which have been issued and have not been redeemed, however such redemption should cover no less than 10% of the total nominal value of the Bonds or of all unredeemed Bonds, if their total nominal value was lower than the above mentioned amount. Moreover, pursuant to Article 74 section 5 of the Bonds Act, in the event of the liquidation of the Company, the Bonds are subject to immediate redemption at the moment when the liquidation proceedings start, even if the redemption date has not occurred yet.

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, 2015:

Series	Number of shares	Type of shares	Number of votes at the General Meeting	Face value /PLN
A	2,500,000	Preference shares (2 voting rights)	5,000,000	100,000.00
B	2,500,000	Preference shares (2 voting rights)	5,000,000	100,000.00
C	7,500,000	Preference shares (2 voting rights)	15,000,000	300,000.00
D	166,917,501	Preference shares (2 voting rights)	333,835,002	6,676,700.04
D	8,082,499	Ordinary bearer shares	8,082,499	323,299.96
E	75,000,000	Ordinary bearer shares	75,000,000	3,000,000.00
F	5,825,000	Ordinary bearer shares	5,825,000	233,000.00
H	80,027,836	Ordinary bearer shares	80,027,836	3,201,113.44
I	47,260,690	Ordinary bearer shares	47,260,690	1,890,427.60
J	243,932,490	Ordinary bearer shares	243,932,490	9,757,299.60
Total	**639,546,016**		**818,963,517**	**25,581,840.64**
including:	179,417,501	Registered	358,835,002	7,176,700.04
	216,196,025	Floating	216,196,025	8,647,841.00

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

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

Basic data on the Cyfrowy Polsat shares in trading

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

International Securities Identification Number (ISIN)	PLCFRPT00013 (1)

Cyfrowy Polsat's identification codes

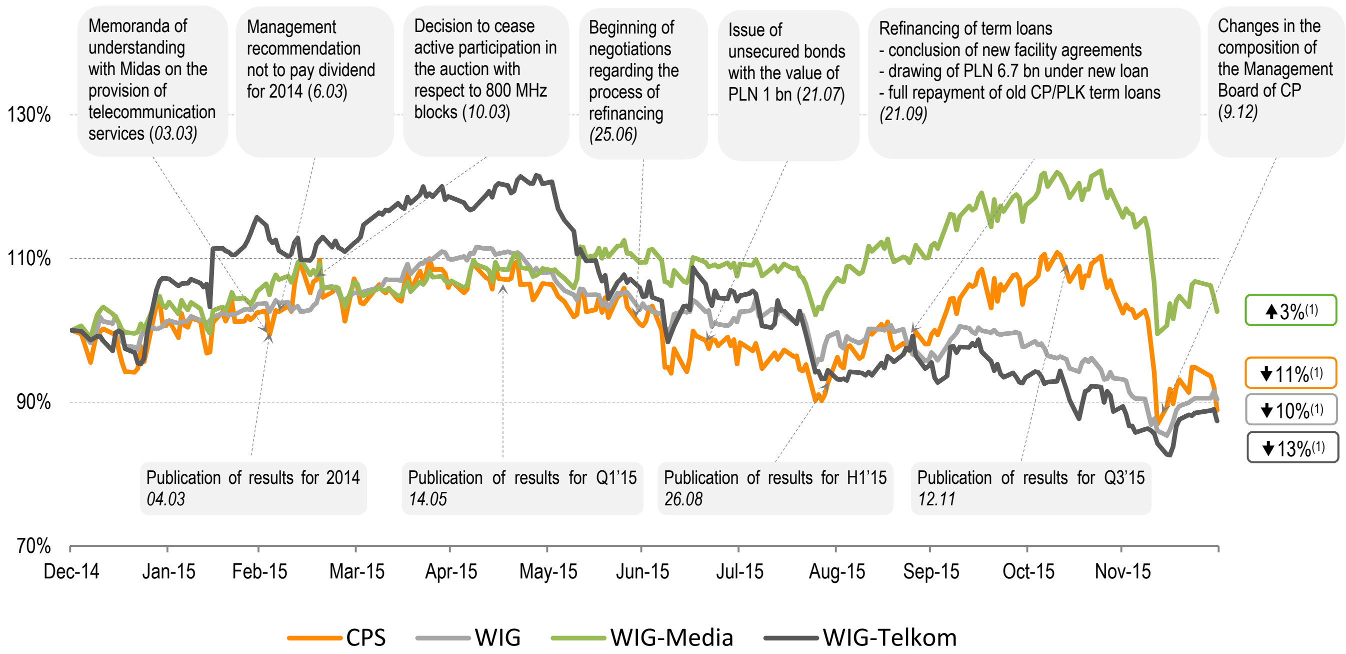
WSE	CPS
Reuters	CYFWF.PK
Bloomberg	CPS:PW

(1) Shares admitted to trading on the WSE.

7.2. Shares quotes

Performance of Cyfrowy Polsat shares in 2015

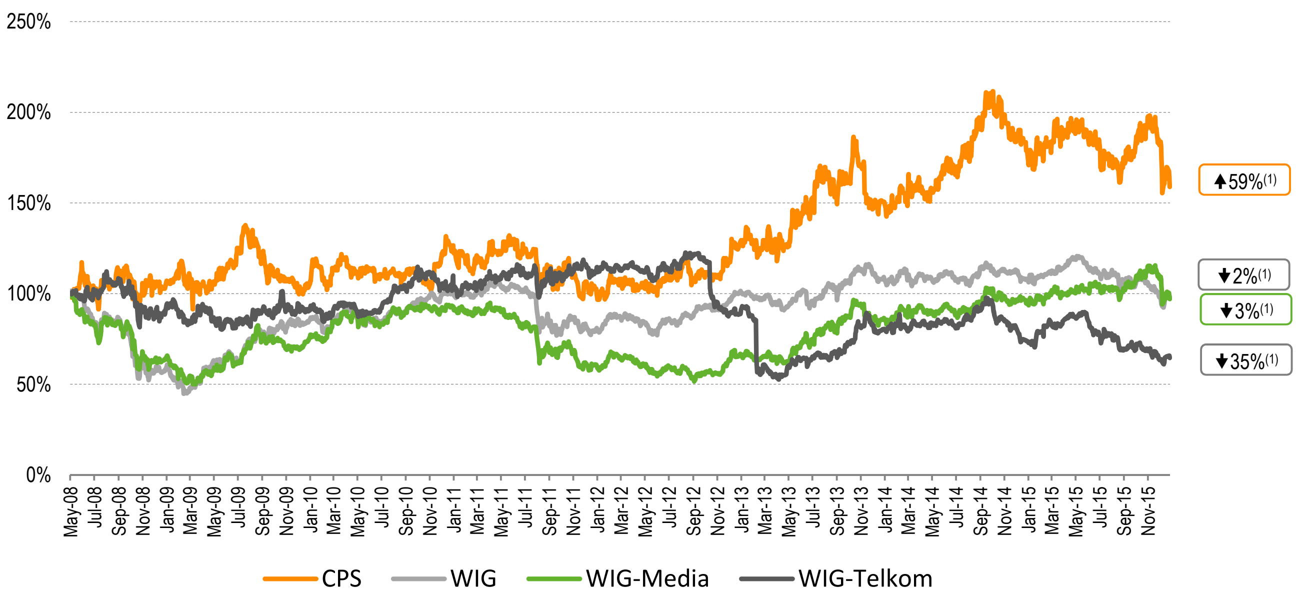
(indexed; 100 = closing price on December 30, 2014)



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

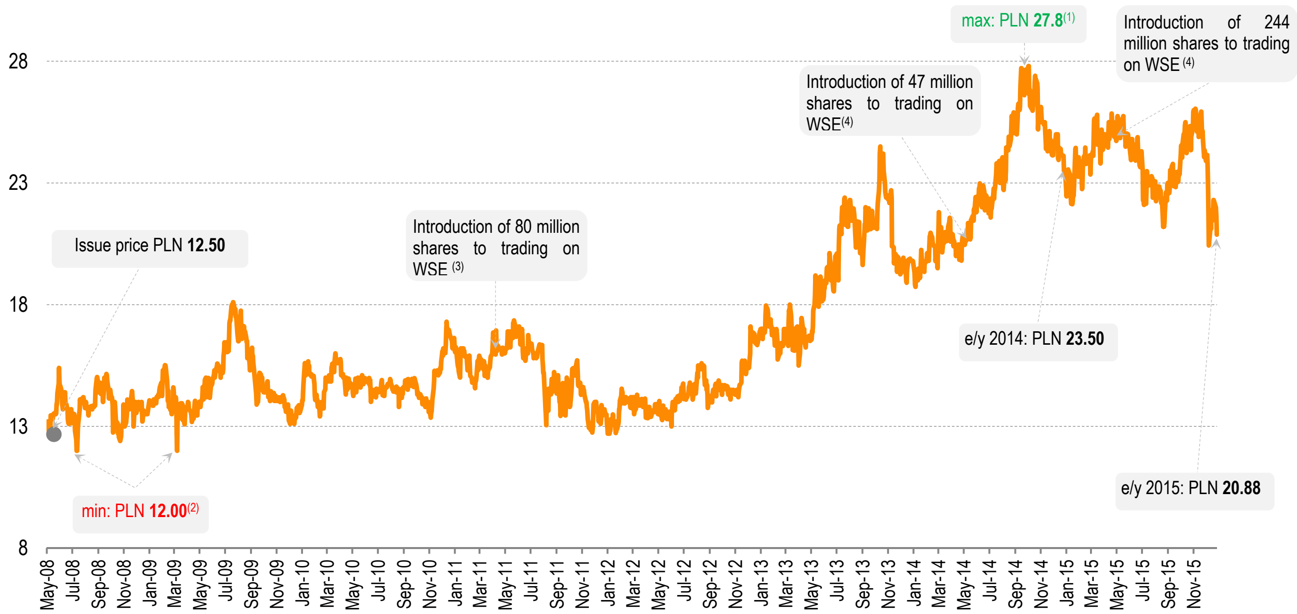
Performance of Cyfrowy Polsat shares since the debut on the WSE in May 2008 until the end of 2015 compared to WSE indexes

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



(1) change Dec. 30, 2015 vs May 6, 2008

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



(1) share price on October 6-7, 2014

(2) share price on July 15-16, 2008, March 12, 2009

(3) On April 20, 2011, the Company issued 80,027,836 ordinary bearer H Series shares with a nominal value of four grosz (PLN 0.04) each. 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.

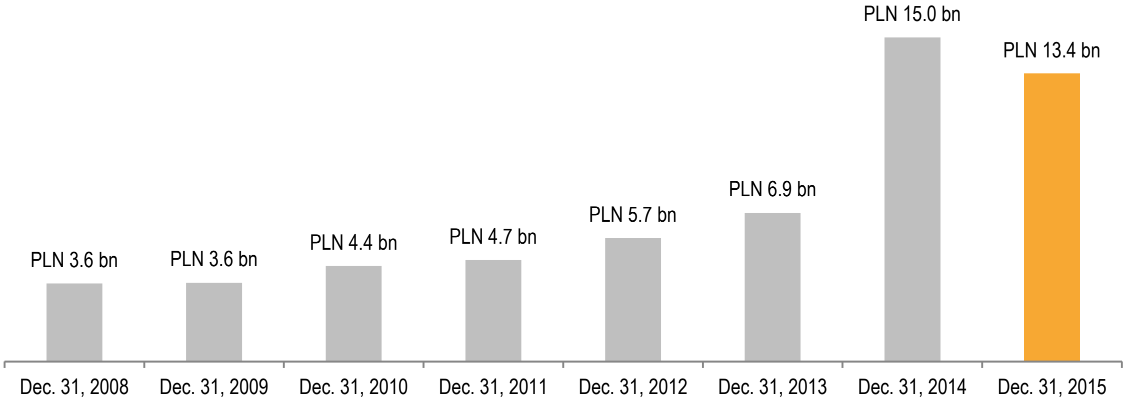
(4) On May 7, 2014 the Company issued 47,260,690 Series I shares and 243,932,490 Series J shares with the nominal value of PLN 0.04 each. On May 14, 2014 these shares were registered in the Central Securities Depository of Poland with ISIN codes PLCFRPT00013 and PLCFRPT00021, respectively. Series I shares 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 2015

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

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

In terms of market capitalization, that amounted to PLN 13.4 billion as of the end of 2015, Cyfrowy Polsat is the largest media and telecommunications company quoted on the Warsaw Stock Exchange and in Central Eastern Europe.



7.3. Recommendations

Brokers covering the Company:

Local

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

International

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

Recommendations for the shares of Cyfrowy Polsat published in 2015

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

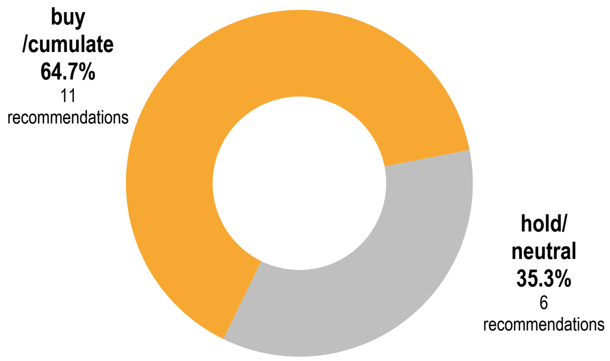
Date	Institution	Target price	Recommendation [PLN]
October 16th	Trigon Dom Maklerski S.A.	↑ Buy	28.30
September 2nd	Wood&Company	↑ Buy	28.70
August 27th	Goldman Sachs	- Neutral	24.80
July 22nd	Dom Maklerski BOŚ S.A	- Hold	25.00
July 21st	Raiffeisen CENTROBANK	↑ Buy	28.50
July	ING Securities S.A.	↑ Buy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

Recommendations released in 2016 after the reporting period

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

1) Currently Haitong Bank S.A.

Recommendations structure as at February 26, 2016



Target price as at February 26, 2016 [PLN]

minimum	22.1
maximum	32.0
average	**26.3**

7.4. Close dialogue with the capital market

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

In order to ensure current access to information we participate in conferences with investors, we organize numerous individual meetings and roadshows both in Europe and in the United States. Moreover, every quarter, after the publication of financial results, we organize periodical meetings with investors and sell-side analysts as well as teleconferences with the members of the Company's management. Both events have an open character.

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

Moreover, in our communications we use such tools as website dedicated to investors (http://www.grupapolsat.pl/en/investor-relations), electronic newsletters, RSS, periodic newsletters including both information on current events in the Company and latest market developments (press review), as well as reminders of the most important events in the Company.

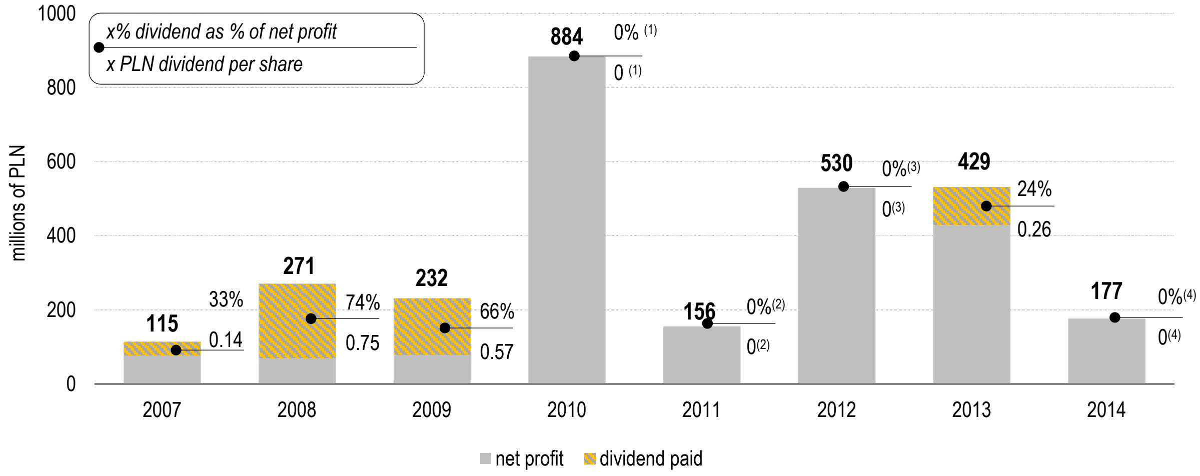
7.5. Dividend policy

The Company intends to provide its shareholders with a share in the generated profit through the payment of dividends. When recommending the Company's profit distribution scenario for a given financial year to which the new dividend policy will apply, the Management Board of the Company shall submit a proposal to the General Meeting for the distribution of dividends representing from 33% to 66% of the standalone net profit of the Company, provided that the total indebtedness ratio of the Company's capital group, i.e. net debt to EBITDA as at the end of the financial year to which the profit distribution refers is less than 2.5x.

When preparing the recommendation for the distribution of the Company's profit and the dividend payment, the Management Board will also take into consideration: the amount of standalone net profit achieved by the Company, the financial condition of the Company's capital group, existing obligations (including any restrictions arising from financing agreements and indebtedness of the Company and other members of its group), the ability to use and manage capital reserves, the Management and Supervisory Boards' assessment of the prospects of the Company and its capital group in a particular market situation, as well as the need to make expenditures in pursuit of the overriding goal of the Company, that is its continued growth, in particular through acquisitions and engaging in new projects. According to the resolution of the Management Board, the new dividend policy came into effect as of and first apply to the standalone net profit for the financial year ending December 31, 2014.

Acting in accordance with resolution no. 23 of the Ordinary General Meeting, held on April 2, 2015, regarding profit distribution, the Company's total standalone net profit for the financial year ended December 31, 2014 in the amount of PLN 177.2 million was allocated to the reserve capital.

History of profit sharing



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

8. CORPORATE GOVERNANCE STATEMENT

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

In 2015 the Company was subject to the set of principles of the corporate governance for joint-stock companies issuing shares, convertible bonds, or senior bonds that are admitted to trade on the stock exchange. The principles of corporate governance in the form of the Best Practices of WSE Listed Companies ("Best Practices"), constitute an appendix to resolution No. 12/1170/2007 of the Council of WSE of July 4, 2007, amended by the following resolutions of WSE Council: no. 17/1249/2010 dated May 19, 2010, no. 15/1282/2011 dated August 31, 2011, no. 20/1287/2011 dated October 19, 2011 and no. 19/1307/2012 dated November 21, 2012 (amendments introduced in 2012 came into force on January 1, 2013).

The content of the document, prepared by the WSE, is publicly available at the seat of the Warsaw Stock Exchange (WSE) and on the website of WSE dedicated to those issues at http://corp-gov.gpw.pl.

Application of principles of corporate governance

We make every possible effort to employ the corporate governance principles, set out in the above document, trying to execute all the recommendations regarding best practices of WSE Listed Companies and all recommendations directed to the management boards, supervisory boards and shareholders in all areas of our business.

In 2015, as a principle, we employed all the rules in force included in Parts: II, III and IV of the Best Practices, to which the principle "comply or explain" applies.

However, the Company has not implemented changes in the organization of the General Meeting so as to comply with principles – included until the end of 2012 in Part I, since January 2013 transferred to the principles laid down in Parts IV and II – regarding direct transmission and providing two-way communication as well as publication of audio or video recording of the General Meeting on the corporate website. Thus the Company has not applied the principles set out in Part IV section10 and in Part II section I point 9a on the occasion of the General Meetings of the Company held in 2015. At the moment, the Management Board does not plan to make changes to the organization of the General Meeting. Ensuring the smooth running and the validity of the resolutions adopted by the General Meeting, as well as cost optimization are the priorities of the Management Board. Considering the lack of interest on the part of our shareholders, small spread of the practice of conducting General Meetings using electronic means of communication and incomplete readiness of the market, and thus an increased legal risk and the risk of organizational and technical disturbances, the Management Board decided to postpone the consideration of the implementation of the rules in question.

Concerning the recommendations stated in Part I, we need to comment on three issues.

Recommendation I.12. We have waived the recommendation I.12 enabling shareholders to exercise their right to vote in person or through a plenipotentiary from a location other that the General Meeting using electronic means of communication given the legal questions concerning this issue. Ensuring the smooth running and the validity of the resolutions adopted by the General Meeting are the priorities of the Management Board and at present the Management Board does not plan to make changes to the organization of the voting process at the General Meeting.

Recommendation I.5. The Company does not comply with the recommendation in relation to setting policy of remuneration of members of managing and supervising bodies. The rules of remuneration of the members of managing and supervising bodies were not developed based on provisions of directives of the European Commission and thus, not all the recommendations are applied. In accordance with article 24 d) of the Company's Articles of Association, the remuneration of the members of the Supervisory Board requires a resolution of the General Meeting, except for the members of the Supervisory Board delegated to temporarily perform functions of a member of the Management Board, pursuant to article 19 2d) of the Articles of Association, when the decision is taken by the Supervisory Board. The remuneration relates to the scope of tasks and responsibilities related to the function performed, reflects the size of the Company and keeps a healthy relation to its financial results. The remuneration of the Management Board members is set by the Supervisory Board and reflects the duties and responsibilities appointed to them.

Recommendation I.9 "Warsaw Stock Exchange recommends public companies and their shareholders to ensure the balanced participation of men and women in performing management and supervision functions in the enterprises, thus enhancing creativity and innovation in their businesses". In Cyfrowy Polsat, members of the Supervisory Board and the Management Board are appointed by the General Meeting and the Supervisory Board, respectively, based on qualifications, experience and competencies of the candidates. Factors such as gender are not considered when choosing the members of the Company's bodies. Company authorities believe that this approach guarantees the selection of the best persons to perform functions of management and supervision.

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

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

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

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

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

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

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

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

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

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

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

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

An audit committee, appointed within the Company's Supervisory Board, supervises the financial reporting process in the Company. The Audit Committee oversees the financial reporting process, in order to ensure sustainability, transparency and integrity of financial information. The audit committee includes two members of the Supervisory Board, who meet the independence criteria set out in the Best Practices of WSE Listed Companies in Chapter III, Section 6 and the requirements of the Act of May 7, 2009 on chartered auditors and their governing bodies, entities entitled to audit financial statements and on public supervision, in article 86 item 4.

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

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

On December 1, 2015, the Company entered into an agreement with PricewaterhouseCoopers Sp. z o.o., with registered office in Warsaw at 14 Al. Armii Ludowej, for the performance of an audit of standalone financial statements for the financial year ended December 31, 2015 of Cyfrowy Polsat S.A. and the consolidated financial statements of Cyfrowy Polsat Group for the financial year ended December 31, 2015.

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

[mPLN]	For the year ended	
	December 31, 2015	December 31, 2014
Remuneration for audit of the financial statements for the year and other certifying	1.7	1.8
Other services	0.6	2.0
Total	**2.3**	**3.8**

8.4. Share capital and shareholding structure of Cyfrowy Polsat

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

The following table presents shareholders of Cyfrowy Polsat S.A. possessing material bundles of shares at as the date of preparation of this Report. Information included in the table is based on the information received from shareholders pursuant to Art. 69 of the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies.

Shareholder	Number of shares	% of shares	Number of votes	% of votes
Reddev Investments Limited (1), including:	**154,204,296**	**24.11%**	**306,709,172**	**37.45%**
- privileged registered shares	152,504,876	23.85%	305,009,752	37.24%
- ordinary bearer shares	1,699,420	0.27%	1,699,420	0.21%
Embud Sp. z o.o. (2)	**58,063,948**	**9.08%**	**58,063,948**	**7.09%**
Karswell Limited (2)	**157,988,268**	**24.70%**	**157,988,268**	**19.29%**
Sensor Overseas Limited (3), including:	**54,921,546**	**8.59%**	**81,662,921**	**9.97%**
- privileged registered shares	26,741,375	4.18%	53,482,750	6.53%
- ordinary bearer shares	28,180,171	4.41%	28,180,171	3.44%
Others	**214,367,958**	**33.52%**	**214,539,208**	**26.20%**
Total	**639,546,016**	**100.00%**	**818,963,517**	**100.00%**

(1) Reddev Investments Limited is an indirect subsidiary of Mr. Zygmunt Solorz-Żak.
(2) Entity controlled by Mr. Zygmunt Solorz-Żak.
(3) Entity controlled by EVO Foundation with its registered seat in Vaduz, Liechtenstein.

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

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

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

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

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

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

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

8.4.3. Securities with special controlling rights

Current shareholders do not have any other rights in the General Meeting of Shareholders than those resulting from holding our shares. As at December 31, 2015 the shares of the A through D series are shares preferential as to the voting rights in the way that:

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

The holders of shares with special controlling rights are:

- Reddev Investments Ltd. (152,504,876 shares giving 305,009,752 voting rights on General Meeting),
- Sensor Overseas Ltd. (26,741,375 shares giving 53,482,750 voting rights on General Meeting) and
- TRIGON XVIII Fundusz Inwestycyjny Zamknięty (171,250 shares giving 342,500 voting rights on General Meeting).

8,082,499 D Series shares, numbered 166,917,502 -175,000,000; 75,000,000 E Series shares; 5,825,000 F Series shares, 80,027,836 H Series shares, 47,260,690 I Series shares and 243,932,490 J Series shares are ordinary bearer shares.

8.4.4. Limitations related to shares

There are no limitations to the exercise of voting rights.

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

8.5. Articles of Association of the Company

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

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

8.6. General Shareholders' Meeting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8.7. Management Board of the Company

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

Pursuant to art. 15 of the Articles of Association of the Company the Management Board consist of one or more members, including the President and Vice-president or and Vice-presidents of the Management Board, appointed by the Supervisory Board. The Supervisory Board decides as to the number of Management Board members upon their appointment. The term of office of the Management Board is joint and lasts three years. The members of the Management Board may be dismissed at any time by the Supervisory Board.

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

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

The General Shareholders' Meeting makes decisions regarding an issue or buy back of our shares. The competencies of the Board in respect to the above are limited to execution of any resolutions adopted by the General Shareholders' Meeting.

8.7.2. Composition of the Management Board and changes in 2015

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

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

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

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

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

Tobias Solorz has been a Member of the Management Board of Cyfrowy Polsat since September 2014 and took up the position of Vice-president of the Management Board in December 2014. In December 2015 he was appointed to the position of President of the Management Board. Mr. Solorz was first appointed to the Management Board of Polkomtel in November 2011, where he holds the position of President of the Management Board since February 2014.

He has many years of professional experience in the telecommunications, financial and controlling sectors. He began his career in 2003 at Telewizja Polsat S.A. (currently Telewizja Polsat Sp. z o.o.). Between 2007 and 2008 he held the position of Promotion Manager at Cyfrowy Polsat S.A. Between 2008 and 2010 he was a Member of the Management Board of Sferia S.A., where he then continued as Marketing, Advertisement, Sales and Operations Director until March 2011.

Mr. Tobias Solorz is a graduate of the Faculty of Management and Marketing at the University of Warsaw.

Dariusz Działkowski has been a Member of the Management Board responsible for technology since August 2007. From November 2001 Mr. Działkowski was the Technical Director of Cyfrowy Polsat S.A. He is also a Member of Management Boards of INFO-TV-FM Sp. z o.o., Netshare Sp. z o.o. and Gery.pl Sp. z o.o.

Since 2010 he is a Member of the Mangement Board of Polish Electronics and Telecommunications Chamber of Commerce (Krajowa Izba Gospodarcza Elektroniki i Telekomunikacji), he is also the Chairman of the Audit Committee of the Society Sygnał (Stowarzyszenie Sygnał). Mr. Działkowski got his previous professional experience with Canal+ and Ericsson where he held the positions of Technical Director and Services Sales Department Manager respectively. He is one of the founders of Centrum Telemarketingowe Sp. z o.o.

Mr. Działkowski graduated from the Faculty of Electronics at the Warsaw University of Technology at the radio and television specialization and has an MBA degree from the University of Maryland.

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

He began his professional career in 1979 in the operational department at LOT Polish Airlines, where he worked for almost 10 years. From 1988 to 2007 he worked abroad performing managerial functions in companies based in Canada (1988-1993) and Australia (1993-2007). After his return to Poland in 2008, he held managerial positions and acted as proxy for several companies. Notably, he was the President of the Management Board of Laris Investments Sp. z o.o. (2008-2013) and Apena S.A. (2011-2012). He has been vice-president of the Management Board of PRN Polska Sp. z o.o. since 2008. Additionally, he acted as proxy for SPV Grodzisk Sp. z o.o. (2012-2013), JK Project Sp. z o.o. (2010-2013) and 3G Sp. z o.o. (since 2011). Moreover, between 2011 and 2012 he held the position of member of the supervisory board of Tower-Service Sp. z o.o.

Mr. Tomasz Gillner-Gorywoda is a graduate of the Faculty of Law and Administration at the University of Warsaw and post-graduate studies in management at Monash University in Melbourne.

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

Between 2004 and 2007 Mrs. Jaskólska held the position of Proxy and Director of Legal Department of UPC Polska Sp. z o.o. She was also a member of the Copyright Committee (Komisja Prawa Autorskiego). Mrs. Jaskólska has many years of experience in the legal advisory and services to large business entities.

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

Maciej Stec is a Member of the Management Board of Cyfrowy Polsat S.A since November 2014. Concurrently, he holds the position of the Member of the Management Board and Sales & Foreign Acquisition Director of Telewizja Polsat.

From the very beginning his professional career was connected with television market. Since 1998 he worked among others for OMD Poland media house, owned by Omnicom Group, where in the years 1998-2003 held a position of Managing Director of Brand&Media OMD. Since February 2003 he was Managing Director of Telewizja Polsat's advertisement office - Polsat Media Sp. z o.o. (currently Polsat Media Biuro Reklamy Sp. z o.o. Sp.k.).

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

Tomasz Szeląg is a Member of the Management Board and Chief Financial Officer since May 2009. Mr. Szeląg is also a Member of Management Board of Polkomtel, President of the Management Board of Telewizja Polsat Holdings Sp. z o.o., Cyfrowy Polsat Trade Marks Sp. z o.o., as well as Member of the Management Boards of INFO-TV-FM Sp. z o.o., Netshare Sp. z o.o. and Gery.pl Sp. z o.o.

In 2000-2003 Mr. Szeląg was an assistant at Foreign Trade Faculty of the Economic Academy of Wrocław. In May 2003 Mr. Szeląg received PhD title for his thesis on hedging transaction used by world copper producers and went on to become a lecturer in the Faculty of International Economic Relations of the Economic Academy of Wrocław. Between 2003 and 2004 he also held a position of a lecturer in the Wrocław School of Banking - at the Faculty of International Economic Relations. Parallel to his academic career Mr. Szeląg also developed his professional career gaining experience in managerial positions in the area of finance and investment. From 2003, Mr. Szeląg was Chief Specialist in the Currency Risk Department of KGHM Polska Miedź S.A., and then of the Market Risk and Analysis Department. In September 2004, he became Director of the Department. In December 2004, he became Director of Hedging Department of KGHM and held the function until March 2007. From April 2007 to June 2008 he worked as Director of Branch of Société Générale Bank in Wrocław. In July 2008, Mr. Szeląg took the position of Vice-president for Finance in Telefonia Dialog S.A., which he held until March 2009. Mr. Szeląg was responsible for finance, accounting, controlling, and budgeting management, and also owner supervision and capital investment, logistics and purchases, project management and IT.

