CYFROWY POLSAT S.A.

Annual Report
for the financial year ended
December 31, 2014

Place and date of publication: Warsaw, March 4, 2015

CONTENT OF THE ANNUAL REPORT:

LETTER OF THE CHAIRMAN OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

2014 was a breakthrough year and one of the most important years in the history of Cyfrowy Polsat. Polkomtel, the operator of Plus network, joined the Group, thus leading to the creation of the biggest media and telecommunication group in Poland, as well as in the region. Thanks to this, we have created a solid foundation for the future development and successful operations of the entire Cyfrowy Polsat Group, consisting of Cyfrowy Polsat, Polkomtel, Telewizja Polsat and IPLA platform.

The Group has acquired new possibilities of development in the dynamically changing and very competitive market environment. I am pleased that the Companies' Management Boards acted promptly in seizing the opportunity coming from the cooperation of Cyfrowy Polsat and Polkomtel. Thanks to this, we managed to introduce a pioneer and unique offer of integrated services – the smartDOM program – addressing new market conditions and consumer expectations and building the competitive advantage of the Group.

I truly appreciate the pace of operational integration within the Group – thanks to this, we may now focus all our activities on the accomplishment of the basic objective, that is building of a leading position on the multimedia entertainment and telecommunication market in Poland. I believe that Cyfrowy Polsat Group will continue to effectively implement its goals and strategy, which will allow for continuing its development, thus gaining a permanent advantage over all the competitors. Undoubtedly, one of the key strengths of the Group is a broad offer of new services, including financial services – prepared in cooperation with PlusBank, electricity supply services – sold by Plus network and subsequent, new services from other areas which will bring additional benefits both for the individual and corporate customers.

Cyfrowy Polsat Group together with Polkomtel has also strengthened its leading position on state-of-the-art technology market. The Group is the provider of the fastest Internet access in Poland in LTE technology and offers the broadest coverage of LTE in terms of population. The Group was the first operator in Poland to carry out successful tests of LTE-Advanced technology, through the combination of two carrier frequencies - 1800 MHz and 2600 MHz, VoLTE (Voice over LTE) and LTE Broadcast.

I am pleased with both operating and financial performance of the Group last year, including effectively pursued objectives in all of its key operating segments – on pay TV and television broadcasting, telecommunication and online services markets. It is worth mentioning that the excellent performance of the Group was delivered in an extremely challenging market environment, with the Group effectively competing in all important areas of its operations.

I would like to thank our Shareholders, as well as the Subscribers and Customers of Cyfrowy Polsat Group for the confidence they have placed in us. I would like to offer particular thanks to the Group's Management Boards and Employees for their effective work and commitment, which has significantly contributed to the achievements of our goals and objectives. I am convinced that Cyfrowy Polsat Group will continue its effective operations, which will translate into consistent building of Group's value for the benefit of its Shareholders.

Yours sincerely,

Zygmunt Solorz-Żak

Chairman of the Supervisory Board

Cyfrowy Polsat S.A.

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

Ladies and Gentlemen,

It is with great pleasure that I present to you the 2014 Annual Report of Cyfrowy Polsat.

As a result of the transaction, finalized on May 7, 2014, of the acquisition by Cyfrowy Polsat of Metelem, indirectly controlling 100% of Polkomtel's shares, last year was marked by the integration of Cyfrowy Polsat and Polkomtel, which is also reflected in this report comprehensively describing our Group in the new shape, both from the operating and financial perspective.

By adding the operator of Plus network to Cyfrowy Polsat Group, it has become the biggest media and telecommunication group in the region, servicing 6.1 million contract customers and providing a total of 16.5 million pay television, mobile telephony and LTE Internet services, as well as one of the biggest private Polish enterprises with the capitalisation of ca. PLN 15 billon. Total revenue of Cyfrowy Polsat in 2014 exceeded PLN 2 billion, with EBITDA standing at PLN 543,7 million, and profit at PLN 177,2 million.

Operational integration was the natural consequence of our acquisition of Polkomtel. The process was completed last year with respect to the Group's business areas. At the same time we have started numerous joint projects in the area of marketing, sales, customer service and retention, IT and finance, in order to achieve the announced revenue, cost and financial synergies. All projects related to revenue synergies (ca. PLN 2 billion in the years 2014-2019) and cost synergies (ca. PLN 1.5 billion in the years 2014-2019) proceeded as planned. Whereas already in August last year, as a result of the successful process of partial refinancing of the Group's indebtedness, we increased our expectations regarding financial synergies – up to the amount of PLN 700 million until the end of 2019.

Thanks to the integration, carried out in accordance with our multi-play strategy, we have created a unique offer of integrated services – the smartDOM program – which is our response to the dynamically changing market environment and customer expectations and which builds our competitive advantage. This offer, under which the customer may, among others, purchase the second product with a 50% discount, and the third one for as little as PLN 1, has been very well received by the customers and proved to be a commercial success already during the first few months. 569 thousand customers joined the smartDOM program last year and the total number of services held by this group of customers amounted to 1.753 million.

The strategy of our Group remains unchanged. We will continue activities aimed at maintaining the leading position on the multimedia entertainment and telecommunication markets. Using the best and state-of-the-art technology we will create and deliver superior quality programming content and telecommunication products which will be offered by us under attractive packages of integrated services addressing the evolving needs of customers and improving their satisfaction with the cooperation. We still believe that investments in the LTE high speed Internet, of which we are the pioneer and leader in terms of development on the Polish market, is very important for the development of the Group in the future. We expect that the aforementioned activities will contribute to a systematic increase in the number of customers, their loyalty and ARPU per customer. Successful fulfilment of these objectives, combined with effective financial management, will have a positive impact on creating value for our Shareholders.

Yours sincerely,

Tomasz Gillner-Gorywoda

President of the Management Board

Cyfrowy Polsat S.A.

REPORT OF THE MANAGEMENT BOARD ON THE ACTIVITIES OF CYFROWY POLSAT S.A. IN THE FINANCIAL YEAR ENDED DECEMBER 31, 2014

TABLE OF CONTENTS

CYFROWY POLSAT AT A GLANCE

Cyfrowy Polsat is the largest pay TV provider in Poland and one of the leading satellite platforms in Europe. Within the scope of our activities we provide a wide array of integrated media and telecommunication services comprising pay TV, mobile broadband Internet and mobile telephony. We offer our customers access to over 140 Polish language TV channels, including 40 channels in high definition standard, as well as additional services such as PPV, VOD Home Movie Rental, TV online, catch-up TV and Multiroom. The platform has its own set-top-boxes factory.

We provide broadband Internet access in mobile HSPA+ technology, and since September 2011 – mobile Internet in the state-of-the-art LTE technology. We offer the largest LTE coverage in Poland and our customers attain the highest data transmission speed among offers provided by national mobile network operators technologies. In June 2012, it introduced mobile television services in DVB-T technology.

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

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

Our revenue from services, products, goods and materials sold in 2014 increased to PLN 2,034.6 million while our net profit amounted to PLN 177.2 million. EBITDA profit amounted to PLN 543.7 million with EBITDA margin of 26.7%.

DISCLAIMERS

Presentation of financial and other information

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

Financial and operating data

This Report contains financial statements and financial information relating to the Company. In particular, this Report contains our financial statements for the financial year ended December 31, 2014 and interim condensed financial statements for the 3 and 12-month periods ended December 31, 2014. The financial statements for the 3 and 12-month periods ended December 31, 2014 attached to this Report have been prepared in accordance with International Accounting Standard no. 34 'Interim Financial Reporting' ('IAS 34') and are presented in millions of zlotys. Unless otherwise indicated, financial information presented in this Report was prepared pursuant to the International Financial Reporting Standards as approved for use in the European Union ('IFRS').

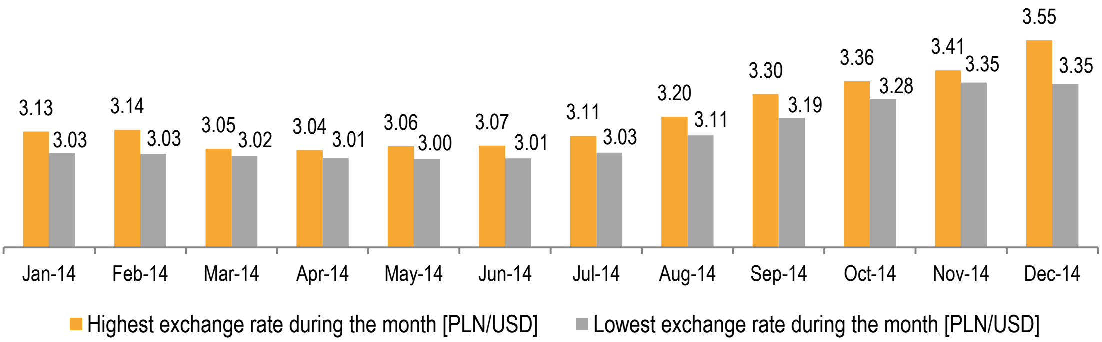
Certain arithmetical data contained in this Report, including financial and operating information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this Report may not conform exactly to the total figure given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

Currency presentation

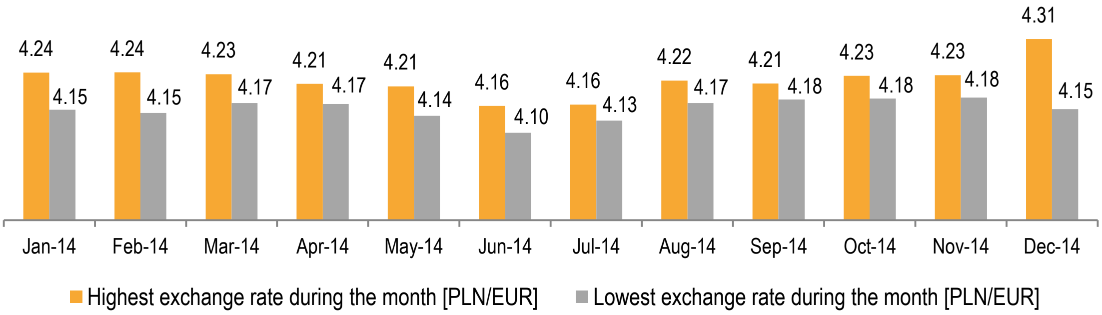
Unless otherwise indicated, in this Report all references to 'PLN' or 'zloty' are to the lawful currency of the Republic of Poland; all references to 'USD' or 'US dollars' are to the lawful currency of the United States; and all references to 'EUR' or the 'euro' are to the lawful currency of the member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

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

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



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



Forward looking statements

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

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

We disclose important risk factors that could cause our actual results to differ materially from our expectations under item 4 – *Review of the operating and financial situation of Cyfrowy Polsat* – and under item 5 – *Key risk and threat factors*, 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.

Industry and market data

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

- Eurostat, for data relating to the Polish economy and GDP growth;
- Polish Chamber of Electronic Communication;
- Office of Electronic Communications (UKE);
- Central Statistical Office of Poland (GUS);
- Body of European Regulators for Electronic Communications (BEREC);
- European Commission (Digital Agenda Scoreboard);
- PwC (Global entertainment and media outlook: 2014-2018);
- PMR;
- GFK Polonia;

- e-marketer;
- Ericsson Mobility Report; and
- Operators functioning on the Polish market.

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

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

FINANCIAL DATA OVERVIEW

The following tables set out selected financial data for the 12-month period ended December 31, 2014 and December 31, 2013. The selected financial data presented in the tables below is expressed in millions of PLN, unless otherwise stated. This information should be read in conjunction with the financial statements for the financial year ended December 31, 2014 (including the notes thereto) attached to this Report, as well as the information included in item 4 of this Report - *Review of the operating and financial situation of Cyfrowy Polsat.*

Selected financial data:

- from the income statement and the cash flow statement for the 12-month period ended December 31, 2014 and December 31, 2013 have been converted into euro at a rate of PLN 4.1852 per EUR 1, being the average of monthly average exchange rates announced by the NBP in the reporting period i.e. from January 1 to December 31, 2014;
- from the balance sheet data as at December 31, 2014 and December 31, 2013 have been converted into euro at a rate of PLN 4.2623 per EUR 1.00 (average exchange rate published by NBP on December 31, 2014).

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

	December 31, 2014		December 31, 2013	
	mPLN	mEUR	mPLN	mEUR
Balance sheet				
Cash and cash equivalents	13.3	3.1	26.1	6.1
Assets	12,876.4	3,021.0	6,022.7	1,413.0
Non-current liabilities	1,967.9	461.7	1,669.2	391.6
Current liabilities	1,462.2	343.1	932.3	218.7
Equity	9,446.3	2,216.2	3,421.2	802.7
Share capital	25.6	6.0	13.9	3.3

	For the 12-month period ended			
	December 31, 2014		December 31, 2013	
	mPLN	mEUR	mPLN	mEUR
Cash flow statement				
Net cash from operating activities	376.3	89.9	447.5	106.9
Net cash from/(used in) investment activities	(781.3)	(186.7)	91.9	22.0
Net cash used in financial activities	392.2	93.7	(572.6)	(136.8)
Net increase in cash and cash equivalents	(12.8)	(3.1)	(33.2)	(7.9)

	for the 12-month period ended December 31			
	2014		2013	
	mPLN	mEUR	mPLN	mEUR
Income statement				
Retail revenue	1,913.0	457.1	1,827.8	436.7
Wholesale revenue	39.5	9.4	33.9	8.1
Sale of equipment	54.5	13.0	41.7	10.0
Other sales revenue	27.6	6.6	19.5	4.7
Revenue	**2,034.6**	**486.1**	**1,922.9**	**459.5**
Content costs	(517.2)	(123.6)	(474.5)	(113.4)
Distribution, marketing, customer relation management and retention costs	(332.4)	(79.4)	(333.4)	(79.7)
Depreciation, amortization, impairment and liquidation	(222.6)	(53.2)	(219.0)	(52.3)
Technical costs and cost of settlements with mobile network operators	(288.5)	(68.9)	(194.1)	(46.4)
Salaries and employee-related costs	(131.9)	(31.5)	(114.2)	(27.3)
Cost of equipment sold	(71.3)	(17.0)	(63.8)	(15.2)
Cost of debt collection services and bad debt allowance and receivables written off	(39.2)	(9.4)	(29.8)	(7.1)
Other costs	(132.5)	(31.7)	(123.4)	(29.5)
Total operating cost	**(1,735.6)**	**(414.7)**	**(1,552.2)**	**(370.9)**
Other operating income, net	22.1	5.3	1.9	0.5
Profit from operating activities	**321.1**	**76.7**	**372.6**	**89.0**
Gain/(loss) on investment activities, net	168.2	40.2	312.4	74.6
Financial costs	(309.5)	(74.0)	(234.1)	(55.9)
Gross profit for the period	**179.8**	**43.0**	**450.9**	**107.7**
Income tax	(2.6)	(0.6)	(21.9)	(5.2)
Net profit for the period	**177.2**	**42.3**	**429.0**	**102.5**
Basic and diluted earnings per share (not in millions)	0.33	0.08	1.23	0.29
Weighted number of issued shares in PLN	539,024,535		348,352,836	
Other financial data				
EBITDA(1)	543.7	129.9	591.6	141.4
EBITDA margin	26.7%	26.7%	30.8%	30.8%
Operating margin	15.8%	15.8%	19.4%	19.4%
Capital expenditures, net(2)	62.6	15.0	80.3	19.2

(1) We define EBITDA as net profit/(loss), as determined in accordance with IFRS, before depreciation and amortization, impairment charges and reversals on property, plant and equipment and intangible assets, net value of disposed property, plant and equipment and intangible assets, revenue obtained from interest, finance costs, positive/(negative) exchange rate differences and income taxes. The reconciling item between EBITDA and reported operating profit/ (loss) is depreciation and amortization expense and impairment charges and reversals on property, plant and equipment and intangible assets and net value of disposed property, plant and equipment and intangible assets.
We believe EBITDA serves as a useful supplementary financial indicator in measuring the profitability of media and telecommunication companies. EBITDA is not an IFRS measure and should not be considered as an alternative to IFRS measures of net profit/(loss), as an indicator of operating performance, as a measure of cash flow from operations under IFRS, or as an indicator of liquidity. You should note that EBITDA is not a uniform or standardized measure and the calculation of EBITDA, accordingly, may vary significantly from company to company, and by itself our presentation and calculation of EBITDA may not be comparable to that of other companies.

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

1. CHARACTERISTICS OF CYFROWY POLSAT

1.1. Information on organizational or capital connections with other entities

The following table presents the shares in other entities that we held directly as of December 31, 2014:

Company name	Registered office	Activity	Share in voting rights (%) as at	
			December 31, 2014	December 31, 2013
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, Warsaw	non-current assets and intellectual property rights management	100%	100%
Cyfrowy Polsat Finance AB	Stureplan 4C, 4 TR 114 35 Stockholm, Sweden	financial transactions	100%	100%
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, Warsaw	broadcasting and television production	100%	100%
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, Warsaw	radio and TV activities	73,5%	73,5%
Redefine Sp. z o.o.	Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%	100%
Gery.pl Sp. z o.o.	Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%	100%
Frazpc.pl Sp. z o.o.	Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%	100%
Netshare Sp. z o.o	Stanów Zjednoczonych 61 A, Warsaw	electronic media (Internet) advertising broker	100%	100%
Metelem Holding Company Limited	Kostakis Pantelidi 1, 1010 Nicosia, Cyprus	holding and financial activities	100%	-
Karpacka Telewizja Kablowa Sp. z o.o.	Chorzowska 3, Radom	dormant	99%	85%

1.2. Who we are

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

Pay TV

We are the largest pay TV provider in Poland and a leading satellite platform in Europe in terms of the number of customers. Since 2006 we are the leader on the Polish market in terms of the number of active services as well as market share. As at December 31, 2014 we provided nearly 4.4 million active pay TV services (including almost 845 thousand Multiroom services).

Our offer includes mainly digital pay TV services distributed directly to end-users via satellite through set-top boxes and satellite antennas. Our programming strategy is to offer a wide range of channels that appeal to the whole family, at attractive prices. At present we provide access to over 140 Polish language TV channels, including all of Poland's main terrestrial channels as well as general entertainment, sports, music, lifestyle, news/information, children's, education and movie channels. In addition, we offer our customers access to over 40 HD channels and also provide VOD/PPV, online TV, catch-up TV and Multiroom HD services.

Broadband Internet

In 2011, we were the first commercial service provider in Poland to launch an LTE-based broadband Internet access service, offering technical features and quality parameters which allows to compete effectively with fixed-line Internet services, thus meeting the increasing demand of consumers. In addition, LTE-based broadband access offers mobility, which is a feature that has been increasingly more popular among consumers. Currently LTE Internet and HSPA/HSPA+ Internet cover ca. 80% and nearly 100% of Poland's population, respectively.

We offer broadband Internet in the contractual model under two alternative brands: Cyfrowy Polsat and Plus. In addition, we offer broadband Internet in the prepaid model. Our offering is complemented by a portfolio of dedicated devices (modems, routers, tablets, laptops, installation sets which allow better reception and distribution of signal via Wi-Fi within the house, etc.), including equipment, which supports the LTE technology. Such a wide offering allows us to address the needs of customers, who are interested in using mobile broadband Internet for its mobility as well as those customers, who want to substitute fixed-line Internet access at home or in the office.

Bundled services

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

smartDOM

As part of our strategy of integrating modern home products and services, Cyfrowy Polsat and Polkomtel launched smartDOM (smartHOME), a joint program which enables bundling of innovative services offered by both operators to the benefit of their customers. Under the new program, customers can combine, in a flexible way, such products as satellite TV, broadband LTE Internet, telephone, electricity and banking services, and make savings for each service added to their package. The program was launched in order to achieve revenue synergies expected in connection with the incorporation of Polkomtel into Cyfrowy Polsat Group.

1.3. Strategy

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

Our superior goal is to become the number one player on the Polish entertainment and telecoms markets. To achieve this objective we will continue to provide high quality products and services to all our customers as well as acquire and produce superior quality content and deliver 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 users as well as maximizing the number of services offered to each customer while simultaneously increasing average revenue per user (ARPU) and maintaining high levels of customer satisfaction,
- maximizing revenue from produced and purchased content by expanding its distribution, maintaining the audience shares of our channels and improving our viewer profile, and
- 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 users as well as maximizing the number of services offered to each customer while simultaneously increasing average revenue per user (ARPU) and maintaining high levels of customer satisfaction

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

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

The factor that will have a positive impact on revenue is the possibility of cross-selling of products and services to both current and potential customers of Cyfrowy Polsat and Polkomtel. Together with Polkomtel we create a unique portfolio of services which is simultaneously targeted at clients of both operators. When properly addressed, both through sale of additional individual products or a multi-play offer, this potential may significantly increase the number of services per individual user, thus increasing the average revenue per customer (ARPU). What is more, while exploiting our combined customer bases, we will to continue to maximize the number of additional services for the home or residential customer that we will be able to offer to our customers as we extend our product portfolio.

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

We will build our position on the bundled services market by acquiring as many customers as possible for our broadband Internet access services. These services are the product which is most readily up-sold to our existing customer base as part of our combined services offer. Moreover, based on independent experts' estimates, broadband mobile Internet is the fastest growing Internet access technology in Poland. We trust that mobile technology (LTE in particular) will enable us to offer high quality services in the areas where most of our customers live, which, combined with the benefits offered by integrated services, should contribute to further improvement of customer satisfaction and growth of ARPU.

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

An effective combination of telecommunication and media services provides new opportunities for distribution of TV content. Thanks to this combination, the attractive content and the wide range of 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 and LTE – to all consumer devices, from TV sets to PCs to tablets and smartphones.

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

The channels we produce and broadcast enjoy strong, well-established positions on the Polish TV market as well as high ratings in their target groups. With our current portfolio we broadcast 26 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 consistently improve our viewer profile. We believe that by making sensible investments in programming, and wider distribution of our own content, we will be able to gradually improve our viewer profile. This in turn will have a positive effect on the advertising airtime pricing.

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

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

We are convinced that building a closely integrated media and telecoms group offers an opportunity for tangible synergies and for securing 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.

1.4. Competitive advantages

We are a leading integrated media and telecommunications group in the region. Together with our subsidiaries we operate a diversified business comprising DTH, mobile telephony, broadband Internet as well as TV broadcasting and production and mobile TV.

We are the largest provider of pay TV services in Poland and a leading DTH provider in Europe in terms of customers. Since 2006, Cyfrowy Polsat has been the leader of the Polish DTH market in terms of number of active services and market share. Our pay TV, telephony and Internet access services are sold through the biggest distribution network among the Polish operators, including the total of 1,451 stationary points of sale. We simultaneously offer our services in alternative telemarketing, door-to-door channels as well as online in our Internet Store.

We have strong brand recognition and enjoy good reputation among our customers and viewers. The '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 as the largest pay-TV operator in Poland and good relations with programming licenses providers give us a competitive advantage in obtaining high quality content on attractive market terms. We also believe that through offering high quality programming packages at competitive prices we built the attractiveness of our services.

We have the biggest customer base in Poland to which we can up-sell a broad portfolio of services. As a result of acquisition of Polkomtel, Cyfrowy Polsat Group has the biggest base of unique customers, consisting of the individual customers of Cyfrowy Polsat and Plus, business and corporate customers as well as prepaid users. This base includes 6.1 million of unique customers, bound by contracts for definite or indefinite periods of time, which entails generation of regular monthly revenues. Our strategy assumes up-selling to this base of an extensive portfolio of telecommunication, television and other services by our companies independently or in partnership with other entities, in order to increase the amount of revenues generated by unique customers. We believe that up-selling of services to our own base will enable us to increase the revenue in a cost-effective way, while simultaneously offering to our customers attractive price terms, which should improve the satisfaction and loyalty of our customers.

We provide integrated services. 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.

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

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

Internet access services in LTE technology offered by us are provided based on the unique, continuous 20 MHz block of 1800 MHz frequency band. None of our competitors in Poland has access to a similar (in terms of width) continuous block of 1800 MHz band, thanks to which we are the only operator in Poland that is able to provide LTE transmission at the maximum speed of 150 Mb/s. The quality of LTE services provided by us has been confirmed by numerous independent surveys and consumer tests, which indicated that our customers are using the fastest mobile Internet Access in Poland.

We have frequencies enabling us to provide services in DVB-T technology. Through our subsidiary INFO-TV-FM Sp. 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 customers, 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.

