ANNUAL REPORT
OF CYFROWY POLSAT S.A. FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2013

Place and date of publication: Warsaw, February 27, 2014

Content of the annual report:

Letter of the President of the Management Board

Management Board's report on the activities of Cyfrowy Polsat S.A. in the financial year ended December 31, 2013

Management Board's representations

Opinion of the independent auditor on the audit of the financial statements for the year ended December 31, 2013

Financial Statements for the year ended December 31, 2013

Interim Condensed Financial Statements for the 3 and 12 Months ended December 31, 2013 (unaudited)

Ladies and Gentlemen,

It is with great pleasure that I present to you the 2013 Annual Report of the Cyfrowy Polsat Group.

As in previous years, in 2013 we continued our pursuit of both organic growth and strategic acquisitions in consistent implementation of the Group's strategy. We geared our operations towards three key targets: building the value of our customer base, maximizing revenue in both operating segments, and effectively managing the cost base. All of our effort was focused on solidifying our leading position in multimedia entertainment in Poland and in the pay TV and television broadcasting markets, as well as on persistently expanding our telecommunications capabilities and online services.

That we turned yet another year into a success can be seen in the Group's excellent operating and financial results. The number of subscribers to our pay TV services remained broadly flat at 3.54m, while the number of our broadband Internet users rose to almost 235 thousand. The other business segment also delivered as expected: our flagship channel, POLSAT, maintained its high audience share of 13.51%, and the audience share of our thematic channels, including the newly acquired TV4 and TV6, rose to 7.63%, which translated into a total market share of 21.14%. We saw our share in the TV advertising and sponsorship market rise to 24.1% in 2013, and thanks to a well-rounded programme schedule and optimum investments in content, our TV advertising and sponsorship revenue – alone amongst the other market players' – also rose. In 2013, total standalone revenue of Cyfrowy Polsat grew by 7.8%, to PLN 1.92bn, with EBITDA standing at PLN 591.6m, and profit at PLN 429m.

To ensure a consistently high level of customer satisfaction, we expanded our television packages with extra channels, including four new channels under the Polsat brand. Our broadband Internet users were treated to attractive promotions and state-of-the-art equipment, and we gradually expanded our broadband coverage to nearly 67% of Poland's population. Bundling our products into multi-service packages made them even more rewarding for our customers, and brought us a consistent improvement in our revenue per subscriber. But 2013 was also a year of new services: Mobile TV, PPV, VOD, online services, and Multiroom HD. As part of our existing plans, we regularly expanded our VOD Home Video Rental service and provided viewers with access to pay-per-view sporting events. And our online television service, IPLA, saw significant development of its content and functionality. As a result, its user base increased, and the share of the transaction model in IPLA's revenue rose to 25%.

Our acquisition of Polkomtel, one of the three largest telecom operators in Poland, was an important and demanding project, unprecedented not only on the Polish market, but also in Europe. Jointly with Polkomtel, we will create a unique product offer that keeps pace with the rapidly changing market environment and meets consumer expectations. Together, we will further leverage the business potential of the two companies and generate significant synergies. With this transaction, we have the potential to create one of the ten largest companies in Poland in terms of market capitalisation and become a leading media and telecoms group in the region.

With the strengthening of our key business areas in mind, we sold RS TV to Emitel Sp. z o.o., and Telewizja Polsat acquired Polskie Media, the broadcaster of TV4 and TV6, a move that reinforced our position on the TV broadcasting market and allowed us to increase our audience share.

We also gave a lot of attention to our set-top box manufacturing plant. In autumn, we celebrated the 5th anniversary of its operation in the Targówek district of Warsaw, and saw the five millionth set-top box roll off the production line.

Looking ahead, our strategic direction remains unchanged, and the acquisition of Polkomtel can only accelerate our progress in getting there. Our key objectives continue to be stable growth, remaining at the forefront of the multimedia entertainment market, becoming the number one player on the media and telecoms market, and capturing a loyal audience for the Telewizja Polsat channels, thus securing a substantial share in the TV advertising market. We will achieve these goals by offering high quality products and telecom services as well as superior quality programming content, delivered to Polish households and directly to individual users. Together with Polkomtel, we plan to develop innovative content distribution channels so that customers can freely choose which technologies and devices they use to receive our television services. In the long term, we expect that this will contribute to an increase in the user base for all our services, for our ARPU, and our customers' loyalty. Successful fulfilment of these objectives, combined with effective financial management, will go a long way toward creating value for our shareholders.

Yours sincerely,

Dominik Libicki
President of the Management Board
Cyfrowy Polsat S.A.

Management Board's report on activities of Cyfrowy Polsat S.A. in the financial year ended December 31, 2013

Table of content

Item 1. Introduction ... 7
Item 2. Currency presentation and exchange rate information ... 9
Item 3. Selected financial data ... 10
Item 4. Presentation of Cyfrowy Polsat S.A. ... 12
Item 4.1. General information ... 12
Item 4.2. Information on organizational or capital connections with other entities ... 13
Item 4.3. Changes to the principle rules of management of our Company ... 13
Item 4.4. Strategy, market opportunities and comparative advantage ... 13
Item 4.4.1. Group strategy ... 13
Item 4.4.2. Market opportunities ... 15
Item 4.4.3. Competitive advantage ... 16
Item 4.5. Market overview ... 17
Item 4.5.1. Pay TV market ... 17
Item 4.5.2. Internet access market ... 18
Item 4.5.3. Mobile telephony market ... 20
Item 4.5.4. Multi-play services market ... 21
Item 4.6 Offer ... 22
Item 4.6.1. DTH offer ... 22
Item 4.6.2. Mobile pay TV offer provided in DVB-T technology ... 24
Item 4.6.3. Internet access offer ... 25
Item 4.6.4. Mobile telephony offer ... 25
Item 4.6.5. Bundle services offer ... 26
Item 4.7 Sales and marketing, customer service and maintenance ... 26
Item 4.7.1. Marketing ... 26
Item 4.7.2. Sales ... 26
Item 4.7.3. Customer Relations and Retention Management ... 28
Item 4.8 Technology and infrastructure ... 28
Item 4.8.1. Technology and infrastructure – pay TV ... 28
Item 4.8.2. Technology and infrastructure – Internet access service ... 30
Item 4.8.3. Technology and infrastructure – MVNO ... 31
Item 4.9. Development prospects ... 31
Item 4.9.1. Development prospects of Cyfrowy Polsat Group following the finalization of the conditional transaction of the acquisition of the operator of Plus network ... 32
Item 4.10. Sales markets and dependence on the supplier and client markets ... 33
Item 4.11. Other Aspects of Our Business ... 33
Item 5. Material agreements ... 34
Item 6. Presentation of operating and financial results ... 36
Item 6.1. Sources of revenues from services, products, goods and materials sold ... 36
Item 6.2. Sources of operating costs ... 37
Item 6.3. Other operating income/costs ... 38
Item 6.4. Factors and occurrences that impacted our business and results in 2013 ... 38
Item 6.5. Trend information ... 40
Item 6.6. Major investments ... 40
Item 6.7. Review of operating and financial situation ... 40
Item 6.7.1. Review of operating situation ... 40
Item 6.7.2. Presentation of differences between achieved financial results and published forecasts ... 41
Item 6.7.3 Review of the financial situation ... 42
Item 6.8. Liquidity and capital resources ... 46
Item 6.8.1. External sources of financing ... 46
Item 6.8.1.1. Information on incurred and terminated credit and loan agreements ... 48
Item 6.8.2. Cash flows ... 48
Item 6.8.3. Capital expenditures ... 49
Item 6.8.4. Contractual Obligations ... 49
Item 6.8.5. Off-Balance Sheet Arrangements ... 50
Item 6.9. Information on loans granted with particular emphasis on loans granted to related entities ... 50
Item 6.10. Information on granted and received guarantees with particular emphasis on guarantees granted to related entities ... 50

Item 6.11. Information on material proceedings at the court, arbitration body or public authorities against the Company or consolidated subsidiaries 51
Item 6.12. Information on market risks 52
Item 7. Transactions with related parties 57
Item 8. Key risk and threat factors 57
Item 9. Information on shares and shareholders 73
Item 9.1. Cyfrowy Polsat shares 73
Item 9.2. Shareholders structure 74
Item 9.3. Information on material agreements, which can result in a change in the proportion of shares held by hitherto shareholders in the future 74
Item 9.4. Shares quotes 76
Item 9.5. Recommendations 78
Item 10. Dividend policy 81
Item 11. Shares of Cyfrowy Polsat held by members of the Management Board and the Supervisory Board 82
Item 12. Remuneration of the Members of the Management Board and the Members of the Supervisory Board 83
Item 13. 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 83
Item 14. Agreements with an entity certified to perform an audit of the financial statements 84
Item 15. Statement on the application of the principles of corporate governance 85
Item 15.1. Specification of the principles of corporate governance which the issuer is subject to and the location of the set of principles where they are publicly available 85
Item 15.2. Specification of the principles of corporate governance that the issuer has waived including the reasons for the waiver 85
Item 15.3. Description of the basic features of the internal control system and the risk management system applied in the Group with respect to the process of preparing financial statements and consolidated financial statements 86
Item 15.4. Presentation of shareholders holding, directly or indirectly, material bundles of shares 87
Item 15.5. Presentation of holders of securities with special controlling rights 87
Item 15.6. Specification of limitations in exercising voting rights 88
Item 15.7. Specification of ownership rights transfer limitations relating to the Company's securities 88
Item 15.8. Description of rules regarding appointment and dismissal of the management and their rights, in particular the right to issue or buy back shares 88
Item 15.9. Description of rules or amending the Articles of Association 88
Item 15.10. The Bylaws of the General Shareholders' Meeting and its principal rights and description of rights of shareholders and their exercise, in particular the rules resulting from the Bylaws of the General Shareholders' Meeting, unless information on that scope results directly from the provisions of law 88
Item 15.11. Personnel composition and changes in the previous business year and description of the functioning of the management, supervisory, or administrative bodies of the Company and its committees. 90

Item 1. Introduction

Cyfrowy Polsat, with over 3.5 million subscribers, is the largest in Poland and the fourth largest DTH platform in Europe. It offers access to over 140 Polish-language TV channels, including 40 HD channels and modern services: PPV (pay-per-view),VOD Home Video Rental, TV online, catch-up TV and Multiroom. The platform has its own set-top-boxes factory. Since September 2008, Cyfrowy Polsat offers mobile telephony services in the MVNO model and in cooperation with Polkomtel Sp. z o.o., Plus network operator. Since February 2010, Cyfrowy Polsat provides broadband Internet access in mobile HSPA+ technology, and since September 2011 – mobile Internet in the latest LTE technology. In June 2012, it introduced mobile television services in DVB-T technology. Cyfrowy Polsat is listed on the Warsaw Stock Exchange since May 2008.

Our total revenue from services, products, goods and materials sold in 2013 increased by 7.8% to PLN 1,922,869 from PLN 1,783,626 in 2012. Our net profit for the year 2013 amounted to PLN 429,013 compared to PLN 529,837in the previous year.

We sell our services on the entire territory of Poland.

Our head office is in Warsaw at 4a Łubinowa Street.

References to the Company contained in this Report of the Management Board on the activities of Cyfrowy Polsat S.A. ("**Report**") apply to Cyfrowy Polsat S.A. (Cyfrowy Polsat) and all references to the Capital Group, Cyfrowy Polsat Group, Cyfrowy Polsat Capital Group or Polsat Group apply to Cyfrowy Polsat S.A. and its consolidate subsidiaries. Expressions such as "we", "us", "our" and similar apply generally to the Company; „**DTH**" relates to digital satellite platform services which we provide in Poland since 2001; "**SD**" relates to the television signal in the standard definition technology (Standard Definition); „**HD**" relates to the television signal in the high definition technology (High Definition); „**DVR**" relates to set-top boxes with hard disk used to record television channels (Digital Video Recorder); **"Family Package"** – starting programming package offered within the pay digital television service including the subscribers to the following packages: Family Package, Family HD Package, Family Max HD Package and premium packages related to them; **"Mini Package"** – starting programming package offered within the pay digital television service, which includes subscribers to the following packages: Mini Package, Mini HD Package, Extra Package (TV Mobilna); "**Mobile TV**" relates to our pay mobile TV service rendered in DVB-T technology; "**Extra Package**" relates to the pay programming package offered within our services in DVB-T technology; "**DVB-T**" (Digital Video Broadcasting – Terrestrial) relates to technology of terrestrial broadcasting of digital television; "**DTT**" relates to digital terrestrial television; „**Our pay digital TV services**" relate to our paid DTH, mobile and internet television services offered in both prepaid and postpaid models; "**Subscriber**" relates to a person who signed an agreement for subscription to pay digital television services and who is obligated, under the terms of agreement, to make payments to access a package or packages of television and radio channels or who has access to such packages within pay digital television services, after making required monthly payments but without having signed such an agreement; „**ARPU**" relates to average monthly net revenue per subscriber to whom we rendered services calculated as a sum of net revenue generated by our subscribers from our pay digital television services in the reporting period divided by the average number of subscribers to whom we rendered services in this reporting period; „**ARPU Family Package**" and „**ARPU Mini Package**" relate to average monthly net revenue per subscriber to the Family Package and Mini Package, respectively; „**Churn**" relates to the churn rate, defined as the ratio of the number of contracts terminated during a 12-month period to the average number of contracts during such 12-month period. The number of terminated contracts is net of churning subscribers entering into a new contract with us no later than the end of the same 12-month period as well as of subscribers who used to have more than one agreement and terminated one of them to replace it with the commitment to use Multiroom service; „**Churn Family Package**" and „**Churn Mini Package**" relate to churn rate calculated for the Family Package and Mini Package, respectively; "**VoD**" or "**VOD - Home Movie Rental**" relate in general to our services in the video on demand category, while "**nVoD**" relates to our service "VoD - Home Movie Rental" - on TV; "**PPV**" relates to pay-per-view, pay access to chosen programming content; "**Catch-up TV**" relates to services enabling access to chosen programming content for a certain period of time after the original broadcast on TV channel; "**Multiroom**" relates to our service enabling to profit from the same variety of channels simultaneously on two TV-sets in one household within one subscription fee; „**MVNO**" relates to mobile virtual network operator services; "**Internet access services**" relates to broadband Internet access services; "**HSPA+**" relates to radio data transfer technology in mobile networks (High Speed Packet Access Plus); "**LTE**" relates to radio data transfer technology in mobile networks (Long Term Evolution), characterized by much higher data transfer speed, greater capacity and lower network latency; „**Integrated services**" relates to a bundle of two or more services from delivered by us pay TV services, mobile telephony services and Internet access services provided under one agreement and one subscription fee; "**IPLA**" relates to internet platform enabling access to video content operated by entities from Redefine Sp. z o.o. Group;

"**CP**" relates to the company Cyfrowy Polsat S.A.; "**CPT**" relates to Cyfrowy Polsat Technology Sp. z o.o. (merged with Cyfrowy Polsat on December 31, 2012); "**CPTM**" relates to Cyfrowy Polsat Trade Marks Sp. z o.o.; "**Cyfrowy Polsat Finance**", "**CP Finance**" relate to Cyfrowy Polsat Finance AB (publ), Cyfrowy Polsat subsidiary registered in Sweden; "**Telewizja Polsat**" or "**TV Polsat**" relates to the company Telewizja Polsat Sp. z o.o "**INFO-TV-FM**" relates to the company INFO-TV-FM Sp. z o.o.; "**Polskie Media**" relates to Polskie Media S.A. (merged with Telewizja Polsat on December 31, 2013); „**Shares**" relates to the shares of Cyfrowy Polsat S.A., which were introduced to public trading on the Warsaw Stock Exchange on 6 May 2008 and are marked with a code PLCFRPT00013; "**Senior Facilities**" relates to senior secured facilities under Senior Facilities Agreement ("**SFA**") with a syndicate of banks including Term Facility Loan **("Term Facility**") of PLN 1,400,000,000 (not in thousands) maturing December 31, 2015; and Senior Secured Revolving Facility Loan ("**Revolving Facility**") of up to PLN 200,000,000 (not in thousands) maturing December 31, 2015; "**Bridge Loan**" relates to senior secured bridge facility of EUR 350,000,000 (not in thousands) with a syndicate of banks, that was fully repaid on May 20, 2011; "**Notes**" relates to 8.16% bearer notes of EUR 350,000,000 (not in thousands) issued by Cyfrowy Polsat to our subsidiary Cyfrowy Polsat Finance AB on May 20, 2011; "**Senior Notes**" relates to 7.125% senior secured notes of EUR 350,000,000 (not in thousands) issued by Cyfrowy Polsat Finance AB on May 20, 2011; "**Indenture**" relates to the indenture dated May 20, 2011 governing the 7.125% Senior Notes; "**PLN**" or "**zloty**" refers to the lawful currency of Poland; "**USD**" or "**dollars**" refers to the lawful currency of the United States of America; and "**EUR**" or "**euro**" refers to the single currency of the participating Member States in the Third Stage of European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time.

Presentation of financial information

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").

All financial data in this document is expressed in thousands unless otherwise indicated, with the exception of prices of our programming packages, television channels and telecommunications services. Certain financial information in this Report was adjusted by rounding. As a result, certain numerical figures shown as totals in this Report may not be exact arithmetic aggregations of the figures that precede them.

Industry and market data

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

- Eurostat;
- European Commission;
- Polish Central Statistical Office;
- Polish Chamber of Electronic Communication;
- Office of Electronic Communications;
- Nielsen Audience Measurement;
- PMR;
- Ericsson ConsumerLab;
- GFK Polonia; 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.

(all financial data presented in PLN thousand, unless otherwise stated)

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.

Forward looking statements

This Report contains forward looking statements relating to future expectations regarding our business, financial condition and results of operations. You can find these statements by looking for words such as "may", "will", "expect", "anticipate", "believe", "estimate" and similar words used in this Report. By their nature, forward looking statements are subject to numerous assumptions, risks and uncertainties. Accordingly, actual results may differ materially from those expressed or implied by the forward looking statements. We caution you not to place undue reliance 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 this Report.

We disclose important risk factors that could cause our actual results to differ materially from our expectations under Item 8 „Key Risk and threat factors", Item 6 „Presentation of operating and financial results", and elsewhere in this Report. These cautionary statements qualify to all forward looking statements attributable to us or persons acting on our behalf. When we indicate that an event, condition or circumstance could or would have an adverse effect on us, we mean to include effects upon our business, financial situation and results of operations.

Item 2. Currency presentation and exchange rate information

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

Year (zloty per 1.00 dollar)	2009	2010	2011	2012	2013
Exchange rate at end of period	2.8503	2.9641	3.4174	3.0996	3.0120
Yearly average exchange rate	3.1162	3.0157	2.9634	3.2570	3.1608
Highest exchange rate during period	3.8978	3.4916	3.5066	3.5777	3.3724
Lowest exchange rate during period	2.7093	2.7449	2.6458	3.0690	3.0105

Month (zloty per 1.00 dollar)	Highest exchange rate during the month	Lowest exchange rate during the month
September 2013	3.2732	3.0833
October 2013	3.1212	3.0271
November 2013	3.1448	3.0844
December 2013	3.0973	3.0105
January 2014	3.1288	3.0315

Year (zloty per 1.00 euro)	2009	2010	2011	2012	2013
Exchange rate at end of period	4.1082	3.9603	4.4168	4.0882	4.1472
Yearly average exchange rate	4.3273	3.9946	4.1198	4.1850	4.1975
Highest exchange rate during period	4.8999	4.1770	4.5642	4.5135	4.3432
Lowest exchange rate during period	3.9170	3.8356	3.8403	4.0465	4.0671

Month (zloty per 1.00 euro)	Highest exchange rate during the month	Lowest exchange rate during the month
September 2013	4.2975	4.1790
October 2013	4.2231	4.1738
November 2013	4.2066	4.1696
December 2013	4.2032	4.1472
January 2014	4.2368	4.1522

Item 3. Selected financial data

The following tables set forth our selected historical financial data for the 12-month period ended December 31, 2013 and December 31, 2012. The historical financial data should be read in conjunction with Item 6. "Presentation of operating and financial results" and the financial statements for the fiscal year ended December 31, 2013 (including the notes thereto) attached to this Report. We have derived the financial data presented in accordance with IFRS from the audited financial statements for the fiscal year ended December 31, 2013.

Selected financial data

- from the profit and loss statement and the cash flow for the periods of twelve months ended December 31, 2013 and December 31, 2012 have been converted into EURO at the rate of PLN 4.1975 per 1 euro, (being the yearly average exchange rate in 2013, announced by the NBP),
- from the balance sheet as at December 31, 2013 and December 31, 2012 have been converted into euro at the rate of PLN 4.1472 per 1 euro (average NBP exchange rate on December 31, 2013).

The reader is advised not to view such conversions 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. All amounts in the table below are presented in thousands.

The income statement data for the period of 12 months ended December 31, 2013 is not fully comparable with prior-year data as it includes the effect of the merger of Cyfrowy Polsat Technology Sp. z o.o. with the Company. The merger has no effect on the balance sheet data as the merger was effective on December 3, 2012.

	For the twelve-month period ended December 31,			
	2013		2012	
	PLN	EUR	PLN	EUR
Income Statement				
Retail revenue	1 829 461	435 845	1 732 787	412 814
Sale of equipment	41 681	9 930	18 965	4 518
Other revenue	51 727	12 323	31 874	7 594
Revenue	**1 922 869**	**458 099**	**1 783 626**	**424 926**
Total operating costs	**(1 552 158)**	**(369 782)**	**(1 375 473)**	**(327 689)**
Other operating income / costs, net	1 855	442	(10 481)	(2 497)
Profit from operating activities	**372 566**	**88 759**	**397 672**	**94 740**
Gains and losses on investment activities, net	312 366	74 417	315 817	75 239
Finance costs	(234 065)	(55 763)	(130 397)	(31 065)
Gross profit for the period	**450 867**	**107 413**	**583 092**	**138 914**
Income tax	(21 854)	(5 206)	(53 255)	(12 687)
Net profit for the period	**429 013**	**102 207**	**529 837**	**126 227**
Basic and diluted earnings per share (not in thousands)	1,23	0,29	1,52	0,36
Weighted average number of issued ordinary and preference shares (not in thousands)	348 352 836		348 352 836	
Cash Flow Statement				
Cash flow from operating activities	447 473	106 605	425 092	101 273
Cash flow from investing activities	91 858	21 884	198 157	47 208
Cash flow from financing activities	(572 556)	(136 404)	(575 796)	(137 176)
Net change in cash and cash equivalents	(33 225)	(7 915)	47 453	11 305
Other financial data				
Depreciation, amortization, impairment and disposal	219 039	52 183	202 783	48 310
EBITDA[1]	591 605	140 942	600 455	143 051
EBITDA margin	30,8%	30,8%	33,7%	33,7%
Operating margin	19,4%	19,4%	22,3%	22,3%
Capital expenditures[2]	56 413	13 480	56 413	13 480

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

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

[2] Capital expenditure represents our investment in fixed assets and intangible assets. It does not include expenditure on purchase of reception equipment leased to our subscribers which are reflected in the cash flow from operating activities.

	As at			
	December 31, 2013		December 31, 2012	
(in thousands)	PLN	EUR	PLN	EUR
Balance sheet				
Cash and cash equivalents	26 075	6 287	59 316	14 303
Assets	6 022 707	1 452 235	5 994 539	1 445 442
Non-current liabilities	1 669 165	402 480	2 004 654	483 375
Current liabilities	932 364	224 818	1 009 387	243 390
Equity	3 421 178	824 937	2 980 498	718 677
Share capital	13 934	3 360	13 934	3 360

Item 4. Presentation of Cyfrowy Polsat S.A.

Item 4.1. General information

In pay TV, we are the largest pay TV provider in Poland and the fourth largest DTH platform in Europe by number of subscribers. We provide a comprehensive multimedia offer designed to appeal to the entire family. We provide to our subscribers DTH service, mobile television, broadband Internet in HSPA/HSPA+ and LTE and mobile telephony services (in MVNO model and from April 2012 based on cooperation with Polkomtel Sp. z o.o., operator of Plus network). As at December 31, 2013 we had 3,535,045 pay digital television subscribers (including 667,589 subscribers to Multiroom service – y-o-y increase by 56.3%), 234,625 users of broadband Internet service (56.2% y-o-y increase) and the number of mobile telephony users amounted to 131,626*.

We offer our subscribers access to over 140 Polish language TV channels, including general entertainment, sports, music, lifestyle, news/information, children's, education and movie channels. We offer all of Poland's main terrestrial channels, including among others POLSAT, TVP1 HD, TVP2 HD, TVN, TV4 and TV6 and we are the only pay TV operator to offer a combination of Polsat Sport, Eurosport, Polsat Sport News and Polsat Sport Extra, the first, second, third and fifth (ex aequo with TVP Sport) most widely viewed sports channels in Poland in 2013 in the commercial group 16-49 (NAM). In addition, we offer our subscribers access to 40 HD channels and also provide VoD/PPV, Catch-up TV and Multrioom services. We provide the subscribers to our Mobile TV service with the access to 20 encrypted channels (8 television and 12 radio channels) and to all DTT channels, through various devices (including smartphones, tablets and laptops).

We offer set-top boxes, enabling reception of pay-TV services, that in majority are produced in-house. In 2013, over 90% of our sold or leased set-top boxes were manufactured in our own factory.

We sell our services through sales network covering the entire territory of Poland. We distribute our products and services through two main sales channels: retail sales channel and direct sales channel D2D ("door-to-door"). As at December 31, 2013 our sales network included 728 points of sales and 14 offices of direct sales D2D. In addition, from April 2012, within the cooperation with Plus network operator we run cross selling of services. Thanks to that our standard offer, as of the end of 2013, was available in an additional 774 points of sales of Polkomtel Sp. z o.o.

* including 117,691 users of our MVNO service and 13,935 clients who bought Polkomtel's mobile telephony service within cross promotion

(all financial data presented in PLN thousand, unless otherwise stated)

Item 4.2. Information on organizational or capital connections with other entities

The following table presents the shares in other entities that we held directly as of December 31, 2013:

	Entity's registered office	Activity	Share in voting rights (%)
Telewizja Polsat Sp. z o.o	Ostrobramska 77, Warsaw	broadcasting and television production	100%
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, Warsaw	non-current assets and intellectual property rights management	100%
Cyfrowy Polsat Finance AB	Stureplan 4C, 4 TR 114 35 Stockholm, Sweden	financial transactions	100%
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, Warsaw	radio and TV activities	73.5%
Redefine Sp. z o.o.	Al. Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%
Gery.pl Sp. z o.o.	Al. Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%
Frazpc.pl Sp. z o.o.	Al. Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%
Netshare Sp. z o.o	Al. Stanów Zjednoczonych 61 A, Warsaw	Electronic media (Internet) advertising broker	100%
Karpacka Telewizja Kablowa Sp. z o.o.	ul. Chorzowska 3, Radom	Not operating	85%

Item 4.3. Changes to the principle rules of management of our Company

There were no changes to the principle rules of management of our Company in the year 2013.

Item 4.4. Strategy, market opportunities and comparative advantage

Item 4.4.1. Group strategy

In light of the ongoing process of finalizing the transaction of the acquisition of shares in Metelem Holding Company Limited, thereby of the acquisition of Polkomtel, the operator of Plus network, The Company has revised its strategy so as to full reflect the vision and objectives of the new Group, enlarged by Polkomtel.

Our vision is:

We will create and deliver the most attractive TV content and telecoms products, 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.

We are focused on becoming the number one player on the Polish entertainment and telecoms markets. To achieve this goal, we will continue to provide high quality products and services to all our customers, and by acquiring and producing superior quality content and delivering it to Polish households and individual users.

The key elements of our strategy include:

- Building the value of our customer base by increasing the number of unique users and average revenue per user (ARPU), and by maintaining high levels of customer satisfaction;

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

Building the value of our customer base by increasing the number of unique users and average revenue per user (ARPU), and by maintaining high levels of customer satisfaction

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

The principal goal of our strategy is to effectively maintain revenue from the sale of telecommunication services. Bearing in mind the occurring market changes, we will continue to create products that will satisfy the changing preferences of our clients.

We will achieve this goal by attracting the highest possible number of new customers to our broadband mobile Internet services, which according to independent experts is the fastest-growing technology of Internet access in Poland. We are convinced that mobile technology (LTE in particular) will allow us to offer top quality services in most areas inhabited by our customers, which together with the benefits of multi-play services, should further improve both subscriber satisfaction and our ARPU.

The second factor, that will have a positive impact on revenue is the possibility to sell additional products and services (cross-selling) to current customers of Cyfrowy Polsat and Plus network. Together with Polkomtel we will create a unique portfolio of services, which will be simultanously targeted at clients of both operators. That is, according to our assumptions, nearly 17 million individuals in 6 million Polish households. There are on average 4 devices using video, data or voice transmission – including TVsets, mobile phones, PCs, and tablets in every household to which Cyfrowy Polsat and Polkomtel address their offer. As a result of the above the market for the Cyfrowy Polsat Group and Polkomtel products will be around 25 million devices, and thanks to the dynamicly growing sales of smartphones, this growth trend will certainly continue. When properly addressed, both through sale of additional individual products or a multi-play offer, this potential may significantly boost sales of services to an individal user, thus increasing the average revenue per subscriber (ARPU).

In our opinion, the multi-play services market in Poland is still underdeveloped outside of the largest towns and cities, and therefore has significant growth potential. Our broad range of multi-play services and ability to provide additional services to our existing client base, via a diverse array of digital distribution platforms, will constitute our powerful competitive advantage, which will allow us to attract new clients on the pay TV and telecoms markets in Poland, and is an important element of our strategy.

We seek to attract as many viewers as possible by offering the best-value-for-money TV packages on the Polish market. We also intend to leverage the changes taking place on the Polish pay TV market and take advantage of the opportunities presented by the evolving needs and expectations of Polish consumers (such as increased interest in over-the-top services and growing use of media content on mobile devices), by offering our customers an extensive range of additional services – VOD/PPV, catch-up TV, Internet-based video and music services, Multiroom and Mobile TV. By developing our pay TV offer and expanding it to include complementary products and services, we seek to generate higher ARPU and improve customer satisfaction and loyalty.

An effective combination of telecommunication and media services provides new opportunities for distribution of TV content**.** Thanks to this combination, the attractive content and the wide range of Cyfrowy Polsat's services will be delivered through a variety of reliable distribution channels – via sattelite (DTH), within digital terrestrial television (DVB-T), through mobile technologies: 3G, 4G and LTE – to all consumer devices, from TV sets to PCs to tablets and smatphones.

Maximizing revenue from produced and purchased content by widening its distribution, maintaining the audience share of our channels and improving our viewer profile

The channels we produce and broadcast enjoy strong, well-established positions on the Polish TV market as well as high ratings in their target groups. With our current portfolio, we broadcast 24 channels, programmed to appeal to most target groups within the Polish audience. Our goal here is to maintain our audience share at a stable level and 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 price of advertising time. 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 when and what to watch.

More 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 is the way to best achieve strong synergies and secure numerous competitive advantages. To this end, we have identified more areas in which costs can be managed at the Group level: (i) Customer acquisition, retention and day-to-day service – where certain business units and processes can be integrated; (ii) Technology, and IT in particular – where information processes and systems, serving both business and operational areas throughout the Group can be consolidated; (iii) Administrative infrastructure – where we can unlock benefits arising from the scale of combined businesses and the ability to share solutions, and (iv) Back-office functions – where synergies can be unlocked that will better support the business.

Item 4.4.2. Market opportunities

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

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

According to European Commission („E-Communications Household Survey", November 2013) the penetration rate of multi-play services (defined as more than one service within the offer of one operator) in Poland as at the end of March 2013 amounted to 25% while in European Union reached 45%, with a penetration rate in Luxembourg and the Netherlands even over 60% (68% and 66%, respectively). We believe that as a result of the low saturation of integrated services and poor quality of Internet access services offered in low-urbanized areas, Cyfrowy Polsat may become the leading provider of high quality multi-play services for customers from suburbs, small towns and rural areas of Poland. Moreover, we believe that thanks to the planned acquisition of the operator of mobile telephony network Plus, we will significantly strengthen our position on the multi-play services market.

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 – a survey conducted by Ericsson ConsumerLab shows that 72% of respondents watch video content on mobile devices during the week, of which 42% outside of home. 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 pay television services.

Development of Internet market in Poland. In 2013, 72% of households in Poland had access to the Internet, and approximately 69% - broadband access (according to Central Statistical Office, "Information society in Poland in 2013"), while in 28 EU members the average amounted to 76% (broadband Internet according to Eurostat). The percentage of household with broadband Internet access varied depending i.a. on the place of living – in big cities, it amounted to 75%, while in the rural areas 63%, and on the urbanization rate – 63% penetration rate for low urbanized and 75% for highly urbanized areas. According to PMR estimates ("Telecommunication market in Poland 2013-2017", October 2013), in 2013, there were nearly 12.4 million users of broadband Internet, out of which 40% used mobile connections. Until 2017, the number of broadband users is supposed to grow by 19%, with the number of mobile broadband users growing by approximately 33% (data concerning mobile Internet include exclusively subscribers 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 transfer, 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 (to which, i.a., we target our offer).

Item 4.4.3. Competitive advantage

We are a leading integrated multimedia group in Poland. Together with our subsidiaries we operate a diversified business comprising DTH, mobile and internet television, TV broadcasting, broadband Internet in HSPA+ and LTE technologies and mobile telephony services. We are the largest provider of DTH services in Poland. With over 3.5 million subscribers as of December 31, 2013 our subscriber base was larger by about 1/3 than that of our main competitor on the DTH market.

We have strong brand recognition and enjoy good reputation among our customers and viewers. Cyfrowy Polsat brand is well recognized by Polish consumers and we believe it is associated with high quality and value-for-money services aimed at the entire family. According to GFK Polonia, we have the highest top of the mind brand awareness (87%) of the pay DTH satellite operators in Poland (the percentage of customers in the target group, that without being prompted by the interviewer are able to quote the brand name, based on "Image of Pay TV Operators" realized by GFK Polonia, October 2013, N=700).

We believe that our position of 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 believe that through offering high quality programming packages at competitive prices we built the attractiveness of our services.

We provide integrated services. Since June 2010, we provide multi-play services combining pay DTH offer, Internet and telecommunication services. We are the only pay DTH operator in Poland, that provides full multi-play services, which is a significant competitive advantage on pay DTH market in Poland. 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 provide 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, that currently enables the speeds of up to 150 Mb/s. 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 subscribers 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.

We have frequencies enabling us to provide services in DVB-T technology. Through our subsidiary INFO-TV-FM Sp. z o.o. we own the rights to use frequencies from 470-790 MHz band assigned to provide mobile audio-visual media services in DVB-T technology. These frequencies enable us to offer pay TV services in another field of delivering entertainment to subscribers, being mobile television service, that is available in our offer on the most popular mobile devices, as well as on the latest in-house produced DVB-T set-top-box. Currently, there are around 5 million households and 15 million people within the technical reach of the multiplex. Providing services in DVB-T technology also gave us an important competitive advantage in the context of the completed in 2013 process of digitalization and switch-off of the analog signal in the end of July 2013. We believe that a significant part of households, who purchased our DVB-T set-top boxes, will become subscribers of our pay TV services in the future.

New entrants must overcome significant regulatory and operational barriers 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 position in the competitive Polish pay TV market. Unlike potential entrants to the Polish pay TV market, we benefit from economies of scale and a loyal subscriber base, and we can spread the relatively high cost of the necessary technology over our large subscriber base and leverage the stronger bargaining power that comes with a leading market position. The efficiency of our subscriber retention programs, penalties related to early termination of our fixed-term contracts and the burdens related to changing set-top boxes upon a change of pay TV provider all serve as barriers to potential new competitors. Our experience in pay TV translates into an ability to extend attractive programming offers through our existing sales network covering all of Poland, as well as the sales network of Plus mobile telephony operator.

We have an attractive operating platform with low churn rates and strong customer loyalty. Our position as the largest DTH operator in Poland, our well-developed subscriber retention programs and our strong relationships with licensors enable us to maintain strong customer loyalty by providing our DTH subscribers with high-quality programming on favorable market terms. We offer our Family HD Package at a retail price of PLN 39.90 per month, our Mini HD Package at a retail price of PLN 14.90 per month, and our Family Max HD Package at a retail price of PLN 49.90 per month which constitutes approximately 1.0%, 0.4% and 1.3%, respectively, of the average monthly remuneration in Poland. We believe our programming packages offer the best value-for-money in the Polish DTH market. We further believe that the development of our subscriber retention programs and our multi-play services will increase subscriber loyalty and consequently further lower our churn rate.

We built our own set-top boxes factory. As the only operator on the Polish market we produce our own set-top boxes. In November 2007, we launched own production of SD set-top boxes, in April 2010 we began to produce HD set-top boxes, in 2012 we started to produce DVB-T set-top-boxes, and in 2013 we began the production of PVR set-top-boxes. By the end of 2013, more than five million high technology equipment left our production line, out of which over 3.3 million were HD set-top boxes. Running our own factory enables us to produce high quality set-top boxes while incurring manufacturing costs which are far 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. In this area we are completely independent and flexible, which translates into better service for our customers.

We have a strong management team. Our management team consists of executives that have been members of the management boards or served in other managerial positions within the media, TV and telecommunications industries and have extensive experience in these industries. In addition, our Company is managed by teams of experienced senior managers who provide expertise and a deep understanding of the markets in which we operate, especially with respect to marketing and sales, customer relations management and retention, technology and finance. Our senior managers have a significant track record of increasing our subscriber base and market share and introducing new products in competitive environments while managing costs and increasing free cash flow.

Item 4.5. Market overview

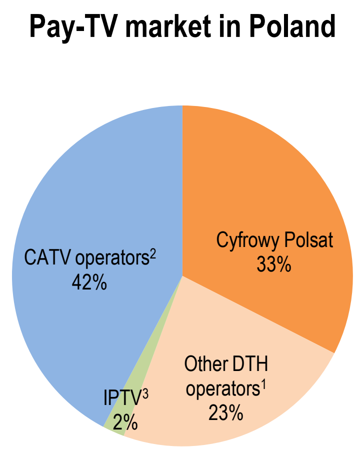
Item 4.5.1. Pay TV market

Pay TV services in Poland are offered by DTH operators, cable TV operators and IPTV providers.

At the end of 2013, according to our estimates, Polish operators had a total of approximately 11 million subscribers to pay-TV services. Historically, cable TV has been the principal pay TV platform in Poland. Although DTH has been growing more rapidly over the past few years, DTH providers compete with cable TV operators only to a limited extent. In particular, cable TV operators concentrate on inhabitants of densely populated areas where highly developed network infrastructure already exists or in locations where the establishment of such infrastructure involves a relatively low cost per subscriber, whereas DTH providers are able to provide their services to customers residing in less densely populated areas with no, or limited cable TV infrastructure at no extra cost, as well as in urban areas.

In recent years, the number of subscribers to DTH platforms has been growing much faster than the number of subscribers to cable TV. The comparatively slow growth rate of cable TV households in recent years has been due to an already high penetration rate of cable TV in urban areas as well as to 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, these populations currently have access only to a limited number of Polish terrestrial channels and alternative providers of broadband Internet and mobile telephony services. Polish towns with up to 50,000 inhabitants, suburban and rural areas are therefore natural target markets for DTH because these areas have poorly developed cable TV infrastructure and are less attractive for cable TV companies to develop cable TV infrastructure. The growth in the number of DTH subscribers in Poland also reflects the fact that DTH providers are able to offer much broader programming options, including more than 100 Polish language thematic channels as well as around 500 FTA channels, using both SD and HD technology.

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



[1] Data as at the end of 2013, based on own estimates and data published by operators (Annual reports for 2013 of TVN S.A. Group and Orange Polska S.A. Group)
[2] Data as at the end of Q3'2013, based on own estimates and data published by PIKE
[3] Data as at the end of 2013, based on own estimates and data published by operators (annual reports for 2013 of Orange Polska S.A. Group and Netia S.A.)

In general, the Polish pay TV market is supervised by certain administrative bodies, such as the National Broadcasting Council, the Office of Electronic Communications and the Ministry of Administration and Digitalization.

Pay TV

In 2013, there were two main DTH platforms operating in Poland: Cyfrowy Polsat, and nc+, which was created by merging in March 2013, in accordance with the strategic partnership agreement between Canal+ Cyfrowy and TVN, of platforms Cyfra+, and "n". According to the information presented by TVN group, at the end of 2013 the new platform had approximately 2.2 million customers. Additionally we estimate that as at the end of 2013 about 300 thousand customers used pre-paid television (Telewizja na Kartę, TnK). Since 2006, Cyfrowy Polsat has been the leader in terms of number of subscribers and market share in the Polish pay TV market with over 3.5 million subscribers.

Cable TV

According to data presented by the Polish Chamber of Electronic Communication ("PIKE") as at the end of the third quarter of 2013, the Polish cable TV market was dominated by three major operators with a combined market share of approximately 68%. In 2013, the three major Polish cable TV operators were: UPC Polska, Vectra and Multimedia Polska. In addition, according to our estimates, there are more than 500 small cable TV operators in Poland. According to PIKE, the total number of subscribers of domestic cable operators as at the end of the third quarter of 2013 amounted to approximately 4.6 million.

IPTV

The leading IPTV provider in Poland offering fixed line telephony services is Orange Polska S.A., which started providing IPTV to its clients of broadband services in 2006. 121,000 subscribers used IPTV services offered by Orange Polska S.A. as at December 31, 2013 (according to data published by Orange Polska S.A.). The second largest pay IPTV operator was Netia S.A. (that acquired Telefonia Dialog Sp. z o.o. in December 2011) and according to data published by this operator 120,321 customers used its television services (IPTV and services in smooth streaming technology introduced in the third quarter of 2012) as at the end of 2013.

Item 4.5.2. Internet access market

Broadband Internet access in Poland is provided through fixed line and mobile networks. The broadband Internet access market's relatively low penetration rate and strong growth potential makes it an attractive market for development. Mobile data transmission is currently the fastest growing telecommunications market segment. With the increasing number of mobile devices – smartphones and tablets – mobile Internet access services are becoming increasingly popular.

The report of the Office of Electronic Telecommunications ("UKE") concerning the telecommunications market is usually available in the second half of the following year, that is why we present data for 2012.

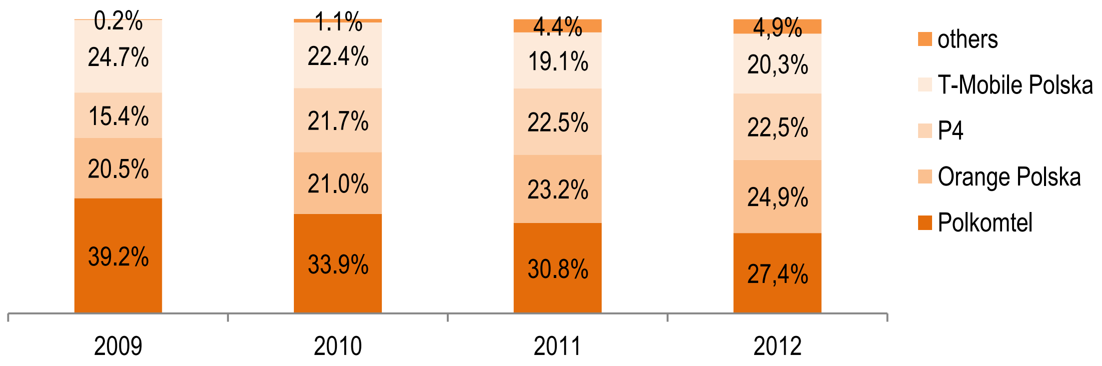
According to UKE ("Report on telecommunications market in Poland 2012", June 2013), in 2012, 83.5% of households in Poland had access to broadband Internet, while the penetration rate for 100 inhabitants in 2012 was 29.3%. Almost 7.6 million residents of Poland had fixed connection to the network, which constitutes an increase of 13.4% compared to the state as at the end of 2011, while over 4.1 million used mobile Internet service, i.e. 24.2% more than in the previous year. Among 1.6 million new Internet users more than half purchased mobile services.

Based on European Commission data quoted in the "Digital Agenda Scoreboard 2013", Poland was ranked 9th among EU countries in terms of mobile Internet penetration rate for 100 inhabitants. It amounted to 10.1%, which is by 1.1 p.p. more than the EU average (9%). The penetration rate of fixed broadband connection in Poland amounted to 18.8%, which is by 10 pp. lower than the EU average (28.8%).

According to the UKE Report, the total value of the Polish Internet market measured by revenues from services amounted to almost PLN 4.4 billion (not in thousands) in 2012 and increased by 10.7% compared to 2011. Despite the continued downward trend in revenues from services based on xDSL connections (largest share in the revenue structure), revenue of operators offering services based on other access technologies increased. Revenue generated by services based on 2G/3G modems increased most rapidly, by 41.5% year to year. The average monthly revenue per one user of Internet service (ARPU) in 2012 amounted to PLN 31.5 (not in thousands), which is less by 4.8% compared to the prior year.

Based on UKE data, the market of mobile Internet access in 2012 continued to be dominated by four largest mobile network operators (together they covered 95.1% of the total customer base).