Mr. Szeląg graduated from the National Economy Faculty of the Economic Academy of Wrocław, with major in International Economic and Political Relations specializing in Foreign Trade.

8.7.3. Bylaws of the Management Board

Our Management Board acts pursuant to the provisions of the commercial companies code, the Company's Articles of Association and the Bylaws of Management Board approved by the Supervisory Board on 29 November 2007.

The Management Board runs our matters in a transparent and efficient way pursuant to the provisions of the law, our internal provisions and the Best Practices 2016. Upon taking decisions related to our matters, the members of the Management Board act within justified limits of business risk.

The following are entitled to submit statements on our behalf

(i) in the case of one person Management Board – the President of the Management Board acting independently, and

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

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

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

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

Resolutions are adopted in a meeting or in a manner set out below. The President of the Management Board, or a person they authorized, calls meetings of the Management Board. The meetings of the Management Board are held in our offices or another place indicated by the person calling the meeting.

The voting is open. A secret voting shall be administered upon a request of just one member of the Board present in the meeting.

Moreover, according to the Bylaws of the Management Board, the Management Board may adopt resolutions in writing, or in a manner enabling instantaneous communication of the members of the Management Board by means of audio-video communication (e.g. teleconferencing, videoconferencing).

8.7.4. Remuneration of the Members of the Management Board

Information regarding remuneration of members of the Management Board for the financial year ended December 31, 2015 is included in Note 44 of the consolidated financial statements for the financial year ended December 31, 2015.

8.7.5. Management contracts with members of the management board setting out severance packages payout as a result of their resignation or dismissal from the position without a material cause

The management contract with **Dariusz Działkowski** sets out the notice period at four months. In addition the non-competition agreement concluded with Dariusz Działkowski sets out a monthly payment of PLN 40,000 over the number of months specified in non-competition agreement.

In the case of termination of the management contract (including its expiry) Dariusz Działkowski will be entitled to a severance package ('Severance Package') in the amounts and on the conditions indicated below:

- in the case of expiry of the contract or the lack of its extension (failure to be reappointed by the entitled body of Cyfrowy Polsat as member of the Management Board of Cyfrowy Polsat for a subsequent term or lack of a new, subsequent management contract) due to reasons caused by Cyfrowy Polsat – in the net amount of PLN 240,000 paid by Cyfrowy Polsat on the date of the expiry of the contract or its discontinuation;
- in the case of the termination of the contract by Cyfrowy Polsat – in the net amount of PLN 240,000, paid by Cyfrowy Polsat on the last day of the notice period.

The management contract with **Tomasz Gillner-Gorywoda** sets out the notice period at four months. In addition the non-competition agreement concluded with Tomasz Gillner-Gorywoda sets out a monthly payment of PLN 40,000 over the number of months specified in non-competition agreement.

In the case of termination of the management contract (including its expiry) Tomasz Gillner-Gorywoda will be entitled to a severance package ('Severance Package') in the amounts and on the conditions indicated below:

- in the case of expiry of the contract or the lack of its extension (failure to be reappointed by the entitled body of Cyfrowy Polsat as member of the Management Board of Cyfrowy Polsat for a subsequent term or lack of a new, subsequent management contract) due to reasons caused by Cyfrowy Polsat – in the net amount of PLN 240,000 paid by Cyfrowy Polsat on the date of the expiry of the contract or its discontinuation;
- in the case of the termination of the contract by Cyfrowy Polsat – in the net amount of PLN 240,000 paid by Cyfrowy Polsat on the last day of the notice period.

The management contract with **Aneta Jaskólska** sets out the notice period at four months. In addition the non-competition agreement concluded with Aneta Jaskólska sets out a monthly payment of PLN 40,000 over the number of months specified in non-competition agreement.

In the case of termination of the management contract (including its expiry) Aneta Jaskólska will be entitled to a severance package ('Severance Package') in the amounts and on the conditions indicated below:

- in the case of expiry of the contract or the lack of its extension (failure to be reappointed by the entitled body of Cyfrowy Polsat as member of the Management Board of Cyfrowy Polsat for a subsequent term or lack of a new, subsequent management contract) due to reasons caused by Cyfrowy Polsat – in the net amount of PLN 240,000 paid by Cyfrowy Polsat on the date of the expiry of the contract or its discontinuation;
- in the case of the termination of the contract by Cyfrowy Polsat – in the net amount of PLN 240,000, paid by Cyfrowy Polsat on the last day of the notice period.

The management contract with **Tomasz Szeląg** sets out the notice period at four months. In addition the non-competition agreement concluded with Tomasz Szeląg sets out a monthly payment of PLN 40,000 over the number of months specified in non-competition agreement.

In the case of termination of the management contract (including its expiry) Tomasz Szeląg will be entitled to a severance package ('Severance Package') in the amounts and on the conditions indicated below:

- in the case of expiry of the contract or the lack of its extension (failure to be reappointed by the entitled body of Cyfrowy Polsat as member of the Management Board of Cyfrowy Polsat for a subsequent term or lack of a new, subsequent management contract) due to reasons caused by Cyfrowy Polsat – in the net amount of PLN 240,000 paid by Cyfrowy Polsat on the date of the expiry of the contract or its discontinuation;
- in the case of the termination of the contract by Cyfrowy Polsat – in the net amount of PLN 240,000, paid by Cyfrowy Polsat on the last day of the notice period.

8.8. The Supervisory Board

8.8.1. The Composition of the Supervisory Board

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

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

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

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Zygmunt Solorz-Żak	Chairman of the Supervisory Board Member of the Remuneration Committee	2008	2015	2018
Józef Birka	Member of the Supervisory Board	2015	2015	2018
Robert Gwiazdowski	Independent[(1)] member of the Supervisory Board Chairman of the Audit Committee	2008	2015	2018
Aleksander Myszka	Member of the Supervisory Board	2015	2015	2018
Leszek Reksa	Independent[(1)] member of the Supervisory Board Member of the Audit Committee	2008	2015	2018
Heronim Ruta	Member of the Supervisory Board Member of the Audit Committee Member of the Remuneration Committee	2001	2015	2018

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

Zygmunt Solorz-Żak is active in various business sectors of Poland's economy. At the end of the 1980s, he founded Przedsiębiorstwo Zagraniczne SOLPOL, a foreign trade enterprise. At the beginning of the 1990s, Mr Solorz-Żak entered the media sector by investing in Kurier Polski Sp. z o.o., a daily newspaper. In 1993, he launched Polsat, the first private satellite television in Poland, which received a broadcasting license later that year and transformed into a nationwide television channel. Within the first few years of its operations, Telewizja Polsat became one of the leaders of the TV broadcasting market in Poland.

Currently, Mr. Solorz-Żak focuses his business activities on the media and telecommunication sectors, where he operates chiefly through such companies as Cyfrowy Polsat (being also its founder), Telewizja Polsat, Polkomtel and companies of Midas Group. Mr. Solorz-Żak has many years' experience in serving on the governing bodies of commercial-law companies, which includes positions on the Supervisory Boards of such companies as Telewizja Polsat, Polkomtel, Midas S.A., Plus Bank S.A. (formerly: Invest-Bank S.A.) and Zespół Elektrowni Pątnów-Adamów-Konin S.A.

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

Mr. Józef Birka has extensive experience of working in statutory bodies of commercial-law companies. He is a member of the Supervisory Board Telewizja Polsat Sp. z o.o., Polkomtel Sp. z o.o. and Elektrim S.A. Between 2004 and 2006 he was also in the Supervisory Board member of Polska Telefonia Cyfrowa Sp. z o.o. He acts actively in the Association of Private Media

Employers, incorporated into Polish Confederation of Private Employers "Lewiatan". He was honored by the Polish Bar Council with a medal “Commendable Service to the Advocates Bar”.

Robert Gwiazdowski holds a post-doctoral degree of Habilitated Doctor (doctor habilitatus) in law and is a professor at Łazarski University. Mr. Gwiazdowski is an active attorney-at-law and tax advisor and has served as President of Adam Smith Centre since 2004.

In 2006-2007, he served as Chairman of the Supervisory Board of the Polish Social Insurance Institution (Zakład Ubezpieczeń Społecznych). At present, Mr. Gwiazdowski serves as Member of the Supervisory Boards of the following listed companies: DGA S.A., SARE S.A., Dom Maklerski IDM S.A., and MNI S.A., which operates on the telephony and TV markets.

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

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

Leszek Reksa graduated from the Foreign Trade Faculty of the Central School of Planning and Statistics in Warsaw (currently: Warsaw School of Economics). He has also completed numerous specialist seminars and courses in management and finance, including a seminar on corporate management at the Faculty of Finance at DePaul University in Chicago.

He has vast experience in managerial positions at various companies, including 20 years in the banking sector (Powszechna Kasa Oszczędności Bank Polski S.A.). Mr. Reksa also has many years' experience in serving on the governing bodies of commercial-law companies, which includes the positions of President of the Management Board of PHU BIMOT S.A., Member of the Supervisory Board of Bankowy Fundusz Leasingowy S.A., and Member of the Supervisory Board of Zakłady Azotowe Kędzierzyn S.A.

Heronim Ruta graduated from the Electrical Faculty of the Warsaw University of Technology. From 1978 to 1979, he was a specialist supervising the development of an experimental car for ultrasonic detection of cracks in rail tracks at the National Railway Technology Research Centre (Centralny Ośrodek Badań Techniki Kolejnictwa). In 1980-1987, he was head of Wytwórczo-Usługowa Spółdzielnia Pracy (a production and services cooperative). In 1987, he founded Herom Sp. z o.o., where he was President until 1992. In 1992-1994, he was President of Ster Sp. z o.o.

In 2002-2005, he was Member of the Management Board of Polaris Finance B.V., and from 2002 to 2004 – Member of the Supervisory Board of Uzdaroji Akcine Bendrove “Baltijos Televizija”. Mr. Ruta serves on the Supervisory Boards of various companies, including Plus Bank S.A., PAI Media S.A. w likwidacji (in liquidation), Dolnośląskie Centrum Aktywności Gospodarczej S.A. (formerly: Gurex S.A.), Cyfrowy Polsat and Telewizja Polsat. From November 2011 to February 2014, he was also Chairman of the Supervisory Board of Polkomtel, where he now serves as Deputy Chairman.

8.8.2. Competences and by-laws of the Supervisory Board

The Supervisory Board acts pursuant to the commercial companies code and also pursuant to the Articles of Association of the Company and the Bylaws of the Supervisory Board of 3 December 2007.

Pursuant to the Articles of Association of the Company the Supervisory Board performs constant supervision over activities of the enterprise. Within the scope of supervision performance the Supervisory Board may demand any information and documents regarding our business from the Management Board.

Members of the Supervisory Board shall take necessary steps to receive regular and full information from the Management Board regarding material matters concerning our business and risks involved in the business and the strategies of risk management. The Supervisory Board may - not infringing the competencies of other bodies of the Company - express their opinion on all the issues related to our proceedings, including forwarding motions and proposals to the Board.

The competencies of the Supervisory Board also include matters restricted by the commercial companies code, in particular:

a) audit of the financial statements both as to their compliance with 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 may consist of two members meeting the criteria of an independent member of the Supervisory Board as set out in the corporate governance regulations included in the Best Practices of WSE listed Companies.

Meetings of the Supervisory Board take place at least once a quarter. The venue for meetings is the seat of the Company or any other place indicated by the person calling the meeting.

The Chairman of the Supervisory Board, or a member of the Supervisory Board appointed by the Chairman calls a meeting of the Supervisory Board. Meetings of the Supervisory Board are chaired by the Chairman, and in the case of their absence by a member of the Supervisory Board indicated by the Chairman in writing, or another member of the Supervisory Board elected by the members present in the meeting.

The Chairman calls a meeting of the Supervisory Board also upon request of a member of the Management Board, or a member of the Supervisory Board, or upon a motion of a shareholder representing at least 1/10 (one tenth) of the share capital. A Meeting of the Supervisory Board shall take place at least within 14 days of the date of filing a written application to the Chairman.

Resolutions of the Supervisory Board are passed by majority of votes cast. In the case of equality the vote of the Chairman prevails. A resolution of the Supervisory Board requires inviting all the members of the Supervisory Board and presence of at least half of the members of the Supervisory Board to be valid.

The Supervisory Board may pass resolutions via means of direct, remote communication and also a member of the Supervisory Board may cast their vote in writing via other member of the Supervisory Board.

Members of the Supervisory Board execute their rights and perform their duties in person. Members of the Supervisory Board participate in General Meetings.

Moreover, within the performance of their duties, the Supervisory Board shall:

a) once a year prepare and present before the General Meeting a concise evaluation of the situation of the Company, considering the evaluation of the internal control system and the management system of risks that are important for the Company,
b) once a year prepare and present before the Annual General Meeting an evaluation of its their own performance,
c) investigate and issue opinions about matters to be subjects of resolutions of the General Meeting.

8.8.3. Committees of the Supervisory Board

Pursuant to the Bylaws of the Supervisory Board the Supervisory Board may appoint permanent committees, in particular the Audit Committee, or the Remuneration Committee, or ad hoc committees to investigate certain issues remaining in the competence of the Supervisory Board or acting as advisory and opinion bodies of the Supervisory Board.

The Audit Committee, as at December 31, 2015 comprised the following members of the Supervisory Board:

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

On January 8, 2016, Mr. Robert Gwiazdowski was appointed to the position of Chairman of the Audit Committee, which constitutes the fulfillment of principle II.Z.8 of the Best Practices of WSE listed Companies 2016, according to which the Chairman of the Audit Committee meets the independence criteria referred to in Annex II to the European Commission Recommendation 2005/162/WE of February 15, 2005.

The composition of the Audit Committee meets the requirements of Article 86, Paragraph 4 of the Act of 7 May 2009 on auditors and their self-government, entities authorized to audit the financial statements and the public supervision, according to which, the Audit Committee should include at least three members, including at least one member of the Audit Committee who must satisfy the condition of independence and be qualified in the field of accounting or auditing.

The Remuneration Committee, as at December 31, 2015, comprised the following members of the Supervisory Board:

- Zygmunt Solorz – Żak,
- Heronim Ruta.

The provisions of the Bylaws apply to meetings, resolutions, and minutes of the committees of the Supervisory Board, with reservation of the following information.

A committee is appointed by the Supervisory Board from among its members by means of a resolution. The committee appoints, by means of a resolution, the Chairman of the particular committee from among its members. The mandate of a member of a particular committee expires upon expiry of the mandate of the member of the Supervisory Board. The Supervisory Board may, by means of a resolution, resolve to dismiss a member from the composition of a particular committee before the expiry of the mandate of the member of the Supervisory Board. Dismissal from membership in a committee is not tantamount to dismissal from the Supervisory Board.

The first meeting of a committee is convened by the Chairman of the Supervisory Board or other member of the Supervisory Board they indicate. Meetings of the committees are convened as needs arise, ensuring thorough delivery of duties assigned with a particular committee. Minutes of committee's meetings and adopted resolutions are made available to the members of the Supervisory Board not being members of the committee. The Chairman of a given committee chairs its proceedings. The Chairman also performs supervision over preparation of the agenda, distribution of documents, and preparation of minutes of the meetings of the committee.

8.8.4. Remuneration of the Members of the Supervisory Board

Information regarding remuneration of members of the Supervisory Board for the financial year ended December 31, 2015 is included in Note 45 of the consolidated financial statements for the financial year ended December 31, 2015.

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

Warsaw, February 26, 2016

GLOSSARY

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

Glossary of general terms

Term	Definition
Amendment, Restatement and Consolidation Deed	Agreement concluded on September 21, 2015 between the Company, Polkomtel, Telewizja Polsat, Cyfrowy Polsat Trade Marks, Polsat License Ltd. and Polsat Media Biuro Reklamy, Eileme 2, Eileme 3, Eileme 4, Plus TM Management, TM Rental, Plus TM Group and a consortium of Polish and foreign financing institutions, amending and consolidating the CP SFA and the PLK SFA.
Argumenol	Argumenol Investment Company Limited, a company under Cypriot law with its registered office in Nicosia, Cyprus.
ATS, WSE ATS	Alternative system of trading in debt instruments organized by the WSE within the Catalyst market.
ATS Rules	Alternative Trading System Rules governing the alternative trading system organized by the WSE, adopted by resolution no. 147/2007 of the management board of the WSE on March 1, 2007, as amended.
B2B	Business to Business, a transaction between businesses.
B2C	Business to Consumer, a transaction between a business and a consumer.
Bonds, Series A Bonds	Dematerialized, interest-bearing, senior and unsecured Series A bearer bonds with the total nominal value of PLN 1 billion and the nominal value of PLN 1,000 each, issued pursuant to the Management Board's Resolution No. 01/02/07/2015 dated July 2, 2015.
Bonds Terms	Terms and conditions of Bonds issuance together with the supplement
Catalyst	Trading system of debt instruments operating on markets organized by the WSE and Bondspot, as defined in § 1 of the Catalyst Operating Rules adopted pursuant to resolution no. 59/2010 of the Management Board of WSE on January 27, 2010, as amended.
Combined SFA	CP SFA of September 21, 2015 as amended by the Amendment, Restatement and Consolidation Deed of September 21, 2015
Copyright Law	Copyright and Neighboring Rights Act of February 4, 1994 (consolidated text in Journal of Laws of 2006, No. 90, item 631, as amended).
CP Finance, Cyfrowy Polsat Finance	Cyfrowy Polsat Finance AB (publ), a company under Swedish law, registered under No. 556842-4435. On August 20, 2015 the Company changed its business name to Rioni 1 AB.
CP Revolving Facility Loan	The revolving facility loan of up to PLN 300 million, issued under the CP Senior Facilities Agreement, with the maturity date of September 21, 2020.
CP Senior Facilities Agreement, CP SFA	The Senior Facilities Agreement of September 21, 2015 between the Company, Telewizja Polsat, CPTM, Polsat License Ltd. and Polsat Media Biuro Reklamy, and a syndicate of Polish and foreign banks, covering the CP Term Facility Loan and the CP Revolving Facility Loan.
CP Term Facility Loan	The term facility loan of up to PLN 1.2 billion, issued under the CP Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
Cyfrowy Polsat, the Company	Cyfrowy Polsat Spółka Akcyjna, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000010078.
Cyfrowy Polsat Trade Marks, CPTM	Cyfrowy Polsat Trade Marks spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. 0000373011.
EBRD	European Bank for Reconstruction and Development, an international organization established by virtue of a treaty signed on May 29, 1990 in Paris, having its registered office in the United Kingdom of Great Britain and Northern Ireland.
Eileme 1	Eileme 1 AB (publ), a company under Swedish law, registered under No. 556854-5668.
Eileme 2	Eileme 2 AB (publ), a company under Swedish law, registered under No. 556854-5676.
Eileme 3	Eileme 3 AB (publ), a company under Swedish law, registered under No. 556854-5692.
Eileme 4	Eileme 4 AB (publ), a company under Swedish law, registered under No. 556854-5684.
Embud	Embud spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. 0000165473.

Term	Definition
Environmental Protection Law	Environmental Protection Law of April 27, 2001 (consolidated text in: Dz. U. of 2008, No. 25, item 150, as amended).
the Group, Polsat Group, Cyfrowy Polsat Group	Cyfrowy Polsat and the indirect and direct subsidiaries of the Company.
IFRS	The International Accounting Standards, International Financial Reporting Standards and the related Interpretations by the Standing Interpretations Committee and International Financial Reporting Interpretations Committee, adopted pursuant to Commission Regulation (EC) No. 1126/2008 of November 3, 2008, adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council (OJ L 320/1 of November 29, 2008, as amended), as defined in Art. 2 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards (OJ L 243/1 of September 11, 2002, as amended).
Karswell	Karswell Limited, a company under Cypriot law with its registered office in Nicosia, Cyprus
KRRiT	Krajowa Rada Radiofonii i Telewizji, National Broadcasting Council.
Metelem	Metelem Holding Company Limited, a company under Cypriot law, registered under No. 286591, indirectly controlling 100% shares in Polkomtel.
Metelem Group	Metelem jointly with the following companies: Eileme 1, Eileme 2, Eileme 3, Eileme 4, Polkomtel, Nordisk Sp. z o.o., Polska, Liberty Poland S.A., Polkomtel Finance AB (publ), Polkomtel Business Development Sp. z o.o., TM Rental, LTE Holdings, and Plus TM Management.
Midas Group	Midas spółka akcyjna entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000025704 and the indirect and direct subsidiaries of Midas S.A.
Mobyland	Mobyland spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000269979.
NBP	Narodowy Bank Polski, the central bank of the Republic of Poland
NDS	National Depository for Securities (*Krajowy Depozyt Papierów Wartościowych, KDPW*)
Orange, Orange Polska	Orange Polska Spółka Akcyjna, entered in the register of entrepreneurs of the National Court register under entry No. KRS 0000010681, previously operating under the name of Telekomunikacja Polska Spółka Akcyjna.
P4	P4 spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000217207.
PLK Revolving Facility Loan	The revolving facility loan of up to PLN 700 million, issued under the PLK Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
PLK Senior Facilities Agreement, PLK SFA	The Senior Facilities Agreement of September 21, 2015 between Polkomtel, Eileme 2, Eileme 3, Eileme 4, Plus TM Management, TM Rental and Plus TM Group and a syndicate of Polish and foreign financial institutions, covering the PLK Term Facility Loan and the PLK Revolving Facility Loan.
PLK Senior Notes Indenture	PLK Senior Notes Indenture of January 26, 2012 between Eileme 2, Eileme 3, Eileme 4, Spartan, Ortholuck, Citibank, N.A., London Branch, Citibank, N.A., New York Branch, and Citigroup Global Markets Deutschland.
PLK Senior Notes	Unsubordinated senior notes with a total nominal amount of EUR 542.5 million and USD 500.0 million, maturing in 2020, issued by Eileme 2.
PLK Term Facility Loan	The term facility loan of up to PLN 10,300 million, issued under the PLK Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
Plus Bank	Plus Bank Spółka Akcyjna entered in the register of entrepreneurs of the National Court Register under entry No. 0000096937.
Plus TM Group	Plus TM Group spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 373023, previously operating under the name of Once 2 spółka z ograniczoną odpowiedzialnością. In December 2015, the company merged with Polkomtel.
Plus TM Group S.K.A.	Plus TM Group spółka z ograniczoną odpowiedzialnością spółka komandytowo-akcyjna entered in the register of entrepreneurs of the National Court Register under entry No. KRS 474497, previously operating under the name of Cinco spółka z ograniczoną odpowiedzialnością – ,l – spółka komandytowo-akcyjna. On August 3, 2015, the company was transformed into TM Rental.

Term	Definition
Plus TM Management	Plus TM Management spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 378997.
Pola	Pola Investments Limited, a company under Cypriot law, with its registered office in Nicosia, Cyprus.
Polish Energy Law	Polish Energy Law of April 10, 1997 (consolidated text in Journal of Laws of 2012, item 1059).
Polkomtel	Polkomtel spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. 0000419430. The company was established following the transformation of Polkomtel Spółka Akcyjna, which was entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000020908.
Polkomtel Business Development	Polkomtel Business Development spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 377416.
Polkomtel Finance	Polkomtel Finance AB (publ), a company under Swedish law, registered under No. 556807-4594.
Polkomtel Group	Polkomtel jointly with the following companies: Nordisk Polska Sp. z o.o., Liberty Poland S.A., Polkomtel Finance, Polkomtel Business Development, TM Rental, LTE Holdings, and Plus TM Management.
Polsat Media Biuro Reklamy	Polsat Media Biuro Reklamy spółka z ograniczoną odpowiedzialnością sp.k. entered in the register of entrepreneurs of the National Court Register under entry No. 0000467579.
Polskie Media	Polskie Media Spółka Akcyjna, previously entered in the register of entrepreneurs of the National Court Register under entry No. 0000049216. On December 31, 2013 Polskie Media merged with Telewizja Polsat.
Redefine	Redefine spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. 0000287684. On June 30, 2015, Cyfrowy Polsat merged with Redefine.
Refinanced CP Senior Facilities Agreement	The Senior Facilities Agreement of April 11, 2014 between the Company, Telewizja Polsat, CPTM, Polsat License Ltd. and Polsat Media, and a syndicate of Polish and foreign banks, covering the CP Term Loan and the CP Revolving Facility Loan. Refinanced in full on September 21, 2015.
Refinanced CP Term Loan	The term facility loan of up to PLN 2,500 million, issued under the Refinanced CP Senior Facilities Agreement, with maturity on April 11, 2019. Refinanced in full on September 21, 2015.
Refinanced PLK Senior Facilities Agreement	The Senior Facilities Agreement of June 17, 2013 between Eileme 2, Eileme 3, Eileme 4, Polkomtel and subsidiaries, and a syndicate of banks. Refinanced in full on September 21, 2015.
Refinanced PLK Term Loans	The Term Facility Loans A, B and C issued under the Refinanced PLK Senior Facilities Agreement of up to PLN 2.65 billion, PLN 3.3 billion and PLN 1.7 billion with maturity dates falling in years 2017, 2018 and 2019, respectively. Refinanced in full on September 21, 2015.
Shares	Shares of Cyfrowy Polsat S.A. admitted to trading on the Warsaw Stock Exchange in Warsaw S.A.
Senior Notes	Unsubordinated senior secured notes with a value of EUR 350 million, bearing interest at a rate of 7.125%, issued by Cyfrowy Polsat Finance in 2011, redeemed in full in 2014.
Sensor	Sensor Overseas Limited, a company under Cypriot law, with its registered office in Nicosia, Cyprus.
SOKiK	The District Court in Warsaw, 17th Department for Competition and Consumer Protection.
Telecommunications Law	Telecommunications Law of July 16, 2004 (Dz. U. of 2004, No. 171, item 1800, as amended).
Telewizja Polsat, TV Polsat	Telewizja Polsat spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000388899. The company was established following the transformation of Telewizja Polsat Spółka Akcyjna, which was entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000046163.
Telewizja Polsat Group, TV Polsat Group	Telewizja Polsat together with its direct and indirect subsidiaries.
TiVi Foundation	TiVi Foundation, a family foundation of Kirchstrasse 12, 9490 Vaduz, Liechtenstein.
T-Mobile, T-Mobile Polska	T-Mobile Polska Spółka Akcyjna, entered in the register of entrepreneurs of the National Court register under entry No. KRS 0000391193, previously operating under the name of Polska Telefonia Cyfrowa Spółka Akcyjna.
TM Rental	TM Rental spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 567976.
UKE	The Office of Electronic Communications (Urząd Komunikacji Elektronicznej).

Term	Definition
UOKiK	The Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów).

Technical terms

Term	Definition
2G	Second-generation cellular telecommunications networks commercially launched on the GSM standard in Europe.
3G	Third-generation cellular telecommunications networks that allow simultaneous use of voice and data services.
4G	Fourth-generation cellular telecommunications networks.
Add-on sales	Sales technique combining cross-selling and up-selling.
Advertising market share	The Group's revenue from advertising and sponsoring in the overall revenue from TV advertising in Poland (market data according to SMG Poland (previously SMG Starlink).
Audience share	Percentage of TV viewers watching a channel at a given time, expressed as the percentage of all TV viewers at a given time (based on Nielsen Audience Measurement (NAM), in the ''from 16 to 49 years old'' demographics throughout the day).
CAGR	Compounded Annual Growth Rate – the average annual growth rate calculated for a given value using the following formula: $$\mathrm{CAGR} = \left(\frac{\mathrm{W_{rk}}}{\mathrm{W_{rp}}}\right)^{\left(\frac{1}{\mathrm{rk-rp}}\right)} - 1$$ where: rp – start year, rk – end year, Wrp – value in start year, Wrk – value in end year.
Catch-up TV	Services providing access to view selected programming content for a certain period after it was broadcast. Cyfrowy Polsat provides such services from 2011.
CDMA	A family of mobile telecommunications standards developed by the 3rd Generation Partnership Project 2, comprising e.g. CDMAOne and CDMA2000. CDMA is mainly used for data transmission services in rural areas. Its maximum transmission speed is 3.1 MB/s. CDMA also supports direct communication between user terminals and restriction of access to selected devices, and the technology is therefore used for digital trunked communications.
Churn	Termination of the contract with Customer by means of the termination notice, collections or other activities resulting in the situation that after termination of the contract the Customer does not have any active service provided in the contract model. Churn rate presents the relation of the number of customers for whom the last service has been deactivated (by means of the termination notice as well as deactivation as a result of collection activities or other reasons) within the last 12 months to the annual average number of customers in this 12-month period.
Contract ARPU	Average monthly revenue per customer generated in a given settlement period (including interconnect revenue)
Converged (integrated) services	A package of two or more services from our pay TV, mobile telecommunications and broadband Internet access offering, provided under a single contract and for a single subscription fee.
Customer	Natural person, legal entity or an organizational unit without legal personality who has at least one active service provided in a contract model.
DTH	Satellite pay TV services provided by us in Poland from 2001.
DTT	Digital Terrestrial Television.
DVB-T	Digital Video Broadcasting – Terrestrial technology.

Term	Definition
DVR	Set-top boxes equipped with a hard drive enabling the recording of TV programs (Digital Video Recorder)
EDGE	Cellular telecommunications technology supporting faster data transmission as a backward-compatible extension of the 2G network. EDGE increases the capacity of the radio interface and ensures more convenient use of data transmission services. Its maximum design speed is nearly 1 Mb/s (Enhanced Data rates for GSM Evolution).
ERP	A family of IT systems supporting enterprise management or shared operation of a group of collaborating enterprises through data collection and enabling transactions on the collected data (enterprise resource planning).
GB	Gigabyte – a measure of digital information, comprising one billion bytes, or 1024^3 bytes, depending on the interpretation – decimal or binary, respectively.
GPRS	Mobile data transmission service for GSM users (General Packet Radio Service).
GRP	A rating point defined as the overall number of persons viewing a given advertising spot over a specific time, expressed as a percentage share of the target group. In Poland, one GRP equals 0.2 million residents in the primary target group for advertisers aged 16-49 (Gross Rating Point).
GSM	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols, in particular regarding access to voice services (Global System for Mobile Communications).
GSM-1800	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols in the 1800 MHz bands, in particular regarding access to voice services.
GSM-900	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols in the 900 MHz bands, in particular regarding access to voice services.
HD	Above-standard resolution signal (High Definition).
HSPA/HSPA+	Radio data transmission technology for wireless networks, increasing the capacity of the UMTS network (High Speed Packet Access/High Speed Packet Access Plus). It also covers the HSPA+ Dual Carrier technology (Evolved High Speed Packet Access Dual Carrier). It supports transmission speeds of up to 42 Mb/s for download and up to 5.7 Mb/s for upload.
Interconnect revenue	Wholesale revenue for terminating voice and non-voice traffic on Polkomtel's network from other network operators based on interconnect agreements as well as revenue from transit of traffic.
IPLA	Internet platform providing access to video content, operated by Redefine Group, Frazpc.pl Sp. z o.o., Gery.pl Sp. z o.o. and Netshare Sp. z o.o.
IPTV	Technology enabling transfer of a television signal over IP broadband networks (Internet Protocol Television).
IVR	A telecommunications system enabling human-computer interaction using voice or tone signals (Interactive Voice Response).
LTE	A standard for faster data transmission for wireless networks (Long Term Evolution). It supports the maximum design transmission speed of 326.4 Mb/s.
Mb/s	A unit of telecommunications channel capacity, being one million or 1024^2 bytes (Megabyte) per second, depending on the interpretation – decimal or binary, respectively.
Mobile TV	Our pay mobile TV service rendered in DVB-T technology;
MTR	A wholesale charge for call termination in another operator's mobile telecommunications network (Mobile Termination Rate).
Multiroom	Our service providing access to the same range of TV channels on two television sets in one household for a single subscription fee.
MUX, Multiplex	A package of TV and radio channels and additional services, simultaneously transmitted digitally to the user over a single frequency channel.
MVNO	Mobile Virtual Network Operator.
Node B	A device for wireless connection between a mobile terminal and a fixed part of the third-generation telecommunications network.
PPV	Services providing paid access to selected TV content (pay-per-view).