We control the process of production of set-top boxes. As the only operator on the Polish market we produce our own set-top boxes. In November 2007, we launched own production of SD set-top boxes, in April 2010 we began to produce HD set-top boxes, in 2012 we started to produce DVB-T set-top-boxes, and in 2013 we began the production of PVR set-top-boxes. By the end of 2014, more than six million high technology equipment left our production line, out of which over 4.4 million were HD set-top boxes. We control the entire process of production of set-top boxes, from the hardware and software design phase to the production in our own factory as well as in our subcontractors' facilities. This enables us to produce high quality set-top boxes while incurring manufacturing costs which are noticeably lower than the price of purchasing such equipment from third-party providers. The functionalities of our set-top boxes are designed in line with the customers' expectations as analyzed by the surveys, so that we can be sure the equipment will meet their needs. The fact that software installed on our set-top boxes is developed by in-house engineers, enabling us to rapidly respond to emerging customer needs.

New entrants must overcome significant regulatory and operational barriers and acquire access to radio spectrum to compete effectively in the markets in which we operate. We believe that we benefit from significant market entry barriers that will aid us in maintaining our leadership positions in the competitive Polish pay TV market. Unlike potential entrants to the Polish pay TV market, we benefit from economies of scale and a loyal customer base, and we can spread the relatively high cost of the necessary technology over our large customer base and leverage the stronger bargaining power that comes with a leading market position.

We have 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 operations are 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 customer base and market share and introducing new products in competitive environments while managing costs and increasing free cash flow.

1.5. Market opportunities

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

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

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

Development of Internet market in Poland. In 2014, 74.8% of households in Poland had access to the Internet, and approximately 71.1% - broadband access (according to Central Statistical Office, "Information society in Poland in 2014"), while in 28 EU members the average amounted to 78% (broadband Internet according to Eurostat). The percentage of household with broadband Internet access varied depending, among others, on the place of living – in big cities, it amounted to 77.5%, while in the rural areas 66.7%. According to PMR estimates ('Telecommunication market in Poland 2014, Development forecast in the years 2014-2018', August 2014), in 2014, there were nearly 12.5 million users of broadband Internet, out of which 40% used mobile connections. According to PMR, until 2018, the number of broadband users is supposed to grow by 19%, with the number of mobile broadband users growing by approximately 34% (data concerning mobile Internet include exclusively customers using modems and PCs). The main drivers for growth in the number of mobile

Internet users in the long term will include: increased speeds of data transmission, increase in the number of mobile devices i.e. laptops, smartphones, tablets, as well as relatively low cost of mobile infrastructure covering low urbanized areas.

Growing market for new technologies and equipment and the resultant increase in access to and consumption of audiovisual content. As the market for innovative technologies is growing at a fast pace, the number of mobile devices (notebooks, tablets, smartphones or Smart TV sets) owned by consumers is on the rise as well. This has spurred a sharp increase in access to video content, and hence in video viewership. According to Ericsson Mobile Report, video content is the biggest and fastest growing segment of the mobile data transmission. It is expected that by 2020 the use of data related to watching video content will grow by 45% per year on average, reaching ca. 55% of the entire mobile data traffic in 2020. Consumers expect service providers to offer them the possibility to watch TV on any screen, anywhere, and at any time. We perceive this group as a prospective customer segment for television services, opening also the opportunity for monetization of our audiovisual content. At the same time, the above mentioned trend will translate into the increased demand from our customers on the data transmission services on mobile devices, which will result in a growing stream of revenues from the sale of these devices to our customers.

1.6. Development prospects

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

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

LTE Internet provided by us is considered to be the future of mobile broadband Internet and the successor of the commonly used UMTS standard. We consistently develop our infrastructure in order to expand the coverage of our LTE network and increase transfer speed. According to independent rankings of transfer speed offered by Internet access providers, our mobile Internet is the fastest on the market. 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 broadband LTE Internet services, including data transmission services, will help us to further increase our customer base both of stand-alone and integrated services.

We consistently strive to strengthen our position as aggregator and distributor of content. Currently, the attractive content and the wide range of Cyfrowy Polsat's services are delivered through a variety of reliable distribution channels – via satellite (DTH), within digital terrestrial television (DVB-T), through mobile technologies: 3G, 4G and LTE – to all consumer devices, from TV sets to PCs to tablets and smartphones. We closely study the evolution of our clients' expectations and work to satisfy their growing needs.

We further believe that we can significantly expand the pay TV market by adequately responding to changes in customers' behaviors and expectations as well as by 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.

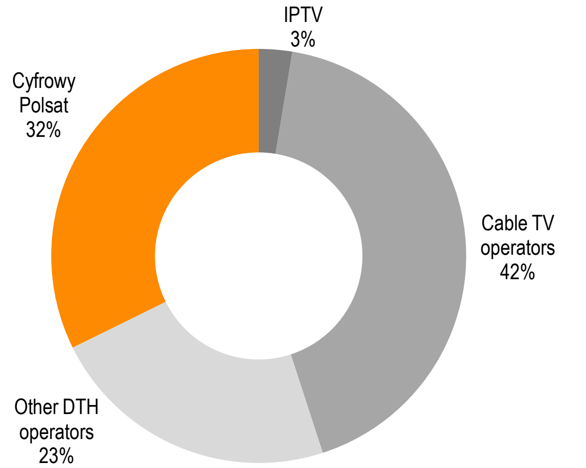
2. Business overview of Cyfrowy Polsat

2.1. Activities on the pay TV market

2.1.1. Pay TV market in Poland

Pay TV services in Poland are offered by DTH operators, cable TV operators and IPTV providers. At the end of 2014 the operators of satellite TV platforms had the dominant share (55%) in the pay TV market, followed by cable TV operators (over 42%). The significance of IPTV was minor, with market share of less than 3%. The graph below presents the pay TV market in Poland in 2014 in terms of subscriber base.

Pay TV market in Poland in 2014 in terms of subscriber base



Source: Based on own estimates and data published by operators

Historically, cable TV has been the principal pay TV platform in Poland. Although the DTH market 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 customer, whereas DTH providers are able to provide their services, at no extra cost, to customers residing in both, urban areas as well as in less densely populated areas with no or limited cable TV infrastructure.

In recent years, the growth dynamics of cable TV customers has been decreasing systematically, among others due to the migration of cable TV users from analogue services towards digital services. The other reason is an already high penetration rate of cable TV in urban areas as well as reluctance of cable TV operators to make significant investments in cable TV infrastructure in the less-densely populated and rural areas of Poland. As a result, inhabitants of those areas currently have access only to a limited number of Polish terrestrial channels and alternative providers of broadband Internet and mobile telephony services. Polish towns with up to 50,000 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 there.

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

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

According to PMR forecasts, in the years to come the number of pay TV customers in Poland will remain stable mainly due to high market penetration and high saturation of the target group for terrestrial TV services with DVB-T standard services. To attract DVB-T users, pay TV operators will be forced to increase their competitiveness and to propose a unique offer to such users. According to PMR experts, bundled offers, containing telecommunication and content services combined with sales of equipment (tablets, smartphones, laptops, TV sets) and supplementary services will be of great importance in own customer base retention.

PMR expects the market value to grow in the years 2014-2018, however growth dynamics will remain low. The forecasts assume ARPU growth. According to PMR, in the years 2014-2018 digital platforms will continue to be the biggest segment of pay TV market in Poland, reaching a market share of 52% (in terms of market value) at the end of the forecast period. Cable TV operators will remain the other major segment, with a market share of 39%. Significance of IPTV will remain marginal.

DTH

In 2014, there were two main DTH platforms operating in Poland: Cyfrowy Polsat, and nc+.

Since 2006, Cyfrowy Polsat has been the market leader in terms of the number of customers and market share. At the end of 2014 we were providing nearly 4.4 million pay TV services, including almost 845 thousand Multiroom services.

nc+ platform was created by merging Cyfra+ and 'n' platforms in March 2013, in accordance with the strategic partnership agreement between Canal+ Cyfrowy and TVN. According to the information presented by TVN group, at the end of 2014 the n+ platform had approximately 2.15 million customers. Additionally, we estimate that in 2014 about 300 thousand customers used pre-paid television (Telewizja na Kartę, TNK). Orange cooperates with nc+ platform, offering pay DTH TV based on nc+ programming offer as an element of its integrated packages.

Cable TV

At the end of 2014 Polish cable TV market was dominated by three major operators with a combined market share of approximately 69%. In 2014 the three major Polish cable TV operators were: UPC Polska Sp. z o.o., Vectra Capital Group and Multimedia Polska S.A. In addition, according to our estimates, there are more than 500 small cable TV operators in Poland.

IPTV

The leading IPTV providers in Poland, offering fixed-line telephony services, are Orange Polska S.A. and Netia S.A., who acquired Telefonia Dialog Sp. z o.o. in 2011. The remaining part of the IPTV market is divided among Multimedia Polska S.A. and local ISP's.

2.1.2. Polsat's DTH offer

We build the loyalty of our customers by offering a wide array of channels at competitive prices. Currently, our set-top boxes enable the reception of over 140 Polish-language TV channels, including over 40 HD standard. Our offer includes general, sports, movie, news/information, education, lifestyle, music and children's channels. A number of channels are available exclusively via satellite from Cyfrowy Polsat, such as Polsat sports channels, Polsat Viasat channels, Polsat Food Networks and many others.

It is worth emphasizing that our offer includes popular sports channels: Polsat Sport, Polsat Sport News and Polsat Sport Extra, Polsat Sport being the most widely viewed sports channel in Poland in 2014 in the commercial group 16-49 (Nielsen Audience Measurement).

Programming packages

We offer our customers three basic packages:

- Rodzinny HD which provides access to 54 encoded channels (including 8 HD channels);
- Familijny HD which provides access to 79 encoded channels (including 13 HD channels);
- Familijny Max HD which provides access to 103 encoded channels (including 24 HD channels).

Monthly subscription fees for the basic packages range from PLN 19.90 to PLN 49.90.

Moreover, we offer 5 additional packages, VOD rental on television, and access to popular on-line services HBO GO and IPLA. This approach allows our customers to construct an offer tailored to their specific needs.

In order to help our customers make their choice, we have prepared attractive package sets:

- Familijny Max HD with the Sport HD package (113 channels, including 28 HD)
- Familijny Max HD combined with the Sport HD, Film HD and Cinemax HD channels (133 channels, including 36 HD);
- Familijny Max HD combined with the Cinemax HD and HBO HD packages (108 channels, including 29 HD) as well as the HBO GO service;
- Addressed to our most demanding customers is the Premium offer comprised of the packages Familijny Max HD, Sport HD, Film HD, Cinemax HD, HBO HD (136 channels, including 39 HD) as well as online services: HBO GO and IPLA.

The described above sets come with a benefit – the monthly subscription fee is lower than the sum of standard fees for each packages separately, eg. the subscription fee for our Premium offering is only PLN 99.90 per month.

Multiroom HD

As of 2011, we offer the Multiroom HD service to our customers, which provides access to the same range of TV channels through two or more set-top boxes in one household, for a single subscription fee. Customers who decide to purchase the Familijny HD Package and higher are offered the possibility to purchase the Multiroom HD service as well, allowing them to view all the channels available in the package on up to 4 TV sets. The promotional price for the service varies from PLN 5 to PLN 15 per month, depending on the purchased programming package.

Flexible offer

In order to provide our customers with the possibility to better acquaint themselves with our programming offer, each client choosing any programming package receives, free-of-charge, access to additional channels, online services or our VOD package for the first 6 months of the subscription period (eg. customers who subscribe to Familijny Max HD Package can get access to Film HD and Sport HD).

Set-top boxes

Our customers can either buy or lease their set-top boxes. The price of a set-top box depends on the selected programming package. As a rule, the higher the price of the programming package, the lower the price of the set-top box (and the higher the subsidy on our part). We believe that subsidizing set-top boxes is a necessary measure in order to attract new customers.

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

Free-to-air channels

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

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

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

Under the Mobile TV service, we offer the Extra Package which includes 8 TV channels grouped in 4 thematic categories (sports, movies, news, children's channels) and 12 radio channels. This package, including a set-top box for the reception of digital terrestrial TV, is provided either on a subscription or a prepayment basis.

2.1.4. Video on demand offer

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

VOD - Home Video Rental is based on 18 satellite channels, with over 50 films available per month. Our customers may usually choose from a selection of about 18 titles per day, which are updated on a regular basis and can be rented for up to 24 hours. Movie rental fees are paid on a one-off basis and depend on the film category ('Hit', 'New', 'Catalogue', 'For adults') or as monthly flat fees under the VOD monthly Movie Catalogue service, which offers unlimited access to movies within a given catalogue category. In selected programming packages we provide access to the VOD package within the subscription fee for the first 6 months of the entire term of the contract, depending on the package.

2.1.5. Technology and infrastructure pay TV services

Conditional access system

Access to TV channels offered in our pay programming packages is secured with a conditional access system that we leased from the company Nagravision. We use this system to control access to particular pay programming packages. Upon signing a contract for our services, the customers receive a set-top box together with an access card, which allows them to receive the pay programming offer. We routinely identify unauthorized access to our service because of the significant risks 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 customers and, if necessary, to adapt the set-top boxes to the new system. Nagravision is paid a monthly fee on a per-customer basis.

Moreover, we cooperate with Irdeto 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 our copyrights.

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 2014 we activated a backup broadcasting center located in Radom.

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., currently owned by Emitel Sp. z o.o., that comprises a network of radio transmitters in 31 largest cities in Poland. Currently, there are around 5 million households and 15 million people within the technical reach of the multiplex.

Set-top boxes

To reduce our costs, we began manufacturing our own SD set-top boxes in November 2007 and HD set-top boxes in April 2010. Control over the process of production of set-top boxes has proved to be more effective and cost-efficient than purchasing set-top boxes manufactured by third parties and has allowed us to offer more competitively priced packages and achieve higher operational efficiency in our business. In-house manufacturing of set-top boxes has allowed us to save approximately 20% of the cost of a single device in comparison to equipment purchased from foreign suppliers. 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 customer requirements.

We believe we can adjust 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.

During its 7 years of functioning, our manufacturing plant has produced 13 different models of set-top boxes. Currently, to meet our needs we produce HD set-top boxes, including PVR with a built-in hard drive (HD 5000, HD 5500s, HD 6000, MINI HD 2000, HD 3000, PVR HD 7000) and three models in DVB-T standard (T-HD 1000, T-HD 210 and T-HD 200) as well as a 320 GB USB hard drive (DTU 320). Thanks to the fact that our own experts design the equipment and the software, we adapt our set-top boxes to meet the changing expectations of our customers.

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

We equipped all models of set-top-boxes produced in-house 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. Customers can also use the Multiroom service on our set-top-boxes.

In 2014 set-top boxes manufactured in-house represented over 95% of overall set-top boxes sold or leased. As of the end of 2014, we produced a total of over 6 million set-top boxes, including over 4 million HD set-top boxes. We still cooperate with external providers of set-top boxes, mainly Samsung, Echostar, Thomson and Sagem, but since 2010 we limited the purchases from external providers only to newly developed technology, such as PVR set-top boxes.

Our customers 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 customer. 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 customers. Changes in set-top box prices and the size of the subsidy available for customers are linked to market conditions. We have a warranty service designed to help ensure customer satisfaction with the performance and operation of set-top boxes. Leased set-top boxes remain our property, and we update them on regular basis.

2.2. Activities on the telecommunications market

2.2.1. Mobile telephony market in Poland

The Polish mobile telephony market is a mature one. Based on data published by the Central Statistical Office of Poland (GUS), the number of mobile telephony cards as at December 31, 2014 reached 57.6 million, which translates into a 150% penetration rate of the population of Poland. Concurrently however, during 2014 Polish mobile operators reported to the Central Statistical Office of Poland an increase in their SIM card bases of nearly 1.1 million new SIM cards.

PMR expects further growth in the number of SIM cards used in Poland to 64.3 million in 2018, though the growth dynamics will be much lower than in previous years. As a result, the mobile penetration rate in Poland will increase to 167.5% in 2018.

In 2013, mobile telephony continued to be the most important segment of the Polish telecommunications market, with a revenue share of nearly 46.3% in the total market. According to data published by UKE in the 'Report on the telecommunications market in Poland in 2013' (hereinafter 'UKE report'), the estimated value of mobile market in Poland in 2013, expressed as the sum of the operators' retail service revenues, was PLN 18.6 billion and it was lower by around 1.5% compared to 2012. According to the UKE report over 81% of revenue was generated by post-paid customers. At the same time, however, 54.2% of the SIM cards reported by Polish mobile operators constituted pre-paid cards. In our opinion, this discrepancy in statistical data results mainly from the relatively long period of including pre-paid cards in their reported bases by domestic operators, even after end-users have stopped using those cards.

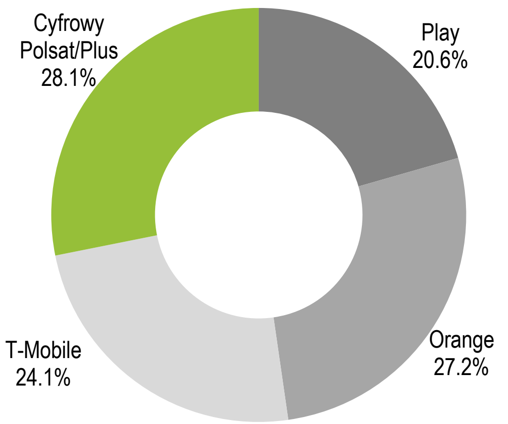
In recent years, average revenue per customer of mobile voice services (ARPU) decreases systematically as a result of competitive pressure stimulated by regulatory reductions of wholesale voice and SMS termination rates (MTR). Since July 1, 2013 the MTR rate per minute of voice connection is stable at the level of PLN 0.0429, which according to a BEREC report from December 2014 is below the European Union average. As at the date of publication of this Report, no plans concerning further potential reductions of MTR rates in Poland are known.

Assuming no further MTR reductions, PMR estimates that the market will stabilize in the next four years and will continue to grow at an average rate of 0.9% (CAGR 2013-2017) until 2017 while its value will reach PLN 24.56 billion in 2018.

The Polish mobile telephony market is highly competitive and relatively polarized. In Poland, there are four leading infrastructural operators: Polkomtel (Plus network), Orange Polska (Orange network), T-Mobile Polska (T-Mobile network) and P4 (Play network), as well as two smaller operators: Mobyland and Aero2, who concentrate their operations on wholesale activities. There are also as dozen or so mobile virtual network operators, but their market share in terms of revenue and customer base is very low.

The graph below presents market shares of the major MNOs in terms of number of contract SIM cards at the end of 2014.

Market shares in 2014 in terms of number of contract SIM cards



Source: Based on own estimates and data published by operators

Infrastructure operators (MNOs)

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

According to the UKE report, Polkomtel, Orange, T-Mobile and P4 together accounted for approximately 99.6% of the revenue generated on the Polish mobile telephony market in 2013. The remaining revenue was generated by MVNOs and other MNOs.

- *Polkomtel* − Polkomtel operates under the umbrella Plus brand, it also owns an alternative brand Plush. On May 7, 2014 Polkomtel was incorporated in Polsat Group.
- *Orange* – owned by Orange Polska S.A. is a leading Polish fixed-line telephony operator, who operates under the umbrella Orange brand and also has an alternative brand nju.mobile. As at December 31, 2014 Orange reported ca. 15.6 million SIM cards;
- *T-Mobile* − T-Mobile operates under the umbrella T-Mobile brand and also uses additional brands such as Heyah, Blueconnect and Tu Biedronka. According to the data provided by the operator, at December 31, 2014 T-Mobile had ca. 15.7 million SIM cards. T-Mobile is currently expanding its offer by fixed-line telephony services addressed to business customers based on the infrastructure acquired together with the company GTS Poland in 2014;
- *P4* − P4 operates under the umbrella Play brand, and also has an additional brand Red Bull Mobile. According to the data provided by the operator, at December 31, 2014 P4 had ca. 12.3 million SIM cards. P4 operates solely on the mobile services market relying on purchased access to mobile networks of its competitors, Polkomtel included;

- *Midas Group* − Midas Group operates on the wholesale market through companies Aero2 and Mobyland, providing wholesale access to its network mainly to Cyfrowy Polsat group. At the same time, Aero2 operates on the residential market, where it offers free broadband Internet access and provides residential services mainly in the prepaid model based on the 'wRodzinie' brand.

Frequency allocations

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

MNO	Frequency band	Size of allocated band	Sum of allocated band	Date of issue of first allocation decision	Allocation decision expiry date
Polkomtel	900 MHz	2x9 MHz	176 MHz	February 23, 1996	February 24, 2026
	1800 MHz(1)	2x9.6 MHz		September 13, 1999	September 14, 2029
	2100 MHz	2x14.8 MHz + 1x5 MHz		December 20, 2000	January 1, 2023
	410-430 MHz(2)	2x2.5 MHz		May 25, 2006	December 31, 2020
CenterNet	1800 MHz	2x9.8 MHz + 1x200 kHz		November 30, 2007	December 31, 2022
Mobyland	1800 MHz	2x9.8 MHz + 1x200 kHz		November 30, 2007	December 31, 2022
Aero2	900 MHz	2x5 MHz		December 9, 2008	December 31, 2026
	2570-2620 MHz	1x50 MHz		November 10, 2009	December 31, 2024
Orange	900 MHz	2x6.8 MHz	76 MHz	July 5, 1999	July 6, 2029
	1800 MHz(1)	2x9.6 MHz		August 21, 1997	August 22, 2027
	2100 MHz	2x14.8 MHz + 1x5 MHz		December 20, 2000	January 1, 2023
	450-470 MHz	2x4.5 MHz		December 16,1991	December 31,2016
T-Mobile	900 MHz	2x9 MHz	92 MHz	February 23, 1996	February 24, 2026
	1800 MHz	2x9.6 MHz		August 11, 1999	August 12, 2029
	1800 MHz	2x10 MHz		June 14, 2013	December 31, 2027
	2100 MHz	2x14.8 MHz + 1x5 MHz		December 20, 2000	January 1, 2023
P4	900 MHz	2x5 MHz	75 MHz	December 9, 2008	December 31, 2023
	1800 MHz	2x15 MHz		June 14, 2013	December 31, 2027
	2100 MHz	2x14.8 MHz + 1x5 MHz		August 23, 2005	December 31, 2022

Source: Own analysis based on UKE

(1) According to the allocation decision regarding the 1800 MHz band issued by the President of UKE to Polkomtel on September 8, 2014.
(2) By Nordisk Polska Sp. z o.o.

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

Following the analogue TV switch-off in 2013, certain frequency resources became available within what is known as 'digital dividend'. In February 2013, following an auction for frequencies in the 1800 MHz band, the frequencies were allocated to T-Mobile and P4. The frequencies were finally allocated in July 2013. In addition, on October 10, 2014, the auction for frequency allocation in the 800 MHz and 2600 MHz bands was announced once again. According to information provided by UKE six entities submitted preliminary bids and were qualified to the next stage of the auction. The entities were: Polkomtel, Orange Polska, T-Mobile Polska, P4, Hubb Investments Sp. z o.o. and NetNet Sp. z o.o. As at the date of publication of this Report, the auction was still in progress.

Virtual operators (MVNOs)

MVNOs are those operators who provide mobile telephony and/or mobile data transmission services, but do not hold any frequency allocations on their own and do not need to have their own infrastructure to provide such services. Under the MVNO business model, existing MNOs provide frequency resources and the necessary infrastructure to MVNOs. According to the UKE report, 19 operators provided mobile services under the MVNO model in 2013.

Although the number of MVNOs is on the increase, none of them has significant market power. According to the UKE report, the joint share of all MVNOs (including CenterNet and Mobyland) in the mobile customers market was 2.5% in 2013. However, the combined revenue of all MVNOs, including MNOs (CenterNet, Mobyland and Aero2), accounted for only 0.4% of the total value of the Polish mobile telephony market in 2013.

2.2.2. Internet access market in Poland

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

Broadband Internet penetration has been increasing systematically in Poland over the past few years. According to the UKE report, 87.7% of Polish households had broadband Internet access in 2013, and the penetration rate was 30.8% per 100 inhabitants which means that there were ca. 12 million broadband Internet access services in Poland, up by over 11% compared to 2012. 7.6 million Poles had fixed-line broadband Internet access (an increase of 7.1% on 2012) and more than 4.2 million used mobile Internet services (an increase of 19.5% on 2012).