The chart below presents the operators' market shares as a percentage of users of 2G/3G modems:

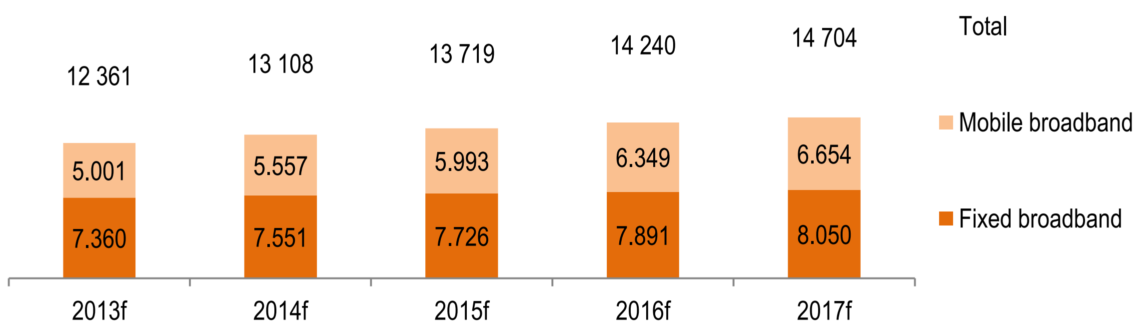


Source: UKE

According to PMR estimates ("Telecommunications market in Poland 2013 – Development forecasts for 2013 - 2017"), the market of data transmission, leased lines and Internet access services will continue to be the fastest growing segment of the telecommunications market. Further investments in development of broadband networks and the progress of LTE technology will have a crucial impact on the market. Until 2017, the market will grow at 3.9% CAGR and its value in 2017 will amount to PLN 8.05 billion (not in thousands), including Internet access segment of PLN 4.47 billion (not in thousands) and data transmission segment of PLN 2.34 billion (not in thousands). In 2017 the number of subscribers to broadband access services in Poland will increase to 14.7 million (not in thousands), with continued growth in the demand for mobile services. The growing interest in mobile Internet results, among others, from the decline in prices of mobile services and the expanding coverage of 3G network, that directly impacts the quality and continuity of the service purchased.

The expansion of the network based on new LTE technology, in which services are delivered by only three market players so far – Cyfrowy Polsat, Polkomtel and P4 – constitutes an additional driver for development and lowering prices of mobile Internet services. The LTE standard enables providing mobile services of data transfer speed and bandwidth of the network unreachable within the radio technologies used so far. According to experts, this technology may successfully replace cable connections. The vast interest of operators in suitable radio frequencies, and therefore in the tenders for 1800 MHz band and for 800MHz band, announced in the fourth quarter of 2013, also proves the attractiveness of providing mobile Internet services in LTE technology.

The chart below presents development forecasts of the broadband access services market (by the number of subscribers, in thousands) in 2013-2017:



Source: PMR Report

According to PMR forecasts, in the years 2013-2017, the number of users of mobile broadband access will grow faster that the number of users of fixed connections. The observed CAGR of mobile access for the five year period will amount to 8.8% compared to 2.4% for fixed-line broadband internet.

Item 4.5.3. Mobile telephony market

The mobile telephony services market in Poland is supervised and regulated by the President of the Office of Electronic Communications ("UKE"), who supervises and regulates the entire Polish telecommunications market.

The report of UKE concerning the telecommunications market is usually available in the second half of the following year, that is why we present data for 2012.

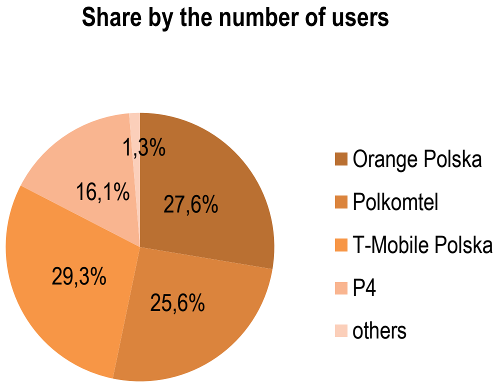
The Polish mobile telephony market is mature. Based on UKE data, the penetration rate of the mobile telephony market, calculated based on the number of SIM cards, increased in 2012 by 6.4% and amounted to 140%, which translated to 53.9 million SIM cards used by customers. According to UKE, the mobile telephony consumer base in Poland has already been largely covered and the increase in the number of active SIM cards in the coming years will depend primarily on the customers choosing to have more than one mobile phone.

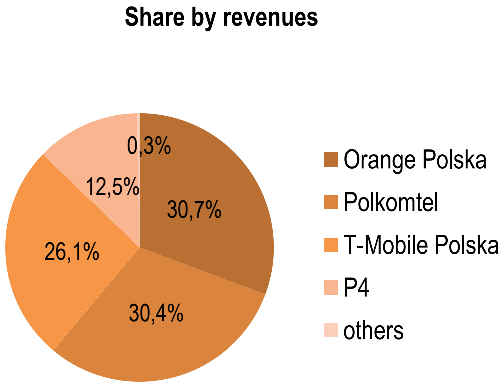
In 2012, the estimated value of the mobile telephony market in Poland, based on revenue generated by operators for retail services, was slightly over PLN 18.9 billion (not in thousands) and was by approximately 1% higher than in 2011 (according to UKE). More than 80% of the revenue was generated by customers of post-paid services. Average revenue per user of mobile telephony decreases systematically mainly due to reductions in MTR.

The Polish mobile telephony market is relatively concentrated and highly competitive. It is serviced by Mobile Network Operators ("MNOs") and Mobile Virtual Network Operators ("MVNOs"). Under the MVNO business model, existing MNOs provide a licensed frequency allocation along with the necessary infrastructure to an MVNO.

There are three leading MNOs in Poland: Polkomtel Sp. z o.o. (Plus network), Orange Polska S.A. - formerly PTK Centertel Sp. z o.o. (Orange network) and T-Mobile Polska S.A. (T-Mobile network) as well as four smaller providers: P4 Sp. z o.o. (Play network), CenterNet, Mobyland and Aero2. In addition there are over a dozen MVNO operators, whose total market share is very low both in terms of revenue as well as the number of users.

The charts below present the operators' market shares at the end of 2012:





Source: UKE, "Report on telecommunications market in Poland 2012"

According to PMR estimates (Report on telecommunications market in Poland in 2013 – development outlook for 2013-2017) in 2013 the value of the mobile telephony market will decrease by 6%, primarily due to significant reductions of mobile termination rates (MTR). Assuming that no further reductions of MTR will occur, the market should be stable in the next years and grow at 0.7% CAGR until 2017, when its value will reach PLN 24.4 billion (not in thousands).

PMR experts also expect a continued growth of the number of SIM cards used in Poland to the level of 64,8 million cards in 2017, however the growth dynamic will be much weaker compared to previous years. As a result the penetration rate of the polish mobile telephony market will increase from 140% at present to 168% in 2017.

Item 4.5.4. Multi-play services market

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

Multi-play services in Poland are typically provided by cable TV operators and telecommunications service providers over their fixed line networks. Both cable TV operators and telecommunications service providers offer their services mainly in large and medium sized cities, due in part to the geographical limitations of their infrastructure and the quality of the overall telecommunications infrastructure in Poland. The multi-play services market in Poland is underdeveloped in less densely populated areas and therefore has the potential to grow rapidly in suburbs, small towns and rural areas where these services are currently practically non-existent. In addition to the low penetration rate of multi-play services in less densely populated areas, Internet services provided by fixed line operators typically suffer in quality of service due to the severe limitations of the established infrastructure throughout Poland. This creates an opportunity for DTH providers, such as Cyfrowy Polsat, who do not have the same geographic and fixed network infrastructure limitations as cable TV operators and 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 November 2013, the penetration rate of multi-play services market (defined as more than one service within an offer of one operator) in Poland as at the end of March 2013 amounted to 25%, while in European Union it reached 45%, and in Luxembourg and the Netherlands even over 60% (68% and 66%, respectively).

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

(Telekomunikacja Polska S.A.), Netia S.A. (that in 2011 included mobile TV service in its offer) and Telefonia Dialog S.A. acquired by Netia in 2011, and among DTH operators – Cyfrowy Polsat.

Consolidation trends, observed on the media and telecommunications market, indicate that large groups emerge on the market and will provide customers with packages of services developing the multi-play services market. Since 2011 TVN S.A. and Orange Polska (formerly Telekomunikacja Polska S.A.) cooperate within offering their services – Internet (Orange) and TV packages (formerly "n" platform). At the end of 2012, TVN S.A. Group and Canal+ Cyfrowy Sp. z o.o. finalized the agreement concerning the merger of their DTH platforms, which took place in March 2013, and the cooperation with TP was maintained and extended to joint nc+ platform. In response to market trends Cyfrowy Polsat and Polkomtel began to cooperate in 2012 by cross-selling their products and services. Taking this cooperation one step further, Cyfrowy Polsat concluded a conditional agreement in November 2013 concerning the acquisition of shares in Metelem Holding Company Ltd., holding indirectly 100% of the share capital of Polkomtel Sp. z o.o.

Item 4.6 Offer

Item 4.6.1. DTH offer

Currently, for the new clients of Cyfrowy Polsat we offer four introductory packages: Mini HD Package, Rodzinny HD Package, Family HD Package and Family Max HD Package and additional packages: Film HD, Sport HD, HBO HD, Cinemax HD and Entertainment HD. Subscribers of Cyfrowy Polsat can also profit from our Premium promotion enabling access to the full television offer. In addition we offer our subscribers VOD rental on television, and access to popular on-line services HBO GO and IPLA.

Our programming strategy is to offer a wide range of programming packages with channels that appeal to the whole family in an effort to increase subscriber loyalty to our offerings while pricing our packages competitively. Currently, we provide our subscribers with access to over 140 Polish-language TV channels of which over 20 are exclusively available via satellite from Cyfrowy Polsat. Our offer includes general, sports, movie, news/information, education, lifestyle and children's channels. In our offer we have the most popular sports channels: Polsat Sport, Eurosport, Polsat Sport News and Polsat Sport Extra, being respectively the first, second, third and fifth (ex aequo with TVP Sport) most widely viewed sports channels in Poland in 2013 in the commercial group 16-49 (Nielsen Audience Measurement). Currently, we enable access to 40 HD channels.

Family Max HD Package (included in our offer at the end of November 2012) is characterized by the most attractive price to value ratio, and is rapidly gaining popularity among subscribers. To the lowest market segment, we target our popular Mini HD Package.

Our subscribers to pay-TV packages can either rent or buy a set-top-box from us. The price and availability of equipment depends on the chosen option of the subscription agreement.

Mini HD Package

The Mini HD Package is an introductory package that currently provides subscribers with access to 37 Polish TV channels (including 6 HD channels). Currently, the monthly fee for Mini HD Package is PLN 14.90 (not in thousands) for a fixed term.

Rodzinny HD Package

Our Rodzinny HD Package is an introductory package that currently provides subscribers with access to 50 Polish language channels (including 7 HD channels). Currently, the monthly fee for Rodzinny HD Package is PLN 19.90 (not in thousands) for a fixed term.

Family HD Package

Our Family HD Package is an introductory package that currently provides subscribers with access to 74 Polish language channels (including 12 HD channels). Currently, the monthly fee for Family HD Package is PLN 39.90 (not in thousands) for a fixed term.

Family Max HD Package

Family Max HD Package is our extended package, included in our offer at the end of 2012, that currently provides subscribers with access to 96 Polish language channels (including 19 HD channels). This package is characterized by the most attractive price to value ratio. Currently, the monthly fee for Family Max HD Package is PLN 49.90 (not in thousands) for a fixed term.

Additional packages

The table below presents additional packages, available only with Family Max HD Package:

Additional packages	No. of channels	Price*
Film HD Package	19	PLN 20
Sport HD Package	10**	PLN 20
Cinemax HD Package	2	PLN 15
HBO HD Package	3	PLN 25
Entertainment Package	4	PLN 25

*Prices expressed not in thousands
**Including channels available promotionally.

Premium Offer

For demanding clients we have a Premium offer including all coded channels (except the Entertainment Package) as well as chosen on-line services within the subscription fee. Additionally subscribers profit from up to 6-month access, free of charge, to our Monthly Movie Catalogue on VOD. The benefit of the Premium offer is a monthly subscription fee lower than the sum of monthly fees for separate packages included in it. Currently, the monthly fee for Premium Package is PLN 89.90 (not in thousands) for a fixed term.

Flexible offer

Through introducing flexibility to our offers, we intend to give clients the possibility to better test our programming offer, for example, a client choosing any programming package gets a present from us in the form of an upgraded package or additional package for a period of up to 6 months (for ex. subscribers to Family Max HD Package can get access to Sport HD and Film HD Packages). Moreover, thanks to flexibility, clients can better manage their costs related to television services.

Multiroom HD

Moreover, we offer our subscribers Multiroom HD service. The service is delivered based on set-top boxes manufactured by our factory. We provide Multiroom HD service to the subscribers from Family HD Package at promotional prices starting from PLN 5 to PLN 15 (not in thousands) per month depending on the purchased programming package.

Free-to-air channels

With our set-top box, in addition to paid programming packages, our subscribers have access to over 500 uncoded TV and radio channels available via Hotbird satellite in Poland, including a dozen additional Polish-language channels and wide-known foreign channels, such us: TVP Kultura, CNBC, Bloomberg, ZDF, Rai News 24 and nine leading radio channels.

VOD Home Movie Rental

We offer our subscribers access to VOD Home Movie Rental, a service in the video on demand category, available on TV-sets. We have dedicated an entire satellite transponder to this service. The service does not require a storage disc in the set-top box or a recording functionality, however, it is only available to subscribers with an HD set-top box.

"VOD Home Video Rental" service consists of 20 satellite channels with approximately 50 movies available per month on a rotary basis. Our subscribers can choose from 20 movies daily. We update our offer by adding new titles on a weekly basis.

Subscribers are charged gross for each individual movie they select as follows: PLN 11.90 (not in thousands) for access to a movie in the "New" category, PLN 8.90 (not in thousands) for access to a movie in the "Hit" category, PLN 5.90 (not in thousands) for access to a movie in the "Catalogue" category and PLN 11.90 (not in thousands) for access to a movie in the "For adults" category. Often introduced promotions are a strong aspect of our offer. A selected movie is available to the subscriber for 24 hours. In addition, within "Monthly VoD Catalogue", subscribers of Cyfrowy Polsat pay TV can purchase monthly unlimited access to films in the "Catalogue" category for a price of PLN 20 (not in thousands).

Online Services

Online Services provide our subscribers with access on preferential terms to the library of our IPLA internet television and services such as HBO GO and FilmBox Live. Packages as well as single materials are available at reduced prices within the IPLA service. Our subscribers have access to IPLA Mix Package within the subscription fee for 3 months or the entire duration of the agreement, depending on the subscription. Subscribers to premium packages additionally get FilmBox Live and HBO GO.

Item 4.6.2. Mobile pay TV offer provided in DVB-T technology

We strive to take an active part in the ongoing digitization process in Poland. Therefore, we expanded our offer to include modern and functional set-top-boxes for reception of digital terrestrial television. We offer clients not only high quality in-house produced equipment but also a package of additional channels.

In June 2012, we expanded our service portfolio to include an innovative product – Mobile TV in the DVB-T standard. As part of the Mobile TV service we offer the Extra Package within the paid terrestrial multiplex, consisting of 8 TV and 12 radio channels. It includes channels from four thematic categories, including sports: Polsat Sport and Polsat Sport Extra, movies: Polsat Film, Kino Polska, TVP Seriale, Comedy Central, news: Polsat News, and children: Nickelodeon, as well as radio stations, including Radio Zet, Antyradio, Radio Plus, RMF FM, RMF MAXXX, Radio TOK FM, Radio ROXY FM, Radio Złote Przeboje, Eska Rock, Radio PiN, Radio Bajka, Moje Polskie Radio. Set-top boxes for the reception of terrestrial signal additionally enable access to FTA channels broadcast within three digital terrestrial television multiplexes, including: Polsat, TVN, Polsat Sport News, TV4, TV6, TVP1 HD, TVP 2 HD, TVP Info, TVP Kultura, TVP Historia, TVP Polonia, TVN 7. The set-top-box model T-HD 1000 was additionally equipped with the IPLA application, and since March 2013 it also supports our pay-per-view service.

The reception of real-time television as part of the Mobile TV service on mobile devices is enabled by a mobile set-top box M-T 5000, connected through the WI-FI network to a terminal, e.g. a smartphone, tablet or notebook. As the service is available in the DVB-T standard, its use does not require internet access, which means that it does not generate any data transfer and hence any related payments.

The Extra Package with the set-top box for receiving digital terrestrial TV is provided either on a subscription or a prepayment basis. Currently, new customers may purchase the Extra Package on a subscription basis at a discount price, for PLN 14.90 (not in thousands) monthly. The set-top boxes: T-HD 1000 for PLN 1 (not in thousands) and mobile M-T 5000 for PLN 1 (not in thousands) become the property of or can be made available to the customer. Additionally, customers are granted up to 6 months access to the Extra Package free of charge, depending on the term of agreement.

At present, in the prepayment offering, the customer pays a one-off fee for the set-top box: PLN 199 (not in thousands) or PLN 149 (not in thousands) for the mobile M-T 5000 or the T-HD 1000 one, respectively. In both cases, the customer is granted a 6-month access to the Extra Package free of charge. After the promotion ends, the customer may continue to use the Extra Package, paying in accordance with the recharge price list. For a one-off recharge in the amount of PLN 59.70 (not in thousands) the client receives access to Extra Package for 4 months, instead of 3 months. In the case of a one-off recharge in the amount of PLN 119.40 (not in thousands) the client has the possibility to receive the Extra Package for PLN 9.95 (not in thousands) per month for a period of 12 months. We also prepared promotional offers for the purchase of our pay TV.

Item 4.6.3. Internet access offer

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.

When launching our LTE services, we prepared a universal offer, which grants access to the Internet via all technologies supported by the network within one subscription fee. Thanks to this solution today 99% of Poles live on area covered by Cyfrowy Polsat's Internet service, while over 26 million people can use LTE Internet.

We offer data packages of various sizes, adapted to different needs and advancement of users. The offer is affordable for every budget. For only PLN 14.90 (not in thousands) monthly clients can profit from the cutting edge Internet technology. We consistently expand our offer, since May 2013 we propose unlimited access within the Multimedia fare to chosen content on the Internet, including: popular social media services, websites and video content. Everybody, who intends to buy LTE Internet at Cyfrowy Polsat may profit from "7 trail days" enabling to try the service without additional costs and to possibly resign after the return of the modem.

Cyfrowy Polsat does not limit the technical parameters of services, including speed of transmission. Thanks to this clients can always use the maximum speed allowed by the current network conditions and the user's equipment, irrespective of the subscription level.

Once a package is used up, the subscriber can still profit from Internet access with unchanged parameters – both during the day and at night – either paying according to the price list for each MB, or buying an additional one-time data package. Cyfrowy Polsat offers its clients full control over expenses on Internet access – the Limit Internet service gives the possibility to set a limit on the value of additional expenses.

We offer a wide portfolio of devices enabling the use of our services, including mobile and home routers, modems of various categories, also enabling download speed of up to 150 Mb/s. Our offer also includes tablets and laptops, which can be purchased in an attractive installment plan, with a first payment of PLN 0.

For the clients who already have their own equipment allowing connection to the network, i.e. a modem or laptop, netbook or tablet with built-in modem, we launched a promotion "Multimedialna – tylko SIM" ("Multimedia – only SIM"),enabling a choice from one of data packages without the need to purchase the equipment. For those who only occasionally use mobile Internet we prepared Plan Zero – a proposal without a monthly financial commitment but also without the necessity to buy refills earlier.

If a client has many devices and requires more than one SIM card, he or she does not need to purchase an additional subscription. The Extra SIM service can be chosen and the same data package will be used on the additional card.

We encourage our pay TV customers to purchase LTE Internet by offering additional benefits according to the client's preference: either an additional data package of up to 5GB each month or a subscription fee discount up to PLN 10 (not in thousands).

Item 4.6.4. Mobile telephony offer

We have been operating in the mobile telephony services market as an MVNO since 2008. From the beginning we have regarded these services as complementary to pay TV and then also broadband Internet services and we have had no intention to compete with domestic mobile operators by promoting an offer on a stand-alone basis. Therefore, following the cooperation with Polkomtel Sp. z o.o. established in April 2012, we have resigned from active selling of own mobile telephony services in the MVNO model, in order to provide clients with a stronger telephony offer of Plus mobile telephony. Thanks to the cooperation, we offer our subscribers a special offer of Plus network, and subscribers to Plus telephony can profit from our offer dedicated to them. New clients, who did not use any services of either company, can purchase a bundle offer and receive additional advantages within both services.

Item 4.6.5. Bundle services offer

The multi-play offering is designed for new and existing subscribers, who can add broadband Internet to their TV package at any time during the term of agreement. Subscribers to both services are granted an additional data package (of up to 5GB) each month for free or a discount for Internet access – up to PLN 10 (not in thousands).

As part of the bundle service scheme, our subscribers may also benefit from a dedicated Plus mobile telephony offering. Subscribers to Cyfrowy Polsat may purchase Plus offer and receive a special bonus. Also the clients of Polkomtel who decide to profit from our offer get an additional present from us.

In line with its business strategy to provide complex multimedia products and services for the whole family, Cyfrowy Polsat prepared a special offer "Your Multimedia Home", which allows our clients to create their own entertainment center at home based on television, Internet and online services. The wide offer of Cyfrowy Polsat can be combined with LTE Internet – in the new offer with unlimited access to chosen content in the Internet: websites, video and social media – and Mobile TV and online services: IPLA, HBO GO, FilmBox Live available on smartphone, tablet or laptop, with IPLA also available on our set-top boxes.

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

Item 4.7 Sales and marketing, customer service and maintenance

Item 4.7.1. Marketing

Our main advertising channel is TV. We also conduct advertising campaigns on-line, through the radio, press and outdoor advertising. We promote our offer in our authorized points of sales by means of various BTL materials. Additionally, our website is an important communication channel with both current and prospective clients. We communicate with our subscribers using telemarketing, mailing lists, through our subscribers channel, and Internet Customer Service Center.

Item 4.7.2. Sales

Digital TV products and services sales network

We sell our services through sales network covering the entire territory of Poland. We distribute our products and services through two main sales channels: retail sales channel and direct sales channel D2D ("door-to-door"). As at December 31, 2013 our sales network included 728 points of sales and 14 offices of direct sales D2D. In addition, from April 2012, within cooperation with Plus network operator we run cross selling of services. Thanks to that our standard offer, as of the end of 2013, was available in additional 774 points of sales of Polkomtel Sp. z o.o. network.

We supply our points of sale with marketing materials, such as posters and leaflets in order to increase client awareness of our services. At these points of sale, customers can sign an agreement to purchase our services, obtain equipment necessary to receive our services or order the installation of a satellite dish. In addition, these points of sale provide subscribers with technical assistance and widely understood after-sales service. We organize training seminars for employees at our points of sale aimed at improving their sales skills and their knowledge of customer service standards. We organize incentive programs for the sales representatives which award bonuses based on the number of subscribers each sales representative acquires or serviced within their loyalty agreements and type of programming packages they declared to subscribe for.

Our direct sales channel enables us to precisely target selected groups of customers, to establish direct communication with customers and to expand our sales network.

Sales of broadband Internet services

As of December 31, 2013, subscribers could sign up for our broadband Internet service in approximately 715 authorized points of sale which are located in the areas where we are technically able to provide our broadband HSPA and LTE Internet services and through one of our door-to-door sales agents in 14 regional offices.

Sales of mobile telephony services

Customers may subscribe for mobile telephony services in almost all of our authorized points of sales. However, as a result of the cooperation with Polkomtel (a leading mobile telephony operator) concluded in April 2012, we have resigned from the active sale of our own mobile telephony services within the MVNO model, in order to propose to customers the stronger offer of Plus telephony. As at December 31, 2013, the offer of Plus was available in 672 points of sales within our network.

Call center

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

We currently operate our call center with over 600 operator stands as well as approximately 330 back-office stands handling written requests (including faxes and e-mails). Our call center service is available to our present and potential clients 24 hours a day, seven days a week, and is responsible for providing comprehensive and professional customer service. The call service operators provide information on our services, enter into service agreements with subscribers, accept subscriber complaints and provide information on payments and other support for subscribers. For the customers willing to have access to their account through the Internet we propose in addition the Internet Customer Service Center, where, after logging in, customers can check the status of purchased services, payments, subscribed packages, dates of payments and much more.

Online

Our website plays an important informative role to a growing number of subscribers as well as prospective clients. It provides users with an opportunity to familiarize themselves with the programming, multimedia and telecommunication offers of Cyfrowy Polsat, order selected equipment together with a package of their choice or to locate our nearest point of sale.

In addition we launched a new, improved Internet Customer Service Center (ICSC) in the beginning of 2014. ICSC is an advanced tool which provides our subscribers with secure and free of charge access to back-office resources and on-line technical support. Through ICSC subscribers can buy and modify their packages themselves, check their payment balance and payment history, control units available for use within active packages, or make payments (also advance payments for any number of months). Moreover, users of our new ICSC can modify their contact data, print postal or bank orders, check technical specifications of the equipment owned, print the relevant user manual, restore signal transmission, restore the factory PIN settings of their set-top box, as well as contact us through our contact form. We also provide the users of our website with a daily updated TV guide with the programming of over 420 channels. The service is accompanied by an editorial, in which we recommend the most interesting - in our opinion - programming positions, and enables sorting the scheduling according to users' criteria.

Subscribers may also use our website in order to find information about the current VOD offer and purchase access to the selected programming. In the "Online Services" section we present the offer of on-line television IPLA, where clients can watch video on demand, reruns of shows (Catch up TV) and selected online channels. Subscribers can get IPLA packages at special, lower prices. Subscribers to HBO HD Package can find the offer of the pay service HBO GO on our Online Services.

We provide access to IPLA television through the website www.ipla.tv and through dedicated applications. Access is possible for users of personal computers (with operational systems Windows and Windows 8), smartphones with iOS, Android and Windows Phone systems, tablets (iPad and with Android system), TV-sets with Internet access (Samsung, Sony, LG, Panasonic, Philips, Sharp, Ikea, Loewe, Thompson, Dune HD, PEAQ), operators (Cyfrowy Polsat, TOYA cable TV, Netia) and consoles (PlayStation 3).

Central warehouse

To support our distribution channels, we have organized our own central warehouse and logistics system. The central warehouse has a total area of approximately 9,500 m2 and stores set-top boxes, modems, accessories, parts and materials necessary to ensure efficient logistics and sales operations including promotional materials and packaging. Together with our logistics system, our warehouse enables us to prepare 15,000 pre-activated set-top boxes per day for delivery and allows us to store up to 700,000 pieces of equipment. We believe our central warehouse is large enough to satisfy all our anticipated storage needs.

Item 4.7.3. Customer Relations and Retention Management

Customer Relations Management

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

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

Our Customer Service Center also has employees dedicated solely to addressing subscribers' queries related to the broadband Internet and mobile telephony services. These employees are supported by a number of technical tools in order to ensure the highest level of subscriber satisfaction.

Retention Management

We place a high importance on subscriber retention. In 2009, we implemented a new subscriber retention program, aimed at reducing our churn rate, keeping our existing subscribers and increasing our revenue. We are constantly developing and adapting our retention programs to tailor our services to our subscribers. We have dedicated one department in our organization specifically to retention management and have dedicated significant resources to this department. We conduct reactive and proactive subscriber retention programs.

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

In our proactive retention programs, we begin the retention efforts well before the end of the initial period of the subscription agreement. Using a variety of communication channels, we communicate to our subscribers our offers for extending contracts such as a set-top box upgrade or a more attractive programming package.

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

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

Item 4.8 Technology and infrastructure

Item 4.8.1. Technology and infrastructure – pay TV

Conditional access system

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

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

Satellite

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

Broadcasting center

Our broadcasting center is located in Warsaw, Poland and enables us to transmit TV channels to the transponders we use on the Hot Bird satellites. Some TV channels are transmitted by the broadcasters of these channels or by third parties. We believe our broadcasting center, which was built in 2006 and expanded in 2009, is one of the largest broadcasting centers in Poland. In 2012 we conducted a further modernization of the emission systems, which enables the playout of even up to 100 channels. It is equipped with up-to-date integrated video, audio and information systems and is used to broadcast SD and HD TV channels.

To mitigate risks of failure or shutdown of our broadcasting center or any of its parts, our broadcasting, transmission and multiplexing equipment has redundancy solutions on critical nodes of our broadcasting network. In addition, Eutelsat will provide us with a backup transponder if necessary. In 2013 we began equipping the uplink backup broadcasting center with transmitting devices.

Services for television and radio broadcasters

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

Services provided in DVB-T technology

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

Set-top boxes

To reduce our costs, we began manufacturing our own SD set-top boxes in November 2007 and HD set-top boxes in April 2010. The in-house manufacturing of set-top boxes has proved to be more cost-efficient than purchasing set-top boxes manufactured by third parties and has allowed us to offer more competitively priced packages and achieve higher operational efficiency in our business. In-house manufacturing of set-top boxes has allowed us to save approximately 20% of the cost of a single device in comparison to equipment purchased from third parties. Additionally, it has allowed us to unify the software and interface of the set-top boxes, which is convenient to our customers if they switch between set-top box models. In addition, we have control over set-top box software and we have the flexibility to adapt the software to meet subscriber requirements.

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

So far, nine models of DTH set-to-boxes have left our production line: four models enabling reception of standard quality signal (MINI, Family, F300 and M100) and five models enabling watching high-definition television, including one with a built-in hard disc and recording functionality (HD 5000, HD 6000, MINI HD 2000, HD 3000, PVR HD 7000) and three models (T-HD 1000, T-HD 210 and T-HD 200) in DVB-T standard, as well as a 320 GB USB hard drive (DTU 320).

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

Set-top boxes manufactured in-house represented over 90% of overall set-top boxes that we sold or leased to our subscribers in 2013. As of the end of 2013, in our factory already a total of over 5 million set-top boxes were manufactured, including over 3.3 million HD set-top boxes. We still cooperate with external providers of set-top boxes, mainly Samsung, Echostar, Thompson and Sagem, but since 2010 we limited the purchases from external providers only to newly developed technology, such as PVR set-top boxes.

We also cooperate with Valups Cooperation, that supplies us with pocket M-T 5000 set-top-boxes enabling reception of "Mobile TV" in DVB-T technology.

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

Item 4.8.2. Technology and infrastructure – Internet access service

Network

Our broadband Internet access services are based on a radio infrastructure provided by companies of Midas S.A. capital group (Mobyland, CenterNet, Aero2) and Polkomtel. Under the agreement with Mobyland, we have access to mobile data transfer services on 1800MHz and 900MHz bands in LTE and HSPA+ technologies, whereas under the tripartite agreement with Mobyland and Polkomtel Sp. z o.o. we have access to mobile data transfer service on 900 MHz and 2100 MHz frequencies in EDGE/GPRS and HSPA/HSPA+ technologies.

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

In 2011, as the first commercial provider in Poland we started offering broadband Internet access in LTE technology, which currently is able to provide a maximum speed of up to 150 Mb/s. We provide a service through the LTE network on 1800 MHz frequencies, that has been constructed since 2010 by Mobyland in cooperation with CenterNet. Compared to HSPA+ or UMTS, LTE is characterized by much lower latency and has the capacity to support a greater number of users. The potential of the LTE technology is based on greater capacity and transmission speed with lower latency, which enables LTE Internet service subscribers 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.

According to data presented by our supplier, as of the date of the publication of this report, LTE and HSPA/HSPA+ networks cover approximately almost 67% and almost 100% of the population of Poland, respectively.

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

In January 2012, International Telecommunication Union (ITU) has approved a new standard of mobile technology. ITU decided, that "LTE-Advanced" and "WirelessMAN-Advances" solutions will be commonly named IMT-Advanced. In the future, IMT-Advanced will replace the developed since 2000 IMT-2000 standard, commonly known as 3G. The target speed offered by technologies compatible with the IMT-Advanced standard will be 100 Mb/s on the move (ex. while driving) and 1

Gb/s when stationary (through mobile network). The term 4G remains undefined, but it is still used by operators using LTE, HSPA+ or WiMax technologies.

Internet equipment

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

To provide our broadband services in LTE technology, we use cutting edge modems, that operate also in HSPA/HSPA+ and EDGE/GPRS technologies. Thanks to this solution, with one modem, Cyfrowy Polsat clients can use our Internet service in both LTE and HSPA/HSPA+ technologies as well as in EDGE/GPRS technology, which covers the entire territory of Poland. Currently we offer five such modems:

- Huawei E3276 modem, introduced in 2012, enabling data transfer speed of up to 150 Mb/s;
- Huawei E3272 modem with maximum data transfer speed up to 150 Mb/s; and
- modems Huawei E398, ZTE MF821 and ZTE M823 with maximum data transfer speed up to 100 Mb/s.

The offer of modems servicing HSPA technology also includes the following models: in-house produced Cyfrowy Polsat's B150 modem, and purchased ZTE MF669, Huawei E367 and Huawei E3131.

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

Moreover, we offer our subscribers the first on the market tablet, that is equipped with a module supporting LTE technology up to 100 Mb/s speed – Samsung Galaxy Tab 8.9 LTE and Huawei MediaPad 10.1 LTE 150, which allows use of the Internet up to 150 Mb/s. These devices also support HSPA+ technology. We also offer other models of tablets: Samsung Galaxy Tab 2.7.0 3G, Manta MID9701 9.7'' Wi-Fi, Manta MID802 8" WiFi, Ferguson S3 7'' Wi-Fi DVB-T (with built-in DVB-T tuner and GPS function) and Prestigio Multipad 2 Ultra Duo 8.0 3G, as well as Acer Aspire E1 laptops with Windows 8 operating system, that supplied with a modem enable fast and easy Internet access.

In our offer we also have several models of routers, including the router Huawei B593u, which allows for data transfer speed up to 150 Mb/s and supports LTE/HSPA+/HSPA/UMTS/EDGE/GPRS technologies.

Item 4.8.3. Technology and infrastructure – MVNO

We operate as a full capacity Mobile Virtual Network Operator, which means that we have our own telecommunications infrastructure except for the radio network. This business model assures full control of our client offerings through our own billing system and enables direct interconnections to other operators, and the opportunity to generate additional interconnection revenue. We have access to radio network infrastructure through domestic roaming agreements with leading mobile networks operators.

Our mobile telephony services, realized in the MVNO model, are provided in 2G and 3G systems and are based on GSM/UMTS/HSPA radio interface of our partners – MNO operators. The services include voice calls, SMS, MMS as well as GPRS/EDGE/UMTS/HSPA data transmission. We offer our subscribers the possibility to use international connections and international roaming service.

Item 4.9. Development prospects

We believe that, despite the high degree of penetration of the Polish market with pay TV, we will consistently increase revenue from sales of services to our individual clients, thanks to our multi-play offer (television, Internet, telephone) and our programming packages, which offer the best value-for-money on the Polish DTH market.

Our subscribers are increasingly interested in additional services, which give us the possibility to generate growth of average revenue per user of TV services. We closely study the evolution of our clients' expectations and strive to satisfy their needs by combining our traditional services related to pay programming packages with VoD, PPV, Multiroom, on-line video services and mobile television.

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

Our "Mobile TV" service provides viewers with the access to TV channels on portable devices, answering customers' expectations and market trends. We believe mobile services have a large growth potential in Poland. The growing availability of smartphones and tablets as well as increasingly faster and more reliable technologies of mobile Internet access, such as LTE, will have an important impact on the development of this market segment, and we intend to take an active role in this process. "Mobile TV" service is delivered in DVB-T technology within a multiplex dedicated to digital terrestrial television. The advantage of this technology is its low cost for the user as the only requirement is to have a DVB-T tuner which does not generate data transfer. During the process of switching off the analog signal, which took place from November 2012 until the end of July 2013 in Poland, thanks to services in the DVB-T technology offered at attractive prices, we were able to win those households, who were forced to make the decision whether or not to buy the equipment necessary for the reception of the digital television signal. A significant group purchased a DVB-T set-top box manufactured by us, and in this group we perceive the potential of converting to pay programming packages.

We provided LTE Internet, which is considered to be the future of mobile broadband Internet and successor of commonly used UMTS standard. Due to its technical characteristics and quality parameters, mobile LTE Internet can eventually replace fixed-line connections and satisfy increasingly demanding customers while enabling them to profit from growing capabilities of the Internet. In addition it has the advantage of mobility, which is increasingly more desired by consumers. We strongly believe that over the long term, as the necessary radio infrastructure and LTE-enabled devices develop, the technology will revolutionize not only the broadband Internet market but also content distribution. We believe, our LTE Internet service constitute a significant competitive advantage and it will help us to further increase our subscribers base both of stand-alone and integrated services. Technical reach of LTE network is growing systematically and with its expansion we can expect the growth in the number of subscribers to our service.

Item 4.9.1. Development prospects of Cyfrowy Polsat Group following the finalization of the conditional transaction of the acquisition of the operator of Plus network

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

The unique portfolio of services will be simultaneously targeted to clients of both operators. That is, according to conservative assumptions of Cyfrowy Polsat, nearly 17 million individuals, who live in 6 million Polish households. According to Cyfrowy Polsat's estimates, in each household to which Cyfrowy Polsat addresses its offer, there are on average 4 devices using video, data or voice transmission – including TV sets, mobile phones, PCs, and tablets. As a result of the above the market for the Cyfrowy Polsat Group and Polkomtel products will be around 25 million devices, and thanks to the dynamically growing sales of smartphones, this growth trend will certainly continue. Consumers increasingly watch video on a range of devices both at home and outside, and regularly use more than one device at the same time. Proper addressing of this potential may significantly boost sales of services to an individual user, thus increasing the average revenue per subscriber (ARPU).

Taking into considerations the above assumptions, the transaction of the acquisition of Plus network operator will allow us to achieve significant operational synergies, which, according to our estimations, may reach up to approximately PLN 3.5 billion through the end of 2019. Cost and revenue synergies should increase pro forma EBITDA margin by approximately 2 pp. until the end of 2016 and by a further approximately 1.5 pp. in 2017-2019. Assuming a new structure of the balance sheet and the scale of activity of both entities, there is a real possibility of significant improvement of terms of debt financing, through lower interest rates and better terms of the loan, which could bring an additional approximately PLN 0.5 billion in savings through the end of 2019.

Item 4.10. Sales markets and dependence on the supplier and client markets

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

Item 4.11. Other Aspects of Our Business

Research, development and IT systems

Our research and development activities are focused on intensive development work with respect to information technology systems and systems dedicated to our in-house manufactured set-top boxes. We have developed several IT systems which enable us to effectively and efficiently manage our subscriber base. Those systems include, among others, a customer relationship management system, a sales services system, an Internet Customer Service Center and a transactions system using n-layer technology. Within the second field indicated we create applications and software that enable us to offer highly efficient products. Being the owner of the solutions, we can react in a timely and effective manner to satisfy the needs of our subscribers. We own all of these systems and the related intellectual property rights. We also use systems licensed from third parties such as our conditional access system. In addition, we conduct development work with regard to the set-top boxes we manufacture in our factory.

Trademarks

We hold 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. We believe that the most significant trademarks to our business operations are the word and device marks of Cyfrowy Polsat, to which we have proprietary copyrights.

Telecommunications operations and distribution of radio and TV channels

We fulfill all requirements specified in applicable regulations necessary to provide services as an MVNO operator, Internet access services and to conduct distribution of radio and TV channels. We have been entered into the register of telecommunication companies. Moreover, we have acquired the right to use numeration resources, and also radio permits for use of the radio equipment in terrestrial satellite stations. Furthermore, we have registered our business activity based on the distribution of television and radio programs with The National Broadcasting Council's Office (KRRiT) (in accordance with the applicable provisions of the Broadcasting Act).

Real estate property

We own the vast 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, 2013, there was a mortgage registered on the entire real estate property owned by us, established in respect to the Senior Facility Agreements and Senior Notes. Some insignificant parts of our real estate property are encumbered with typical easement rights for electricity cable conservation. We lease part of our real estate property from third parties that are not material to our business.

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. There are no pending legal proceedings against us that might have been initiated in relation to a breach of environmental regulations as a result of our company's activities.

Insurance

We believe that we have insurance plans that adequately cover our business and our assets. These insurance plans are customary in the Polish pay TV. We have third-party liability insurance, damage and personal auto insurance agreements, insurance policies concerning property and electronic equipment, insurance against all risks, as well as third party liability insurance on business operations. We also have directors' and officers' liability insurance.

Item 5. Material agreements

Conditional agreements concerning the acquisition of shares in Metelem Holding Company Limited holding indirectly 100% of the share capital of Polkomtel Sp. z o.o.

On November 14, 2013 Cyfrowy Polsat concluded a conditional investment agreement concerning the transfer of shares in Metelem Holding Company Limited ("Metelem"), holding indirectly 100% of the share capital of Polkomtel Sp. z o.o. as in-kind contribution for the shares to be issued by Cyfrowy Polsat (the "Agreement") with three shareholders of Metelem, i.e. Argumenol Investment Company Limited seated in Nicosia, Cyprus, Karswell Limited seated in Nicosia, Cyprus and Sensor Overseas Limited seated in Nicosia, Cyprus, whose shares represent approximately 83.77% of shares in Metelem .

Moreover, on December 19, 2013 Cyfrowy Polsat concluded a conditional investment agreement with the fourth shareholder of Metelem - the European Bank for Reconstruction and Development ("EBRD") concerning the transfer of Metelem shares held by EBRD as an in-kind contribution for the Company's new shares, which will be issued by the Company ("EBRD Investment Agreement"). EBRD holds shares representing approximately 16.23% of Metelem's share capital.

Pursuant to the provisions of the agreements described above, current shareholders of Metelem will acquire in aggregate 291,193,180 shares in the conditionally increased share capital of the Company at the issue price of PLN 21.12 (not in thousands) (the "New Shares"). The New Shares will be acquired for an in-kind contribution in the form of shares in Metelem constituting in aggregate 100% of Metelem's share capital. In order to enable the acquisition of the New Shares by the current shareholders of Metelem, the Company shall issue subscription warrants to be acquired by them free of charge, which will then be exchanged into New Shares paid for with the in-kind contribution referred to above.

The obligation of the Company to issue shares to the current shareholders of Metelem and their obligation to transfer the title to the shares in Metelem to the Company is subject to the following conditions precedent:

a) adoption by the Shareholders' Meeting of the Company of the Resolutions,
b) registration of the Conditional Share Capital Increase by the registry court,
c) refinancing by the Company that will provide for repayment of the entire indebtedness of the Company arising under the Senior Facilities Agreement dated 31 March 2011, as amended and the Senior Secured Notes issued pursuant to the Indenture dated 20 May 2011.

Moreover, the EBRD Investment Agreement sets forth the following, additional conditions precedent:

a) the approval by the Polish Financial Supervision Authority of the prospectus for the New Shares for the purpose of applying for their admission to trading on a regulated market operated by the Warsaw Stock Exchange („WSE"),
b) the execution by EBRD and the Company of a framework agreement concerning in particular the obligations vested in the Company to pursue its operations in compliance with the requirements and policies followed or adopted as standard by EBRD,
c) the obtaining by EBRD of a legal opinion concerning selected Polish law issues in the context of the contemplated transaction,
d) the absence, in the period since the execution of the EBRD Investment Agreement, of a Material Adverse Effect for the Company, concerning in principle (i) a material adverse change of the value, operations, assets, real property or standing (financial, operational or otherwise) of the Company, Telewizja Polsat Sp. z o.o. or the Company's Capital Group, whose value exceeds 10% of the aggregate value of all outstanding Company's shares (it being understood that any changes of the price of the Company's shares in WSE trading do not constitute a Material Adverse Effect), or (ii) any event, action or circumstances preventing the Company from performing actions envisaged by the EBRD Investment Agreement or the fulfilment of its obligations specified therein;
e) fulfillment or non-occurrence of the conditions precedent set forth in the investment agreement of November 14, 2013 among the Company, Karswell, Sensor and Argumenol;

f) the absence, in the period since the execution of the EBRD Investment Agreement until the closing of the transaction under the EBRD Investment Agreement, of financial indebtedness (as defined in the EBRD Investment Agreement) in excess of PLN 3.5 billion (not in thousands).

The Company is entitled to terminate the agreements, if Cyfrowy Polsat determines, in its sole discretion, that it will not be able to achieve the refinancing and repayment of the its financial indebtedness on terms and conditions acceptable to Cyfrowy Polsat.

Furthermore, the Company will not be obliged to proceed with closing of the transactions described above, and in particular enter with the current shareholders of Metelem into subscription agreements concerning the subscription warrants nor issue the New Shares if a Material Adverse Effect regarding Metelem, Karswell, Sensor or Argumenol occurs, i.e., in general, a material adverse change in the value, operations, assets, properties; or condition (financial, operational or otherwise) of Metelem and its subsidiaries, including Polkomtel or any event, action or circumstance that prohibits Karswell, Sensor or Argumenol from consummating the transactions contemplated by the Agreement concluded on November 14, 2013 or otherwise performing their respective obligations under the said Agreement.