Term	Definition
Prepaid ARPU	Average monthly revenue per prepaid RGU generated in a given settlement period (including interconnect revenue)
PVR	Electronic commodity hardware for digital recording of TV programs on its hard drive (Personal Video Recorder).
real users	An estimated number of persons who visit a website or open an Internet application at least once in a given month (Real Users).
RGU (Revenue Generating Unit)	Single, active service of pay TV, Internet Access or mobile telephony provided in contract or prepaid model.
SD	Standard-resolution television signal (Standard Definition).
SMS	Service enabling the sending of short text messages over telecommunications networks (Short Message Service).
streaming	A technical process initiated by the user, enabling the replaying (of video or audio/video content) of material available on the Internet on the user's terminal device, without it being necessary to download the entire content. The process involves the sending of digital data streams, being sections of the entire content spread over time, instead of the entire material.
Technical coverage	Percentage of households in Poland capable of receiving the broadcast of a given channel by Telewizja Polsat.
UMTS	Globally-used European 3G telecommunications standard based on GSM, enabling the provision of data transmission services with a maximum speed of 384 kb/s (Universal Mobile Telecommunications System).
Usage definition (90-day for prepaid RGU)	Number of reported RGUs of prepaid services of mobile telephony and Internet access refers to the number of SIM cards which received or answered calls, sent or received SMS/MMS or used data transmission services within the last 90 days.
USSD	A protocol used in GSM networks, which enables communication between a mobile phone and a network operator's computer.
Value-added services, VAS	Services offered by telecommunications undertakings and including entertainment, news, location and financial services.
Virtual private network	Network enabling a private connection over a public network (e.g. Internet).
VOD - Home Movie Rental	Our video on demand services
VoLTE	Technology which ensures immediate call set-up, high quality of voice and the possibility to provide advanced communication services with the guarantee of quality, such as e.g. HD video streaming based on the standard phone number (*Voice over LTE*).
WCDMA	Network access technology developed by 3rd Generation Partnership Project from 1999, and used in UMTS-standard 3G networks (Wideband Code Division Multiple Access).
WiFi	A set of standards for the development of wireless computer networks.

Management Board's representations

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

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

hereby represents that:

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

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

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

Warsaw, 26 February 2016

Independent auditor's report

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

We have audited the accompanying consolidated financial statements of Cyfrowy Polsat S.A. and its subsidiaries (the "Cyfrowy Polsat Group"), which comprise the consolidated balance sheet as at 31 December 2015 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flows statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Cyfrowy Polsat Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

PricewaterhouseCoopers Sp. z o.o.

PricewaterhouseCoopers Sp. z o.o.
26 February 2016
Warsaw, Poland

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CYFROWY POLSAT S.A. GROUP

Consolidated Financial Statements
for the year ended 31 December 2015

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

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APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

Consolidated Income Statement for the period	
from 1 January 2015 to 31 December 2015 showing a net profit for the period of:	PLN 1,163.4
Consolidated Statement of Comprehensive Income for the period	
from 1 January 2015 to 31 December 2015 showing a total comprehensive income for the period of:	PLN 1,171.9
Consolidated Balance Sheet as at	
31 December 2015 showing total assets and total equity and liabilities of:	PLN 26,490.1
Consolidated Cash Flow Statement for the period	
from 1 January 2015 to 31 December 2015 showing a net decrease in cash and cash equivalents amounting to:	PLN (225.6)
Consolidated Statement of Changes in Equity for the period	
from 1 January 2015 to 31 December 2015 showing an increase in equity of:	PLN 1,171.9

Notes to the Consolidated Financial Statements

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

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

Warsaw, 26 February 2016

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

Consolidated Income Statement

		for the year ended	
	Note	**31 December 2015**	**31 December 2015**
Continuing operations			
Revenue	9	9,823.0	7,409.9
Operating costs	10	(7,867.9)	(5,977.1)
Other operating income, net		30.7	9.6
Profit from operating activities		**1,985.8**	**1,442.4**
Gain/loss on investment activities, net	11	8.6	15.2
Finance costs	12	(664.6)	(1,146.0)
Share of the profit of joint venture accounted for using the equity method		2.6	2.6
Gross profit for the period		**1,332.4**	**314.2**
Income tax	13	(169.0)	(21.7)
Net profit for the period		**1,163.4**	**292.5**
Net profit attributable to equity holders of the Parent		1,163.4	292.5
Basic and diluted earnings per share (in PLN)	15	**1.82**	**0.54**

Consolidated Statement of Comprehensive Income

		for the year ended	
	Note	**31 December 2015**	**31 December 2014**
Net profit for the period		**1,163.4**	**292.5**
Items that may not be reclassified subsequently to profit or loss:		***3.0***	***-***
Actuarial gain		3.0	-
Items that may be reclassified subsequently to profit or loss:		***5.5***	***(3.2)***
Valuation of hedging instruments	29	6.6	(3.9)
Income tax relating to hedge valuation	29	(1.1)	0.7
Items that may be reclassified subsequently to profit or loss		**8.5**	**(3.2)**
Other comprehensive income, net of tax		**8.5**	**(3.2)**
Total comprehensive income for the period		**1,171.9**	**289.3**
Total comprehensive income attributable to equity holders of the Parent		1,171.9	289.3

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

Consolidated Balance Sheet - Assets

	Note	31 December 2015	31 December 2014 restated*
Reception equipment	16	371.0	421.1
Other property, plant and equipment	16	2,548.6	2,714.9
Goodwill	17	10,606.4	10,585.3
Customer relationships	20	3,638.5	4,255.8
Brands	18	2,080.6	2,085.9
Other intangible assets	20	2,422.2	2,591.4
Non-current programming assets	21	145.0	135.8
Investment property		5.2	5.3
Non-current deferred distribution fees	22	83.3	81.0
Other non-current assets	23	272.8	198.5
includes derivative instruments assets		*6.9*	*1.2*
Deferred tax assets	13	87.6	281.1
Total non-current assets		**22,261.2**	**23,356.1**
Current programming assets	21	192.2	152.1
Inventories	24	281.0	301.4
Trade and other receivables	25	1,619.1	1,453.4
Income tax receivable		0.7	26.0
Current deferred distribution fees	22	212.7	141.7
Other current assets	26	399.5	160.1
includes derivative instruments assets		*10.5*	*22.2*
Cash and cash equivalents	27	1,512.0	1,735.3
Restricted cash	27	11.7	12.6
Total current assets		**4,228.9**	**3,982.6**
Total assets		**26,490.1**	**27,338.7**

* Restatement resulting from final purchase price allocation of Metelem (see note 37)

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

Consolidated Balance Sheet - Equity and Liabilities

	Note	31 December 2015	31 December 2014 restated*
Share capital	28	25.6	25.6
Share premium	28	7,174.0	7,174.0
Other reserves	29	(3.7)	(12.2)
Retained earnings		3,054.2	1,890.8
Equity attributable to equity holders of the Parent		**10,250.1**	**9,078.2**
Total equity		**10,250.1**	**9,078.2**
Loans and borrowings	30	5,379.8	7,683.5
Issued bonds	31	975.3	4,550.2
Finance lease liabilities	32	20.9	11.7
UMTS license liabilities	33	652.8	750.3
Deferred tax liabilities	13	615.8	908.7
Deferred income	36	4.7	4.7
Other non-current liabilities and provisions	34	124.2	184.2
includes derivative instruments liabilities		-	*40.1*
Total non-current liabilities		**7,773.5**	**14,093.3**
Loans and borrowings	30	1,230.9	1,322.6
Issued bonds	31	4,776.7	464.4
Finance lease liabilities	32	4.3	6.8
UMTS license liabilities	33	117.0	117.1
Trade and other payables	35	1,485.4	1,524.4
includes derivative instruments liabilities		*72.9*	*87.0*
Income tax liability		176.1	48.0
Deferred income	36	676.1	683.9
Total current liabilities		**8,466.5**	**4,167.2**
Total liabilities		**16,240.0**	**18,260.5**
Total equity and liabilities		**26,490.1**	**27,338.7**

Restatement resulting from final purchase price allocation of Metelem (see note 37)

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

Consolidated Cash Flow Statement

		for the year ended	
	Note	31 December 2015	31 December 2014
Net profit		**1,163.4**	**292.5**
Adjustments for:		**1,821.7**	**1,825.3**
Depreciation, amortization, impairment and liquidation	10	1,699.3	1,295.9
Payments for film licenses and sports rights		(238.1)	(306.8)
Amortization of film licenses and sports rights		212.6	224.4
Gain on sale of property, plant and equipment and intangible assets		(6.9)	(2.9)
Cost of programming rights sold		1.4	30.5
Interest expense		763.6	603.7
Change in inventories		26.4	0.5
Change in receivables and other assets		(478.2)	(191.9)
Change in liabilities, provisions and deferred income		(118.0)	(277.7)
Change in internal production and advance payments		(3.9)	(4.9)
Valuation of hedging instruments		6.6	(3.9)
Share of the profit of joint venture accounted for using the equity method		(2.6)	(2.6)
Foreign exchange losses, net		222.0	369.9
Income tax	13	169.0	21.7
Net additions of reception equipment provided under operating lease		(134.7)	(193.1)
Early redemption costs	31	244.8	82.1
Cumulative catch-up	31	(616.2)	-
Net loss on derivatives		53.0	84.3
Other adjustments		21.6	96.1
Cash from operating activities		**2,985.1**	**2,117.8**
Income tax paid		(136.2)	(189.1)
Interest received from operating activities		38.8	45.2
Net cash from operating activities		**2,887.7**	**1,973.9**
Acquisition of property, plant and equipment		(417.8)	(263.6)
Acquisition of intangible assets		(165.3)	(71.8)
Concessions payments		(118.7)	(482.3)
Acquisition of subsidiaries, net of cash acquired	37	(29.5)	1,800.4
Proceeds from sale of property, plant and equipment		16.9	4.1
Granted loans		(16.1)	(23.1)
Other investing activities – derivatives		3.9	6.6
Dividends received		-	2.5
Net cash from/(used in) investing activities		**(726.6)**	**972.8**

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

Repayment of loans and borrowings	30	(9,222.2)	(1,087.1)
Loans and borrowings inflows	30	6,820.0	2,800.0
Issuance of bonds/(bonds redemption)	31	1,000.0	(2,275.9)
Finance lease – principal repayments		(5.6)	(0.9)
Payment of interest on loans, borrowings, bonds, Cash Pool, finance lease and commissions*		(978.9)	(872.2)
Dividends paid		-	(102.9)
Payment of share issuance-related consulting costs		-	(3.9)
Net cash used in financing activities		**(2,386.7)**	**(1,542.9)**
Net increase in cash and cash equivalents		**(225.6)**	**1,403.8**
Cash and cash equivalents at the beginning of the period		**1,747.9**	**342.2**
Effect of exchange rate fluctuations on cash and cash equivalents		1.4	1.9
Cash and cash equivalents at the end of the period		**1,523.7*****	**1,747.9****

* Includes impact of hedging instruments, premiums paid for early bonds' repayment and amount paid for costs related to the new financing
** Includes restricted cash amounting to PLN 12.6
***Includes restricted cash amounting to PLN 11.7

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

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

	Note	Number of shares	Share capital	Share premium	Other reserves	Retained earnings*	Equity attributable to equity holders of the Parent	Total equity
Balance as at 1 January 2015		**639,546,016**	**25.6**	**7,237.4**	**(12.2)**	**1,890.8**	**9,141.6**	**9,141.6**
Restatement resulting from purchase price allocation of Metelem**	37	-	-	(63.4)	-	-	**(63.4)**	**(63.4)**
Balance as at 1 January 2015 restated**		**639,546,016**	**25.6**	**7,174.0**	**(12.2)**	**1,890.8**	**9,078.2**	**9,078.2**
Total comprehensive income		-	-	-	8.5	1,163.4	**1,171.9**	**1,171.9**
Hedge valuation reserve	*29*	-	-	-	*5.5*	-	***5.5***	***5.5***
Actuarial gain			-	-	*3.0*	-	***3.0***	***3.0***
Net profit for the period		-	-	-	-	*1,163.4*	***1,163.4***	***1,163.4***
Balance as at 31 December 2015		**639,546,016**	**25.6**	**7,174.0**	**(3.7)**	**3,054.2**	**10,250.1**	**10,250.1**

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

	Note	Number of shares	Share capital	Share premium	Other reserves	Retained earnings*	Equity attributable to equity holders of the Parent	Total Equity
Balance as at 1 January 2014		**348,352,836**	**13.9**	**1,295.1**	**(9.0)**	**1,701.2**	**3,001.2**	**3,001.2**
Issue of shares		291,193,180	11.7	5,878.9**	-	-	**5,890.6****	**5,890.6****
Dividend declared and paid		-	-	-	-	(102.9)	**(102.9)**	**(102.9)**
Total comprehensive income		-	-	-	(3.2)	292.5	**289.3**	**289.3**
Hedge valuation reserve	*29*	-	-	-	*(3.2)*	-	***(3.2)***	***(3.2)***
Net profit for the period		-	-	-	-	*292.5*	***292.5***	***292.5***
Balance as at 31 December 2014 restated**		**639,546,016**	**25.6**	**7,174.0**	**(12.2)**	**1,890.8**	**9,078.2**	**9,078.2**

* The capital excluded from distribution amounts to PLN 8.5 as at 31 December 2015 and 2014. In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital.
** Restatement resulting from final purchase price allocation of Metelem (see note 37). The amount also includes share issuance-related costs.

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

Notes to the Consolidated Financial Statements

1. The Parent Company

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

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

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

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

2. Composition of the Management Board of the Company

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

3. Composition of the Supervisory Board of the Company

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

4. Basis of preparation of the consolidated financial statements

Statement of compliance

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

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

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

The changes did not have a significant impact on these financial statements except for introducing certain new disclosures.

Standards published but not yet effective:

(i) IFRS 9 *Financial instruments: Classification and measurement and Hedge accounting*
(ii) IFRS 15 *Revenue from Contracts with Customers*
(iii) amendments to IAS 1 *Disclosure Initiative*
(iv) amendments to IAS 27 *Equity Method in Separate Financial Statements*
(v) amendments to IAS 10 and IAS 28 *Sale or contribution of assets between an investor and its associate or joint venture*
(vi) amendments to IAS 10, IAS 12 and IAS 28 *Investment entities: Applying the Consolidation Exception*
(vii) amendments to IAS 11 *Accounting for acquisitions of interests in joint operations*
(viii) annual improvements – 2012-2014 reporting cycle
(ix) annual improvements – 2010-2012 reporting cycle
(x) amendments to IAS 19 *Employee Benefits*
(xi) amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*
(xii) IRFS 16 *Leasing*
(xiii) amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
(xiv) amendments to IAS 7 Disclosure Initiative

The Group is currently analyzing the impact of the published standards that are not yet effective and assesses that they should not have a material impact on the financial statements (except for IFRS 15, IFRS 16, IFRS 9 and IAS 38), other than additional disclosures.

The Group assesses that IFRS 15 will have a significant impact on the financial statements due to the change in the recognition model of revenue from customer contracts. As at the date of publication of these consolidated financial statements the Group has not completed the analysis of the impact of the new standards, IFRS 15, IFRS 16, IFRS 9 and IAS 38.

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

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

5. Group structure

These consolidated financial statements for the year ended 31 December 2015 include the following entities:

			Share in voting rights (%)	
	Entity's registered office	**Activity**	**31 December 2015**	**31 December 2014**
Parent Company				
Cyfrowy Polsat S.A.	Łubinowa 4a, Warsaw	radio, TV and telecommunication activities	n/a	n/a
Subsidiaries accounted for using full method:				
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, Warsaw	non-current assets and intellectual property rights management	100%	100%
Rioni 1 AB (formerly Cyfrowy Polsat Finance AB) [(a)]	Stureplan 4C, 4 TR 114 35 Stockholm, Sweden	financial transactions	100%	100%
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, Warsaw	television broadcasting and production	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o. Sp. k. (formerly Polsat Media Sp. z o.o.)	Ostrobramska 77, Warsaw	advertising activities	100%	100%
Media-Biznes Sp. z o.o.[(b)]	Ostrobramska 77, Warsaw	television broadcasting and production	-	100%
Nord License AS	Vollsvseien 13B Lysaker Norway	trade of programming licences	100%	100%
Polsat License Ltd.	Alte Landstrasse 17, 8863 Buttikon, Switzerland	trade of programming licences	100%	100%
Telewizja Polsat Holdings Sp. z o.o.	Ostrobramska 77, Warsaw	holding activities	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o.	Ostrobramska 77, Warsaw	media	100%	100%
PL 2014 Sp. z o.o.	Ostrobramska 77, Warsaw	other sport relating activities	100%	100%

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

			Share in voting rights (%)	
	Entity's registered office	Activity	31 December 2015	31 December 2014
Subsidiaries accounted for using full method (cont.)				
Polsat Brands (einfache Gesellschaft)	Alte Landstrasse 17, 8863 Buttikon, Switzerland	intellectual property rights management	100%	100%
Polsat Ltd.	238A King Street, W6 0RF London, UK	television broadcasting	100%	100%
Muzo.fm Sp. z o.o. (formerly Radio PIN S.A.)[(c)]	Ostrobramska 77, Warsaw	radio broadcasting and production	100%	-
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, Warsaw	radio and TV activities	100%	100%
CPSPV1 Sp. z o.o.	Łubinowa 4a, Warsaw	technical services	100%	100%
CPSPV2 Sp. z o.o.	Łubinowa 4a, Warsaw	technical services	100%	100%
Redefine Sp. z o.o.[(d)]	Al. Stanów Zjednoczonych 61A, Warsaw	web portals activities	-	100%
Poszkole.pl Sp. z o.o.[(e)]	Al. Stanów Zjednoczonych 61A, Warsaw	web portals activities	-	100%
Gery.pl Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warsaw	web portals activities	100%	100%
Frazpc.pl Sp. z o.o.[(e)]	Al. Stanów Zjednoczonych 61A, Warsaw	web portals activities	-	100%
Netshare Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warsaw	electronic media (Internet) advertising broker	100%	100%
Metelem Holding Company Limited	Chrysanthou Mylona 3 Office no. 102 CY 3030 Limassol Cyprus	holding and financial activities	100%	100%
Eileme 1 AB (publ)	Stureplan 4C 114 35 Stockholm Sweden	holding and financial activities	100%	100%
Eileme 2 AB (publ)	Stureplan 4C 114 35 Stockholm Sweden	holding and financial activities	100%	100%
Eileme 3 AB (publ)	Stureplan 4C 114 35 Stockholm Sweden	holding and financial activities	100%	100%

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

			Share in voting rights (%)	
	Entity's registered office	Activity	31 December 2015	31 December 2014
Subsidiaries accounted for using full method (cont.)				
Eileme 4 AB (publ)	Stureplan 4C 114 35 Stockholm Sweden	holding activities	100%	100%
Polkomtel Sp. z o.o.	Konstruktorska 4, Warsaw	telecommunication activities	100%	100%
Nordisk Polska Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warsaw	telecommunication activities	100%	100%
Polkomtel Finance AB (publ)	Norrlandsgatan 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.	Postępu 3 02-676 Warsaw	other activities supporting financial services	100%	100%
Plus TM Management Sp. z o.o.	Postępu 3 02-676 Warsaw	intelectual property rights management and rental	100%	100%
LTE Holdings Limited	Kostaki Pantelidi 1 1010, Nicosia Cyprus	holding activities	100%	100%
TM Rental Sp. z o.o. (formerly Plus TM Group Spółka z ograniczoną odpowiedzialnością Spółka Komandytowo-Akcyjna)	Postępu 3 02-676 Warsaw	intelectual property rights rental	100%	100%
Plus TM Group Sp. z o.o. (f)	Postępu 3 02-676 Warsaw	holding activities	-	100%

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

			Share in voting rights (%)	
	Entity's registered office	Activity	31 December 2015	31 December 2014
Subsidiaries accounted for using full method (cont.)				
Orsen Holding Ltd.(g)	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	-
Orsen Ltd. (g)	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	-
Dwa Sp. z o.o. (g)	Al. Jerozolimskie 81, Warsaw	holding activities	100%	-
Interphone Service Sp. z o.o.(g)	ul. Inwestorów 8, Mielec	production of set-top boxes	100%	-
Teleaudio Dwa Sp. z o.o. s.k.(g)	Al. Jerozolimskie 81, Warsaw	premium rate services	100%	-
IB 1 FIZAN(g)	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	financial activities	*	-
Grab Sarl(g)	6, rue Eugène Ruppert, L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	100%	-
Grab Investment SCSp(g)	6, rue Eugène Ruppert, L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	100%	-

(a) Rioni 1 AB (formerly Cyfrowy Polsat Finance AB) was disposed on 4 January 2016.

(b) On 30 November 2015 Telewizja Polsat Holdings Sp. z o.o. merged with Media-Biznes Sp. z o.o.

(c) On 27 February 2015 Telewizja Polsat Sp. z o.o. acquired 100% shares of Radio PIN S.A. On 11 January 2016 a transformation of Rdio PIN S.A. into Muzo.fm Sp. z o.o. has been registered.

(d) On 30 June 2015 Cyfrowy Polsat S.A. merged with Redefine Sp. z o.o.

(e) On 31 December 2015 Netshare Sp. z o.o. merged with Frazpc.pl Sp. z o.o. and Gery.pl Sp. z o.o. merged with Poszkole.pl Sp. z o.o.

(f) On 28 December 2015 Polkomtel Sp. z o.o. merged with Plus TM Group Sp. z o.o.

(g) Companies consolidated from 1 April 2015 following acquisition of 100% shares of Orsen Holding Limited group (see note 37)

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

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

Investments accounted for under the equity method:

	Entity's registered office	Activity	Share in voting rights (%) 31 December 2015	31 December 2014
Polsat JimJam Ltd.	105-109 Salusbury Road London NW6 6RG UK	television activities	50%	50%
Polski Operator Telewizyjny Sp. z o.o.	Wiertnicza 159, Warsaw	radio communications and radio diffusion	50%	50%
New Media Ventures Sp. z o.o.	Wołoska 18, 02-675 Warsaw	maintenance of loyalty programs	49.97%	49.97%
Paszport Korzyści Sp. z o.o.	Postępu 3, 02-676 Warsaw	maintenance of loyalty programs	49%	49%

Additionally, the following entities were included in these consolidated financial statements for the year ended 31 December 2015:

	Entity's registered office	Activity	Share in voting rights (%) 31 December 2015	31 December 2014
Karpacka Telewizja Kablowa Sp. z o.o.*	Warszawska 220, Radom	dormant	99%	99%
Litenite Limited**	Kostakis Pantelides Avenue 1 1010, Nicosia Cyprus	holding activities	49%	49%
Polskie Badania Internetu Sp. z o.o.	Al. Jerozolimskie 65/79, Warsaw	web portals activities	4.55%	4.55%

* Investment accounted for at cost less any accumulated impairment losses

** Due to restriction related to a dividend and construction of the transactions related to the acquisition, investment in Litenite Limited is accounted for as an investments in associates without equity pick-up

6. Accounting and consolidation policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements by all entities within the Group.

a) Basis of measurement

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

b) Going concern

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

c) Functional and presentation currency

These consolidated financial statements are presented in the Polish zloty, rounded to million, the Group's functional currency.

d) Use of estimates and judgments

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about critical estimates and judgments in applying accounting policies is included in note 49.

e) Comparative financial information

Comparative data or data presented in previously published financial statements has been updated, if necessary, in order to reflect presentational changes introduced in the current period. Due to final purchase allocation of Metelem the value of acquired assets and liabilities and share premium were restated (see note 37). Except above mentioned restatement, the changes had no impact on previously reported amounts of net income or equity.

It should be noted that the year ended 31 December 2015 may not be comparable to the year ended 31 December 2014 as Metelem Group was acquired on 7 May 2014, Radio PIN was acquired on 27 February 2015 and Orsen Holding Limited was acquired on 1 April 2015.

f) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Parent. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.
The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The financial statements of subsidiaries are prepared for the same period as the financial statements of the Company and using the accounting policies that are consistent with those of the Company for like transactions and events.

(ii) Joint arrangements

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint ventures equals or exceeds its interests in the joint ventures (which includes any long term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates and joint ventures are eliminated against the investment to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iv) Entities acquired under common control

Business combinations are governed by IFRS 3 "Business Combinations". However, this standard excludes from its scope transactions between entities under common control. According to IAS 8 par. 10-12, in the absence of an IFRS that specifically applies to a transaction, management shall use its judgment in developing and applying accounting policy that shall be consistently used for similar transactions.

Accordingly, the Group has chosen the acquisition method for entities acquired under common control in accordance with IFRS 3.

g) Foreign currency transactions

Foreign currency transactions

Transactions in foreign currencies are translated to the Polish zloty at exchange rates in effect one day prior to the recording of these transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Polish zloty at the average exchange rate quoted by the National Bank of Poland ("NBP") for that date. The foreign currency exchange differences arising on translation of transactions denominated in foreign currencies and from the reporting date retranslation of monetary assets and liabilities denominated in foreign currencies are recognized in profit and loss. Non-monetary assets and liabilities in a foreign currency that are measured in terms of historical cost are translated using the average NBP exchange rate in effect at the date of the initial recognition. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated at the average NBP foreign exchange rate in effect at the date the fair value was determined.

h) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other liabilities.
Non-derivative financial instruments, other than investments recognized at fair value through profit and loss, are recognized initially at fair value plus any directly attributable transaction costs (with certain exceptions as described below).

A financial instrument is recognized when the Group becomes a party to the contractual obligations of the instrument. The Group derecognises a financial asset when contractual rights to the cash flows from the financial assets expire, or it transfers the financial asset to another party in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Standardised transactions for sale or purchase of financial assets are recognized at the transaction date i.e. on the date the Group assumes an obligation to acquire or sell the asset. Financial liabilities are derecognized when the Group's obligations specified in the contract expire or are discharged or cancelled.

Principles for recognition of gains and losses on investment activities and costs are presented in note 6v.

Loans and receivables and other financial liabilities

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

Cash and cash equivalents comprise cash on hand and call deposits. The cash and cash equivalents balance presented in the consolidated cash flow statement comprises the above mentioned elements of cash and cash equivalents.

(ii) Derivative financial instruments

Hedge accounting

The Group may use derivative financial instruments such as forward currency contracts, foreign exchange call options, interest rate swaps and cross-currency interest rate swaps to hedge its foreign currency and interest rate risks. The Group may use forward currency contracts, foreign exchange call options and cross-currency interest rate swaps as cash flow hedges of its exposure to foreign currency risk in forecasted EUR denominated fixed coupon payments on Eurobonds as well as interest rate swaps for its exposure to volatility in the interest payments on floating rate debt.

For the purpose of hedge accounting, the Group's hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

For cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the hedge valuation reserve, while any ineffective portion is recognized immediately in the income statement.

The amounts recognized within other comprehensive income are transferred from equity to the income statement when the hedged transaction affects profit or loss, such as when the related gain or loss is recognized in Finance costs or when a forecast sale occurs.

Gains and losses from the settlement of derivative instruments that are designated as, and are effective hedging instruments, are presented in the same position as the impact of the hedged item. The derivative instrument is divided into a current portion and a non-current portion only if a reliable allocation can be made.

Other derivatives not designated for hedge accounting

Derivative instruments that are not designated for hedge accounting are recognized initially at fair value, attributable transaction costs are recognized in the profit or loss as incurred. Subsequent to initial recognition, the Group measures those derivative financial instruments at fair value, and changes therein are recognized in profit or loss.

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or divided into a current and non-current portion based on an assessment of the relevant facts and circumstances (i.e., the underlying contracted cash flows):

- Where the Group intends to hold a derivative instrument considered an economic hedge (for which hedge accounting is not applied) for a period exceeding 12 months after the reporting date, such derivative instrument is classified as non-current (or divided into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivates that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

i) Equity

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity.

Preference share capital

Preference share capital is classified as equity, if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity.

Costs attributable to issue and public offering of shares

Costs attributable to a new issue of shares are recognized in equity while costs attributable to a public offering of existing shares are recognized directly in finance costs. These costs relating to both new issue and sale of existing shares are recognized on a pro-rata basis in equity and finance costs.

Share premium

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

Retained earnings

In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital. This capital is excluded from distribution, however, it can be utilised to cover accumulated losses.

j) Property, plant and equipment

(i) Property, plant and equipment owned by the Group

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes purchase price of the asset and other expenditure that is directly attributable to the acquisition and bringing the asset to a working condition for its intended use, including initial delivery as well as handling and storage costs. The cost of purchased assets is reduced by the amounts of vendor discounts, rebates and other similar reductions received.

The cost of self-constructed assets and assets under construction includes all costs incurred for their construction, installation, adoption, and improvement as well as borrowing costs incurred until the date they are accepted for use (or until the reporting date for an asset not yet accepted for use). The above cost also may include, if necessary, the estimated cost of dismantling and removing the asset and restoring the site. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Investment property

Investment property is defined as a property (land, building, or both) held by the Group to earn rentals or for capital appreciation or both.

Investment property is measured initially at cost. Once recognized all investment property held by the Group are measured using the cost model as set out in IAS 16. This means that the assets are recognized at cost and depreciated systematically over its useful life as presented in (i) above.

Investment property is removed from the balance sheet on disposal or when it is permanently withdrawn from use and no further economic benefits are expected from its disposal.

(iii) Subsequent costs

Subsequent cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group and the amount of the cost can be measured reliably. Replaced item is derecognized. Other property, plant and equipment related costs are recognized in profit and loss as incurred.

(iv) Depreciation

Depreciation expense is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The following are estimated useful lives of respective group of property, plant and equipment:

Reception equipment	3 or 5	years
Buildings and structures	2 - 61	years
Technical equipment and machinery	2 – 30	years
Vehicles	2 - 10	years
Other	2 - 26	years

Depreciation methods, useful lives and residual values of material assets are reviewed at each financial year-end and adjusted if appropriate.