At the same time, however, according to data published by Eurostat in December 2014, as many as 28% of Poles have never accessed Internet, with the European Union average at the level of 18% and corresponding indicators for chosen countries (the Netherlands, Great Britain and Scandinavian countries) in the range 3-6%.

The relatively low saturation of the Polish broadband market and the advancing development of mobile technologies make mobile data transmission the fastest-growing segment of today's telecommunications market.

According to the UKE report, the value of the Polish broadband market, measured in terms of revenue from sale of services, was PLN 4.57 billion in 2013, up by 3.7% on 2012. 2013 saw growth of revenue from mobile services by 15.1% Y-o-Y, while the revenue from fixed-line offers, relying on xDSL lines and cable modems, witnessed a downward trend at that time. According to the UKE report, the average monthly revenue per user of Internet services (ARPU) decreased by PLN 2.21 in 2013, down to PLN 32.1.

Fixed broadband Internet access in Poland

In Poland, availability of fixed-line broadband services is limited mainly to urban areas. Outside urban areas, fixed-line broadband services are offered only to a limited extent, which is due to historical underinvestment resulting from the high cost of build-out of local loops. According to the UKE report, access to xDSL technology remains the most popular form of fixed-line Internet access. Orange Group is the dominant player operating this technology, with 75.3% share in the total number of xDSL customers.

Cable modems, offered by cable TV operators, are the second most popular fixed-line access technology. Based on the UKE report, UPC Polska (with 39.8% share in user base), Vectra (18.8%) and Multimedia (15.6%) were the major operators on this market. Due to the high cost of cable network construction in less urbanized areas, cable networks' growth potential in the field of Internet access is limited.

Mobile broadband Internet access

The market of broadband Internet access based on mobile technologies (defined as access via modems or dedicated SIM cards integrated with laptop computers or tablets) is dominated by four main providers of those services (Polkomtel, T-Mobile, Orange and P4), who according to the UKE report jointly held 92.1% of the market in 2013.

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

In 2013, according to the UKE report, revenue from mobile technologies grew at the fastest rate in the entire broadband Internet access market, and mobile broadband became the most popular Internet access technology in terms of the number of users (market share of 39.4%, up from 34.8% in 2012). The success of mobile broadband can be attributed to broad availability and the ease of installation of this form of broadband access, the growing HSPA+ and LTE network coverage, and increasing data transmission speeds. The mobility feature constitutes an advantage of this form of broadband access to a group of customers.

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

According to PMR forecasts, the Data Transmission, Line Rental and Internet Services Provision (DLISP) market will remain the fastest growing segment of the telecommunication market. Further investments into broadband network roll out as well as further development of LTE technology will be the most significant factors. According to PMR forecasts, the mean annual growth rate of the value of the DLISP market in the period 2014-2018 will be 2.0% (CAGR) while the market value will reach PLN 7 billion in 2018.

In accordance with the PMR forecasts, in 2018 the number of broadband Internet access users in Poland will increase to 14.9 million. In the years 2013 - 2018 the base of mobile broadband Internet users will continue to increase faster than the number of fixed-line access users, which will be the result of competitive pricing of mobile services as well as growth of 3G network coverage, which will directly translate to improved quality and continuity of the service. The fast development of LTE network coverage is an additional factor stimulating development of mobile Internet services and reduction of their prices. LTE standard enables mobile services to be provided at transmission rates and network throughput levels which have so far been unachievable for radio access technologies.

2.2.3. Mobile telephony offer

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

2.2.4. Internet access offer

We provide residential customers with a comprehensive array of data transmission services, which encompass pure mobile broadband services and a MMS, as well as a Wireless Application Protocol portal (providing multimedia, localization and social networks).

We offer our mobile broadband Internet services through the use of third generation technologies: HSPA+ and HSPA+ Dual Carrier and since 2011 also the world's latest, cutting edge LTE technology. Our broadband Internet offering is universal, and provides broadband Internet access via all supported technology platforms, for a single monthly fee. Thanks to this solution today 99% of Poles live on area covered by Cyfrowy Polsat's Internet service and 80% of the populace is covered by our LTE Internet.

We offer several data plans with different allowances and price tiers, tailored to customers' individual needs. Dedicated mobile broadband Internet access is offered in contract tariffs. These contract plans are based on a monthly access fee and allow for a defined data transmission limit or unlimited data transmission in the LTE network. After exceeding a limit of data, determined by the subscription fee data is transmitted at reduced speed, but the customer does not incur additional costs for continued transmission. In order to regain full transmission speed additional data packages may be purchased. Under our contract plans customers may purchase subsidized access devices (including dongle modems, fixed and mobile routers). In addition, our offer includes a wide array of tablets and laptops which can be purchased in an installment plan, as well as an offer without equipment 'SIM only'.

On June 3, 2014, we introduced an offer of unlimited internet access in the LTE technology throughout the entire term of the contract, addressed to both our individual and business customers, marketed under the name Power LTE. Currently, this offer constitutes the basis of our offering of broadband Internet access. The size of packages available in this offer vary from 5 to 35 GB. After having used up the basic data package the customer still has access to the Internet thanks to the service unlimited LTE, however, with limited transmission speed dependent on the subscription fee. The customer is exempt from payments for the unlimited LTE service for the first 6 months of the contract, after which he can either decide not to use the service and return to the basic package or continue using it for an additional monthly fee of PLN 10.

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

Additionally, anyone, who intends to buy LTE Internet from Cyfrowy Polsat may profit from '7 trail days' enabling to try out a service and resign without additional costs after returning the modem.

2.2.5. Technology and infrastructure of telecommunication services

Network

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

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

In 2011, as the first commercial provider in Poland we started offering broadband Internet access in LTE technology, which currently is able to provide a maximum speed of up to 150 Mb/s. 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 customers to use interactive and multimedia applications requiring high bandwidth and transmission in real time, such as online games, video communication and HD TV through Internet. Devices offered for customers of Cyfrowy Polsat LTE service enable the speeds of up to 150 Mb/s for data received from the Internet and 50 Mb/s for data sent by a user.

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

MVNO technology and infrastructure

We operate as a 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 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 customers the possibility to use international connections and international roaming service.

Internet equipment

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

To provide our broadband services in LTE technology, we use cutting edge modems, that 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 six such modems:

- Huawei modems E3272, E3276 and E3372 enabling data transmission speed of up to 150 Mb/s; and
- modems Huawei E398, ZTE MF821 and ZTE M823 with maximum data transmission 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 transmission speed.

In our offer we also have several models of routers, including the router Huawei B593u and mobile router Huawei 5373, which allows data transmission speed up to 150 Mb/s and supports LTE/HSPA+/HSPA/UMTS/EDGE/GPRS technologies.

Moreover, we offer our customers a wide selection of top-of-the-art tablets. Our customers can choose among several devices equipped with a module supporting LTE technology up to 100 Mb/s speed – Samsung Galaxy Tab 8.9 LTE as well as tablets: LG G Pad 8.0 4G, Huawei MediaPad 10.1 LTE 150 and Huawei MediaPad 10 Link LTE 150, which offer the possibility of achieving transfer speed of up to 150 Mb/s. These devices also support the HSPA+ technology. We also offer other models of tablets from producers including Samsung, Manta, Ferguson and Prestigio, as well as Acer Aspire laptops, which enable fast and easy Internet access via modem.

We also offer a solution enabling fixed access to LTE Internet using the ODU/IDU modules and the TV/SAT installation. The external modem (ODU) allows to significantly improve signal transmission and therefore enable the use of LTE Internet. The existing TV installation (satellite or terrestrial) can be used to install the set and transmit both the TV signal and LTE Internet over one concentric cable. The Wi-Fi router (IDU) is used to provide access to the Internet inside the house or apartment.

2.3. Activities on the multi-play market

2.3.1. Bundled services market in Poland

The Polish media and telecommunications sector has been converging as customers are increasingly seeking to receive their media and communications services from one provider at affordable prices. In response, service providers are providing TV, broadband Internet access and telephony services bundled into multi-play offerings enabling customers 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 customers' needs and, we believe, increase customer loyalty, favorably impacting churn rates. Concurrently, given the high level of saturation of the pay TV and mobile telephony markets, bundling of services is rapidly becoming a significant means of retaining existing customers and maintaining APRU.

Multi-play services in Poland are typically provided by cable TV operators and telecommunications service providers. 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 pay TV providers, such as Cyfrowy Polsat, who do not have the same geographic and fixed network infrastructure limitations as cable TV operators and fixed-line telecommunications service providers, to become the principal providers of high quality multi-play services to consumers in suburbs, small towns and rural areas in Poland.

According to European Commission report ‘E-Communications Household Survey’ dated June 2014, 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 2013 amounted to 21%, while in European Union it reached 46%, and in the Netherlands and Belgium even exceeded 70%.

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, Netia S.A. 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 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 Orange was maintained and extended to joint nc+ platform. In response to market trends Cyfrowy Polsat also develops its bundled offer. Following the indirect acquisition of Polkomtel in 2014, both companies currently offer both existing customers as well as newcomers a joined program of bundled services, comprising mainly satellite television, mobile telephony and broadband Internet access.

2.3.2. Multi-play offer

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

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

In May 2014, we launched a special smartDOM offer for our existing customers, marketed under the slogan ‘Second product half off, third product for PLN 1’. The promotional program was based on a simple and flexible mechanism – the second product is available for half the price and the price of the third product starts from even PLN 1. A customer subscribed to one service with a minimum subscription fee of PLN 49.90 who purchases additional products obtains attractive discounts throughout the entire term of the contract. This way every customer has the possibility to create an optimal set of service for the family consisting of satellite TV, Power LTE Internet and telephony services.

Since September 30, 2014 the promotion ‘Second product half off, third product for PLN 1’ is also available to new customers, who purchase a product from Cyfrowy Polsat or Plus or Cyfrowy Polsat with a minimum subscription fee of PLN 39.90 (SIM only) or PLN 59.90 (including equipment). On the same day or at any point during the term of the promotion they can purchase a second service with a 50% rebate on the subscription fee for the whole duration of the contract and, within the next 10 days, a third service for as little as PLN 1. The maximum discount on the third product available in the ‘Second product half off, third product for PLN 1’ promotion for both existing and new customers was PLN 38.90.

2.4. Sales and marketing

Marketing and branding

Purchasing decisions of a majority of our customers are driven by image and brand loyalty. Cyfrowy Polsat is currently the strongest and most recognizable brand among digital satellite pay TV operators, with the spontaneous awareness ratio of as much as 87% reached in 2013, according to a GFK Polonia survey. Association with a favorable offering (understood as low subscription rates and best quality at reasonable price) is an important element of our brand's perception, which sets it apart from the competition.

For years Polkomtel has engaged in marketing activities aimed at building a consistent image of the ‘Plus’ brand in line with the company’s strategy. We also strive to further increase satisfaction of users of Polkomtel's services, especially with respect to the available range of products and services, quality, usefulness and availability of customer service, and usability of self-information and self-service channels.

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

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

Sales network

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

As part of cooperation between Cyfrowy Polsat and Polkomtel customers of Cyfrowy Polsat can benefit from Polkomtel's all-inclusive offering, and Polkomtel's customers can use dedicated television services offered by Cyfrowy Polsat. At December 31, 2014, the combined sales network of Cyfrowy Polsat and Polkomtel covered 1,451 points of sale. Both our Cyfrowy Polsat's pay TV and Internet offers and Polkomtel's telecommunications offer are available at a majority of those points. All points of sale offer additional benefits to all customers of Cyfrowy Polsat and Polkomtel. Polkomtel and Cyfrowy Polsat introduced the smartDOM customer loyalty scheme, under which customers who purchase another service of Cyfrowy Polsat or Polkomtel can benefit from discounts.

Our pay TV products and services are also distributed using the direct door-to-door sales channel (D2D), which enables us to directly access selected customer groups, to maintain direct contact with customers, and to expand the reach of the sales network. As at December 31, 2014, Cyfrowy Polsat had 16 D2D sales offices.

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

Call center

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

Cyfrowy Polsat's call center currently has over 600 operator stands as well as approximately 320 back-office stands handling written requests (including faxes and e-mails). Our call center service is available to our present and potential customers 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 customers, accept customer complaints and provide information on payments and other support for customers. For Cyfrowy Polsat 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.

In order to achieve announced operating synergies, expected following the acquisition of Polkomtel by Cyfrowy Polsat in May 2014, we are currently creating one, joint call center for both companies. The finalization of the project is expected in 2016.

Online

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

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.

Customers may also use Cyfrowy Polsat's website (http://www.cyfrowypolsat.pl/) in order to find information about the current VOD offer and purchase access to the selected programming. Moreover, our website contains details on the offer and most interesting content available in our online TV IPLA as well as HBO GO and Filmbox Live services with links which transfer the user directly to the webpage of the chosen service.

Central warehouse

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

2.5. Customer Relations and Retention Management

Customer Relations Management

We 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 customers in a timely and effective manner.

In the beginning of 2014 we launched a new, improved Internet Customer Service Center (ICSC). ICSC is an advanced tool which provides our customers with secure and free of charge access to back-office resources and on-line technical support. Through ICSC customers can buy and modify their packages themselves, check their payment balance and payment history, control units available for use within active packages, or make payments (also advance payments for any number of months). Moreover, users of 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.

Retention management

We place high importance on customer retention. We are constantly developing our retention programs to tailor our services to our customers. We have dedicated a department in Cyfrowy Polsat's organization specifically to retention management in order to optimize retention activities and therefore minimize quantitative and qualitative churn rates and secure the value of the joined customer base. We conduct reactive and proactive customer retention programs.

Our reactive retention programs are aimed mainly at customers who have 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 our offers to customers extending contracts by suggesting services adjusted to meet the customer's needs and including the possibility of up-selling additional products.

Our multi-play offer supports our customer retention efforts. Customers 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 customers can also upgrade their TV package or buy additional telecommunications packages.

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 customer base is maintained on fixed-term (loyalty) agreements and increases the number of services.

2.6. Other aspects of our business

Trademarks

We use a number of trademarks which are registered with, or have applications pending for registration with the appropriate authorities in order to secure our rights to these trademarks. The most significant trademark to our business operations is the word and device mark of Cyfrowy Polsat.

Research and development

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 also conduct research work activities in the scope of construction of those set-top boxes.

IT systems

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

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

Real estate property

Cyfrowy Polsat owns the majority of the real estate property on which our DTH satellite TV infrastructure, office and warehousing facilities are located. All of our real estate property is located in Poland. We believe that all of our real estate property is well maintained and in good condition. As at December 31, 2014, there was a mortgage registered on the entire real estate property owned by us, established in respect to the Term Loan. Some insignificant parts of Cyfrowy Polsat's real estate property are encumbered with typical easement rights for electricity 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.

At the date of publication of this Report, no proceedings regarding breach of such environmental regulations were pending against us.

Insurance agreements

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

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 and professional liability insurance on broadcasting activity, liability on business interruption, third-party liability insurance of a lessor and lessee of real estate property and chattels, third-party liability insurance of an employer against accidents at work, as well as third-party liability insurance against damage caused by a sudden and accidental environmental pollution. We also have third-party liability insurance for members of management and supervisory boards.

In 2014 Cyfrowy Polsat signed insurance agreements described below.

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

In the scope of third-party liability insurance a general agreement was concluded for the years 2014-2017 with TUiR Warta S.A. in co-insurance with STU Ergo Hestia S.A. and PZU S.A. regarding third-party liability insurance, including professional liability insurance. Furthermore, an agreement regarding bookkeeping liability insurance was concluded with PZU S.A. and Directors and Management Board liability insurance with TUiR Allianz Polska S.A.

In 2014 Cyfrowy Polsat purchased fleet motor insurance and assistance insurance with STU Ergo Hestia S.A.

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) concerning third-party liability insurance relating to public securities offering was still in force in 2014.

Moreover, international business travel health insurance was concluded with ACE European Group Limited Sp. z o.o. Branch in Poland and personal injury insurance with TUiR Warta S.A.

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

3. SIGNIFICANT EVENTS AND AGREEMENTS SIGNED IN 2014

3.1. Corporate events

In 2013 Cyfrowy Polsat decided to acquire Metelem Holding Company Limited, a special-purpose vehicle organized under the laws of Cyprus, which holds indirectly 100% of voting rights at Polkomtel ('Transaction').

On November 14, 2013 and December 19, 2013, the Company and Metelem Shareholders: Argumenol, Karswell, Sensor and the European Bank for Reconstruction and Development executed two Investment Agreements related to the Transaction. Under the Investment Agreements, Metelem Shareholders agreed to contribute Metelem shares to the Company as payment for new shares, which were issued as part of a conditional share capital increase and acquired in exercise of rights under subscription warrants. Upon completion of the Transaction, the Company acquired all Metelem shares, and indirectly all Polkomtel shares.

Execution of the Transaction required prior satisfaction of a number of conditions precedent, set out in detail in the Investment Agreements, including: (i) passing by the General Meeting of certain resolutions and registration by the competent court of the conditional increase of the Company's share capital; (ii) the Company obtaining refinancing, which would enable it to repay its debt under the Senior Facilities Agreement dated March 31, 2011 related to the acquisition of shares in Telewizja Polsat and Senior Notes issued on May 20, 2011 and concurrently the Series A unsecured registered notes acquired fully by Cyfrowy Polsat Finance AB (publ), issued by the Company in 2011; (iii) 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; and (iv) the execution by the EBRD and the Company of a framework agreement on or before the day of acquisition of New Shares.

Conditional increase of the Company's share capital

In connection with the Investment Agreements, on January 16 and 24, 2014 the Extraordinary General Meeting adopted resolutions necessary for the execution of the agreements on the conditional share capital increase and on the issue of subscription warrants. Pursuant to the resolution on the conditional share capital increase, the Company's share capital was conditionally increased by up to PLN 11,647,727.20 through the issue of up to 291,193,180 new shares, that is up to 47,260,690 series I shares and up to 243,932,490 series J shares. Only the persons who subscribed for warrants issued under the resolution on the issue of subscription warrants were entitled to subscribe for the new shares. Each warrant carried the right to subscribe for one new share. Pursuant to the provisions of the resolution on the issue of subscription warrants, 47,260,690 series I warrants were offered to the EBRD, while 243,932,490 series J warrants were offered to the remaining shareholders of Metelem.

The conditional share capital increase was entered in the register of entrepreneurs of the National Court Register on April 2, 2014. The increase in the Company's share capital, in accordance with Article 452 § 1 of the Commercial Companies Code, was carried out on 14 May 2014 when the new shares were registered on the securities accounts of the acquirers. Following the increase, the Company's share capital amounts to PLN 25,581,840.64 and is divided into 639.546.016 shares. The total number of votes at the General Meeting amounts to 818,963,517.

Refinancing of the debt of Cyfrowy Polsat

Pursuant to the provisions of the Investment Agreements one of the conditions precedent of the transaction of acquisition of 100% shares of Metelem required the Company to obtain refinancing, which would enable it to repay its debt under the Senior Facilities Agreement of March 31, 2011, as amended and the Senior Secured Notes issued pursuant to the Indenture of May 20, 2011 ('Refinancing').

Conclusion of the Senior Facilities Agreement

On April 11, 2014 a Senior Facilities Agreement was executed by the Company, Telewizja Polsat, CPTM, Polsat License Ltd. and Polsat Media Biuro Reklamy with a syndicate of Polish and foreign banks.

The Senior Facilities Agreement provides for a Term Facility Loan of up to PLN 2,500 million and a multi-currency Revolving Facility Loan of up to the equivalent of PLN 500 million. Concurrently with the Senior Facilities Agreement, an intercreditor agreement whose parties included the facility agents, the Company and its related parties was executed on April 11, 2014. The purpose of the agreement was to determine seniority of claims under the Senior Facilities Agreement.

For more details on bank loans see item 4.6.4. - *Liquidity and capital resources,* and item 4.6.5. - *Information on guarantees granted by the Company or subsidiaries* of this Report.

Redemption of Senior Secured Notes

On April 8, 2014 Cyfrowy Polsat Finance AB (publ) filed a notice of redemption of all the EUR 350 million 7.125% Senior Secured Notes due in 2018 issued by Cyfrowy Polsat Finance under the Indenture of May 20, 2011.

In connection with the refinancing of debt under the described above Senior Notes, the Company executed forward currency transactions with the following banks: ING Bank Śląski S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Société Générale Spółka Akcyjna Branch in Poland; following execution of the last transaction on April 17, 2014, the total amount of the transactions was EUR 383 million (PLN 1,607.8 million). The transactions were settled on May 6, 2014 at the average PLN/EUR exchange rate of 4.1979. Following the settlement of this transaction the Group recognized a profit of PLN 2.9 million.

Debt repayment

On May 7, 2014, the Company's entire indebtedness under the senior facility granted to the Company on the basis of the Senior Facilities Agreement of March 31, 2011 and the Senior Secured Notes issued on May 20, 2011 was repaid. The repayment of the Notes referred to above was related to the Company's repayment of Series A unsecured registered notes acquired fully by Cyfrowy Polsat Finance AB (publ), issued in 2011.

The funds for repayment of the loan facilities and the notes referred to above have been derived from a new term facility issued to the company pursuant to the Senior Facilities Agreement of April 11, 2014.

Establishment of security for the debt

On May 7, 2014, the Company, other members of the Company's group and UniCredit Bank AG, London Branch executed and concluded certain agreements and further documents in relation to establishing security interests related to the Senior Facilities Agreement concluded by the Company on April 11, 2014.

Additionally, the Company, Cyfrowy Polsat Trade Marks, Polsat Media Biuro Reklamy, Telewizja Polsat, and Polsat License granted certain guarantees to each party of the Facilities Agreement and other finance documents executed in relation to the Facilities Agreement, governed by the English law, with respect to the following:

(i) timely performance of the obligations under the Senior Facilities Agreement and other finance documents executed in relation to the Senior Facilities Agreement;

(ii) payment of any amounts due under the Senior Facilities Agreement and other finance documents executed in relation to the Senior Facilities Agreement; and

(iii) indemnifying the financing parties referred to above against any costs and losses that they may incur in relation to the unenforceability, ineffectiveness or invalidity of any obligation secured by the said guarantees.

For further details on established securities see item 4.6.5. - *Information on guarantees granted by the Company or subsidiaries*.

Approval of prospectus

On April 28, 2014 the Polish Financial Supervision Authority approved the prospectus of the Company's Series I and Series J shares prepared for the purposes of applying for the admission of these shares to trading on a regulated market operated by the Warsaw Stock Exchange. The issuance of Series I and Series J shares by the Company took place within the framework of the conditional increase of the Company's share capital approved by the Extraordinary General Meeting of the Company on January 16, 2014. The issue of Series I and Series J shares was effected for the purposes of the takeover by the Company of all the shares in Metelem and the shares were acquired by Metelem shareholders in exchange for a non-cash contribution in the form of Metelem shares.

Adoption of a resolution on dividend distribution for the year 2013 by the Annual General Meeting

On April 29, 2014 the Annual General Meeting of the Company adopted the resolution on distribution of net profit of the Company for the financial year of 2013 in the amount of PLN 429,012,674.99 so that PLN 102,859,516.76 was allocated to dividends payable to the shareholders of the Company, while the remaining portion of net profit, i.e. PLN 326,153,158.23 was allocated to other reserves.

The dividend day and the dividend payment day were scheduled for May 22, 2014 and June 6, 2014, respectively.

Satisfaction of conditions of a material agreement

On May 7, 2014 the last conditions referred to in the investment agreement concluded between the Company and the EBRD on December 19, 2013 (the 'EBRD Investment Agreement') were satisfied thus triggering the parties' obligations to perform the transaction.

Pursuant to the EBRD Investment Agreement, on May 7, 2014 the Company executed with the EBRD the Framework Agreement, in which the Company undertook to act in compliance with EBRD's Designated Performance Requirements and Anti-Corruption Guidelines. The Framework Agreement sets out certain obligations of the Company, in particular with respect to environment protection, related to an EBRD's acquisition of Company' shares in consideration for non-cash contribution in the form of Metelem shares. The Framework Agreement will remain in force as long as the EBRD holds no less than 67.6% of the block of the Company shares acquired by the EBRD through the Transaction. Additionally, on May 7, 2014 the EBRD received a legal opinion concerning certain matters of the Polish law, which constituted another condition precedent for the performance of the EBRD Investment Agreement.

With all conditions precedent set out in the EBRD Investment Agreement and in an investment agreement concluded with other Metelem shareholders having been satisfied on May 7, 2014, in particular the Refinancing of the entire debt, the parties to the Investment Agreements proceeded to closing the Transaction on May 7, 2014.