As at the date of the publication of this Report, the first condition precedent has been fulfilled, that is the adoption by the General Meeting of resolutions on the conditional increase of the Company's share capital.

The Extraordinary General Meeting held on January 16, 23 and 24, 2014 adopted resolutions required to perform the agreements in the matter of the conditional increase of the Company's share capital by way of issue of not more than 291,193,180 ordinary bearer shares with the issue price of PLN 21.12 (not in thousands) ("Conditional Share Capital Increase"), in the matter of issue of subscription warrants and exclusion of the pre-emptive rights of the existing shareholders of the Company (the "Resolutions"). In accordance with the provisions of the resolution of January 24, 2014 on the issue of subscription warrants, the issue of subscription warrants is subject to the following conditions:

a) repayment of the entire indebtedness of the Company arising under the Senior Facilities Agreement dated 31 March 2011, as amended and the Senior Secured Notes issued pursuant to the Indenture dated 20 May 2011;

b) adoption by the Annual General Meeting approving the Company's financial statements for fiscal year 2013 of a resolution regarding the payment of dividend in the total amount of no less than PLN 100 million (not in thousands), and in the case of non-payment of such dividend, the adoption by the Management Board, with the consent of the Supervisory Board, of the interim dividend for 2014 in the total amount of no less than PLN 100 million (not in thousands), provided that the payment, in each case, of the dividend or interim dividend to the shareholders will be conditional upon the delivery, prior to the dividend day, to the holders of subscription warrants of the ordinary shares of the Company under the conditional increase in the share capital of the Company and the acquisition by the Company of 1,675,672 (one million six hundred seventy five thousand six hundred seventy two) shares in Metelem, and the resolution's adoption date and the dividend day shall be determined in a way that will enable such payment.

Moreover, the resolution of January 24, 2014 regarding the issue of subscription warrants determines the conditions of participation in the dividend in such a way that the New Shares acquired by Argumenol Investment Company Limited, Karswell Limited, and Sensor Overseas Limited will not participate in the dividend for fiscal year 2013, nor in the interim dividend for the year 2014, described above.

Furthermore, on February 25, 2014 the Company and a group of financial institutions, whose composition was not yet established as at the date of this Report, commenced negotiations that are intended to provide the Company with the refinancing for a full repayment of the Company's outstanding indebtedness under the Senior Facilities Agreement of 31 March 2011, as amended, and under the Senior Secured Notes issued pursuant to the Indenture of 20 May 2011. Obtaining the said refinancing is one of conditions precedent for the Company to close an acquisition of shares in Metelem.

Information on new agreements concerning allotment of transponders' capacity with Eutelsat S.A.

On November 15, 2013 Cyfrowy Polsat signed new agreements with Eutelsat S.A. The subject of the agreements is allotment of additional transponder's capacity and change in previous agreements concerning the lease of transponders' capacity on HotBird satellites.

Based on the new agreements, we hold a total capacity of five transponders on HotBird satellites.

The expiration date of the agreements is December 31, 2017.

The value of the agreements is expressed in euro and in the life of the agreements, converted into PLN at a rate of PLN 4.1890 per 1 euro, published by the National Bank of Poland on November 14, 2013, will equal to PLN 295.12 million (not in thousands) (EUR 70.45 million, not in thousands).

All conditions of the agreements do not vary from the market standards applied to this type of agreements.

Insurance agreements

In 2013 Cyfrowy Polsat signed insurance agreements described below.

Property insurance with TUiR Warta S.A.: insuring assets against all risks, electronic equipment insurance, insuring machinery against damages, loss-of-profit insurance, insuring assets in domestic transport (cargo) and insuring assets in international transport (cargo).

Third-party liability insurance: third-party liability insurance with TUiR Warta S.A., bookkeeping liability insurance with PZU S.A., Directors and Management Board liability insurance with AIG Europe Limited Sp. z o.o. Branch in Poland.

In 2013 Cyfrowy Polsat purchased fleet motor insurance with STU Ergo Hestia S.A. and assistance insurance with Europ Assistance Polska Sp. z o.o.

The agreement concluded in 2008 with AIG Europe Limited Sp. z o.o. Branch in Poland (former Chartis Europe S.A. and AIG Europe S.A. Branch in Poland) for the period of 6 years concerning third-party liability insurance relating to public securities offering was still in force.

Moreover, international business travel health insurance was concluded with ACE European Group Limited Sp. z o.o. Branch in Poland.

Item 6. Presentation of operating and financial results

Item 6.1. Sources of revenues from services, products, goods and materials sold

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

Retail subscription revenue

Retail revenue consists primarily of (i) monthly subscription fees paid by our pay digital television subscribers for programming packages, (ii) fees for the leasing of set-top boxes, (iii) activation fees, (iv) penalties due to termination of contracts (v) monthly subscription fees and other revenue from users of our Internet and mobile telephony services and (vi) fees for extra services such as nVoD. The total amount of pay digital television subscription fees depends on the number of subscribers and the amount of monthly subscription fees paid for our packages. Activation fees are collected up-front and amortized over the life of the contract.

Sale of equipment

Sale of equipment consists mostly of revenue from sale of set-top boxes, STB hard disk drives, antennas, Internet modems, tablets, laptops, routers and mobile handsets to our subscribers when they enter into DTH, broadband Internet and mobile telephony services agreements. The sale price of equipment depends on the model, the tariff plan within Internet and telecommunications services purchased by the subscriber and the duration of the agreement.

Other revenue

Other revenue sources consist primarily of revenue from:

(i) sales of broadcasting and signal transmission services;
(ii) the lease of premises and facilities;

(iii) revenue from the sales of marketing and advertising services;
(iv) sales of licenses, sublicenses and property rights;
(v) revenue from phone calls to call center;
(vi) other services.

Item 6.2. Sources of operating costs

Operating costs consist of:

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

Programming costs

Programming costs consist of:

(i) monthly license fees due to television broadcasters and distributors and
(ii) royalties due to collective copyright management organizations and the Polish Film Institute.

Distribution, marketing, customer relation management and retention cost

Distribution costs consist of (i) commissions due to the distributors consisting of the amounts due both to distributors and retail points of sale when they conclude sale or retention agreements with our subscribers for pay television, broadband Internet and mobile telephony services and (ii) costs of courier services, distribution of reception equipment and costs associated with services of our regional agents. Marketing expenses consist of expenses for TV and radio commercials, press and website advertising, promotional activities and materials, as well as other expenses incurred to increase sales and brand recognition. Customer relation management and retention costs consist of mailing costs, call centre costs and other customer relation management costs.

Depreciation, amortization, impairment and disposal

Depreciation, amortization, impairment and disposal costs primarily consist of depreciation of set-top boxes leased to our subscribers, plant and equipment, and amortization and depreciation of intangible assets and telecommunications equipment related to our mobile telephony services, as well as non-current assets impairment allowance and the net value of disposed property, plant and equipment as well as intangible assets, no longer suitable for use.

Salaries and employee-related costs

Salaries and employee-related expenses consist of salaries and employee-related costs paid to employees under employment contracts (excluding salaries and social security contributions of factory employees, which are included in the costs of manufacturing the reception equipment) or project-specific contracts, managerial contracts, remuneration of our Supervisory Board members, social security costs and other employee benefits.

Broadcasting and signal transmission costs

Broadcasting and signal transmission costs consist of:

(i) payments for the lease of satellite transponder capacity;
(ii) payments for the use of conditional access system based on the number of active access cards;
(iii) other signal transmission costs.

Cost of settlements with mobile network operators and interconnection charges

Cost of settlements with mobile network operators and interconnection charges include costs related to internet services – costs of data transfer service and costs related to MVNO services – domestic and international roaming and InterConnect (depending on the number of connections, text and multimedia messages realized).

Cost of equipment sold

Cost of equipment sold relates mostly to set-top boxes, STB hard disk drives, antennas, Internet modems, routers, tablets, laptops and mobile handsets 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, previously included in distribution, marketing, customer relation management and retention costs,
(ii) bad debt allowance and the cost of receivables written off, previously included in other operating costs.

Other costs

Key items of other costs include:

(i) infrastructure rental and network maintenance cost;
(ii) the cost of SMART and SIM cards provided to customers;
(iii) IT services costs;
(iv) property maintenance costs;
(v) guarantee services costs;
(vi) legal, advisory and consulting costs;
(vii) taxes and other charges;
(viii) the cost of trademarks;
(ix) other costs.

Item 6.3. Other operating income/costs

Other operating income/costs consists of:

(i) compensations from customers and distributors for failing to return equipment or returning damaged equipment,
(ii) inventory impairment write-downs/reversals,
(iii) other operating revenue/costs, not derived in the ordinary course of business.

Item 6.4. Factors and occurrences that impacted our business and results in 2013

Macroeconomic environment

In 2013, in an environment of world-wide economic slow-down, the Polish economy maintained one of the highest GDP growth rate in the European Union. According to Eurostat data, in 2013, Polish GDP increased by 1.3%, while average GDP growth in 27 countries of the European Union was 0.0%.

Exchange rates fluctuations

Our functional and reporting currency is zloty. Our revenues are expressed in zloty, while approximately 34% of our operating expenses (in 2013) were denominated in currencies other than zloty, mainly US dollars and euro.

Foreign exchange rate movements impact our gains and losses on investment activities and finance costs through our programming costs, signal transmission costs, trade liabilities or other liabilities denominated in currencies other than the zloty. In addition, the Senior Notes, that we offered, are denominated in euro, which significantly increases our exposure to foreign currency fluctuations as movements in the exchange rate of the euro to Polish zloty could increase the amount of cash, in Polish zloty, that must be generated in order to pay principal and interest on the Notes.

In 2013 Zloty strengthened against the US dollar by 3% and remained at a similar level against the euro (based on annual average exchange rates announced by the National Bank of Poland).

We do not have any impact on the development of exchange rates in the future, consequently foreign currency fluctuations will continue to have an impact (positive or negative) on our costs.

Taking into account our foreign exchange rates exposure, the Company implemented market risk management policy, using i.e.: hedging transactions and natural hedging.

Competition on pay TV market

Our market is very dynamic and competitive. In 2012 there were three main players on the DTH market in Poland: Canal + Cyfrowy, the operator of Cyfra+ platform, ITI Neovision the operator of "n" platform and Cyfrowy Polsat S.A., operator of Cyfrowy Polsat platform. At the end of 2011, a process of ownership changes began and concerned the merger of Cyfra+ and "n" DTH platforms under the name 'nc+'. The end of November 2012 saw the finalization of the agreements concerning the strategic partnership and the joint offer was introduced at the end of the first quarter of 2013.

Increased competition on the market and the changing market environment (including consolidation processes on pay TV and cable TV market) influenced our special offers to newly acquired subscribers. Preparing the Christmas offer, in the fourth quarter of 2013, we introduced additional attractive promotional offers and services combined with modern devices (i.a. laptops, tablets, modems).

Due to the strong competition on the market, we continue to invest in customer loyalty programs and retention management. Although that results in an increase in our costs, we believe that our proactive approach to subscriber retention is more cost effective in the long run and decreases the churn rate.

Development of digital terrestrial television

The project of replacing analog broadcasting with terrestrial digital, run in Poland (the first switch-offs took place in November 2012, the last in July 2013), forced viewers of terrestrial television, with old TV-sets, to adapt to the new equipment requirements. Taking this as an opportunity to develop our business, we decided to attract these people to our offer. In 2012 we launched our own production and sales of set-top boxes for the reception of digital terrestrial television. We attracted customers not only by high-quality equipment, but also by the package of additional channels at a very attractive price. In June 2012, we enriched our offer with a new "Mobile TV" service provided in the DVB-T standard, within which the client gets access to terrestrial digital television on portable devices. In 2013, in connection with the process of switching off terrestrial analog transmitters and the complete transition to the digital signal, we intensified sales activities related to the Mobile TV project, which was reflected in higher distribution, marketing, customer service and retention costs, costs of own equipment sold and revenue from sales of equipment.

Reduction of indebtedness

On August 29, 2012, June 28, 2013 and September 10, 2013 we have partially repaid the Term Facility Loan incurred on March 31, 2011 for the acquisition of TV Polsat. The repayment amounted to PLN 400 million (not in thousands) and significantly lowered our total indebtedness. The partial settlement of the liability resulted in lowering of both principal payments and accrued interest.

Expansion of technical reach of HSPA+ and LTE Internet

Following the development of our partners' network, from the end of 2012 until the end of 2013, the technical reach of LTE network increased from 48% to approximately 67% of inhabitants of Poland, while the technical reach of HSPA/HSPA+ network increased from 91% to almost 100%.

Growing technical range of our Internet service had a positive impact on the number of subscribers, that translated into significant growth in our telecommunication revenue.

Item 6.5. Trend information

The principal trends that the Management Board of Cyfrowy Polsat S.A. is aware of and that we believe will affect our revenues and profitability are:

1. Development of pay television market (growing interest in OTT services);
2. Development of digital terrestrial television (development of programming offer);
3. Development of Internet services market (growing demand for data transmission and fast Internet connections, higher growth dynamics of mobile services vs. cable connections);
4. Growing number of users of mobile devices (including laptops, smartphones and tablets);
5. Increase in sales of TV-sets connected to the Internet;
6. Growing importance of multi-play services (joint telecommunication and television services).

Item 6.6. Major investments

Conditional agreements concerning the acquisition of shares in Metelem Holding Company Limited holding indirectly 100% of the share capital of Polkomtel Sp. z o.o.

On November 14, 2013 Cyfrowy Polsat concluded a conditional investment agreement concerning the transfer of shares in Metelem Holding Company Limited ("Metelem"), holding indirectly 100% of the share capital of Polkomtel Sp. z o.o. as in-kind contribution for the shares to be issued by Cyfrowy Polsat (the "Agreement") with three shareholders of Metelem, i.e. Argumenol Investment Company Limited seated in Nicosia, Cyprus, Karswell Limited seated in Nicosia, Cyprus and Sensor Overseas Limited seated in Nicosia, Cyprus, whose shares represent approximately 83.77% of shares in Metelem .

Moreover, on December 19, 2013 Cyfrowy Polsat concluded a conditional investment agreement with the fourth shareholder of Metelem - the European Bank for Reconstruction and Development ("EBRD") concerning the transfer of Metelem shares held by EBRD as an in-kind contribution for the Company's new shares, which will be issued by the Company ("EBRD Investment Agreement"). EBRD holds shares representing approximately 16.23% of Metelem's share capital.

The details of the conditional agreement concerning the acquisition of shares in Metelem Holding Company Limited are discussed in Item 5. Material agreements.

Item 6.7. Review of operating and financial situation

Item 6.7.1. Review of operating situation

We consider the number of subscribers, churn rate and ARPU when analyzing and evaluating our Retail business segment. The table below sets forth these key performance indicators for the relevant periods and is followed by a detailed explanation of each key performance indicator.

	2013	2012	Change / %
Number of subscribers at end of period, of which:	**3 535 045**	**3 566 144**	**0.9%**
Family Package	2 685 422	2 761 248	-2.7%
Mini Package	849 623	804 896	5.6%
Average number of subscribers[1], of which:	**3 536 754**	**3 537 603**	**0.0%**
Family Package	2 716 510	2 763 276	-1.7%
Mini Package	820 244	774 327	5.9%
Churn rate, of which:	**9.5%**	**8.6%**	**0.9 pp.**
Family Package	9.6%	9.0%	0.6 pp.
Mini Package	9.5%	7.1%	2.4 pp.
Average monthly **revenue per user (ARPU) (PLN), of which:**	**40.5**	**39.3**	**3.1%**
Family Package (PLN)	48.9	46.6	4.9%
Mini Package (PLN)	13.1	13.4	-2.2%

[1]Calculated as the sum of the average number of subscribers in each month of the period divided by the number of months in the period. Average number of subscribers per month is calculated as the average of the number of subscribers on the first and the last business day of the month.

Subscribers

We define a "subscriber" as a person who signed an agreement for subscription to pay digital television services and who is obligated, under the terms of agreement, to make payments to access a package or packages of television and radio channels or who has access to such packages after making required payments but without having signed such an agreement. The number of our subscribers was approximately 3,535.0 thousand subscribers as at December 31, 2013 and remained at a similar level compared to approximately 3,566.1 thousand subscribers as at December 31, 2012. Family Package subscribers constituted 76.0% and 77.4% of our entire subscriber base as at December 31, 2013 and 2012, respectively.

Churn rate

We define "churn rate" as the ratio of the number of contracts terminated during a twelve-month period to the average number of contracts during such twelve-month period. The number of terminated contracts is net of churning subscribers entering into a new contract with us no later than the end of the same twelve-month period as well as of subscribers who used to have more than one agreement and terminated one of them to replace it with the commitment to use Multiroom service. Our churn rate increased by 0.9 percentage point from 8.6% to 9.5% in the twelve-month periods ended December 31, 2012 and December 31, 2013, with the churn rate of the Family Package increasing by 0.6 percentage point and the churn rate of Mini Package increasing by 2.4 percentage point.

ARPU

We define "ARPU" as the average net revenue per subscriber to whom we rendered services calculated as a sum of net revenue generated by our subscribers from our pay digital television services in the reporting period divided by the average number of subscribers to whom we rendered services in this reporting period. ARPU increased by 3.1% to PLN 40.5 in 2013 from PLN 39.3 (not in thousands) in 2012. The growth was due to the migration of subscribers to higher programming packages and revenue from additional services, including Multiroom, PPV and internet television. Family Package ARPU increased by 4.9%, to PLN 48.9 in 2013 from PLN 46.6 (not in thousands) in 2012. Mini Package ARPU decreased by 2.2%, to PLN 13.1 in 2013 from PLN 13.4 (not in thousands) in 2012.

Item 6.7.2. Presentation of differences between achieved financial results and published forecasts

The Company did not present forecasts for 2013.

Item 6.7.3 Review of the financial situation

The following review of results for the twelve-month period ended on December 31, 2013 was prepared based on the financial statements for the financial year ended on December 31, 2013 prepared in accordance with International Financial Reporting Standards as approved for use by the European Union and internal analyses.

All financial data is expressed in thousands.

Comparison of financial results in 2013 with the result in 2012

Revenue

Our total revenue increased by PLN 139,243, or 7.8%, to PLN 1,922,869 in 2013 from PLN 1,783,626 in 2012. Revenue grew for the reasons set forth below.

Retail revenue

Retail revenue increased by PLN 96,674, or 5.6%, to PLN 1,829,461 in 2013 from PLN 1,732,787 in 2012. This increase resulted primarily from (i) an increase in DTH subscription fee revenue attributable to an increase in ARPU and an increase in recognized revenue from internet television (such revenue did not occur in 2012), and (ii) the increase in revenue from telecommunication services and settlements with mobile network operators.

Sale of equipment

Revenue from the sale of equipment increased by PLN 22,716, or 119.8%, to PLN 41,681 in 2013 from PLN 18,965 in 2012. The increase was primarily due to increased sales of reception equipment for TV Mobilna in DVB-T standard as well as to increased revenues from sales of laptops and tablets as a result of introducing hire-purchase.

Other revenue

Other revenue increased by PLN 19,853, or 62.3%, to PLN 51,727 in 2013 from PLN 31,874 in 2012. This increase was the net effect of several factors, primarily higher revenue from signal transmission services and other sales revenue.

Total operating costs

	For the year ended December 31,		
	2013	**2012**	**Change / %**
Programming costs	471 447	425 050	10.9%
Distribution, marketing, customer relation management and retention costs	333 410	312 400	6.7%
Depreciation, amortization, impairment and disposal	219 039	202 783	8.0%
Salaries and employee-related costs	114 182	98 406	16.0%
Broadcasting and signal transmission costs	93 862	91 772	2.3%
Cost of settlements with mobile network operators and interconnection charges	77 912	44 110	76.6%
Cost of equipment sold	63 784	36 173	76.3%
Cost of debt collection services and bad debt allowance and receivables written off	29 806	27 315	9.1%
Other costs	148 716	137 464	8.2%
Total operating costs	**1 552 158**	**1 375 473**	**12.8%**

Total operating costs increased by PLN 176,685, or 12.8% to PLN 1,552,158 in 2013 from PLN 1,375,473 in 2012. Costs grew for the reasons set forth below.

Programming costs

Programming costs increased by PLN 46,397, or 10.9%, to PLN 471,447 in 2013 from PLN 425,050 in 2012. This increase is the net effect of a series of factors, the most significant being: (i) exchange rate fluctuations which led to a decrease in costs, (ii) increase in the DTH license costs related to channels introduced to newly created programming packages, aimed at building ARPU in the future.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs increased by PLN 21,010, or 6.7%, to PLN 333,410 in 2013 compared to PLN 312,400 in 2012. The increase was primarily due to higher costs of distribution of equipment for reception of "Mobile TV" in DVB-T standard, that was continued in such a significant scale until the end of July 2013, as well as higher efficiency of retention programs that will have a positive impact on the future financial results.

Depreciation, amortization, impairment and disposal

Depreciation, amortization, impairment and disposal cost increased by PLN 16,256, or 8.0%, to PLN 219,039 in 2013 from PLN 202,783 in 2012. The increase in depreciation, amortization, impairment and disposal was primarily due to a dynamic increase in the number of set-top-boxes, modems, STB hard disks and routers leased to our subscribers (accounted for as fixed assets).

Salaries and employee-related costs

Salaries and employee-related costs increased by PLN 15,776, or 16.0%, to PLN 114,182 in 2013 from PLN 98,406 in 2012. This increase was due mainly to an increase in employment, related to the growth of our business and the merger with Cyfrowy Polsat Technology Sp. z o.o. as at December 31, 2012.

Broadcasting and signal transmission costs

Broadcasting and signal transmission costs increased by PLN 2,090, or 2.3%, to PLN 93,862 in 2013 from PLN 91,772 in 2012. This is primarily the net effect of an increase in the cost of digital terrestrial broadcasting and a decrease in the cost of analogue terrestrial broadcasting..

Cost of settlements with mobile network operators and interconnection charges

Cost of settlements with mobile network operators and interconnection charges increased by PLN 33,802, or 76.6%, to PLN 77,912 in 2013 from PLN 44,110 in 2012. The increase resulted primarily from higher average use of data packages in terms of broadband internet access.

Cost of equipment sold

Cost of equipment sold increased by PLN 27,611, or 76.3%, to PLN 63,784 in 2013 from PLN 36,173 in 2012. This increase was mainly due to an increase in costs of sale of equipment for reception of "Mobile TV" in DVB-T standard, laptops, tablets and set-top boxes, as a result of a significant increase in the volumes of sales of this equipment.

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

Cost of debt collection services and bad debt allowance and receivables written off increased by PLN 2,491, or 9.1%, to PLN 29,806 in 2013 from PLN 27,315 in 2012.

Other costs

Other costs increased by PLN 11,252, or 8.2%, to PLN 148,716 in 2013 from PLN 137,464 in 2012. The increase was the result of higher costs of legal, consulting and IT services.

Other operating income / costs, net

In 2013 we recognized PLN 1,855 in net other operating income, while in 2012 we recognized PLN 10,481 in net other operating costs.

Gains and losses on investment activities, net

Net gains on investment activities amounted to PLN 312,366 in 2013 and remained at a similar level as compared to PLN 315,817 in 2012 (decrease by 1.1%).

Finance costs

Finance costs increased by PLN 103,668, or 79.5%, to PLN 234,065 in 2013 from PLN 130,397 in 2012. The increase was a net effect of several factors including primarily the impact of foreign exchange differences on the valuation of Notes (in 2013 we recognized costs on this account, while in 2012 we recognized gains), compensated to a certain extent by a decline in lower costs on the Senior Facility Loan due to lower principal pursuant to the schedule and the pre-payment of PLN 200,000 made in August 2012 and two pre-payments in the total amount of PLN 200,000 made in 2013, as well as to lower interest rate (lower WIBOR and lower margin according to the margin reduction mechanism as well as the decrease in the net debt to EBITDA ratio).

Net profit

Net profit in 2013 decreased by PLN 100,824, or by 19.0%, to PLN 429,013 from PLN 529,837 in 2012. The decline in net profit was primarily due to exchange rate differences on account of the valuation of Notes.

Other information

EBITDA & EBITDA margin

EBITDA decreased by PLN 8,850, or 1.5%, to PLN 591,605 in 2013 from PLN 600,455 in 2012. EBITDA margin declined to 30.8% in 2013 from 33.7% in 2012.

Employment

Average number of employees in Cyfrowy Polsat (excluding employees engaged in the production of reception equipment) was 847 in the twelve-month period ended December 31, 2013, as compared to 704 in the corresponding period in 2012. The increase in the average number of employees resulted from our organic growth.

Comparison of financial position as at December 31, 2013 and December 31, 2012

As at December 31, 2013 and December 31, 2012, our balance sheet amount was PLN 6,022,707 and PLN 5,994,539 respectively.

As at December 31, 2013 and December 31, 2012, our non-current assets were PLN 5,462,424 and PLN 5,417,761, respectively, and accounted for 90.7% and 90.4% of the total assets respectively.

The value of reception equipment was PLN 407,579 as at December 31, 2013, and remained at a similar level as compared to PLN 420,060 as at December 31, 2012.

The value of other property, plant and equipment decreased by PLN 5,129 or 3.0% to PLN 167,072 as at December 31, 2013 from PLN 172,201 as at December 31, 2012.

The value of goodwill amounted to PLN 52,022 as at December 31, 2013, and did not change as compared to the state as at December 31, 2012.

The value of other intangible assets increased by PLN 24,246, or 50.7%, to PLN 72,067 as at December 31, 2013 from PLN 47,821 as at December 31, 2012, primarily due to the development of our IT systems.

The value of investment property amounted to PLN 1,905 as at December 31, 2013, while as at December 31, 2012 its value was equal to PLN 0.

The value of shares in subsidiaries amounted to PLN 4,719,928 as at December 31, 2013, and increased by PLN 131,000 from PLN 4,588,928 as at December 31, 2012. The increase was primarily a result of the capital increase in subsidiaries (Redefine Sp. z o.o., Frazpc.pl Sp. z o.o., Gery.pl Sp. z o.o. and Netshare Sp. z o.o.).

Non-current deferred distribution fees amounted to PLN 29,551 as at December 31, 2013 and decreased by PLN 5,574, or 15.9%, from PLN 35,125 as at December 31, 2012, while current deferred distribution fees increased by PLN 12,959, or by 22.7%, to PLN 70,055 as at December 31, 2013 from PLN 57,096 as at December 31, 2012.

The value of other non-current assets amounted to PLN 12,300 as at December 31, 2013 and decreased by PLN 89,304, or 87.9%, compared to PLN 101,604 as at December 31, 2012. This decrease resulted primarily from the recognition of the data package from Mobyland as short-term prepayments.

As at December 31, 2013 and December 31, 2012, our current assets were PLN 560,283 and PLN 576,778, respectively, and accounted for 9.3% and 9.6% of the total assets respectively.

The value of inventories was PLN 144,694 as at December 31, 2013 and decreased by PLN 15,191, or 9.5%, from PLN 159,885 as of December 31, 2012. The decrease was mainly the effect of decrease in the stock value of reception equipment for digital terrestrial television.

The value of trade and other receivables decreased by PLN 8,462, or 3.8%, to PLN 214,305 as at December 31, 2013 from PLN 222,767 as at December 31, 2012, mainly due to a decrease in tax and social security receivables.

The value of cash and cash equivalents decreased by PLN 33,241, or 56.0%, to PLN 26,075 as at December 31, 2013, from PLN 59,316 as at December 31, 2012.

The value of other current assets increased by PLN 33,898, or 47.6%, to PLN 105,154 as at December 31, 2013 from PLN 71,256 as at December 31, 2012. This increase resulted primarily from the recognition of the data package from Mobyland as short-term prepayments.

Equity increased by PLN 440,680, or by 14.8%, to PLN 3,421,178 as at December 31, 2013 from PLN 2,980,498 as at December 31, 2012, primarily as a result of profit generated in 2013 in the amount of PLN 429,013.

Loans and borrowings (long and short term) decreased by PLN 366,270, or 40.5%, to PLN 537,172 as at December 31, 2013, from PLN 903,442 as at December 31, 2012. The change was due primarily to the two pre-payments ahead of schedule in the total amount of PLN 200,000 in 2013 and scheduled repayments of the Term Loan, as well as interest payments.

The Notes liabilities (long and short-term) increased by PLN 25,694, or by 1.8%, to PLN 1,434,965 as at December 31, 2013 from PLN 1,409,271 as at December 31, 2012, primarily due to the increase in the euro exchange rate applied for the valuation of the Notes.

Non-current and current deferred income amounted to PLN 213,420 as at December 31, 2013 and increased by PLN 7,575, or 3.7% from PLN 205,845 as at December 31, 2012, mainly due to advance payments for subscription fees.

The value of other non-current liabilities and provisions decreased by PLN 7,469, or by 51.0%, to PLN 7,175 as at December 31, 2013 from PLN 14,644 as at December 31, 2012. The decrease was primarily due to lower liabilities from valuation of hedging instruments.

The value of trade and other payables decreased by PLN 66,753, or 18.0%, to PLN 304,708 as at December 31, 2013 from PLN 371,461 as at December 31, 2012, mainly as a result of a decrease in trade payables as well as a decrease in accruals.

The value of short-term deposits for equipment decreased by PLN 10,532, or 79.4%, to PLN 2,727 as at December 31, 2013 from PLN 13,259 as at December 31, 2012.

Item 6.8. Liquidity and capital resources

We maintain cash and cash equivalents to fund the day-to-day requirements of our business. We hold cash primarily in Polish zloty. Until 2011, we relied primarily upon cash flows from operations and bank borrowings to provide the funds required for acquisitions and operations. In 2011, we used an additional source of financing - issue of bonds. Our objective is to ensure cost-efficient access to various financing sources, including bank loans and other borrowings.

While we hold cash primarily in Polish zloty, we maintain also other currencies, the value of which depends on the amount of payments to be made for license fees to broadcasters, signal transmission costs, the costs of using the conditional access system, the purchase of set-top-boxes and accessories as well as the purchase of components for in-house manufactured set-top boxes, as well as payments related to service of Notes denominated in euro.

Our non-current liabilities amounted to PLN 1,669,165 as at December 31, 2013 as compared to PLN 2,004,654 as at December 31, 2012 (decrease by 16.7%). Our current liabilities amounted to PLN 932,364 as at December 31, 2013 as compared to PLN 1,009,387 as at December 31, 2012 (decrease by 7.6%).

Our total debt from long- and short-term loans and borrowings and notes as at December 31, 2013 was PLN 1,972,137 compared to PLN 2,312,713 as at December 31, 2012 (decrease by 14.7%).

Our cash and cash equivalents amounted to PLN 26,075 as at December 31, 2013 as compared to PLN 59,316 as at December 31, 2012.

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

In 2013, the Company generated high cash flow, that were sufficient for both current needs and servicing the debt (described below) and even its prepayments.

We plan to finance the acquisition of 100% share in Metelem Holding Company Limited, a company holding indirectly 100% share in the share capital of Polkomtel Sp. z o.o., valued at PLN 6.15 billion (not in thousands) by way of issue of not more than 291,193,180 new shares at the assumed issue price of PLN 21.12 (not in thousands) per share. After the finalization of the transaction the new shares will constitute 45.53% of the increased share capital of the Company and 35.56% of votes of the Company.

Item 6.8.1. External sources of financing

Bank Loans

In connection with the acquisition of TV Polsat, on March 31, 2011 the Company together with its subsidiaries, concluded a Senior Facilities Agreement with a syndicate of Polish and international banks led by: Citibank, N.A., London Branch, Bank Handlowy w Warszawie S.A., Crédit Agricole CIB, The Royal Bank of Scotland plc. ("the Bookrunners").

The Senior Facilities Agreement provided for a term facility loan of up to PLN 1,400,000,000 (not in thousands) and a revolving facility loan of up to PLN 200,000,000 (not in thousands). The interest rate applicable for both, the term facility and revolving facility loan, was agreed as variable rates comprising WIBOR, for the relevant interest periods, and the applicable margin. The term facility loan is to be repaid in quarterly installments in varying amounts commencing June 30, 2011. Both facilities expire on December 31, 2015. As at December 31, 2013 the revolving facility was not used.

We use interest rate swaps to hedge our exposure to volatility in the Term Loan interest payments. The IRS transactions concluded in 2011 were described in the Note no. 30 of the financial statements for the year ended December 31, 2011, and the transactions concluded in 2012 are described in the financial statements for the year ended December 31, 2012 (in the Note no. 27). In 2013 we did not concluded additional hedging transactions.

On August 29, 2012, on June 28, 2013 and on September 10, 2013 we have repaid the Term Facility Loan ahead of schedule in the amounts of PLN 200,000, PLN 100,000 and PLN 100,000, respectively. The repayments were executed using the cash generated from the Group's operations, the third prepayment comprised also the total proceeds from the sale of RS TV (according to the terms of SFA). These repayments have a positive impact on our results through proportional decrease in principal payments and accrued interest.

Summary of significant provisions of the agreements

Mandatory prepayments

The facilities will be cancelled and the outstanding balance, together with accrued interest, shall become immediately due and payable upon loss of control by Mr Zygmunt Solorz-Żak (or party related with him) over the Company or loss of control by the Company over TV Polsat. The facilities shall become immediately due upon sale of all or substantially all of the Group or the assets of the Group.

Mandatory prepayments are also required in the following amounts:

- in the amount equal to 65% of excess cash flow for any financial year of the Company or equal to 25% if total net debt to EBITDA ratio of the Company is less than 2.0,
- in the amount of disposal proceeds for transaction exceeding PLN 10 million (not in thousands) in respect of any one disposal or PLN 40 million (not in thousands) in aggregate at any time before the facilities are repaid in full,
- in the amount of debt proceeds or equity proceeds if total net debt to EBITDA ratio of the Company exceeds 2.0.

In addition, voluntary Senior Notes repayment is allowable only if accompanied by a repayment of term and revolving facilities.

Financial covenants

The loan agreement imposed on the Group the obligation to maintain financial ratios at a certain level. The Debt Service Cover shall be at least 1.50 for the period of 12 months ended December 31, 2013. The Interest Cover shall be at least 3.50 for the period of 12 months ended December 31, 2013. The Total leverage shall not exceed 3.00 for the period of 12 months ended December 31, 2013. Financial covenants shall be tested on each quarter date and shall be reported on by the Management Board at the end of the financial year.

Additionally, restrictions which are imposed on the Group include the following:

- restrictions relating to mergers, acquisitions, joint venture transactions,
- restrictions related to disposal of assets and substantial change of business,
- restrictions related to incurring additional financial indebtedness and share capital issue,
- restrictions relating to cash out transactions (inter alia dividend and other distribution payments, repayment of principal and interest of financial indebtedness, management/advisory fee payments, advance or similar kind of payment to related parties).

Additionally, the Group is obliged inter alia to the following:

- provide the banks with any material documents and information concerning the financial standing of the Group,
- hedge against interest rate and foreign exchange rate fluctuations in respect of the amounts outstanding under the term facility and Senior Notes,
- all bank accounts shall be opened and maintained with the lending banks,
- use, for the purpose of financial statements' audit, only the services of the auditors specified in the agreement, or the services of other auditors if approved by the majority of banks.

Intercompany Notes

On May 20, 2011, the Company issued unsecured interest-bearing Series A Bonds due in 2018 in the nominal aggregate amount of EUR 350 million (EUR 35 million each, not in thousands) acquired in whole by its subsidiary Cyfrowy Polsat Finance AB (the "Intercompany Bonds"). The aggregate issue price of the Intercompany Bonds in the amount of EUR 343 million (not in thousands) was equal to the nominal value of the Bonds less 2% commission.

The interest rate applicable to the Intercompany Bonds accrues at the rate of 8.16% per annum and is payable semiannually in arrears on May 20 and November 20, commencing on November 20, 2011. Intercompany Bonds shall be redeemed on May 20, 2018 by way of pecuniary payment equal to the nominal value of the Intercompany Bonds.

The funds from the Intercompany Bonds were raised through the issue by Cyfrowy Polsat Finance AB, our wholly owned subsidiary, on May 20, 2011 of 7.125% senior secured notes due in 2018 of the aggregate principal amount of EUR 350 million (not in thousands) (Senior Notes). The issuer of Senior Notes is a special purpose financing company with no operations of its own. Cyfrowy Polsat Finance relies on payments from us under the Notes Proceeds Loan to make cash payments on the Senior Notes.

Pursuant to the Indenture, interest on the Senior Notes accrues from (and including) May 20, 2011 and will be computed on the basis of a 360-day year comprised of twelve 30-day months. Interest on the Senior Notes will accrue at the rate of 7.125% per annum and will be payable semiannually in arrears on May 20 and November 20, commencing on November 20, 2011. The Senior Notes were issued in minimum denominations of EUR 100,000 (not in thousands) and integral multiples of EUR 1,000 (not in thousands) in excess thereof.

For the purpose of hedging future cash flows regarding interest payments, denominated in euro, the Company concluded CIRS (cross-currency interest rate swap) transaction. The CIRS transactions concluded in 2011 were described in the Note no. 30 of the financial statements for the year ended December 31, 2011, and the transactions concluded in 2012 are described in the attached financial statement for the financial year ended December 31, 2012 (in the Note no. 27). In 2013 we did not conclude additional hedging transactions.

The Indenture contains covenants that are typical for high yield notes and impose financial and operating restrictions on the Company. These covenants limit, among other things, the ability of the Company and its restricted subsidiaries to: (i) incur additional indebtedness; (ii) make certain restricted payments; (iii) transfer or sell assets; (iv) enter into transactions with affiliates; (v) create certain liens; (vi) create restrictions on the ability of restricted subsidiaries to pay dividends or other payments; (vii) issue guarantees of indebtedness by restricted subsidiaries; (viii) merge, consolidate, amalgamate or combine with other entities; and (ix) designate restricted subsidiaries as unrestricted subsidiaries. Each of the covenants is subject to a number of important exceptions and qualifications set forth in the Indenture.

On February 25, 2014 the Company and a group of financial institutions, whose composition was not yet established as at the date of this Report, commenced negotiations that are intended to provide the Company with the refinancing for a full repayment of the Company's outstanding indebtedness under the Senior Facilities Agreement of 31 March 2011, as amended, and under the Senior Secured Notes issued pursuant to the Indenture of 20 May 2011. Obtaining the said refinancing is one of conditions precedent for the Company to close an acquisition of shares in Metelem Holding Company Limited, an indirect parent company of Polkomtel sp. z o.o., operator of the Plus mobile network.

Item 6.8.1.1. Information on incurred and terminated credit and loan agreements

In 2013, the Company did not incur or terminated any credit or loan agreements.

Item 6.8.2. Cash flows

The following table presents selected cash flow data for twelve-month periods ended December 31, 2013 and 2012:

	For the twelve months ended December 31,	
	2013	**2012**
Net cash flow from operating activities	447 473	425 092
Net cash flow from investing activities	91 858	198 157
Net cash flow used in financing activities	(572 556)	(575 796)
Net increase/(decrease) in cash and cash equivalents	(33 225)	47 453

Net cash flow from operating activities

Net cash from operating activities amounted to PLN 447,473 in the 12-month period ended December 31, 2013 resulting mainly from the generated net profit of PLN 429,013 adjusted by various elements including primarily: (i) depreciation, amortization, impairment and disposal, interest payments, a decrease in receivables and other assets, (ii) income on dividend from Telewizja Polsat, Cyfrowy Polsat Finance and Cyfrowy Polsat Trade Marks, (iii) a net increase in set-top boxes provided under operating lease, and (iv) a change in liabilities, provisions and deferred income. Net cash from operating activities amounted PLN 425,092 in the twelve-month period ended December 31, 2012 resulting mainly from the generated net profit of PLN 529,837 adjusted by various elements including primarily: (i) depreciation, amortization, impairment and disposal, interest expense and income tax, (ii) income on dividend from TV Polsat, (iii) a net increase in reception equipment provided under operating lease, (iv) net gains on foreign exchange, (v) an increase in receivables and other assets, (vi) a change in liabilities, provisions and deferred income.

Net cash flow from investing activities

Net cash from investing activities amounted to PLN 91,858 in the 12-month period ended December 31, 2013 and related to dividend from Telewizja Polsat, Cyfrowy Polsat Finance and Cyfrowy Polsat Trade Marks. The income was partially compensated mainly by an increase in the share capital of subsidiaries (Redefine Sp. z o.o., Frazpc.pl Sp. z o.o., Netshare Sp. z o.o. oraz Gery.pl Sp. z o.o.), and the purchase of property, plant and equipment and acquisition of intangible assets. Net cash from investing activities amounted to PLN 198,157 in the twelve-month period ended December 31, 2012 and consisted primarily of dividend from TV Polsat, netted partially by acquisition of shares in INFO-TV-FM Sp. z o.o., Redefine Sp. z o.o. and Netshare (net of cash acquired) and the purchase of property, plant and equipment and acquisition of intangible assets.

Net cash flow used in financing activities

Net cash used in financing activities amounted to PLN 572,556 in the 12-month period ended December 31, 2013 and consisted primarily of the repayment of two voluntary prepayments in the total amount of PLN 200 million (not in thousands) and scheduled repayments of SFA, repayment of interests on loans, borrowings, Notes and finance lease as well as paid provisions. Net cash used in financing activities amounted to PLN 575,796 in the twelve-month period ended December 31, 2012 and consisted primarily of voluntary prepayment and scheduled repayments of SFA, repayment of interests on loans, borrowings, Notes and finance lease as well as paid provisions.

Item 6.8.3. Capital expenditures

We incurred capital expenditures of PLN 80,497 and PLN 56,413 in 2013 and 2012, respectively. Capital expenditures to revenue from sales ratio amounted to 4.2% and 3.2% in 2013 and 2012, respectively. Capital expenditures in 2013 were related primarily to maintenance, modification and development of IT systems, construction and modernization works, purchase of IT equipment, technical equipment .

Item 6.8.4. Contractual Obligations

Our most significant contractual obligations (future cash flows) as at December 31, 2013 were as follows:

	Total	Less than 1 year	1 to 5 years	Over 5 years
Contractual liabilities				
Loans and borrowings	596 984	314 223	282 761	-
Senior Notes liabilities	1 984 518	118 444	1 866 074	-
Total contractual liabilities	**2 581 502**	**432 667**	**2 148 835**	**0**

As at December 31, 2013, most of our contractual liabilities were long-term liabilities due in more than one year.

Item 6.8.5. Off-Balance Sheet Arrangements

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of the technical equipment was PLN 1,895 as at 31 December 2013 (PLN 66 as at 31 December 2012). Total amount of capital commitments resulting from agreements on property improvements was PLN 0 as at 31 December 2013 (PLN 5,878 as at 31 December 2012). Additionally the amount of deliveries and services committed to under agreements for the purchases of licenses and software as at 31 December 2013 was PLN 1,979 (PLN 405 as at 31 December 2012).

Item 6.9. Information on loans granted with particular emphasis on loans granted to related entities

In 2013 the Company did not grant loans.

Item 6.10. Information on granted and received guarantees with particular emphasis on guarantees granted to related entities

Following the increase in the share capital of the companies: Redefine Sp. z o.o., Frazpc.pl Sp. z o.o., Netshare Sp. z o.o. and Gery.pl Sp. z o.o., executed through the issue of new shares and assuming the shares by Cyfrowy Polsat S.A. and pursuant to the provisions of pledges agreements established on the shares of these companies on April 18, 2012, on February 28 and March 26, 2013, the Company has concluded with Citicorp Trustee Company Limited agreements for the establishment of registered and financial pledges on the new shares in the increased share capital of the companies abovementioned, that complement the securities in respect to the repayment of the Term Loan and Revolving Facility according to the Senior Facilities Agreement entered into on March 31, 2011 and the repayment (redemption, repurchase) of the High Yield Notes (Senior Notes).

In addition, on February 28, 2013, Telewizja Polsat Sp. z o.o. entered into agreement with Citicorp Trustee Company Limited establishing registered and financial pledges on all shares in Polsat Media Biuro Reklamy Sp. z o.o.

On March 6, 2013, the change of the pledger on the shares of RS TV S.A. was effected following the transfer of 100% shares in this company from Telewizja Polsat Sp. z o.o. (initial pledger) to Telewizja Polsat Holdings Sp. z o.o. (new pledger).

On March 26, 2013, the companies: Polsat Media Biuro Reklamy Sp. z o.o., Redefine Sp. z o.o., Poszkole.pl Sp. z o.o., Gery.pl Sp. z o.o., Netshare Sp. z o.o. and Frazpc.pl Sp. z o.o. entered the Senior Facilities Agreement dated March 31, 2011, and consequently established additional securities to the benefit of Citicorp Trustee Limited securing the repayment of the Term Loan, Revolving Facility and Senior Notes, in particular:

- transfer of receivables for security, due to Polsat Media Biuro Reklamy Sp. z o.o., Redefine Sp. z o.o., Poszkole.pl Sp. z o.o., Gery.pl Sp. z o.o., Netshare Sp. z o.o. and Frazpc.pl Sp. z o.o.;
- registered pledge on tangible assets and rights of a varying composition comprising the business of: Polsat Media Biuro Reklamy Sp. z o.o., Redefine Sp. z o.o., Poszkole.pl Sp. z o.o., Gery.pl Sp. z o.o., Netshare Sp. z o.o. and Frazpc.pl Sp. z o.o.;
- financial and registered pledges on all shares in Poszkole.pl Sp. z o.o.;
- statements on submission to the enforcement procedure as stipulated by the notary deed of Polsat Media Biuro Reklamy Sp. z o.o., Redefine Sp. z o.o., Poszkole.pl Sp. z o.o., Gery.pl Sp. z o.o., Netshare Sp. z o.o. and Frazpc.pl Sp. z o.o.