(v) Leased assets

Assets used under lease, tenancy, rental or similar contracts which meet finance lease criteria, are classified as non-current assets and measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Set-top boxes, modems and routers that are provided to customers under operating lease agreements are recognized within property, plant and equipment (Reception equipment in the balance sheet).

Assets subject to the lease are depreciated in a manner that is consistent with the policies applied to similar Group-owned assets. Depreciation is based on the principles of IAS 16 *Property, plant and equipment*. Where it is not reasonably certain that the lessee will obtain ownership of the asset before the lease term ends, the asset is depreciated over its useful life or the lease term, if shorter.

Carrying amounts of reception equipment and other items of property, plant and equipment may be reduced by impairment losses whenever there is any indication that an asset may be impaired or there is uncertainty as to those assets' revenue generating potential or their future use in the Group's operations. The accounting policies relating to impairment are presented in 6o.

k) Intangible assets

(i) Goodwill

Goodwill represents the excess of the sum of consideration transferred and payable, the amount of non-controlling interest in the acquiree and the fair value as at the date of acquisition of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired.

Goodwill is presented at purchase price less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if possible impairment is indicated. Goodwill is allocated to acquirer's cash-generating units for the purpose of testing for impairment. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Customer relationships

Customer relationships acquired as a result of the acquisition of subsidiaries are amortized on a straight-line basis over their useful lives.

(iii) Brands

Brands acquired as a result of the acquisition of subsidiaries are amortized on a straight-line basis over their useful lives, except where an indefinite period of use is justified. Brands with an indefinite useful life are tested annually for impairment or more frequently if impairment indicators exist. The estimated useful lives for respective brands are as follows:

- Polsat, TV4, TV6 and Ipla brands: indefinite useful life
- Plus brand: 51 years (i.e.2065).

(iv) Other intangible assets

The Group capitalises costs of IT software internally generated, including employee-related expenses, directly resulting from generation and preparing asset to be capable of operating, if the Group is able to measure reliably the expenditure attributable to such development and when it can reliably establish the commencement as well as the completion date of the software development activities.

Other intangible assets acquired by the Group are measured at cost less accumulated amortization and impairment losses.

Subsequent expenditure on existing intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in the profit or loss as incurred.
Amortization expense is based on the cost of an asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The recoverable amounts of intangible assets which are not yet available for use are measured as at each balance sheet date.

The estimated useful lives for respective intangible assets groups are as follows:

- Computer software: 2-15 years,
- Customer relationships: 3-13 years,

- Concessions: period resulting from an administrative decision,
- Other: 2-7 years.

l) Programming assets

Programming assets comprise acquired formats, licences and copyrights for broadcasting feature films, series, news and shows, capitalized costs of commissioned external productions ordered by the Group, capitalized sports rights and advance payments made (including advance payments for sports rights).

(i) Initial recognition

Programming rights, other than sports rights, are recognized at cost as programming assets when the legally enforceable licence period begins and all of the following conditions have been met:

- the cost of each program is known or reasonably determinable,
- the program material has been accepted by the Group in accordance with the conditions of the licence agreement,
- the program is available for its first showing.

Capitalized costs of productions include costs of programs ordered by the Group, including productions made based on licences purchased from third parties. Capitalized costs of productions are measured individually for each program at their respective production or acquisition costs, not to exceed their recoverable amounts.

Sports rights are recognized at cost at broadcast date. The rights to broadcast seasonal sports events, acquired in long term contracts (often for multiple seasons), are capitalized at cost based on a relative value assigned to a given season of the sport event as estimated by Group's internal experts.

Advance payments for acquired programming assets, prior to licence begin date, are recognized as prepayments for programming assets.

Signed and binding contracts for purchase of programming, which do not meet recognition criteria for programming assets are not recognized in the balance sheet and are instead disclosed as contractual commitments in the amount of the outstanding contract liability at the reporting date.

Programming assets are classified as non-current or current based on the estimate timing of the broadcast. A programming asset is recognized as current when the expected broadcast falls within 1 year from the reporting date. Sport rights and prepayments for sport rights are classified as current or non-current based on dates of related sport events.

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

(ii) Amortization

Programming assets are amortized using the method reflecting the manner of consuming the economic benefits embodied in the licenses acquired within their estimated useful lives limited by the term of the respective license agreements.

- Feature films and series – amortization starts at the first broadcast. Consumption of the economic benefits is measured using a declining balance method according to a standardized rate matrix and depends on the number of showings permitted or planned, primarily as described below:

	Feature films			
Number of depreciable runs	**Rate per run**			
	I	II	III	IV
1	100%			
2	60%	40%		
3	40%	30%	30%	
4 and more	35%	25%	25%	15%

	TV series	
Number of depreciable runs	**Rate per run**	
	I	II
1	100%	
2	80%	20%

- Feature films and series broadcasted on thematic channels are mainly amortized in four or five runs using the rates of 25% and 20%. respectively.
- Sport rights – 100% of the cost is recognized in profit or loss on the first broadcast or, where seasonal rights or rights for multiple seasons or competitions are acquired, such rights are principally amortized on a straight-line basis over the seasons or competitions.
- Commissioned external productions intended for only one run are fully amortized on their first broadcast.
- News programming is fully amortized at its first broadcast.
- General entertainment shows are fully amortized at their first broadcast.

Amortization of programming assets is presented in Content costs line in the operating costs of the income statement.

(iii) Impairment

Programming assets are reviewed for impairment at least annually and whenever there is any indication that the carrying amount may not be recoverable. Impairment losses are recognized on each license in case of withdrawal from broadcasting an item in the expected future (resulting from changes in strategic program scheduling, changing audience tastes, media law restrictions on the usability of films) and expected future losses anticipated on disposal of the rights.

Impairment write downs on programming assets are recognized as part of the cost of sales. Impairment of programming assets is reversed if the reason for the original impairment ceases to exist. The reversals are recorded as cost of sales reductions.

m) Inventories

Inventories are measured at the lower of cost and net realizable value. Cost of acquisition or production cost of inventories is determined by using the weighted average cost method.

The cost of inventories includes expenditure incurred in acquiring the inventories and other costs incurred in making them available for use or sale. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads determined based on normal operating capacity.

Net realisable value is the current market price in the ordinary course of business, less the estimated costs of completion and selling expenses. In the case of set-top boxes, mobile phones, modems and tablets, which under the business model applied by the Group are sold below cost, the loss on the sale is recorded when transferred to the customer.

The Group creates an allowance for slow-moving or obsolete inventories.

n) Prepayments

Prepayments for data transfer purchases are recognized in the nominal value upon payments made. The costs are recognized in the income statement based on the actual usage of data transmission and contractual fees. Prepayments, which will be settled after 12 months from the balance sheet date are presented as non-current assets.

o) Impairment of assets

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis at each reporting date. The remaining financial assets are assessed for impairment collectively in groups that share similar credit risk characteristics.

Receivables are reduced by an allowance based on the likelihood of future debt collection. The allowance is charged to the cost of debt collection services and bad debt allowance and receivables written off. An allowance for receivables from individuals is estimated based on the historical pattern for overdue receivables collection.

All impairment losses are recognized in profit or loss statement in Cost of debt collection services and bad debt allowance and receivables written off.

Impairment losses are reversed if a subsequent increase in the recoverable amount of a financial asset can be objectively attributed to an event occurring after the impairment losses were recognized.

(ii) Non-financial assets

The carrying amounts of non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated by the Group. The recoverable amount of intangible assets which are not yet available for use as well as of goodwill and brands with indefinite useful life is estimated at each reporting date.

An impairment loss is recognized when the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. A cash-generating unit represents the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of thereof. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of a cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units), and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In the case of assets that do not generate independent cash inflows, the value in use is estimated for the smallest identifiable cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recorded in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

p) Employee benefits

(i) Defined contribution plan

All Group entities that act as employers have an obligation, under applicable legislation, to collect and remit contributions to the state pension fund. According to IAS 19 *Employee Benefits* such benefits represent state plans that are classified as defined contribution plans. Therefore, the Group's obligations for a given period are estimated as the amount of contributions to be remitted for that period.

(ii) Defined benefit plan – retirement benefits

The Group entities have an obligation, under applicable legislation, to pay retirement benefits calculated in accordance with the relevant provisions of the Polish labor code. The minimum retirement benefit is as per the labor code provisions at the moment of payment.

The calculation is carried out using the Projected Unit Credit Method. Employee turnover is estimated based on historical experience and expected future employment levels.

Changes in the amount of the retirement benefits liability are recognized in the income statement. Actuarial gains and losses are recognized in the equity, in other comprehensive income in full in the period they originated.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are recognized as an expense as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term bonus, if the Group has a present legal or constructive obligation to make such payments as a result of past services provided by the employees and the obligation can be estimated reliably.

q) Provisions

A provision is recognized if, as a result of past event, the Group has a present obligation, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Certain disclosures may not be included in these consolidated financial statements as they relate to sensitive information.

(i) Warranties

A provision for warranties is recognized when the underlying products or goods are sold. The amount of the provision is based on historical warranty data and a weighting of all possible outflows against their associated probabilities.

(ii) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of fulfilling the contract. Before a provision is established, the Group recognizes any impairment loss on the assets dedicated to that contract.

r) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group or a present obligation that arises from past events, but its amount cannot be estimated reliably or it is not probable that there will be an outflow of resources embodying economic benefits.

The Group does not recognize a contingent liability, except for contingent liability assumed in a business combination.
Unless the possibility of any outflow in settlement is remote, the Group discloses for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practice able:
- an estimate of its financial effect;
- an indication of the uncertainties relating to the amount or timing of any outflow; and
- the possibility of any reimbursement.

s) Revenue

Revenue is measured at the fair value of the consideration received or receivable, representing the gross inflow of economic benefit from Group's operating activities, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists that recovery of the consideration is probable, the associated costs can be estimated reliably and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then such discounts are recognized as a reduction of revenue when it is recognized.

The Group's main sources of revenue are recognized as follows:

(a) Retail revenue consists primarily of monthly subscription fees paid by our pay digital television contract customers for programming packages, subscription fees paid by our contract customers for telecommunication services, fees for telecommunication services provided to our contract customers, which are not included in the subscription fee, payments for telecommunication services paid by our prepaid and mix customers, fees for the lease of set-top boxes, activation fees, penalties, and fees for additional services.
Services revenues are recognized in profit and loss in the period when related services are rendered.
Revenues from prepaid mobile telephone services are recognized in profit or loss once the prepaid credit is utilized or forfeited.
Revenue from the rental of reception equipment and activation fees are recognized on a straight-line basis over the minimum base period of the subscription contract.

(b) Wholesale revenue comprises advertising and sponsorship revenue, revenue from cable and satellite operator fees, revenue from the lease of infrastructure, interconnect revenue, revenue from roaming, revenue from the sale of broadcasting and signal transmission services and revenue from the sale of licenses, sublicenses and property rights.
Advertising and sponsorship revenue is derived primarily from broadcasting of advertising content and is recognized in the period when the advertising is broadcast. Revenue is recognized in profit or loss in the amount due from customers net of value added tax, taxes on revenue from advertising of alcohol beverages and any rebates granted. Advertising and sponsorship revenue also comprises revenue on commissions on sales of commercial airtime when the Group acts as an agent on behalf of third parties. The commissions are recognized at amounts due from the buyers of advertising airtime or sponsorship services, less of any amounts due to television broadcasters. Revenue from commissions on sales of commercial airtime and from sponsorship is recognized in the consolidated income statement when these services are rendered.
Revenue from charges made to cable and satellite operators includes fees from cable and satellite operators for reemission (rebroadcasting) of programs produced by the Group. Revenue is recognized when the related programs are broadcast.
Services revenues are recognized in profit and loss in the period when related services are rendered, net of any discount given.

(c) Revenue from sale of equipment is measured at the fair value of the consideration received or receivable, net of discounts, rebates and returns. Revenue from the sale of goods is recognized in profit or loss when the significant risks and rewards of ownership have been transferred to the customer.

(d) Other revenue is recognized, net of any discount given, when the relevant goods or service are provided.
Other revenue includes primarily revenue from the lease of premises and facilities, revenue from interest on installment plan purchase and other sales revenue.

When the Group sells goods and services in one bundled transaction, the total consideration from the arrangement is allocated to each element of such multiple-element arrangements based on residual method in such a way that the amount recognized for items already received cannot be higher than cash already received.

t) Distribution fees

Commissions payable to distributors for registering new subscribers and for retention of existing subscribers are recognized over the minimum base period of the subscription agreement.

Commissions for distributors which will be settled within 12 months of the reporting date are classified as other current assets, while the commissions, which will be settled more than 12-months after the reporting date, are classified as non-current assets.

u) Barter revenue and cost

Barter revenue is recognized when the services are rendered or goods delivered. Programming licences, products and services received are expensed or capitalized when received or used. The Group recognizes barter transactions at the estimated fair value of the programming licences, products or services received. When products or services are received before related advertising is broadcast, a liability is recognized by the Group. Conversely, when advertising is broadcast before products or services are received, a receivable is recognized by the Group.

v) Gains and losses on investment activities and finance costs

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

Interest income and expense (other than interest expense on borrowings) is recognized as it accrues in profit or loss using the effective interest method. Dividends income is recognized in profit or loss on the date that the Group's right to receive payment is established.

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

w) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

x) Income tax

Income tax expense/benefit comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet approach, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are measured based on the expected manner of recovery or settlement of the carrying amounts of assets and liabilities, respectively, using tax rates that are enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilized. An amount of deferred tax assets is reduced to the extent that it is no longer probable that the related tax benefit will be partly or wholly realized. When not recognized deferred tax asset becomes recoverable, it is recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are offset by the Group companies.

y) Earnings per share

The Group presents basic and diluted earnings per share for its ordinary and preference shares. Basic earnings per share are calculated by dividing the period's profit or loss from continuing operations attributable to ordinary and preference shareholders of the Company by the weighted average number of ordinary and preference shares outstanding during the period. Diluted earnings per share are calculated by dividing the period's profit or loss from the continuing operations attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares, adjusted by the effects of all dilutive potential ordinary and preference shares.

z) Segment reporting

An operating segment is a component of the Group that is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

The Group presents operating segments according to its internal management accounting principles applied in the preparation of periodical management reports which are regularly analysed by the Management Board of Cyfrowy Polsat S.A. These reports are analyzed on regular basis by management which was identified as the chief operating decision maker.

aa) Cash flows statement

Cash and cash equivalents in the cash flow statement are equal to cash and cash equivalents presented in the consolidated balance sheet.

Purchases of set-top boxes to be provided to customers under operating lease contracts are classified in the cash flows statement within operating activities. The purchases and disposals of these set-top boxes are classified in the cash flows statement within operating activities and presented as "Net disposals/(additions) in reception equipment provided under operating lease".

Acquisition of items of property, plant and equipment or intangible assets are presented in their net amount (net of related value added tax).

Payments for film licences and sport rights are presented on a net basis (net of related value added tax) within operating activities. Expenditures on the acquisition of programming assets also include the amount of withholding tax paid to the relevant tax authorities.

7. Determination of fair values

A number of accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. The methods for determining fair values are described below. When applicable further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Derivatives

The fair value of derivatives is calculated based on their quoted closing bid price at the balance sheet date or, in the lack thereof, other inputs that are observable for the asset or liability, either directly (i. e. as prices) or indirectly (i. e. derived from prices). In the second case, the fair value of derivatives is estimated as the present value of future cash flows, discounted using the market interest rate at the reporting date. Information on the structure of Polish and eurozone interest rates and Polish złoty exchange rate are used in order to estimate future cash flows and market interest rate.

(ii) Non-derivative financial assets

The fair value of non-derivative financial asset for disclosure purposes is estimated as the present value of future cash flows discounted using the market rate of interest rate as at the balance sheet date.

(iii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on liabilities' quoted closing bid price at the balance sheet date or, in the lack thereof, estimated on the present value of future principal and interest cash flows, discounted using the market interest rate at the reporting date. Market interest rate is estimated as interbank interest rate for a given currency zone (WIBOR, EURIBOR) plus a margin regarding the Group's credit risk. A market interest rate for a finance lease contract is estimated based on interest rates for similar lease contracts.

8. Approval of the Consolidated Financial Statements

These consolidated financial statements were approved for publication by the Management Board of Cyfrowy Polsat S.A. on 26 February 2016.

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

9. Revenue

	for the year ended	
	31 December 2015	31 December 2014
Retail revenue	6,553.1	5,084.7
Wholesale revenue	2,596.9	1,954.0
Sale of equipment	583.4	327.3
Other revenue	89.6	43.9
Total	**9,823.0**	**7,409.9**

Retail revenue mainly consists of pay-TV, telecommunication services, interconnection revenues, revenue from rental of reception equipment and contractual penalties.

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

10. Operating costs

		for the year ended	
	Note	31 December 2015	31 December 2014
Technical costs and cost of settlements with telecommunication operators		2,141.0	1,412.4
Depreciation, amortization, impairment and liquidation		1,699.3	1,295.9
Cost of equipment sold		1,332.8	925.2
Content costs		1,065.9	1,029.5
Distribution, marketing, customer relation management and retention costs		802.6	612.7
Salaries and employee-related costs	a	550.2	421.7
Cost of debt collection services and bad debt allowance and receivables written off		62.6	67.6
Other costs		213.5	212.1
Total		**7,867.9**	**5,977.1**

a) Salaries and employee-related costs

	for the year ended	
	31 December 2015	31 December 2014
Salaries	464.1	358.4
Social security contributions	70.1	50.9
Other employee-related costs	16.0	12.4
Total	**550.2**	**421.7**

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Average headcount of non-production employees*

	for the year ended	
	31 December 2015	**31 December 2014**
Employment contracts (full-time equivalents)	5,033	3,830

* excluding workers who did not perform work in the reporting period due to long-term absences

11. Gain/loss on investment activities, net

	for the year ended	
	31 December 2015	**31 December 2014**
Interest income, net	33.1	47.5
Other foreign exchange losses, net	(0.7)	(23.8)
Other investment income	1.6	10.0
Other costs	(25.4)	(18.5)
Total	**8.6**	**15.2**

12. Finance costs

	for the year ended	
	31 December 2015	**31 December 2014**
Interest expense on loans and borrowings	396.4	343.5
Interest expense on issued bonds	371.4	291.1
Early redemption costs (note 31)	244.8	82.1
Cumulative catch-up (note 31)	(616.2)	-
Foreign exchange differences on issued bonds	223.6	360.8
Valuation and realization of hedging instruments	7.8	4.9
Valuation and realization of derivatives not used in hedge accounting	13.5	50.5
Guarantee fees, bank and other charges	23.3	13.1
Total	**664.6**	**1,146.0**

13. Income tax

(i) Income tax expense

	for the year ended	
	31 December 2015	**31 December 2014**
Current tax expense	270.6	161.8
Change in deferred tax	(100.0)	(139.9)
Correction of income tax returns of previous years	(1.6)	(0.2)
Income tax expense in the income statement	**169.0**	**21.7**

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

	for the year ended	
Change in deferred income tax	**31 December 2015**	**31 December 2014**
Tax losses carried forward	22.4	(0.8)
Receivables and other assets	(4.1)	(29.8)
Liabilities	(28.0)	(43.4)
Other property, plant and equipment and intangible assets	(119.0)	(85.3)
Other	28.7	19.4
Change in deferred tax recognized in income statement – total	**(100.0)**	**(139.9)**

(ii) Income tax recognized in the statement of other comprehensive income

	for the year ended	
	31 December 2015	**31 December 2014**
Change in deferred income tax on hedge valuation	1.1	(0.7)
Income tax expense recognized in other comprehensive income - total	**1.1**	**(0.7)**

(iii) Effective tax rate reconciliation

	for the year ended	
	31 December 2015	**31 December 2014**
Gross profit	1,332.4	314.2
Income tax at applicable statutory tax rate of 19%	**253.2**	**59.7**
Tax amortization of intangible assets	(8.9)	(21.3)
Other	(75.3)	(16.7)
Tax expense for the year	**169.0**	**21.7**
Effective tax rate	**12.7%**	**6.9%**

(iv) Deferred tax assets

	31 December 2015	**31 December 2014 restated***
Tax losses carried forward	9.8	32.2
Liabilities	502.0	525.0
Tangible assets	76.0	66.6
Receivables and other assets	49.3	36.6
Other	14.0	28.5
Total deferred tax assets	**651.1**	**688.9**
Set off of deferred tax assets and liabilities	(563.5)	(407.8)
Deferred tax assets in the balance sheet	**87.6**	**281.1**

* Restatement resulting from final purchase price allocation of Metelem (see note 37)

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

(v) Tax loss

	31 December 2015	31 December 2014
2015 tax loss carried forward	6.6	-
2014 tax loss carried forward	22.9	87.3
2013 tax loss carried forward	4.5	3.3
2012 tax loss carried forward	24.4	38.0
2011 tax loss carried forward	18.6	44.8
2010 tax loss carried forward	-	46.6
Tax losses carried forward – total	**77.0**	**220.0**

(vi) Tax losses recognized

	31 December 2015	31 December 2014
2015 tax loss carried forward	4.1	-
2014 tax loss carried forward	22.9	87.3
2013 tax loss carried forward	4.5	1.7
2012 tax loss carried forward	14.8	38.0
2011 tax loss carried forward	4.8	32.3
2010 tax loss carried forward	-	11.0
Tax losses carried forward – total	**51.1**	**170.3**

As at 31 December 2015 the Group recognized deferred tax asset on tax losses to the extent that it was probable that they would be utilized in the future.

According to Art. 7 of the Polish Corporate Income Tax Act dated 15 February 1992, tax losses incurred in a given financial year can be utilized in the subsequent five fiscal years. However, no more than 50% of a tax loss for any given year can be utilized in a single subsequent fiscal year.

(vii) Deferred tax liabilities

	31 December 2015	31 December 2014 restated*
Receivables and other assets	76.9	68.3
Liabilities	10.4	61.9
Tangible and intangible assets	1,033.2	1,142.8
Other	58.8	43.5
Total deferred tax liabilities	**1,179.3**	**1,316.5**
Set off of deferred tax assets and liabilities	(563.5)	(407.8)
Deferred tax liabilities in the balance sheet	**615.8**	**908.7**

* Restatement resulting from final purchase price allocation of Metelem (see note 37)

The tax authorities may at any time inspect the books and records within 5 years from the end of the year when a tax declaration was submitted, and may impose additional tax assessments with penalty interest and penalties. The Group's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

14. EBITDA (unaudited)

EBITDA (earnings before interest, taxes, depreciation, amortization, impairment and liquidation) presents the Group's key measure of earnings performance. The level of EBITDA measures the Group's ability to generate cash from recurring operations. The Group defines EBITDA as operating profit adjusted by depreciation, amortization, impairment and liquidation. EBITDA is not an IFRS EU measure, and as such can be calculated differently by other entities.

	for the year ended	
	31 December 2015	**31 December 2014**
Net profit for the period	1,163.4	292.5
Income tax	169.0	21.7
Gain/loss on investment activities, net	(8.6)	(15.2)
Finance costs	664.6	1,146.0
Share of the profit of joint venture accounted for using the equity method	(2.6)	(2.6)
Depreciation, amortization, impairment and liquidation*	1,699.3	1,295.9
EBITDA (unaudited)	**3,685.1**	**2,738.3**

* Depreciation, amortisation, impairment and liquidation comprise depreciation and impairment of property, plant and equipment, amortisation and impairment of intangible assets and net book value of disposed property, plant, equipment and intangible assets (excluding amortization of programming assets)

15. Basic and diluted earnings per share

At the reporting date, the Company did not have any financial instruments that could have a dilutive effect, therefore the diluted earnings per share are equal to basic earnings per share.

	for the year ended	
	31 December 2015	**31 December 2014**
Net profit	1,163.4	292.5
Weighted average number of ordinary and preference shares in the period	639,546,016	539,024,535
Earnings per share in PLN (not in millions)	**1.82**	**0.54**

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

16. Property, plant and equipment

	Reception equipment	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Tangible assets under construction	**Other property, plant and equipment**
Cost as at 1 January 2015 restated*	**960.5**	**33.2**	**203.4**	**2,624.1**	**57.5**	**72.6**	**288.7**	**3,279.5**
Additions	**137.2**	-	13.1	245.2	19.3	6.4	156.3	**440.3**
Acquisition of subsidiary (see note 37)	**-**	0.9	9.5	6.7	0.3	0.3	-	**17.7**
Transfer from assets under construction	**-**	-	4.3	146.7	-	3.4	(154.4)	**-**
Disposals	**(86.3)**	(0.4)	(0.9)	(49.7)	(10.0)	(3.1)	(18.1)	**(82.2)**
Transfer between groups	**-**	-	-	0.1	-	(0.1)	(14.7)	**(14.7)**
Cost as at 31 December 2015	**1,011.4**	**33.7**	**229.4**	**2,973.1**	**67.1**	**79.5**	**257.8**	**3,640.6**
Accumulated impairment losses as at 1 January 2015	**(16.5)**	**-**	**-**	**(0.5)**	**-**	**(0.1)**	**(0.4)**	**(1.0)**
Recognition	**-**	-	-	(3.4)	-	-	(10.7)	**(14.1)**
Reversal	**4.0**	-	-	-	-	-	0.1	**0.1**
Utilisation	**2.9**	-	-	3.2	-	-	1.1	**4.3**
Accumulated impairment losses as at 31 December 2015	**(9.6)**	**-**	**-**	**(0.7)**	**-**	**(0.1)**	**(9.9)**	**(10.7)**
Accumulated depreciation as at 1 January 2015	**522.9**	**-**	**37.0**	**477.7**	**16.9**	**32.0**	**-**	**563.6**
Additions	**183.5**	-	12.3	499.8	10.9	21.4	-	**544.4**
Additions (depreciation in the value of produced equipment)	**-**	-	-	1.5	-	-	-	**1.5**
Disposals	**(75.6)**	-	(0.8)	(16.7)	(8.3)	(2.5)	-	**(28.3)**
Transfer between groups	**-**	-	-	0.1	-	-	-	**0.1**
Accumulated depreciation as at 31 December 2015	**630.8**	**-**	**48.5**	**962.4**	**19.5**	**50.9**	**-**	**1,081.3**
Carrying amount as at 1 January 2015 restated*	**421.1**	**33.2**	**166.4**	**2,145.9**	**40.6**	**40.5**	**288.3**	**2,714.9**
Carrying amount as at 31 December 2015	**371.0**	**33.7**	**180.9**	**2,010.0**	**47.6**	**28.5**	**247.9**	**2,548.6**

The Group recognized an impairment loss on items of property, plant and equipment whose carrying amounts exceeded their recoverable amounts. The impairment provision is recognized in 'depreciation, amortization, impairment and ;liquidation'.

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

	Reception equipment	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Tangible assets under construction	**Other property, plant and equipment**
Cost as at 1 January 2014	**823.1**	**6.9**	**105.9**	**245.0**	**40.4**	**28.7**	**7.8**	**434.7**
Additions	**194.9**	-	10.7	219.5	14.2	9.3	84.9	**338.6**
Acquisition of subsidiary (see note 37) restated*	**-**	26.3	86.4	2,109.3	10.9	36.0	281.7	**2,550.6**
Transfer from assets under construction	**-**	-	1.3	83.0	-	-	(84.3)	**-**
Disposals	**(57.5)**	-	(0.8)	(33.3)	(8.0)	(1.5)	(2.4)	**(46.0)**
Transfer from investment property	**-**	-	(0.1)	0.6	-	0.1	1.0	**1.6**
Cost as at 31 December 2014 restated*	**960.5**	**33.2**	**203.4**	**2,624.1**	**57.5**	**72.6**	**288.7**	**3,279.5**
Accumulated impairment losses as at 1 January 2014	**(17.5)**	**-**	**-**	**-**	**-**	**(0.1)**	**-**	**(0.1)**
Recognition	**(2.4)**	-	-	(1.2)	-	-	(4.2)	**(5.4)**
Reversal	**0.4**	-	-	-	-	-	0.1	**0.1**
Utilisation	**3.0**	-	-	0.7	-	-	3.7	**4.4**
Accumulated impairment losses as at 31 December 2014	**(16.5)**	**-**	**-**	**(0.5)**	**-**	**(0.1)**	**(0.4)**	**(1.0)**
Accumulated depreciation as at 1 January 2014	**398.0**	**-**	**25.5**	**124.5**	**15.8**	**17.7**	**-**	**183.5**
Additions	**171.8**	-	12.3	377.1	8.2	15.4	-	**413.0**
Additions (depreciation in the value of produced equipment)	**-**	-	-	1.2	-	0.1	-	**1.3**
Disposals	**(46.9)**	-	(0.7)	(25.1)	(7.1)	(1.3)	-	**(34.2)**
Transfer from investment property	**-**	-	(0.1)	-	-	0.1	-	**-**
Accumulated depreciation as at 31 December 2014	**522.9**	**-**	**37.0**	**477.7**	**16.9**	**32.0**	**-**	**563.6**
Carrying amount as at 1 January 2014	**407.6**	**6.9**	**80.4**	**120.5**	**24.6**	**10.9**	**7.8**	**251.1**
Carrying amount as at 31 December 2014 restated*	**421.1**	**33.2**	**166.4**	**2,145.9**	**40.6**	**40.5**	**288.3**	**2,714.9**

The Group recognized an impairment loss on items of property, plant and equipment whose carrying amounts exceeded their recoverable amounts. The impairment provision is recognized in 'depreciation, amortization, impairment and ;liquidation'.

* Restatement resulting from final purchase price allocation of Metelem (see note 37)

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

17. Goodwill

	2015	2014 restated*
Balance as at 1 January	**10,585.3**	**2,602.8**
Acquisition of 100% shares of Metelem Holding Company Limited (see note 37)	-	7,982.5*
Acquisition of 100% shares of Orsen Holding Limited (see note 37)	16.3	-
Acquisition of 100% shares of Radio PIN S.A. (see note 37)	4.8	-
Balance as at 31 December	**10,606.4**	**10,585.3***

* Restatement resulting from final purchase price allocation of Metelem (see note 37)

	31 December 2015	31 December 2014 restated*
Goodwill recognized on the acquisition of Metelem Holding Company Ltd.	7,982.5	7,982.5*
Goodwill recognized on the acquisition of Telewizja Polsat S.A.	2,360.2	2,360.2
Goodwill recognized on the acquisition of entities comprising Ipla platform	145.1	145.1
Goodwill recognized on the acquisition of M.Punkt Holdings Ltd.	52.0	52.0
Goodwill recognized on the acquisition of Polskie Media S.A.	34.8	34.8
Goodwill recognized on the acquisition of Orsen Holding Limited	16.3	-
Goodwill recognized on the acquisition of Info-TV-FM Sp. z o.o.	10.7	10.7
Goodwill recognized on the acquisition of Radio PIN S.A.	4.8	-
Total	**10,606.4**	**10,585.3**

* Restatement resulting from final purchase price allocation of Metelem (see note 37)

Impairment tests performed on goodwill balances as at 31 December 2015 did not indicate impairment (see note 19 for impairment test assumptions).