Issuance of subscription warrants, Series I and Series J shares and acquisition of Metelem shares by the Company

As part of the closing of the Transaction on May 7, 2014 the Company concluded subscription agreements concerning the acquisition of subscription warrants with Metelem Shareholders. In these agreements the Company offered registered subscription warrants to the Metelem Shareholders in such way that:

(i) EBRD acquired 47,260,690 Series I registered subscription warrants;

(ii) Karswell acquired 157,988,268 Series J registered subscription warrants;

(iii) Sensor acquired 27,880,274 Series J registered subscription warrants; and

(iv) Argumenol acquired 58,063,948 Series J registered subscription warrants.

The subscription warrants represent rights to acquire shares of the Company in the course of a conditional share capital increase of the Company approved by the Company's Extraordinary General Meeting on January 16, 2014.

In executing the rights attached to the subscription warrants referred to above, on May 7, 2014 the shareholders of Metelem made statements on the acquisition of Series I and Series J shares, respectively, and paid up the new shares with non-cash contribution in the form of Metelem shares held by each of the shareholders (the issue price per share so paid up was PLN 20.46). In consequence, the Company acquired the ownership of 2,000,325 shares of Metelem, representing 100% of the capital and votes in that company.

Acquired in consideration for the non-cash contribution in the form of Metelem shares were 291,193,180 ordinary bearer shares with the nominal value of PLN 0.04 each, including:

(i) 47,260,690 Series I shares acquired by the EBRD; and

(ii) in aggregate 243,932,490 Series J shares acquired by Karswell (157,988,268 Series J shares), Sensor (27,880,274 Series J shares) and Argumenol (58,063,948 Series J shares), respectively.

The total issue price for the shares acquired by the Metelem shareholders was PLN 5,957.8 million. The Series I and Series J shares were delivered to the respective shareholders of Metelem upon the registration of the shares acquired by those shareholder on their securities accounts, i.e. on May 14, 2014.

Mr. Zygmunt Solorz-Żak, who is the ultimate dominant entity of the Company, is the entity controlling Karswell and Argumenol. At the date of acquisition of Series I shares Mr. Heronim Ruta was the entity controlling Sensor.

Admission and introduction of series I shares to stock exchange trading and admission of series J shares to stock exchange trading

On May 12, 2014, the Management Board of the Warsaw Stock Exchange (the 'WSE') declared the admission to stock exchange trading on the main market of 47,260,690 ordinary series I bearer shares of the Company with a nominal value of PLN 0.04 each. The WSE Management Board also resolved to introduce the said shares to trading on the main market, effective May 14, 2014, subject to the registration of the shares and the assignment of the code PLCFRPT00013 to them by the National Depository for Securities on May 14, 2014.

Furthermore, the WSE Management Board resolved to admit to trading on the main market of 243,932,490 ordinary series J bearer shares of the Company with a nominal value of PLN 0.04 each.

Due to the fact that the Company's Series J shares are not shares of the same type as the Company's shares introduced to trading on WSE in terms of the rights to dividend and interim dividend incorporated in them, according to information contained in the Company's prospectus approved by the PFSA on April 28, 2014, it is the Company's intention to introduce its series J shares to trading on the WSE not earlier than the rights vested in series J shares of the Company are made identical to the rights vested in the Company's shares listed on WSE, i.e., not earlier than in the second quarter of 2015.

On May 14, 2014 47,260,690 Series I shares marked with ISIN code PLCFRPT00013 and 243,932,490 Series J shares marked with ISIN code PLCFRPT00021 were registered in the depository of securities pursuant to the resolution of the Management Board of the National Depository of Securities no. 454/14 of May 7, 2014.

Rating issued by Standard&Poor's Rating Services

On April 30, 2014 Standard & Poor's Rating Services ('S&P') affirmed its 'BB' long-term corporate credit rating on Cyfrowy Polsat with a stable outlook. At the same time S&P also assigned the long-term issue rating at 'BB' to Cyfrowy Polsat's term facility loan denominated in Polish zloty up to the maximum amount of PLN 2,500 million and multicurrency revolving facility loan up to a maximum amount of the equivalent of PLN 500 million.

S&P agency justified its decisions by the fact that Cyfrowy Polsat has made meaningful progress toward the completion of its acquisition of Metelem, including obtaining funds for refinancing of existing debt, thus meeting the main conditions precedent of the conditional investment agreements regarding the acquisition of shares in Metelem.

In the agency's view, the integration of Poland's leading direct-to-home pay-TV and one of the largest mobile telecom operators on the domestic market materially increases the diversity and scale of operation of Cyfrowy Polsat Capital Group. Therefore S&P revised its assessment of Cyfrowy Polsat's business risk profile upward to 'satisfactory' from 'fair'.

Rating actions taken by Moody's Investors Service

Following the closing of the Transaction, on May 13, 2014 Moody's Investors Service ('Moody's') changed the rating of Cyfrowy Polsat. In line with earlier announcements, Moody's downgraded Cyfrowy Polsat's corporate family rating (CFR) to Ba3 with a stable outlook.

The Ba3 rating reflects the substantial increase in the Company's leverage following the acquisition of Polkomtel and the combined group's exposure to foreign currency fluctuations as part of Polkomtel's debt is denominated in foreign currency. The rating also accounts for the benefits for the Company's business profile resulting from the acquisition, comprising i.a. a material increase in size, as well as potential ARPU growth through bundling and cross-selling to an enlarged customer base. The rating was also positively affected by the Company's strong position on the market and its good liquidity with high free cash flow generation.

Increase in the share of capital of Metelem

On May 23, 2014 the Company acquired 212,000 new ordinary shares in the increased share capital of its subsidiary - Metelem, representing approx. 9.6% of the share capital of Metelem and carrying approx. 9.6% of the voting rights at the Shareholders' Meeting of Metelem, with the nominal value of EUR 1.00 (i.e. approx. PLN 4.15 at the average exchange rate of the Polish National Bank as at May 23, 2014) per share and the issue price of EUR 1,000 (i.e. approx. PLN 4,152 at the average exchange rate of the Polish National Banks as at 23 May 2014) per share. The total issue price for the new shares amounted to EUR 212 million (i.e. approx. PLN 883.5 million at the average exchange rate of the Polish National Bank as at May 23, 2014).

Prior to the share capital increase in Metelem, the Company held 2,000,325 shares in Metelem with the nominal value of EUR 1.00 per share and the total nominal value of EUR 2,000,325 (i.e. PLN 8,306,149.53, at the average exchange rate of the Polish National Bank as at May 23, 2014), representing 100% of the share capital of Metelem. At the date of this Report, the Company holds 2,212,325 shares in Metelem with the nominal value of EUR 1.00 per share and the total nominal value of EUR 2,212,325 (i.e. PLN 9,186,458.33 at the average exchange rate of the Polish National Bank as at May 23, 2014), which still represent 100% of the share capital of Metelem.

Pledge over Metelem shares

On May 29, 2014 the Company concluded a Deed of Shares Pledge and Charge with UniCredit Bank AG, London Branch, based on which the Company established a pledge (governed by Cypriot law) over 2,212,325 shares of its subsidiary Metelem, with the total nominal value of EUR 2,212,325 (i.e. approx. PLN 9,155,707.01 at the average exchange rate of the Polish National Bank as at May 29, 2014), in favor of UniCredit Bank AG, London Branch, acting as security agent. The establishment of the pledge over Metelem shares was a subsequent action of establishing security interests related to the Senior Facilities Agreement concluded by the Company on April 11, 2014.

Changes in the management board of the Company

On July 30, 2014 the Supervisory Board of Cyfrowy Polsat adopted a resolution appointing Tobias Solorz to the position of Member of the Management Board as of September 1, 2014. Following the registration of amendments to the Articles of association of the Company by the adequate Court in December 2014, Tobias Solorz took up the position of Vice-president of the Management Board of Cyfrowy Polsat.

On October 28, 2014 Dominik Libicki resigned from the position of President of the Management Board of the Company and Vice-President of the Management Board of Polkomtel, effective immediately. On the same day the Supervisory Board accepted the resignation placed by Dominik Libicki and appointed Tomasz Gillner-Gorywoda as President of the Management Board of the Company.

Furthermore, on November 4, 2014 the Supervisory Board adopted a resolution appointing Maciej Stec to the position of Member of the Management Board as of November 4, 2014.

Conclusion of hedging transactions

On July 31, 2014 and August 1, 2014 we executed Interest Rate Swap (IRS) transactions consisting in exchanging interest payments based on the floating rate WIBOR 3M for interest payments based on an average fixed rate of 2.50% with the following banks: ING Bank Śląski S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Société Générale Spółka Akcyjna, Branch in Poland, Bank Zachodni WBK S.A., BNP Paribas S.A. and Bank Polska Kasa Opieki S.A. These transactions were concluded to hedge the Company's liabilities relating to the term facility loan granted to the Company pursuant to the Senior Facilities Agreement of April 11, 2014.

The transactions were concluded for the period from September 30, 2014 until December 31, 2016 and the total nominal value of the loan being hedged is PLN 1,136.5 million.

Bond Issue program

On January 16, 2015, the Extraordinary General Meeting of the Company adopted resolution no. 6 thereby giving its approval for the Company to issue bonds with a total nominal value of up to PLN 1 billion under a bond issue program, in the period from January 16, 2015 until July 15, 2015. According to the provisions of the aforesaid resolution, the bonds will be denominated in Polish zlotys and may be issued in one or several series, as registered or bearer bonds. Furthermore, the bonds may be issued as non-secured or secured bonds. The Extraordinary General Meeting authorized the Management Board of the Company to set forth the detailed terms of the bond issue program.

3.2. Business related events

Purchase of data transmission services by the Company

On March 27, 2014 the Company signed a subsequent Memorandum of Understanding ('Memorandum') to the agreement concluded between the Company and Mobyland in December 2010 on the provision of data transmission services. Under the Memorandum, the parties set a new, lower price per 1 MB of data transmission in the net amount of PLN 0.00477 and decided that the unused as at the end of 2013, but already paid for data package will be recalculated in accordance with this new price.

A framework agreement was signed on March 27, 2014 between the Company and Polkomtel, concerning the terms of cooperation between parties as regards the provision of data transmission services by Polkomtel for the Company ('Framework Agreement'). The parties agreed that the date of validity and moment of commercial start, following from the provisions of the abovementioned agreement, will be January 1, 2014.

Under the Framework Agreement Polkomtel provides the Company with access to wireless data transmission, realized on the basis of LTE, HSPA+, HSPA and EDGE technologies. The maturity of the agreement is unlimited and its value will be defined based on separate orders placed by the Company, regarding the purchase of data transmission services, expressed as a quantity of GB.

On the date of concluding the Framework Agreement, the Company placed Order No. 1 with Polkomtel, regarding the purchase of 61 million GB of data transmission services with the guaranteed validity period of this order until December 31, 2016 and net price of PLN 0.00477 per 1 MB. The total value of Order No. 1 amounted to PLN 297,95 million.

Furthermore, as a result of negotiations with companies belonging to Midas Group, initialized in November 2014, on March 3, 2015 a memorandum of understanding was concluded between the Company and Polkomtel under the Framework Agreement. The memorandum determines new terms of cooperation in the scope of telecommunication services related to data transmission, in particular:

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

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

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

- PLN 48.82 million, net – for the first quarter of 2015 in three equal monthly installments,
- PLN 53.94 million, net – for the second quarter of 2015 in three equal monthly installments,
- PLN 98.17 million, net – for the third quarter of 2015 in three equal monthly installments,
- PLN 140.14 million, net – for the fourth quarter of 2015 in three equal monthly installments,
- PLN 385.48 million, net – for the year 2016 in twelve equal monthly installments,
- PLN 342.78 million, net – for the year 2017 in twelve equal monthly installments, and
- PLN 353.23 million, net – for the year 2018 in twelve equal monthly installments.

Multiplay offer from Cyfrowy Polsat and Plus

In keeping with the strategy of integrating modern home products and services, Cyfrowy Polsat and Plus mobile network launched smartDOM, a joint program, which enables bundling of innovative services offered by both operators to the benefit of their customers. Under the new program customers can combine, in a flexible way, such products as satellite TV, broadband LTE Internet, telephone, electricity and banking services, and make savings for each service purchased added to their package.

For details on the smartDOM program, see item 2.3.2. - *Multiplay offer.*

Expansion of our telecommunications offer

In order to satisfy the needs of our customers, who are considering the purchase of mobile broadband LTE Internet access services as a substitute for fixed-line Internet access, in June 2014 we introduced an offer of unlimited internet access in the LTE technology throughout the entire term of the contract, addressed to both our individual and business customers, marketed under the name Power LTE.

Expansion of our pay TV programming offer

In 2014 Cyfrowy Polsat expanded its programming offer by 7 new channels: FilmBox Arthouse, Polsat News HD, TVP Sport HD, Stopklatka TV, ID HD, H2 HD and Lifetime HD. The programming offer of FilmBox Arthouse includes world cinema classics, as well as the works of less known directors, which can be seen mainly during film festivals. Polsat News HD is the twin of the information channel Polsat News broadcast in high definition. TVP Sport HD broadcasts football world championships, Olympic games and other popular sport disciplines. The programming schedule of Stopklatka TV includes European productions, world cinema and Polish movies. ID HD from Discovery Networks is a thematic channel dedicated to engrossing investigations and crimes, as well as moving stories, dramas and mysteries. H2 HD complements the HISTORY channel with a wide offer of programs on warfare, ancient and modern history, ending with science, motorization and engineering. Lifetime HD is available in over 100 countries to over 150 million households. Its offer includes awarded series, several dozens of high quality feature films annually (the so called Lifetime Original Movies) and entertainment documentary productions.

Customers of Cyfrowy Polsat's satellite platform had the possibility to watch the FIVB Volleyball Men's World Championship Poland 2014 within the paid subscription fee on TV channels dedicated to the tournament – Polsat Volleyball. Customers using voice services from Plus with access to LTE Internet and users of LTE Internet from Plus and Cyfrowy Polsat were also granted access to the tournament via a special internet service. IPLA users had the possibility to order access to a package of 4 Polsat Volleyball channels for PLN 99.

In 2014 Cyfrowy Polsat customers and IPLA users could watch several KSW Galas live as well as the Polsat Boxing Night via our pay-per-view system.

In December 2014, Cyfrowy Polsat and TVN S.A. signed agreements extending the current cooperation regarding the distribution of paid and FTA channels broadcast by TVN. The agreements concern the nine channels of TVN Group, which were thus far broadcast by Poland's largest satellite platform Cyfrowy Polsat: TVN, TVN7, TTV, TVN24, TVN Meteo, TVN Style, TVN Turbo, TVN 24 Biznes i Świat and Mango24 as well as their HD versions. Thanks to the new terms of the agreements Cyfrowy Polsat's offer was expanded to include the stations TVN24, TVN Turbo and TVN Style in HD standard.

4. Financial and operating review of Cyfrowy Polsat

4.1. Key factors impacting our operating activities and financial results

4.1.1. Factors related to social-economic environment

Economic situation in Poland

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

In the sluggish world economy of 2011-2013, Poland continued to record one of the highest real GDP growth rates in the EU. According to Eurostat, Poland's real GDP growth in 2011, 2012 and 2013 was 4.8%, 1.8% and 1.7%, respectively, with the corresponding figures for the EU 28 at 1.7%, -0.4% and 0.0%, respectively.

Based on Eurostat data, a slight recovery of economies both of Poland and other EU countries took place in 2014. The forecasted GDP growth for Poland in 2014 is 3.3%, in 2015 – 3.2% and in 2016 – 3.4%. GDP growth in 28 EU countries is estimated at 1.3% in 2014, 1.7% in 2015 and 2.1% in 2016.

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

Situation on the pay TV market in Poland

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

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

Currently, we consider our programming packages to offer the best value-for-money on the Polish DTH market. We believe, that it gives us a chance to attract a significant portion of migrating customers to our platform. Moreover, our proactive approach to customer retention contributes to maintaining a relatively low churn rate.

Dynamic growth of non-linear distribution of content, delivered by video on demand and OTT (over-the-top) services is a global trend. This market is still small in Poland (according to data presented by PwC, its value was estimated at ca. 7 million USD in 2013, while in Great Britain and Germany at 485 million USD and 134 million USD, respectively) and in our opinion has significant growth prospects. We consequently develop our services which provide our customers with content on demand. These products are complementary to our core business in the field of pay TV and allow us to broaden our content distribution channels.

Seasonality of the telecommunication market

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

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

Fixed-mobile substitution and growth of mobile broadband Internet saturation

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

In Poland the fixed-mobile substitution has a larger scale than in most of the EU countries. Based on the UKE data, in 2013 the volume of voice traffic in fixed networks – which amounted to 11.5 billion minutes, was already 6.5 times lower than the voice traffic volume in mobile networks – which amounted to 75.5 billion minutes.

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

High preference of Poles for mobile technology combined with improving quality of mobile data transmission as a result of implementation of the LTE/HSPA+ technology in our opinion create the opportunity for dynamic growth of the value of broadband Internet market in Poland in the next years, which we intend to utilize.

Growing demand for smartphones and data transmission

Popularity and sales of smartphones in Poland has been gradually growing. Popularization of smartphones translates into growing sales of data transmission products in the segment of small screen devices. According to data presented in the Ericsson Mobility Report dated November 2014, the volume of transmitted data will increase 9 times in the years 2014-2020. We offer data transmission mainly under primary subscriptions and additional data packs. Customers who do not purchase a recurring data pack may use the data transmission in the so-called 'pay-as-you-go' model (i.e. charged per every MB used).

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

4.1.2. Factors related to the operations of the Company

The growing importance of integrated services

Growing interest in integrated services, observed among our customers base, provides us with a possibility to generate growth of average revenue per user. We carefully follow the evolution of expectations of our customers and strive to meet their growing needs by combining our pay-TV, broadband Internet access and mobile television services into attractive packages.

In this context, the acquisition of Polkomtel, one of the largest mobile operators on the Polish market, is significant. Together with Polkomtel we create a unique portfolio of products which are simultaneously targeted at customers of both operators. Our program smartDOM, addressed to individual customers allow our customers to combine in a flexible way products into packages, on which we offer attractive discounts. The program smartDOM, launched in mid-February 2014, yields excellent sales results. The possibility to sell additional products and services (cross-selling) to current customers of Cyfrowy Polsat and Plus network has a positive impact both on our revenue and the level of ARPU per contract client.

We strive to meet the needs of our customers by offering to every basic service a broad range of complementary services. We combine our traditional pay TV services with VOD, PPV, Multiroom, online video services and mobile television.

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

Providing Internet access services in LTE technology

We provide broadband Internet access services in numerous available mobile technologies, including mainly HSPA/HSPA+ and the latest LTE technology. LTE Internet 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. In addition it has the advantage of mobility, which is 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 constitutes a significant competitive advantage and it will help us to further increase our customer base both of stand-alone and integrated services.

LTE network coverage is growing systematically and with its expansion we can expect the growth in the number of customers to our service, that translates to growth in revenue from telecommunication services. According to data presented by Polkomtel, at the end of January 2015 LTE and HSPA/HSPA+ networks covered approximately ca. 80% and almost 100% of the population of Poland, respectively.

New terms of provision of data transmission services

We provide telecommunication services in LTE/HSPA+ technologies, data transmission in particular, based on the network infrastructure of Midas Group. On March 3, 2015, we concluded memoranda of understanding with Midas Group (for details see item 3.2 – *Significant events and agreements signed in 2014 – Business related events)* determining new terms of cooperation between the Company and Polkomtel in the scope of telecommunication services related to data transmission. In particular, a new, lower unit price of PLN 2.40 net per 1 GB was established, which will be applied to both newly ordered data packages as well as unused data packages already partially paid for under previous orders. Concurrently, the Company placed an order with Polkomtel for the purchase of a data package of ca. 601 million GB.

The new terms of cooperation constitute an important element of the implementation of our strategy to provide our customers with multi-play services, a significant component of which is LTE Internet access. The commercial success of the integrated services program smartDOM and unlimited access to LTE Internet services triggered the dynamic growth rate of the number of users of mobile Internet services offered by Cyfrowy Polsat, which translates into growing costs of data transmission services. In our opinion, the data package purchased from Polkomtel meets our business needs over the medium term, while a lower unit price per 1 GB of data transmission allows to present a more attractive offer to customers, which may help to maintain a high dynamic of customer acquisition or improve margins generated from services in the future. At the same time, a significantly lower unit price will contribute to better control of incurred data transmission costs given the growing volume of used data in the coming quarters, which will be reflected in the Company's financial results.

Integration of Cyfrowy Polsat and Polkomtel

The incorporation of Polkomtel in Cyfrowy Polsat Group provides new opportunities for distribution of TV content, as well as for further development of telecommunications services. Thanks to this combination, the attractive content and the wide range of our services will be delivered through a variety of reliable distribution channels – via satellite (DTH), within digital terrestrial television (DVB-T), through mobile technologies: 2G, 3G and LTE – to all consumer devices, from TV sets and PCs to tablets and smartphones.

The unique portfolio of services is simultaneously targeted to customers of Cyfrowy Polsat and Polkomtel. Proper addressing of this potential may significantly boost sales of additional services to an individual user, thus increasing the average revenue per customer (ARPU).

4.1.3. Financial factors

Exchange rates fluctuations

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

Foreign exchange rate fluctuations have historically affected the level of our operating costs, finance costs, as well as the profit or loss on investing activities, and are expected to do so in the future. In particular, our exposure to foreign exchange rate fluctuations stems from our foreign currency payments for (i) licensing fees paid to TV broadcasters, (ii) signal transmission-related charges, (iii) set-top box parts, and other hardware and software; (iv) transponder capacity lease; (v) selected office building lease agreements; and (vi) other trade obligations.

In addition, we may be exposed to currency risk in relation to the multi-currency Revolving Facility Loan since movements in the exchange rate of the euro, dollar or any other currency provided for in the Senior Facilities Agreement against the zloty may increase the amounts expressed in Polish zloty required to service principal and interest payments under the Revolving Facility Loan.

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

Debt service costs

In order to refinance the debt under the Term Loan related to the acquisition of Telewizja Polsat and Senior Notes (and concurrently Series A unsecured registered notes acquired fully by Cyfrowy Polsat Finance AB (publ), issued by the Company in 2011), both incurred in 2011, the Company concluded in April 2014 a new Term Loan maturing in 2019. In consequence we will continue to incur interest costs on debt financing.

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

Furthermore, the Term Loan is based on a floating market interest rate, therefore fluctuations of interest rates in Poland will have an effect on value of current debt costs related to those loans.

4.2. Key market trends impacting our business

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

- dynamic development of non-linear video content, distributed via VOD and OTT services;
- increasing sales of smart-TVs - television sets with integrated Internet access;
- development of the programming offer of digital terrestrial TV;
- bundling of television and telecommunications services;
- development of the data transmission market, both in the fixed-line and mobile segments, reflected in the number of users of data transmission services;
- gradual growth in smartphone penetration among mobile network users;
- growing demand for data transmission and high-speed broadband connectivity, driven by the growing sophistication of data transmission-based services;
- growing number of mobile customers and users, driven by, inter alia, gradual fixed-to-mobile substitution.

4.3. Major investments in 2014

Acquisition of shares in Metelem Holding Company Limited holding indirectly 100% of the share capital of Polkomtel Sp. z o.o.

On May 7, 2014, all conditions precedent referred to in the conditional investment agreements concerning the acquisition of shares in Metelem Holding Company Limited, concluded on November 14, 2013 and December 19, 2013 between the Company and shareholders of Metelem: Argumenol, Karswell, Sensor and the EBRD were satisfied (see item 3.1 – *Significant events and agreements signed in 2014 – Corporate events).* In consequence, the Company acquired the ownership of 2,000,325 shares of Metelem, representing 100% of the capital and votes in that company. In consideration for the non-cash contribution in the form of Metelem shares, Metelem shareholders acquired 291,193,180 ordinary bearer shares with the nominal value of PLN 0.04 each were, issued by the Company within the conditional increase of its share capital approved by the Extraordinary General Meeting in resolutions dated January 16 and 24, 2014. The total issue price for the shares acquired by the Metelem shareholders was PLN 5,957.8 million.

Through the acquisition of shares in Metelem, Cyfrowy Polsat also acquired indirectly 100% shares in Polkomtel's share capital. The 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.