Following the share capital increase of Telewizja Polsat Holdings Sp. z o.o. dated March 6, 2013 (through new shares issued acquired by Telewizja Polsat Sp. z.o.o.) and pursuant to the pledge agreement over the shares dated July 10, 2012, on April 25, 2013 the Telewizja Polsat Sp. z o.o. entered into agreement establishing registered and financial pledges on all new shares in the increased share capital.

On June 12, 2013, following the sale of 100% shares in Nord License AS by Telewizja Polsat Sp. z o.o. to Telewizja Polsat Holdings Sp. z o.o. and the release of pledges on the shares in the sold company established by Telewizja Polsat Sp. z o.o., Telewizja Polsat Holdings Sp. z o.o. signed with Citicorp Trustee Company Limited an agreement establishing the pledge on all shares in Nord License AS.

On June 26, 2013, the following companies: Redefine Sp. z o.o., Gery Sp. z o.o., Poszkole.pl Sp. z o.o., Netshare Sp. z o.o., Frazpc.pl Sp. z o.o., Polsat Media Biuro Reklamy Sp. z o.o. and Telewizja Polsat Holdings Sp. z o.o. have joined the Indenture and agreed to provide unconditional guarantees for the obligations of the issuer – Cyfrowy Polsat Finance AB – related to Senior Notes. In addition, on July 1, 2013, Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp. k. has joined the Indenture as guaranteeing entity.

Following the increase in share capital of INFO-TV-FM Sp. z o.o. through new shares issued and acquired by Telewizja Polsat Holdings Sp. z o.o., on July 15, 2013, Telewizja Polsat Holdings Sp. z o.o. entered into agreement establishing registered and financial pledges on new shares in the increased share capital of INFO-TV-FM Sp. z o.o. that complement the securities in respect to the repayment of the Term Loan and Revolving Facility according to the Senior Facilities Agreement entered into on March 31, 2011 and the repayment (redemption, repurchase) of the High Yield Notes (Senior Notes).

On July 15, 2013, the following companies: Telewizja Polsat Sp. z o.o., Polsat Media Biuro Reklamy Sp. z o.o., Media-Biznes Sp. z o.o., Redefine Sp. z o.o., Netshare Sp. z o.o., Frazpc.pl Sp z o.o., Gery.pl Sp. z o.o. and Poszkole.pl Sp. z o.o. (partners in Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp. k.) signed agreements with Citicorp Trustee Company Ltd. establishing ordinary and registered pledges on partner's share in Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp. k. (i.e. on all transferable rights and obligations arising from the participation as a partner in the limited partnership company), securing the repayment of the Term Loan, Revolving Facility and Senior Notes.

Until the end of August 2013, in connection with the ongoing process of sale of 100% shares in RS TV S.A., all securities established on shares and assets of this company have been waived. It was one of the conditions precedent included in the conditional agreement concerning the sale of RS TV S.A.

On October 8, 2013, Telewizja Polsat Sp. z o.o. and Polsat License Ltd., as the sole partners in Polsat Brands, entered into agreements with Citicorp Trustee Company Limited acting as security agent, establishing the following securities securing the repayment of the Term Loan, Revolving Facility and Senior Notes:

- pledge on partnership interests in Polsat Brands;
- assignment of Polsat Brands' receivables for security;
- assignment of Polsat Brands' bank accounts for security.

Moreover, on October 18, 2013, in connection with the contribution in kind of certain trademarks valued at PLN 880 million (not in thousands) transferred by TV Polsat to Polsat Brands, the companies TV Polsat and Polsat License Ltd. entered into an agreement establishing registered and ordinary pledges over protection rights over the Trademarks in favour of Citicorp Trustee Company Limited, securing the repayment of the Term Loan, Revolving Facility and Senior Notes.

Item 6.11. Information on material proceedings at the court, arbitration body or public authorities against the Company or consolidated subsidiaries

As at the date of publication of the hitherto Report, there were no material proceedings at court, arbitration body or public authorities against the Company or consolidated subsidiaries on process.

Provisions for pending litigation are estimated based on the court documentation and the expertise of the Company's lawyers who participate in the current litigations. The Company's probable obligations are estimated based on the progress of litigation proceedings.

Item 6.12. Information on market risks

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

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

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

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

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

It is permitted to use the following types of instruments:

- Swaps,
- Forwards and futures,
- Options.

Currency risk

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

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

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

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

(all financial data presented in PLN thousand, unless otherwise stated)

	31 December 2013				31 December 2012			
	EUR	**USD**	**GBP**	**CHF**	**EUR**	**USD**	**GBP**	**CHF**
Trade receivables	2,596	152	-	-	3,188	192	-	-
Cash and cash equivalents	727	899	-	-	2,604	2,038	-	1
Issued bonds	(346,008)	-	-	-	(344,717)	-	-	-
Trade payables	(2,436)	(5,221)	-	-	(4,148)	(6,300)	-	(71)
Gross balance sheet exposure	**(345,121)**	**(4,170)**	**-**	**-**	**(343,073)**	**(4,070)**	**-**	**(70)**
CIRS	12,469	-	-	-	37,406	-	-	-
Net exposure	**(332,652)**	**(4,170)**	**-**	**-**	**(305,667)**	**(4,070)**	**-**	**(70)**

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

	Average rate		Rates at the balance sheet date	
(in PLN)	**2013**	**2012**	**31 December 2013**	**31 December 2012**
1 EUR	4.1975	4.1850	4.1472	4.0882
1 USD	3.1608	3.2570	3.0120	3.0996

For the purposes of the exchange rate sensitivity analysis as at 31 December 2013 and 31 December 2012, 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 2012.

(all financial data presented in PLN thousand, unless otherwise stated)

	2013					2012				
	As at 31 December 2013		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at 31 December 2012		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	2,596	10,766	5%	538	-	3,188	13,032	5%	652	-
USD	152	457	5%	23	-	192	594	5%	30	-
Cash and cash equivalents										
EUR	727	3,016	5%	151	-	2,604	10,645	5%	532	-
USD	899	2,709	5%	135	-	2,038	6,316	5%	316	-
GBP	-	-	5%	-	-	-	2	5%	-	-
CHF	-	-	5%	-	-	1	3	5%	-	-
Issued bonds										
EUR	(346,008)	(1,434,965)	5%	(71,748)	-	(344,717)	(1,409,271)	5%	(70,464)	-
Trade payables										
EUR	(2,436)	(10,103)	5%	(505)	-	(4,148)	(16,959)	5%	(848)	-
USD	(5,221)	(15,725)	5%	(786)	-	(6,300)	(19,529)	5%	(976)	-
GBP	-	(1)	5%	-		-	-	5%	-	-
CHF	-	-	5%	-	-	(71)	(241)	5%	(12)	-
Change in operating profit				**(72,192)**	**-**				**(70,770)**	**-**
CIRS										
EUR	12,469	51,711	5%	589	1,973	37,406	152,923	5%	581	6,841
Income tax				13,605	(375)				13,336	(1,300)
Change in net profit				**(57,998)**	**1,598**				**(56,853)**	**5,541**

(all financial data presented in PLN thousand, unless otherwise stated)

	2013					2012				
	As at 31 December 2013		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at 31 December 2012		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	2,596	10,766	-5%	(538)	-	3,188	13,032	-5%	(652)	-
USD	152	457	-5%	(23)	-	192	594	-5%	(30)	-
Cash and cash equivalents										
EUR	727	3,016	-5%	(151)	-	2,604	10,645	-5%	(532)	-
USD	899	2,709	-5%	(135)	-	2,038	6,316	-5%	(316)	-
GBP	-	-	-5%	-	-	-	2	-5%	-	-
CHF	-	-	-5%	-	-	1	3	-5%	-	-
Issued bonds										
EUR	(346,008)	(1,434,965)	-5%	71,748	-	(344,717)	(1,409,271)	-5%	70,464	-
Trade payables										
EUR	(2,436)	(10,103)	-5%	505	-	(4,148)	(16,959)	-5%	848	-
USD	(5,221)	(15,725)	-5%	786	-	(6,300)	(19,529)	-5%	976	-
GBP	-	(1)	-5%	-	-	-	-	-5%	-	-
CHF	-	-	-5%	-	-	(71)	(241)	-5%	12	-
Change in operating profit				**72,192**	**-**				**70,770**	**-**
CIRS										
EUR	12,469	51,711	-5%	(589)	(1,971)	37,406	152,923	-5%	(581)	(6,819)
Income tax				(13,605)	374				(13,336)	1,296
Change in net profit				**57,998**	**(1,597)**				**56,853**	**(5,523)**

	2013		2012	
	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	(57,489)	1,598	(56,333)	5,541
USD	(509)	-	(510)	-
GBP	-	-	-	-
CHF	-	-	(10)	-
Estimated change in exchange rate by -5 %				
EUR	57,489	(1,597)	56,333	(5,523)
USD	509	-	510	-
GBP	-	-	-	-
CHF	-	-	10	-

(all financial data presented in PLN thousand, unless otherwise stated)

Had the Polish zloty weakened by 5% against the basket of currencies as at 31 December 2013 and 31 December 2012, the Company's net profit would have decreased by PLN 57,998 and decreased by PLN 56,853, respectively and other comprehensive income would have increased by PLN 1,598 in 2013 and PLN 5,541 in 2012. Had the Polish zloty strengthened by 5%, the Company's net profit would have correspondingly increased by PLN 57,998 in 2013 and increased by PLN 56,853 in 2012 and other comprehensive income would have decreased by PLN 1,597 in 2013 and decreased by PLN 5,523 in 2012, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

Interest rate risk

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

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

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

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

	Carrying amount	
	31 December 2013	**31 December 2012**
Fixed rate instruments		
Financial assets	-	1
Financial liabilities	(1,454,523)	(1,435,595)
Variable rate instruments		
Financial assets	25,954	59,188
Financial liabilities	(568,374)	(959,179)
Net interest exposure	**(542,420)**	**(899,991)**

Cash flow sensitivity analysis for variable interest 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 2013						
Variable rate instruments*	(5,454)	5,454	3,098	(3,098)	(2,326)	2,326
Cash flow sensitivity (net)	**(5,454)**	**5,454**	**3,098**	**(3,098)**	**(2,326)**	**2,326**
31 December 2012						
Variable rate instruments*	(9,000)	9,000	7,787	(7,787)	(1,213)	1,213
Cash flow sensitivity (net)	**(9,000)**	**9,000**	**7,787**	**(7,787)**	**(1,213)**	**1,263**

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

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

Item 7. Transactions with related parties

We present information on material transaction we, or our subsidiary, concluded with a related party in the financial statements for the financial year ended December 31, 2013 in Note 37 *Transactions with related parties*.

Item 8. Key risk and threat factors

Risks Related to Our Business and Sector in which we operate

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

The Company derives almost all of its revenue from pay TV subscribers and TV advertisers in Poland. Our revenue in the retail business segment depends on the amount of cash our existing and potential subscribers could 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 subscribers or their growth rate, or on our subscribers' spending on our services. Lower consumer spending caused by economic recession may also lead existing and potential subscribers to choose cheaper versions of our service packages or give up our services, which in turn may have a material adverse effect on our business performance, financial standing and growth prospects.

We are exposed to foreign exchange risk

Our business is exposed to risk related to fluctuations in foreign exchange rates. While our revenue is denominated mainly in the Polish zloty, approximately one third of our operating expenses in 2013 were denominated in other currencies. We hold trade payables (amounts due for access to the catalogues of suppliers and producers of programming content, purchase of modems and set-top box parts, other hardware and software, as well as lease of transponder capacities) that are denominated in foreign currencies, mainly in the euro and the US dollar. Fluctuations in foreign exchange rates are beyond our control and any adverse changes in the exchange rates of foreign currencies against the Polish zloty may significantly increase our costs and expenses translated into the Polish zloty, which in turn may have a material adverse effect on our business performance, financial standing and growth prospects.

In addition, our Notes are denominated in the euro, which substantially increases our exposure to the risk of fluctuations in foreign exchange rates as any movements in the euro exchange rate against the Polish zloty may increase the zloty-denominated amounts required to service principal and interest payments under the Senior Notes.

The performance of our business depends on our customers' satisfaction and the acceptance of our programmes by viewers, as well as our ability to generate profit from acquired broadcasting rights

We operate on markets where a commercial success primarily depends on customer satisfaction and acceptance of programmes, and viewers' reactions are often difficult to predict. We strive to acquire and retain pay TV subscribers 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 subscribers are satisfied with our programming is vital for our ability to acquire and retain customers, as well as to generate and increase subscriber revenue.

Demand for TV programmes and programming preferences change frequently, irrespective of the media carrying them. We might not be able to attract or retain subscribers 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 subscriber churn rate, and with respect to the TV production and broadcasting segment, 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 obtain broadcasting rights to the most attractive programmes, while maintaining cost efficiency. Consequently, if customers do not accept our programmes or we are unable to profitably acquire broadcasting rights, it may have a material adverse effect on our operations business performance, financial standing and growth prospects.

We are exposed to 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 customers' leisure time. In particular, our operations are competitive with respect to 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 the selection of entertainment options available to existing and potential users of our services. The growing variety of leisure and entertainment options may bring about a decrease in demand for our products and services, and weaken television's effect as an advertising medium. This may have a material adverse effect on our business performance, financial standing and growth prospects.

We may be unable to attract or retain subscribers if we fail to conclude or extend the licence agreements under which we distribute key programmes

Our performance depends on our ability to acquire attractive television programmes. Our pay TV subscribers' access to television channels is ensured entirely by our purchase of licences from TV broadcasters. Our licence agreements are usually concluded for specified periods, usually two to three years for films and serials and three to five years for sports content. 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 subscribers, 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 favourable 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. 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 our losing the ability to acquire and retain subscribers. This in turn may have a material adverse effect on our business performance, financial standing and growth prospects.

Given the intense competition across all market segments on which we operate, there can be no assurance that in the future our subscribers 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 will be satisfactory compared to that of our peers. Our current and future competitors may outmatch us in terms of financial and marketing resources, which may allow them to attract subscribers and advertisers more effectively.

At present, nc+, a platform created in late 2012 following the merger of Cyfra+ and the n platform, is our main competitor on the satellite TV market. Apart from other DTH providers, 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 telecom operators. It is also probable that we will have to face foreign competitors entering the Polish market.

Losing subscribers to our competitors may have a material adverse effect on our business performance, financial standing and growth prospects.

The prospects of increasing sales of our pay TV and broadband Internet services depend on the effectiveness of our sales network

We operate an organised and specialised Poland-wide sales network that distributes our pay TV and broadband Internet services. Because of growing competition with other pay TV providers, we might have to raise the fees paid to our sales agents in order to expand the sales and distribution network, and change the channels we currently use to distribute our pay TV and broadband Internet services. Any potential increase of fees paid to sales agents in our sales and distribution network will result in higher operating costs and probably lead to lower profit from operating activities in the retail business segment. Furthermore, if we decide that our distribution network requires extensive reorganisation or reconstruction, we may face substantial capital expenditure. Any failure in maintaining, expanding or modifying of our sales and distribution network may make it much harder to attract and maintain pay TV and broadband Internet subscribers, which may have a material adverse effect on our business performance, financial standing and growth prospects.

In conducting our business, we depend on external providers for certain services, infrastructure, equipment or specific components. If these are delivered late or not at all our services may delayed or even suspended

External providers supply us with support services and deliver equipment, infrastructure and components necessary to our operations. We have little to no influence over how and when these external providers perform their obligations.

We collaborate with a number of external entities in providing our pay TV, broadband Internet and mobile telephony services. Our ability to deliver pay TV services to the subscribers depends on the correct operation of the infrastructure and equipment belonging to the entities with which we collaborate. For example, we lease transponders from Eutelsat S.A. in order to provide digital television signal via satellite to individual subscribers in Poland, while Emitel broadcasts our terrestrial channels. Simultaneously we depend on an external company, Nagravision S.A., who provides us with a conditional access system, which secures our networks against unauthorized access by pirates or hackers. Similarly, our broadband Internet and mobile telephony services rely on the quality of the broadband infrastructure or mobile networks of external operators. For example our data transmission services via HSPA+ and LTE technologies highly depend on the ability of third parties, such as Mobyland, to develop and grant us access to their wireless access network in the territory of Poland.

Furthermore, when providing broadcasting services we are supported by numerous external entities, and we also outsource a range of activities unconnected with our broadcasting operations, including certain IT processes. We also use components purchased from external providers in our set-top box production. These, and other services, are often central to our operating activities.

The provision of our products and 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, equipment or components in a timely manner, on acceptable terms or at all.

In particular, the lack of access to specific dedicated components used in our set-top box production, due to i.a. the termination of production of the said components by the manufacturer or a change in technology or product, could require the modification of the construction of our set-top boxes, which in effect could result in a disruption in their production for several months, until we design new set-top boxes.

The majority of our subscribers' antenna installations are adapted to receive the signal broadcast by transponders, leased by us from Eutelsat S.A. on the basis of long-term agreements, which can be prolonged. If the necessity to change our satellite operator arises, should Eutelsat terminate our agreements, or refuse to prolong them, or any other reasons, we would be forced to find another provider of satellite capacity and potentially reposition the satellite antenna owned by our subscribers. Given the size of our subscriber base, this would be a time-consuming and expensive operation.

The occurrence of these and other disruptions or interruptions in the supply of our products and services may have a material adverse effect on our business performance, financial standing and growth prospects.

We may not be able to adjust to the changing technologies applied on markets, in which we operate The technologies used in delivering pay TV, broadband Internet and mobile telephony 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. The compression, signal encoding and subscriber management systems vital to the correct functioning of our satellite centre, the set-top boxes manufactured at our plant, as well as other software and technologies used by us and our suppliers, must be constantly updated and replaced to match the latest technological developments. Our inability to replace obsolete technological solutions as needed may have an adverse effect on our pay TV services, which may in turn cause an outflow of subscribers to competitors who have brought their technologies up to date.

Technological progress compels 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 functions, as well as other devices and technologies – introduce new media and entertainment options and change the way subscribers receive content. This allows them to enjoy television outside their homes or at a later time, without commercials and according 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. 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 broadcasting activities, may have a material adverse effect on our business performance, financial standing and growth prospects.

Initiatives designed to expand our service offering and increase its share in the pay TV market may result in costs outpacing revenue

The effort made on continually expanding our range of products and services may prove very expensive. In our assessment, further expansion in the broadband Internet market may significantly increase our average subscriber acquisition cost. The effort to increase our penetration of the pay TV market may also drive that cost up, and it may increase even further if fees paid to our sales agents are raised. There can be no assurance that the capital expenditure we have already made and will make in the future on expanding our services portfolio and increasing our share in the pay TV market will be fully recovered, or that sufficient revenues will be generated to offset these expansion costs, which may have a material adverse effect on our business performance, financial standing and growth prospects.

Failures of IT and telecommunications systems, including our satellite system, may require significant capital expenditure to bring them back to working condition

The success of our operations is to a large extent dependent on the efficiency of the IT and telecommunications systems in use, and a failure of one or more components of these systems may significantly hinder our operating performance and growth prospects. The IT and telecommunications systems we use are vulnerable to the consequences of natural disasters (such as earthquakes, floods, hurricanes, storms and other natural phenomena), loss of power supply, interruptions in provision of telecommunications services, network software bugs, damage of transponders and satellites, terrorist activity, sabotage, riots, social unrest, strikes, other collective disputes, and disasters. In the DTH market we rely primarily on our satellite centre, as well as satellite transponders, the subscriber 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 interruption or even suspension of our activities for a certain period of time. Failure of any of our IT systems may prevent us from carrying out our operations successfully, while restoring them to full working operation may require significant capital expenditure. Also, subscribers may claim damages for interrupted or suspended service due to failure of our IT systems, which may have a material adverse effect on our business performance, financial standing and growth prospects.

We may lose or be unable to maintain the good name of the Cyfrowy Polsat and Telewizja Polsat brands he loss of or inability to maintain the good name and value of the Cyfrowy Polsat brand may have a negative effect on our operations

The Cyfrowy Polsat brand is a significant component of the Company's value. Maintaining its good name and value is fundamental for acquiring new and maintaining existing subscribers. 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 limited control. If our partners fail to comply with relevant performance standards or supply faulty products or services, the quality of our own products and services, as well as our good name may suffer. There can be no assurance that there will not materialise risks, such as those mentioned above or others, that would compromise the good name of the 'Cyfrowy Polsat' brand and its value. Any damage to the good name and value of our brands may have a material adverse effect on our business performance, financial standing and growth prospects.

We rely on the experience and skills of our management and the qualifications of our employees

Our business performance, as well as effective 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. In the television, mobile telephony and Internet 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 the 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 performance, financial standing and growth prospects.

We are exposed to the consequences of the change in broadcasting technology in Poland from analogue to digital terrestrial television, leading to an increase in the number of generally available free-to-air (FTA) channels

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. Following the process of digitization of terrestrial television, finalized 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 pay TV services (DTH, DVB-T) and cause an outflow of our existing subscribers. This may have a material adverse effect our business performance, financial standing and growth prospects.

There is a risk of disruptions to our production of set-top boxes for pay TV subscribers

To reduce the acquisition costs of satellite TV reception equipment and be able to offer our pay TV subscribers the option to purchase or lease set-top boxes at lower prices, we manufacture a majority of set-top boxes offered by us in our own plant located in Poland. In November 2007 we launched our own production of satellite SD set-top boxes, in April 2010 – satellite HD set-top boxes, an in 2012 – set-top boxes for the reception of digital terrestrial television. In 2013, the set-top boxes manufactured in our plant accounted for more than 90% of all the set-top boxes sold or otherwise made available to our pay TV subscribers. Should any batch of the set-top boxes we have manufactured prove defective and be withdrawn, then in the case of set-top boxes leased to our clients we are obliged to replace them, while in the case of set-top boxes sold, we may be obligated to cover potentially considerable costs of replacement or repair of such equipment. Furthermore, the withdrawal of reception equipment due to its defectiveness could be harmful to our reputation. Our plant is currently working at close to maximum capacity, so any problems with production of set-top boxes would force us to acquire lager numbers of set-top boxes from external suppliers. There can be no assurance that we will be able to purchase a sufficient number of set-top boxes from external suppliers when required. Furthermore, the cost of acquiring from external 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 external suppliers on satisfactory pricing terms, we might have to raise the prices for our subscribers to cover our increased depreciation expense. Moreover, if the deliveries of set-top boxes we managed to procure were insufficient to meet demand, our reputation among our current and potential subscribers would suffer. Any difficulties related to manufacturing most of the set-top boxes we offer at our production plant could also lead to a loss of our current subscribers or hamper our ability to acquire new subscribers for our pay TV services. Any disruption to our set-top box production and subsequent necessity to procure more set-top boxes from external suppliers could adversely affect our reputation and result in erosion of our brand value, which could have a material adverse effect on our business performance, financial standing and growth prospects.

We may become a side in disputes with employees or experience increased labour costs

Although we maintain good relations with our staff, we are unable to entirely eliminate the risk of work disruptions, disputes with employees, industrial action, or significant increase in labour cost at our facilities. Any such event could prevent us from properly serving the needs of our customers or inflate our costs, driving profitability down. Any employee issues faced by external suppliers may also affect us, by hampering the timely provision of quality services and technologies. Any such disruptions may have a material adverse effect on our business performance, financial standing and growth prospects.

Our operations may be affected by unfavourable rulings in the administrative and court proceedings in which we may be involved

There is a risk of future proceedings being instituted against us, whose outcomes may prove unfavourable, including proceeding initiated by organizations, who collectively manage copyrights.. Under Polish copyright law, we are required to pay fees for collective administration of copyrights to organizations that collect royalties on behalf of the authors of the copyright-protected works we broadcast or distribute as part of our operations. Such fees are charged in accordance with licensing agreements signed with these organizations. Although relevant agreements are in place with several organizations for collective administration of copyrights, there is a risk that claims will be brought against us by other such entities. Any unsuccessful court, arbitration and administrative proceedings, either pending or in the future, may have a material adverse effect on our business performance, financial standing and growth prospects.

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

Our business success hinges largely on third-party intellectual property rights, particularly rights in advanced technologies, software, and programme content. No assurance can be given than 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 enabling 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 intellectual property infringement claims or obtaining necessary licences, together with 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 performance, financial standing and growth prospects.

Our own intellectual property rights and other means of protection may not adequately protect our business, and insufficient protection of our programme 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 broadcasts, 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 fee-based distribution of 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 data carriers, of pay-per-view programmes delivered via set-top box, licence-free or free-to-air transmissions on television or the Internet. This is made worse by problems in the execution of regulations 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 performance, financial standing and growth prospects.

It cannot be excluded that we may not comply with periodically changing legislative acts and ordinances, that regulate our operations with respect to distribution of satellite TV and telecommunication activities

We are also required to comply with Polish and EU laws, which restrict the way in which our business can be run. 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, and Telecommunications Act, as well as the terms of our broadcasting licences. Decisions by the KRRiT Chairman, the UKE President or other regulators may place certain restrictions on the way in which our business can be 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 may render our DTH services less attractive, leading to a fall in subscriber numbers.

UKE President supervises both segments of our activity. As part of our retail business, we conduct telecommunication activities, which include the provision of broadband Internet access and we operate as a mobile virtual network operator (MNVO). As such, like all other telecommunication businesses operating in Poland, we are subject to a number of legal and administrative requirements, which directly influence our activities both in the scope of relations with retail clients (ex. through establishing subscribers' rights or the content of regulations on the provision of telecommunication services), and with wholesale clients (ex. by capping the prices for telecommunications services). There can be no assurance that we will be able to satisfy the multiple requirements imposed on us by Polish Telecommunications Law. In the event of our non-compliance with any provisions of the Telecommunications Law, we may face a fine from UKE of up to 3% of the revenue generated in the year preceding the year in which such fine is imposed.

Any non-compliance on our part with the legal requirements or other rules issued by regulatory bodies may have a material adverse effect on our business performance, financial standing and growth 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 frequently reviewed by UOKiK to ensure that we comply with the 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 prohibited contract clauses. In addition to the President of UOKiK, natural persons can also bring court actions against us to determine whether our standard subscriber contracts contain any prohibited 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. Moreover, if UOKiK finds that certain standard provisions used in our subscriber contracts are prohibited, these provisions will be entered into the Register of Prohibited Clauses, supervised by the President of UOKiK, and it will be necessary to cease using them, and hence change our standard subscriber contract

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 for the financial year prior to the year the fine is imposed. Moreover, if we, even unintentionally, fail to provide the President of UOKiK with the required information or provide misleading information, a fine of up to EUR 50,000,000 (not in thousands) may be imposed on us. The imposition of the fines referred to above may harm our reputation, which in turn may have a material adverse effect on our business performance, financial standing and growth prospects.

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 in the way authorities apply laws in practice and in how administrative courts rule in disputes. 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, which in practice makes them retroactive, 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 Group companies' tax settlements on non-statute-barred tax liabilities, and will not determine the existence of tax arrears of such Group companies. Any unfavourable decisions, interpretations or rulings by tax authorities may have a material adverse effect on our business performance, financial standing and growth prospects.

Taxation regime applicable to our operations and the sector in which we operate create numerous uncertainties

The taxation regime applicable to transactions and events typical of our operations and the sector in which we operate are a source of numerous uncertainties in their interpretation. In particular, there is uncertainty about the interpretation of income tax laws with respect to the possibility, manner, and timing of the recognition of income and tax-deductible expenses on individual transactions and events and the requirements for their documentation. VAT legislation too is characterized 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. To make the matter worse, Polish tax legislation does not stipulate unequivocal rules for the imposition of other taxes, including property tax (in particular with respect to the tax base and the determination of items subject to tax) 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 selected areas of Cyfrowy Polsat operations may not be harmonized with the changing legal (including tax) regulations and their changing application.

While we do monitor risks in the individual areas of our business, there can be no guarantee that disputes with tax authorities on the assessment of tax effects of individual events and transactions characteristic of our operations and the sector in which we operate will not occur. There is also a risk that tax authorities may question the financial terms of individual events and transactions. This may have a material adverse effect on our business performance, financial standing and growth prospects.

Risks Related to the 7.125% Senior Notes ("Notes") issued by our subsidiary Cyfrowy Polsat Finance AB and Senior Facilities Agreement (SFA)

The Issuer is a special purpose financing company with no operations of its own. The Issuer must rely on payments from us under the Notes Proceeds Loan to make cash payments on the Notes, and we must rely on payments from our subsidiaries to make cash payments on the Notes Proceeds Loan. Our subsidiaries are subject to various restrictions on making such payments

We conduct a substantial part of our operations through direct and indirect subsidiaries, and the Issuer will rely solely on payments made to it under the Notes Proceeds Loan to make payments on the Notes. In order to make payments on the Notes Proceeds Loan and the Notes or to meet our other obligations, we depend upon receiving payments from our subsidiaries. In particular, we are dependent on dividends and other payments by our direct and indirect subsidiaries to service our obligations, including the Notes and those arising under our Senior Facilities Agreement. In addition, the payment of dividends and the making of loans and advances to us by our subsidiaries may be subject to various restrictions. Existing and future debt of certain of these subsidiaries, including our Senior Facilities, may limit or prohibit the payment of dividends or loan payments or the making of loans or advances to us. In addition, the ability of our subsidiaries to make payments, loans or advances to us may be limited by the laws of the relevant jurisdictions in which such subsidiaries have been established or located. Any of the situations described above could make it more difficult for a Guarantor to service its obligations and therefore adversely affect our ability to service our obligations in respect of the Notes. If payments are not made to us by our subsidiaries, we may not have any other sources of funds available that would permit us to make payments on the Notes Proceeds Loan and the Notes.

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

We use 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 rose significantly on acquisition of Telewizja Polsat and completion of related financial transactions.

Our ability to service or repay debt hinges on our future operating results and our capacity to generate sufficient cash flows to pay these and other liabilities, which is turn heavily depend on the general economic climate, financing terms, market competition, acts of law and secondary legislation, and a number of other factors which are often beyond 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 be forced to (i) restrict or postpone certain business and capital expenditure projects; (ii) divest; (iii) incur more debt or raise new capital; or (iv) restructure or refinance our debts, including Senior Notes, in part or in full, at or prior to their maturity dates. The terms and conditions of Senior Notes and the Credit Agreement 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 unfavourable market terms would require us to pay higher interest rates or observe more stringent covenants, which could further restrict our business activity. Securing new debt financing would increase the related risks. 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 seriously undermine our ability to achieve and manage liquidity, raise additional capital, or restructure or refinance our existing debt.

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, including under Senior Notes and Credit Agreement. 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 performance, financial standing and growth prospects.

Moreover, we may need to incur a significant amount of new debt in the future. The terms and conditions of Senior Notes Agreement and the Credit Agreement impose certain limitations on, but do not prohibit us from, incurring new debt or other liabilities. In particular, a high level of debt may (i) limit our ability to repay our liabilities under Senior Notes, Credit 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 unfavourable 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 performance, financial standing and growth prospects.

We are exposed to interest rate risk

Although market interest rate fluctuations do not directly affect the Company's revenue, they do influence our cash flow from operating activities, through the level of interest from current accounts and deposits, as well as our cash flow from financing activities, through the cost of the Company's debt. In particular, our liabilities stemming from the Loan Agreement are calculated monthly based on WIBOR for the specific interest periods.

The Company systematically analyses interest rate risk, including refinancing and hedging scenarios. These analyses constitute the basis for the estimated influence of specific changes in interest rate levels on the financial result.

Interest rate fluctuations may limit our ability to meet current liabilities and may have a material adverse effect on our business performance, financial standing and growth prospects.

Ultimately, we might be unable to refinance our existing debt, secure favourable refinancing terms, or raise capital to finance new projects

We are exposed to risks inherent in 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 favourable. 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 secure 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 unfavourable terms, or to restrict or suspend certain activities, which could have a material adverse effect on our financial standing and performance. Our inability to secure external financing could block new projects, which could have a material adverse effect on our business performance, financial standing and growth prospects.

The Notes and the Guarantees will be structurally subordinated to indebtedness and preferred stock, if any, of our non-guarantor subsidiaries

Not all of our subsidiaries will guarantee the Notes. In the event that any non-guarantor subsidiary becomes subject to foreclosure, dissolution, winding-up, liquidation, reorganization, administration or other bankruptcy or insolvency proceeding:

- the creditors of the Issuer and the Guarantors (including the holders of the Notes) will have no right to proceed against the assets of such subsidiary; and
- creditors of such non-guarantor subsidiary, including trade creditors, and preference shareholders (if any) will generally be entitled to payment in full from the sale or other disposal of the assets of such subsidiary before any Guarantor, as direct or indirect shareholder, will be entitled to receive any distributions from such subsidiary.

Covenant restrictions under the Indenture governing the Notes and our Senior Facilities Agreement impose significant operating and financial restrictions on us and may limit our ability to operate our business and consequently to make payments on the Notes. A failure to comply with those covenants, whether or not within our control, could result in an event of default that could materially and adversely affect our financial condition and results of operations.

The Indenture governing the Notes contain, and other financing arrangements that we may enter into in the future may contain, covenants that restrict our ability to finance future operations or capital needs or to take advantage of other business opportunities that may be in our interest. These covenants restrict our ability to, among other things:

- incur or guarantee additional indebtedness;
- make certain restricted payments and investments;
- sell, lease or transfer certain assets, including shares of any restricted subsidiary of Cyfrowy Polsat;
- enter into certain transactions with affiliates;
- create or permit to exist certain liens;
- impose restrictions on the ability of restricted subsidiaries to pay dividends or other distributions, make loans or advances to, and on transfer of assets to, Cyfrowy Polsat and its Restricted Subsidiaries;
- impair the security interests provided for the benefit of the holders of the Notes;
- merge, consolidate, amalgamate or combine with other entities; and
- designate restricted subsidiaries as unrestricted subsidiaries.

Our Senior Facilities Agreement contains negative covenants restricting, among other things, our ability to:

- make acquisitions or investments;
- make loans or otherwise extend credit to others;
- incur indebtedness or issue guarantees;
- create security;
- sell, lease, transfer or dispose of assets;
- merge or consolidate with other companies;
- make a substantial change to the general nature of our business;
- pay dividends, redeem share capital, pay intercompany indebtedness or redeem or reduce subordinated indebtedness;
- repay the principal of certain indebtedness, including the Notes;
- issue shares;
- enter into joint venture transactions;
- pay certain investors and creditors;
- make certain derivative transactions;
- enter into transactions other than at arm's length;
- enter into sale and leaseback transactions; and
- modify certain agreements, including agreements governing the Notes.

In addition, the Senior Facilities Agreement will require us to comply with certain affirmative covenants and certain specified financial covenants which require us to ensure that our leverage ratio (calculated as the ratio of total net debt on the last day of that relevant period to consolidated EBITDA) does not exceed an agreed level. Furthermore, our interest cover (calculated as the ratio of consolidated EBITDA to net finance charges) and cash flow cover (calculated as the ratio of consolidated cash flow to debt service charges) must meet an agreed level.

The restrictions contained in the Senior Facilities Agreement and the Indenture for the Notes could affect our ability to operate our business and may limit our ability to react to market conditions or take advantage of potential business opportunities as they arise. For example, such restrictions could adversely affect our ability to finance our operations, make strategic acquisitions, investments or alliances, restructure our organization or finance our capital needs. Additionally, our ability to comply with these covenants and restrictions may be affected by events beyond our control. These include prevailing economic, financial and industry conditions. If we breach any of these covenants or restrictions, we could be in default under the Senior Facilities Agreement, the Indenture and our other indebtedness.

In the event of a 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 Notes. Our ability to make principal or interest payments when due on our indebtedness, including the Notes and our Senior Facilities Agreement, and to fund our ongoing operations, will depend on our future performance and our ability to generate cash, which to a certain extent is subject to general economic, financial, competitive, legislative, legal, regulatory and other factors, as well as other factors discussed in this chapter, many of which are beyond our control. Any such actions could force us into bankruptcy or liquidation, and we may not be able to repay our obligations under the Notes in such an event.

The Guarantees and the security interests securing the Notes may be limited by applicable laws or subject to certain limitations or defenses that may adversely affect their validity and enforceability

The obligations of the Guarantors incorporated in Poland, Switzerland, Norway and the United Kingdom, and the enforcement of each such guarantee as well as other security provided by the Guarantors will be limited to the maximum amount that can be guaranteed by such Guarantor under the applicable laws of each jurisdiction, to the extent that the granting of such guarantee is not in the relevant Guarantor's corporate interests, or the burden of such guarantee exceeds the benefit to the relevant Guarantor, or such guarantee would be in breach of the financial assistance rules, capital maintenance or thin capitalization rules or any other general statutory laws and would cause the directors of such Guarantor to contravene their fiduciary duties and incur civil or criminal liability. Accordingly, enforcement of any such guarantee or security interest against the relevant Guarantor would be subject to certain defenses available to guarantors generally or, in some cases, to limitations contained in the terms of the guarantees or relevant Security Document designed to ensure compliance with statutory requirements applicable to the relevant Guarantors. As a result, a Guarantor's liability under its guarantee or security interest could be materially reduced or eliminated entirely, depending upon the law applicable to it. It is possible that a Guarantor, or a creditor of a Guarantor, or the bankruptcy trustee in the case of a bankruptcy of a Guarantor, may contest the validity and enforceability of the Guarantor's guarantee or security interest on any of the above grounds and that the applicable court may determine that the guarantee or security interest should be limited or voided. To the extent that agreed limitations on the guarantee obligation or security interest apply, the Notes would be to that extent effectively subordinated to all liabilities of the applicable Guarantor, including trade payables of such Guarantor or the guarantee obligations will be considered unenforceable. Future guarantees or security interest may be subject to similar limitations.

Fraudulent conveyance laws, bankruptcy regulations and other limitations on the Guarantees and the security interests securing the Notes may have a material adverse effect on the Guarantees' validity and enforceability, and may not be as favorable to creditors as laws of other jurisdictions

The Guarantors guarantee the payment of the Notes on a senior secured basis. The Guarantors are organized under the laws of Poland, Switzerland, Norway and the United Kingdom. Although laws differ among various jurisdictions, in general, under fraudulent conveyance and other laws, a court could subordinate or void any guarantee and, if payment had already been made under the relevant guarantee, require that the recipient return the payment to the relevant guarantor, if the court finds that:

- the guarantee was incurred with actual intent to hinder, delay or defraud creditors or shareholders of the guarantor or, in certain jurisdictions, even when the recipient was merely aware that the guarantor was insolvent when it issued the guarantee;
- the Guarantor did not receive fair consideration or reasonably equivalent value for the guarantee and the Guarantor: (i) was insolvent or was rendered insolvent as a result of having granted the guarantee; (ii) was undercapitalized or became undercapitalized because of the guarantee; or (iii) intended to incur, or believed that it would incur, indebtedness beyond its ability to pay at maturity;
- the guarantee was held not to be in the best interests or not to be for the corporate benefit of the guarantor; or
- the aggregate amounts paid or payable under the guarantee were in excess of the maximum amount permitted under applicable law.

The measure of insolvency for purposes of fraudulent conveyance laws varies depending on the law applied. Generally, however, a Guarantor would be considered insolvent if it could not pay its debts as they become due, it has no access to new credit and/or if its liabilities exceed its assets. If a court decided any Guarantee was a fraudulent conveyance and voided the Guarantee, or held it unenforceable for any other reason, the holders would cease to have any claim in respect of the Guarantor and would be a creditor solely of the Issuer and the remaining Guarantors.

The Collateral may not be sufficient to secure the obligations under the Notes

The Notes and the Guarantees will be secured by security interests in the Collateral, which collateral also will secure the obligations under the Senior Facilities. The Collateral may also secure additional debt to the extent permitted by the terms of the Indenture and the Intercreditor Agreement. The holder's rights to the Collateral may be diluted by any increase in the first-priority debt secured by the Collateral or a reduction of the Collateral securing the Notes.

The value of the Collateral and the amount to be received upon an enforcement of such Collateral will depend upon many factors, including, among others, the ability to sell the Collateral in an orderly sale, the condition of the economies in which operations are located and the availability of buyers. The book value of the Collateral should not be relied on as a measure of realizable value for such assets. All or a portion of the Collateral may be illiquid and may have no readily ascertainable market value. Likewise, we cannot assure the holders that there will be a market for the sale of the Collateral, or, if such a market exists, that there will not be a substantial delay in its liquidation. In addition, the share pledges of an entity may be of no value if that entity is subject to an insolvency or bankruptcy proceeding. The Collateral is located in a number of countries, and the multijurisdictional nature of any foreclosure on the collateral may limit the realizable value of the Collateral. For example, the bankruptcy, insolvency, administrative and other laws of the various jurisdictions may be materially different from, or conflict with, each other, including in the areas of rights of creditors, priority of government and other creditors, ability to obtain post-petition interest and duration of the proceedings.

The security over the Collateral is in each jurisdiction granted to the Security Agent. Pursuant to English law, the Security Agent holds all security on trust for each Secured Party which includes the Notes Trustee and each Noteholder. The Security Agent also has the benefit of a direct covenant to pay, or "parallel debt", from each debtor who is party to the Intercreditor Agreement, including each guarantor of the Notes and provider of security therefore. The ability of the Security Agent to enforce the security may be restricted by local law

The ability of the Security Agent to enforce the security is subject to mandatory provisions of the laws of each jurisdiction in which security over the collateral is taken. There is some uncertainty under the laws of certain jurisdictions, including the laws of Poland, Norway and Switzerland, as to whether trusts, including the security trust created pursuant to the Intercreditor Agreement, will be recognized and enforceable. To address this, a direct covenant to pay (the "Parallel Debt") has been granted to the security agent by each debtor under the Intercreditor Agreement, including each guarantor of the Notes and provider of security therefore. The Parallel Debt provision allows the Security Agent to act in its own name in its capacity as a creditor. The Parallel Debt is an obligation under the Intercreditor Agreement to pay to the Security Agent amounts equal to any amounts owing from time to time by that debtor to any secured party under the debt documents, including the Notes and the Indenture (the "Principal Obligations"). The Parallel Debt is a separate obligation of each respective debtor to the Security Agent and independent from the corresponding Principal Obligations. The Parallel Debt provisions constitute a secured obligation for the purposes of each security document securing the notes and the other indebtedness secured subject to the Intercreditor Agreement. Any payment in respect of the Principal Obligations shall discharge the corresponding Parallel Debt and any payment in respect of the Parallel Debt shall discharge the corresponding Principal Obligations. In respect of the security interests granted to the Security Agent (including to secure the Parallel Debt), the Notes Trustee and the holders of Notes do not have direct security and are not entitled to take enforcement actions in respect of such security, except through the Security Agent. As a result, the holders of Notes bear some risks associated with the security trust and Parallel Debt structure. There also is no assurance that such Parallel Debt structure will be effective before all courts as there is no (or very limited) judicial or other guidance as to its effectiveness in each relevant jurisdiction.

Enforcing holders' rights as a holder of the Notes or under the Guarantees or the Collateral across multiple jurisdictions may prove difficult

The Issuer is incorporated under the laws of Sweden; the Guarantors are organized under the laws of Poland, Switzerland, Norway and the United Kingdom; the Collateral will include security interests granted under the laws of these jurisdictions. In the event of bankruptcy, insolvency, administration or similar event, proceedings could be initiated in any of these jurisdictions. Holders' rights under the Notes, the guarantees and the Collateral are likely to be subject to insolvency and administrative laws of several jurisdictions and there can be no assurance that the holders will be able to effectively enforce their rights in such complex proceedings. In addition, the multijurisdictional nature of enforcement over the Collateral may limit the realizable value of the Collateral.

The insolvency, administration and other laws of the jurisdiction of organization of the Issuer and the Guarantors may be materially different from, or conflict with, each other and with the laws of the United States, including in the areas of rights of creditors, priority of governmental and other creditors, ability to obtain post-petition interest, the duration of proceeding and preference periods. The application of these laws, and any conflict between them, could call into question whether, and to what extent, the laws of any particular jurisdiction should apply, adversely affect the holders' ability to enforce their rights under the guarantees and the security documents in these jurisdictions or limit any amounts that they may receive.

The Issuer and the Guarantors will have control over the Collateral, and the operation of the business or the sale of particular assets could reduce the pool of assets securing the Notes

The Security Documents allow the Issuer and the Guarantors to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from, the Collateral. So long as no default or event of default under the Indenture would result therefrom, the Issuer and the Guarantors may, subject to specified restrictions in the Security Documents and Senior Facilities Agreement, among other things, without any release or consent by the Trustee or Security Agent, conduct ordinary course activities with respect to the Collateral such as selling, modifying, factoring, abandoning or otherwise disposing of Collateral and making ordinary course cash payments, including repayments of indebtedness. Any of these activities could reduce the value of the Collateral, which could reduce the amounts payable to the holders from the proceeds of any sale of the Collateral in the case of an enforcement of the Collateral.