18. Brands

	2015	2014 restated*
Balance as at 1 January	**2,085.9**	**890.8**
Acquisition of subsidiary – accounting for Plus brand (see note 37)	-	1,230.0*
Amortization of Plus brand	(5.3)**	(34.9)**
Balance as at 31 December	**2,080.6**	**2,085.9**

* Restatement resulting from final purchase price allocation of Metelem (see note 37)

** The Group has finalized the purchase price allocation of Metelem (see note 37) however the depreciation, amortization, impairment and liquidation has not been restated in the comparable income statement due to the fact that the impact would have been non-material. Accordingly, the cumulative effect of restatement has been included in the 2015 income statement.

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

	31 December 2015	31 December 2014 restated*
Plus	1,189.8	1,195.1*
Polsat	840.0	840.0
TV4	33.7	33.7
TV6	9.3	9.3
Ipla	7.8	7.8
Total	**2,080.6**	**2,085.9**

* Restatement resulting from final purchase price allocation of Metelem (see note 37)

Plus

Following the acquisition of Metelem Holding Company Ltd., the Group recognized a value of the Plus brand. The brand is amortized over the useful life of 51 years (until the year 2065). The carrying amount of the brand was allocated to ”Services to individual and business customers” cash-generating unit.

Polsat

The value of the Polsat brand is recognized following the acquisition of Telewizja Polsat S.A. (currently Telewizja Polsat Sp. z o.o.).

The Polsat brand is not amortized as it is considered to have an indefinite useful life. The carrying amount of the brand was allocated to ”Broadcasting and television production” cash-generating unit for the impairment testing purposes (see note 19). Impairment test performed on Polsat brand balance as at 31 December 2015 did not indicate impairment (see note 19 for impairment test assumptions).

IPLA

In the consolidated financial statements, as a result of acquisition of entities comprising IPLA platform, the Group has recognized in 2012 among others goodwill and IPLA brand. Value of IPLA brand as at 31 December 2015 amounted to PLN 7.8. The IPLA brand is not amortized as it is considered to have an indefinite useful life. The carrying amount of the brand was allocated to ”Services to individual and business customers” cash-generating unit for the impairment testing purposes (see note 19).

Impairment test performed on Ipla brand balance as at 31 December 2015 did not indicate impairment (see note 19 for impairment test assumptions).

TV4 and TV6

In the consolidated financial statements, as a result of acquisition of Polskie Media S.A., the Group has recognized in 2013 among others goodwill and TV4 and TV6 brands. Value of TV4 and TV6 brands as at 31 December 2015 amounted to PLN 43.0.

The TV4 and TV6 brands are not amortized as they are considered to have an indefinite useful life. The carrying amount of the brand was allocated to ”Broadcasting and television production” cash-generating unit for the impairment testing purposes (see note 19). Impairment test performed on TV4 and TV6 brands balance as at 31 December 2015 did not indicate impairment (see note 19 for impairment test assumptions).

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

19. Goodwill and intangible assets with indefinite useful life

The Group recognized goodwill and brands with indefinite useful life in the consolidated financial statements. Their carrying amounts were allocated to the cash generating units which also represent the Group's operating segments.

Goodwill and brands with indefinite useful life are tested for impairment annually or more frequently if possible impairment is indicated. Goodwill and brands are allocated to the below cash-generating units for the purpose of testing for impairment. The allocation was made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose and the brands were identified.

The Group tests the total carrying amount of the cash-generating units and any impairment identified is recognized in the profit or loss immediately with respect to goodwill first and is not subsequently reversed. If goodwill is fully impaired the remaining amount of the impairment loss is allocated to the brands and other assets of the cash-generating unit on a pro rata basis.

	2015	**2014 restated***
"Services to individual and business customers" cash-generating unit	**8,214.4**	**8,198.1**
Goodwill recognized on the acquisition of Metelem Holding Company Ltd.	7,982.5	7,982.5*
Goodwill recognized on the acquisition of entities comprising Ipla platform	145.1	145.1
Goodwill recognized on the acquisition of M.Punkt Holdings Ltd.	52.0	52.0
Goodwill recognized on the acquisition of Orsen Holding Limited	16.3	-
Goodwill recognized on the acquisition of Info-TV-FM Sp. z o.o.	10.7	10.7
Ipla brand	7.8	7.8
"Broadcasting and television production" cash-generating unit	**3,282.8**	**3,278.0**
Goodwill recognized on the acquisition of Telewizja Polsat S.A.	2,360.2	2,360.2
Goodwill recognized on the acquisition of Polskie Media S.A.	34.8	34.8
Goodwill recognized on the acquisition of Radio PIN S.A.	4.8	-
Polsat brand	840.0	840.0
TV4 brand	33.7	33.7
TV6 brand	9.3	9.3

* Restatement resulting from final purchase price allocation of Metelem (see note 37)

The recoverable amounts of all the cash generating units have been determined based on the value-in-use calculations. These calculations were based on discounted free cash flows and involved the use of estimates related to cash flow before tax projections based on actual financial business plans covering the 5-year period until 2020. Cash flow projections after 5-year forecast period are estimated using the terminal growth. Terminal growth rate does not exceed the long-term average growth rate for the country in which the Group operates.

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

The key financial assumptions used in the value-in-use calculations

The most sensitive key financial assumptions used in the value-in-use calculations of “Broadcasting and television production” cash-generating unit and “Services to individual and business customers” cash-generating unit were as follows:
- discount rate
- terminal growth rate used for estimating the cash flows beyond the period of financial plans.

Discount rate – the discount rate reflects the estimate made by the management of the risks specific to each cash-generating unit, taking into account the time value of money and risks specific to the asset. The discount rate was estimated on the basis of weighted average cost of capital method (WACC) and considered Group’s and its operating segments’ business environment. WACC considers both debt and equity. Cost of equity is based on the return on investment excepted by the Group’s investors while cost of debt is based on the interest bearing debt instruments. Operating segment- specific risk is considered by the estimation of beta. Beta is estimated annually and is based on the market data.

Terminal growth rate – growth rates are based on widely available published market data such as IMF publications.

The key financial assumptions used for value-in-use calculations in 2015 and 2014 are as follows:

	Broadcasting and television production		Retail	
	2015	2014	2015	2014
Terminal growth	3%	3%	3%	3%
Discount rate before tax	9.7%	9.3%	8.2%	6.7%

The impairment tests for goodwill and brands allocated to “Broadcasting and television production” and “Services to individual and business customers” cash-generating units did not indicate impairment as at 31 December 2015.

Sensitivity analysis of key financial assumptions

The Group believes that the key assumptions made in testing for impairment of the “Broadcasting and television production” and “Services to individual and business customers” cash-generating units as at 31 December 2015 are reasonable and are based on our experience and market forecasts that are published by the industry experts. Management believes that any reasonably possible change in the key assumptions on which the above mentioned cash-generating units’ recoverable amounts are based would not cause the impairment charge to be recognized.

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

20. Customer relationships and other intangible assets

	31 December 2015	31 December 2014 restated*
Customer relationships	3,638.5	4,255.8*
Customer relationships total	**3,638.5**	**4,255.8**
Software and licenses	680.9	640.7
Concessions	1,658.8	1,831.0
Other	11.7	13.8
Other intangible assets under development	70.8	105.9
Other intangible assets total	**2,422.2**	**2,591.4**

* Restatement resulting from final purchase price allocation of Metelem (see note 37)

The customer relationships and telecommunication concessions (900 MHz, 1800 MHz oraz 2100 MHz) were recognized in the balance sheets following the acquisition of Metelem Holding Company Limited based on the Group's acquisition accounting. The carrying amount of the customer relationships and concessions was allocated to "Services to individual and business customers" cash-generating unit.

Customer relationships as at 31 December 2015 include the following:

	Amortization preriod
Customer relationships with retail clients	10 years
Customer relationships – infrastructure lease	3 years
Customer relationships – roaming	13 years
Customer relationships with wholesale clients (MVNO)	3 years

Concessions as at 31 December 2015 include the following:

	Expiry date
Concession GSM 900	24.02.2026
Concession GSM 1800	14.09.2029
Concession UMTS	01.01.2023
Concession (fixed-line telecommunication network)	31.12.2020

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

	Customer relationships	Software and licenses	Concessions for broadcasting television programs	Other	Other intangible assets under development	**Other intangible assets**
Cost						
Cost as at 1 January 2015 restated*	**4,640.0**	**833.0**	**2,010.1**	**27.0**	**105.9**	**2,976.0**
Additions	**-**	142.2	0.1	0.1	11.1	**153.5**
Acquisition of subsidiary (see note 37)	**-**	0.3	1.1	-	-	**1.4**
Transfer from intangible assets under development	**-**	60.7	-	0.1	(60.8)	**-**
Disposals	**-**	(1.5)	(2.1)	(0.2)	-	**(3.8)**
Transfer between groups	**-**	-	-	-	14.7	**14.7**
Cost as at 31 December 2015	**4,640.0**	**1,034.7**	**2,009.2**	**27.0**	**70.9**	**3,141.8**
Accumulated impairment losses as at 1 January 2015	**-**	**-**	**-**	**-**	**-**	**-**
Recognition	-	0.5	-	-	-	**0.5**
Accumulated impairment losses as at 31 December	**-**	**0.5**	**-**	**-**	**-**	**0.5**
Accumulated amortization as at 1 January 2015	**384.2**	**192.3**	**179.1**	**13.2**	**-**	**384.6**
Additions	**617.3**	161.6	173.4	1.6	-	**336.6**
Additions (amortization included in the value of produced equipment)	**-**	0.2	-	0.6	-	**0.8**
Disposals	**-**	(0.7)	(2.1)	(0.1)	-	**(2.9)**
Accumulated amortization as at 31 December 2015	**1,001.5**	**353.4**	**350.4**	**15.3**	**-**	**719.1**
Carrying amounts						
As at 1 January 2015 restated*	**4,255.8**	**640.7**	**1,831.0**	**13.8**	**105.9**	**2,591.4**
As at 31 December 2015	**3,638.5**	**680.8**	**1,658.8**	**11.7**	**70.9**	**2,422.2**

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

	Customer relationships	Software and licenses	Concessions for broadcasting television programs	Other	Other intangible assets under development	**Other intangible assets**
Cost						
Cost as at 1 January 2014	**-**	**138.2**	**36.0**	**26.7**	**44.7**	**245.6**
Additions	**-**	29.7	368.5	0.2	55.7	**454.1**
Acquisition of subsidiary (see note 37) restated*	**4,640.0**	627.7	1,600.0	-	60.5	**2,288.2**
Transfer from intangible assets under development	**-**	40.9	13.0	0.1	(54.0)	**-**
Disposals	**-**	(2.9)	(7.4)	-	-	**(10.3)**
Transfer between groups	**-**	(0.6)	-	-	(1.0)	**(1.6)**
Cost as at 31 December 2014 restated*	**4,640.0**	**833.0**	**2,010.1**	**27.0**	**105.9**	**2,976.0**
Accumulated amortization as at 1 January 2014	**-**	**87.9**	**10.6**	**9.7**	**-**	**108.2**
Additions	**384.2**	106.5	175.9	1.7	-	**284.1**
Additions (amortization included in the value of produced equipment)	**-**	-	-	1.8	-	**1.8**
Disposals	**-**	(2.1)	(7.4)	-	-	**(9.5)**
Accumulated amortization as at 31 December 2014	**384.2**	**192.3**	**179.1**	**13.2**	**-**	**384.6**
Carrying amounts						
As at 1 January 2014	**-**	**50.3**	**25.4**	**17.0**	**44.7**	**137.4**
As at 31 December 2014 restated*	**4,255.8**	**640.7**	**1,831.0**	**13.8**	**105.9**	**2,591.4**

* Restatement resulting from final purchase price allocation of Metelem (see note 37)

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

21. Programming assets

	31 December 2015	31 December 2014
Acquired film licenses	198.5	163.9
Capitalised cost of external production and sports rights	29.0	45.6
Co-productions	0.3	0.7
Prepayments	109.4	77.7
Total	**337.2**	**287.9**
Current programming assets	*192.2*	*152.1*
Non-current programming assets	*145.0*	*135.8*

Change in programming assets

	2015	2014
Net carrying amount as at 1 January	**287.9**	**252.9**
Increase*:	259.6	294.2
Acquisition of film licenses	*170.6*	*147.1*
Capitalized costs of sports rights	*89.0*	*147.1*
Change in impairment losses:	3.4	(5.0)
Film licenses	*3.0*	*(4.7)*
Capitalized cost of external production and sports rights	*0.4*	*(0.3)*
Change in internal production*	3.9	2.8
Amortization of film licenses	(128.1)	(111.9)
Amortization of capitalized cost of sports rights	(88.3)	(107.5)
Disposals:	(1.2)	(30.5)
Sale of film licenses	*(1.2)*	*(0.4)*
Capitalized costs of sports rights	-	*(30.1)*
Other	-	(7.1)
Net carrying amount as at 31 December	**337.2**	**287.9**

* includes change in prepayments

Commitments related to acquisition of programming assets by the Group are presented in note 48.

22. Deferred distribution fees

	31 December 2015	31 December 2014
Deferred distribution fees	**296.0**	**222.7**
Of which: Current	*212.7*	*141.7*
Non-current	*83.3*	*81.0*

Deferred distribution fees include commissions for distributors for contracts effectively concluded with subscribers. These costs are expensed by the Group to profit or loss over the minimum base period of the subscription contracts.

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

As at 31 December 2015, the balance of distribution fees relating to agreements whose basic period as at the date of signing was more than 12 months amounted to PLN 295.1 (as at 31 December 2014: 221.1 PLN).

23. Other non-current assets

	31 December 2015	31 December 2014
Deferred costs	5.0	3.0
Non-current trade receivables	232.9	156.9
Loans granted to related parties	16.8	28.9
Shares	2.5	2.5
Investment in joint ventures	5.9	3.2
Deposits paid	2.8	2.8
Derivative instruments IRS/CIRS (note 38)	6.9	1.2
Total	**272.8**	**198.5**

As at 31 December 2015 and 31 December 2014 Non-current trade receivables include receivables from installment plan purchases.

As at 31 December 2015 and 31 December 2014 99% shares in Karpacka Telewizja Kablowa Sp. z o.o. ("KTK Sp. z o.o.") were included in "Shares".

Investment in key joint ventures

The Group accounted for the following investments in a joint ventures using the equity method:

As at 31 December 2015:

Entity	Carrying amount	Country	Assets	Liabilities	Revenues	Profit / loss for the period	Share in voting rights
Polsat JimJam Ltd.	5.9	UK	16.1	3.5	12.3	5.9	50%
Total	**5.9**		**16.1**	**3.5**	**12.3**	**5.9**	

As at 31 December 2014:

Entity	Carrying amount	Country	Assets	Liabilities	Revenues	Profit / loss for the period	Share in voting rights
Polsat JimJam Ltd.	3.2	UK	12.7	6.1	11.8	5.2	50%
Total	**3.2**		**12.7**	**6.1**	**11.8**	**5.2**	

In 2014, the Group has received from Polsat JimJam a dividend in the amount of EUR 0.6 (equivalent of PLN 2.5). In 2015, no dividend has been paid.

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

24. Inventories

Types of inventories	31 December 2015	31 December 2014
Mobile phones	129.2	108.6
Laptops, tablets and modems	55.3	75.3
Set-top boxes and disc drives	13.2	42.5
Other inventories	83.3	75.0
Total net book value	**281.0**	**301.4**

Other inventories comprise primarily of raw materials used in the production of set-top boxes.

Write-downs of inventories	2015	2014
Opening balance	**21.4**	**4.5**
Increase	7.0	19.1
Utilisation	(6.5)	(0.2)
Decrease	(4.9)	(2.0)
Closing balance	**17.0**	**21.4**

25. Trade and other receivables

	31 December 2015	31 December 2014
Trade receivables from related parties	66.6	103.7
Trade receivables from third parties	1,391.7	1,267.0
Tax and social security receivables	91.9	45.9
Other receivables (see note 38)	68.9	36.8
Total	**1,619.1**	**1,453.4**

Trade receivables from third parties include primarily receivables from individual customers, media houses and distributors.

Trade receivables by currency

Currency	31 December 2015	31 December 2014
PLN	1,382.5	1,338.4
EUR	40.2	27.0
USD	32.7	3.6
Other	2.9	1.8
Total	**1,458.3**	**1,370.8**

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

Movements in the allowance for impairment of accounts receivable

	2015	2014
Opening balance	**75.0**	**33.9**
Acquisition of subsidiary	0.2	-
Increase	64.1	58.1
Reversal	(12.7)	(4.4)
Utilisation	(31.3)	(12.6)
Closing balance	**95.3**	**75.0**
Of which:		
Short-term	*73.9*	*57.6*
Long-term	*21.4*	*17.4*

26. Other current assets

	31 December 2015	31 December 2014
Derivative instruments forward/IRS/CIRS (note 38)	10.5	22.2
Other deferred income	-	0.3
Other deferred costs	389.0	137.6
Total	**399.5**	**160.1**

Other deferred costs in the amount of PLN 358.5 related to the agreement with Aero2 Sp. z o.o. (legal successor of Mobyland Sp. z o.o.) (see note 46).

27. Cash and cash equivalents

	31 December 2015	31 December 2014
Cash on hand	0.6	0.9
Current accounts	150.5	61.2
Deposits	1,360.9	1,673.2
Total	**1,512.0**	**1,735.3**

The Group places its cash and cash equivalents in banks and financial institutions with reliability proven by ratings awarded by universally recognized agencies Standard & Poor's, Moody's or Fitch, as required by the loan agreement and policies adopted therein. As at 31 December 2015 cash and cash equivalents were placed primarily with institutions rated A2 by Moody's Investors Service Ltd.

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

Currency	31 December 2015	31 December 2014
PLN	1,424.4	1,647.6
EUR	41.2	42.8
USD	37.9	39.9
Other	8.5	5.0
Total	**1,512.0**	**1,735.3**

As the Group cooperates with well-established Polish and international banks, the risks relating to deposited cash are considerably limited.

Restricted cash in the amount of PLN 11.7 includes mainly guarantee deposits.

28. Equity

(i) Share capital

Presented below is the structure of the Company's share capital as at 31 December 2014 and at 31 December 2015:

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

The shareholders' structure as at 31 December 2015 was as follows:

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

[1] Entity is controlled by Mr. Zygmunt Solorz-Żak

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

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

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

On 16 March 2015, Embud Sp. z o.o. acquired from Argumenol Investment Company Limited 28,415,173 ordinary series J bearer shares of the Company.

Listing of Series J shares

The Management Board of the Warsaw Stock Exchange (the WSE) decided that 243,932,490 Series J ordinary bearer shares of the Company shall be listed on the main WSE market as of 20 April 2015 through an ordinary listing procedure. The Company's intention was to have the Series J shares listed on the WSE after the rights related to the Series J shares were made uniform with the shares already listed on the WSE. These rights were made uniform as of 2 April 2015 as a result of the adoption by the General Meeting of the Company of a resolution regarding the distribution of 2014 net profits.
The shareholders' structure as at 31 December 2014 was as follows:

	Number of shares	Nominal value of shares	% of share capital held	Number of votes	% of voting rights
Karswell Ltd. [1]	157,988,268	6.3	24.70%	157,988,268	19.29%
Reddev Investments Ltd. [2]	154,204,296	6.2	24.11%	306,709,172	37.45%
Argumenol Investment Company Ltd. [1]	28,415,173	1.1	4.44%	28,415,173	3.47%
Sensor Overseas Ltd. [3]	54,921,546	2.2	8.59%	81,662,921	9.97%
Embud Sp. z o.o. [1]	29,648,775	1.2	4.64%	29,648,775	3.62%
Other	214,367,958	8.6	33.52%	214,539,208	26.20%
Total	**639,546,016**	**25.6**	**100%**	**818,963,517**	**100%**

[1] As at 31 December 2015 the entity was controlled by Mr. Zygmunt Solorz-Żak

[2] As at 31 December 2015 Reddev Investments Ltd. was a direct subsidiary of Pola Investments Ltd., an entity controlled by the TiVi Foundation, the parent entity of which is Mr. Zygmunt Solorz-Żak

[3] As at 31 December 2015 Sensor Overseas Ltd. was controlled by EVO Foundation

(ii) Share premium

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

(iii) Retained earnings

On 2 April 2015 the Annual General Meeting of the Company adopted resolution on distribution of profit of the Company for the financial year of 2014. Pursuant to the provisions of the resolution the net profit earned by the Company in the financial year of 2014 in the amount of PLN 177.2 is appropriated to the supplementary capital.

(iv) Other reserves

Other reserves include hedge valuation effect and actuarial gains.

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

29. Hedge valuation reserve

On 31 July 2014 and 1 August 2014 the Company executed Interest Rate Swap (IRS) transactions ("Transactions") consisting in exchanging interest payments based on the floating rate WIBOR 3M for interest payments based on an average fixed rate of 2.50% with the following banks: ING Bank Śląski S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Société Générale Spółka Akcyjna, Oddział w Polsce, Bank Zachodni WBK S.A., BNP Paribas SA and Bank Polska Kasa Opieki SA.

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

Impact of hedging instruments valuation on assets and liabilities as at 31 December 2015

	IRS	CIRS	Total
Liabilities			
Short-term	(8.3)	-	(8.3)
Total	**(8.3)**	**-**	**(8.3)**

Impact of hedging instruments valuation on assets and liabilities as at 31 December 2014

	IRS	CIRS	Total
Liabilities			
Long-term	(7.0)	-	(7.0)
Short-term	(8.4)	-	(8.4)
Total	**(15.4)**	**-**	**(15.4)**

Impact of hedging instruments valuation on hedge valuation reserve

	2015	2014
Balance as at 1 January	**(12.2)**	**(9.0)**
Valuation of cash flow hedges	-	-
Amount transferred to income statement	-	11.1
Deferred tax	-	(2.1)
Change for the period (credit facility repaid in 2014)	**-**	**9.0**
Hedging relationship designation	-	(15.0)
Valuation of cash flow hedges	6.6	-
Deferred tax	(1.1)	2.8
Change for the period (credit facilities signed in 2014 and 2015)	**5.5**	**(12.2)**
Balance as at 31 December	**(6.7)**	**(12.2)**

Due to the repayment of existing debt and its replacement with new credit facility in 2014 the hedge of existing debt was ended and the amounts presented in hedge valuation reserve were transferred to profit and loss. In connection with new credit facility established in 2014 a new hedging relationship was designated. This relationship was maintained and linked with the loan facility established in 2015 (see note 30).

30. Loans and borrowings

Loans and borrowings	**31 December 2015**	**31 December 2014**
Short-term liabilities	1,230.9	1,322.6
Long-term liabilities	5,379.8	7,683.5
Total	**6,610.7**	**9,006.1**

Change in loans and borrowings liabilities:

	2015	**2014**
Loans and borrowings as at 1 January	**9,006.1**	**485.9**
Loans and borrowings on acquisition of entities (see note 37)	22.2	6,815.6
Facilities agreement	6,700.0	2,500.0
Revolving facility loan	120.0	300.0
Repayment of capital	(9,222.2)	(1,087.1)
Repayment of interest and commissions	(411.8)*	(351.8)*
Interest accrued	396.4	343.5
Loans and borrowings as at 31 December	**6,610.7**	**9,006.1**

* Includes amount paid for costs related to the new financing

On 13 April 2015, Polkomtel Sp. z o. o. (an indirect subsidiary of the Company) made a voluntary prepayment of part of the senior facilities term loan in the amount of PLN 600. On 15 May 2015 Polkomtel made a voluntary prepayment in the amount of PLN 30. On 28 September 2015 Polkomtel made an early repayment of the loan in the amount of PLN 6,020.0. As a result of the said early repayment Polkomtel repaid its total indebtedness under the facilities agreement of 17 June 2013.

During 2015 the Company made scheduled payments of part of the Senior Facilities term loan in total amount of PLN 152. On 29 July 2015, the Company made a voluntary prepayment of part of the senior facilities term loan in the amount of PLN 1 billion (not in millions). On 28 September 2015 the Company made an early repayment of the loan in the amount of PLN 1,178.0. As a result of the said early repayment the Company repaid its total indebtedness under the facilities agreement dated 11 April 2014.

Facilities agreement between the Company and a consortium of financial institutions

On 21 September 2015, the Company, as the borrower, along with Telewizja Polsat Sp. z o.o., Cyfrowy Polsat Trade Marks Sp. z o.o., Polsat License Ltd. and Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością sp.k. concluded a Senior Facilities Agreement with a consortium of Polish and foreign financial institutions, led by Powszechna Kasa Oszczędności Bank Polski S.A., Bank Zachodni WBK S.A., ING Bank Śląski S.A., Société Générale (Global Banking Coordinators) with the participation of PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 1, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2, BNP Paribas Fortis SA/NV, Bank Polska Kasa Opieki S.A., The Bank of Tokyo-Mitsubishi UFJ Ltd., Bank of China (Luxembourg) S.A., Credit Agricole Corporate & Investment Bank, Credit Agricole Bank Polska S.A., DNB Bank Polska S.A., DNB Bank ASA, HSBC Bank Polska S.A., HSBC Bank plc, Bank

Handlowy w Warszawie S.A., CaixaBank, S.A. (Spółka Akcyjna) Oddział w Polsce, mBank S.A., Bank Millennium S.A., Raiffeisen Bank Polska S.A., Goldman Sachs Bank USA, Erste Group Bank AG, Deutsche Bank Polska S.A., and UniCredit Bank AG, London Branch, acting as the Facility Agent and the Security Agent (the "CP Facilities Agreement").
Based on the CP Facilities Agreement the Company has been awarded a Term Facility Loan up to PLN 1,200 (the "CP Term Facility") and a Revolving Facility Loan up to PLN 300 (the "CP Revolving Facility").

The CP Term Facility and the CP Revolving Facility bear interest at a variable rate equal to WIBOR for the relevant interest period plus margin. The margin on the CP Term Facility and the CP Revolving Facility depends on the ratio of net consolidated indebtedness to consolidated EBITDA in such a way that the lower the ratio – the lower the margin. The CP Term Facility and the CP Revolving Facility are to be repaid in quarterly installments of variable value with the final repayment date for each of these facilities set at 21 September 2020.

The CP Revolving Facility as at 31 December 2015 was not utilized.

The Company used the CP Term Facility and the CP Revolving Facility in particular to:
(i) repay the indebtedness under the Senior Facilities Agreement of 11 April 2014 between the Company (as the borrower) and a consortium of financial institutions, and
(ii) fund general corporate needs of the Group.

Senior Facilities Agreement between Polkomtel sp. z o.o. ("Polkomtel") and a consortium of financial institutions

On 21 September 2015, the Senior Facilities Agreement was concluded between a Company's subsidiary – Polkomtel as the borrower along with Eileme 2 AB (publ), Eileme 3 AB (publ), Eileme 4 AB (publ), Plus TM Management Sp. z o.o., TM Rental Sp. z o.o., Plus TM Group Sp. z o.o. 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 Citicorp Trustee Company Limited as the Security Agent (the "PLK Facilities Agreement").

Based on the PLK Facilities Agreement Polkomtel has been awarded a Term Facility Loan up to PLN 10,300 (the "PLK Term Facility") and a Revolving Facility Loan up to PLN 700 (the "PLK Revolving Facility").

The PLK Term Facility and the PLK Revolving Facility bear interest at a variable rate equal to WIBOR for the relevant interest period plus margin. The margin on the PLK Term Facility and the PLK Revolving Facility depends on the ratio of net consolidated indebtedness to consolidated EBITDA in such a way that the lower the ratio – the lower the margin. The PLK Term Facility and the PLK Revolving Facility are to be repaid in quarterly installments of variable value with the final repayment date for each of these facilities set at 21 September 2020.

The PLK Revolving Facility as at 31 December 2015 was not utilized.

The PLK Term Facility and the PLK Revolving Facility will be utilized by Polkomtel in particular to:
(i) fully repay the outstanding debt under the refinanced Polkomtel's Facilities Agreement dated 17 June 2013;
(ii) fully repay the indebtedness under the senior notes issued on 26 January 2012 by Eileme 2 AB (publ) – a Company's subsidiary („HY Notes Indebtedness"); and
(iii) fund general corporate needs of the Group.

In accordance with the provisions of the CP Facilities Agreement and PLK Facilities Agreement, the Company, Polkomtel and other members of 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.

Claims related to the CP Facilities Agreement and the PLK Facilities Agreement are secured by collaterals established by the Company, Polkomtel and other members of the Group as a security. A detailed description of the established securities is presented in the Management Report in note 4.6.6.

Amendment, Restatement and Consolidation Deed executed between the parties to the CP Facilities Agreement, PLK Facilities Agreement and certain members of the Group

On 21 September 2015 the Amendment, Restatement and Consolidation Deed was concluded between the Company, Polkomtel Sp. z o.o., Telewizja Polsat Sp. z o.o., Cyfrowy Polsat Trade Marks Sp. z o.o., Polsat License Ltd. and Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością sp.k., Eileme 2 AB (publ), Eileme 3 AB (publ), Eileme 4 AB (publ), Plus TM Management Sp. z o.o., TM Rental Sp. z o.o., Plus TM Group Sp. z o.o. and the consortium of Polish and foreign financing institutions (the "Amendment, Restatement and Consolidation Deed").

According to the Amendment, Restatement and Consolidation Deed, upon repayment of the HY Notes Indebtedness, the indebtedness under the PLK Facilities Agreement will be refinanced using the funds made available under the CP Facilities Agreement, as amended in the Amendment, Restatement and Consolidation Deed. The HY Notes Indebtedness were repaid 1 February 2016.

The Amendment, Restatement and Consolidation Deed amends the CP Facilities Agreement as follows:

i. the maximum amount of the CP Term Facility will be PLN 11,500, and the maximum amount of the CP Revolving Facility will be PLN 1,000;
ii. the Company and other Group members will establish additional collaterals for the facilities granted on this basis. These collaterals include, in particular, registered pledges on collections of movables and economic interests of variable composition comprised in the enterprise of certain members of the Group, registered and financial pledges on shares in the Group members, registered and financial pledges on receivables related to bank accounts kept for certain members of the Group, ordinary and registered pledges on selected trademarks, assignments of rights for security, mortgages, notarial submissions to enforcement and similar collaterals on shares (interests) or assets of members of the Group, to be governed by foreign laws.

Extraordinary General Meeting of the Company

On 18 August 2015 the Extraordinary General Meeting of the Company adopted a resolution whereby it gives its consent to conclude a pledge agreement and to establish registered pledge on collection of movables and rights constituting the organized entirety with variable composition, being the part of the Company's enterprise, to secure the payments resulting from the facilities agreements.

Events subsequent to the reporting date - Completion of refinancing

On 26 January 2016, Polkomtel (an indirect subsidiary of the Company) increased utilization of the PLN facility by PLN 4.8 billion (not in million) pursuant to the terms of the Amendment, Restatement and Consolidation Deed.

Agreement with Bank Pekao S.A.

On 7 May 2009 the Company signed an agreement with Bank Pekao S.A. defining rights and obligations of the parties should the Company order the bank to issue a guarantee or a letter of credit. Bank's total commitment regarding the issued guarantees and letters of credit may not exceed PLN 20,0. As at 31 December 2015 the bank issued guarantees in the total amount of PLN 2.7.