4.4. Operating review

In connection with the consolidation of the results of Metelem Holding Company Limited, indirectly controlling Polkomtel, started on May 7, 2014, the Company decided to adjust the method of presentation of certain operational data to the new structure and the mode of operations of our Group. The new layout of key performance indicators (KPI) relating to our segment of services to individual and business customers, comprising in particular mobile telephony services, Internet access and pay TV are presented below. The Company does not publish separate KPIs regarding its core business operations.

It must be emphasized that the key performance indicators presented below for the 3 and 12-month periods ended December 31, 2013 have been prepared for information purposes only to present the potential effect that the performance of Metelem, and Polkomtel in particular, would have had on the Group's operating results if Metelem had been part of our Capital Group in the compared periods. These key performance indicators have been prepared for illustrative purposes only and because of their nature they present a hypothetical situation rather than the actual performance of the Group for the given periods.

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

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

	for the 3-month period ended December 31			for the 12-month period ended December 31		
	2014	2013	change / %	2014	2013	change / %
Total number of RGUs (contract + prepaid)	**16,482,031**	**16,447,334**	**0.2%**	**16,482,031**	**16,447,334**	**0.2%**
CONTRACT SERVICES						
Total number of RGUs, including:	**12,347,828**	**11,978,807**	**3.1%**	**12,347,828**	**11,978,807**	**3.1%**
Pay TV, including:	4,391,702	4,212,323	4.3%	4,391,702	4,212,323	4.3%
Multiroom	*844,809*	*719,935*	*17.3%*	*844,809*	*719,935*	*17.3%*
Mobile telephony	6,587,915	6,778,675	-2.8%	6,587,915	6,778,675	-2.8%
Internet	1,368,211	987,809	38.5%	1,368,211	987,809	38.5%
Number of customers	**6,137,531**	**6,287,658**	**-2.4%**	**6,137,531**	**6,287,658**	**-2.4%**
ARPU per customer [PLN]	87.2	87.1	0.1%	85.9	88.5	-2.9%
Churn per customer	9.1%	9.2%		9.1%	9.2%	
RGU saturation per one customer	2.01	1.91	5.2%	2.01	1.91	5.2%
Average number of RGUs, including:	**12,272,311**	**11,924,710**	**2.9%**	**12,091,316**	**11,857,027**	**2.0%**
Pay TV, including:	4,361,890	4,175,145	4.5%	4,283,695	4,108,908	4.3%
Multiroom	*822,568*	*697,978*	*17.9%*	*776,635*	*623,034*	*24.7%*
Mobile telephony	6,597,742	6,801,845	-3.0%	6,661,539	6,886,650	-3.3%
Internet	1,312,679	947,720	38.5%	1,146,082	861,469	33.0%
Average number of customers	**6,159,903**	**6,279,979**	**-1.9%**	**6,219,660**	**6,301,765**	**-1.3%**
PREPAID SERVICES						
Total number of RGUs, including:	**4,134,203**	**4,468,527**	**-7.5%**	**4,134,203**	**4,468,527**	**-7.5%**
Pay TV	122,787	77,771	57.9%	122,787	77,771	57.9%
Mobile telephony	3,792,978	4,171,810	-9.1%	3,792,978	4,171,810	-9.1%
Internet	218,438	218,946	-0.2%	218,438	218,946	-0.2%
ARPU per total prepaid RGU [PLN]	18.2	17.5	4.0%	17.7	18.2	-2.7%
Average number of RGUs, including:	**4,172,129**	**4,599,374**	**-9.3%**	**4,267,047**	**4,578,919**	**-6.8%**
Pay TV	129,021	77,953	65.5%	88,894	74,807	18.8%
Mobile telephony	3,798,701	4,338,987	-12.5%	3,939,774	4,384,573	-10.1%
Internet	244,407	182,434	34.0%	238,379	119,539	99.4%

As at December 31, 2014, we provided a total of 16,482,031 active services, both in the contract and prepaid models, which constitutes an increase of 0.2% compared to 16.447.334 active services provided as at December 31, 2013. This change was due to a rapidly growing number of provided Internet access services and a higher number of provided pay TV services (including Multiroom).

As at December 31, 2014, the share of contract services in the total number of provided services was 74.9%. This indicator increased from 72.8% as at December 31, 2013.

Contract services

As at December 31, 2014, we provided contract services to a total of 6,137,531 customers, i.e. by 2.4% less compared to the number of customers, which the Group would have had as at December 31, 2013, if Polkomtel had been part of the Group at the time. The main drivers behind this decrease are the merging of contracts under one common contract for the household and a decrease in the number of customers of mobile voice services.

The number of active contract services provided by us increased by 369,021, that is 3.1%, to 12,347,828 as at December 31, 2014 from 11,978,807 as at December 31, 2013. This change is primarily the effect of an increase of the number of broadband Internet access services by 38.5% due to our strategy of actively promoting sales of services provided in the LTE/HSPA+ technologies, for example by introducing the Internet PowerLTE offer, as well as the dynamically growing number of Internet users in Poland. The total number of pay TV services provided in the contract model increased by 4.3% in the fourth quarter of 2014 to 4,391,702 as at December 31, 2014 from 4,212,323 as at December 31, 2013 due to a significant increase in the number of Multiroom services provided. Concurrently, the number of provided mobile telephony services decreased from 6,778,675 as at December 31, 2013 to 6,587,915 as at December 31, 2014 due to the fact that the Polish mobile telephony market is highly competitive and mature. We believe that further saturation of our customer base with integrated services, including our product smartDOM, will positively influence the growth of the number of contract RGUs provided by us as well as the loyalty of our customers in the future.

In the fourth quarter of 2014 ARPU per customer was equal to PLN 87.2 and remained at a similar level compared to the corresponding period of 2013. We conduct active cross-selling activities to the joined customer bases of Cyfrowy Polsat and Polkomtel within the scope of our integrated offer smartDOM, which has a positive effect on ARPU. From the moment of introducing the offer smartDOM in February 2014 we have observed a successively increasing ARPU from PLN 84.8 at the end of the first quarter of 2014 to the present level of PLN 87.2.

In 2014, ARPU per customer fell by 2.9% to PLN 85.9 compared to PLN 88.5 in 2013. This decrease was triggered primarily by lower interconnect revenue related to the regulatory reduction of MTR rates on voice services by 48.1% from PLN 0.0826 in the first half of 2013 to PLN 0.0429 in the first half of 2014 as well as lower prices on the mobile telephony market due to price pressure from our main competitors.

Thanks to our efficient customer retention programs, our churn rate was equal to 9.1% in the twelve-month period ended December 31, 2014 compared to 9.2% in the twelve-month period ended December 31, 2013.

As at December 31, 2014, each customer from our customer base had 2.01 active contract services, which constitutes an increase of 5.2% compared to 1.91 active contract services per customer as at December 31, 2013. The increase in RGU saturation per one customer is the result of our marketing and sales activities aimed at maximizing the sale of products and services to one customer.

Our product smartDOM has excellent sales results and has a positive effect on both the level of RGU saturation per one customer and ARPU per contract customer. Since its launch in mid-February 2014 until the end of 2014 569 thousand customers joined the program and bought a total of over 1.75 million RGUs. In the fourth quarter of 2014 the number of RGUs provided within the smartDOM program increased by ca. 394 thousand. RGU saturation per one customer in this group was 3.1 as at December 31, 2014. Bearing in mind the long-term goal of our Group, which is to maximize revenue per contract customer through sales of additional products and services, the smartDOM program is perfectly in line with the implementation of our strategy.

Prepaid services

The number of prepaid services provided by us as at December 31, 2014 decreased by 334,324, that is 7.5%, to 4,134,203 from 4,468,527 as at December 31, 2013. This change was caused by a decrease in the number of provided prepaid mobile telephony services, adjusted by a strong increase in the number of pay TV services provided in the prepaid model.

ARPU per prepaid RGU amounted to PLN 18.2 in the fourth quarter of 2014, which constitutes an increase of 4.0% compared to PLN 17.5 in 2013. In 2014, ARPU per prepaid RGU decreased by 2.7% to PLN 17.7 from PLN 18.2 in the corresponding period of 2013. The main reason behind the decrease in 2014 was the fall in revenue from network interconnection caused by the regulatory reduction of MTR rates on voice services by 48.1% from PLN 0.0826 in the first half of 2013 to PLN 0.0429 in the first half of 2014, as well as lower prices on the mobile telephony market due to price pressure from our main competitors.

4.5. Key positions in income statement

We have modified the presentation of operating revenue and operating costs in the income statement. None of the introduced modifications have affected the amounts of revenue, costs, net profit for the period, EBITDA or total equity, presented earlier. For a detailed description of the changes made in the presentation of financial data refer to Note 8 in the financial statements for the financial year ended December 31, 2014.

Revenue

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

Retail revenue

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

Wholesale revenue

Our wholesale revenue comprises:

(i) advertising and sponsorship revenue;
(ii) interconnect revenue;
(iii) revenue from the sale of broadcasting and signal transmission services; and
(iv) revenue from the sale of licenses, sublicenses and property rights.

Sale of equipment

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

Other revenue

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

Operating costs

Operating costs consist of:

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

Content costs

Content costs consist of:

(i) programming license costs;
(ii) costs of internal and external production.

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

Costs of internal and external production include production costs for TV programs specifically produced by or for us, either under licenses from third parties or under our own licenses.

Distribution, marketing, customer relation management and retention cost

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

Depreciation, amortization, impairment and liquidation

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

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with telecommunication operators comprise:

(i) telecommunications and IT infrastructure lease costs;
(ii) IT systems maintenance costs;
(iii) payments for the lease of satellite transponder capacity;
(iv) payments for the use of conditional access system based on the number of access cards;
(v) cost of settlements with mobile network operators and interconnection charges; and
(vi) other costs.

Salaries and employee-related costs

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

Cost of equipment sold

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

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

In this group of costs we present:

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

Other costs

Key items of other costs include:

(i) the cost of SMART and SIM cards provided to customers;
(ii) legal, advisory and consulting costs;
(iii) property maintenance costs;
(iv) taxes and other charges;
(v) warranty services costs;
(vi) costs of trademark licenses; and
(vii) other costs.

Other operating income/costs, net

Other operating income/costs consist of:

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

Gains and losses on investment activities, net

Gains and losses on investment activities, net include interest income on invested funds, accrued interest, dividends income, results on the disposal of available-for-sale financial instruments, fair value gains/losses on financial instruments at fair value through profit or loss, net foreign currency gains/losses (other than on valuation of senior notes), impairment losses recognized on financial assets, unwinding of the discount on provisions.

Finance costs

Finance costs comprise interest expense on borrowings (including bank loans and Senior Notes), foreign exchange gains/losses on Senior Notes, bank and other charges on borrowings, guarantee fees relating to the indebtedness resulting from SFA and Indenture as well as discount on license liabilities.

4.6. Review of our financial situation

The following review of results for the 12-month period ended on December 31, 2014 was prepared based on the financial statement for the financial year ended on December 31, 2014 prepared in accordance with International Financial Reporting Standards as approved for use by the European Union and internal analyses.

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

Discussion of the difference of the Company's results to published forecasts for the year

Cyfrowy Polsat did not publish any financial forecasts for 2014.

4.6.1. Income statement analysis

Revenue

Our total revenue increased by PLN 111.7, or 5.8%, to PLN 2,034.6 in 2014 from PLN 1,922.9 in 2013. Revenue grew for the reasons set forth below.

	for the 12 month period ended December 31		change	
	2014	2013	[mPLN]	[%]
Retail revenue	1,913.0	1,827.8	85.2	4.7%
Wholesale revenue	39.5	33.9	5.6	16.5%
Sale of equipment	54.5	41.7	12.8	30.7%
Other revenue	27.6	19.5	8.1	41.5%
Revenue	**2,034.6**	**1,922.9**	**111.7**	**5.8%**

Retail revenue

Retail revenue increased by PLN 85.2, or 4.7%, to PLN 1,913.0 in 2014 from PLN 1,827.8 in 2013. This change was primarily due to an increase in revenue from telecommunication services, mainly mobile Internet services, and an increase in revenue from pay TV services, especially the Multiroom service.

Wholesale revenue

Wholesale revenue increased by PLN 5.6, or 16.5%, to PLN 39.5 in 2014 from PLN 33.9 in 2013. This increase is primarily due to the recognition of revenue from the sale of rights to events broadcast in the pay-per-view system to other operators.

Sale of equipment

Revenue from the sale of equipment increased by PLN 12.8, or 30.7%, to PLN 54.5 in 2014 from PLN 41.7 in 2013. This increase was the net effect of the recognition of revenue from sales of television sets, laptops, tablets and set-top boxes, realized to a significant extent in the installment plan sales model, partially eliminated by a fall in revenue from sales of devices for the reception of Mobile TV in the DVB-T technology.

Other revenue

Other revenue increased by PLN 8.1, or 41.5%, to PLN 27.6 in 2014 from PLN 19.5 in 2013 in particular due to an increase in revenue from customer service.

Operating costs

Our total operating costs increased by PLN 183.4, or 11.8%, to PLN 1,735.6 in 2014 from PLN 1,552.2 in 2013. Costs grew for the reasons set forth below.

	for the 12 month period ended December 31		change	
	2014	2013	[mPLN]	[%]
Content costs	517.2	474.5	42.7	9.0%
Distribution, marketing, customer relation management and retention costs	332.4	333.4	(1.0)	(0.3%)
Depreciation, amortization, impairment and liquidation	222.6	219.0	3.6	1.6%
Technical costs and cost of settlements with mobile network operators	288.5	194.1	94.4	48.6%
Salaries and employee-related costs	131.9	114.2	17.7	15.5%
Cost of equipment sold	71.3	63.8	7.5	11.8%
Cost of debt collection services and bad debt allowance and receivables written off	39.2	29.8	9.4	31.5%
Other costs	132.5	123.4	9.1	7.4%
Operating costs	**1,735.6**	**1,552.2**	**183.4**	**11.8%**

Content costs

Content costs increased by PLN 42.7, or 9.0%, to PLN 517.2 in 2014 from PLN 474.5 in 2013. This increase is due mainly to the purchase of broadcasting licenses for the FIVB Volleyball Men's World Championship Poland 2014 as well as higher costs of programming licenses resulting from a higher number of purchased premium pay TV packages, which should increase customer satisfaction in the future.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs amounted to PLN 332.4 in 2014 and remained at a practically unchanged level compared to PLN 333.4 in 2013.

Depreciation, amortization, impairment and liquidation

Depreciation, amortization, impairment and liquidation costs increased by PLN 3.6, or 1.6%, to PLN 222.6 in 2014 from PLN 219.0 in 2013. i.a. due to an increase in satellite TV reception equipment and Internet access equipment leased to our customers.

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with mobile network operators increased by PLN 94.4 or 48.6%, to PLN 288.5 in 2014 from PLN 194.1 in 2013. This increase is due to higher costs of data transmission within our broadband Internet access service, which result from the dynamic growth of our Internet user base, especially in the smartDOM program, and consequently a rapidly increasing volume of transmitted data, as well as costs of lease of additional capacity on satellite transponders in July 2013.

Salaries and employee-related costs

Salaries and employee-related costs increased by PLN 17.7, or 15.5%, to PLN 131.9 in 2014 from PLN 114.2 in 2013 as a result of higher average employment at Cyfrowy Polsat due to organic growth of business and additional costs related to the conclusion of the transaction of acquisition of shares in Metelem.

Cost of equipment sold

Cost of equipment sold increased by PLN 7.5, or 11.8%, to PLN 71.3 in 2014 from PLN 63.8 in 2013. This increase is mainly due to the introduction in 2014 of television sets into sales as well as dynamically growing sales of tablets, laptops, routers and Wi-Fi modules related to the rapidly increasing number of users of our broadband Internet access service. This increase was partially eliminated by lower costs of sold equipment for the reception of Mobile TV in DVB-T standard. In the corresponding period, the large volume of sales of these devices was the result of the gradual process of switching off of the analogue TV signal and replacing it with the digital signal in DVB-T technology.

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

The cost of debt collection services and bad debt allowance and receivables written off increased by PLN 9.4 or 31.5%, to PLN 39.2 in 2014 from PLN 29.8 in 2013.

Other costs

Other costs increased by PLN 9.1, or 7.4%, to PLN 132.5 in 2014 from PLN 123.4 in 2013. This change was the result of higher costs of external services, which were partially compensated by a fall in the cost of SMART cards delivered to our customers.

Other operating income/costs, net

Other operating income, net increased by PLN 20.2 or 1,063.2%, to PLN 22.1 in 2014 from PLN 1.9 in 2013.

Gains/losses on investment activities, net

Net gains on investment activities decreased by PLN 144.2, or 46.2%, to PLN 168.2 in 2014 from PLN 312.4 in 2013 mainly due to lower dividends received and the recognition of foreign exchange costs in the third quarter of 2014 compared to foreign exchange profits in the corresponding period of 2013, which were partially compensated by profit recognized from USD forward transactions and higher interest revenue.

Finance costs

Finance costs amounted to PLN 309.5 in 2014 and increased by PLN 75.4, or 32.2%, compared to PLN 234.1 in 2013. This increase is the net effect of: (i) incurred bank charges in the amount of PLN 82.1 related to the premature redemption of the EUR 350 million Senior Notes, issued in 2011; (ii) higher interest costs on the Term Loan and Revolving Facility Loan under the Senior Facilities Agreement concluded in April 2014; (iii) lower interest costs on our previous term loan granted under the Senior Facilities Agreement concluded in 2011 due to lower principal pursuant to the scheduled and additional payments, interest payments at a lower WIBOR rate and premature repayment of the debt, and (iv) lower interest costs in 2014 on Series A unsecured registered notes acquired fully by Cyfrowy Polsat Finance, issued by the Company in 2011.

Net profit

Net profit decreased by PLN 251.8, or 58.7%, to PLN 177.2 in 2014 from PLN 429.0 in 2013 due to higher operating and financial costs, described above.

EBITDA & EBITDA margin

EBITDA decreased by PLN 47.9 or 8.1%, to PLN 543.7 in 2014 from PLN 591.6 in 2013. EBITDA margin decreased to 26.7% in 2014 from 30.8% in 2013.

Employment

The average employment of permanent workers not engaged in production in Cyfrowy Polsat Group, excluding workers who did not perform work in the reporting period due to long-term absences, was 915 full-time equivalents in 2014, as compared to 812 full-time equivalents in the corresponding period of 2013. The increase in employment in 2014 was due to organic growth of business.

4.6.2. Balance sheet analysis

As at December 31, 2014 and December 31, 2013, our balance sheet amounted to PLN 12,876.4 and PLN 6,022.7 respectively.

Assets

As at December 31, 2014 and December 31, 2013, our non-current assets were PLN 12,347.2 and PLN 5,462.4, respectively, and accounted for 95.9% and 90.7% of the total assets respectively.

As at December 31, 2014 and December 31, 2013, our current assets amounted to PLN 529.2 and PLN 560.3, respectively, and accounted for 4.1% and 9.3% of the total assets respectively.

The value of reception equipment amounted to PLN 421.1 as at December 31, 2014 and increased by PLN 13.5, or 3.3%, compared to PLN 407.6 as at December 31, 2013 in consequence of the increase in the number of devices for TV reception, internet sets and routers provided to our customers under operational leasing.

The value of other property, plant and equipment amounted to PLN 164.8 as at December 31, 2014 compared to PLN 167.1 as at December 31, 2013, which constitutes a decrease of PLN 2.3.

The value of goodwill amounted to PLN 52.0 as at December 31, 2014 and remained unchanged compared to the value as at December 31, 2013.

The value of other intangible assets amounted to PLN 75.6 as at December 31, 2014 which constitutes an increase of PLN 3.5 compared to PLN 72.1 as at December 31, 2013 mainly due to the increase in the value of IT systems and programming licenses, partially eliminated by amortization write-offs.

Investment property amounted to PLN 1.8 as at December 31, 2014 and remained almost unchanged compared to PLN 1.9 as at December 31, 2013.

The value of shares in subsidiaries amounted to PLN 11,561.5 as at December 31, 2014, and increased by PLN 6,841.6, or 145.0%, from PLN 4,719.9 as at December 31, 2013 due to the acquisition of Metelem.

The value of non-current and current deferred distribution fees increased by PLN 10.0, or by 10.0%, to PLN 109.6 as at December 31, 2014 from PLN 99.6 as at December 31, 2013.

The value of other non-current assets amounted to PLN 35.3 as at December 31, 2014 and increased by PLN 23.0, or 187.0%, compared to PLN 12.3 as at December 31, 2013.

The value of inventories was PLN 124.0 as at December 31, 2014 and decreased by PLN 20.7, or 14.3%, from PLN 144.7 as at December 31, 2013. This decrease was due to a fall in the stock of set-top boxes, discs for set-top boxes and smartcards and was partially eliminated by an increase in the stock of telephones, modems, tablets and laptops.

The value of trade and other receivables increased by PLN 46.2, or 21.6%, to PLN 260.5 as at December 31, 2014 from PLN 214.3 as at December 31, 2013, which was mainly due to higher trade receivables from third parties as well as higher public receivables.

The value of other current assets amounted to PLN 30.9 as at December 31, 2014, which constitutes a decrease of PLN 74.2, or 70.6%, compared to PLN 105.1 as at December 31, 2013 primarily due to the consumption of a significant part of data packages acquired in accordance with agreements with Mobyland concluded in September 2012 and March 2014.

The value of cash and cash equivalents decreased by PLN 12.8, or 49.0%, to PLN 13.3 as at December 31, 2014 from PLN 26.1 as at December 31, 2013.

Equity and liabilities

Equity increased by PLN 6,025.1, or by 176.1%, to PLN 9,446.3 as at December 31, 2014 from PLN 3,421.2 as at December 31, 2013. This change is mainly the result of: (i) the increase of the share capital of the Company by PLN 11.7 by way of issue of 291,193,180 shares and the share premium adjusted by the cost of issue in the amount of PLN 5,942.3, (ii) profit generated for the period ended December 31, 2014 in the amount of PLN 177.2, (iii) dividend payment in the amount of PLN 102.9.

As at December 31, 2014 and December 31, 2013 the value of our non-current liabilities amounted to PLN 1,967.9 and PLN 1,669.2, which constituted 57.4% and 64.2% of the Company's total liabilities, respectively.

As at December 31, 2014 and December 31, 2013 the value of our current liabilities amounted to PLN 1,462.2 and PLN 932.3, which constituted 42.6% and 35.8% of the Company's total liabilities, respectively.

Loans and borrowings (long and short-term) increased by PLN 2,236.1, or by 416.3%, to PLN 2,773.3 as at December 31, 2014 from PLN 537.2 as at December 31, 2013 due to the new Term Loan granted pursuant to the Senior Facilities Agreement of April 11, 2014, which was partially used to repay the debt under the senior facility agreement of 2011.

Senior Notes liabilities (long and short-term) decreased by PLN 1,434.9 or by 100.0%, to PLN 0.0 as at December 31, 2014 from PLN 1,434.9 as at December 31, 2013 due to the redemption of Series A unsecured registered notes acquired fully by Cyfrowy Polsat Finance, issued by the Company in 2011.

Finance lease liabilities (long and short-term) decreased by PLN 2.1, or by 56.8%, to PLN 1.6 as at December 31, 2014 from PLN 3.7 as at December 31, 2013.

Deferred income tax liabilities increased by PLN 3.9, or 4.2%, to PLN 97.7 as at December 31, 2014 from PLN 93.8 as at December 31, 2013.

Non-current and current deferred income increased by PLN 7.4, or by 3.5%, to PLN 220.8 as at December 31, 2014 from PLN 213.4 as at December 31, 2013 primarily due to advance payments for subscription fees and fees for leased set-top boxes.

The value of other non-current liabilities and provisions amounted to PLN 18.5 as at December 31, 2014, which constitutes an increase of PLN 11.3, or 156.9%, compared to PLN 7.2 as at December 31, 2013 primarily due to an increase in the value of deposits made by distributors.

The value of trade and other payables amounted to PLN 316.8 as at December 31, 2014 which constitutes an increase of PLN 12.1, or 4.0%, compared to PLN 304.7 as at December 31, 2013. This increase results i.a. from higher trade payables of the Company, partially off-set by a decrease of payables related to the purchase of non-current assets.

Income tax liabilities decreased by PLN 3.9 to PLN 0.0 as at December 31, 2014.