It may be difficult to realize the value of the Collateral securing the Notes

The Collateral securing the Notes will be subject to any and all exceptions, defects, imperfections encumbrances and other liens permitted under the Indenture and the Senior Facilities Agreement. The existence of any such exceptions, defects, encumbrances, imperfections and other liens could adversely affect the value of the Collateral securing the Notes as well as the ability of the Security Agent to realize or foreclose on that Collateral. Further, the first-priority ranking of security interests can be affected by a variety of factors, including, among others, the timely satisfaction of perfection requirements, statutory liens or re-characterization under the laws of certain jurisdictions.

The security interests of the Security Agent will be subject to practical problems generally associated with the realization of security interests in collateral. For example, the Security Agent may need to obtain the consent of a third party to enforce a security interest. We cannot assure that the Security Agent will be able to obtain any such consent. We also cannot assure that the consents of any third parties will be given when required to facilitate a foreclosure on such assets. Accordingly, the Security Agent may not have the ability to foreclose upon those assets and the value of the Collateral may significantly decrease.

In addition, our business requires a variety of licenses. The continued operation of properties that comprise part of the Collateral and which depend on the maintenance of such permits and licenses may be prohibited. Our business is subject to regulations and permitting requirements and may be adversely affected if we are unable to comply with existing regulations or requirements or changes in applicable regulations or requirements. In the event of foreclosure, the transfer of such permits and licenses may be prohibited or may require us to incur significant cost and expense. Further, we cannot assure that the applicable governmental authorities will consent to the transfer of all such licenses. If the regulatory approvals required for such transfers are not obtained or are delayed, the foreclosure may be delayed, a temporary shutdown of operations may result and the value of the Collateral may be significantly decreased.

The assets that constitute the Collateral hereunder are also pledged, on a pari passu basis, for the benefit of the lenders and letter of credit issuers under the Senior Facilities Agreement and counterparties under certain hedging obligations. In addition, the Indenture and the Intercreditor Agreement will allow us to incur certain additional permitted indebtedness in the future that is secured by the Collateral. The incurrence of any additional secured indebtedness would reduce amounts payable to the holders of the Notes from the proceeds of any sale of the Collateral.

The value of the Collateral and the amount to be received upon a sale of such Collateral will depend upon many factors, including, among others, the ability to sell the Collateral in an orderly sale, the condition of the economies in which operations are located and the availability of buyers. The book value of the Collateral should not be relied on as a measure of realizable value for such assets. All or a portion of the Collateral may be illiquid and may have no readily ascertainable market value. Likewise, we cannot assure that there will be a market for the sale of the Collateral, or, if such a market exists, that there will not be a substantial delay in its liquidation. In addition, the share pledges of an entity may be of no value if that entity is subject to an insolvency or bankruptcy proceeding. The Collateral will be released in connection with an enforcement sale pursuant to the Intercreditor Agreement.

Rights in the Collateral may be adversely affected by the failure to perfect security interests in the Collateral

Under applicable law, a security interest in certain tangible and intangible assets can be properly perfected, and its priority retained only through certain actions undertaken by the secured party and/or the grantor of the security. The liens in the Collateral securing the Notes may not be perfected with respect to the claims of the Notes if we or the Security Agent fails or is unable to take the actions we are required to take to perfect any of these liens. In addition, applicable law requires that certain property and rights acquired after the grant of a general security interest, such as real property, equipment subject to a certificate and certain proceeds, can only be perfected at or promptly following the time such property and rights are acquired and identified.

The Trustee or the Security Agent for the Notes may not properly monitor, or we may not comply with our obligations to inform the Trustee or Security Agent of, any future acquisition of property and rights by us, and the necessary action may not be taken to properly perfect the security interest in such after acquired property or rights. Such failure may result in the invalidity of the security interest in the Collateral or adversely affect the priority of the security interest in favor of the Notes against third parties. Neither the Trustee nor the Security Agent for the Notes has any obligation to monitor the acquisition of additional property or rights by us or the perfection of any security interest.

The Senior Facilities Agreement will restrict our ability to repay the Notes or make certain amendments to the Notes

The Senior Facilities Agreement and the Intercreditor Agreement will contain certain restrictions on our rights under the Indenture with respect to the Notes. These agreements restrict our ability to (i) repay, prepay, defease, redeem or purchase of the principal amount of the Notes (except to the extent the same is made out of excess cashflow not required to be applied in repayment of the senior secured facilities and a corresponding pro rata prepayment of such facilities also is made), and (ii) amend, waive, vary or supplement the Notes in any way inconsistent with the Senior Notes Major Terms (as defined in the Intercreditor Agreement). In addition, the Senior Facilities Agreement will restrict our ability to refinance the Notes without the consent of the Majority Lenders (as defined therein). Accordingly, the Senior Facilities Agreement and the Intercreditor Agreement may prevent us from exercising certain rights in respect of the Notes that would typically be available under the Indenture.

Holders of the Notes will not control certain decisions regarding the Collateral

The Notes will be secured by the same Collateral securing the obligations under the Senior Facilities Agreement. In addition, under the terms of the Indenture, we will be permitted in the future to incur additional indebtedness and other obligations that may share in the liens on the Collateral securing the Notes and the liens on the Collateral securing our other secured debt.

As a result of the voting provisions set out in the Intercreditor Agreement, the lenders under the Senior Facilities Agreement, together with the counterparties to certain secured hedging, will have effective control on all decisions with respect to enforcement of the Collateral. The Intercreditor Agreement provides that Citicorp Trustee Company Limited who will serve as the Security Agent for the secured parties under the Senior Facilities Agreement and the Notes, will (subject to certain limited exceptions) act with respect to such Collateral (and with respect to the filing of claims necessary to enforce such Collateral) only at the direction of the majority (66.66%) with respect to the then committed and undrawn and outstanding senior secured debt (which includes creditors in respect of certain secured hedging obligations and which excludes creditors in respect of the Notes and any additional Notes), until the aggregate amount committed or funded under such senior secured debt (excluding the Notes and any additional Notes) is less than 25% of the aggregate principal amount of all such committed and undrawn and outstanding senior secured debt (including the Notes and any additional Notes). Thereafter, creditors holding more than 50% of the aggregate amount of committed and undrawn and outstanding senior secured debt (including the Notes and any additional Notes) will be able to instruct the Security Agent to enforce the Collateral. No holder of the Notes will have any separate right to enforce or to require the enforcement of the Collateral. The lenders under the Senior Facilities Agreement may have interests that are different from the interests of holders of the Notes and they may not elect to pursue their remedies under the Security Documents at a time when it would otherwise be advantageous for the holders of the Notes to do so.

In addition, if the Security Agent sells the shares of our subsidiaries that have been pledged as Collateral through an enforcement of their security interest in accordance with the Intercreditor Agreement, claims under the guarantees of the Notes and the liens over any other assets securing the Notes and the Guarantees may be released.

As a result, until the aggregate of the undrawn committed and funded senior secured debt (other than debt under the Notes and any additional notes) has fallen below 25% of the aggregate amount of the undrawn committed and funded senior secured debt, lenders under the Senior Facilities Agreement, together with the counterparties to certain secured hedging arrangements, will have effective control of all decisions with respect to the Collateral. It is possible that disputes may occur between the holders of the Notes and lenders under the Senior Facilities Agreement as to the appropriate manner of pursuing enforcement remedies with respect to the Collateral (as well as with respect to the filing of claims necessary to enforce such Collateral). In such an event, the holders of the Notes will be bound by any decisions of the instructing group, which may result in enforcement actions against the Collateral that are not approved by the holders of the Notes or that may be adverse to such holders. The effective control of the lenders under the Senior Facilities Agreement and hedge counterparties may delay enforcement against the Collateral.

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 Credit Agreement or the Senior Notes Agreement, we are under the obligation to repay our liabilities under the Credit Agreement and/or offer the redemption of all or a part of Notes in exchange for cash at 101% of their principal amount plus interest accrued and unpaid. "Change of Control" as referred to in the Senior Notes Agreement involves the transfer of all or substantially all assets of Cyfrowy Polsat and its Restricted Subsidiaries, treated as a whole, to another entity. Although examples of interpretation of the expression "all or substantially all" in judicial decisions do exist, this term has not been precisely defined in the laws applicable to the Senior Notes Agreement. Therefore, certain circumstances may give rise to doubts as to whether a given transaction involves a transfer of all or substantially all assets of Cyfrowy Polsat and its Restricted Subsidiaries treated as a whole. As a result, it may be unclear whether a change of control has actually occurred and whether the Issuer is obliged to redeem Notes.

Moreover, if a change of control takes place, our ability to repay the Term Loan Facility and the Revolving Credit Facility, and to redeem Notes, will be limited by the level of available funds. There can be no assurance that those funds will be sufficient to pay the redemption price of Notes or to repay debts under the Credit Agreement. We believe that in the event of a change of control we would require additional external financing to repay the credit facilities and/or redeem Notes. There can be no assurance that we will obtain such additional financing. Furthermore, limitations arising from our contracts could make it impossible for us to repay our loans, secure external financing, or redeem Notes 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 performance, financial standing and growth prospects.

Enforcement of civil liabilities and judgments against the Issuer or us or any of our directors or officers may be difficult

The Issuer is a Swedish public limited liability company, Cyfrowy Polsat is a Polish joint stock company and TV Polsat is a Polish limited liability company. Substantially all of our assets and all of our operations are located, and all of our revenue is derived, outside the United States. In addition, all of our directors and officers are non-residents of the United States, and all or a substantial portion of the assets of such persons are or may be located outside the United States. As a result, investors may be unable to effect service of process within the United States upon such persons, or to enforce judgments against them obtained in the United States courts, including judgments predicated upon the civil liability provisions of the United States federal and state securities laws. There is uncertainty as to whether the courts of Sweden or Poland would enforce (i) judgments of United States courts obtained against us or such persons predicated upon the civil liability provisions of the United States federal and state securities laws or (ii) in original actions brought in such countries, liabilities against us or such persons predicated upon the United States federal and state securities laws.

The interests of our principal shareholder may conflict with interests of holders of the Notes

Pola Investments Ltd., controlled by the family foundation (trust) TiVi Foundation founded by Mr. Zygmunt Solorz-Żak, holds voting right from 174,995,671 shares (representing 50.24% of the share capital and 65.99% of the voting power at the general meeting of shareholders of Cyfrowy Polsat). As a result, Pola Investments Ltd., through his shareholdings, has and will continue to have, the power to affect our legal and capital structure as well as the ability to elect and change our management and to approve other changes to our operations and to control the outcome of matters requiring action by shareholders, and to effectively control many other major decisions regarding our operations. Pola Investments Ltd. interests in these and other circumstances may conflict with the interests of holders of the Notes.

Transfers of the Notes will be restricted, which may adversely affect the value of the Notes

The Notes have not been and will not be registered under the U.S. Securities Act or any U.S. state securities laws and we have not undertaken to effect any exchange offer for the Notes in the future. The holders may not offer the Notes in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the

U.S. Securities Act and applicable state securities laws, or pursuant to an effective registration statement. The Notes and the indenture governing the Notes contain provisions that restrict the Notes from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A and Regulation S, or other exceptions, under the U.S. Securities Act. Furthermore, we have not registered the Notes under any other country's securities laws. It is the potential holders obligation to ensure that their offers and sales of the Notes within the United States and other countries comply with applicable securities laws.

The holders' ability to transfer the Notes may be limited

The Notes are listed on the Official List of the Luxembourg Stock Exchange to be traded on the Euro MTF Market of the Luxembourg Stock Exchange. We cannot assure that the Notes will remain listed. We cannot guarantee the liquidity of any market for the Notes, the ability of holders of the Notes to sell them or the price at which holders of the Notes may be able to sell them. The liquidity of any market for the Notes will depend on the number of holders of the Notes, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and our own financial condition, performance and prospects, as well as recommendations of securities analysts. As a result, we cannot assure that an active trading market for the Notes will be maintained. The liquidity of, and trading market for, the Notes may also be hindered by declines in the market for high yield securities generally. Such a general decline may be caused by a number of factors, including, but not limited to, the following:

- interest rates and inflation expectations;
- foreign currency exchange rates;
- the prospect of quantitative easing in the money supply of major reserve currencies;
- general economic and business trends;
- regulatory developments in our operating countries;
- the condition of the media industry in the countries in which we operate; and
- investor and securities analyst perceptions of us and other companies that investors deem comparable in TV broadcasting.

The abovementioned factors may affect any liquidity and trading of the Notes independent of our financial performance and prospects.

Certain covenants may be suspended upon the occurrence of a change in our ratings

The Indenture will provide that, if at any time following the Issue Date, the Notes receive a rating of Ba3 or better by Moody's and a rating of BB- or better from S&P and no default or event of default has occurred and is continuing, then, beginning on that day and continuing until such time, if any, at which the Notes cease to have such rating, certain covenants will cease to be applicable to the Notes. If these covenants were to cease to be applicable, we would be able to incur additional indebtedness or make payments, including dividends or investments, which may conflict with the interests of holders of the Notes. There can be no assurance that the Notes will ever achieve an investment grade rating or that any such rating will be maintained.

Currently the ratings of the Notes assigned by Moody's and S&P are Ba2 and BB, respectively. The agencies have upgraded the ratings of Ba3 and BB- assigned in 2011, on July 23, 2012 and June 14, 2012, respectively. On February 26, 2013, S&P revised its outlook on Cyfrowy Polsat from stable to positive. On November 19, 2013 S&P revised its outlook on Cyfrowy Polsat to stable from positive and affirmed the long-term corporate credit rating at BB. The Outlook revision follows Cyfrowy Polsat's announcement on November 14, 2013, that it was acquiring Metelem Holdings Co. Ltd (company controlling Polkomtel Sp. z o.o.). Should the transaction take place, the Group's pro forma leverage ratio would increase. Moody's placed the ratings of Cyfrowy Polsat under review for downgrade on November 19, 2013.

Item 9. Information on shares and shareholders

Item 9.1. Cyfrowy Polsat shares

The shares of Cyfrowy Polsat are listed on the Warsaw Stock Exchange from May 6, 2008.

The table below presents the characteristics of the shares issued as of December 31, 2013:

Series	Number of shares	Type	Number of votes at General Meeting	Face value /PLN (not in thousands)
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
Total	**348,352,836**		**527,770,337**	**13,934,113.44**
including:	179,417,501	Registered	358,835,002	7,176,700.04
	168,935,335	Floating	168,935,335	6,757,413.40

The current share capital of the Company is PLN 13,934,113.44 (not in thousands), divided into 348,352,836 shares. At present, the total number of votes at the General Meeting is 527,770,337.

Basic data on the Cyfrowy Polsat shares in trading

Cyfrowy Polsat's shares are listed on the Warsaw Stock Exchange

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

Cyfrowy Polsat's identification codes

WSE	CPS
Reuters	CYFWF.PK
Bloomberg	CPS:PW

Item 9.2. Shareholders structure

The following table presents shareholders of Cyfrowy Polsat S.A. possessing - according to our best knowledge - no less than 5% of votes at General Meeting of Cyfrowy Polsat S.A. as of the date of publication of this report. The information included in the table is based on the information received from the shareholders pursuant to Art. 69, of the Act dated July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies.

Shareholder	Number of shares	% of share	Number of votes	% of votes
Pola Investments Ltd. (1), including:	154,204,296	44.27%	306,709,172*	58.11%*
- Privileged registered shares	152,504,876	43.78%	305,009,752*	57.79%*
- Ordinary bearer shares	1,699,420	0.49%	1,699,420	0.32%
Sensor Overseas Ltd. (2), including:	25,341,272	7.27%	50,382,647	9.55%
- Privileged registered shares	25,041,375	7.19%	50,082,750	9.49%
- Ordinary bearer shares	299,897	0.09%	299,897	0.06%
Others	168,807,268	48.46%	170,678,518	32.34%
Total	348,352,836	100.00%	527,770,337	100.00%

[1] Pola Investments Ltd. is controlled by family foundation (trust) TiVi Foundation
[2] Sensor Overseas Ltd. is controlled by Mr. Heronim Ruta.

* On February 12, 2013, the Company was informed that on February 7, 2013, Pola Investments Ltd. ("Pola") received from Sensor Overseas Limited the proxy to exercise voting rights from 20,791,375 privileged registered shares of the Company, constituting 5.97% of the Company's share capital and representing 41,582,750 votes at the general meeting of the Company, which is 7.88% of the total number of votes (the "Proxy"). After receiving the Proxy, Pola holds and is entitled to exercise voting rights from 174,995,671 shares of the Company, that constitute 50.24% of the Company's share capital. The shares held by Pola and included in the Proxy represent 348,291,922 votes at the general meeting of the Company, which is 65.99% of the total number of votes in the Company.
The abovementioned package includes:

a) 173,296,251 privileged registered shares constituting 49.75% of the Company's share capital and representing 346,592,502 votes at the general meeting of the Company, which constitutes 65.67% of the total number of votes in the Company, and
b) 1,699,420 bearer shares constituting 0.49% of the Company's share capital and representing 1,699,420 votes at the general meeting of the Company, which constitutes 0.32% of the total number of votes in the Company.

Item 9.3. Information on material agreements, which can result in a change in the proportion of shares held by hitherto shareholders in the future

On November 14, 2013 the Company concluded a conditional agreement to acquire shares in Metelem Holding Company Limited, a company holding indirectly 100% shares in the share capital of Polkomtel Sp. z o.o., with three shareholders of Metelem, i.e. Argumenol Investment Company Limited seated in Nicosia, Cyprus, Karswell Limited seated in Nicosia, Cyprus, and Sensor Overseas Limited seated in Nicosia, Cyprus, whose shares represent approximately 83.77% of shares in Metelem.

Moreover, on December 19, 2013 we concluded a conditional agreement to acquire shares with Metelem's fourth shareholder – the European Bank for Reconstruction and Development ("EBRD") – who holds shares representing approximately 16.23% of shares in Metelem.

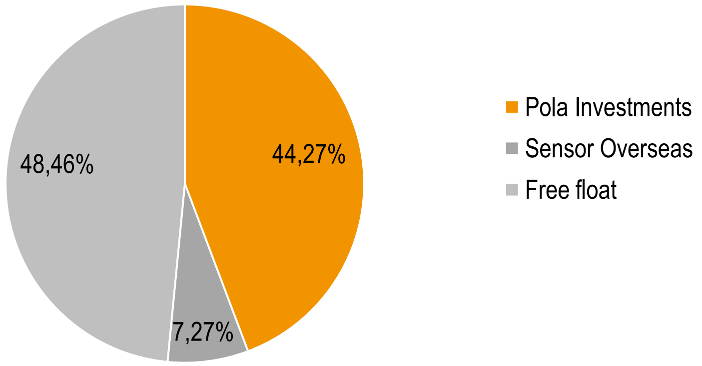
According to the abovementioned agreements, the shares in Metelem shall be transferred to Cyfrowy Polsat through the transfer of shares by current shareholders of Metelem as an in-kind contribution for new shares issued by the Company.

On January 16, 2014 the Extraordinary General Meeting adopted resolutions pertaining to the conditional increase of the share capital of the Company by way of issue of not more than 291,193,180 ordinary bearer shares at the issue price of PLN 21.12 (not in thousands).

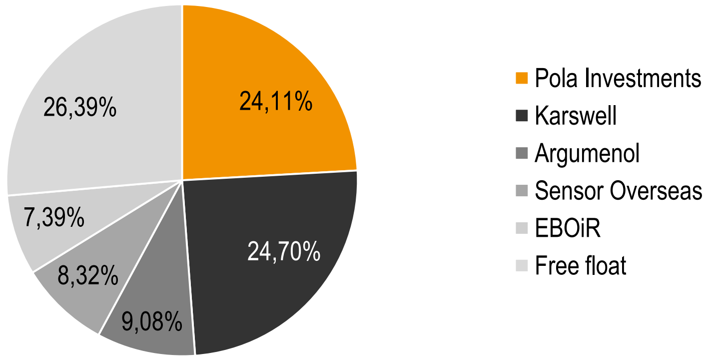
New shares will constitute 45.53% of the total, increased share capital of the Company and 35.56% of votes in the Company.

Providing that all conditions precedent are met and the transaction is finalized, a dilution of shares of hitherto shareholders in terms of ratios of shares owned will take place. Details are presented on the charts below.

Shareholders' stakes in the share capital of the Company as at December 31, 2013



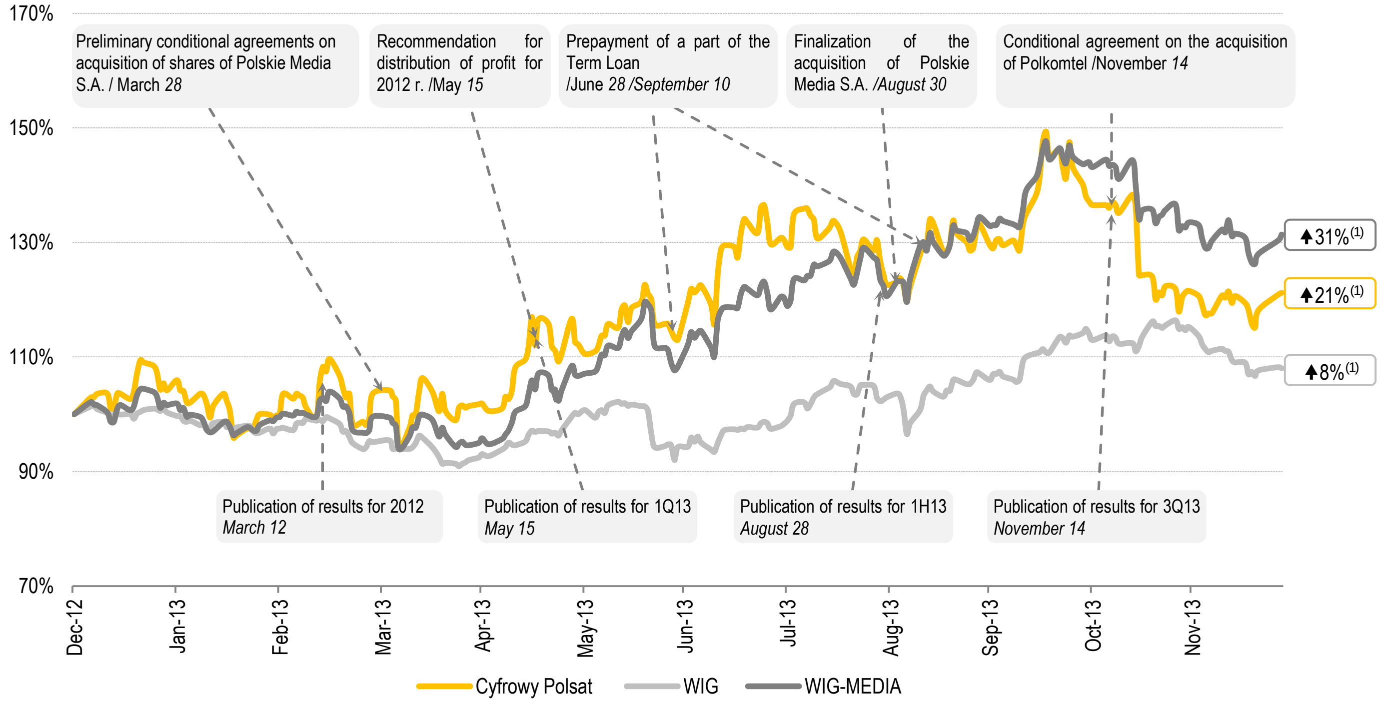
Estimated shareholders' stakes in the share capital of the Company after the conclusion of the transaction



Item 9.4. Shares quotes

Performance of Cyfrowy Polsat shares in 2013

(indexed; 100 = closing price on December 28, 2012)



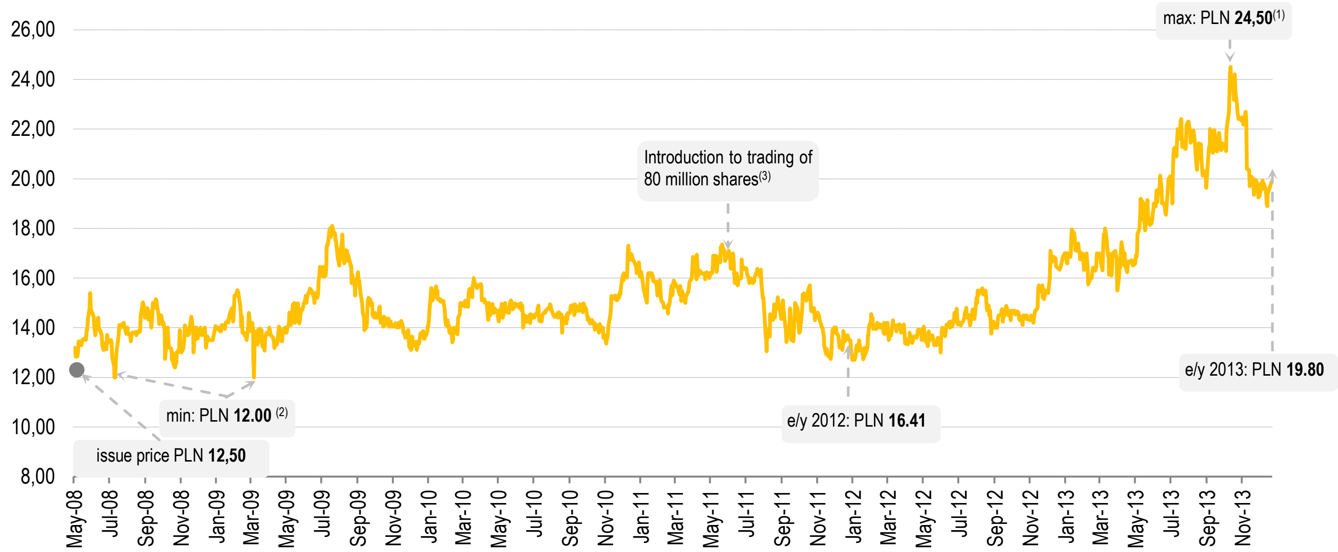
(1) change: Dec. 30, 2013 vs. Dec. 28, 2012

Performance of Cyfrowy Polsat shares since the debut on the WSE in May 2008 until the end of 2013 compared to WSE indexes

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

(1) change: Dec. 30, 2013 vs. May 6, 208

Performance of Cyfrowy Polsat shares since the debut on the WSE (PLN)



(1) share price on October 17, 2013

(2) share price on July 15-16, 2008, March 12, 2009

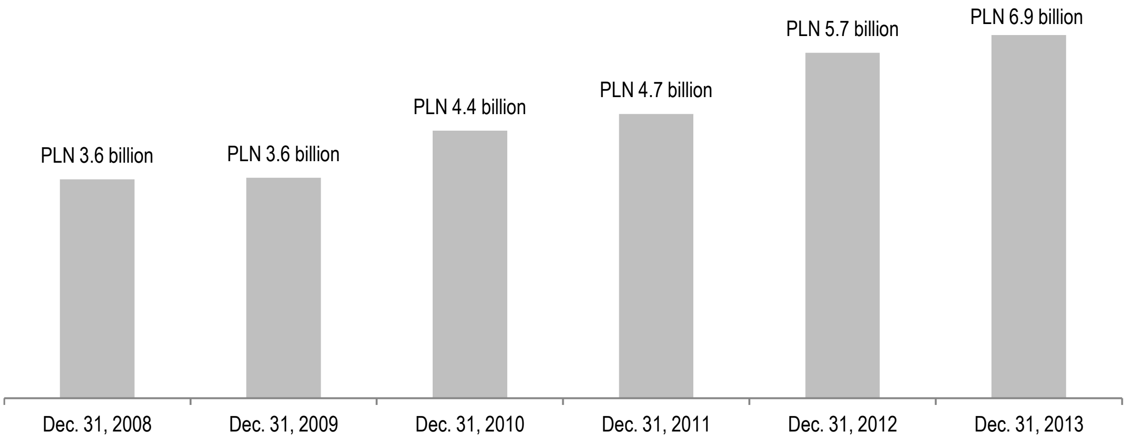
(3) On April 20, 2011, the Company issued 80,027,836 ordinary bearer H Series shares with a nominal value of four grosz (PLN 0.04) each. This shares were registered on May 30, 2011 in the National Depository for Securities under ISIN code PLCFRPT00013, and were admitted to trading on the main market of the stock exchange pursuant to the Resolution 666/2011 of the Management Board of Warsaw Stock Exchange of 26 May 2011. The proceeds from the issue of H Series shares were used as part of financing the acquisition of Telewizja Polsat. All H Series shares were took-up by the shareholders of Telewizja Polsat.

Cyfrowy Polsat shares on the stock exchange in 2013

		2013	2012
Year-end price	PLN	19.80	16.41
High for the year	PLN	24.50	17.10
Low for the year	PLN	15.50	12.70
Average for the year	PLN	19.28	14.29
Average daily turnover	PLN '000	6,694	3,434
Average daily trading volume	shares	347,301	240,021
Number of shares (as at Dec. 31, 2011)	shares	348,352,836	348,352,836
Bearer shares	shares	168,935,335	168,935,335
Market capitalization (as at Dec. 31, 2011)	PLN '000	6,897,386	5,716,470

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

In terms of market capitalization, that amounted to PLN 6.9 billion (not in thousands) as of the end of 2013, Cyfrowy Polsat is the largest media company quoted on the Warsaw Stock Exchange.



Item 9.5. Recommendations

Brokers covering the Company:

Local

- Dom Maklerski BDM S.A.
- Dom Inwestycyjny Investors S. A.
- Dom Maklerski IDM S.A.
- Dom Maklerski mBanku S.A.
- Dom Maklerski PKO BP S.A.
- Trigon Dom Maklerski S.A.

International

- Banco Espírito Santo de Investimento S.A.
- Deutsche Bank Securities S.A.
- ERSTE Group Research
- ING Securities S.A.
- Raiffeisen Centrobank AG
- Société Générale
- UBS Investment Bank
- UniCredit CAIB Poland S.A.
- Wood & Company Financial Services, a.s.

(all financial data presented in PLN thousand, unless otherwise stated)

Recommendations for the shares of Cyfrowy Polsat published in 2013

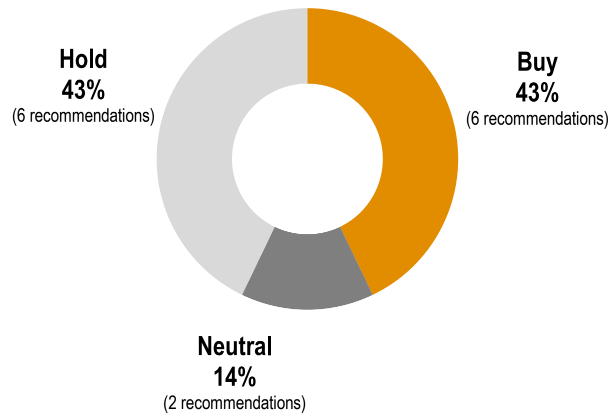
Date	Company	Target price	Recommendation (PLN)
January 9	IPOPEMA Securities S.A.	— Hold	17.00
January 25	ING Securities S.A.	— Hold	19.00
January 30	DM BDM S.A.	↑ Accumulate	18.70
February 11	KBC Securities N.V	↑ Buy	18.90
February 12	Societe Generale	— Hold	18.20
February 18	Raiffeisen Centrobank AG	↑ Buy	18.50
March, 18	Raiffeisen Centrobank AG	— Hold	19.50
April 11	Deutsche Bank Securities S.A.	↑ Buy	22.00
April 15	DM IDM S.A.	— Hold	19.20
April 17	DM IDM S.A.	↑ Buy	19.20
May 15	DM IDM S.A.	— Hold	19.20
May 29	UniCredit CAIB Poland S.A.	— Hold	20.30
June 3	DM PKO BP S.A.	— Hold	20.40
June 11	Raiffeisen Centrobank AG	↑ Buy	21.90
June 17	DM BDM S.A.	— Hold	20.82
July 8	UBS Investment Bank	↑ Buy	23.00
July 17	ING Securities S.A.	↓ Sell	19.30
July 17	DM IDM S.A.	— Hold	20.20
August 7	Societe Generale	↓ Sell	20.70
August 13	Deutsche Bank Securities S.A.	— Hold	22.00
September 2	Banco Espírito Santo de Investimento, S.A.	↑ Buy	23.70
September 2	Societe Generale	— Hold	20.70
September 12	Raiffeisen Centrobank AG	— Hold	22.60
September 25	ERSTE GROUP	↑ Accumulate	24.00
October 16	DM IDM S.A.	— Hold	22.30
October 25	DI Investors S.A.	— Neutral	25.00
November 14	Trigon Dom Maklerski S.A.		21.60-23.90
November 15	UBS Investment Bank	— Neutral	23.00
November 27	Banco Espírito Santo de Investimento, S.A.	↑ Buy	23.80
November 29	ERSTE Group Research	— Hold	20.00
December 8	DM IDM S.A.	↑ Buy	23.40
December 10	UniCredit CAIB Poland S.A.	↑ Buy	24.50
December 17	DM PKO BP S.A.	— Hold	19.90

Recommendations issued in 2014 after the balance date

January 10	DM mBanku S.A.	↑ Buy	24.10
January 13	Raiffeisen Centrobank AG	↑ Buy	23.20
February 11	ING Securities S.A.	— Hold	21.20

(all financial data presented in PLN thousand, unless otherwise stated)

Recommendations structure as at February 13, 2014



Target price at February 13, 2014 (PLN)

minimum	19.60
maximum	25.50
median	**22.27**

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 2013, we participated in over 180 meetings with 270 representatives of the capital market.

In communication with the capital market we are guided by the main principle of transparency and equal access to information. Following this principle, we introduced the rule of limited communication before the publication of our financial results. Under this rule the representatives of the Company do not discuss or meet with analysts and investors two weeks prior to the publication of the quarterly results. This rule is meant to increase transparency and ensure the equal access to information on the Company before the publication of our financial results.

Moreover, in our communications we use such tools as website dedicated to investors (http://www.cyfrowypolsat.pl/inwestor), electronic newsletters, periodic newsletters including both information on current events in the Company and latest market developments (press review), as well as reminders of the most important events in the Company.

Item 10. Dividend policy

In accordance with the dividend policy adopted by the Management Board on January 22, 2014, the Company intends to provide its shareholders with a share in the generated profit through the payment of dividends. When recommending the Company's profit distribution scenario for a given financial year to which the new dividend policy will apply, the Management Board of the Company shall submit a proposal to the General Meeting for the distribution of dividends representing from 33% to 66% of the standalone net profit of the Company, provided that the total indebtedness ratio of the Company's capital group, i.e. net debt to EBITDA as at the end of the financial year to which the profit distribution refers is less than 2.5x.

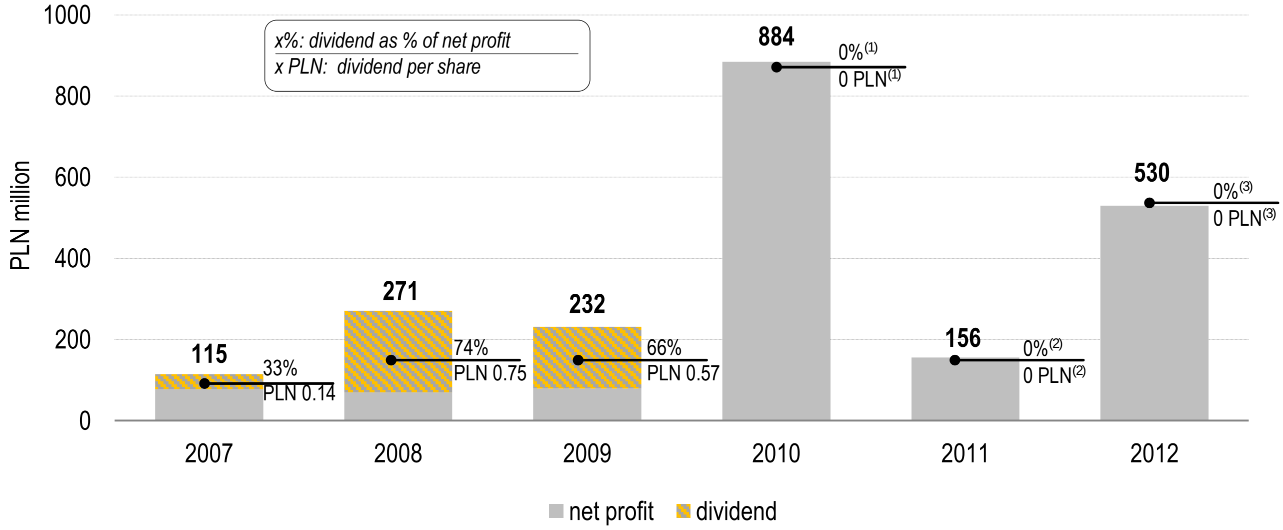
When preparing the recommendation for the distribution of the Company's profit and the dividend payment, the Management Board will also take into consideration: the amount of standalone net profit achieved by the Company, the financial condition of the Company's capital group, existing obligations (including any restrictions arising from financing agreements and indebtedness of the Company and other members of its group), the ability to use and manage capital reserves, the Management and Supervisory Boards' assessment of the prospects of the Company and its capital group in a particular market situation, as well as the need to make expenditures in pursuit of the overriding goal of the Company, that is its continued growth, in particular through acquisitions and engaging in new projects. According to the resolution of the Management Board, the new dividend policy shall come into effect as of and first apply to the standalone net profit for the financial year ending 31 December 2014.

With reference to the fact that a shareholder of Cyfrowy Polsat S.A. has submitted a draft resolution regarding the issuance of subscription warrants providing for a payment of dividend for 2013 or interim dividend for 2014 by the Company, in an amount of no less than PLN 100 million (not in thousands), the Management Board of the Company hereby states that, given the current financial condition of the Company, it is of the opinion that the payment of dividend or interim dividend in the amount of PLN 100 million (not in thousands) would not pose any significant risk to the Company's financial standing or current plans. This opinion has been formed on the basis of the Management Board's analysis of the Company's current financial condition and capital requirements, including the published consolidated financial results of the Company's group for the nine months ended 30 September 2013 and the preliminary data regarding the Group's performance in the fourth quarter of 2013 available to the Management Board.

The Management Board's statement presented above is related to the fact that the decision to pay dividend or interim dividend is a condition precedent to a closing of the acquisition of Metelem Holding Company Ltd. by the Company, which the Management Board considers to be a transaction of paramount importance for the Company's further development and improvement of its competitiveness. The Management Board believes that the completion of this transaction will improve the effectiveness of the Company's business and create value for its shareholders, therefore the Management Board will take all actions necessary to satisfy the conditions for the completion of the transaction set out in resolutions of the Extraordinary General Meeting.

Acting in accordance with resolution No. 20 of the Ordinary General Meeting, held on June 11, 2013, regarding profit distribution, the Company's total standalone net profit for the financial year ended December 31, 2012 in the amount of PLN 529.8 million (not in thousands) was allocated to reserve capital.

The history of profit sharing (in million PLN)



(1) net profit allocated entirely to reserve capital according to the resolution of the General Meeting on May 19, 2011 adopted based on the recommendation of the Management Board, justified by the need of future service of the debt incurred by the Company to purchase 100% shares of Telewizja Polsat.
(2) net profit distributed in total to reserve capital and to cover losses from previous years according to the resolution of the General Meeting on June 5, 2012, adopted based on the recommendation of the Management Board, justified by the need of future service of the debt incurred by the Company to purchase 100% shares of Telewizja Polsat.
(3) net profit distributed in total to reserve capital according to the resolution of the General Meeting on June 11, 2013

Item 11. Shares of Cyfrowy Polsat held by members of the Management Board and the Supervisory Board

Shares held by members of the Management Board

The following table presents information relating shares held directly and indirectly by particular members of the Management Board as at the day of the publication of this Report, ie. February 26, 2014:

	No. of shares	Nominal value of shares (not in thousands)
Dominik Libicki	1,497	59.88
Dariusz Działkowski	-	-
Aneta Jaskólska	-	-
Tomasz Szeląg	-	-
Total	1,497	59.88

Shares held by members of the Supervisory Board

The following table present information relating to shares held directly and indirectly by particular members of the Supervisory Board as at day of the publication of this Report, ie February 26, 2014:

	No. of shares	Nominal value of shares (not in thousands)
Zygmunt Solorz-Żak[(1)]	-	-
Robert Gwiazdowski	-	-
Andrzej Papis	-	-
Leszek Reksa	-	-
Heronim Ruta[(2)]	25,341,272	1,013,650.88
Total	**25,341,272**	**1,013,650.88**

[(1)] On February 18, 2013, the Company received from Mr. Zygmunt Solorz-Żak an information, regarding the transfer, on the basis of an agreement concluded on February 13, 2013, of ownership of shares in Pola Investments Ltd. seated in Nicosia, Cyprus, the Company's shareholder and entity controlled by Mr. Zygmunt Solorz-Żak, to the family foundation (trust) TiVi Foundation seated in Vaduz, Lichtenstein.

[(2)] Mr. Heronim Ruta controls indirectly through Sensor Overseas Ltd. 25,341,272 of the Company's shares constituting 7.27% of the Company's share capital and representing 50,382,647 votes at the General Meeting of the Company, which constitutes 9.55% of total number of votes in the Company.

Item 12. Remuneration of the Members of the Management Board and the Members of the Supervisory Board

Information regarding remuneration of members of the Management Board and the Supervisory Board for the financial year ended December 31, 2013 is included in Note 40 (Members of the Management Board) and Note 41 (Members of the Supervisory Board) of Financial Statements.

Item 13. 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

Cyfrowy Polsat S.A concluded a management contract with **Dominik Libicki** who is the President of the Management Board setting out that his notice period is six months. In addition the non-competition agreement concluded with Dominik Libicki sets out a monthly payment of PLN 55,000 (not in thousands) over the number of months specified in non-competition agreement.

In the case of termination of the management contract (including its expiry) Dominik Libicki 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 330,000 (not in thousands) (three hundred thirty thousand), 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 330,000 (not in thousands), paid by Cyfrowy Polsat on the last day of the notice period.

The management contract with **Dariusz Działkowski** sets out the notice period at four months. In addition the non-competition agreement concluded with Dariusz Działkowski sets out a monthly payment of PLN 40,000 (not in thousands) 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 (not in thousands) (two hundred forty thousand), 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 (not in thousands), 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 (not in thousands) 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 (not in thousands) (two hundred forty thousand), 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 (not in thousands), 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 (not in thousands) 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 (not in thousands) (two hundred forty thousand), 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 (not in thousands), paid by Cyfrowy Polsat on the last day of the notice period.

Item 14. Agreements with an entity certified to perform an audit of the financial statements

On November 14, 2013, 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, 2013 of Cyfrowy Polsat S.A. and the consolidated financial statements of Cyfrowy Polsat Group for the financial year ended December 31, 2013.

The following summary presents a list of services provided by a certified auditor and remuneration for the services in the period of 12 months ended on December 31, 2013 and December 31, 2012.

	for year ended	
	December 31, 2013	**December 31, 2012**
Remuneration for audit of the financial statements for the year and other certifying services, including the review of financial statements	436	434
Other services	412	-
Total	**848**	**434**

Item 15. Statement on the application of the principles of corporate governance

Item 15.1. Specification of the principles of corporate governance which the issuer is subject to and the location of the set of principles where they are publicly available

The Company is subject to the set of principles of the corporate governance for joint-stock companies issuing shares, convertible bonds, or senior bonds that are admitted to trade on the stock exchange. The principles of corporate governance in the form of the Best Practices of WSE Listed Companies, constitute an appendix to the Resolution No. 12/1170/2007 of the Council of WSE of July 4, 2007, amended by the following resolutions of WSE Council: no. 17/1249/2010 dated May 19, 2010, no. 15/1282/2011 dated August 31, 2011, no. 20/1287/2011 dated October 19, 2011 and no. 19/1307/2012 dated November 21, 2012 (amendments introduced in 2012 came into force on January 1, 2013).

The content of the document, prepared by the WSE, is publicly available at the seat of the Warsaw Stock Exchange (WSE) and on the website of WSE dedicated to those issues at http://corp-gov.gpw.pl.

Item 15.2. Specification of the principles of corporate governance that the issuer has waived including the reasons for the waiver

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 2013, as a principle, we employed all the rules in force included in Parts: II, III and IV, to which the principle "comply or explain" applies.

However, the Company has not implemented changes in the organization of the General Meeting so as to comply with principles – included until the end of 2012 in Part I, since January 2013 transferred to the principles laid down in Parts IV and II – regarding direct transmission and providing two-way communication as well as publication of audio or video recording of the General Meeting on the Company website. Thus the Company has violated the principle set out in Part IV section10 and in Part II section 1 point 9a on the occasion of the Ordinary General Meeting of the Company held on June 11, 2013. At the moment, the Management Board does not plan to make changes to the organization of the General Meeting. Ensuring the smooth running and the validity of the resolutions adopted by the General Meeting, as well as cost optimization are the priorities of the Management Board. Considering the small spread of the practice of conducting General Meetings using electronic means of communication and incomplete readiness of the market, and thus an increased risk of organizational and technical disturbances, the Management Board decided to postpone the consideration of the implementation of the rules in question. Concerning the recommendations stated in Part I, we need to comment on three issues.