Agreement with PKO BP

On 29 November 2012 Company's indirect subsidiary signed a framework agreement with PKO BP S.A. defining rights and obligations of the parties should the company order the bank to issue a guarantee. Bank's total commitment regarding issued guarantees relating to tenders and trade agreements may not exceed PLN 60.0. As at 31 December 2015 the bank issued guarantees in the total amount of PLN 12.3 and EUR 3.5.

On 18 February 2015 Company's indirect subsidiary signed an annex to a framework agreement with PKO BP S.A. defining rights and obligations of the parties should the company order the bank to issue a guarantee. Bank's total commitment regarding issued guarantees relating to tenders and trade agreements may not exceed PLN 3.0. As at 31 December 2015 the bank issued guarantees in the total amount of PLN 2.5.

Agreement with ING Bank Śląski S.A.

On 12 February 2014 the Company's indirect subsidiary signed an agreement with ING Bank Śląski S.A. defining rights and obligations of the parties should the company order the bank to issue a guarantee. Bank's total commitment regarding the issued guarantees may not exceed PLN 2,5. As at 31 December 2015 the limit was unutilized..

31. Issued bonds

	31 December 2015	31 December 2014
Short-term liabilities	4,776.7	464.4
Long-term liabilities	975.3	4,550.2
Total	**5,752.0**	**5,014.6**

Change in issued bonds:

	2015	2014
Issued bonds as at 1 January	**5,014.6**	**1,438.7**
Bonds on acquisition as at 7 May 2014 (see note 37)	-	5,528.5
Issuance of bonds	1,000.0	-
Foreign exchange losses	223.6	360.8
Early redemption costs	244.8	82.1
Cumulative catch-up	(616.2)	-
Bonds redemption	-	(2,275.9)
Repayment of interest and commission	(486.2)**	(410.7)**
Interest accrued	371.4	291.1
Issued bonds payable as at 31 December	**5,752.0**	**5,014.6**

* Includes payment of the early redemption costs

** Includes amount paid for costs related to the new financing

On 21 July 2015, the Company registered 1,000,000 unsecured series A bearer bonds with a nominal value of PLN 1,000 each (not in millions) and a total nominal value of PLN 1,000,000,000 (not in millions) (the "Bonds") in the securities depository maintained by the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.). The Bonds mature in 6 years. The redemption date for the Bonds is 21 July 2021. The interest rate is floating and is based on the WIBOR 6M rate, increased by a margin which depends on the Leverage Ratio level (defined in the terms and conditions of the Bonds' issuance).

The Group entered into a new loan agreement in September 2015 and planned earlier redemption of HY Notes which resulted in a change of future expected cash flows. Accordingly, the Group recognized early redemption costs of PLN 244.8 and cumulative catch-up of PLN (-)616.2

Events subsequent to the reporting date - Completion of refinancing

On 1 February 2016, Eileme 2 (an indirect subsidiary of the Company) redeemed all of its issued senior notes in the total nominal value of EUR 542.5 and USD 500 due in 2020.

32. Group as a lessor and as a lessee

a) Group as a lessor

Operating lease

The Group entered into contracts with third parties, which are classified as operating leases based on their economic substance. The contracts relate to the rental of reception equipment, lease of premises and call center equipment as well as vehicles. Reception equipment and call center equipment connected with such contracts are presented as part of property, plant and equipment. The premises is classified as operating lease and vehicles are recognized as financial leasing.

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

Lease contracts for set-top boxes are concluded for a base contractual period ranging from 12 to 29 months. After each base period, the contracts are converted into contracts with either indefinite or definite terms, unless terminated by the subscribers.
Future minimum lease payments with respect to operating lease are as follows:

	31 December 2015	31 December 2014
less than 1 year	12.7	7.8
between 1 and 5 years	2.7	1.3
Total	**15.4**	**9.1**

b) Group as a lessee

Operating leases

The Group entered into agreements, which are classified as operating lease contracts based on their economic substance. Assets leased under these contracts are not recorded in the financial statements. The contracts comprise leases of premises, lease of satellite transponders capacity, vehicles and other equipment as well as lease of land for network locations.

The table below presents a maturity analysis for such commitments:

	31 December 2015	31 December 2014
within one year	455.0	452.4
between 1 to 5 years	1,125.4	1,148.7
more than 5 years	381.4	415.9
Total	**1,961.8**	**2,017.0**

The table below presents future minimum payments relating to operating lease agreements to related parties:

	31 December 2015	31 December 2014
within one year	24.8	22.8
between 1 to 5 years	84.7	80.5
more than 5 years	53.1	69.9
Total	**162.6**	**173.2**

In 2015 the Group incurred costs related to operating lease agreements amounting to PLN 405.5 and in 2014 to PLN 371.2

Finance leases

The total carrying amount of vehicles used under finance lease contracts amounted to PLN 24.2 as at 31 December 2015 and PLN 15.7 as at 31 December 2014.

The lease term is up to 5 years with respect to vehicles and other equipment.

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

Future minimum lease payments under finance leases are as follows:

	31 December 2015	31 December 2014
less than 1 year	4.3	7.4
between 1 and 5 years	20.8	12.8
Total	**25.1**	**20.2**

The present value of minimum lease payments amounted to PLN 18.5 as at 31 December 2014 and PLN 25.1 as at 31 December 2015.

33. UMTS license liabilities

Future payments	31 December 2015	31 December 2014
30 September 2015	-	119.4
30 September 2016	119.4	119.4
30 September 2017	119.4	119.4
30 September 2018	119.4	119.4
30 September 2019	119.4	119.4
30 September 2020	119.4	119.4
subsequent years	251.0	251.3
Total payments	**848.0**	**967.7**
Amounts representing discount	-78.2	-100.3
Discounted minimum payments	**769.8**	**867.4**
Of which:		
Short-term	*117.0*	*117.1*
Long-term	*652.8*	*750.3*

As a result of acquisition of shares in Metelem Holding Company Limited (see note 37) UMTS license liability has been recognized. The liability is denominated in EUR. The value of the liability is a subject to annual reduction due to subsequent installments paid to the regulator. UMTS license liability is due in 2022.

34. Other non-current liabilities and provisions

	31 December 2015	31 December 2014
Derivative instruments (IRS/CIRS) liabilities (note 38)	-	40.1
Provisions	113.9	131.9
Other	10.3	12.2
Total	**124.2**	**184.2**

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

35. Trade and other payables

	31 December 2015	31 December 2014
Trade payables to related parties	6.2	62.2
Trade payables to third parties	284.1	370.6
Taxation and social security payables	176.1	98.6
Payables relating to purchase of programming rights to related parties	1.4	1.4
Payables relating to purchase of programming rights to third parties	53.0	40.9
Payables relating to purchases of tangible and intangible assets	145.1	168.5
Accruals	594.5	531.7
Short-term provisions	112.1	127.9
Derivative instruments (IRS/CIRS) liabilities (note 38)	72.9	87.0
Other	40.0	34.2
Total	**1,485.4**	**1,523.0**

Accruals

	31 December 2015	31 December 2014
Salaries	84.0	76.6
License fees and royalties for copyright management organizations	66.0	50.9
Distribution costs	97.0	137.4
Costs of settlements with telecommunication operators	113.4	100.5
Other	234.1	166.3
Total	**594.5**	**531.7**

Short-term and long-term provisions

	2015	2014
Opening balance as at 1 January	**259.8**	**43.5**
Acquisition of subsidiary (see note 37)	0.1	186.2
Increases	7.8	47.5
Reversal	(36.0)	(11.4)
Utilisation	(5.8)	(6.0)
Closing balance as at 31 December	**225.9**	**259.8**
Of which:		
Short-term	*112.1*	*127.9*
Long-term	*113.8*	*131.9*

Provisions comprise *inter alia* of provision for license fees, litigation and disputes, warranty provision, provision for dismantling and onerous contracts.

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

Trade payables and payables relating to purchases of programming rights and non-current assets by currency

Currency	31 December 2015	31 December 2014
PLN	414.4	570.0
USD	54.7	44.8
EUR	15.3	24.7
Other	5.4	4.1
Total	**489.8**	**643.6**

Accruals by currency

Currency	31 December 2015	31 December 2014
PLN	533.0	460.0
EUR	51.1	60.5
Other	10.4	11.2
Total	**594.5**	**531.7**

36. Deferred income

	31 December 2015	31 December 2014
Deferred income	680.8	688.6
Of which: *Short-term*	*676.1*	*683.9*
Long-term	*4.7*	*4.7*

Deferred income comprises mainly deferred retail revenue (subscription fees paid in advance, prepaid services and rental fees for set-top boxes) as well as deferred wholesale revenue (prepaid advertising broadcasts).

37. Acquisition of a subsidiary

Acquisition of shares in Metelem Holding Company Limited

On 7 May 2014 the Company concluded subscription agreements concerning the acquisition of subscription warrants individually with all of Metelem's shareholders, that is the European Bank for Reconstruction and Development ("EBRD"), Karswell Limited ("Karswell"), Sensor Overseas Limited ("Sensor") and Argumenol Investment Company Limited ("Argumenol"). In these agreements the Company offered registered subscription warrants to the Metelem Shareholders and each of the shareholders accepted the offer of the Company and acquired free registered subscription warrants in such way that: (a) the EBRD acquired 47,260,690 Series I registered subscription warrants; (b) Karswell acquired 157,988,268 Series J registered subscription warrants; (c) Sensor acquired 27,880,274 Series J registered subscription warrants; and (d) Argumenol acquired 58,063,948 Series J registered subscription warrants. The subscription warrants represent rights to acquire shares of the Company in the course of a conditional share capital increase of the Company approved by the Company's Extraordinary General Meeting on 16 January 2014.

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

Acquired in consideration for the non-cash contribution in the form of Metelem shares were 291,193,180 ordinary bearer shares with the nominal value of PLN 0.04 (not in millions) each.

Karswell and Argumenol are controlled by Mr. Zygmunt Solorz-Żak, ultimate controlling party of the Company. Sensor is controlled by Mr. Heronim Ruta. The Group uses the purchase accounting method for entities acquired under common control.

The acquisition date is 7 May 2014, when the title to the shares of the acquired company was transferred to Cyfrowy Polsat (that day were fulfilled all conditions included in the conditional investment agreements signed on 14 November 2013 and 19 December 2013). Following the acquisition the Group assumed control over Metelem Holding Company Limited and its subsidiaries, including telecommunication operator Polkomtel Sp. z o.o. (operator of 'Plus' mobile network).

In the year ended 31 December 2015 the Group has finalized the estimations of fair values of acquired assets, liabilities and consideration transferred, which resulted in restatement of comparable data in these consolidated financial statements. The depreciation, amortization, impairment and liquidation as well as income tax has not been restated in the comparable income statement due to the fact that the impact would have been not material.

a) Consideration transferred

	Final value of transferred consideration
Shares I and J series issued on 7 May 2014	5,894.4*
Net settlements between Orsen Group and the Group	24.6
Total as at 7 May 2014	**5,919.0**

* restatement due to final fair value of transferred consideration (decrease of fair value of issued shares by PLN 63.4)

The fair value of shares issued was established based on the closing price of PLN 20.46 (not in millions) as per the stock exchange quotation as at 7 May 2014 decreased by the value of dividend per share, which was not applicable to shares J series.

b) Reconciliation of transactional cash flow

Cash transferred	-
Cash and cash equivalents received	1,800.6
Cash increase in the period of 12 months ended 31 December 2014	**1,800.6**

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

c) Fair value valuation of net assets as at acquisition date

The table below presents final fair values of identified assets and liabilities of the acquired companies, as at the acquisition date, and goodwill accounted for an acquisition.

Final fair values of assets and liabilities acquired as at 7 May 2014:

	fair value as at the acquisition date (7 May 2014)
Net assets:	
Property, plant and equipment	2,550.6
Land	26.3
Buildings	86.4
Network systems and equipment	2,109.3
Vehicles	10.9
Other fixed assets	36.0
Assets under construction	281.7
Customer relationships	4,640.1
Concessions	1,600.0
Plus brand	1,230.0
Other intangible assets	688.2
Other non-current assets	7.9
Deferred tax assets	249.5
Inventory	155.2
Trade receivables and other receivables	1,070.0
Other current assets	125.5
Cash and equivalents	1,800.6
Loans and borrowings	(6,815.6)
Issued bonds	(5,528.5)
UMTS license liabilities	(957.9)
Finance lease liabilities	(9.2)
Deferred tax liabilities	(948.8)
Other non-current liabilities and provisions	(93.9)
Trade liabilities and other liabilities	(1,311.1)
Income tax liabilities	(39.4)
Deferred income	(476.7)
Total net assets	**(2,063.5)**
Consideration transferred	5,919.0
Goodwill	**7,982.5**

Following the completion of the purchase price allocation the fair value of identified assets and liabilities has been adjusted to reflect the final valuation performed by the external expert. The adjustment includes decrease in fair value of property, plant

and equipment by PLN 246.7, increase in fair value of customer relationships by PLN 110.1, increase in fair value of Plus brand by PLN 288.9, increase in deferred tax asset by PLN 46.8, increase in fair value of deferred tax liabilities by PLN 20.9. The comparable data as at 31 December 2014 have been restated to reflect the above adjustments. The Group has not restated the depreciation, amortization, impairment and liquidation as well as income tax in the comparable income statement due to the fact that the impact would have been not material.
During the purchase price allocation the Group identified and fair valued intangible assets of marketing nature, (i.e. customer relationships), key telecommunication concessions, umbrella brand 'Plus', roof tops and new towers as well as senior notes liabilities. The fair value of other items of assets and liabilities is estimated at book value as at the acquisition date.

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method (MEEM). This method allows valuation of relationships with retail and wholesale customers based on an analysis of expected cash flows derived from those relationships. In order to determine the market value of the relationship, forecasted cash flows are discounted using the expected return/discount rate determined for the asset assuming a given period of economic usefulness of the relationship.

The fair value of key telecommunication concessions (900 MHz, 1800 MHz and 2100 MHz) is estimated based on the market approach and income approach (greenfield scenario).

During the purchase price allocation the Group identified an umbrella brand 'Plus'. The fair value of the brand in the amount of PLN 1.230 was estimated on the basis of relief from royalty method (income approach). This method involves determining the present value of future benefits resulting from owning a brand. The method is based on the assumption that the benefits of owning a brand are equivalent to the hypothetical costs the owner of the brand would have to incur, should the brand be licensed from another entity based on market rates. Management estimates that the brand has a definite useful life and thus the brand is amortized over 51 years, i.e. until 2065.

The fair value of telecommunication infrastructure (roof tops and new towers) is based on the replacement cost approach.

The fair value of senior notes liabilities in amount PLN 5,528.5 is estimated based on the market quotation as at the acquisition date. The book value of senior notes liabilities presented in balance sheet of Metelem group as at acquisition date was equal to PLN 4,574.1, and the difference between this amount and fair value of senior notes liabilities resulting from purchase price allocation is a result of fair valuation based on market quotation.

The goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations and the value of 'Plus' brand. Goodwill is allocated to the "Services to individual and business customers" operating segment.

The fair value of trade and other receivables is PLN 1,070 and includes trade receivables with a fair value of PLN 1,023. The gross contractual amount for trade receivables due is PLN 1,089, of which PLN 66 is expected to be uncollectible.

Acquisition-related consulting cost in the amount of PLN 5,5 have been recognized in the income statement for the 12 month period ended 31 December 2014 within the other costs category. Share issuance-related consulting costs in amount of PLN 3,9 have been recognized as a reduction of the share premium.

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

Acquisition of shares in Radio PIN S.A.

On 27 February 2015 Telewizja Polsat Sp. z o.o. (entity under common control) acquired 100% shares of Radio PIN S.A. for the amount of PLN 4.2. Radio PIN S.A. is broadcaster of Muzo.fm radio station.

The Group uses the purchase accounting method for entities acquired under common control.

a) Consideration transferred

	2015
Purchase price	4.2
Total as at 27 February 2015	**4.2**

b) Reconciliation of transactional cash flow

	2015
Cash transferred	(4.2)
Cash and cash equivalents received	-
Cash decrease in the period of 12 months ended 31 December 2015	**(4.2)**

c) Fair value valuation of net assets as at acquisition date

The table below presents final fair values of identified assets and liabilities of the acquired companies, as at the acquisition date, and goodwill accounted for an acquisition.

Fair values of assets and liabilities acquired as at 27 February 2015:

	fair value as at the acquisition date (27 February 2015)
Net assets:	
Property, plant and equipment	0.2
Other intangible assets	1.1
Other non-current assets	0.2
Trade receivables and other receivables	0.4
Loans and borrowings	(0.5)
Trade liabilities and other liabilities	(2.0)
Total net assets	**(0.6)**
Consideration transferred	4.2
Value of goodwill	**4.8**

The fair value of assets and liabilities does not differ significantly from the book value as at the acquisition date.

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

The goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations. Goodwill is allocated to the "Broadcasting and television production" operating segment.

The revenue and net loss included in the consolidated income statement for the reporting period since 27 February 2015 contributed by the consolidation of Radio PIN S.A. amounted to PLN 0.2 and PLN 3.2, respectively. Had it been acquired on 1 January 2015 the revenue and net loss included in the consolidated income statement would amount to PLN 0.2 and PLN 3.7, respectively.

Acquisition of the shares in Orsen Holding Limited

On 1 April 2015 Cyfrowy Polsat Group acquired 100% shares of Orsen Holding Limited (entity under common control) for the amount of PLN 35.0. As a result of the above mentioned acquisition Teleaudio Dwa Sp. z o.o. S.k. (the leader in Premium Rate services) and InterPhone Service Sp. z o.o. (the manufacturer of telecommunication and electronic equipment) have joined Cyfrowy Polsat Group.

The Group uses the purchase accounting method for entities acquired under common control.

a) Consideration transferred

	2015
Cash consideration	35.0
Net settlements between Orsen Group and the Group	(12.7)
Total as at 1 April 2015	**22.3**

Orsen Holding Limited and entities in which it holds shares are referred to as Orsen Group.

b) Reconciliation of transactional cash flow

	2015
Cash transferred	(35.0)
Cash and cash equivalents received	9.7
Cash decrease in the period of 12 months ended 31 December 2015	**(25.3)**

c) Fair value valuation of net assets as at acquisition date

The table below presents final fair values of identified assets and liabilities of the acquired companies, as at the acquisition date, and goodwill accounted for an acquisition.

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

Final fair values of assets and liabilities acquired as at 1 April 2015:

	fair value as at the acquisition date (1 April 2015)
Net assets:	
Property, plant and equipment	17.5
Other intangible assets	0.3
Deferred tax assets	0.5
Inventory	6.0
Trade receivables and other receivables	14.1
Other current assets	0.1
Cash and cash equivalents	9.7
Loans and borrowings	(22.2)
Lease liabilities	(0.6)
Trade liabilities and other liabilities	(19.4)
Total net assets	**6.0**
Consideration transferred	22.3
Value of goodwill	**16.3**

The fair value of assets and liabilities does not differ significantly from the book value as at the acquisition date.

The goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations. Goodwill is allocated to the "Services to individual and business customers" operating segment.

The revenue and net profit included in the consolidated income statement for the reporting period since 1 April 2015 contributed by the consolidation of Orsen Group amounted to PLN 15.7 and PLN 2.1, respectively. Had it been acquired on 1 January 2015 the revenue and net profit included in the consolidated income statement would have amounted to PLN 19.1 and PLN 5.4, respectively.

38. Financial instruments

Overview

Cyfrowy Polsat S.A. Group has exposure to the following risks from its use of financial instruments:
- credit risk,
- liquidity risk,
- market risk:
  - (i) currency risk,
  - (ii) interest rate risk.

The Group’s risk management policies are designed to reduce the impact of any adverse conditions on the Group’s results.

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

The Management Board has overall responsibility for the oversight and management of the risks that the Group is subjected to in its activities. Therefore, the Management Board has established an overall risk management framework as well as specific risk management policies with respect to market, credit and liquidity risks.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are also included throughout these consolidated financial statements.

Bank loans, bonds, cash, foreign exchange call options, forwards, interest rate swaps, cross-currency interest rate swaps and short-term bank deposits are the main financial instruments used by the Group, with the intention of securing the financing for the Group's activities. The Group also holds other financial instruments inluding trade receivables and payables, payables relating to purchases of programming rights and payables relating to purchases of tangible and intangible assets which arise in the course of its business activities.

Financial assets	Carrying amount	
	31 December 2015	**31 December 2014**
Loans and receivables, including:	**3,300.6**	**3,341.2**
Loans granted	47.9	30.5
Trade and other receivables from related parties	64.5	103.7
Trade and other receivables from third parties	1,664.5	1,459.1
Cash and cash equivalents	1,512.0	1,735.3
Restricted cash	11.7	12.6
Derivative instruments not designated as hedging instruments	**17.4**	**23.4**
Forward transactions	10.5	20.3
Interest rate swaps	6.9	-
Cross-currency interest rate swaps	-	3.1

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

Financial liabilities	Carrying amount	
	31 December 2015	31 December 2014
Other financial liabilities measured at amortized cost, including:	**14,292.8**	**16,129.6**
Finance lease liabilities	25.2	18.5
Loans and borrowings	6,610.7	9,006.1
Senior Notes	5,752.0	5,014.6
UMTS license liabilities	769.8	867.4
Trade and other payables to third parties and deposits	510.0	599.7
Trade and other payables to related parties	30.6	91.6
Accruals	594.5	531.7
Hedging derivative instruments	**8.3**	**15.4**
Interest rate swaps	8.3	15.4
Derivative instruments not designated as hedging instruments	**64.6**	**111.7**
Forward transactions	33.3	105.6
Interest rate swaps	31.3	-
Cross-currency interest rate swaps	-	6.1

Credit risk

Credit risk is defined as the risk that counterparties of the Group will not be able to meet their contractual obligations. Exposure to credit risk is related to three main areas:

- the creditworthiness of the customers with whom physical sale transactions are undertaken,
- the creditworthiness of the financial institutions (banks/brokers) with whom, or through whom, hedging or other derivative transactions are undertaken,
- the creditworthiness of the entities in which investments are made, or whose securities are purchased.

The Group's exposure to credit risk is associated primarily with trade receivables. The Parent's customer base includes a large number of individual subscribers who are dispersed geographically over the entire country, and who are required to prepay their subscription fees. Receivables from Parent's sales network are covered with commission liabilities or deposits. Receivables from subscribers are continuously monitored and recovery actions are taken, including blocking of the signal transferred to subscribers or termination of services to a telephony client and Internet customer. Telewizja Polsat and its subsidiaries provide services with deferred payment which may cause the risk of delays. Assessment of the creditworthiness of the counterparties is regularly carried out and in principle the company does not require security in relation to the financial assets. Polkomtel's customer base is dispersed geographically over the entire country. In case of important postpaid clients services are rendered following positive credit approval while in case of individual retail clients the verification process is automatized and based on IT-supported customer relationship management system and characteristics of the billing systems. Receivables from Polkomtel's sales network are continuously monitored; sales limits and utilization limits are used.

The Group pursues a credit policy under which credit risk exposure is constantly monitored.

Due to diversification of risk in terms of the nature of individual entities, their geographical location and cooperation with highly-rated financial institutions, also taking into consideration the fair value of liabilities arising from derivative transactions, the Group is not materially exposed to credit risk as a result of derivative transactions entered into.

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at the reporting date was as follows:

Maximum exposure to credit risk

	Carrying amount	
	31 December 2015	31 December 2014
Loans granted	47.9	30.5
Trade and other receivables from third parties	64.5	103.7
Trade and other receivables from related parties	1,664.5	1,459.1
Cash and cash equivalents	1,512.0	1,735.3
Restricted cash	11.7	12.6
Derivative instruments not designated as hedging instruments:	**17.4**	**23.4**
Forward transactions	10.5	20.3
Interest rate swaps	6.9	-
Cross-currency interest rate swaps	-	3.1
Total	**3,318.0**	**3,364.6**

The concentration of credit risk for trade and other receivables is presented in the tables below:

	Carrying amount	
	31 December 2015	31 December 2014
Receivables from subscribers	906.1	726.1
Receivables from media companies	221.0	153.2
Receivables from satellite and cable operators	13.7	24.7
Roaming and interconnect receivables	177.3	159.0
Receivables from distributors	153.2	186.4
Receivables and loans granted to related parties	112.2	134.1
Other receivables and loans granted to third parties	193.4	209.8
Total	**1,776.9**	**1,593.3**

	Carrying amount	
	31 December 2015	31 December 2014
Company A	54.4	81.3
Company B	31.4	34.9
Company C	28.9	26.1
Company D	21.0	21.9
Company E	18.6	21.0
Other	1,622.6	1,408.1
Total	**1,776.9**	**1,593.3**

Note: for each year 5 largest debtors are presented, not necessarily the same entities in both periods.

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

The ageing of trade and other receivables at the reporting date was:

	31 December 2015			31 December 2014		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	1,381.0	23.9	1,357.1	1,300.3	26.3	1,274.0
Past due 0-30 days	192.2	6.0	186.2	168.8	4.2	164.6
Past due 31-60 days	84.3	7.0	77.3	57.3	2.6	54.7
Past due more than 60 days	232.7	76.4	156.3	141.9	41.9	100.0
Total	**1,890.2**	**113.3**	**1,776.9**	**1,668.3**	**75.0**	**1,593.3**

Credit quality of such not overdue receivables that are not impaired is very good.
Trade and other receivables with recognized impairment include not past due and past due trade and other receivables where partial recoverability is estimated. Usually impairment is recognized for trade and other receivables past due for more than 60 days or for trade and other receivables for which impairment indicator exists.

Liquidity risk

The Group's objective in liquidity management is to ensure that it always has sufficient funds to meet its liabilities when due. Any surplus cash is invested mainly into bank deposits.

The Group prepares, on an ongoing basis, analyses and forecasts of its cash requirements based on projected cash flows.

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

The following are the contractual maturities of the Group's financial liabilities.

	31 December 2015						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	Over 5 years
Loans and borrowings	6,610.7	8,603.2	(3,883.8)**	642.4	1,336.3	10,508.3	-
Senior Notes	5,752.0	6,018.7	4,783.8**	21.3	85.4	1,128.2	-
UMTS license liabilities	769.8	848.0	-	119.3	119.3	358.0	251.4
Finance lease liabilities	25.2	26.5	2.4	2.4	4.9	16.8	-
Trade and other payables to third parties and deposits	510.0	510.0	510.0	-	-	-	-
Trade and other payables to related parties	30.6	30.6	30.6	-	-	-	-
Accruals	594.5	594.5	594.5	-	-	-	-
Hedging derivative instruments:							
IRS*	8.3	6.6	4.4	2.2	-	-	-
Derivative instruments not designated as hedging instruments:							
IRS*	31.3	30.7	30.7	-	-	-	-
Forward transactions	33.3						-
– inflows	-	(2,411.7)	(2,411.7)	-	-	-	-
– outflows	-	2,446.7	2,446.7	-	-	-	-
	14,365.7	**16,668.8**	**2,107.6**	**787.6**	**1,545.9**	**12,011.3**	**251.4**

*Pursuant to the agreements settlements shall be on a net basis

**Planned earlier redemption of Notes financed using the funds made available under the PLK Term Facility

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

The following are the contractual maturities of the Group's financial liabilities.

	31 December 2014						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	Over 5 years
Loans and borrowings	9,006.1	10,289.4	606.0	751.6	1,620.2	7,311.6	-
Senior Notes	5,014.6	6,681.4	237.7	237.7	475.6	1,426.7	4,303.7
UMTS license liabilities	867.4	967.5	-	119.3	119.3	358.0	370.9
Finance lease liabilities	18.5	20.2	3.7	3.7	2.6	10.2	-
Trade and other payables to third parties and deposits	599.7	599.7	599.7	-	-	-	-
Trade and other payables to related parties	91.6	91.6	91.6	-	-	-	-
Accruals	531.7	531.7	531.7	-	-	-	-
Hedging derivative instruments:							
IRS*	15.4	15.7	3.7	4.8	7.2	-	-
Derivative instruments not designated as hedging instruments:							
IRS*	105.6	92.4	16.6	47.8	28.0	-	-
CIRS	6.1						-
– inflows	-	(135.8)	(135.8)	-	-	-	-
– outflows	-	142.1	142.1	-	-	-	-
	16,256.7	**19,295.9**	**2,097.0**	**1,164.9**	**2,252.9**	**9,106.5**	**4,674.6**

*Pursuant to the agreements settlements shall be on a net basis

Market risk

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

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

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

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

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

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

It is permitted to use the following types of instruments:

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

Currency risk

One of the main risks that the Group is exposed to is currency risk resulting from fluctuations in exchange rate of the Polish zloty against other currencies. Revenues generated by the Group are denominated primarily in the Polish zloty, while a portion of operating costs and capital expenditures are incurred in foreign currencies. The Parent's currency risk is associated mainly to royalties to TV and radio broadcasters (USD and EUR), transponder capacity leases (EUR), fees for conditional access system (EUR) and purchases of reception equipment and accessories for reception equipment (USD and EUR). After the purchase of Telewizja Polsat Sp. z o.o. currency risk exposure is also associated to purchases of foreign programming licences (USD). After the purchase of Metelem Holding Company Ltd. currency risk exposure is also associated to UMTS license liabilities (EUR), agreements with suppliers of stock, mainly mobile phones, and suppliers of telecommunication network equipment (EUR), roaming and interconnect agreements and some agreements concerning rental of space required for network locations and rental of office space (various currencies). Furthermore, acquisition of Metelem Holding Company Ltd. resulted in risk exposure related to EUR- and USD-denominated bonds.

In respect of licence fees and transponder capacity leases, the Group partly reduces its currency risk exposure by means of an economic hedge as it denominates receivables from signal broadcast and marketing services in foreign currencies. Some currency risk related to operational and interest payments is hedged by forwards and cross-currency interest rate swaps.

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

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

	31 December 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)
Gross balance sheet exposure	**(734.2)**	**(520.1)**	**1.9**	**-**	**2.5**	**(0.4)**
Forward transactions	390.9	482.1	-	-	-	-
Net exposure	**(343.3)**	**(38.0)**	**1.9**	**-**	**2.5**	**(0.4)**

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

	31 December 2014					
	EUR	**USD**	**CHF**	**GBP**	**SEK**	**XDR**
Trade receivables	6.3	1.0	-	-	0.4	0.3
Cash and cash equivalents	10.0	11.4	1.3	0.1	-	-
Senior Notes	(670.9)	(614.5)	-	-	-	-
UMTS license liabilities	(203.5)	-	-	-	-	-
Trade payables	(5.8)	(12.8)	(0.2)	-	-	(0.7)
Gross balance sheet exposure	**(863.9)**	**(614.9)**	**(1.1)**	**0.1**	**0.4**	**(0.4)**
Forward transactions	62.9	41.4	-	-	-	-
CIRS	31.9	23.4	-	-	-	-
Net exposure	**(769.1)**	**(550.1)**	**(1.1)**	**0.1**	**0.4**	**(0.4)**

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

	Average rate		Rates at the reporting date	
(in PLN)	**2015**	**2014**	**31 December 2015**	**31 December 2014**
1 EUR	4.1839	4.1852	4.2615	4.2623
1 USD	3.7701	3.1551	3.9011	3.5072
1 GBP	5.7637	5.1934	5.7862	5.4648
1 CHF	3.9200	3.4460	3.9394	3.5447
1 XDR	5.2749	4.7898	5.4092	5.0768
1 SEK	0.4474	0.4601	0.4646	0.4532
1 AUD	2.8352	2.8437	2.8546	2.8735

For the purposes of the exchange rate sensitivity analysis as at 31 December 2015 and 31 December 2014, exchange rate volatility in the +/- 5% range was assumed as probable. This analysis assumes that all other variables, in particular interest rates, remain constant. The sensitivity analysis below is performed on the same basis for 2014.