4.6.3. Cash flow analysis

The table below presents selected data from the consolidated cash flow statement for 2014 as well as 2013. All data is expressed in millions PLN.

	for the 12-month period ended December 31	
	2014	2013
Net cash from operating activities	376.3	447.5
Net cash from/(used in) investing activities	(781.3)	91.9
Net cash from/(used in) financing activities	392.2	(572.6)
Net increase/(decrease) in cash and cash equivalents	(12.8)	(33.2)

Net cash from operating activities

Net cash from operating activities amounted PLN 376.3 in 2014, which constitutes a decrease of PLN 71.2 compared to PLN 447.5 in 2013. The decrease in net cash from operating activities was mainly the result of lower net profit in the amount of PLN 177.2 generated in 2014 adjusted by a series of factors, the most significant being:

- higher costs of depreciation, amortization, impairment and disposal related to increased costs of depreciation of reception equipment leased to our customers;
- an increase of net additions of reception equipment provided under operating lease;
- lower revenue from dividends;
- lower interest costs;
- an increase in liabilities, provisions and deferred income in 2014 compared to a decrease in liabilities, provisions and deferred income in 2013;
- an increase in receivables and other assets in 2014 compared to a decrease in receivables and other assets in 2013;
- lower income tax and higher value of income tax paid;
- greater decrease of inventories in 2014 compared to the decrease in inventories in 2013;
- lower costs related to foreign exchange differences recognized in 2014 compared to 2013, primarily due to valuation of senior notes.

Net cash from/(used in) investing activities

Net cash used in investing activities amounted to PLN 781.3 in 2014 and comprises primarily the increase in the share capital of Metelem and expenditure on the purchase of property, plant and equipment, and intangible assets (in the amount of PLN 63.4).

Net cash used in finance activities

Net cash from financing activities amounted to PLN 392.2 in 2014 compared to PLN 572.6 used in 2013, and primarily resulted from:

- the Term Loan and Revolving Facility Loan granted pursuant to the Senior Facilities Agreement of April 11, 2014;
- the redemption of the Series A unsecured registered notes acquired fully by Cyfrowy Polsat Finance, issued by the Company in 2011;
- the repayment of the term loan granted under the Senior Facilities Agreement of 2011;
- repayments according to schedule of the Term Loan under the Senior Facilities Agreement of 2014;
- the partial repayment of the Revolving Facility Loan under the Senior Facilities Agreement of 2014;
- the payment of interest on loans, bonds, Cash Pool, financial lease and paid fees; and
- dividend payment.

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

In 2014 cash expenditures of Cyfrowy Polsat on the purchase of property, plant and equipment and intangible assets decreased by PLN 17.0, or 21.1%, to PLN 63.4 from PLN 80.4 in 2013. Cash expenditures on the purchase of property, plant and equipment and intangible assets in Cyfrowy Polsat comprised mainly investments related to the development of our offer, sales and customer service process, maintenance and development of IT systems, and the development and modernization of our call center.

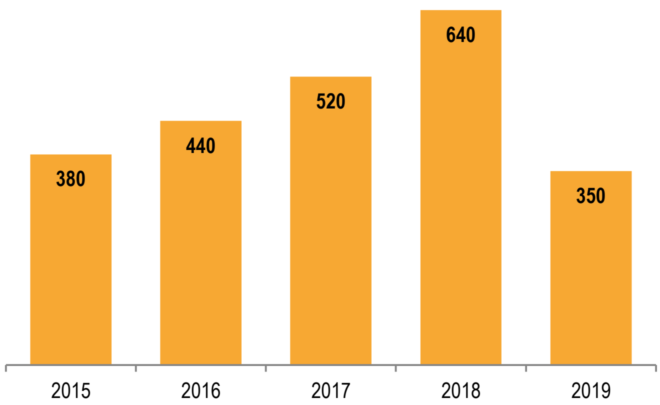
4.6.4. Liquidity and capital resources

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

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

The graph below presents the aging balance of the Company's debt, expressed in nominal values, as at December 31, 2014 (excluding the debt under the Revolving Facility Loan).

Aging balance of our debt [mPLN]



Senior Facilities Agreement executed by Cyfrowy Polsat

On April 11, 2014 the Company, acting as the borrower, together with Telewizja Polsat, Cyfrowy Polsat Trade Marks, Polsat License Ltd. and Polsat Media Biuro Reklamy entered into a Senior Facilities Agreement with a syndicate of Polish and foreign banks.

The Senior Facilities Agreement envisages granting a term facility loan up to a maximum amount of PLN 2,500.0 ('Term Facility') and a multicurrency Revolving Facility Loan up to a maximum amount of the equivalent of PLN 500.0 ('Revolving Facility Loan').

The Term Facility bears interest at a variable rate being the sum of the WIBOR rate for an appropriate interest period and the applicable margin, whereas the Revolving Facility Loan bears interest at a variable rate being the sum of, depending on currency of the debt, the WIBOR, EURIBOR or LIBOR rate for the appropriate interest period and the applicable margin. The margin on the Term Facility and the Revolving Facility Loan will depend on the level of the 'total leverage' ratio in such way that the lower it is, the lower the margin. The Term Facility will be repaid in quarterly installments of variable value, starting on June 30, 2014, with the final debt repayment date being April 11, 2019. The final date for the repayment of the full amount of the Revolving Facility Loan will also be April 11, 2019.

As at December 31, 2014, we used PLN 100.0 from the Revolving Facility Loan.

The receivables of the Company and the remaining debtors under the aforementioned facilities are secured by security interests established by the Company and other entities. In particular, such security interests include registered pledges over a collection of movables and property rights of a variable composition, constituting elements of the business enterprise of the Company and other appropriate entities, registered and financial pledges over shares in the Company's subsidiaries, the assignment of rights as security, mortgages, notarial representations on submission to enforcement and similar securities established upon shares in or assets of the Company's subsidiaries which are governed by foreign law. A detailed description of established securities is provided in item 4.6.5 - *Information on guarantees granted by the Company or subsidiaries.*

The Term Facility and the Revolving Facility Loan were used by the Company in particular:

(i) for repaying the whole indebtedness arising from or referred to in the following documents: (i) the senior facilities agreement of March 31, 2011, as amended, entered into between the Company (as the borrower) and certain financing parties; and (ii) the Indenture of May 20, 2011 concerning the issuance of debt securities and relating to Senior Secured Notes;

(ii) for repaying the whole indebtedness arising from or referred to in the PIK Notes Indenture of February 17, 2012; and

(iii) for the purpose of financing current operations of the Group.

The Senior Facilities Agreement provides, inter alia, for a possibility of: (i) the utilization of the aforementioned Facilities for the repayment of indebtedness under an Indenture of February 17, 2012 relating to PIK Notes (pay-in-kind notes) issued by Eileme 1; and (ii) the financing of acquisitions and other distributions permitted by the Senior Facilities Agreement.

Under the terms of the Senior Facilities Agreement, if the total leverage ratio stays below the threshold defined in the agreement, the Company will have the right to contract further facilities. Terms of such further facilities will be determined each time in an additional facility accession deed executed to contract such facility, but the repayment date of the additional facility may not be shorter than six months of the final repayment of the Term Facility Loan and the Revolving Facility Loan.

The sale of all or a substantial part of the Group companies or the Group's assets will also accelerate the existing debt.

The Senior Facilities Agreement is governed by English law, and any disputes arising in connection with the agreement are to be resolved within the exclusive jurisdiction of English courts. However, the governing law clause permits creditors to instigate proceedings before any court having relevant jurisdiction.

Contractual liabilities related to purchases of non-current assets

The total amount of contractual liabilities resulting from agreements on the production and purchasing of the technical equipment was PLN 0.0 as at December 31, 2014 (PLN 1.9 as at December 31, 2013). Total amount of capital commitments resulting from agreements on property improvements was PLN 8,4 as at December 31, 2014 (PLN 0 as at December 31, 2013). Additionally the amount of deliveries and services committed to under agreements for the purchases of licenses and software as at December 31, 2014 was PLN 0.3 (PLN 2.0 as at December 31, 2013).

Ratings

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

	Moody's Investor Services			Standard & Poor's Rating Services		
	Rating / perspective	Previous rating/ perspective	Update	Rating / perspective	Previous rating/ perspective	Update
CYFROWY POLSAT						
Corporate rating	Ba3 /stable	Ba2/stable	13.05.2014	BB/stable	BB/stable	30.04.2014
Term Facility Revolving Facility Loan	-	-	-	BB/stable	-	30.04.2014

4.6.5. Information on guarantees granted by the Company or subsidiaries

Securities related to the Senior Facilities Agreement executed by Cyfrowy Polsat

A number of encumbrances over assets of the Group were established by the Group companies in favor of UniCredit Bank AG, London Branch, acting as Security Agent, to secure the repayment of claims under the Senior Facilities Agreement of April 11, 2014.

(i) registered pledges over variable collections of movable property and rights comprised in enterprises of the Company, Cyfrowy Polsat Trade Marks, Polsat Media Biuro Reklamy and Telewizja Polsat;

(ii) financial and registered pledges on shares of Metelem, governed by Cypriot law, as well as on shares of Cyfrowy Polsat Trade Marks and Telewizja Polsat, governed by Polish law, with power of proxy to exercise corporate rights attached to shares in those companies;

(iii) financial and registered pledges over receivables under bank account agreements of the Company, Cyfrowy Polsat Trade Marks, Polsat Media Biuro Reklamy and Telewizja Polsat, governed by Polish law;

(iv) powers of attorney to bank accounts of the Company, Cyfrowy Polsat Trade Marks, Polsat Media Biuro Reklamy and Telewizja Polsat, governed by the Polish law;

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

(vi) assignment by way of security of property rights in Polsat Media Biuro Reklamy, governed by Polish law;

(vii) joint contractual mortgage under the Polish law on real properties owned by the Company;

(viii) assignment by way of security of receivables under hedging agreements payable to the Company, governed by English law;

(ix) assignment by way of security of rights under insurance of the assets referred to in item (i) and (vii) above;

(x) pledge over shares in Polsat Licence Ltd., governed by Swiss law;

(xi) assignment by way of security of (a) receivables due from various debtors; (b) receivables and rights under bank account agreements; and (c) rights under insurance contracts for the benefit of Polsat License Ltd, governed by Swiss law;

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

(xiii) pledge over rights attached to the shares and property rights in Polsat Brands (einfache Gesellschaft), governed by Swiss law; and

(xiv) representations on submission to enforcement under a notarial deed, made by the Company, Cyfrowy Polsat Trade Marks, Polsat Media Biuro Reklamy and Telewizja Polsat, governed by Polish law;

Additionally, the Company, Cyfrowy Polsat Trade Marks, Polsat Media Biuro Reklamy, Telewizja Polsat and Polsat License Ltd. granted certain guarantees to each party of the Senior Facilities Agreement and other finance documents executed in relation to the Senior Facilities Agreement, governed by the English law, with respect to the following:

(i) timely performance of the obligations under the Senior Facilities Agreement and other finance documents executed in relation to the Senior Facilities Agreement;

(ii) payment of any monies due under the Senior Facilities Agreement and other finance documents executed in relation to the Senior Facilities Agreement; and

(iii) indemnifying the financing parties referred to above against any costs and losses that they may incur in relation to the unenforceability, ineffectiveness or invalidity of any obligation secured by the said guarantees.

4.7. Information on market risks

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

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

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

The 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 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 (EUR and USD). Since 2011 the level of currency risk exposure has increased because of new financing denominated in EUR obtained to purchase Telewizja Polsat S.A.

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

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

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

	December 31, 2014				December 31, 2013			
	EUR	USD	GBP	CHF	EUR	USD	GBP	CHF
Trade receivables	3.8	0.2	-	-	2.6	0.1	-	-
Cash and cash equivalents	0.3	0.2	-	0.1	0.7	0.9	-	-
Issued bonds	-	-	-	-	(346.0)	-	-	-
Trade payables	(1.8)	(5.9)	-	-	(2.4)	(5.2)	-	-
Gross balance sheet exposure	**2.3**	**(5.5)**	**-**	**0.1**	**(345.1)**	**(4.2)**	**-**	**-**
CIRS	-	-	-	-	12.5	-	-	-
Net exposure	**2.3**	**(5.5)**	**-**	**0.1**	**(332.6)**	**(4.2)**	**-**	**-**

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

(in PLN)	Average rate		Rates at the reporting date	
	2014	2013	December 31, 2014	December 31, 2013
1 EUR	4.1852	4.1975	4.2623	4.1472
1 USD	3.1551	3.1608	3.5072	3.0120

For the purposes of exchange rate volatility sensitivity analysis as at December 31, 2014 and December 31, 2013 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 2013.

	2014					2013				
	As at December 31, 2014		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at December 31, 2013		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	3.8	16.4	5%	0.8	-	2.6	10.8	5%	0.5	-
USD	0.2	0.6	5%	-	-	0.1	0.4	5%	-	-
Cash and cash equivalents										
EUR	0.3	1.4	5%	0.1	-	0.7	3.0	5%	0.2	-
USD	0.2	0.7	5%	-	-	0.9	2.7	5%	0.1	-
GBP	-	0.1	5%	-	-	-	-	5%	-	-
CHF	0.1	0.3	5%	-	-	-	-	5%	-	-
Issued bonds										
EUR	-	-	5%	-	-	(346.0)	(1.434.9)	5%	(71.7)	-
Trade payables										
EUR	(1.8)	(7.8)	5%	(0.4)	-	(2.4)	(10.1)	5%	(0.5)	-
USD	(5.9)	(20.8)	5%	(1.0)	-	(5.2)	(15.7)	5%	(0.8)	-
GBP	-	-	5%	-	-	-	-	5%	-	-
CHF	-	-	5%	-	-	-	-	5%	-	-
Change in operating profit				**(0.5)**	**-**				**(72.2)**	**-**
CIRS										
EUR	-	-	5%	-	-	12.5	51.7	5%	0.6	2,0
Income tax				0.1	-				13.6	(0,4)
Change in net profit				**(0.4)**	**-**				**(58.0)**	**1.6**

	2014					2013				
	As at December 31, 2014		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at December 31, 2013		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	3.8	16.4	-5%	(0.8)	-	2.6	10.8	-5%	(0.5)	-
USD	0.2	0.6	-5%	-	-	0.1	0.4	-5%	-	-
Cash and cash equivalents										
EUR	0.3	1.4	-5%	(0.1)	-	0.7	3.0	-5%	(0.2)	-
USD	0.2	0.7	-5%	-	-	0.9	2.7	-5%	(0.1)	-
GBP	-	0.1	-5%	-	-	-	-	-5%	-	-
CHF	0.1	0.3	-5%	-	-	-	-	-5%	-	-
Issued bonds										
EUR	-	-	-5%	-	-	(346.0)	(1.434.9)	-5%	71.7	-
Trade payables										
EUR	(1.8)	(7.8)	-5%	0.4	-	(2.4)	(10.1)	-5%	0.5	-
USD	(5.9)	(20.8)	-5%	1.0	-	(5.2)	(15.7)	-5%	0.8	-
GBP	-	-	-5%	-	-	-	-	-5%	-	-
CHF	-	-	-5%	-	-	-	-	-5%	-	-
Change in operating profit				**0.5**	**-**				**72.2**	**-**
CIRS										
EUR	-	-	-5%	-	-	12.5	51.7	-5%	(0.6)	(2,0)
Income tax				(0.1)	-				(13.6)	0,4
Change in net profit				**0.4**	**-**				**58.0**	**(1.6)**

	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	0.4	-	(57.5)	1,6
USD	(0.8)	-	(0.5)	-
GBP	-	-	-	-
CHF	-	-	-	-
Estimated change in exchange rate by -5 %				
EUR	(0.4)	-	57.5	(1.6)
USD	0.8	-	0.5	-
GBP	-	-	-	-
CHF	-	-	-	-

Had the Polish zloty weakened 5% against the basket of currencies as at December 31, 2014 and December 31, 2013, the Company's net profit would have decreased by PLN 0.4 and decreased by PLN 58.0, respectively and other comprehensive income would have been unchanged in 2014 and increased by PLN 1.6 in 2013. Had the Polish zloty strengthened 5%, the Company's net profit would have correspondingly increased by PLN 0.4 in 2014 and increased by PLN 58.0 in 2013 and other comprehensive income would have been unchanged in 2014 and decreased by PLN 1.6 in 2013, 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	
	December 31, 2014	December 31, 2013
Fixed rate instruments		
Financial assets*	10	-
Financial liabilities*	(1.4)	(1,454.5)
Variable rate instruments		
Financial assets	13.3	26.0
Financial liabilities*	(2,810.0)	(568.4)
Net interest exposure	**(2,796.7)**	**(542.4)**

*Nominal debt

Cash flow sensitivity analysis for variable rate instruments (pre-tax effect):

	Income statement		Other comprehensive income		Equity	
	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp
December 31, 2014						
Variable rate instruments*	(28.0)	28.0	17.0	(17.0)	(11.0)	11.0
Cash flow sensitivity (net)	**(28.0)**	**28.0**	**17.0**	**(17.0)**	**(11.0)**	**11.0**
December 31, 2013						
Variable rate instruments*	(5.4)	5.4	3.1	(3.1)	(2.3)	2.3
Cash flow sensitivity (net)	**(5.4)**	**5.4**	**3.1**	**(3.1)**	**(2.3)**	**2.3**

* 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.

Information regarding financial instruments related to:

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

are described in Note 35 of the financial statements for the financial year ended December 31, 2014.

5. Risk Factors

5.1. Risks related to market environment and economic situation

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

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

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

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

The Company faces competition from entities offering alternative forms of entertainment and leisure

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

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

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

As at the date of this report, nc+, a platform launched in late 2012 following the merger of Cyfra+ and the n platform, is our main competitor on the direct-to-home (DTH) TV market. Apart from other direct DTH competitors, we also compete with broadcasters using other technologies, such as terrestrial, cable and Internet television. Furthermore, we expect growing competition from joint ventures and strategic alliances between providers of cable and satellite TV and telecommunications operators. It is also probable that we will have to face foreign competitors entering the Polish market. Losing customers to our competitors may have a material adverse effect on our business, financial condition, results of operations or prospects.

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

Following completion of the digital switchover process in July 2013, the number of terrestrial FTA TV channels has risen considerably, and their programming is becoming increasingly more attractive, which may reduce the demand for our DTH and DVB-T pay TV services, leading to strong customer churn. This may have a material adverse effect on our business, financial condition, results of operations or prospects.

We are exposed to currency risks

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

We may be exposed to currency risk in relation to the multi-currency Revolving Facility Loan, since movements in the exchange rate of the euro, dollar or any other currency provided for in the Senior Facilities Agreement dated 11 April 2014 against the złoty may increase the złoty-denominated amounts required to service principal and interest payments under the Revolving Facility Loan.

We are exposed to interest rate risk

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

Despite the fact that the Company intends to maintain certain hedging positions the goal of which is to hedge against WIBOR fluctuations, there is no certainty that such a hedging will be still possible or whether it will be available on acceptable terms. The Company analyzes its interest rate risk on an on-going basis, including the refinancing and risk hedging scenarios, which are used to estimate the impact of the specific interest rate fluctuations on our financial result. Interest rate fluctuations may affect our ability to meet our current liabilities, which may have a material adverse effect on our business, financial condition, results of operations or prospects.

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

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

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

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

To some extent, the profitability of our operations depends on our ability to obtain broadcasting rights to the most attractive programmes in a cost-effective manner. Consequently, if customers do not accept our programming offer or we are unable to acquire broadcasting rights in a profitable manner, it may have a material adverse effect on our financial condition, results of operations or prospects.

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

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

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

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

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

External providers provide us with support services and deliver equipment and infrastructure necessary for us to conduct our operations. We have little to no influence over how and when these third-party providers perform their obligations.

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

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

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

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

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

We may be unable to keep pace with new technologies used in our markets

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

Compression, signal encoding and customer management systems vital to the correct functioning of our satellite centre, set-top boxes manufactured 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 and when needed may result in disruption of our pay TV services, which may in turn cause an outflow of customers to competitors who have brought their technologies up to date.

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

It is expected certain communications technologies that are currently under development, namely LTE, LTE-Advanced, VOLTE, as well as fibre optics technology allowing for faster data transmission and lower unit cost per GB transferred traffic, to become increasingly important in the markets in which we operate. Technological developments may also shorten product life cycles and facilitate convergence of various segments in the telecommunications industry. In addition, we cannot currently predict how emerging and future technological changes will affect the Group's operations, nor can it predict that new technologies required to support its planned services will be available when expected, if at all.

Given the fast pace of technological change and customers' growing expectations, and considering the risk that our competitors may offer telecommunications products and services that are based on new technologies which are more technologically advanced, less costly or otherwise more attractive to customers than those provided by us, we may be required to rapidly deploy new technologies, products or services. The rapid evolution of technology in the markets in which we operate and the complexity of our information technology systems, as well as a number of other factors, including economic ones, may affect our ability to timely launch new technologies, products or services. We cannot guarantee that we will correctly predict the development of new technologies, products or/and the demand for products and, therefore, that we will at an appropriate moment devote appropriate amounts of capital and resources to develop the necessary technologies, products or services that will satisfy existing customers and attract new customers. If we fail to implement new technologies, products or services or implement such new technologies, products or services too late, it may render our technologies, products or services less profitable or less attractive than those offered by its competitors. In addition, new or enhanced technologies, services or products we introduce may fail to achieve sufficient market acceptance or experience technical difficulties. We may also be unable to recover the investments it has made or may make to deploy these technologies, services and products and therefore no assurance can be given that we will be able to do so in a cost efficient manner, which would also reduce our profitability. Moreover, we may not be able to obtain funding, in sufficient amounts on reasonable terms, in order to finance capital expenditures necessary to keep pace with technological developments and with the competitors.

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

A substantial increase in data volumes transmitted by our customers as part of their packages may result in higher-than-expected increase in national roaming costs

Under PLK Wholesale Agreement, concluded on March 9, 2012 by and between Mobyland and Polkomtel, we purchased from LTE Group, via Polkotem, a data transmission service at agreed rates per GB of transmitted data. Under the retail data transmission service model prevailing on the Polish market, customers sign contracts for a defined number of months, under which we provide individual and business customers with predefined data allowances or with packages without data transmission limits, where bandwidth is reduced after a specified amount of transmitted data is exceeded, or without any limitations. In the face of market competition, we may be forced to offer our individual and business customers more attractive solutions by increasing contract data allowances or removing limits altogether, or individual and business customers may use the data transmission service under their existing packages to a greater extent than originally anticipated by us, which may result in higher costs of the wholesale data transmission service provided to us by LTE Group under the aforementioned PLK Wholesale Agreement. There can be no assurance that in such a situation we will be able to effectively renegotiate the terms of this agreement. Consequently, this may substantially reduce the profitability of our data transmission services, and have a material adverse effect on our business, financial condition, results of operations or prospects.

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

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

We may lose our management staff and key employees

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

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

To reduce acquisition costs of satellite TV reception equipment and to be able to offer our pay TV customers the option to purchase or lease set-top boxes at lower prices, we are currently producing most of the set-top boxes we offer to our customers at our own production facility in Poland. At the end of 2014, our set-top boxes accounted for more than 95% of all the set-top boxes sold or otherwise made available to our pay TV customers. Should any batch of the set-top boxes we have manufactured prove defective and need to be withdrawn from the market, we are under the obligation to replace the set-top boxes we have made available to our customers and to cover (potentially considerable) costs of replacing or repairing any set-top boxes we have sold on the market. Furthermore, the withdrawal of reception equipment due to its defectiveness could be harmful to our reputation. Any problems with production of set-top boxes would force us to acquire larger numbers of set-top boxes from third-party suppliers. There can be no assurance that we will be able to purchase a sufficient number of set-top boxes from third-party suppliers when required. Furthermore, the cost of acquiring from third-party suppliers of the vast majority of set-top box models we offer would be much higher than the cost of manufacturing them at our own plant. If we were unable to obtain set-top boxes from third-party suppliers on satisfactory pricing terms, we might have to raise the prices for our customers to cover our increased depreciation expense. Moreover, if the deliveries of set-top boxes we managed to procure were insufficient to meet the demand, our reputation among our current and potential customers would suffer. As our production of set-top boxes is based on components purchased from third-party contractors, there is a risk that we lose access to such components, for instance due to discontinuation of their production or changes in technologies or products. Losing access to certain components would force us to redesign our set-top boxes, which could affect continuity of their production and supplies to our customers. Any difficulties in the production of most of our set-top boxes at our own production plant could lead to a loss of our current customers or adversely affect our ability to acquire new customers for our pay TV services. Any disruption to our set-top box production and subsequent necessity to procure more set-top boxes from third-party suppliers could adversely affect our reputation and lead to erosion of our brand value, which could have a material adverse effect on our business, financial condition, results of operations or prospects.