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

Recommendation 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 innovations in their businesses". In Cyfrowy Polsat, members of the Supervisory Board and the Management Board are appointed by the General Meeting and the Supervisory Board, respectively, based on qualifications, experience and competencies of the candidates. Factors such as gender are not considered when choosing the members of the Company's bodies. Company authorities believe that this approach guarantees the selection of the best persons to perform functions of management and supervision.

Item 15.3. Description of the basic features of the internal control system and the risk management system applied in the Group with respect to the process of preparing financial statements and consolidated financial statements

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

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

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

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

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

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

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

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

The budgetary control system is based on monthly and annual financial and operational plans and 6-year business projections. Both financial and operating results are monitored regularly in relation to the financial and operational plans. During the year, we perform an additional reviews of the financial and operational plans for the year if such need arises. The financial and operational plans are always adopted by the Management Board and approved by the Supervisory Board.

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

(all financial data presented in PLN thousand, unless otherwise stated)

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.

Item 15.4. Presentation of shareholders holding, directly or indirectly, material bundles of shares

The following table presents our shareholders as of the day of publication of this report

Shareholder	Number of shares	% of share	Number of votes	% of votes
Pola Investments Ltd. (1), including:	154,204,296	44.27%	306,709,172*	58.11%*
- Privileged registered shares	152,504,876	43.78%	305,009,752*	57.79%*
- Ordinary bearer shares	1,699,420	0.49%	1,699,420	0.32%
Sensor Overseas Ltd. (2), including:	25,341,272	7.27%	50,382,647	9.55%
- Privileged registered shares	25,041,375	7.19%	50,082,750	9.49%
- Ordinary bearer shares	299,897	0.09%	299,897	0.06%
Others	168,807,268	48.46%	170,678,518	32.34%
Total	348,352,836	100.00%	527,770,337	100.00%

1 Pola Investments Ltd. is controlled by family foundation (trust) TiVi Foundation
2 Sensor Overseas Ltd. is controlled by Mr. Heronim Ruta.
* On February 12, 2013, the Company was informed that on February 7, 2013, Pola Investments Ltd. ("Pola") received from Sensor Overseas Limited the proxy to exercise voting rights from 20,791,375 privileged registered shares of the Company, constituting 5.97% of the Company's share capital and representing 41,582,750 votes at the general meeting of the Company, which is 7.88% of the total number of votes (the "Proxy"). After receiving the Proxy, Pola holds and is entitled to exercise voting rights from 174,995,671 shares of the Company, that constitute 50.24% of the Company's share capital. The shares held by Pola and included in the Proxy represent 348,291,922 votes at the general meeting of the Company, which is 65.99% of the total number of votes in the Company.
The abovementioned package includes:

a) 173,296,251 privileged registered shares constituting 49.75% of the Company's share capital and representing 346,592,502 votes at the general meeting of the Company, which constitutes 65.67% of the total number of votes in the Company, and
b) 1,699,420 bearer shares constituting 0.49% of the Company's share capital and representing 1,699,420 votes at the general meeting of the Company, which constitutes 0.32% of the total number of votes in the Company.

Item 15.5. Presentation of holders of 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, 2013 the shares of the A through D series are shares preferential as to the voting rights in the way that:

(i) Series A shares totaling 2,500,000 have preferential voting rights entitling their holder to two voting rights per share;

(ii) Series B shares totaling 2,500,000 have preferential voting rights entitling their holder to two voting rights per share;

(iii) Series C shares totaling 7,500,000 have preferential voting rights entitling their holder to two voting rights per share;

(iv) 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: Pola Investments Ltd. (152,504,876 shares giving 305,009,752 voting rights on General Meeting), Sensor Overseas Ltd. (25.041.375 shares giving 50.082.750 voting rights on General Meeting) and Koma Fundusz Inwestycyjny Zamknięty (1.871.250 shares giving 3.742.500 voting rights on General Meeting). Based on the abovementioned Proxy from Sensor Overseas Ltd., Pola Investments Ltd. holds and is entitled to exercise voting rights from 173,296,251 privileged registered shares, representing 346,592,502 votes at General Meeting.

8,082,499 shares of D Series, numbered 166,917,502 -175,000,000; 75,000,000 shares of E Series; 5,825,000 F Series shares and 80,027,836 shares of H Series are ordinary bearer shares.

Item 15.6. Specification of limitations in exercising voting rights

There are no limitations to exercise of the voting rights.

Item 15.7. Specification of ownership rights transfer limitations relating to the Company's securities

Except for the limitations regarding our securities ownership rights transfer resulting from the general provisions of the law and those set out in the Company's Prospectus published on 10 April 2008, there are no other limitations, in particular contractual limitations, regarding our securities ownership rights transfer.

Item 15.8. Description of rules regarding appointment and dismissal of the management and their rights, in particular the right to issue or buy back shares

Pursuant to art. 15 of the Articles of Association of the Company the Management Board consist of one or more members, including the President of the Management Board, appointed by the Supervisory Board. The Supervisory Board decides as to the number of Management Board members upon their appointment. The term of office of the Management Board is joint and lasts three years. The members of the Management Board may be dismissed at any time by the Supervisory Board.

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

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

The General Shareholders' Meeting makes decisions regarding an issue or buy back of our shares. The competencies of the Board in respect to the above are limited to execution of any resolutions adopted by the General Shareholders' Meeting.

Item 15.9. Description of rules or amending the Articles of Association

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

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

Item 15.10. The Bylaws of the General Shareholders' Meeting and its principal rights and description of rights of shareholders and their exercise, in particular the rules resulting from the Bylaws of the General Shareholders' Meeting, unless information on that scope results directly from the provisions of law

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 4 December 2007 and amended by Resolution 29 of the Extraordinary Shareholders' Meeting dated 23 April 2009.

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

a. discussion and approval of Reports on the Management Board's activity and the Supervisory Board's activity, and the financial statements for the previous year,
b. decision about distribution of profits, or covering losses.
c. signing off for the Supervisory Board's and the Management Board's performance of duties,
d. appointment and dismissal of members of the Supervisory Board and determination of their compensation,
e. amendments to the Articles of Association of the Company,
f. amendments to the business activity of the Company,
g. increase or decrease in the share capital,
h. merger or transformation of the Company,
i. dissolution or liquidation of the Company,
j. issue of bonds,
k. sale or lease of the Company and establishment of a right of use or sale of the Company's plant,
l. all decisions regarding claims for damages upon establishment of the Company, or activities of management or supervision.

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

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

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

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

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

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

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

(all financial data presented in PLN thousand, unless otherwise stated)

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 form the agenda, or its adjourning upon a request of shareholders, requires prior consent of all the shareholders present, who have forwarded such a motion, supported by a majority of votes of the General Meeting. Motions regarding the aforementioned issues shall be justified in detail.

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

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

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

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

As at December 31, 2013 the shareholders participating in the General Meeting have the number of votes corresponding to the number of shares held, observing the fact that the registered shares Series A through C and in part Series D are preferential in such a way that each of them entitles to casting two votes at the General Meeting.

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

Item 15.11. Personnel composition and changes in the previous business year and description of the functioning of the management, supervisory, or administrative bodies of the Company and its committees.

The Management Board

Currently, our Management Board has four members. The composition of the Board did not change during 2013. Pursuant to the resolution of the Supervisory Board dated June 11, 2013, all members of the Management Board were appointed for a subsequent, three years term.

Composition of the Management Board

The following table presents names, surnames, functions, date of appointment and date of expiry of the current term of particular members of the Management Board as at December 31, 2013.

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Dominik Libicki	President of the Management Board	2001	2013	2016
Dariusz Działkowski	Member of the Management Board	2007	2013	2016
Tomasz Szeląg....................	Member of the Management Board	2009	2013	2016
Aneta Jaskólska.............	Member of the Management Board	2010	2013	2016

Dominik Libicki has been the President and Chief Executive Officer of Cyfrowy Polsat S.A. since March 2001. Mr. Libicki is also a member of the Supervisory Board of Telewizja Polsat Sp. z o.o. He is also the President of Management Board of INFO-TV-FM Sp. z o.o. Since February 2005, Mr. Libicki has also been Vice President of the Union of Private Media Employers of the Polish Confederation of Private Employers "Lewiatan" (Zwiazek Mediow przy Polskiej Konfederacji Pracodawcow Prywatnych Lewiatan). His previous professional experience is related mainly to the television production industry. He was the Managing Director of PAI Film. He also ran his own company Studio Meg which produced television advertising spots and television programs. Between 2005 and 2006 he was a Member and between 2006 and 2008 the Vice-Chairman of the Supervisory Board of Polska Telefonia Cyfrowa Sp. z o.o., the largest mobile network in Poland. From May 1999 to March 2011, Mr Libicki was member of the Supervisory Board of Polskie Media S.A. Mr. Libicki graduated from the Department of Environmental Studies at the Wroclaw Technical University and completed a training course for supervisory board members organized by the Polish Ministry of Economy.

Dariusz Działkowski has been a Member of the Management Board responsible for technology since August 2007. From November 2001 Mr. Działkowski was the Technical Director of Cyfrowy Polsat S.A. He is also a Member of Management Boards of INFO-TV-FM Sp. z o.o., Redefine Sp. z o.o., Netshare Sp. z o.o., Gery.pl Sp. z o.o. and Frazpc.pl Sp. z o.o. Since 2010 he is a Member of the 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.

Aneta Jaskólska has been a Member of the Management Board of Cyfrowy Polsat S.A since July 2010. She is responsible for Legal Department, Administration Department, Personal Department and Safety Department. Mrs. Jaskólska is also a Member of the Management Boards of Cyfrowy Polsat Trade Marks Sp. z o.o., INFO-TV-FM Sp. z o.o., Redefine Sp. z o.o., Netshare Sp. z o.o., Gery.pl Sp. z o.o. and Frazpc.pl Sp. z o.o. Since 2007 Mrs. Jaskólska has been Director of Legal and Regulatory Department of Cyfrowy Polsat S.A. Between 2004 and 2007 Aneta 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 Copyrigt Committee (Komisja Prawa Autorskiego). Mrs. Jaskólska has many years of experience in the legal advisory and services to large business entities. She graduated from the Faculty of Law and Administration of Warsaw University and completed legal internship with the District Chamber of Legal Advisers in Warsaw, receiving the title of a solicitor. She also graduated from Copyright, Publishing and Press Law Faculty at the Department of Management and Social Communication of Jagiellonian University.

Tomasz Szeląg is a Member of the Management Board and Chief Financial Officer since May 2009. Mr. Szeląg is also a Member of the Management Board of Telewizja Polsat Sp. z o.o., President of the Management Board of Polsat Trade Marks Sp. z o.o. and President of the Management Board of Telewizja Polsat Holdings Sp. z o.o., as well as Member of the Management Boards of Cyfrowy Polsat Finance AB, INFO-TV-FM Sp. z o.o., Redefine Sp. z o.o., Netshare Sp. z o.o., Gery.pl Sp. z o.o. and Frazpc.pl Sp. z o.o. Before joining Cyfrowy Polsat, he was Vice-President for Finance at Telefonia Dialog S.A. His previous experience included positions of: Director of the Branch of Société Générale Bank in Wroclaw, Director of the Hedging Department and Director of Analysis and Market Risk at KGHM Polska Miedź. He graduated from Wroclaw University of Economics in the Faculty of National Economy, department of International Economics and Political Relations, specialization in Foreign Trade. He holds a doctorate in economics.

Bylaws of the Management Board

Our Management Board acts pursuant to the provisions of the commercial companies code, the Company's Articles of Association and the Bylaws of Management Board approved by the Supervisory Board on 29 November 2007.

The Management Board runs our matters in a transparent and efficient way pursuant to the provisions of the law, our internal provisions and "the Best Practices of WSE Listed Companies". Upon taking decisions related to our matters, the members of the Management Board act within justified limits of business risk.

The following are entitled to submit statements on our behalf (i) in the case of one person Management Board – the President of the Management Board acting independently, and (ii) in the case of a more numerous Management Board – the President of the Management Board acting independently, two members of Management Board acting jointly, 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.

(all financial data presented in PLN thousand, unless otherwise stated)

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 our matters 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).

The Supervisory Board

The Supervisory Board comprises five members. The Supervisory Board has acted in a stable composition throughout 2013.

The Composition of the Supervisory Board

The following persons were Members of the Supervisory Board:

Name and Surname	Function	Year of first appointment	Year of appointment to the current term	Year of term expiry
Zygmunt Solorz-Żak	Chairman of the Supervisory Board Member of the Remuneration Committee	2008	2012	2015
Robert Gwiazdowski	Independent[1] member of the Supervisory Board Member of the Audit Committee	2008	2012	2015
Andrzej Papis	Member of the Supervisory Board	2007	2012	2015
Leszek Reksa	Independent[1] member of the Supervisory Board Member of the Audit Committee	2008	2012	2015
Heronim Ruta	Member of the Supervisory Board Member of the Audit Committee Member of the Remuneration Committee	2001	2012	2015

[1]conforms with the independence criteria listed in the Best Practices of WSE listed Companies in Chapter III point 6

Zygmunt Solorz-Żak is one of the greatest private entrepreneurs in Poland, conducting business in various areas of the Polish economy. At the end of the 1980s, he set up Foreign Enterprise SOLPOL. At the beginning of the 1990s Mr. Solorz-Żak took interest in the media sector investing in the Kurier Polski. In 1993 Mr. Solorz-Żak launched the first private satellite television in Poland – Polsat which, by receiving a broadcasting license, transformed into a nationwide television. Within a few years Telewizja Polsat became one of the leaders of the television market in Poland. Currently, Mr. Solorz-Żak focuses his business activities in the media and telecommunications sector, in particular through entities like Cyfrowy Polsat S.A. (being also its founder), Telewizja Polsat Sp. z o.o., Polkomtel Sp. z o.o. (in which he is President of the Supervisory Board) and Midas Group. Mr. Solorz-Żak's investment interest also includes companies from the following sectors: energy (ZE PAK S.A), finance and banking (Plus Bank S.A.) andproject development and construction (Port Praski Sp. z o.o.) Mr. Solorz-Żak has a great work experience in statutory bodies of commercial code companies being a member or president of Supervisory Boards of companies such as Telewizja Polsat Sp. z o.o., Midas S.A., Plus Bank S.A. and ZE PAK S.A.

Robert Gwiazdowski has a senior post-doctoral qualifications in law. Since 1997, he holds an Investment Advisor title. Mr. Gwiazdowski is also an arbiter in arbitrary proceedings and a judge at the Stock Exchange Court within the Warsaw Stock Exchange S.A.. He is the President of Adam Smith Centre. From 1985 till 2006 he was a senior researcher at the University of Warsaw (assistant and then lecturer on the Law and Administration Faculty). In 1992-2002 he was a partner in Smoktunowicz & Falandysz Legal Office. In 1994-2004 he was the Head of Tax Commission of Adam Smith Centre. Since 2002 he has run a business within legal/tax and finance/economic advisory, trading as Gwiazdowski Consulting. Mr. Gwiazdowski is an author of commentaries regarding tax and economic issues regarding Polish television and radio channels, and an author of numerous publications and articles. Mr. Gwiazdowski is the Supervisory Board member of Gemius S.A., MNI S.A. (independent member of the Supervisory Board) and DGA S.A. (independent member of the Supervisory Board).

Andrzej Papis is a Legal Advisor. Mr. Papis graduated from the Law and Administration Faculty of the University of Warsaw and completed his legal apprenticeship in the District Chamber of Legal Advisors in Warsaw. From 1998 till 1999 he was an assistant in the team of professor M. Kulesza for administrational reform of the country, then a co-worker of the Government Proxy Office for Implementation of the General Health Insurance. Since 2000 he has been the lawyer of Telewizja Polsat Sp. z o.o. and since 2001 Inwestycje Polskie S.A., where he is also a proxy. Since 2003 a member of the Board of TFP Sp. z o.o., since 2013 President of the Board thereof. A member of the Supervisory Board of Elektrim S.A. since 2004 and a member of the Supervisory Board of Cyfrowy Polsat S.A. since 2007. In 2007-2010 Mr. Papis has been a member of the Supervisory Board of Media-Biznes Sp. z o.o. He was appointed member of the Supervisory Board of Polkomtel Sp. z o.o. in 2011, and Vice-president of the Supervisory Board of Polkomtel Sp. z o.o. in 2014.

Leszek Reksa is a graduate of the Foreign Trade Faculty of the School of Planning and Statistics (currently Warsaw School of Economics). He has extensive professional experience on managerial positions in various companies. For over 15 years he has been employed on managerial positions in the banking sector (large banking institution). He also has a great work experience in statutory bodies of commercial code companies – he was 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 Zaklady Azotowe Kedzierzyn S.A.

Heronim Ruta graduated from the Electrical Faculty of the Warsaw University of Technology. He is employed by Ster Sp. z o.o. and sits on the Supervisory Boards of Plus Bank S.A., PAI Media S.A., Gurex S.A., and Telewizja Polsat Sp. z o.o. From 1973 to 1978 Mr. Ruta was a trainee and then an electrical technology specialist at Zaklady Tworzyw Sztucznych Pronit Erg (plastics processing plant), from 1978 until 1979 he was a specialist supervising development of an experimental car for ultrasonic detection of cracks in rail tracks in Centralny Ośrodek Badań Techniki Kolejnictwa. In 1980, Mr. Ruta worked for Cementation International Limited, London, designing the electrical layout for the Marriott Hotel in Warsaw. From 1980 till 1987 he was the head of Wytworczo-Uslugowa Spoldzielnia Pracy. In 1987 he founded Herom Sp. z o.o., where he was President until 1992. From 1992 till 1994 he was President of Ster Sp. z o.o., and from 1991 till 1998 he ran his own business within trade and services in the field of electronics goods and establishment of television broadcasting transmitters for Telewizja Polsat S.A. From 2002 till 2005 Mr. Ruta was member of the Management Board of Polaris Finance B.V. and between 2002 and 2004 he was member of the Supervisory Board of Uzddaroji Akcine Bendrove „Baltijos Televizja". Since November 2011 he has been the President of the Supervisory Board of Polkomtel Sp. z o.o.

Description of operations of the Supervisory Board

The Supervisory Board acts pursuant to the commercial companies code and also pursuant to the Articles of Association of the Company and the Bylaws of the Supervisory Board of 3 December 2007.

Pursuant to the Articles of Association of the Company the Supervisory Board performs constant supervision over activities of the enterprise. Within the scope of supervision performance the Supervisory Board may demand any information and documents regarding our business from the Management Board.

Members of the Supervisory Board shall take necessary steps to receive regular and full information from the Management Board regarding material matters concerning our business and risks involved in the business and the strategies of risk management. The Supervisory Board may - not infringing the competencies of other bodies of the Company - express their opinion on all the issues related to our proceedings, including forwarding motions and proposals to the Board.

The competencies of the Supervisory Board also include matters restricted by the commercial companies code, in particular:

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

b. once a year, prepare and present a concise evaluation of the situation of the Company to the General Meeting, considering the evaluation of the internal control system and the management system of risks that are important for the Company,

c. appointment of members of the Management Board,

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

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

f. approval of the Bylaws of the Management Board,

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

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

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

Moreover, the competencies of the Supervisory Board include:

a. creation and presentation of an evaluation of the Management Board's performance before the General Shareholders' Meeting,

b. analysis and issuing of an opinion on matters that may be the subject of a resolution of the General Meeting,

c. approval of one-year and long-term programs for the Company developed by the Management Board,

d. determination of the remuneration level of the Supervisory Board delegated to temporary performance of duties of a member of the Management Board,

e. granting consent for participation in other companies,

f. granting consent for appointing, dismissing and suspending members of authorities of the subsidiaries,

g. granting consent for entering into a material agreement with a related entity,

h. granting consent for performance of activities resulting in the Company incurring a liability, with the exception of:

  - activities projected or set out in the annual program for the Company approved by the Supervisory Board, or

  - activities resulting in incurring a liability of the value up to PLN 10,000,000 (ten million zlotys, not in thousands), including guarantees or issuing or guaranteeing bills of exchange done in the scope of daily business, in particular the business of pay digital television, Internet service or the business of MVNO.

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

The Supervisory Board consists of five to nine members including the Chairman of the Supervisory Board, appointed by the General Shareholders' Meeting. The General Shareholders' Meeting, prior to appointment of members of the Supervisory Board for a new term, determines the number of members of the Supervisory Board. The term of office of the Supervisory Board is three years and is a joint one.

The Supervisory Board may consist of two members meeting the criteria of an independent member of the Supervisory Board as set out in the corporate governance regulations included in the Best Practices of WSE listed Companies.

Meetings of the Supervisory Board take place at least once a quarter. The venue for meetings is the seat of the Company or any other place indicated by the person calling the meeting.

The Chairman of the Supervisory Board, or a member of the Supervisory Board appointed by the Chairman calls a meeting of the Supervisory Board. Meetings of the Supervisory Board are chaired by the Chairman, and in the case of their absence by a member of the Supervisory Board indicated by the Chairman in writing, or another member of the Supervisory Board elected by the members present in the meeting.

The Chairman calls a meeting of the Supervisory Board also upon request of a member of the Management Board, or a member of the Supervisory Board, or upon a motion of a shareholder representing at least 1/10 (one tenth) of the share capital. A Meeting of the Supervisory Board shall take place at least within 14 days of the date of filing a written application to the Chairman.

Resolutions of the Supervisory Board are passed by majority of votes cast. In the case of equality the vote the Chairman prevails. A resolution of the Supervisory Board requires inviting all the members of the Supervisory Board and presence of at least half of the members of the Supervisory Board to be valid.

The Supervisory Board may pass resolutions via means of direct, remote communication and also a member of the Supervisory Board may cast their vote in writing via other member of the Supervisory Board.

Members of the Supervisory Board execute their rights and perform their duties in person. Members of the Supervisory Board participate in General Meetings.

Moreover, within the performance of their duties, the Supervisory Board shall:

a. once a year prepare and present before the General Meeting a concise evaluation of the situation of the Company, considering the evaluation of the internal control system and the management system of risks that are important for the Company.

b. once a year prepare and present before the Annual General Meeting an evaluation of its own performance,

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

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, 2013 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.

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, 2013, 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.

Dominik Libicki	Tomasz Szeląg	Dariusz Działkowski	Aneta Jaskólska
President of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board

Warsaw, February 26, 2014

Management Board's representations

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

Dominik Libicki, President of the Management Board,
Dariusz Działkowski, Member of the Management Board,
Aneta Jaskólska, Member of the Management Board,
Tomasz Szeląg, Member of the Management Board

hereby represents that:

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

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

Dominik Libicki 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

Warsaw, 26 February 2014

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Independent auditor's report

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

We have audited the accompanying financial statements of Cyfrowy Polsat S.A., which comprise the balance sheet as at 31 December 2013 and the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flows statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Cyfrowy Polsat S.A. as at 31 December 2013, 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 2014
Warsaw, Poland

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

CYFROWY POLSAT S.A.

Financial Statements
for the year ended 31 December 2013

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

Table of contents

Approval of the Financial Statements .... F 3

Income Statement .... F 4

Statement of Comprehensive Income .... F 4

Balance Sheet .... F 5

Cash Flow Statement .... F 7

Statement of Changes in Equity .... F 8

Notes to the Financial Statements .... F 9

APPROVAL OF THE FINANCIAL STATEMENTS

On 26 February 2014, the Management Board of Cyfrowy Polsat S.A. approved the financial statements of the Cyfrowy Polsat S.A. prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which include:

Income Statement for the period from 1 January 2013 to 31 December 2013 showing a net profit for the period of:	PLN 429,013
Statement of Comprehensive Income for the period from 1 January 2013 to 31 December 2013 showing a total comprehensive income for the period of:	PLN 440,680
Balance Sheet as at 31 December 2013 showing total assets and total equity and liabilities of:	PLN 6,022,707
Cash Flow Statement for the period from 1 January 2013 to 31 December 2013 showing a net decrease in cash and cash equivalents amounting to:	PLN 33,225
Statement of Changes in Equity for the period from 1 January 2013 to 31 December 2013 showing an increase in equity of:	PLN 440,680

Supplementary Information to the Financial Statements

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

Dominik Libicki 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

Dorota Wołczyńska
Chief Accountant

Warsaw, 26 February 2014

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

Income Statement

		for the year ended	
	Note	31 December 2013	31 December 2012
Revenue	8	1,922,869	1,783,626
Operating costs	9	(1,552,158)	(1,375,473)
Other operating income/(costs), net		1,855	(10,481)
Profit from operating activities		**372,566**	**397,672**
Gain/loss on investment activities, net	10	312,366	315,817
Finance costs	11	(234,065)	(130,397)
Gross profit for the period		**450,867**	**583,092**
Income tax	12	(21,854)	(53,255)
Net profit for the period		**429,013**	**529,837**
Basic and diluted earnings per share (in PLN)	14	**1.23**	**1.52**

Statement of Comprehensive Income

		for the year ended	
	Note	31 December 2013	31 December 2012
Net profit for the period		**429,013**	**529,837**
Items that may be reclassified subsequently to profit or loss:			
Valuation of hedging instruments		14,404	(31,345)
Income tax relating to hedge valuation	12	(2,737)	5,956
Items that may be reclassified subsequently to profit or loss		**11,667**	**(25,389)**
Other comprehensive income, net of tax		**11,667**	**(25,389)**
Total comprehensive income for the period		**440,680**	**504,448**

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

Balance Sheet - Assets

	Note	31 December 2013	31 December 2012
Reception equipment	15	407,579	420,060
Other property, plant and equipment	15	167,072	172,201
Goodwill	16	52,022	52,022
Other intangible assets	17	72,067	47,821
Investment property		1,905	-
Shares in subsidiaries	18	4,719,928	4,588,928
Non-current deferred distribution fees	19	29,551	35,125
Other non-current assets	20	12,300	101,604
Total non-current assets		**5,462,424**	**5,417,761**
Inventories	21	144,694	159,885
Trade and other receivables	22	214,305	222,767
Income tax receivable		-	6,458
Current deferred distribution fees	19	70,055	57,096
Other current assets	23	105,154	71,256
Cash and cash equivalents	24	26,075	59,316
Total current assets		**560,283**	**576,778**
Total assets		**6,022,707**	**5,994,539**

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

Balance Sheet - Equity and Liabilities

	Note	31 December 2013	31 December 2012
Share capital	25	13,934	13,934
Share premium	25	1,295,103	1,295,103
Hedge valuation reserve	26	(8,964)	(20,631)
Retained earnings		2,121,105	1,692,092
Total equity		**3,421,178**	**2,980,498**
Loans and borrowings	27	239,889	592,003
Issued bonds	28	1,322,758	1,298,661
Finance lease liabilities	29	1,498	3,554
Deferred tax liabilities	12	93,766	90,611
Deferred income	33	4,079	5,181
Other non-current liabilities and provisions	30	7,175	14,644
Total non-current liabilities		**1,669,165**	**2,004,654**
Loans and borrowings	27	297,283	311,439
Issued bonds	28	112,207	110,610
Finance lease liabilities	29	2,175	1,954
Trade and other payables	31	304,708	371,461
Income tax liability		3,923	-
Deposits for equipment	32	2,727	13,259
Deferred income	33	209,341	200,664
Total current liabilities		**932,364**	**1,009,387**
Total liabilities		**2,601,529**	**3,014,041**
Total equity and liabilities		**6,022,707**	**5,994,539**

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

Cash Flow Statement

		for the year ended	
	Note	**31 December 2013**	**31 December 2012**
Net profit		**429,013**	**529,837**
Adjustments for:		**28,738**	**(107,371)**
Depreciation, amortization, impairment and disposal	9	219,039	202,783
(Gain)/loss on sale of property, plant and equipment and intangible assets		(41)	492
Interest expense		208,229	227,979
Change in inventories		15,191	19,149
Change in receivables and other assets		56,731	(69,499)
Change in liabilities, provisions and deferred income		(69,779)	76,032
Valuation of hedging instruments		14,404	(31,345)
Foreign exchange (gains)/ losses, net		20,047	(111,889)
Income tax	12	21,854	53,255
Net increase in reception equipment provided under operating lease		(158,859)	(179,000)
Dividends income		(303,210)	(297,230)
Other adjustments		5,132	1,902
Cash from operating activities		**457,751**	**422,466**
Income tax paid		(11,410)	(3,544)
Interest received from operating activities		1,132	6,170
Net cash from operating activities		**447,473**	**425,092**
Acquisition of property, plant and equipment		(40,348)	(27,489)
Acquisition of intangible assets		(40,149)	(28,924)
Loans granted		-	(1,700)
Dividends received		303,210	297,230
Acquisition of shares in subsidiaries		-	(45,185)
Merger with related entities		-	2,305
Share capital increase in subsidiaries		(131,000)	-
Loans repaid - principal		-	1,700
Interest on loans repaid		-	12
Proceeds from sale of property, plant and equipment		145	208
Net cash from investing activities		**91,858**	**198,157**
Net cash from Cash Pool with paid interest		14,762	(8,006)
Payment of interest on loans, borrowings, bonds, finance lease and commissions*		(178,910)	(209,803)
Finance lease – principal repayments		(2,145)	(335)
Repayment of loans and borrowings	27	(406,263)	(357,652)
Net cash used in financing activities		**(572,556)**	**(575,796)**
Net increase/(decrease) in cash and cash equivalents		**(33,225)**	**47,453**
Cash and cash equivalents at the beginning of the year		**59,316**	**11,858**
Effect of exchange rate fluctuations on cash and cash equivalents		(16)	5
Cash and cash equivalents at the end of the year		**26,075**	**59,316**

* Includes impact of hedging instruments

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

Statement of Changes in Equity
for the year ended 31 December 2013

	Note	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total Equity**
Balance as at 1 January 2013		**13,934**	**1,295,103**	**(20,631)**	**1,692,092**	**2,980,498**
Total comprehensive income		-	-	11,667	429,013	**440,680**
Hedge valuation reserve	*26*	-	-	*11,667*	-	***11,667***
Net profit for the period		-	-	-	*429,013*	***429,013***
Balance as at 31 December 2013		**13,934**	**1,295,103**	**(8,964)**	**2,121,105**	**3,421,178**

* The capital excluded from distribution amounts to PLN 4,645. 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.

Statement of Changes in Equity
for the year ended 31 December 2012

	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total Equity**
Balance as at 1 January 2012	**13,934**	**1,295,103**	**4,758**	**1,189,281**	**2,503,076**
Total comprehensive income	-	-	(25,389)	529,837	**504,448**
Hedge valuation reserve	-	-	*(25,389)*	-	***(25,389)***
Net profit for the period	-	-	-	*529,837*	***529,837***
Merger with Cyfrowy Polsat Technology Sp. z o.o.	-	-	-	(27,026)	**(27,026)**
Balance as at 31 December 2012	**13,934**	**1,295,103**	**(20,631)**	**1,692,092**	**2,980,498**

* The capital excluded from distribution amounts to PLN 4,645. In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital.

Notes to the Financial Statements

1. The Company

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

The Company operates in Poland as a provider of a paid digital satellite platform under the name of 'Cyfrowy Polsat' and paid digital terrestrial television as well as Internet access services provider and a Mobile Virtual Network Operator ('MVNO').

The Company's activities comprise one segment – services rendered to general public.

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

The Company is the Parent Company of Cyfrowy Polsat S.A. Capital Group ('Group'). The Group encompasses the Company, Cyfrowy Polsat Trade Marks Sp. z o.o. and its subsidiaries, INFO-TV-FM Sp. z o.o., Cyfrowy Polsat Finance AB, Telewizja Polsat Sp. z o.o. and its subsidiaries and jointly controlled entities, Redefine Sp. z o.o. and its subsidiary, Netshare Sp. z o.o., Gery.pl Sp. z o.o. and Frazpc.pl Sp. z o.o. The Group operates in two segments: (1) retail business 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

- Dominik Libicki	President of the Management Board,
- Dariusz Działkowski	Member of the Management Board,
- Aneta Jaskólska	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,
- Robert Gwiazdowski	Member of the Supervisory Board,
- Andrzej Papis	Member of the Supervisory Board,
- Leszek Reksa	Member of the Supervisory Board,
- Heronim Ruta	Member of the Supervisory Board.

4. Basis of preparation of the financial statements

Statement of compliance

These financial statements for the year ended 31 December 2013 have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU (IFRS EU). The Company applied the same accounting policies in the preparation of the financial data for the year ended 31 December 2013 and the financial statements for 2012, presented in the annual report, except for the EU-endorsed standards and interpretations which are effective for the reporting periods beginning on or after 1 January 2013.

During the year ended 31 December 2013 the following became effective:

(i) amendments to IAS 1 – *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
(ii) amendments to IAS 12 – Income Taxes
(iii) amendments to IAS 19 – *Employee Benefits*
(iv) amendments to IFRS 1 – *First-time Adoption of IFRS – Government Loans*
(v) amendments to IFRS 1 – *First-time Adoption of IFRS – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
(vi) amendments to IFRS 7 – *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
(vii) IFRS 13 – *Fair value measurement*
(viii) IFRIC 20 – *Stripping Costs in the Production Phase of a Surface Mine*
(ix) annual improvements – 2009-2011 reporting cycle

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 10 *Consolidated financial statements,* IAS 27 *Separate financial statements*
(ii) IFRS 11 *Joint arrangements*, IAS 28 *Associates and joint ventures*
(iii) IFRS 12 *Disclosures of interests in other entities*
(iv) amendment to IFRSs 10, 11 and 12 *on transition guidance*
(v) IFRS 9 *Financial instruments: Classification and measurement and Hedge accounting*
(vi) amendments to IAS 32 *Financial instruments: presentation*
(vii) amendments to IFRSs 10, 12 and 27 *on investment entities*
(viii) IFRIC 21 *Levies*
(ix) amendments to IAS 36 *Impairment of assets*
(x) amendments to IAS 39 *Financial instruments*
(xi) amendments to IAS 19 – *Employee Benefits*
(xii) annual improvements – 2010-2012 reporting cycle
(xiii) annual improvements – 2011-2013 reporting cycle

The Company is currently analyzing the impact of the published standards that are not yet effective and assesses that they should not have a material impact on the financial statements, other than additional disclosures.

5. Accounting policies

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

a) Basis of measurement

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

b) Going concern assumption

These financial statements have been prepared assuming that the Company will continue as a going concern in the foreseeable future, not shorter than 12 months from 31 December 2013.

c) Functional currency and presentation currency

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

d) Judgments and estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about critical estimates and judgements in applying accounting policies is included in note 44.

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. The changes had no impact on previously reported amounts of net income or equity.
The income statement data for period of 12 months ended 31 December 2013 is not fully comparable with prior-year data as it includes the effect of the merger of Cyfrowy Polsat Technology Sp. z o.o. with the Company. The merger has no effect on the balance sheet data as the merger was effective on 31 December 2012.

f) Foreign currency

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

g) Financial instruments

(i) Non-derivative financial instruments

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

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

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

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

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

Loans and receivables and other financial liabilities

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

Deposits

Deposits received from subscribers and distributors are valued at amortised costs and are presented as non-current or current liabilities depending on the minimum term of the agreements.

(ii) Derivative financial instruments

Hedge accounting

The Company may use derivative financial instruments such as forward currency contracts, foreign exchange call options, interest rate swaps and cross-currency interest rate swaps to hedge its foreign currency and interest rate risks. The Company may use forward currency contracts and foreign exchange call options as cash flow hedges of its exposure to foreign currency risk in forecasted EUR denominated fixed coupon payments on Eurobonds as well as interest rate swaps and cross-currency interest rate swaps for its exposure to volatility in the interest payments on floating rate debt.

For the purpose of hedge accounting, the Company's hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

For cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the hedge valuation reserve, while any ineffective portion is recognized immediately in the income statement.

The amounts recognized within other comprehensive income are transferred from equity to the income statement when the hedged transaction affects profit or loss, such as when the related gain or loss is recognized in finance cost or when a forecast sale occurs.

Gains and losses from the settlement of derivative instruments that are designated as, and are effective hedging instruments, are presented in the same position as the impact of the hedged item. The derivative instrument is divided into a current portion and a non-current portion only if a reliable allocation can be made.

Other derivatives not designated for hedge accounting

Derivative instruments that are not designated for hedge accounting are recognized initially at fair value, attributable transaction costs are recognized in the profit or loss as incurred. Subsequent to initial recognition, the Company measures those derivative financial instruments at fair value, and changes therein are recognized in profit or loss.

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or divided into a current and non-current portion based on an assessment of the relevant facts and circumstances (i.e. the underlying contracted cash flows).

- Where the Company will hold a derivative instrument considered an economic hedge (for which hedge accounting is not applied) for a period exceeding 12 months after the reporting date, such derivative instrument is classified as non-current (or divided into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivates that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

h) Equity

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity.

Preferred shares

Preference share capital is classified as equity, if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity.

Costs attributable to the issue and public offer of shares

Costs attributable to a new issue of shares are recognized in equity while costs attributable to a public offering of existing shares are recognized directly in finance costs. These costs relating to both new issue and sale of existing shares are recognized on a pro-rata basis in equity and finance costs.

Share premium

Share premium includes the excess of issue value over the nominal value of shares issued.

Retained earnings

Retained earnings include net result and effect of merger with the Company. Effect of merger is calculated as the difference between assets and liabilities of the merged entity.

In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital. This capital is excluded from distribution, however, it can be utilised to cover accumulated losses.

i) Property, plant and equipment

(i) Property, plant and equipment owned by the Company

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes purchase price of the asset and other expenditure that is directly attributable to the acquisition and bringing the asset to a working condition for its intended use, including initial delivery as well as handling and storage costs. The cost of purchased assets is reduced by the amounts of vendor discounts, rebates and other similar reductions received.

The cost of self-constructed assets and assets under construction includes all costs incurred for their construction, installation, adoption, and improvement as well as borrowing costs incurred until the date they are accepted for use (or until the reporting date for an asset not yet accepted for use). The above cost also may include, if necessary, the estimated cost of dismantling and removing the asset and restoring the site. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

Subsequent cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company and the amount of the cost can be measured reliably. Replaced item is derecognised. Other property, plant and equipment related costs are recognized in profit and loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The estimated useful lives for the current and comparative period are as follows:

Buildings and structures	2-61	years
Reception equipment	3 or 5	years
Technical equipment and machinery	2-58	years
Vehicles	2-16	years
Other	2-26	years

Depreciation methods, useful lives and residual values of material assets are reviewed at each financial year-end and adjusted if appropriate.

(iv) Leased assets

Assets used under lease, tenancy, rental or similar contracts which meet finance lease criteria, are classified as non-current assets and recognized at the lower of fair value of the leased asset and the present value of the minimum lease payments. Set-top boxes that are provided to customers under operational leases are accounted for as property, plant and equipment (Reception equipment in balance sheet).

Assets subject to the lease are depreciated in a manner that is consistent with the policies applied to similar Company-owned assets. Depreciation is based on the principles of IAS 16 *Property, plant and equipment*. Where it is not reasonably certain that the lessee will obtain ownership of the asset before the lease term ends, the asset is depreciated over its useful life or the lease term, if shorter.

Carrying amounts of set-top boxes and other items of property, plant and equipment may be reduced by impairment losses whenever there is uncertainty as to those assets' revenue generating potential or their future use in the Company's operations.

j) Intangible assets

(i) Goodwill

Goodwill represents the excess of the sum of consideration transferred and payable, the amount of non-controlling interest in the acquiree and the fair value as at the date of acquisition of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired.

Goodwill is presented at purchase price less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if possible impairment is indicated. Goodwill is allocated to acquirer's cash-generating units for the purpose of testing for impairment. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Other intangible assets

The Company capitalizes costs of IT software internally generated, including employee-related expenses, directly resulting from generation and preparing asset to be capable of operating, if the Company is able to demonstrate: the technical feasibility of completing the intangible asset so that it will be available for use or sale; its intention to complete the intangible asset and use or sell it; its ability to use or sell the intangible asset; how the intangible asset will generate probable future economic benefits, the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other intangible assets acquired by the Company are stated at cost less accumulated amortization and impairment losses.

Subsequent expenditure on existing intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in the profit or loss as incurred.

Amortization is based on the cost of an asset less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The estimated useful lives for respective intangible assets groups are as follows:

- Computer software: 2 – 15 years,
- Other: 2 – 7 years.

k) Shares in subsidiaries

Shares in subsidiaries are measured at cost less impairment losses. Accounting principles relating to impairment testing are presented in 5 (n).

l) Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is determined based on the first-in first-out principle. The cost of inventories includes purchase price, costs relating directly to the acquisition and the costs related to preparing the inventory for use or sale.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In the case of set-top boxes, which under the business model applied by the Company are sold below cost, the loss on the sale is recorded when the set-top box is transferred to the customer.

The Company creates an allowance for slow-moving or obsolete inventories.

m) Prepayments

Prepayments for data transfer purchases are recognized in the nominal value upon payments made. The costs are recognized in the income statement based on the actual usage of data transmission and contractual fees. Prepayments, which will be settled on the basis of the forecasted data transfer usage within 12 months of the balance sheet date, are presented as current assets. Prepayments, which will be settled after 12 months from the balance sheet date are presented as other non-current assets.

n) Impairment of assets

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis at balance sheet date. The remaining financial assets are assessed for impairment collectively in groups that share similar credit risk characteristics.

Receivables are reduced by an allowance based on the likelihood of future debt collection. The allowance is charged to cost of debt collection services and bad debt allowance and receivables written off. An allowance for receivables from individuals is estimated based on the historical recoverability of overdue receivables and recovery efficiency.

All impairment losses are recognized in the income statement.

Impairment losses are reversed if a subsequent increase in recoverable value of a financial asset can be related objectively to an event occurring after the impairment losses were recognized.

The Company considers on annual basis whether there are indicators that investments in subsidiaries suffered any impairment (i.a. value of net assets). If so, then the impairment test is performed and the recoverable amount of the investment is estimated based on value-in-use calculations.

(ii) Non-financial assets

The carrying amounts of non-financial assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of intangible assets which are not yet ready for use is assessed at each financial year-end.

An impairment loss is recognized when the carrying amount of an asset or a cash-generating unit is greater than its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in the income statement. An impairment loss for a cash-generating unit is initially recognized as a decrease of goodwill assigned to this unit (group of units), then it proportionally reduces the carrying amount of other assets from this unit (group of units).

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In the case of assets that do not generate independent cash flows, the value in use is estimated for the smallest identifiable cash-generating unit to which the asset belongs.

An impairment loss for goodwill cannot be reversed. As for other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss other than that in respect of goodwill is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

o) Employee benefits

(i) Defined contribution program

The Company is obliged, under applicable regulations, to collect and remit the contribution to the state pension fund. These benefits, according to IAS 19 *Employee Benefits* represent state plans and are classified as defined contribution plans. Therefore, the Company's obligations for each period are estimated as the amount of contributions to be remited for a given period.

(ii) Defined benefit program – retirement benefits

The Company is obliged to pay retirement benefits calculated in accordance with the relevant provisions of the Polish labour code. The minimum retirement benefit is as per the labour code provisions at the moment of payment.

The calculation is carried out using the Projected Unit Credit Method. Employee rotation is estimated based on historical experience and forecasts of future employment levels.

Changes in the value of the retirement benefit provision are recognized in the income statement. Actuarial gains and losses are recognized in the equity, in other comprehensive income in full in the period they originated.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are recognized as an expense as the related service is provided.

The Company recognizes a liability and charges the income statement for the amounts expected to be paid under short-term bonuses and profit sharing plans, if the Company has a legal or constructive obligation to make such payments as a result of past services provided by the employees and the obligation can be estimated reliably.

p) Provisions

A provision is recognized when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where the effect of the time value of money is material, the Company discounts the provision, using a pre-tax discount rate that reflects current market assessments of the time value of money and those risks specific to the component of the liability.
Certain disclosures may not be included in these consolidated financial statements as they relate to sensitive information.

Warranty provision

A warranty provision is recognized when products or goods, for which the warranty was granted, are sold. The amount of the provision is based on historical warranty data and on a weighted average of all possible outflows connected with warranty claims against their associated probabilities.

q) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company or a present obligation that arises from past events, but its amount cannot be estimated reliably or it is not probable that there will be an outflow of resources embodying economic benefits.

A contingent liability is disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Unless the possibility of any outflow in settlement is remote, the Company discloses for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:
- an estimate of its financial effect;
- an indication of the uncertainties relating to the amount or timing of any outflow and
- the possibility of any reimbursement.

r) Revenue

Revenue, which excludes value added tax, returns, trade discounts and volume rebates, represents the gross inflow of economic benefit from Company's operating activities. Revenue is measured at the fair value of the consideration received or receivable. The Company's main sources of revenue are recognized as follows:

(a) Retail revenue, including subscription and activation fees for DTH and digital terrestrial television, Near Video on Demand (nVoD), MVNO and the Internet access, interconnection revenue, settlements with mobile network operators and revenue from the rental of reception equipment is recognized as these services are provided. Retail revenue also includes contractual penalties related to terminated agreements in the amount expected to recover which are recognized when the contract is terminated.
Revenue from the rental of reception equipment is recognized on a straight-line basis over the minimum base period of the subscription contract.
Revenues from prepaid mobile telephone services are recognized in profit or loss once the prepaid credit is utilised or forfeited.

(b) 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.

(c) Other revenue is recognized, net of any discount given, when the relevant goods or service are provided.