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

	2015					2014				
	As at 31 December 2015		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at 31 December 2014		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	9.4	40.2	5%	2.0	-	6.3	27.0	5%	1.2	-
USD	8.4	32.7	5%	1.6	-	1.0	3.6	5%	0.1	-
XDR	0.5	2.6	5%	0.1	-	0.3	1.6	5%	-	-
SEK	-	-	5%	-	-	0.4	0.2	5%	-	-
Cash and cash equivalents										
EUR	9.7	41.2	5%	2.1	-	10.0	42.8	5%	2.0	-
USD	9.7	37.9	5%	1.9	-	11.4	39.9	5%	2.1	-
CHF	1.9	7.3	5%	0.4	-	1.3	4.7	5%	0.1	-
GBP	0.1	0.1	5%	-	-	0.1	0.3	5%	-	-
SEK	2.5	1.1	5%	0.1	-	-	-	5%	-	-
Senior Notes										
EUR	(569.1)	(2,425.2)	5%	(121.3)	-	(670.9)	(2,859.5)	5%	(143.1)	-
USD	(524.2)	(2,045.0)	5%	(102.3)	-	(614.5)	(2,155.1)	5%	(107.8)	-
UMTS license liabilities										
EUR	(180.6)	(769.6)	5%	(38.5)	-	(203.5)	(867.4)	5%	(43.4)	-
Trade payables										
EUR	(3.6)	(15.3)	5%	(0.8)	-	(5.8)	(24.7)	5%	(1.3)	-
USD	(14.0)	(54.7)	5%	(2.7)	-	(12.8)	(44.8)	5%	(2.1)	-
XDR	(0.9)	(4.9)	5%	(0.2)	-	(0.7)	(3.4)	5%	(0.2)	-
CHF	(0.1)	(0.2)	5%	-	-	(0.2)	(0.7)	5%	-	-
Change in operating profit				**(257.6)**	**-**				**(292.4)**	**-**

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

Forwards										
EUR	390.9	1,665.8	5%	83.3	-	62.9	268.0	5%	13.4	-
USD	482.1	1,880.7	5%	94.0	-	41.4	145.2	5%	7.3	-
CIRS										
EUR	-	-	5%	-	-	31.9	135.8	5%	6.8	-
EUR	-	-	5%	-	-	23.4	82.2	5%	4.1	-
Income tax				15.3	-				49.6	-
Change in net profit				**(65.0)**	**-**				**(211.2)**	**-**

	2015					**2014**				
	As at 31 December 2015		**Estimated change in exchange rate in %**	**Estimated change in profit in PLN**	**Estimated change in other comprehensive income in PLN**	**As at 31 December 2014**		**Estimated change in exchange rate in %**	**Estimated change in profit in PLN**	**Estimated change in other comprehensive income in PLN**
	in currency	**in PLN**				**in currency**	**in PLN**			
Trade receivables										
EUR	9.4	40.2	-5%	(2.0)	-	6.3	27.0	-5%	(1.2)	-
USD	8.4	32.7	-5%	(1.6)	-	1.0	3.6	-5%	(0.1)	-
XDR	0.5	2.6	-5%	(0.1)	-	0.3	1.6	-5%	-	-
SEK	-	-	-5%	-	-	0.4	0.2	-5%	-	-
Cash and cash equivalents										
EUR	9.7	41.2	-5%	(2.1)	-	10.0	42.8	-5%	(2.0)	-
USD	9.7	37.9	-5%	(1.9)	-	11.4	39.9	-5%	(2.1)	-
CHF	1.9	7.3	-5%	(0.4)	-	1.3	4.7	-5%	(0.1)	-
GBP	0.1	0.1	-5%	-	-	0.1	0.3	-5%	-	-
SEK	2.5	1.1	-5%	(0.1)	-	-	-	-5%	-	-

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

Senior Notes										
EUR	(569.1)	(2,425.2)	-5%	121.3	-	(670.9)	(2,859.5)	-5%	143.1	-
USD	(524.2)	(2,045.0)	-5%	102.3	-	(614.5)	(2,155.1)	-5%	107.8	-
UMTS license liabilities										
EUR	(180.6)	(769.6)	-5%	38.5	-	(203.5)	(867.4)	-5%	43.4	-
Trade payables										
EUR	(3.6)	(15.3)	-5%	0.8	-	(5.8)	(24.7)	-5%	1.3	-
USD	(14.0)	(54.7)	-5%	2.7	-	(12.8)	(44.8)	-5%	2.1	-
XDR	(0.9)	(4.9)	-5%	0.2	-	(0.7)	(3.4)	-5%	0.2	-
CHF	(0.1)	(0.2)	-5%	-	-	(0.2)	(0.7)	-5%	-	-
Change in operating profit				**257.6**	**-**				**292.4**	**-**
Forwards										
EUR	390.9	1,665.8	-5%	(83.3)	-	62.9	268.0	-5%	(13.4)	-
USD	482.1	1,880.7	-5%	(94.0)	-	41.4	145.2	-5%	(7.3)	-
CIRS										
EUR	-	-	-5%	-	-	31.9	135.8	-5%	(6.8)	-
USD	-	-	-5%	-	-	23.4	82.2	-5%	(4.1)	-
Income tax				(15.3)	-				(49.6)	-
Change in net profit				**65.0**	**-**				**211.2**	**-**

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

	2015		2014	
	Estimated change in profit in PLN	**Estimated change in other comprehensive income in PLN**	**Estimated change in profit in PLN**	**Estimated change in other comprehensive income in PLN**
Estimated change in exchange rate by 5 %				
EUR	(59.2)	-	(133.1)	-
USD	(6.0)	-	(78.0)	-
CHF	0.3	-	0.1	-
SEK	-	-	-	-
XDR	(0.1)	-	(0.2)	-
Estimated change in exchange rate by -5 %				
EUR	59.2	-	133.1	-
USD	6.0	-	78.0	-
CHF	(0.3)	-	(0.1)	-
SEK	-	-	-	-
XDR	0.1	-	0.2	-

Had Polish zloty strengthened 5% against the basket of currencies as at 31 December 2015 and 31 December 2014, the Group's net profit would have decreased by PLN 65.0 and decreased by PLN 211.2, respectively and other comprehensive income would have been unchanged in 2015 and would have been unchanged in 2014. Had the Polish zloty weakened 5%, the Group's net profit would have correspondingly increased by PLN 65.0 in 2015 and increased by PLN 211.2 in 2014 and other comprehensive income would have been unchanged in 2015 and would have been unchanged in 2014, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

Interest rate risk

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

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

In order to reduce interest rate risk exposure resulting from Parent's interest payments on floating rate senior facility, the Group stipulated interest rate swaps for which hedge accounting was adopted (see note 29). 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.

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

	Carrying amount	
	31 December 2015	**31 December 2014**
Fixed rate instruments		
Financial assets	1,158.5	1,663.5
Financial liabilities*	(4,262.4)	(4,084.4)
Variable rate instruments		
Financial assets*	411.5	110.0
Financial liabilities*	(7,725.1)	(9,080.0)
Net interest exposure	**(7,313.6)**	**(8,970.0)**

*nominal debt

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

	Income statement		**Other comprehensive income**		**Equity**	
	Increase by 100 bp	**Decrease by 100 bp**	**Increase by 100 bp**	**Decrease by 100 bp**	**Increase by 100 bp**	**Decrease by 100 bp**
31 December 2015						
Variable rate instruments*	(73.1)	73.1	6.6	(6.6)	(66.5)	66.5
Cash flow sensitivity (net)	**(73.1)**	**73.1**	**6.6**	**(6.6)**	**(66.5)**	**66.5**
31 December 2014						
Variable rate instruments*	(48.8)	48.8	17.0	(17.0)	(31.8)	31.8
Cash flow sensitivity (net)	**(48.8)**	**48.8**	**17.0**	**(17.0)**	**(31.8)**	**31.8**

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

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

Fair value vs. carrying amount

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

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

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

			31 December 2015		31 December 2014	
	Category according to IAS 39	**The level of the fair value hierarchy**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**
Loans granted	A	2	50.7	47.9	31.8	30.5
Trade and other receivables	A	*	1,729.0	1,729.0	1,562.8	1,562.8
Cash and cash equivalents and short-term deposits	A	*	1,512.0	1,512.0	1,735.3	1,735.3
Restricted cash	A	*	11.7	11.7	12.6	12.6
Loans and borrowings	C	2	(6,733.1)	(6,610.7)	(9,122.3)	(9,006.1)
Issued bonds	C	1	(5,773.0)	(5,752.0)	(4,840.8)	(5,014.6)
UMTS licence liabilities	C	2	(836.6)	(769.8)	(949.5)	(867.4)
Finance lease liabilities	C	2	(25.2)	(25.2)	(18.5)	(18.5)
Accruals	C	*	(594.5)	(594.5)	(531.7)	(531.7)
Trade and other payables and deposits	C	*	(540.6)	(540.6)	(691.3)	(691.3)
Total			**(11,199.6)**	**(10,992.2)**	**(12,811.6)**	**(12,788.4)**
Unrecognized gain/(loss)				(207.4)		(23.2)

A – loans and receivables

B – hedges

C – other liabilities

* It is assumed that the fair value of these financial assets and liabilities is equal to their nominal value, therefore no evaluation methods were used in order to calculate their fair value.

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

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

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

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

As at 31 December 2015 loans and borrowings comprised senior facilities and as at 31 December 2014 loans and borrowings comprised senior facilities and revolving facility loan. The discount rate for each payment was calculated as a sum of implied WIBOR interest rate and a margin regarding the Group's credit risk. When determining the fair value of senior facilities as at 31 December 2015, forecasted cash flows from the reporting date to 21 September 2020 (assumed dates of repayment of the loans) were analyzed. When determining the fair value of senior facilities as at 31 December 2014, forecasted cash flows from the reporting date to 30 November 2017, 22 June 2018, 24 June 2019 and 11 April 2019 (assumed dates of repayment of the loans) were analyzed. When determining the fair value of revolving facility as at 31 December 2014, forecasted cash flows from the reporting date to 31 March 2015 (assumed date of repayment of the loan) were analyzed.

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

The fair value of bonds as at 31 December 2015 was calculated as their last transaction price as at the balance sheet date as quoted by Bloomberg multiplied by the EUR/PLN exchange rate or the USD/PLN rate respectively as at the balance sheet date for bonds issued by Polkomtel Sp. z o.o. and as their last transaction price as at the balance sheet date as quoted by GPW Catalyst for bonds issued by Cyfrowy Polsat S.A. The fair value of bonds as at 31 December 2014 was calculated as their last transaction price as at the balance sheet date as quoted by Bloomberg multiplied by the EUR/PLN exchange rate or the USD/PLN rate respectively as at the balance sheet date.

As at 31 December 2015, the Group held the following financial instruments carried at fair value on the statement of financial position.

Assets measured at fair value

	31 December 2015	Level 1	Level 2	Level3
Derivative instruments not designated as hedging instruments:				
Forwards		-	10.5	-
Interest rate swaps		-	6.9	-
Total		**-**	**17.4**	**-**

Liabilities measured at fair value

	31 December 2015	Level 1	Level 2	Level3
Derivative instruments not designated as hedging instruments:				
Forwards		-	(33.3)	-
Interest rate swaps		-	(31.3)	-
Hedging derivative instruments:				
Interest rate swaps		-	(8.3)	-
Total		**-**	**(72.9)**	**-**

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

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

As at 31 December 2014, the Group held the following financial instruments measured at fair value:

Assets measured at fair value	**31 December 2014**	**Level 1**	**Level 2**	**Level3**
Derivative instruments not designated as hedging instruments:				
Forwards		-	20.3	-
Cross-currency interest rate swaps		-	3.1	-
Total		**-**	**23.4**	**-**

Liabilities measured at fair value	**31 December 2014**	**Level 1**	**Level 2**	**Level3**
Derivative instruments not designated as hedging instruments:				
Interest rate swaps		-	(15.4)	-
Hedging derivative instruments:				
Interest rate swaps		-	(105.6)	-
Cross-currency interest rate swaps		-	(6.1)	-
Total		**-**	**(127.1)**	**-**

Items of income, costs, profit and losses recognized in profit or loss generated by loans and Senior Notes (including hedging transactions)

For the period from 1 January 2015 to 31 December 2015	Loans and borrowings	Senior Notes	Hedging instruments	**Total**
Interest expense on loans and borrowings	(396.4)	-	(7.8)	**(404.2)**
Interest expense on Senior Notes	-	(371.4)	-	**(371.4)**
Early redemption costs	-	(244.8)	-	**(244.8)**
Cumulative catch-up	-	616.2	-	**616.2**
Foreign exchange rate differences	-	(223.6)	-	**(223.6)**
Total finance costs	(396.4)	(223.6)	(7.8)	**(627.8)**
Total gross profit/(loss)	**(396.4)**	**(223.6)**	**(7.8)**	**(627.8)**
Hedge valuation reserve	**-**	**-**	**(6.6)**	**(6.6)**

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

For the period from 1 January 2014 to 31 December 2014	Loans and borrowings	Senior Notes	Hedging instruments	**Total**
Interest expense on loans and borrowings	(343.5)	-	(2.9)	**(346.4)**
Interest expense on Senior Notes	-	(291.1)	(2.0)	**(293.1)**
Early redemption costs	-	(82.1)	-	**(82.1)**
Foreign exchange rate differences	-	(360.8)	-	**(360.8)**
Total finance costs	(343.5)	(734.0)	(4.9)	**(1,082.4)**
Total gross profit/(loss)	**(343.5)**	**(734.0)**	**(4.9)**	**(1,082.4)**
Hedge valuation reserve	**-**	**-**	**(3.9)**	**(3.9)**

Hedge accounting and derivatives

Cash Flow Hedge of interest rate risk of interest payments

At 31 December 2015, the Group held a number of interest rate swaps not designated as hedges in order to reduce the risk of floating interest payments on senior facilities denominated in PLN.

Table below presents the basic parameters of IRS not designated as hedging instruments, including the periods in which cash flows occur, periods they will affect the financial results and their fair value in PLN as at the balance sheet date.

	31 December 2015	**31 December 2014**
Type of instrument	Interest rate swap	Interest rate swap
Exposure	Floating rate interest payments in PLN	Floating rate interest payments in PLN
Hedged risk	Interest rate risk	Interest rate risk
Notional value of hedging instrument	4,972.0	4,517.5
Fair value of hedging instruments	(24.4)	(105.6)
Hedge accounting approach	Hedge accounting not adopted	Hedge accounting not adopted
Expected period the hedge item affect income statement	Until 28 September 2018	Until 30 June 2016

At 31 December 2015, the Group held a number of interest rate swaps designated as hedges of floating interest payments on senior facility denominated in PLN. The interest rate swaps are being used to hedge the interest rate risk of the Group's floating rate financing in PLN.

The terms of the interest rate swaps have been negotiated to match the terms of the floating rate financing in PLN. There were no highly probable transactions for which hedge accounting has been claimed that have not occurred and no significant element of hedge ineffectiveness requiring recognition in the income statement.

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

Table below presents the basic parameters of IRS designated as hedging instruments, including the periods in which cash flows occur due to cash flow hedges, periods they will affect the financial results and fair value in PLN of hedging instruments as at the balance sheet date.

	31 December 2015	**31 December 2014**
Type of instrument	Interest rate swap	Interest rate swap
Exposure	Floating rate interest payments in PLN	Floating rate interest payments in PLN
Hedged risk	Interest rate risk	Interest rate risk
Notional value of hedging instrument	975.0	1,165.0
Fair value of hedging instruments	(8.3)	(15.4)
Hedge accounting approach	Cash Flow Hedge	Cash Flow Hedge
Expected period the hedge item affect income statement	Until 31 December 2016	Until 31 December 2016

Change in fair value of cash flow hedges is presented below (pre-tax):

	2015	**2014**
Opening Balance	**(15.4)**	**(8.0)**
Effective part of gains or losses on the hedging instrument	(0.6)	(16.1)
Reclassification to instruments for which hedge accounting is not adopted	0.1	5.1
Early settlement	-	0.4
Amounts recognized in equity transferred to the profit and loss statement, of which:	7.6	3.2
- adjustment of interest costs	7.6	3.0
- adjustment due to inefficiency of the hedge relationships	-	0.2
Closing Balance	**(8.3)**	**(15.4)**

Cash Flow Hedge of foreign exchange risk of interest payments

At 31 December 2015 the Group held a number of forwards not designated as hedges in order to reduce the risk of interest payments on EUR- and USD-denominated bonds. At 31 December 2014 the Group held a number of forwards not designated as hedges in order to reduce the risk of interest payments on EUR- and USD-denominated bonds.

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

Tables below present the basic parameters of forwards not designated as hedging instruments, including the periods in which cash flows occur, periods they will affect the financial results and their fair value in PLN as at the balance sheet date.

	31 December 2015	31 December 2014
Type of instrument	Forward	Forward
Exposure	Interest payments in euro	Interest payments in euro
Hedged risk	Foreign exchange risk	Foreign exchange risk
Notional value of hedging instrument (EUR)	381.9	36.9
Fair value of hedging instruments	155.6	2.6
Hedge accounting approach	Hedge accounting not adopted	Hedge accounting not adopted
Expected period the hedge item affect income statement	Until 27 January 2016	Until 27 January 2016

	31 December 2015	31 December 2014
Type of instrument	Forward	Forward
Exposure	Interest payments in American dollars	Interest payments in American dollars
Hedged risk	Foreign exchange risk	Foreign exchange risk
Notional value of hedging instrument (EUR)	479.1	39.7
Fair value of hedging instruments	(23.2)	15.2
Hedge accounting approach	Hedge accounting not adopted	Hedge accounting not adopted
Expected period the hedge item affect income statement	Until 27 January 2016	Until 27 January 2016

At 31 December 2015 the Group did not held a number of cross-currency interest rate swaps not designated as hedges in order to reduce the risk of interest payments on EUR- and USD-denominated bonds. At 31 December 2014 the Group held a number of cross-currency interest rate swaps not designated as hedges in order to reduce the risk of interest payments on EUR- and USD-denominated bonds.

Tables below present the basic parameters of CIRS not designated as hedging instruments, including the periods in which cash flows occur, periods they will affect the financial results and their fair value in PLN as at the balance sheet date.

	31 December 2015	31 December 2014
Type of instrument	n/a	Cross-currency interest rate swap
Exposure	n/a	Interest payments in euro
Hedged risk	n/a	Foreign exchange risk
Notional value of hedging instrument (EUR)	n/a	542.5
Fair value of hedging instruments	n/a	(6.1)
Hedge accounting approach	n/a	Hedge accounting not adopted
Expected period the hedge item affect income statement	n/a	Until 30 January 2015

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

	31 December 2015	31 December 2014
Type of instrument	n/a	Cross-currency interest rate swap
Exposure	n/a	Interest payments in American dollars
Hedged risk	n/a	Foreign exchange risk
Notional value of hedging instrument (EUR)	n/a	403.0
Fair value of hedging instruments	n/a	3.1
Hedge accounting approach	n/a	Hedge accounting not adopted
Expected period the hedge item affect income statement	n/a	Until 30 January 2015

Cash Flow Hedge of foreign exchange risk of operational payments

At 31 December 2015 the Group held a number of forwards not designated as hedges in order to reduce the risk of operational payments in EUR and USD. At 31 December 2014 the Group held a number of forwards not designated as hedges in order to reduce the risk of operational payments in EUR and USD.

Tables below present the basic parameters of forwards not designated as hedging instruments, including the periods in which cash flows occur, periods they will affect the financial results and their fair value in PLN as at the balance sheet date.

	31 December 2015	31 December 2014
Type of instrument	Forward	Forward
Exposure	Operational payments in euro	Operational payments in euro
Hedged risk	Foreign exchange risk	Foreign exchange risk
Notional value of hedging instrument (EUR)	9.0	26.0
Fair value of hedging instruments	0.1	2.3
Hedge accounting approach	Hedge accounting not adopted	Hedge accounting not adopted
Expected period the hedge item affect income statement	Until 18 March 2016	Until 27 March 2015

	31 December 2015	31 December 2014
Type of instrument	Forward	Forward
Exposure	Operational payments in American dollars	Operational payments in American dollars
Hedged risk	Foreign exchange risk	Foreign exchange risk
Notional value of hedging instrument (EUR)	3.0	1.7
Fair value of hedging instruments	0.1	0.2
Hedge accounting approach	Hedge accounting not adopted	Hedge accounting not adopted
Expected period the hedge item affect income statement	Until 18 March 2016	Until 20 January 2015

39. Capital management

This note presents information about the Group's management of capital. Further quantitative disclosures are also included throughout these financial statements.

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

The goal of capital management is to maintain the Group's ability to operate as a going concern in order to provide the shareholders return on investment as well as benefits for other stakeholders. The Group might issue shares, increase debt or sell assets in order to maintain or improve the equity structure.

The Group monitors capital on the basis of leverage ratio, which is calculated as a ratio of net debt to sum of equity and net debt. Net debt represents interest-bearing loans and borrowings and issued bonds less cash and cash equivalents (including restricted cash).

	Carrying amount	
	31 December 2015	**31 December 2014**
Loans and borrowings	6,610.7	9,006.1
Senior Notes	5,752.0	5,014.6
Cash and cash equivalents and restricted cash	(1,523.7)	(1,747.9)
Net debt	**10,839.0**	**12,272.8**
Equity	10,250.1	9,078.2
Equity and net debt	**21,089.1**	**21,351.0**
Leverage ratio	**0.51**	**0.57**

40. Operating segments

The Group operates in the following two segments:

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

The Group conducts its operating activities primarily in Poland.

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

Services to individual and business customers segment includes:

- digital pay television services which primarily relate to direct distribution of technologically advanced pay-TV services and revenues are generated mainly by pay-TV subscription fees;
- mobile telecommunication services (postpaid and mix) which generate revenues mainly from interconnection revenues, settlements with mobile network operators and subscription fees;
- mobile telecommunication prepaid services which generate revenues mainly from interconnection revenues and settlements with mobile network operators;
- providing access to broadband Internet which generates revenues mainly from traffic and subscription fees;

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

- telecommunication wholesale services, including international and domestic roaming as well as telecommunication infrastructure sharing services
- online TV services (IPLA) available on computers, smartphones, tablets, SmartTV, game consoles and other TV equipment which generate revenues mainly from subscription fees and advertising on the Internet
- Premium Rate services based on SMS/IVR/MMS/WAP technology
- production of set-top boxes
- sale of telecommunication equipment and production of set-top boxes.

Broadcasting and television production segment consists mainly of production, acquisition and broadcasting of information and entertainment programs as well as TV series and feature films broadcasted on television 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 year ended 31 December 2015:

The year ended 31 December 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)	-
Revenues	**8,709.2**	**1,299.9**	**(186.1)**	**9,823.0**
EBITDA (unaudited)	**3,240.0**	**445.1**	**-**	**3,685.1**
Depreciation, amortization, impairment and liquidation	1,660.5	38.8	-	1,699.3
Profit from operating activities	**1,579.5**	**406.3**	**-**	**1,985.8**
Acquisition of property, plant and equipment, reception equipment and other intangible assets	688.3*	31.9	-	720.2
Balance as at 31 December 2015				
Assets, including:	22,110.8	4,421.8**	(42.5)	**26,490.1**
Investments in joint venture	-	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.

All material revenues are generated in Poland.

It should be noted that the year ended 31 December 2015 is not comparable to the year ended 31 December 2014 as Metelem Holding Company Limited was acquired on 7 May 2014 (allocated to the Services to individual and business customers segment), Radio PIN was acquired on 27 February 2015 (allocated to the Broadcasting and television production segment) and Orsen Holding Limited was acquired on 1 April 2015 (allocated to the Services to individual and business customers segment).

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

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

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

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

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

Reconciliation of EBITDA and Net profit for the period:

	for the year ended	
	31 December 2015	**31 December 2014**
EBITDA (unaudited)	**3,685.1**	**2,738.3**
Depreciation, amortization, impairment and liquidation (note 10)	(1,699.3)	(1,295.9)
Profit from operating activities	**1,985.8**	**1,442.4**
Other foreign exchange rate differences, net (note 11)	(0.7)	(23.8)
Interest income, net (note 11)	33.1	47.5
Share of the profit of joint venture accounted for using the equity method	2.6	2.6
Cumulative catch-up (note 12)	616.2	-
Interest costs (note 12)	(789.1)	(690.0)
Foreign exchange differences on issued bonds (note 12)	(223.6)	(360.8)
Early redemption costs (note 12)	(244.8)	(82.1)
Other	(47.1)	(21.6)
Gross profit for the period	**1,332.4**	**314.2**
Income tax	(169.0)	(21.7)
Net profit for the period	**1,163.4**	**292.5**

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

41. Barter transactions

The Group is a party to barter transactions. The table below presents revenues and costs of barter transactions executed on an arm's-length basis. Revenue comprise revenue from services, products, goods and materials sold, costs comprise selling expenses.

	for the year ended	
	31 December 2015	**31 December 2014**
Revenues from barter transactions	59.9	41.0
Cost of barter transactions	60.9	37.3

	31 December 2015	**31 December 2014**
Barter receivables	14.3	16.3
Barter payables	5.7	5.0

42. Transactions with related parties

Receivables

	31 December 2015	**31 December 2014**
Joint ventures	2.6	4.7
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	61.9	99.0
Total*	**64.5**	**103.7**

*Amounts presented above do not include deposits paid (31 December 2015 – PLN 3.3, 31 December 2014 – PLN 2.7)

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

Other assets

	31 December 2015	**31 December 2014**
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	358.5	107.1
Total	**358.5**	**107.1**

Other current assets comprise mainly deferred costs related to the agreement with Aero 2 Sp. z o.o., legal successor of Mobyland Sp. z o.o. ("Mobyland")

More details regarding the above-mentioned agreement are presented in note 46.

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

Liabilities

	31 December 2015	31 December 2014
Joint ventures	1.9	1.9
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	28.7	93.0
Total	**30.6**	**94.9**

Loans granted

	31 December 2015	31 December 2014
Joint ventures	43.0	29.9
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.4	0.5
Total	**43.4**	**30.4**

Revenues

	for the year ended	
	31 December 2015	31 December 2014
Subsidiaries*	1.8	9.9
Joint ventures	1.6	13.8
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	482.9	244.9
Total	**486.3**	**268.6**

*Concerns transaction with subsidiaries (under common control) executed prior to their acquisition

In both years the most significant transactions include revenues from sharing base transceiver stations and radio module and services relating to expansion of telecommunication network.

Expenses and purchases of programming assets

	for the year ended	
	31 December 2015	31 December 2014
Subsidiaries*	6.5	11.4
Joint ventures	7.4	6.6
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	690.6	504.4
Total	**704.5**	**522.4**

*Concerns transaction with subsidiaries (under common control) executed prior to their acquisition

In both years the most significant transactions include data transfer services, expenses for programming assets and advertising services, property rental, cost of electrical energy, telecommunication services with respect to the Group's customer call center and commission fees.

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

Gain on investment activities, net

	for the year ended	
	31 December 2015	**31 December 2014**
Joint ventures	2.2	1.0
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.1	0.1
Total	**2.3**	**1.1**

Finance costs

	for the year ended	
	31 December 2015	**31 December 2014**
Joint ventures	0.1	-
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.1	-
Total	**0.2**	**-**

The acquisition of shares in Metelem was presented in note 37.

43. Contingent liabilities

Management believes that the provisions as at 31 December 2015 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

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

On 24 February 2011 the President of UOKiK imposed penalty on Polkomtel (Company's indirect subsidiary) in the amount of PLN 130.7 for the alleged lack of cooperation during an inspection carried out by UOKiK in Polkomtel. Polkomtel appealed against the decision of the President of UOKiK to the Consumer and Competition Protection Court ("SOKiK"). According to management, during the inspection the company had fully and at all times cooperated with UOKiK within the scope provided by the law. On 18 June 2014 the decision of the President of UOKiK has been changed by SOKiK, reducing the penalty to PLN 4 (i.e. EUR 1). On 20 October 2015 SOKiK's verdict has been revoked and the case has been transferred for re-examination. In 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 23 November 2011 Polkomtel (Company's indirect subsidiary) received a decision of the President of UOKiK in which UOKiK recognized the alleged agreement between Polkomtel, PTK Centertel Sp. z o.o., PTC S.A. and P4 Sp. z o.o. as a competition-restricting practice on the domestic mobile telecommunication services retail market as well as on the domestic wholesale mobile DVB-H technology services market. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 33.5. In management's opinion, no such agreement had been concluded between the parties. The company appealed to SOKiK against the decision of the UOKiK's President regarding the penalty. Following SOKiK's verdict dated 19 June 2015 the penalty has been revoked in full. The verdict is non-binding. The President of UOKiK may appeal against the verdict.

On 27 December 2012 the President of UOKiK issued a decision ending investigations related to Polkomtel's (Company's indirect subsidiary) alleged practices which infringed upon the collective interests of consumers by presenting misleading slogans in advertising campaigns. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 4.5. The company appealed to SOKiK against the decision. On 15 October 2014 SOKiK issued a decision where the penalty has been reduced to PLN 1.5. On 10 February 2016 SOKiK's decision has been revoked thus re-establishing the penalty back at PLN 4.5. The company is considering a cassation appeal against the judgment.

On 23 December 2014 the President of UOKiK issued a decision ending investigations related to Polkomtel's (Company's indirect subsidiary) alleged practices which infringed upon the collective interests of consumers by including certain clauses in the terms and conditions of the online shop and including certain clauses in the equipment return policy when telecommunication agreements are terminated by the subscriber. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 8.8 zł. The company appealed to SOKiK against the decision.

On 30 December 2014 the President of UOKiK issued a decision ending investigations related to Polkomtel's (Company's indirect subsidiary) alleged practices which infringed upon the collective interests of consumers by not providing its telecommunication clients (which entered into a written agreement) with terms and conditions of the preferential sales offer as well as not informing about the termination of the preferential sales offer. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 6.0 zł. The company appealed to SOKiK against the decision.

On 15 December 2014 Polkomtel (Company's indirect subsidiary) received a claim from Orange for the total amount of PLN 21 related to the actions allegedly contrary to the obligations arising under the agreement for the transfer of rights to radio frequencies. On 13 January 2015 the company filed an answer to the claim. Pursuant to the decision of the District Court in Warsaw the penalty has been lowered to PLN 9.0. Polkomtel appealed against the verdict. In management's opinion the claim is groundless.