Our further effective cooperation with LTE Group may prove impossible in the future

Polkomtel's ability to efficiently roll-out the LTE/HSPA+ network and offer large-scale LTE/HSPA+ services, and thus a possibility to capitalise on the early entrant advantage in LTE combined with its broad coverage, depends to a significant extent on Polkomtel's effective cooperation with LTE Group under Network Sharing Agreement, concluded on March 30, 2012 between Aero2 Sp. z o.o and Polkomtel, and PLK Wholesale Agreement, concluded on March 9, 2012 between Mobyland and Polkomtel. There can be no assurance that these agreements are not terminated before their expiry, are renewed for subsequent periods on the current terms or on terms more favorable to us or that LTE Group companies perform their contractual obligations towards Polkomtel, including when faced with events and factors outside LTE Group's control. There can be no assurance, either, that the scale of Polkomtel's cooperation with LTE Group is sufficient to support further effective extension of the LTE/HSPA+ network. Moreover, there can be no assurance that under PLK Wholesale Agreement, we will be able to secure sufficient wholesale access to LTE Group's LTE/HSPA+ network, or that it will be able to secure the access on acceptable terms. If any of these occurs, Polkomtel may have to develop the LTE/HSPA+ network independently, which may prove an extremely time- and money-consuming process, and thus may have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

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

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

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

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

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

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

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

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

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

The President of UKE supervises our telecommunication operations. As part of our telecommunications services, we mainly provide mobile voice services in the MVNO model and broadband Internet access. Telecommunications undertakings operating in Poland are subject to a number of legal and administrative requirements having a direct impact on their business, both in relations with individual and business customers (for instance, by specifying the scope of customers' rights or the content of standard terms and conditions for the provision of telecommunications services, setting caps for pricing of international roaming services, or restricting the maximum time for which contracts can be concluded with customers). We cannot give any assurance that we will be able to meet the multiple requirements imposed on us by the Polish Telecommunications Law. In the event of our non-compliance with any provisions of the Telecommunications Law, we may face a fine from the President of UKE of up to 3% of our revenue generated in the year preceding the year in which such fine is imposed.

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

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

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

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

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

Our broadcasting licences may be revoked or may not be renewed

Our business requires that we obtain licences issued by the National Broadcasting Council (KRRiT). These licences may be revoked or may not be renewed. Broadcasting of TV programmes by DTH service providers requires no licence, only registration by the Chairperson of KRRiT.

Our mobile pay TV services use the 470–790 MHz band, which has been allocated to us for a definite term. There can be no assurance that this allocation will be extended prior to its expiry. In particular, pursuant to the Telecommunications Law, our frequency allocation may not be extended or may be revoked by the President of UKE in case of a gross breach of the terms of its use, or if revocation of the frequency allocation follows from the necessity to ensure equal and effective competition or substantially better use of frequencies, especially if the extension of the allocation would lead to excessive frequency concentration within the Company.

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

We may not be able to realize the benefits expected from acquisition of Metelem Holding Company Limited or from future acquisitions

The success of the acquisition of Metelem Holding Company Limited, a company which indirectly controls Polkomtel , will depend, inter alia, on our ability to successfully implement our strategy which assumes integration of our business processes to achieve significant cost and revenue synergies. The transaction will result in significant expansion of our operations, and therefore we intend to take steps to integrate business processes of Metelem's subsidiaries within our enlarged capital group. If we are unable to achieve all or some of our objectives, the benefits of the Transaction, including the expected revenue and cost synergies, might differ from what has been originally planned, may not be fully realised, may not be realised at all, or may take longer to be fully realised.

We cannot rule out that the post-Transaction integration of our business processes may lead to the loss of our key staff, interruption of day-to-day operations in our current business segments, or inconsistencies in our standards, procedures and policies, which could affect our ability to continue good relations with our employees and third parties or to fully realise the potential benefits of the Transaction. In particular, in order to achieve the expected objectives of the transaction, we must identify and optimise certain areas of our business and certain assets across our organisation. Our inability to realise the expected benefits of the transaction fully or at all, or any delays in the integration process may have a significant adverse effect on our business. The integration process may also bring about additional unexpected expenses, while the expected benefits of the integration process may not be achieved. This may have a material adverse effect on our business, financial condition, results of operations or prospects.

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

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

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

Our ability to service and repay debt depends on future results of our operations and our ability to generate sufficient cash flows to pay these and other liabilities, which in turn depends, to a significant extent, on the general economic climate, financing terms, market competition, acts of law and secondary legislation, and a number of other factors which are often outside of our control. If our future operating cash flows and other capital resources prove insufficient to repay our liabilities as they fall due or cover our liquidity requirements, we may lose our property, plant and equipment which serve as security for the repayment of our debts, or we may be forced to (i) restrict or postpone certain business and investment projects; (ii) dispose of assets; (iii) incur more debt or raise new capital; or (iv) restructure or refinance our debts, in part or in full, at or prior to their maturity. The terms and conditions of our debts limit our ability to take the above measures. Therefore, we cannot guarantee that they will be taken on commercially reasonable terms, or at all, if need arises.

Also, the refinancing of our debt on unfavorable market terms would require us to pay higher interest rates or observe more stringent covenants, which could further restrict our business activity. If our debt financing increased, the related risks would also increase. Moreover, any significant adverse change in financial market liquidity, resulting in tighter lending terms and debt or equity financing constraints, may restrict our access to financing sources and increase our borrowing costs, which could significantly affect our ability to achieve and manage liquidity, raise additional capital, or restructure or refinance our existing debt.

Our facility agreement provides for a number of restrictions and obligations (including maintaining specified financial ratios), limiting the Company's ability to incur new debt for financing future operations or to pursue business opportunities and activities that may be in our interest.

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

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

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

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

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

In the event of a change of control of the Company within the meaning of the Senior Facilities Agreement, we are under the obligation to repay our liabilities under both agreement. Moreover, if a change of control takes place, our ability to repay our debt will be limited by the level of available funds at the time. There can be no assurance that those funds will be sufficient to repay outstanding debts. In view of the above, we believe that in the case of change of control over the Company, we would require additional financing in order to repay the debt.

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

5.4. Risk factors associated with the legal and regulatory environment

The complexity, lack of clarity, and frequent amendments of Polish tax laws may lead to disputes with tax authorities

Tax laws in Poland are complex, unclear and subject to frequent and unpredictable changes. Therefore, the application of tax regulations by taxpayers and tax authorities gives rise to controversies and disputes, which are usually finally settled by administrative courts.

Frequent amendments to the tax framework and difficulties in interpreting tax laws applied in practice hinder our day-to-day work and smooth tax planning. This creates uncertainty as to the application of tax regulations in our everyday business and makes it error-prone. In addition, tax laws are often interpreted and applied by tax authorities in an inconsistent manner.

Moreover, there are discrepancies between the way tax authorities apply tax laws in practice and in rulings of administrative courts. There is a risk that tax interpretations and decisions issued by competent authorities may be unpredictable or even contradictory.

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

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

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

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

Despite monitoring the risk in individual business areas, there can be no guarantee that disputes with tax authorities regarding assessment of tax effects of individual events and transactions typical for our operations and the sector in which we operate will not occur, and consequently that the tax authorities will not question the correctness of tax settlements on non-statute-barred tax liabilities of Cyfrowy Polsat (including conformity with the taxpayer's obligations), and will not determine the existence of tax arrears of the Company. There is also a risk that tax authorities may question financial terms of individual events and transactions. This may have a material adverse effect on our business, financial condition, results of operations or prospects.

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

Our operations are reviewed by UOKiK to ensure that we comply with Polish laws prohibiting practices that limit competition or violate the collective interests of consumers, including providing inaccurate information to customers, dishonest market practices or use of abusive contract clauses. In addition, the President of UOKiK and natural persons can bring court actions against us to determine whether our standard consumer contracts contain any abusive clauses. If a court finds any of our practices or contract terms to be misleading or in conflict with Polish competition and consumer protection laws, we may be subject to fines and our reputation could be harmed. In addition, if any clauses in our standard consumer contracts are considered abusive by UOKiK, they will be entered in the Register of Abusive Contract Clauses maintained by the President of UOKiK and their application will be no longer possible, which will require amendment to our standard contracts.

If the President of UOKiK determines that any of our practices had the effect of limiting competition or violating consumer rights, we could be required to discontinue the unlawful practice. In addition, the President of UOKiK could impose on us a cash fine of up to 10% of our revenue generated in the financial year immediately preceding the year in which the fine is imposed. Moreover, if we, even unintentionally, fail to provide the President of UOKiK with the required information or provide misleading information, a fine of up to EUR 50 million may be imposed on us.

Any decisions by the President of UOKiK or by appeals bodies confirming our infringement could also result in claims for damages by consumers, contractors and competitors. The potential amount of such claims is difficult to assess but may be significant. In addition to proceedings pending before the President of UOKiK, consumers can bring court actions against us, claiming that certain provisions of our standard customer contracts violate consumer protection laws. If any of our practices or contract terms are deemed to be misleading or in conflict with Polish consumer protection laws, we may be subject to fines and our reputation could be harmed, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, expansion of consumer protection legislation, including a newly introduced act that allows for 'group claims', could increase the scope or scale of our potential liability or the scope of consumer rights. For example, there has been an extension of the range of situations in which customers are entitled to terminate their agreements without obligation to pay any contractual penalty. This may happen, among others, in the event of changes in the terms and conditions of agreements even if such amendment is in customers' favor. Such early terminations of agreements with our customers may result in a significant increase in our customer retention costs and churn rate. Such events may have a material adverse effect on our business, financial condition, results of operations and prospects.

6. Other information important for the assessment of the Company's personnel, economic and financial position, as well as financial results

6.1. Material transactions concluded by the Company with related parties on conditions other than market conditions

Transactions concluded in 2014 by us with entities related to Cyfrowy Polsat have all been concluded on market conditions and are described in Note 38 of the financial statements for the financial year ended December 31, 2014.

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

Management believes that the provisions for litigations as at December 31, 2014 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.

6.3. 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 2014.

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

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

7. CYFROWY POLSAT ON THE CAPITAL MARKET

7.1. Cyfrowy Polsat shares

Shares of Cyfrowy Polsat are listed on the Warsaw Stock Exchange since May 6, 2008.

The table below presents the characteristics of the shares issued as of December 31, 2014:

Series	Number of shares	Type of shares	Number of votes at the General Meeting	Face value /PLN
A	2,500,000	Preference shares (2 voting rights)	5,000,000	100,000.00
B	2,500,000	Preference shares (2 voting rights)	5,000,000	100,000.00
C	7,500,000	Preference shares (2 voting rights)	15,000,000	300,000.00
D	166,917,501	Preference shares (2 voting rights)	333,835,002	6,676,700.04
D	8,082,499	Ordinary bearer shares	8,082,499	323,299.96
E	75,000,000	Ordinary bearer shares	75,000,000	3,000,000.00
F	5,825,000	Ordinary bearer shares	5,825,000	233,000.00
H	80,027,836	Ordinary bearer shares	80,027,836	3,201,113.44
I	47,260,690	Ordinary bearer shares	47,260,690	1,890,427.60
J	243,932,490	Ordinary bearer shares	243,932,490	9,757,299.60
Total	**639,546,016**		**818,963,517**	**25,581,840.64**
including:	179,417,501	Registered	358,835,002	7,176,700.04
	216,196,025	Floating	216,196,025	8,647,841.00

The current share capital of the Company is PLN 25,581,840.64, divided into 639,546,016 shares. At present, the total number of votes at the General Meeting is 818,963,517.

The shareholding structure as at the date of publication of this Report together with a description of changes in the structure of ownership of significant number of shares of the Company in the period since the publication of the last periodic report are set forth in detail in item 8.5 – *Corporate Governance Statement – Share capital and shareholding structure of Cyfrowy Polsat*.

Basic data on the Cyfrowy Polsat shares in trading

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

International Securities Identification Number (ISIN)	PLCFRPT00013 (1)

Cyfrowy Polsat's identification codes

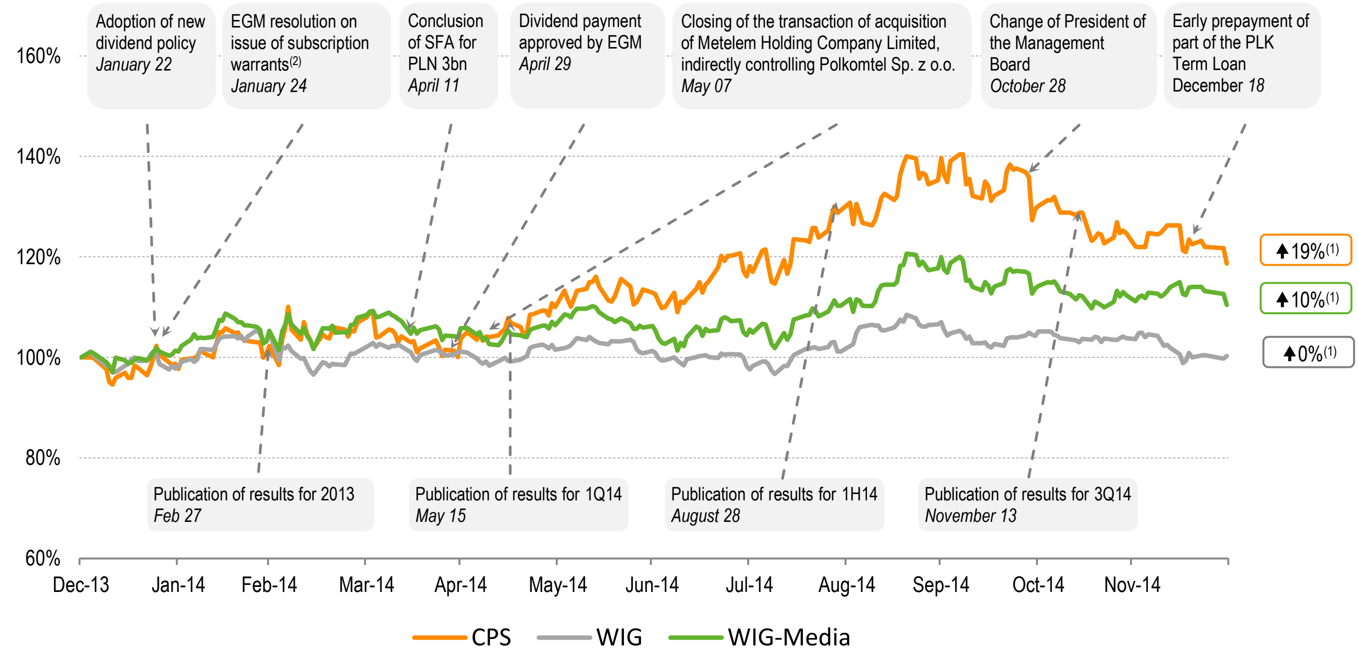
WSE	CPS
Reuters	CYFWF.PK
Bloomberg	CPS:PW

(1) Shares admitted to trading on the WSE.

7.2. Shares quotes

Performance of Cyfrowy Polsat shares in 2014

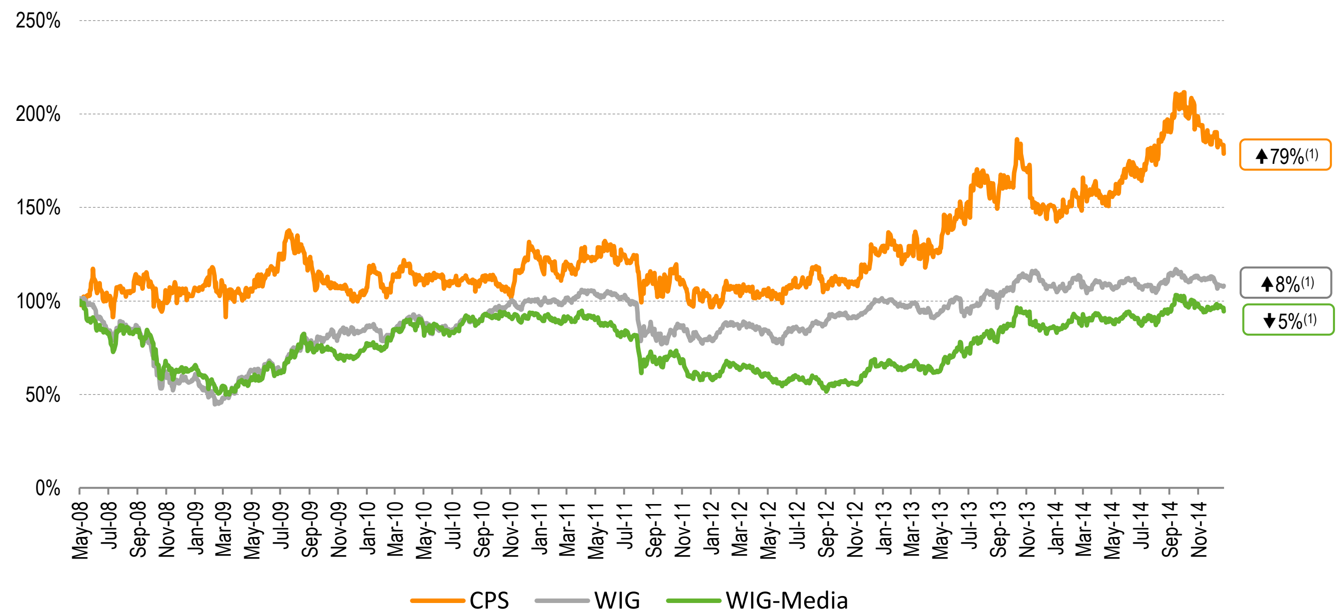
(indexed; 100 = closing price on December 30, 2013)



(1) change Dec. 30, 2014 vs Dec. 30, 2013

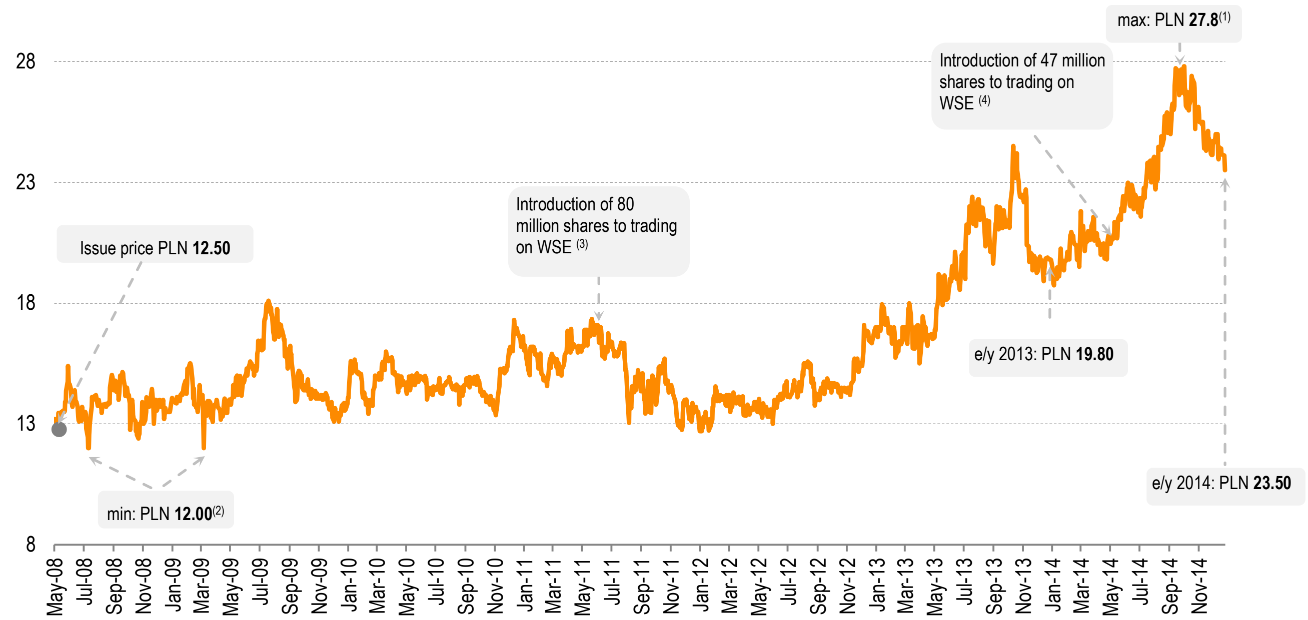
Performance of Cyfrowy Polsat shares since the debut on the WSE in May 2008 until the end of 2014 compared to WSE indexes

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



(1) change Dec. 30, 2014 vs May 6, 2008

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



(1) share price on October 6-7, 2014

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

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

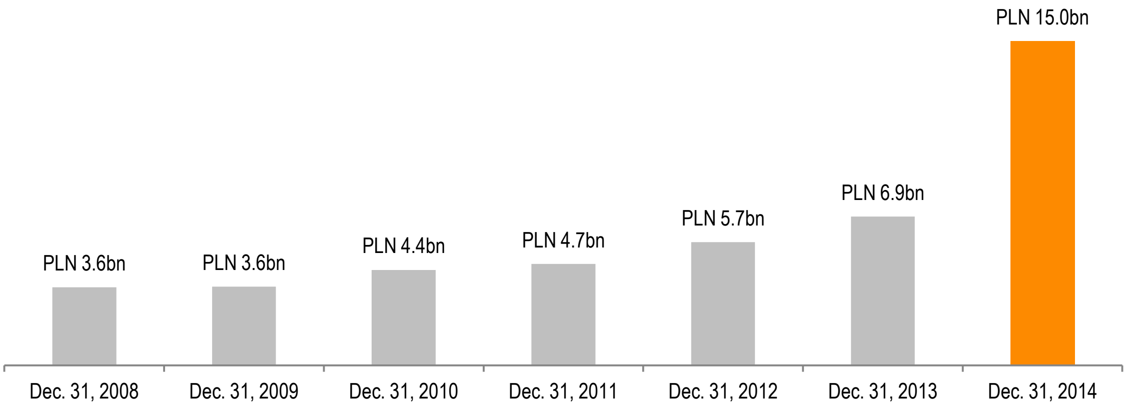
(4) On May 7, 2014 the Company issued 47,260,690 Series I shares and 243,932,490 Series J shares with the nominal value of PLN 0.04 each. On May 14, 2014 these shares were registered in the Central Securities Depository of Poland with ISIN codes PLCFRPT00013 and PLCFRPT00021, respectively. Series I shares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

Cyfrowy Polsat shares on the stock exchange in 2014

		2014	2013
Year-end price	PLN	23.50	19.80
High for the year	PLN	27.80	24.50
Low for the year	PLN	18.73	15.50
Average for the year	PLN	22.86	19.28
Average daily turnover	PLN ‘000	9,966	6,694
Average daily trading volume	shares	439,978	347,301
Number of shares (as at year-end)	shares	639,546,016	348,352,836
Bearer shares	shares	216,196,025	168,935,335
Market capitalization (as at year-end)	PLN ‘000	15,029,331	6,897,386

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

In terms of market capitalization, that amounted to PLN 15.0 billion as of the end of 2014, Cyfrowy Polsat is the largest media and telecommunications company quoted on the Warsaw Stock Exchange and in Central Eastern Europe.



7.3. Recommendations

Brokers covering the Company:

Local

- Dom Maklerski BDM S.A.
- Dom Maklerski BOŚ S.A.
- Dom Maklerski BZ WBK S.A.
- Dom Maklerski mBanku S.A.
- Dom Maklerski PKO BP S.A.
- Trigon Dom Maklerski S.A.
- IPOPEMA Securities S.A.
- Pekao Investment Banking S.A.