When the Company sells goods (reception equipment, set-top boxes, CAM) and services in one bundled transaction, the total consideration from the arrangement is allocated to each element of such multiple-element arrangements based on residual method in such a way that the amount recognised for items already received cannot be higher than cash already received.

s) Distribution fees

Commissions for distributors for registering new subscribers and for retention existing subscribers are recognized during the minimum basic period of the subscription agreement.

Turnover commissions for concluding a certain number of subscription contracts are recognized in the income statement as they are due.

Commissions for distributors which will be settled within the period of 12 months after the balance sheet date are presented as current assets, however, the commissions, which will be settled after the 12-month period from the balance sheet date, are presented as non-current assets.

t) Revenues and costs of barter transactions

Revenues from barter transactions are recognized when the services are rendered or goods are delivered. Programming licenses, products or services are expensed or capitalized when received or used. The Company recognizes barter transactions based on the estimated fair value of the programming licenses, products or services. When products or services are received before related advertising is broadcast, a liability is recognized. Otherwise, when the advertisement is broadcast before products or services are received, a receivable is recognized.

u) Gains and losses on investment activities and finance costs

Gains and losses on investment activities income includes interest income on funds invested, interest expenses (other than interest expenses on borrowings), dividends income, results on the disposal of available-for-sale financial instruments, net foreign currency gains/losses, and results on completed forward exchange contracts and call options, impairment losses recognized on financial assets, unwinding of the discount on provisions, dividends from preference shares classified as liabilities. Interest income and expense (other than interest expense on borrowings) is recognized as it accrues in profit or loss using the effective interest method. Dividends income is recognized in profit or loss on the date that the Company's right to receive payment is established.

Finance costs comprise interest expense on borrowings (including bank loans and issued bonds), foreign exchange gains/losses on issued bonds due in 2018, bank and other charges on borrowings as well as guarantee fees resulting from the indebtedness. Borrowing costs are recognized in profit or loss using the effective interest method.

v) Lease payments

Payments under an operating lease are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments due to financial lease agreements are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

w) Taxation

Income tax expense/benefit for the year comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are measured based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, respectively, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be partly or wholly realised. When not recognized deferred tax asset becomes recoverable, it is recognised to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are offset by the Company as criteria for offsetting from IAS 12 are fulfilled.

x) Earnings per share

The Company presents basic and diluted earnings per share for its ordinary and preference shares. Basic earnings per share are calculated by dividing the period's profit or loss from continuing operations attributable to ordinary and preference shareholders of the Company by the weighted average number of ordinary and preference shares outstanding during the period. Diluted earnings per share are calculated by dividing the period's profit or loss from the continued operations attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares adjusted for all potentially dilutive ordinary and preference shares.

y) Segment reporting

The Company operates in the retail business segment which relates to the provision of services to the general public, including digital television transmission signal, mobile services and the Internet access services.

The Company conducts its operating activities in Poland.

Further information on segments is presented in the consolidated financial statements of the Group.

z) Cash flow statement

Cash and cash equivalents in the cash flow statement are equal to cash and cash equivalents presented in the balance sheet.

The purchase of set-top boxes provided to clients under operating lease contracts is classified in the cash flow statement in operating activities. The purchase and disposal of these set-top boxes are classified in the cash flow statement in operating activities and presented as "Net disposals/(additions) in reception equipment provided under operating lease".

Purchases of property, plant and equipment or intangible assets are presented in their net amount (net of VAT).

aa) Business combinations among entities under common control

In principle, the issues relating to acquisitions and business combinations are regulated by IFRS 3 "Business combinations". However, transactions under common control are excluded from the scope of this standard. The situation in which a given transaction or business phenomenon that require recognizing in financial statements prepared in accordance with IFRS are not regulated by the provisions of the individual standards is regulated by the provisions of IAS 8, points 10-12. These provisions put an entity which prepares its financial statements in accordance with IFRS under an obligation to determine an accounting policy and to use it on a consistent basis for similar transactions.

The Company decided to apply the predecessor accounting method to account for the combination of entities that are under common control. This method is based on the assumption that the entities combining were, both before and after the transaction, controlled by the same shareholder and, therefore, the financial statements reflect the continuity of joint control and do not reflect changes in net asset values to fair values (or the recognition of new assets) or the valuation of goodwill, because none of the entities combining is not actually being acquired. The predecessor accounting method applied by the Company consists of adding up the carrying values of the items taken from the statements of financial position as at the combination date, as well as the revenues and expenses and gains and losses of the entities combining as from the combination date.

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6. Determination of fair values

A number of accounting principles and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. The methods for determining fair values are described below. In justified cases, further information on methods of fair value measurement is described in the appropriate notes specific to that asset or liability.

(i) Derivatives

The fair value of derivatives is calculated based on their quoted closing bid price at the balance sheet date or, in the lack thereof, other inputs that are observable for the asset or liability, either directly (i. e. as prices) or indirectly (i. e. derived from prices). In the second case, the fair value of derivatives is estimated as the present value of future cash flows , discounted using the market interest rate at the reporting date. Information on the structure of Polish and eurozone interest rates and Polish złoty exchange rate are used in order to estimate future cash flows and market interest rate.

(ii) Non-derivative financial assets

The fair value of non-derivative financial asset for disclosure purposes is estimated as the present value of future cash flows discounted using a market interest rate as at the balance sheet date.

(iii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on liabilities' quoted closing bid price at the balance sheet date or, in the lack thereof, estimated on the present value of future principal and interest cash flows, discounted using the market interest rate at the reporting date. Market interest rate is estimated as interbank interest rate for a given currency zone (WIBOR, EURIBOR) plus a margin regarding the Company's credit risk. A market interest rate for a finance lease contract is estimated based on interest rates for similar lease contracts.

7. Approval of the Financial Statements

These financial statements were approved for publication by the Management Board on 26 February 2014.

8. Revenue

	for the year ended	
	31 December 2013	**31 December 2012**
Retail revenue	1,829,461	1,732,787
Sale of equipment	41,681	18,965
Other revenue	51,727	31,874
Total	**1,922,869**	**1,783,626**

Retail revenue consists of pay-TV, Internet access and MVNO subscription fees, interconnection revenues and settlements with mobile network operators, revenue from rental of reception equipment and contractual penalties related to terminated agreements.

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9. Operating costs

		for the year ended	
	Note	31 December 2013	31 December 2012
Programming costs		471,447	425,050
Distribution, marketing, customer relation management and retention costs		333,410	312,400
Depreciation, amortization, impairment and disposal		219,039	202,783
Salaries and employee-related costs	a	114,182	98,406
Broadcasting and signal transmission costs		93,862	91,772
Cost of settlements with mobile network operators and interconnection charges		77,912	44,110
Cost of equipment sold		63,784	36,173
Cost of debt collection services and bad debt allowance and receivables written off		29,806	27,315
Other costs		148,716	137,464
Total		**1,552,158**	**1,375,473**

Depreciation, amortisation, impairment and disposal 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).

a) Salaries and employee-related costs

	for the year ended	
	31 December 2013	31 December 2012
Salaries	96,874	83,826
Social security contributions	13,620	11,381
Other employee-related costs	3,688	3,199
Total	**114,182**	**98,406**

Average headcount of non-production employees

	for the year ended	
	31 December 2013	31 December 2012
Number of employees – employment contracts	847	704

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

10. Gain/loss on investment activities, net

	for the year ended	
	31 December 2013	**31 December 2012**
Dividends received	303,210	297,230
Guarantee fees from related parties	9,146	9,499
Interest	(321)	5,995
Other foreign exchange gains/(losses)	333	2,318
Other gains/losses on investment activities, net	(2)	775
Total	**312,366**	**315,817**

11. Finance costs

	for the year ended	
	31 December 2013	**31 December 2012**
Interest expense on loans and borrowings	64,578	109,331
Realization of hedging instruments (IRS)	10,092	1,107
Interest expense on issued bonds	125,088	125,270
Impact of hedging instruments valuation on interest expense on issued bonds	478	1,694
Realization of hedging instruments (CIRS)	7,671	(3,428)
Foreign exchange differences on issued bonds	20,030	(111,884)
Guarantee fees	2,492	3,922
Bank and other charges	3,636	4,385
Total	**234,065**	**130,397**

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12. Income tax

(i) Income tax in the income statement

	for the year ended	
	31 December 2013	31 December 2012
Corporate income tax	17,732	6,402
Change in deferred income tax in the income statement	418	46,853
Correction of income tax statements for previous years	3,704	-
Income tax expense in the income statement	**21,854**	**53,255**

	for the year ended	
Change in deferred income tax	31 December 2013	31 December 2012
Receivables and other assets	(4,094)	17,365
Liabilities	(7,556)	16,312
Hedge valuation	(91)	(322)
Deferred distribution fees	1,403	(412)
Tangible and intangible non-current assets	2,157	5,310
Tax loss	8,599	8,600
Change in deferred income tax – total	**418**	**46,853**

(ii) Income tax recognized in other comprehensive income

	for the year ended	
	31 December 2013	31 December 2012
Change in deferred income tax on hedge valuation	2,737	(5,956)
Income tax expense recognized in other comprehensive income - total	**2,737**	**(5,956)**

(iii) Effective tax rate reconciliation

	for the year ended	
	31 December 2013	31 December 2012
Profit before income tax	450,867	583,092
Profit before tax multiplied by the statutory tax rate in Poland of 19%	85,665	110,787
Dividend received from subsidiaries	(57,610)	(56,474)
Technology tax relief	(4,520)	-
Other non-taxable revenue and non-tax deductible costs, net at 19% tax rate	(1,681)	(1,058)
Tax charge for the year	**21,854**	**53,255**
Effective tax rate	**4.8%**	**9.1%**

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(iv) Deferred tax assets

	31 December 2013	31 December 2012
Liabilities	40,980	33,420
Hedge valuation	2,298	5,035
Tangible non-current assets	3,368	5,537
Receivables and other assets	6,912	10,227
Tax loss	-	8,599
Total deferred tax assets	**53,558**	**62,818**
Offsetting of deferred tax liabilities and deferred tax assets	(53,558)	(62,818)
Deferred tax assets in the balance sheet	**-**	**-**

(v) Tax losses recognized and carried forward

	31 December 2013	31 December 2012
2011 tax loss carried forward	-	45,259
Tax losses carried forward – total	**-**	**45,259**

As at 31 December 2011 the Company incurred tax losses amounting to 90,518 zloty and recognized deferred tax asset on tax losses in full due to reasonable assurance that the tax losses will be utilized in full in the future. As at 31 December 2013 the tax loss incurred in 2011 was fully utilized.

According to Art. 7 of the Polish Corporate Income Tax Act dated 15 February 1992, tax losses incurred in a given financial year can be utilized in the subsequent five fiscal years. However, no more than 50% of a tax loss for any given year can be utilized in a single subsequent fiscal year.

(vi) Deferred tax liabilities

	31 December 2013	31 December 2012
Receivables and other assets	43,410	50,819
Hedge valuation	-	91
Liabilities	30	26
Deferred distribution fees	18,925	17,522
Tangible non-current assets	84,959	84,971
Total deferred tax liabilities	**147,324**	**153,429**
Offsetting of deferred tax liabilities and deferred tax assets	(53,558)	(62,818)
Deferred tax liabilities in the balance sheet	**93,766**	**90,611**

13. EBITDA (unaudited)

EBITDA (earnings before interest, taxes, depreciation, amortization, impairment and disposal) presents the Company's key measure of earnings performance. The level of EBITDA measures the Company's ability to generate cash from recurring operations. The Company defines EBITDA as operating profit adjusted by depreciation, amortization, impairment and disposal. EBITDA is not an IFRS EU measure, and as such can be calculated differently by other entities.

	for the year ended	
	31 December 2013	**31 December 2012**
Net profit for the period	429,013	529,837
Income tax (see note 12)	21,854	53,255
Gain/loss on investment activities, net (see note 10)	(312,366)	(315,817)
Finance costs(see note 11)	234,065	130,397
Depreciation, amortization, impairment and disposal* (see note 9)	219,039	202,783
EBITDA (unaudited)	**591,605**	**600,455**

* Depreciation, amortisation, impairment and disposal 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).

14. Basic and diluted earnings per share

As at the balance sheet date, the Company did not have financial instruments that could have a dilutive effect, therefore the Company's diluted earnings per share are equal to basic earnings per share.

	for the year ended	
	31 December 2013	**31 December 2012**
Net profit for the period	429,013	529,837
Weighted average number of ordinary and preference shares in the year	348,352,836	348,352,836
Earnings per share in PLN (not in thousands)	**1.23**	**1.52**

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15. Property, plant and equipment

	Reception equipment	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Tangible assets under construction	**Other property, plant and equipment**
Cost								
Cost as at 1 January 2013	**717,309**	**6,865**	**90,807**	**136,792**	**11,120**	**21,717**	**21,493**	**288,794**
Additions	161,724	-	3,383	11,679	793	3,079	6,526	25,460
Transfer from assets under construction	-	-	8,085	11,064	439	1,139	(20,727)	-
Disposals	(55,973)	-	(290)	(2,620)	(702)	(3,159)	(16)	(6,787)
Cost as at 31 December 2013	**823,060**	**6,865**	**101,985**	**156,915**	**11,650**	**22,776**	**7,276**	**307,467**
Accumulated impairment losses as at 1 January 2013	**(27,984)**	**-**	**(20)**	**(801)**	**-**	**(125)**	**-**	**(946)**
Recognition	(2,567)	-	-	-	-	-	-	-
Reversal	-	-	20	801	-	125	-	946
Utilisation	13,030	-	-	-	-	-	-	-
Accumulated impairment losses as at 31 December 2013	**(17,521)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Accumulated depreciation								
Accumulated depreciation as at 1 January 2013	**269,265**	**-**	**20,752**	**75,181**	**6,258**	**13,456**	**-**	**115,647**
Additions	168,772	-	5,041	17,784	1,881	3,554	-	28,260
Additions (depreciation in the value of produced equipment)	-	-	35	2,068	5	111	-	2,219
Disposals	(40,077)	-	(151)	(1,997)	(596)	(2,987)	-	(5,731)
Accumulated depreciation as at 31 December 2013	**397,960**	**-**	**25,677**	**93,036**	**7,548**	**14,134**	**-**	**140,395**
Carrying amount								
As at 1 January 2013	**420,060**	**6,865**	**70,035**	**60,810**	**4,862**	**8,136**	**21,493**	**172,201**
As at 31 December 2013	**407,579**	**6,865**	**76,308**	**63,879**	**4,102**	**8,642**	**7,276**	**167,072**

The Company recognized an impairment loss on items of property, plant and equipment whose carrying amounts exceeded their recoverable amounts. The impairment increase for reception equipment relates to the equipment that is under vindication. The impairment provision is recognized in 'depreciation, amortization, impairment and disposal'.

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

	Reception equipment	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Tangible assets under construction	**Other property, plant and equipment**
Cost								
Cost as at 1 January 2012	**598,441**	**6,005**	**75,433**	**115,933**	**11,383**	**19,092**	**4,170**	**232,016**
Merger with subsidiary	(48,709)	-	333	7,420	144	743	296	8,936
Additions	184,533	-	8,380	14,919	166	3,061	20,469	46,995
Transfer from assets under construction	28	-	362	2,621	65	366	(3,442)	(28)
Transfer from investment property	-	860	6,688	-	-	-	-	7,548
Disposals	(16,984)	-	(389)	(4,101)	(638)	(1,545)	-	(6,673)
Cost as at 31 December 2012	**717,309**	**6,865**	**90,807**	**136,792**	**11,120**	**21,717**	**21,493**	**288,794**
Accumulated impairment losses as at 1 January 2012	**(11,684)**	**-**	**(63)**	**(1,109)**	**-**	**(231)**	**-**	**(1,403)**
Recognition	(17,840)	-	-	(9)	-	(13)	-	(22)
Reversal	565	-	43	317	-	119	-	479
Utilisation	975	-	-	-	-	-	-	-
Accumulated impairment losses as at 31 December 2012	**(27,984)**	**-**	**(20)**	**(801)**	**-**	**(125)**	**-**	**(946)**
Accumulated depreciation								
Accumulated depreciation as at 1 January 2012	**152,441**	**-**	**15,813**	**64,435**	**4,754**	**11,770**	**-**	**96,772**
Merger with subsidiary	(16,536)	-	-	-	-	-	-	-
Additions	143,728	-	4,624	14,525	1,980	3,023	-	24,152
Transfer from investment property	-	-	580	-	-	-	-	580
Disposals	(10,368)	-	(265)	(3,779)	(476)	(1,337)	-	(5,857)
Accumulated depreciation as at 31 December 2012	**269,265**	**-**	**20,752**	**75,181**	**6,258**	**13,456**	**-**	**115,647**
Carrying amount								
As at 1 January 2012	**434,316**	**6,005**	**59,557**	**50,389**	**6,629**	**7,091**	**4,170**	**133,841**
As at 31 December 2012	**420,060**	**6,865**	**70,035**	**60,810**	**4,862**	**8,136**	**21,493**	**172,201**

The Company recognized an impairment loss on items of property, plant and equipment whose carrying amounts exceeded their recoverable amounts. The impairment increase for reception equipment relates to the equipment that is under vindication. The impairment provision is recognized in 'depreciation, amortization, impairment and disposal'.

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

16. Impairment test on goodwill allocated to the “Retail” cash-generating unit

The Company recognized goodwill in the amount of PLN 52,022 on the acquisition of M.Punkt Holdings Ltd. in the financial statements and allocated it to the “Retail” cash-generating unit. “Retail” cash-generating unit is equivalent to the Company. Upon merger of M.Punkt Holdings with the Company the amount of goodwill recognized in consolidated financial statements was transferred to these financial statements (see accounting policy 5aa)

Goodwill was tested for impairment as at 31 December 2013. The impairment test did not indicate impairment.

The impairment test was based on the recoverable amounts of the cash generating unit to which the goodwill has been allocated. The recoverable amount of the cash-generating unit is determined based on the value-in-use calculations. The Company tests the total carrying amount of the cash-generating unit and any impairment identified is recognized in the profit or loss immediately with respect to goodwill first and is not subsequently reversed. If goodwill is fully impaired the remaining amount of the impairment loss is allocated to other assets of the cash-generating unit on a pro rata basis.

In the annual impairment test performed by the Company as at 31 December 2013 the calculation of value-in-use was based on discounted free cash flows and involved the use of estimates related to cash flow before tax projections based on actual financial business plans covering the 5-year period until 2018. Cash flow projections after 5-year forecast period are estimated using the terminal growth. Terminal growth rate does not exceed the long-term average growth rate for the country in which the Company operates.

<u>The key financial assumptions</u>

The most sensitive key financial assumptions used in the value-in-use calculations of the “Retail” cash-generating unit were as follows:

- discount rate
- terminal growth rate used for estimating fee cash flows beyond the period of financial plans

	Retail	
	2013	2012
Terminal growth	3%	3%
Discount rate before tax	8.6%	8.8%

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 Company’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 Company’s investors while cost of debt is based on the interest bearing debt instruments. Operating segment- specific risk is considered by the estimation of beta. Beta is estimated annually and is based on the market data.

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Terminal growth rate – growth rates are based on widely available published market data such as International Monetary Fund publications.

Sensitivity analysis of key financial assumptions

The Company believes that the key assumptions made in testing for impairment of the "Retail" cash-generating unit as at 31 December 2013 are reasonable and are based on our experience and market forecasts that are published by the industry experts. Management believes that any reasonably possible change in the key assumptions on which the cash-generating unit's recoverable amount is based would not cause the impairment charge to be recognized.

17. Other intangible assets

	Software and licences	**Other**	**Under development**	**Total**
Cost				
Cost as at 1 January 2013	**93,395**	**3,158**	**15,888**	**112,441**
Additions	21,503	1,173	22,420	45,096
Transfer from intangible assets under development	8,036	1.501	(9,537)	-
Disposals	(23)	-	(22)	(45)
Cost as at 31 December 2013	**122,911**	**5,832**	**28,749**	**157,492**
Accumulated impairment losses as at 1 January 2013	**-**	**(18)**	**-**	**(18)**
Reversal	-	18	-	18
Accumulated impairment losses as at 31 December 2013	**-**	**-**	**-**	**-**
Accumulated amortization				
Accumulated amortization as at 1 January 2013	**63,808**	**794**	**-**	**64,602**
Additions	18,444	600	-	19,044
Additions (depreciation in the value of produced equipment)	-	1,801	-	1,801
Disposals	(22)	-	-	(22)
Accumulated amortization as at 31 December 2013	**82,230**	**3,195**	**-**	**85,425**
Carrying amounts				
As at 1 January 2013	**29,587**	**2,346**	**15,888**	**47,821**
As at 31 December 2013	**40,681**	**2,637**	**28,749**	**72,067**

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

	Software and licences	Other	Under development	Total
Cost				
Cost as at 1 January 2012	**64,135**	**399**	**10,804**	**75,338**
Additions	20,450	1,876	12,150	34,476
Merger with subsidiary	150	883	1,610	2,643
Transfer from intangible assets under development	8,676	-	(8,676)	-
Disposals	(16)	-	-	(16)
Cost as at 31 December 2012	**93,395**	**3,158**	**15,888**	**112,441**
Accumulated impairment losses as at 1 January 2012	**-**	**(18)**	**-**	**(18)**
Accumulated impairment losses as at 31 December 2012	**-**	**(18)**	**-**	**(18)**
Accumulated amortization				
Accumulated amortization as at 1 January 2012	**46,358**	**364**	**-**	**46,722**
Additions	17,466	518	-	17,984
Merger with subsidiary	-	(88)	-	(88)
Disposals	(16)	-	-	(16)
Accumulated amortization as at 31 December 2012	**63,808**	**794**	**-**	**64,602**
Carrying amounts				
As at 1 January 2012	**17,777**	**17**	**10,804**	**28,598**
As at 31 December 2012	**29,587**	**2,346**	**15,888**	**47,821**

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

18. Shares in subsidiaries

Shares in subsidiaries as at 31 December 2013

	Company's registered office	Activity	Voting rights percentage	Cost and carrying amount
Telewizja Polsat Sp. z o.o.	ul. Ostrobramska 77, Warszawa	broadcasting and television production	100%	3,898,852
Cyfrowy Polsat Trade Marks Sp. z o.o.	ul. Łubinowa 4a, Warszawa	non-current assets and intellectual property rights management	100%	615,445
Cyfrowy Polsat Finance AB	Stureplan 4C, 4 TR 114 35 Stockholm, Szwecja	financial transactions	100%	232
INFO-TV-FM Sp. z o.o.	ul. Łubinowa 4a, Warszawa	radio and TV activities	73.5%	29,313
Redefine Sp. z o.o.	al. Stanów Zjednoczonych 61 A, Warszawa	web portals activities	100%	128,728
Gery.pl Sp. z o.o.	al. Stanów Zjednoczonych 61 A, Warszawa	web portals activities	100%	15,340
Frazpc.pl Sp. z o.o.	al. Stanów Zjednoczonych 61 A, Warszawa	web portals activities	100%	6,477
Netshare Sp. z o.o.	al. Stanów Zjednoczonych 61 A, Warszawa	electronic media (Internet) advertising broker	100%	23,310
Karpacka Telewizja Kablowa Sp. z o.o.	ul. Chorzowska 3, Radom	dormant	85%	2,231
			Total	**4,719,928**

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

	1 January 2013	Additions	Decreases	31 December 2013
Telewizja Polsat Sp. z o.o.	3,898,852	-	-	3,898,852
Cyfrowy Polsat Trade Marks Sp. z o.o.	615,445	-	-	615,445
Cyfrowy Polsat Finance AB	232	-	-	232
INFO-TV-FM Sp. z o.o.	29,313	-	-	29,313
Redefine Sp. z o.o.	31,228	97,500	-	128,728
Gery.pl Sp. z o.o.	340	15,000	-	15,340
Frazpc.pl Sp. z o.o.	977	5,500	-	6,477
Netshare Sp. z o.o.	10,310	13,000	-	23,310
Karpacka Telewizja Kablowa Sp. z o.o.	2,231	-	-	2,231
Total	**4,588,928**	**131,000**	**-**	**4,719,928**

In January 2013 companies listed below issued new shares which were acquired and paid for by the Company:

(i) in Redefine Sp. z o.o. share capital was increased by PLN 488 and share premium amounted to PLN 97,012;
(ii) in Frazpc.pl Sp. z o.o. share capital was increased by PLN 28 and share premium amounted to PLN 5,472;
(iii) in Netshare Sp. z o.o. share capital was increased by PLN 65 and share premium amounted to PLN 12,935;
(iv) in Gery.pl Sp. z o.o. share capital was increased by PLN 75 and share premium amounted to PLN 14,925.

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Changes in the value of shares

Changes in book values of shares in subsidiaries

	2013	2012
Purchase price		
As at 1 January	**4,588,928**	**4,516,810**
Increase	131,000	72,168
Decrease	-	(50)
As at 31 December	**4,719,928**	**4,588,928**
Accumulated impairment losses		
As at 1 January	**-**	**777**
Decrease	-	(777)
As at 31 December	**-**	**-**
Carrying amounts		
As at 1 January	**4,588,928**	**4,516,033**
As at 31 December	**4,719,928**	**4,588,928**

In 2012 Cyfrowy Polsat S.A. purchased 100% of shares in: INFO-TV-FM Sp. z o.o., Redefine Sp. z o.o., Gery.pl Sp z o.o., Frazpc.pl Sp. z o.o. and Netshare Sp. z o.o. Moreover in 2012 merger with Cyfrowy Polsat Technology Sp. z o.o (CPT) took place.

19. Deferred distribution fees

	31 December 2013	31 December 2012
Deferred distribution fees	99,606	92,221
Of which: Current	*70,055*	*57,096*
Non-current	*29,551*	*35,125*

Deferred distribution fees include commissions for distributors for contracts effectively concluded with subscribers. These costs are expensed by the Company to profit or loss over the minimum base period of the subscription contracts.

As at 31 December 2013, 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 99,091 (as at 31 December 2012: 91,958 PLN).

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20. Other non-current assets

	31 December 2013	31 December 2012
Non-current trade receivables	9,106	-
Other deferred costs	2,667	101,323
Deposits paid	527	281
Total	**12,300**	**101,604**

In 2012 deferred costs relate mainly to settlements with Mobyland for the data transmission service (see note 37). In 2013 all settlements with Mobyland for the data transmission service are presented in other current assets.

21. Inventories

Types of inventories	31 December 2013	31 December 2012
Set-top boxes and disc drives – merchandise	12,948	45,862
Set-top boxes and disc drives – finished goods	61,685	32,405
Digital Video Broadcasting – Terrestrial units – merchandise	4,558	3,034
Digital Video Broadcasting – Terrestrial units – finished goods	5,054	17,485
SMART and SIM cards	9,215	4,454
Modems and tablets	25,048	20,432
Antennas and converters	2,830	3,479
Other inventories	27,858	35,777
Total gross value	**149,196**	**162,928**
Write-down of inventories	(4,502)	(3,043)
Total net value	**144,694**	**159,885**

In other inventories are presented mainly materials used in production of reception equipment.

Write-downs of inventories	31 December 2013	31 December 2012
Opening balance	**3,043**	**3,177**
Increase	5,721	2,109
Utilisation	(3,275)	(1,917)
Decrease	(987)	(326)
Closing balance	**4,502**	**3,043**

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22. Trade and other receivables

	31 December 2013	31 December 2012
Trade receivables from related entities (see note 37)	13,860	10,739
Trade receivables from non-related entities	187,549	178,722
Tax and social security receivables	12,454	32,399
Other receivables	442	907
Total	**214,305**	**222,767**

Trade receivables from non-related entities include receivables from individual clients, distributors and others.

Trade receivables by currency

Currency	31 December 2013	31 December 2012
PLN	190,186	175,835
EUR	10,766	13,032
USD	457	594
Total	**201,409**	**189,461**

Movements in bad debt allowance

	31 December 2013	31 December 2012
Opening balance	**42,157**	**85,434**
Increase	12,743	20,962
Reversal	(4,936)	(7,209)
Utilisation	(18,165)	(57,030)
Closing balance	**31,799**	**42,157**

23. Other current assets

	31 December 2013	31 December 2012
Financial instruments (IRS/CIRS) (see note 26)	-	478
Other deferred costs	101,381	67,495
Other deferred income	3,773	3,283
Total	**105,154**	**71,256**

Other deferred costs comprise mainly deferred costs related to the agreement with Mobyland Sp. z o.o. (see note 37).

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24. Cash and cash equivalents

	31 December 2013	31 December 2012
Cash on hand	121	127
Current accounts	12,346	33,628
Deposits	13,608	25,561
Total	**26,075**	**59,316**

Currency	31 December 2013	31 December 2012
PLN	20,350	42,350
EUR	3,016	10,645
USD	2,709	6,316
GBP	-	2
CHF	-	3
Total	**26,075**	**59,316**

As the Company cooperates with well-established Polish and international banks, the risks relating to deposited cash are considerably limited.

25. Equity

(i) Share capital

Presented below is the structure of the Company's share capital as at 31 December 2013 and 31 December 2012:

Share series	Number of shares	Nominal value of shares	Type
Series A	2,500,000	100	preference shares (2 voting rights)
Series B	2,500,000	100	preference shares (2 voting rights)
Series C	7,500,000	300	preference shares (2 voting rights)
Series D	166,917,501	6,677	preference shares (2 voting rights)
Series D	8,082,499	323	ordinary bearer shares
Series E	75,000,000	3,000	ordinary bearer shares
Series F	5,825,000	233	ordinary bearer shares
Series H	80,027,836	3,201	ordinary bearer shares
Total	**348,352,836**	**13,934**	

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The shareholders' structure as at 31 December 2013 and 31 December 2012 was as follows:

	Number of shares	Nominal value of shares	% of share capital held	Number of votes	% of voting rights
Pola Investments Ltd. [1]	154,204,296	6,168	44.27%	306,709,172	58.11%
Sensor Overseas Ltd. [2]	25,341,272	1,014	7.27%	50,382,647	9.55%
Other	168,807,268	6,752	48.46%	170,678,518	32.34%
Total	**348,352,836**	**13,934**	**100%**	**527,770,337**	**100%**

[1] Pola Investments Ltd. is controlled by the family foundation (trust) TiVi Foundation

[2] Sensor Overseas Ltd. is controlled by Mr. Heronim Ruta

The Company received from Mr. Zygmunt Solorz-Żak and from the family foundation (trust) TiVi Foundation the information, that Mr. Zygmunt Solorz-Żak made the transfer of ownership of shares in Pola Investments Ltd. to the family foundation (trust) TiVi Foundation seated in Vaduz, Lichtenstein ("TiVi Foundation"), based on the agreement dated 13 February 2013.

The shares held by Pola Investments and included in the proxy given to Pola Investments by Sensor Overseas Ltd. seated in Nicosia, Cyprus (the company controlled by Mr. Heronim Ruta), represent jointly more than 50% of votes at the general meeting of the Company.

(ii) Share premium

Share premium includes the excess of issue value over the nominal value of shares issued.

26. Hedge valuation reserve

In 2013 the Company did not conclude any IRS (interest rate swap) or CIRS (cross-currency interest rate swap) transactions.

Impact of hedging instruments valuation on assets and liabilities as at 31 December 2013

	IRS	CIRS	Total
Liabilities			
Long-term	(139)	-	(139)
Short-term	(7,902)	(4,054)	(11,956)
Total	**(8,041)**	**(4,054)**	**(12,095)**

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Impact of hedging instruments valuation on assets and liabilities as at 31 December 2012

	IRS	CIRS	Total
Assets			
Current	-	478	478
Liabilities			
Long-term	(6,073)	(3,083)	(9,156)
Short-term	(9,248)	(8,095)	(17,343)
Total	**(15,321)**	**(10,700)**	**(26,021)**

Impact of hedging instruments valuation on hedge valuation reserve

	Hedge valuation reserve
Balance as at 1January 2013	**(20,631)**
Valuation of cash flow hedges	13,926
Amount transferred to income statement	478
Deferred tax	(2,737)
Change for the year	**11,667**
Balance as at 31 December 2013	**(8,964)**

	Hedge valuation reserve
Balance as at 1January 2012	**4,758**
Valuation of cash flow hedges	(33,040)
Amount transferred to income statement	1,695
Deferred tax	5,956
Change for the year	**(25,389)**
Balance as at 31 December 2012	**(20,631)**

In the year ended 31 December 2013 the hedge was valued at PLN 13,926 (positive), with PLN 478 recognized in the profit and loss account in correspondence with finance costs. Since the hedge was determined to be effective, PLN 14,404 was recognized within the hedge valuation reserve. The total effect of the hedge valuation on the hedge valuation reserve amounts to PLN 11,667 (positive), including deferred tax.

In the year ended 31 December 2012 the hedge was valued at PLN 33,040 (negative), with PLN 1,695 recognized in the profit and loss account in correspondence with finance costs. Since the hedge was determined to be effective, PLN 31,345 was recognized within the hedge valuation reserve. The total effect of the hedge valuation on the hedge valuation reserve amounts to PLN 25,389 (negative), including deferred tax.

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27. Loans and borrowings

Loans and borrowings	31 December 2013	31 December 2012
Short-term liabilities	297,283	311,439
Long-term liabilities	239,889	592,003
Total	**537,172**	**903,442**

Change in loans and borrowings liabilities

	for the year ended	
	31 December 2013	31 December 2012
Loans and borrowings as at 1 January	**903,442**	**1,249,023**
Repayment of capital	(406,263)	(357,652)
Repayment of interest and commissions	(40,042)	(89,254)
Net cash from Cash Pool	15,457	(8,006)
Interest accrued	64,578	109,331
Loans and borrowings as at 31 December	**537,172**	**903,442**

The Company has made two prepayments of a principal of Term Loan Facility Loan: on 28 June 2013 the Company has pre-paid a principal in the amount of PLN 100,000 and on 10 September 2013 has pre-paid a principal in the amount of PLN 100,000. On 29 August 2012 the Company has partly re-paid a principal of its Term Facility Loan in the amount of PLN 200,000. The repayment was executed using the cash generated from operations.

Cash Pool liability amounted to PLN 51,288 and PLN 35,831 as at 31 December 2013 and 31 December 2012, respectively. The Company uses Cash Pool that was created by the entities of the Cyfrowy Polsat Capital Group.

Conclusion of the Senior Facilities Agreement and Bridge Facility Agreement

In connection with the acquisition of Telewizja Polsat S.A., on 31 March 2011 the Company (together with its related parties), concluded a Senior Facilities Agreement with a syndicate of Polish and international banks led by: Citibank, N.A., London Branch, Bank Handlowy w Warszawie S.A., Crédit Agricole CIB, The Royal Bank of Scotland plc. (“the Bookrunners”).

The Senior Facilities Agreement provided for a term facility loan of up to PLN 1,400,000 and a revolving facility loan of up to PLN 200,000. The interest rate applicable to both, the term facility and revolving facility, was agreed as variable rate based on WIBOR, for the relevant interest periods, and the applicable margin. The term facility will be repaid in quarterly instalments in varying amounts commencing 30 June 2011. Both facilities expire on 31 December 2015. As at 31 December 2013 the revolving facility was not used.

Mandatory prepayments

The facilities will be cancelled and the outstanding balance, together with accrued interest, shall become immediately due and payable upon loss of control by Mr Zygmunt Solorz-Żak (or party related with him) over the Company or loss of control by the Company over Telewizja Polsat. The facilities shall also become immediately due upon sale of all or substantially all of the Cyfrowy Polsat Group or the assets of the Cyfrowy Polsat Group.

Mandatory prepayments are required in the following amounts:
- 65% of the excess cash flows for any financial year or 25% if total net debt to EBITDA ratio is below 2.0,
- the amounts of proceeds for individual asset disposal transaction in excess of PLN 10 million (not in thousands) or PLN 40 million (not in thousands) in aggregate at any time before the facilities are repaid in full
- the amount of debt or equity proceeds if total net debt to EBITDA ratio exceeds 2.0.

In addition, voluntary bonds repayment is allowed only if accompanied by a repayment of term and revolving facilities.

Financial covenants

The loan agreement imposed on the Cyfrowy Polsat S.A. Capital Group the obligation to maintain financial ratios at a certain level. The Debt Service Cover shall be at least 1.5 for a given Period. The Interest Cover shall be at least 3.5 for a given Period. The Total leverage shall not exceed 3.0 for a given Period. Financial covenants shall be tested on each quarter date and shall be reported on by an auditor on annual basis. Financial covenants were maintained in years 2011- 2013.

Further, restrictions which are imposed on the Company include the following:
- restrictions relating to mergers, acquisitions, joint venture transactions
- restrictions related to disposal of assets and substantial change of business
- restrictions related to incurring additional financial indebtedness and share capital issue
- restrictions relating to cash out transactions (inter alia dividend and other distribution payments, repayment of principal and interest of financial indebtedness, management/advisory fee payments, advance or similar kind of payment to related parties).

Additionally, the Company inter alia has the following obligations:
- provide the banks with any material documents and information concerning the financial standing of the Company,
- hedge against interest rate and foreign exchange rate fluctuations in respect of the amounts outstanding under the term facility and notes payable
- all bank accounts shall be opened and maintained with the lending banks
- use, for the purpose of financial statements audit, only the services of the auditors specified in the agreement or the services of other auditors if approved by the banks.

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 20,000. As at 31 December 2013 the bank issued guarantees in the total amount of PLN 4.333 and EUR 1.143.

28. Issued bonds

	31 December 2013	31 December 2012
Short-term liabilities	112,207	110,610
Long-term liabilities	1,322,758	1,298,661
Total	**1,434,965**	**1,409,271**

Change in issued bonds payable

	for the year ended	
	31 December 2013	31 December 2012
Issued bonds payable as at 1 January	**1,409,271**	**1,516,954**
Repayment of interest and commission	(119,424)	(121,069)
Unrealized foreign exchange (gains)/losses	20,030	(111,884)
Interest accrued	125,088	125,270
Issued bonds payable as at 31 December	**1,434,965**	**1,409,271**

On 20 May 2011 the Company issued unsecured interest-bearing Series A Bonds maturing in 2018, with the aggregate face value of PLN 1,372,245/EUR 350 million (not in thousands) - EUR 35 million (not in thousands) each, which were all acquired by its subsidiary Cyfrowy Polsat Finance AB (CP Finance) (the "Issued Bonds"). The aggregate issue price of the Issued Bonds in the amount of EUR 343 million (not in thousands) was equal to their aggregate face value net of 2% commission.

The interest on the Issued Bonds accrue at the fixed rate of 8.16% per annum payable semiannually in arrears on 20 May and 20 November, commencing on 20 November 2011. The Issued Bonds shall be redeemed on 20 May 2018 by way of a pecuniary payment equal to the face value of the Issued Bonds.

At any date prior to 20 May 2014, the Company may on any one or more occasions redeem up to 35% of the aggregate principal amount of the Bonds at a redemption price of 107.125% of the principal amount plus accrued and unpaid interest, if any, to the redemption date with the net cash proceeds of one or more equity offerings. At any date prior to 20 May 2014, the Company may at its own discretion redeem the Bonds in whole or in part, at a redemption price equal to 100% of the principal amount of the Bonds redeemed plus the applicable premium as at the redemption date and plus accrued and unpaid interest.

On or after May 20, 2014, the Company may redeem all or a part of the Bonds at the redemption price (expressed as percentages of principal amount) set out below plus accrued and unpaid interest on the Bonds redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on May 20 of the years indicated below, subject to the rights of holders of Bonds on the relevant record date to receive interest on the relevant interest payment date: (i) in 2014 the redemption price is 105.344%, (ii) in 2015 the redemption price is 103.563%, (iii) in 2016 the redemption price is 101.781%, and

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(iv) thereafter the redemption price is 100.000%. Unless the Company defaults in the payment of the redemption price, interest will cease to accrue on the Bonds (or portions thereof) called for redemption on the applicable redemption date.

29. Company as a lessor and as a lessee

a) Company as a lessor

Operating leases

The Company entered into contracts with third parties, which are classified as operating leases due to their economic substance. The contracts relate to rental of digital satellite reception equipment. Assets connected with such contracts are presented as property, plant and equipment.

Lease contracts for set-top boxes are concluded for a basic contractual period ranging from 12 to 36 months. After the basic period, the contracts are converted into contracts with indefinite or definite terms, unless terminated by subscribers.

Future minimum lease payments concerning set-top boxes under operating lease are as follows:

	31 December 2013	31 December 2012
within 1 year	7,924	11,960
between 1 and 5 years	1,935	6,677
in more than 5 years	-	-
Total	**9,859**	**18,637**

b) Company as a lessee

Operating leases

The Company entered into agreements, which are classified as operating lease contracts based on their economic substance. Assets leased under these contracts are not recorded in the financial statements. The contracts comprise *inter alia* leases of office, lease of satellite transponders capacity, and other equipment.

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Future minimum lease payments under operating leases are as follows:

	31 December 2013	31 December 2012
within 1 year	104,751	98,312
between 1 and 5 years	323,665	172,867
in more than 5 years	47,173	67,881
Total	**475,589**	**339,060**

In 2013 the Company incurred costs related to operating lease agreements amounting to PLN 103,929 and in 2012 the costs of the Company amounted to PLN 99,192.

Finance leases

The carrying value of devices used on the basis of finance lease contracts amounted to PLN 3,417 as at 31 December 2013 and PLN 1,131 as at 31 December 2012. The lease period is between 3 and 10 years.

Future minimum lease payments under finance leases are as follows:

	31 December 2013	31 December 2012
within 1 year	2,339	2,282
between 1 and 5 years	1,613	3,798
in more than 5 years	-	-
Total	**3,952**	**6,080**

The present value of minimum lease payments amounted to PLN 3,673 as at 31 December 2013 and PLN 5,508 as at 31 December 2012.

30. Other non-current liabilities and provisions

	31 December 2013	31 December 2012
Financial instruments (IRS/CIRS) liabilities (see note 26)	139	9,156
Deposits	6,576	4,135
Other provisions	460	1,353
Total	**7,175**	**14,644**

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31. Trade and other payables

	31 December 2013	31 December 2012
Trade payables to related parties (see note 37)	24,264	49,384
Trade payables to non-related parties	70,866	86,071
Taxation and social security payables	10,538	12,367
Payables relating to purchases of non-current assets	18,878	14,463
Accruals	123,389	148,875
Short term provisions	35,893	35,103
Financial instruments (IRS/CIRS) liabilities (see note 26)	11,956	17,343
Other	8,924	7,855
Total	**304,708**	**371,461**

Accruals

	31 December 2013	31 December 2012
Salaries	19,937	20,623
Royalties for copyright management organisations	3,768	4,501
Licence fees	47,714	65,353
Distribution costs	11,539	13,527
Other	40,431	44,871
Total	**123,389**	**148,875**

Short-term and long-term provisions

	2013	2012
Opening balance as at 1 January 2013	**36,398**	**4,561**
Merger with subsidiary	-	34,553
Increases	2,421	45
Reversal	(2,466)	(2,261)
Utilisation	-	(500)
Closing balance as at 31 December 2013	**36,353**	**36,398**
Of which:		
Short-term	*35,893*	*35,103*
Long-term	*460*	*1,295*

Provisions comprise mainly of provisions for license fees, litigation and disputes, warranty provision and onerous contracts.

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

Trade payables and payables relating to purchases of non-current assets by currency

Currency	31 December 2013	31 December 2012
PLN	88,179	113,189
EUR	10,103	16,959
USD	15,725	19,529
GBP	1	-
CHF	-	241
Total	**114,008**	**149,918**

Accruals by currency

Currency	31 December 2013	31 December 2012
PLN	95,581	119,665
EUR	18,560	26,311
USD	9,248	2,899
Total	**123,389**	**148,875**

32. Deposits for equipment

	31 December 2013	31 December 2012
Subscribers	2,727	4,326
Distributors	-	8,915
Other	-	18
Total	**2,727**	**13,259**

Deposits received comprise amounts paid by subscribers under agreements for rental of set-top boxes. As at 31 December 2013 deposits paid by distributors for digital satellite reception equipment and mobile phones are presented in Other non-current liabilities and provisions. As at 31 December 2012 part of deposits paid by distributors for digital satellite reception equipment and mobile phones were presented as current.

Deposits are returned to customers or offset against receivables from subscribers upon contract termination.

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

33. Deferred income

	31 December 2013	31 December 2012
Deferred income	**213,420**	**205,845**
Of which: Short-term	*209,341*	*200,664*
Long-term	*4,079*	*5,181*

Deferred income comprises mainly subscription fees paid in advance and rental fees for set-top boxes.

34. Financial instruments

Overview

Cyfrowy Polsat S.A. is exposed to the following financial risks:
- credit risk,
- liquidity risk,
- market risk:
  a. currency risk,
  b. interest rate risk.

The Company's risk management policies are designed to reduce the impact of adverse conditions on the Company's results.

The Management Board is responsible for oversight and management of each of the risks faced by the Company. Therefore, the Management Board has established an overall risk management framework as well as risk management policies on market, credit and liquidity risks.

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are also included throughout these financial statements.

Bank loans, bonds, cash, interest rate swaps, cross-currency interest rate swaps and short-term bank deposits are the main financial instruments used by the Company, with the intention of securing the financing for the Company's activities. The Company also holds other financial instruments such as trade receivables and payables and payables relating to purchases of tangible and intangible assets which arise in the course of its business activities.