In September 2015, Polkomtel (Company's indirect subsidiary) received a claim from P4 Sp. z o.o., in which the company demands compensation of EUR 316 (including interest of PLN 85), 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 Poland SA, Polkomtel and T-Mobile Poland SA.
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 Sp. z o.o. 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 Sp. z o.o. indicates neither nature (premises liability) nor the amount.

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

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

44. Remuneration of the Management Board

The table below presents the Management Board's remuneration.

Name	Function	2015	2014
Tobias Solorz	President of the Management Board (from 8 December 2015), Vice-President of the Management Board (from 10 December 2014 to 7 December 2015, Member of the Management Board (from 1st September 2014 to 9 December 2014)	1.5	0.5
Dariusz Działkowski	Member of the Management Board	0.7	0.7
Tomasz Gillner-Gorywoda	Member of the Management Board (from 8 December 2015),President of the Management Board (from 28 October 2014 to 7 December 2015)	1.3	0.2
Aneta Jaskólska	Member of the Management Board	0.9	0.7
Maciej Stec	Member of the Management Board	0.8	0.1
Tomasz Szeląg	Member of the Management Board	0.9	0.7
Dominik Libicki	President of the Management Board (until 28 October 2014)	-	1.0
Total		**6.1**	**3.9**

The amounts of bonuses and other remuneration payable to each member of the Management Board for 2015 and 2014 are presented below:

Name	Function	2015	2014
Tobias Solorz	President of the Management Board (from 8 December 2015), Vice-President of the Management Board (from 10 December 2014 to 7 December 2015), Member of the Management Board (from 1st September 2014 to 9 December 2014)	3.5	1.4
Dariusz Działkowski	Member of the Management Board	1.0	0.9
Tomasz Gillner-Gorywoda	Member of the Management Board (from 8 December 2015), President of the Management Board (from 28 October 2014 to 7 December 2015),	2.1	0.6
Aneta Jaskólska	Member of the Management Board	1.5	2.1
Maciej Stec	Member of the Management Board	1.1	0.9
Tomasz Szeląg	Member of the Management Board	3.2	3.1
Dominik Libicki	President of the Management Board	-	3.7
Total		**12.4**	**12.7**

45. Remuneration of the Supervisory Board

The Supervisory Board members receive remuneration based on the resolution of the Extraordinary General Shareholders' Meeting of Cyfrowy Polsat S.A. dated 5 September 2007.

Presented below total remuneration payable to the Supervisory Board members in 2015 and 2014:

Name	**Function**	**2015**	**2014**
Zygmunt Solorz-Żak	President of the Supervisory Board	0.2	0.2
Heronim Ruta	Member of the Supervisory Board	0.1	0.1
Andrzej Papis	Member of the Supervisory Board (until 2 April 2015)	0.0	0.1
Józef Birka	Member of the Supervisory Board (from 3 April 2015)	0.1	-
Aleksander Myszka	Member of the Supervisory Board (from 3 April 2015)	0.1	-
Robert Gwiazdowski	Independent Member of the Supervisory Board	0.1	0.1
Leszek Reksa	Independent Member of the Supervisory Board	0.1	0.1
Total		**0.7**	**0.6**

46. Important agreements and events

Agreements for the provision of data transfer services

On 3 March 2015 two memoranda of understanding determining new terms of cooperation in the scope of telecommunication services related to data transmission were concluded:

a) PLK Memorandum – memorandum concluded between Polkomtel Sp. z o.o. ('Polkomtel'), a wholly owned subsidiary of the Company, and Mobyland Sp. z o.o ("Mobyland") under the agreement on the provision of wholesale telecommunications services concluded between Mobyland and Polkomtel on 9 March 2012, and

b) CP Memorandum - memorandum concluded between the Company and Polkomtel under the agreement on the provision of wholesale telecommunications services, concluded on 27 March 2014 (intercompany agreement that is eliminated on Group's consolidation).

In accordance with the PLK Memorandum and CP Memorandum, the parties have established new terms of cooperation between Polkomtel and Mobyland, as well as between the Company and Polkomtel, in particular:

a) a new unit price per 1 GB in relation to telecommunication services related to data transmission in the net amount of PLN 2.40 (not in millions);

b) the new price is applicable to both newly ordered data packages as well as unused data packages already partially paid for under previous orders;

c) the new terms of cooperation were effective as of 1 January 2015 and the placed orders for data transmission will be valid for a period of 4 years;

d) in the event when Mobyland introduces services based on other own frequencies or frequencies to which it acquires usage rights, Mobyland will extend the scope of services related to data transmission provided to Polkomtel.

Pursuant to the PLK Memorandum, on 3 March 2015 Polkomtel placed an order with Mobyland for the purchase of a data package of 1,571.7 million GB (the "PLK Order"). The total value of the PLK Order amounts to PLN 3,772.0 (net) and the surplus payments made for the previous order placed by Polkomtel with Mobyland, in relation to the actual usage, in the amount of PLN 144.6 were credited towards payments for the PLK Order. Payments for the PLK Order will be made in favor of Mobyland according to the following schedule:

ii. PLN 119.3, net – for the first quarter of 2015 in three equal monthly installments,

iii. PLN 132.0, net – for the second quarter of 2015 in three equal monthly installments,

iv. PLN 245.0, net – for the third quarter of 2015 in three equal monthly installments,

v. PLN 354.0, net – for the fourth quarter of 2015 in three equal monthly installments,

vi. PLN 989.3, net – for the year 2016 in twelve equal monthly installments,

vii. PLN 880.0, net – for the year 2017 in twelve equal monthly installments, and

viii. PLN 907.9, net – for the year 2018 in twelve equal monthly installments.

Decision to withdraw from the active bidding in the auction for 800 MHz frequency blocks

On 10 March 2015 the Company was informed by Polkomtel Sp. z.o.o. ("Polkomtel"), an indirect subsidiary of the Company, of Polkomtel's decision to discontinue active bidding in the auction for 800 MHz spectrum blocks while adopting the so-called passive bidding approach.

The PLK Memorandum and the CP Memorandum (described in detail above) assume that should Mobyland launch services using further frequencies it owns or the frequencies which it will acquire, then Mobyland will expand the scope of data transmission services provided to Polkomtel. The Midas Group (which includes Mobyland) intends to pursue a roll-out of the LTE800 network.

Reservation applications in the LTE frequency auction

On 19 October 2015 the Office of Electronic Communications ("UKE") published the results of the auction for frequency licenses in the 800 MHz and 2,600 MHz bands ("Auction"). According to information published by UKE, Polkomtel Sp. z o.o., ("Polkomtel"), a wholly owned subsidiary of the Company, placed the highest bids in the Auction for four blocks in the 2,600 MHz band for the total price of PLN 155.7.

On 26 October 2015 Polkomtel submitted applications for reservations of frequencies, which were the subject of the Auction, and it intends to collect the allocated frequency reservations. Reservations for frequencies will remain valid for 15 years with a possibility of their extension.

The submission of reservation applications and subsequent receipt of allocated spectrums does not mean that Polkomtel will not seek compensation in relation to the questionable termination of the bidding process.

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Events subsequent to the reporting date

On 25 January 2016 UKE issued a decision relating reservation of 4 frequency block of 2,600 MHz. On 5 February 2016 Polkomtel made payments for the received frequencies. Pursuant to the commitments made in the Auction, Polkomtel is required to start using the allocated frequencies not later than 36 months from the date of receipt of the 2,600 MHz frequency band.

47. Events subsequent to the reporting date

There were no significant events subsequent to reporting date other than those disclosed in the note 30, 31 and 46.

48. Other disclosures

Security relating to loans and borrowings

Establishment of security for loan facilities

The Group entered into a series of agreements establishing collateral under the Senior Facilities Agreement, SFA Agreement and Senior Notes. Detailed information in respect to the agreements is presented in the Management Report in note 4.6.6.

Commitments to purchase programming assets

As at 31 December 2015 the Group had outstanding contractual commitments in relation to purchases of programming assets. The table below presents a maturity analysis for such commitments:

	31 December 2015	31 December 2014
within one year	178.1	117.0
between 1 to 5 years	116.4	104.4
Total	**294.5**	**221.4**

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

	31 December 2015	31 December 2014
within one year	15.9	13.6
Total	**15.9**	**13.6**

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of property, plant and equipment was PLN 136.3 as at 31 December 2015 (PLN 203.7 as at 31 December 2014). Total amount of contractual liabilities resulting from agreements for the purchases of intangible assets as at 31 December 2015 was PLN 63.8 (PLN 72.1 as at 31 December 2014).

Contractual liabilities related to purchase of data transfer services

Total amount of capital commitments resulting from agreements on data transfer services as at 31 December 2015 was PLN 2,777.2. Further details presented in note 46.

49. Judgments, financial estimates and assumptions

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

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

The most significant estimates and assumptions made primarily related to the following:

- *Classification of lease agreements*

The Group classifies leasing agreements as operating or financial based on the assessment as to what extent the risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The assessment is based on the economical substance of each transaction. The Group concludes agreements for the rental of reception equipment (set-top boxes, modems and routers) to its customers in the course of its business operations. These lease agreements are classified as operating leases as the Group holds substantially all the risks and rewards incidental to ownership of the reception equipment. The Group also provides vehicles under operating lease agreements which were initially leased from MLeasing and recognized as financial leasing.

As a part of its business activities the Group has concluded agreements with Eutelsat for the rental of transponder capacity as well as an agreement with Nagravision for the lease of conditional access system (including SMART cards). These agreements were classified as operating leases as Eutelsat and Nagravision hold substantially all the risks and rewards incidental to the ownership of the transponders and the conditional access system. The Group also entered into land lease agreements (locations for network infrastructure) and leases of office and other premises which are classified as operating leases. For more information see note 32.

- *Depreciation rates of property, plant and equipment and intangible assets with definite useful lives*

Depreciation rates are based on the expected economic useful lives of property, plant and equipment (including reception equipment provided to customers under lease agreements) and intangible assets (including customer relationships and Plus brand). The expected economic useful lives are reviewed on an annual basis based on the experience of the entity.

The economic useful lives of the set-top boxes rented to customers under operating lease agreements are estimated for 5 years, modems and routers 3 years. For information on the useful lives of property, plant and equipment, programming assets and other intangible assets with definite useful lives see notes 6j and 6k. For information on the depreciation charge for the period by the category of property, plant and equipment and intangible assets with definite useful lives see notes 16 and 20.

- *Economic useful lives and amortization method of programming assets*

Economic useful life of programming assets is based on the shorter of the expected consumption of future economic benefits embodied in an asset and the license period. Amortisation method of programming assets reflects how these economical benefits are consumed. The estimation of the useful life and the amortization method requires assessment of the timing during which the Group is expecting to obtain the income from the acquired programming assets and the percentage apportionment of this income in the given period. For more information about the amortization method and amortization charge for the period by programming assets category see notes 6l and 21.

- *Indefinite useful life of Polsat, TV4, TV6 and IPLA brands*

As at the reporting date, the Group has reviewed whether relevant factors continue to indicate indefinite useful life of Polsat, TV4, TV6 and IPLA brands recognised in 2011-2013 on the acquisition of Telewizja Polsat S.A., Polskie Media S.A. and entities comprising IPLA network.
The Group has reviewed the following factors which are essential for estimating the economic useful life of the Polsat, TV4, TV6 and IPLA brands:
- The expected usage of the asset by the entity and whether the asset could be managed more efficiently
- Technical, technological, commercial or other types of obsolescence
- The stability of the industry in which the asset operates and changes in the market demand for media services
- Expected actions by competitors or potential competitors
- The level of maintenance expenditure required to obtain the expected future economic benefits from the asset
- Whether the useful life of the asset is dependent on the useful life of other asset of the entity.

Having analyzed the above factors, the Group has concluded that there is no foreseeable limit to the period over which the Polsat, TV4, TV6 and IPLA brands are expected to generate net cash inflows for the Group and thus the indefinite useful life was assumed. This means that the above brands are not subject to amortization but rather are tested for impairment on annual basis. The Management believes that Polsat, TV4 and TV6 brands have a positive impact on the revenues from advertising and sponsorship and IPLA brand has a positive impact on acquisition of new customers as well as increase of ARPU among current customers of Cyfrowy Polsat. Furthermore, the Polsat brand is widely recognized by media and is highly appreciated in numerous rankings, for example ”Rzeczpospolita” journal’s rankings or BAV Consulting’s rankings. Numerous awards for employees, individuals associated with the brand as well as high Power Ratio index also indicate a strong position of the brand.
As at the balance sheet date the Management states there are no plans to cease using or significantly modify Polsat, TV4, TV6 or IPLA brands. The value assigned to the brands relate to the name “Polsat”, "TV4", “TV6” and “ipla” respectively and the related logotypes both of which are reserved trademarks. In case the Group decides about discontinuance of use or significant modification of the name or logotype the Management would review whether events and circumstances continue to support an indefinite useful life assessment of the Polsat, TV4, TV6 and IPLA brands and assess whether there are indicators of possible impairment.

- *Fair value of assets and liabilities of Metelem Holding Company Limited*

The Group identified assets and liabilities and estimated their provisional fair value under the purchase price allocation process relating to the acquisition of Metelem Holding Company Limited. For more information see note 37.

- *The impairment of goodwill and intangible assets with indefinite useful lives*

The Group performed impairment test of a goodwill and of the intangible assets with indefinite useful lives (Polsat brand, TV4 and TV6 brands and Ipla brand). The impairment test was based on the value-in-use calculations of the cash-generating unit to which the goodwill and brands have been allocated on the initial recognition. Goodwill and brands with indefinite useful lives have been allocated to the following cash-generating units, which also represent the Group's business segments:
- "Services to individual and business customers" - goodwill recognized on the acquisition of M.Punkt Holdings, goodwill recognized on the acquisition of INFO-TVFM and the goodwill and IPLA brand recognized on the acquisition of entities comprising the IPLA platform and the goodwill recognized on the acquisition of Metelem;
- "Broadcasting and television production" - goodwill and Polsat brand recognized on the acquisition of TV Polsat and goodwill and TV4 and TV6 brands recognized on the acquisition of Polskie Media.

The value-in-use calculations included estimation of discounted cash flows for the given cash-generating unit and the relevant discount rate. The value of goodwill and brands tested at each cash-generating unit, the key assumptions used in the value-in-used calculations for each cash-generating unit, impairment test results and sensitivity analysis of reasonably possible changes in the key assumptions are presented in note 19.

The Group did not perform an impairment test of goodwill recognized on acquisition of Orsen Holding (allocated to the 'services to individual and business customers' segment) and on acquisition of Radio PIN (allocated to the 'broadcasting and television production segment) due to the fact, that the acquisition took place during the financial year ended 31 December 2015.

- *The impairment of non-financial non-current assets*

As at the reporting date the Group has assessed whether there are any indications that intangible and tangible assets with definite useful lives may be impaired. The impairment loss recognised equals the difference between net book value and recoverable amount. The impairment values are presented in note 16 and 20.

- *Impairment of receivables*

Judgment is required in evaluating the likelihood of collection of customer debt after revenue has been recognized. This evaluation requires estimates to be made including the level of bad debt allowance made for amounts with uncertain recovery profiles. Allowances are based on the probability of receivables collection, and on more detailed reviews of individually significant balances. Depending on the type of the customer and the source of the receivable, the assessment of the probability of receivable collection is done either based on the analysis of individual balances or based on the statistical probability of recoverability for each receivable's ageing profile. Recoverability rates are defined based on the analysis of the historical recoverability and the customers' behavior as well as other factors that, according to the Management Board, might influence the recoverability of the receivables. For more information see notes 6o, 25 and 38.

- *Impairment of inventories*

The Group provides for slow-moving or obsolete inventories based on inventory turnover ratios and current marketing plans. The purchase cost or production cost is determined based on weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses. For more information see notes 6m and 24.

- *Provisions for pending litigation*

During the normal course of its operations the Group participates in several court proceedings, usually typical and repeatable and which, on an individual basis, are not material for the Group, its financial standing and operations. The provisions are estimated based on the court documentation and the expertise of the Group's lawyers who participate in the current litigations and who estimate Group's possible future obligations taking the progress of litigation proceedings into account. The Group also recognizes provisions for potential unreported claims resulting from past events, should the Management Board find that the resulting outflow of economic benefits is likely. Provisions regarding probable claims are recognized as a result of Management Board's estimates based on accessible information regarding market rates for similar claims. Management believes that the provisions as at 31 December 2015 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

- *Provisions for dismantling*

The Group is required to dismantle equipment and restore sites. The provision is based on the best estimate of the amount required to settle the obligation. The provision for the cost of dismantling and removing the asset and restoring the site is revised, when necessary, along with the value of the relevant asset. The provision is discounted by applying a discount rate that reflects the current market assessments of the time value of money and the risk specific to the liability. The discount rate used in calculating the provision for dismantling and removing the asset and restoring the site is 3.21% as at 31 December 2015. The discounting period reflects the management's best estimate regarding the expected time of dismantling the assets, taking into account the expiry dates of concessions held by the Group and the expected period of renewal.

- *Deferred tax*

Deferred taxes are recognised for all temporary differences, as well as for unused tax losses. The key assumption in relation to deferred tax accounting is the assessment of the expected timing and manner of realization or settlement of the carrying amounts of assets and liabilities held at the reporting date. In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deductible temporary differences can be utilized. At the end of the reporting period unrecognised deferred tax assets are re-assessed. A previously unrecognised deferred tax asset is recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. For further details refer to note 6x and 13.

- *Fair value of financial instruments*

Fair value of financial instruments for which there is no active market is estimated using appropriate techniques of measurements. The techniques are chosen based on the professional judgment. For more information about the method of establishing the fair value of financial instruments and key assumption made see note 6h.

CYFROWY POLSAT S.A. GROUP

Interim Condensed Consolidated Financial Statements
for 3 and 12 months ended 31 December 2015

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

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

Interim Consolidated Income Statement

		for the 3 months ended		for the 12 months ended	
	Note	31 December 2015 unaudited	31 December 2014 unaudited	31 December 2015	31 December 2014
Continuing operations					
Revenue	6	2,609.9	2,521.1	9,823.0	7,409.9
Operating costs	7	(2,159.3)	(2,125.4)	(7,867.9)	(5,977.1)
Other operating income/(cost), net		(6.2)	(2.2)	30.7	9.6
Profit from operating activities		**444.4**	**393.5**	**1,985.8**	**1,442.4**
Gain/loss on investment activities, net		(3.2)	(11.4)	8.6	15.2
Finance costs		(270.0)	(379.2)	(664.6)	(1,146.0)
Share of the profit of joint venture accounted for using the equity method		0.7	0.6	2.6	2.6
Gross profit for the period		**171.9**	**3.5**	**1,332.4**	**314.2**
Income tax		13.7	10.5	(169.0)	(21.7)
Net profit for the period		**185.6**	**14.0**	**1,163.4**	**292.5**
Net profit attributable to equity holders of the Parent		185.6	**14.0**	1,163.4	292.5
Basic and diluted earnings per share (in PLN)		**0.29**	**0.02**	**1.82**	**0.54**

Interim Consolidated Statement of Comprehensive Income

	for the 3 months ended		for the 12 months ended	
	31 December 2015 unaudited	31 December 2014 unaudited	31 December 2015	31 December 2014
Net profit for the period	**185.6**	**14.0**	**1,163.4**	**292.5**
Items that may not be reclassified subsequently to profit or loss:	***3.0***	***-***	***3.0***	***-***
Actuarial gain	3.0	-	3.0	-
Items that may be reclassified subsequently to profit or loss:	***1.5***	***(3.0)***	***5.5***	***(3.2)***
Valuation of hedging instruments	1.8	(3.7)	6.6	(3.9)
Income tax relating to hedge valuation	(0.3)	0.7	(1.1)	0.7
Items that may be reclassified subsequently to profit or loss	**4.5**	**(3.0)**	**8.5**	**(3.2)**
Other comprehensive income, net of tax	**4.5**	**(3.0)**	**8.5**	**(3.2)**
Total comprehensive income for the period	**190.1**	**11.0**	**1,171.9**	**289.3**
Total comprehensive income attributable to equity holders of the Parent	190.1	11.0	1,171.9	289.3

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

Interim Consolidated Balance Sheet - Assets

	31 December 2015	**31 December 2014 restated***
Reception equipment	371.0	421.1
Other property, plant and equipment	2,548.6	2,714.9
Goodwill	10,606.4	10,585.3
Customer relationships	3,638.5	4,255.8
Brands	2,080.6	2,085.9
Other intangible assets	2,422.2	2,591.4
Non-current programming assets	145.0	135.8
Investment property	5.2	5.3
Non-current deferred distribution fees	83.3	81.0
Other non-current assets	272.8	198.5
includes derivative instruments assets	*6.9*	*1.2*
Deferred tax assets	87.6	281.1
Total non-current assets	**22,261.2**	**23,356.1**
Current programming assets	192.2	152.1
Inventories	281.0	301.4
Trade and other receivables	1,619.1	1,453.4
Income tax receivable	0.7	26.0
Current deferred distribution fees	212.7	141.7
Other current assets	399.5	160.1
includes derivative instruments assets	*10.5*	*22.2*
Cash and cash equivalents	1,512.0	1,735.3
Restricted cash	11.7	12.6
Total current assets	**4,228.9**	**3,982.6**
Total assets	**26,490.1**	**27,338.7**

* Restatement resulting from final purchase price allocation of Metelem (see note 37 in consolidated financial statements for the year ended 31 December 2015)

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

Interim Consolidated Balance Sheet - Equity and Liabilities

	31 December 2015	31 December 2014 restated*
Share capital	25.6	25.6
Share premium	7,174.0	7,174.0
Other reserves	(3.7)	(12.2)
Retained earnings	3,054.2	1,890.8
Equity attributable to equity holders of the Parent	**10,250.1**	**9,078.2**
Total equity	**10,250.1**	**9,078.2**
Loans and borrowings	5,379.8	7,683.5
Issued bonds	975.3	4,550.2
Finance lease liabilities	20.9	11.7
UMTS license liabilities	652.8	750.3
Deferred tax liabilities	615.8	908.7
Deferred income	4.7	4.7
Other non-current liabilities and provisions	124.2	184.2
includes derivative instruments liabilities	-	*40.1*
Total non-current liabilities	**7,773.5**	**14,093.3**
Loans and borrowings	1,230.9	1,322.6
Issued bonds	4,776.7	464.4
Finance lease liabilities	4.3	6.8
UMTS license liabilities	117.0	117.1
Trade and other payables	1,485.4	1,524.4
includes derivative instruments liabilities	*72.9*	*87.0*
Income tax liability	176.1	48.0
Deferred income	676.1	683.9
Total current liabilities	**8,466.5**	**4,167.2**
Total liabilities	**16,240.0**	**18,260.5**
Total equity and liabilities	**26,490.1**	**27,338.7**

* Restatement resulting from final purchase price allocation of Metelem (see note 37 in consolidated financial statements for the year ended 31 December 2015)

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

Interim Consolidated Cash Flow Statement

	for the year ended	
	31 December 2015	**31 December 2014**
Net profit	**1,163.4**	**292.5**
Adjustments for:	**1,821.7**	**1,825.3**
Depreciation, amortization, impairment and liquidation	1,699.3	1,295.9
Payments for film licenses and sports rights	(238.1)	(306.8)
Amortization of film licenses and sports rights	212.6	224.4
Gain on sale of property, plant and equipment and intangible assets	(6.9)	(2.9)
Cost of programming rights sold	1.4	30.5
Interest expense	763.6	603.7
Change in inventories	26.4	0.5
Change in receivables and other assets	(478.2)	(191.9)
Change in liabilities, provisions and deferred income	(118.0)	(277.7)
Change in internal production and advance payments	(3.9)	(4.9)
Valuation of hedging instruments	6.6	(3.9)
Share of the profit of joint venture accounted for using the equity method	(2.6)	(2.6)
Foreign exchange losses, net	222.0	369.9
Income tax	169.0	21.7
Net additions of reception equipment provided under operating lease	(134.7)	(193.1)
Early redemption costs	244.8	82.1
Cumulative catch-up	(616.2)	-
Net loss on derivatives	53.0	84.3
Other adjustments	21.6	96.1
Cash from operating activities	**2,985.1**	**2,117.8**
Income tax paid	(136.2)	(189.1)
Interest received from operating activities	38.8	45.2
Net cash from operating activities	**2,887.7**	**1,973.9**
Acquisition of property, plant and equipment	(417.8)	(263.6)
Acquisition of intangible assets	(165.3)	(71.8)
Concessions payments	(118.7)	(482.3)
Acquisition of subsidiaries, net of cash acquired	(29.5)	1,800.4
Proceeds from sale of property, plant and equipment	16.9	4.1
Granted loans	(16.1)	(23.1)
Other investing activities - derivatives	3.9	6.6
Dividends received	-	2.5
Net cash from/(used in) investing activities	**(726.6)**	**972.8**

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

Repayment of loans and borrowings	(9,222.2)	(1,087.1)
Loans and borrowings inflows	6,820.0	2,800.0
Issuance of bonds/(bonds redemption)	1,000.0	(2,275.9)
Finance lease – principal repayments	(5.6)	(0.9)
Payment of interest on loans, borrowings, bonds, Cash Pool, finance lease and commissions*	(978.9)	(872.2)
Dividends paid	-	(102.9)
Payment of share issuance-related consulting costs	-	(3.9)
Net cash used in financing activities	**(2,386.7)**	**(1,542.9)**
Net increase in cash and cash equivalents	**(225.6)**	**1,403.8**
Cash and cash equivalents at the beginning of the period	**1,747.9**	**342.2**
Effect of exchange rate fluctuations on cash and cash equivalents	1.4	1.9
Cash and cash equivalents at the end of the period	**1,523.7*****	**1,747.9****

* Includes impact of hedging instruments, premiums paid for early bonds' repayment and amount paid for costs related to the new financing
** Includes restricted cash amounting to PLN 12.6
*** Includes restricted cash amounting to PLN 11.7

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

Interim Consolidated Statement of Changes in Equity for the 12 months ended 31 December 2015

	Share capital	Share premium	Other reserves	Retained earnings*	**Equity attributable to equity holders of the Parent**	**Total equity**
Balance as at 1 January 2015	**25.6**	**7,237.4**	**(12.2)**	**1,890.8**	**9,141.6**	**9,141.6**
Restatement resulting from purchase price allocation of Metelem**	-	(63.4)	-	-	**(63.4)**	**(63.4)**
Balance as at 1 January 2015 restated**	**25.6**	**7,174.0**	**(12.2)**	**1,890.8**	**9,078.2**	**9,078.2**
Total comprehensive income	-	-	8.5	1,163.4	**1,171.9**	**1,171.9**
Hedge valuation reserve	-	-	*5.5*	-	***5.5***	***5.5***
Actuarial gain	-	-	*3.0*	-	***3.0***	***3.0***
Net profit for the period	-	-	-	*1,163.4*	***1,163.4***	***1,163.4***
Balance as at 31 December 2015	**25.6**	**7,174.0**	**(3.7)**	**3,054.2**	**10,250.1**	**10,250.1**

Interim Consolidated Statement of Changes in Equity for the 12 months ended 31 December 2014

	Share capital	Share premium	Other reserves	Retained earnings*	Equity attributable to equity holders of the Parent	**Total equity**
Balance as at 1 January 2014	**13.9**	**1,295.1**	**(9.0)**	**1,701.2**	**3,001.2**	**3,001.2**
Issue of shares	11.7	5,878.9**	-	-	**5,890.6****	**5,890.6****
Dividend declared and paid	-	-	-	(102.9)	**(102.9)**	**(102.9)**
Total comprehensive income	-	-	(3.2)	292.5	**289.3**	**289.3**
Hedge valuation reserve	-	-	*(3.2)*	-	***(3.2)***	***(3.2)***
Net profit for the period	-	-	-	*292.5*	***292.5***	***292.5***
Balance as at 31 December 2014 restated**	**25.6**	**7,174.0**	**(12.2)**	**1,890.8**	**9,078.2**	**9,078.2**

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

** Restatement resulting from final purchase price allocation of Metelem (see note 37 in consolidated financial statements for the year ended 31 December 2015)

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

Notes to the Interim Condensed Consolidated Financial Statements

1. The Parent Company

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

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

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

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

2. Composition of the Management Board of the Company

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

3. Composition of the Supervisory Board of the Company

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

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

Statement of compliance

These interim condensed consolidated financial statements for the 3 and 12 months ended 31 December 2015 have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting*. These interim condensed consolidated financial statements should be read together with the annual consolidated financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

The Group applied the same accounting policies in the preparation of the financial data for 3 and 12 months ended 31 December 2015 and the consolidated financial statements for the year 2014, presented in the consolidated annual report, except for the EU-endorsed Standards, amendments to Standards and Interpretations which are effective for the reporting periods beginning on 1 January 2015. Standards, amendments to Standards and Interpretations which are effective for the reporting periods beginning on 1 January 2015 do not have a material impact on these interim condensed consolidated financial statements.

The most recent published annual consolidated financial statements were prepared and audited for the year ended 31 December 2015. Annual consolidated financial statements fully disclose accounting policies approved by the Group.

5. Information on Seasonality in the Group's Operations

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

Within retail revenue category mobile revenue is a subject to slight fluctuations during the year. This revenue stream tends to increase during the summer period (caused by increased usage of roaming services). On the other hand mobile revenue tends to decrease in the first quarter of each year due to fewer number of calendar and business days.

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

6. Revenue

	for the 3 months ended		for the 12 months ended	
	31 December 2015 unaudited	31 December 2014 Unaudited	31 December 2015	31 December 2014
Retail revenue	1,620.6	1,701.7	6,553.1	5,084.7
Wholesale revenue	738.0	641.1	2,596.9	1,954.0
Sale of equipment	226.9	159.9	583.4	327.3
Other revenue	24.4	18.4	89.6	43.9
Total	**2,609.9**	**2,521.1**	**9,823.0**	**7,409.9**

Retail revenue mainly consists of pay-TV, telecommunication services, interconnection revenues, revenue from rental of reception equipment and contractual penalties.

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

7. Operating costs

	for the 3 months ended		for the 12 months ended	
	31 December 2015 unaudited	31 December 2014 Unaudited	31 December 2015	31 December 2014
Technical costs and cost of settlements with telecommunication operators	585.1	557.2	2,141.0	1,412.4
Depreciation, amortization, impairment and liquidation	436.7	443.8	1,699.3	1,295.9
Cost of equipment sold	393.6	376.6	1,332.8	925.2
Content costs	299.1	295.6	1,065.9	1,029.5
Distribution, marketing, customer relation management and retention costs	220.1	218.3	802.6	612.7
Salaries and employee-related costs	158.0	150.9	550.2	421.7
Cost of debt collection services and bad debt allowance and receivables written off	7.6	27.5	62.6	67.6
Other costs	59.1	55.5	213.5	212.1
Total	**2,159.3**	**2,125.4**	**7,867.9**	**5,977.1**