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

Financial assets	Carrying amount	
	31 December 2013	**31 December 2012**
Loans and receivables, including:	**237,032**	**249,684**
Trade and other receivables from related parties	13,860	10,739
Trade and other receivables from non-related parties	197,097	179,629
Cash and cash equivalents	26,075	59,316
Hedging derivative instruments:	**-**	**478**
Cross-currency interest rate swaps	-	478

Financial liabilities	Carrying amount	
	31 December 2013	**31 December 2012**
Other financial liabilities valued at amortised cost, including:	**2,231,434**	**2,642,263**
Financial lease liabilities	3,673	5,508
Borrowings and loans	537,172	903,442
Issued bonds	1,434,965	1,409,271
Trade payables and other payables to third parties and deposits	107,616	124,830
Trade and other payables to related parties	24,619	50,337
Accruals	123,389	148,875
Hedging derivative instruments:	**12,095**	**26,499**
Interest rate swaps	8,041	15,321
Cross-currency interest rate swaps	4,054	11,178

Credit risk

Credit risk is defined as the risk that counterparties of the Company will not be able to meet their contractual obligations. Exposure to credit risk is related to three main areas: it relates to

- the creditworthiness of the customers with whom physical sale transactions are undertaken,
- the creditworthiness of the financial institutions (banks/brokers) with whom, or through whom, hedging or other derivative transactions are undertaken,
- the creditworthiness of the entities in which investments are made, or whose securities are purchased.

Credit risk arises mainly on trade receivables. In the financial year ended 31 December 2013, the Company was not materially exposed to credit risk arising from sales on credit. The Company's customer base includes a large number of individual subscribers dispersed geographically over the country who prepay subscription fees. Receivables from subscribers are constantly monitored and recovery actions are taken, including blocking of the signal transferred to subscribers or termination of services to a MVNO and Internet client.

The Company pursues a credit policy under which credit risk exposure is constantly monitored.

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

Due to diversification of risk in terms of the nature of individual entities and their geographical location as well as due to cooperation with highly-rated financial institutions, and also taking into consideration the fair value of liabilities arising from derivative transactions, the Company is not materially exposed to credit risk as a result of derivative transactions entered into.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at the reporting date was as follows:

Maximum exposure to credit risk

	Carrying amount	
	31 December 2013	**31 December 2012**
Trade and other receivables from non-related parties	197,097	179,629
Trade and other receivables from related parties	13,860	10,739
CIRS	-	478
Cash and cash equivalents	26,075	59,316
Total	**237,032**	**250,162**

The maximum exposure to credit risk for trade and other receivables, by type of customer, was:

	Carrying amount	
	31 December 2013	**31 December 2012**
Receivables from subscribers	174,034	154,362
Receivables from distributors	2,636	5,548
Receivables from media companies	12,521	13,524
Receivables and loans granted to related parties	13,860	10,739
Receivables from DTH and cable TV operators	72	107
Receivables and loans granted to non-related parties	7,834	6,088
Total	**210,957**	**190,368**

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

The ageing of trade and other receivables at the reporting date was:

	31 December 2013			31 December 2012		
	Gross	**Impairment**	**Net**	**Gross**	**Impairment**	**Net**
Not past due	171,376	3,548	167,828	159,547	5,126	154,421
Past due 0-30 days	20,043	1,083	18,960	16,608	1,829	14,779
Past due 31-60 days	6,026	1,061	4,965	5,163	1,565	3,598
Past due more than 60 days	45,311	26,107	19,204	51,207	33,637	17,570
Total	**242,756**	**31,799**	**210,957**	**232,525**	**42,157**	**190,368**

Credit quality of such not overdue receivables that are not impaired is very good.
Trade and other receivables with recognized impairment include not past due and past due trade and other receivables where partial recoverability is estimated. Usually impairment is recognized for trade and other receivables past due for more than 60 days or for trade and other receivables for which impairment indicator exists.

Liquidity risk

The Company's objective in liquidity management is to ensure that it always has sufficient funds to meet its liabilities when due. Surplus cash is invested in bank deposits.

The Company prepares, on an ongoing basis, analyses and forecasts of cash requirements based on projected cash flows.

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

The following are the contractual maturities of the Company's financial liabilities.

	31 December 2013						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	more than 5 years
Loans and borrowings	537,172	596,984	145,329	168,894	282,761	-	-
Issued bonds	1,434,965	1,984,518	59,222	59,222	118,444	1,747,630	-
Finance lease liabilities	3,673	3,952	1,335	1,004	778	835	-
Trade and other payables to non-related parties and deposits	107,616	107,616	107,616	-	-	-	-
Trade and other payables to related parties	24,619	24,619	24,619	-	-	-	-
Accruals	123,389	123,389	123,389	-	-	-	-
IRS*	8,041	8,844	5,069	2,948	827	-	-
CIRS	4,054						
– inflows		(51,710)	(51,710)	-	-	-	-
– outflows		56,225	56,225	-	-	-	-
	2,243,529	**2,854,437**	**471,094**	**232,068**	**402,810**	**1,748,465**	**-**

*Pursuant to the agreements settlements shall be on a net basis

	31 December 2012						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	more than 5 years
Loans and borrowings	903,442	1,062,912	156,864	175,404	343,519	387,125	-
Issued bonds	1,409,271	2,073,044	58,379	58,379	116,759	350,277	1,489,250
Finance lease liabilities	5,508	6,080	1,141	1,141	2,158	1,640	-
Trade and other payables to non-related parties and deposits	124,830	124,830	124,830	-	-	-	-
Trade and other payables to related parties	50,337	50,337	50,337	-	-	-	-
Accruals	148,875	148,875	148,875	-	-	-	-
IRS*	15,321	8,356	2,830	2,659	2,711	156	-
CIRS	11,178						-
– inflows		(127,437)	(25,487)	(50,975)	(50,975)	-	-
– outflows		142,639	28,800	57,614	56,225	-	-
	2,668,762	**3,489,636**	**546,569**	**244,222**	**470,397**	**739,198**	**1,489,250**

*Pursuant to the agreements settlements shall be on a net basis

As at 31 December 2013 the Company has unused revolving facility line of credit up to the amount of 200,000 PLN with a final maturity date on 31 December 2015. As at December 2012 the amount of unused revolving facility amounted to PLN 200,000.

Market risk

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

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

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

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

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

It is permitted to use the following types of instruments:

- Swaps,
- Forwards and futures,
- Options.

<u>Currency risk</u>

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

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

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

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

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

	31 December 2013				31 December 2012			
	EUR	**USD**	**GBP**	**CHF**	**EUR**	**USD**	**GBP**	**CHF**
Trade receivables	2,596	152	-	-	3,188	192	-	-
Cash and cash equivalents	727	899	-	-	2,604	2,038	-	1
Issued bonds	(346,008)	-	-	-	(344,717)	-	-	-
Trade payables	(2,436)	(5,221)	-	-	(4,148)	(6,300)	-	(71)
Gross balance sheet exposure	**(345,121)**	**(4,170)**	**-**	**-**	**(343,073)**	**(4,070)**	**-**	**(70)**
CIRS	12,469	-	-	-	37,406	-	-	-
Net exposure	**(332,652)**	**(4,170)**	**-**	**-**	**(305,667)**	**(4,070)**	**-**	**(70)**

Following foreign exchange rates were applied in the presented periods:

	Average rate		Rates at the balance sheet date	
(in PLN)	**2013**	**2012**	**31 December 2013**	**31 December 2012**
1 EUR	4.1975	4.1850	4.1472	4.0882
1 USD	3.1608	3.2570	3.0120	3.0996

For the purposes of exchange rate volatility sensitivity analysis as at 31 December 2013 and 31 December 2012 it was assumed that probable volatility will be in the +/- 5% band. This analysis assumes that all other variables, in particular interest rates, remain constant. The sensitivity analysis below is performed on the same basis for 2012.

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

	2013					2012				
	As at 31 December 2013		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at 31 December 2012		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	2,596	10,766	5%	538	-	3,188	13,032	5%	652	-
USD	152	457	5%	23	-	192	594	5%	30	-
Cash and cash equivalents										
EUR	727	3,016	5%	151	-	2,604	10,645	5%	532	-
USD	899	2,709	5%	135	-	2,038	6,316	5%	316	-
GBP	-	-	5%	-	-	-	2	5%	-	-
CHF	-	-	5%	-	-	1	3	5%	-	-
Issued bonds										-
EUR	(346,008)	(1,434,965)	5%	(71,748)	-	(344,717)	(1,409,271)	5%	(70,464)	-
Trade payables										
EUR	(2,436)	(10,103)	5%	(505)	-	(4,148)	(16,959)	5%	(848)	-
USD	(5,221)	(15,725)	5%	(786)	-	(6,300)	(19,529)	5%	(976)	-
GBP	-	(1)	5%	-		-	-	5%	-	-
CHF	-	-	5%	-	-	(71)	(241)	5%	(12)	-
Change in operating profit				(72,192)	-				(70,770)	-
CIRS										
EUR	12,469	51,711	5%	589	1,973	37,406	152,923	5%	581	6,841
Income tax				13,605	(375)				13,336	(1,300)
Change in net profit				(57,998)	1,598				(56,853)	5,541

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

	2013					2012				
	As at 31 December 2013		**Estimated change in exchange rate in %**	**Estimated change in profit in PLN**	**Estimated change in other comprehensive income in PLN**	**As at 31 December 2012**		**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	2,596	10,766	-5%	(538)	-	3,188	13,032	-5%	(652)	-
USD	152	457	-5%	(23)	-	192	594	-5%	(30)	-
Cash and cash equivalents										
EUR	727	3,016	-5%	(151)	-	2,604	10,645	-5%	(532)	-
USD	899	2,709	-5%	(135)	-	2,038	6,316	-5%	(316)	-
GBP	-	-	-5%	-	-	-	2	-5%	-	-
CHF	-	-	-5%	-	-	1	3	-5%	-	-
Issued bonds										
EUR	(346,008)	(1,434,965)	-5%	71,748	-	(344,717)	(1,409,271)	-5%	70,464	-
Trade payables										
EUR	(2,436)	(10,103)	-5%	505	-	(4,148)	(16,959)	-5%	848	-
USD	(5,221)	(15,725)	-5%	786	-	(6,300)	(19,529)	-5%	976	-
GBP	-	(1)	-5%	-		-	-	-5%	-	-
CHF	-	-	-5%	-	-	(71)	(241)	-5%	12	-
Change in operating profit				72,192	-				70,770	-
CIRS										
EUR	12,469	51,711	-5%	(589)	(1,971)	37,406	152,923	-5%	(581)	(6,819)
Income tax				(13,605)	374				(13,336)	1,296
Change in net profit				57,998	(1,597)				56,853	(5,523)

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

	2013		2012	
	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	(57,489)	1,598	(56,333)	5,541
USD	(509)	-	(510)	-
GBP	-	-	-	-
CHF	-	-	(10)	-
Estimated change in exchange rate by -5 %				
EUR	57,489	(1,597)	56,333	(5,523)
USD	509	-	510	-
GBP	-	-	-	-
CHF	-	-	10	-

Had the Polish zloty weakened 5% against the basket of currencies as at 31 December 2013 and 31 December 2012, the Company's net profit would have decreased by PLN 57,998 and decreased by PLN 56,853, respectively and other comprehensive income would have increased by PLN 1,598 in 2013 and PLN 5,541 in 2012. Had the Polish zloty strengthened 5%, the Company's net profit would have correspondingly increased by PLN 57,998 in 2013 and increased by PLN 56,853 in 2012 and other comprehensive income would have decreased by PLN 1,597 in 2013 and decreased by PLN 5,523 in 2012, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

Interest rate risk

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

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

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

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

	Carrying amount	
	31 December 2013	**31 December 2012**
Fixed rate instruments		
Financial assets	-	1
Financial liabilities*	(1,454,523)	(1,435,595)
Variable rate instruments		
Financial assets	25,954	59,188
Financial liabilities*	(568,374)	(959,179)
Net interest exposure	**(542,420)**	**(899,991)**

* 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 2013						
Variable rate instruments*	(5,424)	5,424	3,098	(3,098)	(2,326)	2,326
Cash flow sensitivity (net)	**(5,424)**	**5,424**	**3,098**	**(3,098)**	**(2,326)**	**2,326**
31 December 2012						
Variable rate instruments*	(9,000)	9,000	7,787	(7,787)	(1,213)	1,213
Cash flow sensitivity (net)	**(9,000)**	**9,000**	**7,787**	**(7,787)**	**(1,213)**	**1,213**

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

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

Fair value vs. carrying amount

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

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

Presented below are fair values and carrying amounts of financial assets and liabilities.

	Category according to IAS 39	Level of the fair value hierarchy	31 December 2013		31 December 2012	
			Fair value	**Carrying amount**	**Fair value**	**Carrying amount**
Trade and other receivables	A	2	210,957	210,957	190,368	190,368
IRS	B	2	(8,041)	(8,041)	(15,321)	(15,321)
CIRS	B	2	(4,054)	(4,054)	(10,700)	(10,700)
Cash and cash equivalents	A	2	26,075	26,075	59,316	59,316
Loans and borrowings	C	2	(567,761)	(537,172)	(972,022)	(903,442)
Issued bonds	C	2	(1,613,038)	(1,434,965)	(1,636,088)	(1,409,271)
Finance lease liabilities	C	2	(3,736)	(3,673)	(5,616)	(5,508)
Accruals	C	2	(123,389)	(123,389)	(148,875)	(148,875)
Trade and other payables and deposits	C	2	(132,235)	(132,235)	(175,167)	(175,167)
Total			**(2,215,222)**	**(2,006,497)**	**(2,714,105)**	**(2,418,600)**
Unrecognized gain/(loss)				(208,725)		(259,505)

A – loans and receivables

B – hedges

C – other liabilities

It is assumed that the fair value of cash and cash equivalents is equal to their nominal value, therefore no evaluation methods were used in order to calculate their fair value.

When determining the fair value of financial lease liabilities, forecasted cash flows from the reporting date to June 2017 (assumed date of repayment of lease agreements termination) were analyzed. The discount rate for each month was calculated as an applicable WIBOR interest rate plus a margin regarding the Company's credit risk.

Trade and other receivables, accruals and trade and other payables and deposits comprise mainly receivables and payables which will be settled no later than at the end of the first month after the reporting date. It was therefore assumed that the effect of their valuation, taking the effect of time value of money into account, would approximately be equal to their nominal value. Evaluation methods used to calculate fair values of loans granted to related and non-related parties are based on observable market data – WIBOR interest rates.

As at 31 December 2013 loans and borrowings comprised senior facility and Cash Pool. When determinining the fair value of senior facility, forecasted cash flows from the reporting date to 31 December 2015 (assumed date of repayment of the loan) were analyzed. The discount rate for each payment was calculated as a sum of implied WIBOR interest rate and a margin. The fair value of Cash Pool is set as the nominal value, which is equal to carrying amount.

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

The fair value of foreign exchange call options, interest rate swaps and cross-currency interest rate swaps is assumed in accordance to the valuation of the Bank, with which the Company concluded agreements.

When determining the fair value of issued bonds, forecasted cash flows from the reporting date to 20 May 2018 (assumed maturity date of the bonds) were analyzed. EURIBOR interest rate plus margin was applied as a discount rate.

As at 31 December 2013, the Company held the following financial instruments carried at fair value on the statement of financial position.

Liabilities measured at fair value				
	31 December 2013	**Level 1**	**Level 2**	**Level3**
IRS			(8,041)	
CIRS			(4,054)	
Total		**-**	**(12,095)**	**-**

As at 31 December 2012, the Company held the following financial instruments measured at fair value:

Assets measured at fair value				
	31 December 2012	**Level 1**	**Level 2**	**Level3**
CIRS			478	
Total		**-**	**478**	**-**

Liabilities measured at fair value				
	31 December 2012	**Level 1**	**Level 2**	**Level3**
IRS			(15,321)	
CIRS			(11,178)	
Total		**-**	**(26,499)**	**-**

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

Items of income, costs, profit and losses recognized in profit or loss generated by loans and issued bonds (including hedging transactions)

For the period from 1 January 2013 to 31 December 2013	Loans and borrowings	Issued bonds	Hedging instruments	**Total**
Interest expense on loans and borrowings	(64,578)	-	(10,092)	**(74,670)**
Interest expense on issued bonds	-	(125,088)	(8,149)	**(133,237)**
Foreign exchange rate differences	-	(20,030)	-	**(20,030)**
Total finance costs	(64,578)	(145,118)	(18,241)	**(227,937)**
Total gross profit/(loss)	**(64,578)**	**(145,118)**	**(18,241)**	(227,937)
Hedge valuation reserve	**-**	**-**	**14,404**	**14,404**

For the period from 1 January 2012 to 31 December 2012	Loans and borrowings	Issued bonds	Hedging instruments	**Total**
Interest expense on loans and borrowings	(109,331)	-	(1,107)	**(110,438)**
Interest expense on issued bonds	-	(125,270)	1,734	**(123,536)**
Foreign exchange rate differences	-	111,884	-	**111,884**
Total finance costs	(109,331)	(13,386)	627	**(122,090)**
Total gross profit/(loss)	**(109,331)**	**(13,386)**	**627**	**(122,090)**
Hedge valuation reserve	**-**	**-**	**(31,345)**	**(31,345)**

Hedge accounting and derivatives

Cash Flow Hedge of interest rate risk of interest payments

At 31 December 2013, the Company held a number of interest rate swaps, designated as hedges of floating interest payments on senior facility denominated in PLN. The interest rate swaps are being used to hedge the interest rate risk of the Company's floating rate financing in PLN.

The terms of the interest rate swaps have been negotiated to match the terms of the floating rate financing in PLN. There were no highly probable transactions for which hedge accounting has been claimed that have not occurred and no significant element of hedge ineffectiveness requiring recognition in the income statement.

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

Table below presents the basic parameters of IRS designed as hedging instrument, including the periods in which cash flows occur due to cash flow hedges, periods they will affect the financial results and their fair value in PLN of hedging instruments as at 31 December 2013.

	31 December 2013	**31 December 2012**
Type of instrument	Interest rate swap	Interest rate swap
Exposure	Floating rate interest payments in PLN	Floating rate interest payments in PLN
Hedged risk	Interest rate risk	Interest rate risk
Notional value of hedging instrument (PLN)	978,008	1,111,008
Fair value of hedging instruments	(8,041)	(15,321)
Hedge accounting approach	Cash Flow Hedge	Cash Flow Hedge
Expected period the hedge item affect income statement	Until 31 March 2015	Until 31 March 2015

Change in fair value of cash flow hedges recognized in equity is presented below (pre-tax):

	2013	**2012**
Opening Balance	**(15,321)**	**(6,687)**
Effective part of gains or losses on the hedging instrument	(2,812)	(9,741)
Amounts recognized in equity transferred to the profit and loss statement, of which:	10,092	1,107
- adjustment of interest costs	10,092	1,107
- adjustment due to inefficiency of the hedge relationships	-	-
Closing Balance	**(8,041)**	**(15,321)**

Cash Flow Hedge of foreign exchange risk of interest payments

At 31 December 2013, the Company held a number of cross-currency interest rate swaps, designated as hedges of interest payments on senior facility denominated in euro. The cross-currency interest rate swaps are being used to hedge the foreign exchange risk of the financing denominated in euro.

The terms of the cross-currency interest rate swaps have been negotiated to match the terms of the financing in euro. There were no highly probable transactions for which hedge accounting has been claimed that have not occurred and no significant element of hedge ineffectiveness requiring recognition in the income statement.

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

Table below presents the basic parameters of CIRS designed as hedging instrument, including the periods in which cash flows occur due to cash flow hedges, periods they will affect the financial results and their fair value in PLN of hedging instruments as at 31 December 2013.

	31 December 2013	**31 December 2012**
Type of instrument	Cross-currency interest rate swap	Cross-currency interest rate swap
Exposure	Interest payments in euro	Interest payments in euro
Hedged risk	Foreign exchange risk	Foreign exchange risk
Notional value of hedging instrument (EUR)	350,000	700,000
Fair value of hedging instruments	(4,054)	(10,700)
Hedge accounting approach	Cash Flow Hedge	Cash Flow Hedge
Expected period the hedge item affect income statement	Until 20 May 2014	Until 20 May 2014

Change in fair value of cash flow hedges recognized in equity is presented below (pre-tax):

	2013	**2012**
Opening Balance	**(10,700)**	**13,706**
Effective part of gains or losses on the hedging instrument	(1,503)	(22,672)
Amounts recognized in equity transferred to the profit and loss statement, of which:	8,149	(1,734)
- adjustment of interest costs	8,149	(1,734)
- adjustment due to inefficiency of the hedge relationships	-	-
Closing Balance	**(4,054)**	**(10,700)**

35. Capital management

This note presents information about the Company's management of capital. Further quantitative disclosures are also included throughout these financial statements.

The goal of capital management is to maintain the Company's ability to operate as a going concern in order to provide the shareholders return on investment as well as benefits for other stakeholders. The Company might issue shares, increase debt or sell assets in order to maintain or improve the equity structure.

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

The Company monitors capital on the basis of leverage ratio, which is calculated as a ratio of net debt to sum of equity and net debt. Net debt represents interest-bearing loans and borrowings and issued bonds less cash and cash equivalents (including restricted cash).

	Carrying amount	
	31 December 2013	**31 December 2012**
Loans	537,172	903,442
Issued bonds	1,434,965	1,409,271
Cash and cash equivalents	(26,075)	(59,316)
Net debt	**1,946,062**	**2,253,397**
Equity	3,421,178	2,980,498
Equity and net debt	**5,367,240**	**5,233,895**
Leverage ratio	**0.36**	**0.43**

36. Barter transactions

The Company is a party to barter transactions. The table below presents revenues and costs of barter transactions executed on an arm's-length basis. Revenue comprise revenue from services, goods and materials sold, costs comprise costs of sales.

	for the year ended	
	31 December 2013	**31 December 2012**
Revenues from barter transactions	10,848	8,356
Cost of barter transactions	7,843	5,992

	31 December 2013	**31 December 2012**
Barter receivables	1,426	1,518
Barter payables	290	536

37. Transactions with related parties

Receivables

	31 December 2013	**31 December 2012**
Subsidiaries	7,339	1,906
Jointly controlled entities	725	432
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	5,796	8,401
Total	**13,860**	**10,739**

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

Other assets

	31 December 2013	31 December 2012
Subsidiaries	2,160	1,195
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	98,640	160,172
Total	**100,800**	**161,367**

Other current assets comprise mainly of deferred costs (short- and long-term) related to the agreement with Mobyland Sp. z o.o.

On 28 September 2012 the Company signed a memorandum of understanding to the data transfer services agreement dated 15 December 2010 and placed an order for the purchase of 31 million GB. According to the agreement, Mobyland provides the access to wireless data transfer services, based on 1800 MHz and 900 MHz bands in LTE and HSPA+ technologies.

Liabilites

	31 December 2013	31 December 2012
Subsidiaries	27,309	48,243
Jointly controlled entities	380	375
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	106	10,743
Total	**27,795**	**59,361**

Receivables due from related parties and liabilities due to related parties are unsecured and have not been pledged as security.

Liabilities due comprise *inter alia* liabilities resulting from using “Cyfrowy Polsat” trade mark.

Bond liabilities

	31 December 2013	31 December 2012
Subsidiaries	1,434,965	1,409,271
Total	**1,434,965**	**1,409,271**

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

Revenues

	for the year ended	
	31 December 2013	31 December 2012
Subsidiaries	22,728	9,789
Jointly controlled entities	14	10
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	6,415	11,281
Total	**29,157**	**21,080**

The most significant transactions include revenues from accounting services rendered to subsidiaries, interconnect services, guarantee services rendered to Cyfrowy Polsat Technology Sp. z o.o. (this category only in 2012), programming fees, property rental and signal broadcast services.

Expenses

	for the year ended	
	31 December 2013	31 December 2012
Subsidiaries	207,761	168,857
Jointly controlled entities	2,868	2,865
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	97,843	61,180
Total	**308,472**	**232,902**

The most significant transactions include license fees for broadcasting programs: Polsat Film HD, Polsat Romans (these channels only in 2013), Polsat Futbol (this channel only in 2012), Polsat Sport, Polsat Sport Extra, Polsat Sport Extra HD, Polsat Film, Polsat News, Polsat Play, Polsat Cafe, Polsat Sport HD and Polsat Jim Jam.

The Company also incurs expenses for using 'Cyfrowy Polsat' trade mark, data transfer services, purchasing advertising time, telecommunication services with respect to the Company's customer call center and commissions for subscribers' acquisitions.

Gains and losses on investment activities, net

	for the year ended	
	31 December 2013	31 December 2012
Subsidiaries	312,361	306,739
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	-	2
Total	**312,361**	**306,741**

Gains and losses on investment activities comprises chiefly dividends and also income from guarantees granted by the Company in respect to settlement of high yield notes issued by Cyfrowy Polsat Finance AB.

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

Finance costs

	for the year ended	
	31 December 2013	**31 December 2012**
Subsidiaries	127,511	128,501
Total	**127,511**	**128,501**

Finance costs comprise chiefly interest on bonds and also guarantee fees in respect to settlement of Senior Facility loan.

In 2013 the Company concluded conditional investment agreement concerning the acquisition of Metelem Holding Company Limited (see note 42).

38. Litigations

Management believes that the provisions as at 31 December 2013 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Company's financial situation.

39. Off-balance sheet liabilities

Security relating to loans and borrowings

Establishment of collateral for loan facilities

In addition to the establishment of collateral agreements described in note 41 to the financial statements for the year 2012, the Company entered into a series of agreements establishing collateral under the SFA. Detailed information in respect to the agreements is presented in the Management Report in note 6.10.

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of the technical equipment was PLN 1,895 as at 31 December 2013 (PLN 66 as at 31 December 2012). Total amount of capital commitments resulting from agreements on property improvements was PLN 0 as at 31 December 2013 (PLN 5,878 as at 31 December 2012). Additionally the amount of deliveries and services committed to under agreements for the purchases of licences and software as at 31 December 2013 was PLN 1,979 (PLN 405 as at 31 December 2012).

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

40. Remuneration of the Management Board

The table below presents the remuneration of the Management Board members of the Company in 2013 and 2012.

Name	Function	2013	2012
Dominik Libicki	President of the Management Board	1,080	1,020
Dariusz Działkowski	Member of the Management Board	624	624
Tomasz Szeląg	Member of the Management Board	624	624
Aneta Jaskólska	Member of the Management Board	624	624
Total		**2,952**	**2,892**

The bonuses and additional remuneration payable to each member of the Management Board for years 2013 and 2012 are presented below:

Name	Function	2013	2012
Dominik Libicki	President of the Management Board	3,000	3,200
Dariusz Działkowski	Member of the Management Board	400	700
Aneta Jaskólska	Member of the Management Board	1,000	900
Tomasz Szeląg	Member of the Management Board	1,500	1,800
Total		**5,900**	**6,600**

The table below presents the remuneration of the Management Board of Cyfrowy Polsat S.A. in 2013 and 2012 from other related companies:

Name	Function	2013	2012
Dominik Libicki	President of the Management Board	9	60
Dariusz Działkowski	Member of the Management Board	36	36
Tomasz Szeląg	Member of the Management Board	60	36
Aneta Jaskólska	Member of the Management Board	42	36
Total		**147**	**168**

41. The Supervisory Board remuneration

The Supervisory Board receives remuneration based on the resolution of the Extraordinary General Shareholders' Meeting of Cyfrowy Polsat S.A. dated 5 September 2007.

The table below presents the total remuneration payable to the Supervisory Board members in 2013 and 2012:

Name	Function	2013	2012
Zygmunt Solorz-Żak	President of the Supervisory Board	180	180
Heronim Ruta	Member of the Supervisory Board	120	120
Andrzej Papis	Member of the Supervisory Board	120	120
Robert Gwiazdowski	Independent Member of the Supervisory Board	120	120
Leszek Reksa	Independent Member of the Supervisory Board	120	120
Total		**660**	**660**

42. Important events during reported period

On 14 November 2013 the Company concluded a conditional investment agreement concerning the transfer of shares in Metelem Holding Company Limited („Metelem") as in-kind contribution for the shares to be issued by Company (the "Agreement") with three shareholders of Metelem, i.e. Argumenol Investment Company Limited seated in Nicosia, Cyprus, Karswell Limited seated in Nicosia, Cyprus and Sensor Overseas Limited seated in Nicosia, Cyprus, whose shares represent approximately 83.77% of shares in Metelem (the "Vendors").
The fourth shareholder of Metelem, the European Bank for Reconstruction and Development ("EBRD") holds shares representing approximately 16.23% of shares in Metelem. EBRD (the "Vendors") concluded the conditional investment agreement on 19 December 2013.

Metelem holds indirectly 100% of the share capital of Polkomtel Sp. z o.o., the operator of the mobile network "Plus".

Pursuant to the Agreement, the Vendors will acquire in aggregate 291,193,180 shares in the conditionally increased share capital of the Company at the issue price of PLN 21.12 (not in thousands) (the "New Shares"). The New Shares will be acquired for an in-kind contribution in the form of shares in Metelem constituting in aggregate approximately 100% of Metelem's share capital. In order to enable the acquisition of the New Shares by the current shareholders of Metelem, the Company shall issue subscription warrants to be acquired by them free of charge, which will then be exchanged into New Shares paid for with the in-kind contribution referred to above.

The obligation of the Company to issue shares to the Vendors and the Vendors' obligation to transfer the title to the shares in Metelem to the Company is subject to the following conditions precedent:
a) adoption by the Shareholders' Meeting of the Company of the Resolutions,
b) registration of the Conditional Share Capital Increase by the registry court, and
c) refinancing by the Company that will provide for repayment of the entire indebtedness of the Company arising under the Senior Facilities Agreement dated 31 March 2011, as amended and the Senior Secured Notes issued pursuant to the Indenture dated 20 May 2011.

The Agreement does not provide for any contractual penalties. The Company is entitled to terminate the Agreement, if Cyfrowy Polsat determines, in its sole discretion, that it will not be able to achieve the refinancing and repayment of the its financial indebtedness on terms and conditions acceptable to Cyfrowy Polsat.

43. Events subsequent to the reporting date

On 16 January 2014 the Extraordinary General Meeting of Cyfrowy Polsat adopted resolution concerning conditional increase in the share capital by the amount not exceeding PLN 11,648. The increase of the Company's share capital shall be effected by way of the issue of up to 291,193,180 series I ordinary bearer shares. All series I shares will be earmarked for acquisition by shareholders of Metelem.

On 24 January 2014 the Extraordinary General Meeting of Cyfrowy Polsat adopted resolution concerning the issuance of 291,193,180 registered subscription warrants. The warrants entitle their holders to acquire ordinary bearer shares and will be offered to the vendors of shares in Metelem. The Extraordinary General Meeting of Cyfrowy Polsat decided that the existing shareholders are deprived of all the preemptive rights *vis-à-vis* all of the new issue ordinary bearer shares which may be issued by the Company under the conditional increase of the Company's share capital adopted on 16 January 2014.

44. Judgments, financial estimates and assumptions

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

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

The most significant estimates and assumptions made primarily related to the following:

- *Classification of lease agreements*

The Company classifies leasing agreements as operating or financial based on the assessment as to what extent the risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The assessment is based on the economical substance of each transaction. The Company concludes agreements for the rental of reception equipment (set-top boxes, modems and routers) to its customers in the course of its business operations including delivery of digital pay television services. These lease agreements are classified as operating leases as the Company holds substantially all the risks and rewards incidental to ownership of the reception equipment.
As a part of its business activities the Company has concluded agreements with Eutelsat for the rental of transponder capacity as well as an agreement with Nagravision for the lease of conditional access system (including SMART cards). These agreements were classified as operating leases as Eutelsat and Nagravision hold substantially all the risks and rewards incidental to the ownership of the transponders and the conditional access system. For more information see note 29.

- *Depreciation rates of property, plant and equipment and intangible assets with definite useful lives*

Depreciation rates are based on the expected economic useful lives of property, plant and equipment (including reception equipment provided to customers under lease agreements) and intangible assets. The expected economic useful lives are reviewed on an annual basis based on the experience of the entity.

The economic useful lives of the set-top boxes rented to customers under operating lease agreements are estimated for 5 years, modems and routers 3 years. For information on the useful lives of property, plant and equipment, programming assets and other intangible assets with definite useful lives see notes 5i and 5j. For information on the depreciation charge for the period by the category of property, plant and equipment and intangible assets with definite useful lives see notes 15 and 17.

- *The impairment of goodwill*

The Company performed impairment test on goodwill arising on the acquisition of M.Punkt Holdings. The impairment test was based on the value-in-use calculations of the “Retail” cash-generating unit to which the goodwill has been allocated on the initial recognition. The value-in-use calculations included estimation of discounted cash flows for the given cash-generating unit and the relevant discount rate. The value of goodwill tested at each cash-generating unit, the key assumptions used in the value-in-used calculations for each cash-generating unit, impairment test results and sensitivity analysis of reasonably possible changes in the key assumptions are presented in note 16.

- *The impairment of investment in subsidiaries*

The Company analyzed whether any indicators of potential impairment of investments in subsidiaries exist as at the balance sheet date. The analysis did not indicate such impairment indicators therefore the Company did not perform an impairment test for these assets.

- *The impairment of non-financial non-current assets*

As at the reporting date the Company has assessed whether there are any indications that intangible and tangible assets with definite useful lives may be impaired. No such indicators were found and thus no impairment tests were performed.

- *Revenues from contractual penalties*

The Company recognizes the revenues from contractual penalties in the amount probable to recover. The estimated recoverability of contractual penalties from the customers outstanding as at the balance sheet date is 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 5g, 22 and 34.

- *Provisions for pending litigation*

During the normal course of its operations the Company participates in several court proceedings, usually typical and repeatable and which, on an individual basis, are not material for the Company, its financial standing and operations. The provisions are estimated based on the court documentation and the expertise of the Company's lawyers who participate in the current litigations and who estimate Company's possible future obligations taking the progress of litigation proceedings into account. The Company also recognizes provisions for potential unreported claims resulting from past events, should the Management Board find that the resulting outflow of economic benefits is likely. Provisions regarding probable claims are recognized as a result of Management Board's estimates based on accessible information regarding market rates for similar claims. Management believes that the provisions as at 31 December 2013 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Company's financial situation.

- *Deferred tax*

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. For further details refer to note 5w and 12.

- *Fair value of financial instruments*

Fair value of financial instruments for which there is no active market is estimated using appropriate techniques of measurements. The techniques are chosen based on the professional judgment. For more information about the method of establishing the fair value of financial instruments and key assumption made see note 5g.

CYFROWY POLSAT S.A.

Interim Condensed Financial Statements
for 3 and 12 Months Ended 31 December 2013

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

Table of contents

Interim Income Statement .... F III

Interim Statement of Comprehensive Income .... F III

Interim Balance Sheet .... F IV

Interim Cash Flow Statement .... F VI

Interim Statement of Changes in Equity .... F VII

Notes to the Interim Condensed Financial Statements .... FVIII

(all amounts are in PLN thousand, except where otherwise stated)

Interim Income Statement

	Note	for 3 months ended		for 12 months ended	
		31 December 2013 unaudited	31 December 2012 unaudited	31 December 2013	31 December 2012
Revenue	5	489,939	465,483	1,922,869	1,783,626
Operating costs	6	(410,327)	(397,130)	(1,552,158)	(1,375,473)
Other operating income/(costs), net		3,349	(7,213)	1,855	(10,481)
Profit from operating activities		**82,961**	**61,140**	**372,566**	**397,672**
Gain/loss on investment activities, net		4,323	3,543	312,366	315,817
Finance costs		(27,561)	(47,919)	(234,065)	(130,397)
Gross profit for the period		**59,723**	**16,764**	**450,867**	**583,092**
Income tax		(8,801)	(5,089)	(21,854)	(53,255)
Net profit for the period		**50.922**	**11,675**	**429,013**	**529,837**
Basic and diluted earnings per share (in PLN)		**0.14**	**0.03**	**1.23**	**1.52**

Interim Statement of Comprehensive Income

	for 3 months ended		for 12 months ended	
	31 December 2013 unaudited	31 December 2012 unaudited	31 December 2013	31 December 2012
Net profit for the period	**50,922**	**11,675**	**429,013**	**529,837**
Items that may be reclassified subsequently to profit or loss:				
Valuation of hedging instruments	3,075	(9,367)	14,404	(31,345)
Income tax relating to hedge valuation	(584)	1,780	(2,737)	5,956
Items that may be reclassified subsequently to profit or loss	**2,491**	**(7,587)**	**11,667**	**(25,389)**
Other comprehensive income, net of tax	**2,491**	**(7,587)**	**11,667**	**(25,389)**
Total comprehensive income for the period	**53,413**	**4,088**	**440,680**	**504,448**

(all amounts are in PLN thousand, except where otherwise stated)

Interim Balance Sheet – Assets

	31 December 2013	31 December 2012
Reception equipment	407,579	420,060
Other property, plant and equipment	167,072	172,201
Goodwill	52,022	52,022
Other intangible assets	72,067	47,821
Investment property	1,905	-
Shares in subsidiaries	4,719,928	4,588,928
Non-current deferred distribution fees	29,551	35,125
Other non-current assets	12,300	101,604
Total non-current assets	**5,462,424**	**5,417,761**
Inventories	144,694	159,885
Trade and other receivables	214,305	222,767
Income tax receivable	-	6,458
Current deferred distribution fees	70,055	57,096
Other current assets	105,154	71,256
Cash and cash equivalents	26,075	59,316
Total current assets	**560,283**	**576,778**
Total assets	**6,022,707**	**5,994,539**

(all amounts are in PLN thousand, except where otherwise stated)

Interim Balance Sheet – Equity and Liabilities

	31 December 2013	31 December 2012
Share capital	13,934	13,934
Share premium	1,295,103	1,295,103
Hedge valuation reserve	(8,964)	(20,631)
Retained earnings	2,121,105	1,692,092
Total equity	**3,421,178**	**2,980,498**
Loans and borrowings	239,889	592,003
Issued bonds	1,322,758	1,298,661
Finance lease liabilities	1,498	3,554
Deferred tax liabilities	93,766	90,611
Deferred income	4,079	5,181
Other non-current liabilities and provisions	7,175	14,644
Total non-current liabilities	**1,669,165**	**2,004,654**
Loans and borrowings	297,283	311,439
Issued bonds	112,207	110,610
Finance lease liabilities	2,175	1,954
Trade and other payables	304,708	371,461
Income tax liability	3,923	-
Deposits for equipment	2,727	13,259
Deferred income	209,341	200,664
Total current liabilities	**932,364**	**1,009,387**
Total liabilities	**2,601,529**	**3,014,041**
Total equity and liabilities	**6,022,707**	**5,994,539**

(all amounts are in PLN thousand, except where otherwise stated)

Interim Cash Flow Statement

	for the year ended	
	31 December 2013	**31 December 2012**
Net profit	**429,013**	**529,837**
Adjustments for:	**28,738**	**(107,371)**
Depreciation, amortization, impairment and disposal	219,039	202,783
(Gain)/loss on sale of property, plant and equipment and intangible assets	(41)	492
Interest expense	208,229	227,979
Change in inventories	15,191	19,149
Change in receivables and other assets	56,731	(69,499)
Change in liabilities, provisions and deferred income	(69,779)	76,032
Valuation of hedging instruments	14,404	(31,345)
Foreign exchange (gains)/ losses, net	20,047	(111,889)
Income tax	21,854	53,255
Net increase in reception equipment provided under operating lease	(158,859)	(179,000)
Dividends income	(303,210)	(297,230)
Other adjustments	5,132	1,902
Cash from operating activities	**457,751**	**422,466**
Income tax paid	(11,410)	(3,544)
Interest received from operating activities	1,132	6,170
Net cash from operating activities	**447,473**	**425,092**
Acquisition of property, plant and equipment	(40,348)	(27,489)
Acquisition of intangible assets	(40,149)	(28,924)
Loans granted	-	(1,700)
Dividends received	303,210	297,230
Acquisition of shares in subsidiaries	-	(45,185)
Merger with related entities	-	2,305
Share capital increase in subsidiaries	(131,000)	-
Loans repaid - principal	-	1,700
Interest on loans repaid	-	12
Proceeds from sale of property, plant and equipment	145	208
Net cash from investing activities	**91,858**	**198,157**
Net cash from Cash Pool with paid interest	14,762	(8,006)
Payment of interest on loans, borrowings, bonds, finance lease and commissions*	(178,910)	(209,803)
Finance lease – principal repayments	(2,145)	(335)
Repayment of loans and borrowings	(406,263)	(357,652)
Net cash used in financing activities	**(572,556)**	**(575,796)**
Net increase/(decrease) in cash and cash equivalents	**(33,225)**	**47,453**
Cash and cash equivalents at the beginning of the year	**59,316**	**11,858**
Effect of exchange rate fluctuations on cash and cash equivalents	(16)	5
Cash and cash equivalents at the end of the year	**26,075**	**59,316**

* Includes impact of hedging instruments

(all amounts are in PLN thousand, except where otherwise stated)

Interim Statement of Changes in Equity for the year ended 31 December 2013

	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total equity**
Balance as at 1 January 2013	**13,934**	**1,295,103**	**(20,631)**	**1,692,092**	**2,980,498**
Total comprehensive income	-	-	11,667	429,013	**440,680**
Hedge valuation reserve	-	-	*11,667*	-	***11,667***
Net profit for the period	-	-	-	*429,013*	***429,013***
Balance as at 31 December 2013	**13,934**	**1,295,103**	**(8,964)**	**2,121,105**	**3,421,178**

* The capital excluded from distribution amounts to PLN 4,645. In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital.

Interim Statement of Changes in Equity for the year ended 31 December 2012

	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total equity**
Balance as at 1 January 2012	**13,934**	**1,295,103**	**4,758**	**1,189,281**	**2,503,076**
Total comprehensive income	-	-	(25,389)	529,837	**504,448**
Hedge valuation reserve	-	-	*(25,389)*	-	***(25,389)***
Net profit for the period	-	-	-	*529,837*	***529,837***
Merger with Cyfrowy Polsat Technology Sp. z o.o.	-	-	-	(27,026)	**(27,026)**
Balance as at 31 December 2012	**13,934**	**1,295,103**	**(20,631)**	**1,692,092**	**2,980,498**

* The capital excluded from distribution amounts to PLN 4,645. 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.

(all amounts are in PLN thousand, except where otherwise stated)

Notes to the Interim Condensed Financial Statements for 3 and 12 months Ended 31 December 2013

1. Activity of the Company

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

The Company operates in Poland as a provider of a paid digital satellite platform under the name of "Cyfrowy Polsat" and paid digital terrestrial television as well as Internet access services provider and a Mobile Virtual Network Operator ('MVNO').

The Company's activities comprise one segment – services rendered to general public.

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

2. Composition of the Management Board of the Company

- Dominik Libicki	President of the Management Board,
- Dariusz Działkowski	Member of the Management Board,
- Aneta Jaskólska	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,
- Robert Gwiazdowski	Member of the Supervisory Board,
- Andrzej Papis	Member of the Supervisory Board,
- Leszek Reksa	Member of the Supervisory Board,
- Heronim Ruta	Member of the Supervisory Board.

4. Basis of preparation of the interim condensed financial statements

Statement of compliance

These interim condensed financial statements for 3 and 12 months ended 31 December 2013 have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting*. These interim condensed financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The Company applied the same accounting policies in the preparation of the financial data for 3 and 12 months ended 31 December 2013 and the financial statements for the year 2012, presented in the annual report, except for the EU-endorsed standards and interpretations which are effective for the reporting periods beginning on or after 1 January 2013.

(all amounts are in PLN thousand, except where otherwise stated)

The most recent published annual financial statements were prepared and audited for the year ended 31 December 2013. Annual financial statements fully disclose accounting policies approved by the Company.

5. Revenue

	for 3 months ended		for 12 months ended	
	31 December 2013 unaudited	31 December 2012 unaudited	31 December 2013	31 December 2012
Retail revenue	466,595	446,672	1,829,461	1,732,787
Sale of equipment	9,677	7,515	41,681	18,965
Other revenue	13,667	11,296	51,727	31,874
Total	**489,939**	**465,483**	**1,922,869**	**1,783,626**

6. Operating costs

	for 3 months ended		for 12 months ended	
	31 December 2013 unaudited	31 December 2012 unaudited	31 December 2013	31 December 2012
Programming costs	117,585	107,271	471,447	425,050
Distribution, marketing, customer relation management and retention costs	94,319	98,961	333,410	312,400
Depreciation, amortization, impairment and disposal	57,529	62,499	219,039	202,783
Salaries and employee-related costs	36,297	33,740	114,182	98,406
Broadcasting and signal transmission costs	24,068	24,126	93,862	91,772
Cost of settlements with mobile network operators and interconnection charges	26,175	11,272	77,912	44,110
Cost of equipment sold	10,560	16,345	63,784	36,173
Cost of debt collection services and bad debt allowance and receivables written off	7,341	7,781	29,806	27,315
Other costs	36,453	35,135	148,716	137,464
Total	**410,327**	**397,130**	**1,552,158**	**1,375,473**