International

- Banco Espírito Santo de Investimento, S.A.
- Deutsche Bank Securities S.A.
- ERSTE Group Research
- Goldman Sachs
- ING Securities S.A.
- Raiffeisen Centrobank AG
- UBS Investment Bank

Recommendations for the shares of Cyfrowy Polsat published in 2014

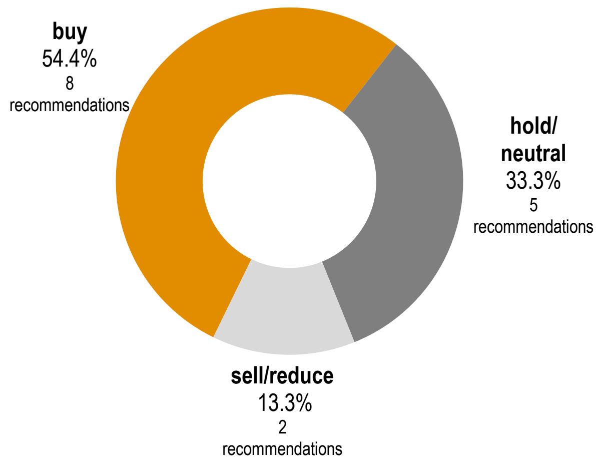
Issue date	Insitution	Target price		Recommendation [PLN]
December	ING Securities S.A.	↑	Buy	29.10
December 15	DM mBanku S.A.	↓	Reduce	22.00
December 11	Banco Espírito Santo de Investimento, S.A.	↑	Buy	29.10
December 10	Pekao Investment Banking S.A	–	Hold	26.00
December 8	Trigon Dom Maklerski S.A.	↑	Buy	29.40
December 4	DM PKO BP S.A.	↑	Buy	28.40
October 24	Deutsche Bank Securities S.A.	–	Hold	28.00
October 20	Dom Maklerski BZ WBK S.A.	↑	Buy	32.20
October 13	UBS Investment Bank	↑	Buy	30.00
September 16	ING Securities S.A.	↑	Buy	29.90
September 1	Dom Maklerski BOŚ S.A.	–	Hold	26.50
August 4	Dom Maklerski BZ WBK S.A.	↑	Buy	31.40
July 22	Banco Espírito Santo de Investimento, S.A.	↑	Buy	27.10
July 21	Raiffeisen CENTROBANK	↑	Buy	26.50
July 21	Goldman Sachs	–	Neutral	25.90

Issue date	Insitution	Target price	Recommendation [PLN]
July 17	Dom Maklerski BOŚ S.A.	↑ Buy	26.50
July 10	Deutsche Bank Securities S.A.	↑ Buy	27.00
June 23	DM PKO BP S.A.	– Hold	23.60
June 26	Pekao Investment Banking S.A.	↑ Buy	26.00
June 25	UBS Investment Bank	↑ Buy	27.00
May 23	ING Securities S.A.	↑ Buy	24.70
April 30	Trigon Dom Maklerski S.A.	↑ Buy	26.40
March 27	Deutsche Bank Securities S.A.	– Hold	22.60
March 17	Raiffeisen Centrobank AG	– Hold	23.20
February 11	ING Securities S.A.	– Hold	21.20
January 13	Raiffeisen Centrobank AG	↑ Buy	23.20
January 10	DM mBanku S.A.	↑ Buy	24.10

Recommendations issued in 2015 published after the reporting date

February 18	Raiffeisen Centrobank AG	↑ Buy	29.00
February 17	Goldman Sachs	– Neutral	27.30
February 11	Dom Maklerski BZ WBK S.A.	↑ Buy	31.10
February 10	ERSTE Group Research	– Hold	26.00
February 2	Trigon Dom Maklerski S.A	↑ Buy	28.80
January 19	IPOPEMA Securities S.A.	↑ Buy	26.70
January 19	Dom Maklerski BDM S.A.	↓ Reduce	20.11
January 16	Deutsche Bank Securities S.A.	– Hold	26.00

Recommendations structure as at March 3, 2015



Target price as at March 3, 2015 [PLN]

minimum	20.11
maximum	31.10
average	**27.07**

7.4. Close dialogue with the capital market

Our corporate strategy aims to create sustainable value of the Company. We support this strategy through regular and open communication with all capital market participants.

In order to ensure current access to information we participate in conferences with investors, we organize numerous individual meetings and roadshows both in Europe and in the United States. Moreover, every quarter, after the publication of financial results, we organize periodical meetings with investors and sell-side analysts as well as teleconferences with the members of the Company's management. Both events have an open character.

In 2014, we participated in over 180 meetings and teleconferences with 220 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.

7.5. Dividend policy

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

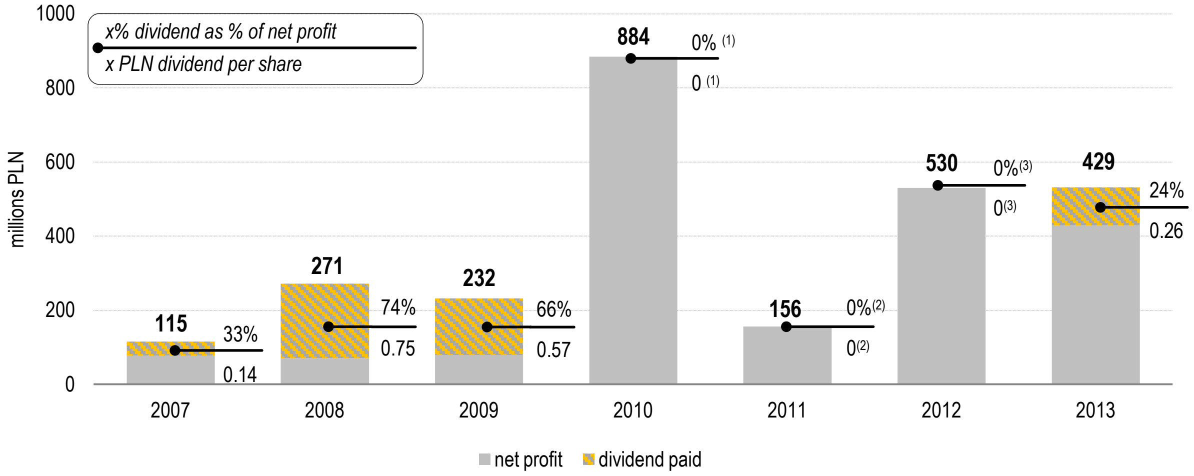
When preparing the recommendation for the distribution of the Company's profit and the dividend payment, the Management Board will also take into consideration: the amount of standalone net profit achieved by the Company, the financial condition of the Company's capital group, existing obligations (including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

Acting in accordance with resolution no. 20 of the Ordinary General Meeting, held on April 29, 2014, regarding profit distribution, the Company's total standalone net profit for the financial year ended December 31, 2013 in the amount of PLN 429 million was appropriated as follows:

- PLN 102.9 million to dividends payable to the shareholders of the Company;
- PLN 326.1 million to the supplementary capital.

The number of shares carrying the right to dividend was 395,613,526, of which 348,352,836 were Series A to Series H shares of the Company and 47,260,690 were Series I shares, which were issued by the Company under conditional increase in the share capital approved by the Extraordinary General Meeting of 16 January 2014. The dividend payment day was June 6, 2014.

History of profit sharing



(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

8. CORPORATE GOVERNANCE STATEMENT

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

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.

8.2. Principles of corporate governance that the Company has waived

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 2014, 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 I point 9a on the occasion of the General Meetings of the Company held in 2014. 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.

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

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

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

In order to ensure the accuracy and reliability of the accounts of the parent and subsidiary companies, we apply Accounting Policies for Cyfrowy Polsat S.A. Group and various 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 long-term business projections. Both financial and operating results are monitored regularly in relation to the financial and operational plans. During the year, we perform 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.

An audit committee, appointed within the Company's Supervisory Board, supervises the financial reporting process in the Company. The Audit Committee oversees the financial reporting process, in order to ensure sustainability, transparency and integrity of financial information. The audit committee includes two members of the Supervisory Board, who meet the independence criteria set out in the Best Practices of WSE Listed Companies in Chapter III, Section 6 and the requirements of the Act of May 7, 2009 'On chartered auditors and their governing bodies, entities entitled to audit financial statements and on public supervision' in article 86 item 4.

Moreover, under Article 4a of the Polish Accounting Act of 29 September 1994 of the accounting act, the duties of the Supervisory Board include ensuring that the financial statements and the report on activities meet the requirements of the law, and the Supervisory Board carries out this duty, using the powers under the law and the articles of association of the Company. This is yet another level of control exercised by an independent body to ensure the accuracy and reliability of the information presented in the standalone and consolidated financial statements.

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

On November 14, 2014, 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, 2014 of Cyfrowy Polsat S.A. and the consolidated financial statements of Cyfrowy Polsat Group for the financial year ended December 31, 2014.

The following summary presents a list of services provided by the certified auditor and remuneration for the services (expressed in millions PLN) in the twelve month period ended on December 31, 2014 and December 31, 2013.

	For the year ended	
	December 31, 2014 [mPLN]	December 31, 2013 [mPLN]
Remuneration for audit of the financial statements for the year and other certifying services, including the review of financial statements	0.5	0.4
Other services	0.3	0.4
Total	**0.8**	**0.8**

8.5. Share capital and shareholding structure of Cyfrowy Polsat

8.5.1. Shareholders holding, directly or indirectly, material bundles of shares

The following table presents shareholders of Cyfrowy Polsat S.A. possessing material bundles of shares at as the date of publication of this Report. Information included in the table is based on the information received from shareholders pursuant to Art. 69 of the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies.

Shareholder	Number of shares	% of shares	Number of votes	% of votes
Reddev Investments Limited (1), including:	**154,204,296**	**24.11%**	**306,709,172**	**37.45%**
- privileged registered shares	152,504,876	23.85%	305,009,752	37.24%
- ordinary bearer shares	1,699,420	0.27%	1,699,420	0.21%
Argumenol Investment Company Limited (2)	**28,415,173**	**4.44%**	**28,415,173**	**3.47%**
Embud Sp. z o.o. (2)	**29,648,775**	**4.64%**	**29,648,775**	**3.62%**
Karswell Limited (2)	**157,988,268**	**24.70%**	**157,988,268**	**19.29%**
Sensor Overseas Limited (3), including:	**54,921,546**	**8.59%**	**81,662,921**	**9.97%**
- privileged registered shares	26,741,375	4.18%	53,482,750	6.53%
- ordinary bearer shares	28,180,171	4.41%	28,180,171	3.44%
Others	**214,367,958**	**33.52%**	**214,539,208**	**26.20%**
Total	**639,546,016**	**100.00%**	**818,963,517**	**100.00%**

(1) Reddev Investments Limited is a direct subsidiary of Pola Investments Limited controlled by TiVi Foundation, the dominant entity of which is Mr. Zygmunt Solorz-Żak.
(2) Entity controlled by Mr. Zygmunt Solorz-Żak.
(3) Entity controlled by EVO Foundation with its registered seat in Vadus, Liechtenstein.

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

On December 23, 2014, Sensor - the Company's shareholder - issued new shares (representing ca. 76% of Sensor's capital following its increase) which have been taken up by EVO Holding Ltd., seated in Road Town, Tortola, British Virgin Islands ('EVO'), being a subsidiary of EVO Foundation, seated in Vadus, Liechtenstein ('the Foundation') , which resulted in Sensor becoming an indirect subsidiary of the Foundation.

Prior to the above mentioned share issue by Sensor, the Foundation did not hold any shares in the Company, either directly or indirectly.

Following the above mentioned share issue by Sensor, the Foundation holds, via Sensor, for which EVO, a subsidiary of the Foundation, is a directly dominant entity, 54,921,546 shares in the Company, constituting 8.59% of the Company's share capital which represent 81,662,921 votes at the general meeting of the Company, which constitutes 9.97% of the total number of votes in the Company, including:

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

The above mentioned issue of shares resulted in the loss by Mr. Heronim Ruta of his status of a dominant entity to Sensor. There exist no subsidiaries of Mr. Heronim Ruta which hold shares in the Company.

On December 30, 2014, Argumenol, entity controlled by Mr. Solorz-Żak, disposed to Embud Sp. z o.o. ('Embud') seated in Warsaw, Poland, entity also controlled by Mr. Solorz-Żak 29,648,775 ordinary series J bearer shares of the Company.

Before the above mentioned transaction, Argumenol held 58,063,948 shares of the Company, constituting 9.08 % of the Company's share capital, representing 58,063,948 votes at the general meeting of the Company, which constituted 7.09 % of the total number of votes in the Company.

As a result of the above mentioned transaction, Argumenol currently holds 28,415,173 shares of the Company, constituting 4.44% of the Company's share capital, representing 28,415,173 votes at the general meeting of the Company, which constitutes 3.47 % of the total number of votes in the Company.

Embud did not hold any shares in the Company prior to the above mentioned acquisition of the Company's shares.

As a result of the above mentioned transaction, Embud currently holds 29,648,775 shares of the Company, constituting 4.64 % of the Company's share capital, representing 29,648,775 votes at the general meeting of the Company, which constitutes 3.62 % of the total number of votes at the General Meeting of the Company. Moreover, on December 31, 2014 Embud sent a lock-up letter to the Company, regarding the aforementioned shares, resulting from restriction of sale of the shares by which Argumenol is bound (for details see item 8.5.4. - *Limitations related to shares*).

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

On December 31, 2014 the Company received a notice from Embud, provided under article 69 of the Act dated July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies regarding the acquisition of the Company's shares by Embud on December 30, 2014 (for details see the previous item - *Changes in the structure of ownership of significant number of shares of the issuer in the period since the publication of the last periodic report).* According to this notice, Embud intends to increase the share in the total number of votes at the general meeting of the Company over a period of 12 months since submitting this information.

As at the date of publication of this Report the Company does not have any further information on agreements which can result in a change in the proportion of shares held by hitherto shareholders in the future.

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

The following table present information relating to shares held directly and indirectly by particular members of the Management Board as at the date of the publication of this Report, i.e. March 4, 2015:.

	Number of shares	Nominal value of shares [PLN]
Tomasz Gillner-Gorywoda	-	-
Tobias Solorz	-	-
Dariusz Działkowski	-	-
Aneta Jaskólska	-	-
Maciej Stec	-	-
Tomasz Szeląg	-	-
Total	-	-

The following table present information relating to shares held directly and indirectly by particular members of the Supervisory Board as at the date of the publication of this Report, i.e. March 4, 2015:

	Number of shares	Nominal value of shares [PLN]
Zygmunt Solorz-Żak(1)	370 ,256 ,512	14 ,810 ,260.48
Robert Gwiazdowski	-	-
Andrzej Papis	-	-
Leszek Reksa	-	-
Heronim Ruta(2)	-	-
Total	**370 ,256 ,512**	**14 ,810 ,260.48**

(1) Mr. Zygmunt Solorz-Żak does not hold directly any shares in the Company. Information on entities controlled by Mr. Zygmunt Solorz-Żak that hold shares in the Company is presented in item 8.5.1 - *Shareholders holding, directly or indirectly, material bundles of shares.*

(2) In accordance with the statement received from Mr. Heronim Ruta on December 30, 2014, following the issue of new shares by Sensor Overseas Limited (detail in item 8.5.1 - *Shareholders holding, directly or indirectly, material bundles of shares*). Mr. Heronim Ruta lost his status of a dominant entity to Sensor.

8.5.3. Securities with special controlling rights

Current shareholders do not have any other rights in the General Meeting of Shareholders than those resulting from holding our shares. As at December 31, 2014 the shares of the A through D series are shares preferential as to the voting rights in the way that:

- Series A shares totaling 2,500,000 have preferential voting rights entitling their holder to two voting rights per share;
- Series B shares totaling 2,500,000 have preferential voting rights entitling their holder to two voting rights per share;
- Series C shares totaling 7,500,000 have preferential voting rights entitling their holder to two voting rights per share;
- Series D shares totaling 166,917,501 numbered 1-166,917,501 have preferential voting rights entitling their holder to two voting rights per share.

The holders of shares with special controlling rights are: Reddev Investments Ltd. (152,504,876 shares giving 305,009,752 voting rights on General Meeting), Sensor Overseas Ltd. (26,741,375 shares giving 53,482,750 voting rights on General Meeting) and Koma Fundusz Inwestycyjny Zamknięty (171,250 shares giving 342,500 voting rights on General Meeting).

8,082,499 D Series shares, numbered 166,917,502 -175,000,000; 75,000,000 E Series shares; 5,825,000 F Series shares, 80,027,836 H Series shares, 47,260,690 I Series shares and 243,932,490 J Series shares are ordinary bearer shares.

8.5.4. Limitations related to shares

There are no limitations to the exercise of voting rights.

Series J shares are subject to a lock-up, resulting from statements submitted on January 22, 2014 by Karswell Limited, Sensor Overseas Limited and Argumenol Investment Company Limited, of which the Company informed in current report no. 8/2014 dated January 23, 2014 ('Lock-up Statements').

Over a period of 360 days following the submission by each of the companies referred to above of a representation on the acquisition of Series J shares (i.e. since May 7, 2014), these companies shall not offer or sell any Series J shares or securities convertible or exchangeable into Series J shares or enabling the acquisition of the same through the exercise of rights attached to such securities, nor other rights that enable them to acquire Series J shares, nor other securities or financial instruments valued directly or indirectly with reference to the price of Series J shares being their underlying instruments, including share swaps, futures and options.

Furthermore, the companies referred to above declared that they shall not enter into any other transaction that may result in an offer or sale of Series J shares, except for transfer to the entities from the same capital group as the given company or entities established by the entities from the same capital group as the given company, provided that prior to the transfer to the entities referred to above, the given company will ensure that such an entity makes a representation to the Company with substantially the same content as the Lock-up Statements, covering the period from the date of acquisition of Series J shares by such an entity to a date falling 360 days after the submission of the representation on the acquisition of Series J shares by the given company.

For the avoidance of doubt, the restrictions referred to in the preceding paragraph do not exclude the right of the given company to encumber with any right *in rem* all, part or any of held Series J shares, or any other security interest, including, without limitation, pledge (in any form whatsoever) on all, part or any of held Series J shares.

As at the date of publication of this Report the following entities hold shares subject to the lock-up: Karswell Limited (157,988,268 Series J shares), Sensor Overseas Limited (27,880,274 Series J shares), Argumenol Investment Company Limited (28,415,173 Series J shares) and Embud Sp. z o.o. (29,648,775 Series J shares).

8.6. Articles of Association of the Company

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.

8.7. General Shareholders' Meeting

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

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

a) discussion and approval of Reports on the Management Board's activity and the Supervisory Board's activity, and the financial statements for the previous year,
b) decision about distribution of profits, or covering losses,
c) signing off for the Supervisory Board's and the Management Board's performance of duties,
d) appointment and dismissal of members of the Supervisory Board and determination of their compensation,
e) amendments to the Articles of Association of the Company,
f) amendments to the business activity of the Company,
g) increase or decrease in the share capital,
h) merger or transformation of the Company,
i) dissolution or liquidation of the Company,
j) 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.

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, 2014 the shareholders participating in the General Meeting had 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.

8.8. Management Board of the Company

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

Pursuant to art. 15 of the Articles of Association of the Company the Management Board consist of one or more members, including the President and Vice-president 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 or 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.

8.8.2. Composition of the Management Board and changes in 2014

Currently, our Management Board has six members. The table below presents personal changes in the composition of the Management Board which took place in 2014.

Date	Change
July 30, 2014	The Supervisory Board appointed Tobias Solorz to the position of Member of the Management Board as of September 1, 2014.
October 28, 2014	Dominik Libicki resigned from the position of President of the Management Board, effective immediately.
October 28, 2014	The Supervisory Board appointed Tomasz Gillner-Gorywoda to the position of President of the Management Board.
November 4, 2014	The Supervisory Board appointed Maciej Stec to the position of Member of the Management Board.
December 10, 2014	Following the registration of changes to the Articles of Association of the Company, Tobias Solorz took up the position of Vice-president 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, 2014.

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Tomasz Gillner-Gorywoda	President of the Management Board	2014	2014	2016
Tobias Solorz	Vice-president of the Management Board	2014	2014	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
Maciej Stec	Member of the Management Board	2014	2014	2016

Tomasz Gillner-Gorywoda has been the President of the Management Board of Cyfrowy Polsat since October 28, 2014. Concurrently, he holds the position of General Director and proxy at Polkomtel Sp. z o.o.

He began his professional career in 1979 in the operational department at LOT Polish Airlines, where he worked for almost 10 years. From 1988 to 2007 he worked abroad performing managerial functions in companies based in Canada (1988-1993) and Australia (1993-2007). After his return to Poland in 2008, he held managerial positions and acted as proxy for several companies. Notably, he was the President of the Management Board of Laris Investments Sp. z o.o. (2008-2013) and Apena S.A. (2011-2012). He has been vice-president of the Management Board of PRN Polska Sp. z o.o. since 2008. Additionally, he acted as proxy for SPV Grodzisk Sp. z o.o. (2012-2013), JK Project Sp. z o.o. (2010-2013) and 3G Sp. z o.o. (since 2011). Moreover, between 2011 and 2012 he held the position of member of the supervisory board of Tower-Service Sp. z o.o.

Mr. Tomasz Gillner-Gorywoda is a graduate of the Faculty of Law and Administration at the University of Warsaw and post-graduate studies in management at Monash University in Melbourne.

Tobias Solorz has been a Member of the Management Board of Cyfrowy Polsat since September 2014 and took up the position of Vice-president of the Management Board in December 2014. Mr. Solorz was first appointed to the Management Board of Polkomtel Sp z .o.o. in November 2011, where he holds the position of President of the Management Board since February 2014.

He has may years of professional experience in the telecommunications, financial and controlling sectors. He began his career in 2003 at Telewizja Polsat S.A. (currently Telewizja Polsat Sp. z o.o.). Between 2007 and 2008 he held the position of Promotion Manager at Cyfrowy Polsat S.A. Between 2008 and 2010 he was a Member of the Management Board of Sferia S.A., where he then continued as Marketing, Advertisement, Sales and Operations Director until March 2011.

Mr. Tobias Solorz is a graduate of the Faculty of Management and Marketing at the University of Warsaw.

Dariusz Działkowski has been a Member of the Management Board responsible for technology since August 2007. From November 2001 Mr. Działkowski was the Technical Director of Cyfrowy Polsat S.A. He is also a Member of Management Boards of INFO-TV-FM Sp. z o.o., 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., Frazpc.pl Sp. z o.o. and Polkomtel 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 Mrs. Jaskólska held the position of Proxy and Director of Legal Department of UPC Polska Sp. z o.o. She was also a member of the Copyright Committee (Komisja Prawa Autorskiego). Mrs. Jaskólska has many years of experience in the legal advisory and services to large business entities.

Mrs. Jaskólska graduated from the Faculty of Law and Administration 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.

Maciej Stec is a Member of the Management Board of Cyfrowy Polsat S.A since November 2014. Concurrently, he holds the position of the Member of the Management Board and Sales & Foreign Acquisition Director of Telewizja Polsat Sp. z o.o.

From the very beginning his professional career was connected with television market. Since 1998 he worked among others for OMD Poland media house, owned by Omnicom Group, where in the years 1998-2003 held a position of Managing Director of Brand&Media OMD. Since February 2003 he was Managing Director of Telewizja Polsat's advertisement office - Polsat Media (currently Polsat Media Biuro Reklamy Sp. z o.o. Sp.k.).

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

Tomasz Szeląg is a Member of the Management Board and Chief Financial Officer since May 2009. Mr. Szeląg is also a Member of Management Board of Polkomtel Sp. z o.o., President of the Management Board of Telewizja Polsat Holdings Sp. z o.o., Cyfrowy Polsat Trade Marks Sp. z o.o., as well as Member of the Management Boards of 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.

In 2000-2003 Mr. Szeląg was an assistant at Foreign Trade Faculty of the Economic Academy of Wrocław. In May 2003 Mr. Szeląg received PhD title for his thesis on hedging transaction used by world copper producers and went on to become a lecturer in the Faculty of International Economic Relations of the Economic Academy of Wrocław. Between 2003 and 2004 he also held a position of a lecturer in the Wrocław School of Banking - at the Faculty of International Economic Relations. Parallel to his academic career Mr. Szeląg also developed his professional career gaining experience in managerial positions in the area of finance and investment. From 2003, Mr. Szeląg was Chief Specialist in the Currency Risk Department of KGHM Polska Miedź S.A., and then of the Market Risk and Analysis Department In September 2004, he become Director of the Department. In December 2004, he become Director of Hedging Department of KGHM and held the function until March 2007. From April 2007 to June 2008 he worked as Director of Brach of Société Générale Bank in Wrocław. In July 2008, Mr. Szeląg took the position of Vice-president for Finance in Telefonia Dialog S.A., which he held until March 2009. Mr. Szeląg was responsible for finance, accounting, controlling, and budgeting management, and also owner supervision and capital investment, logistics and purchases, project management and IT.

Mr. Szeląg graduated from the National Economy Faculty of the Economic Academy of Wrocław, with major in International Economic and Political Relations specializing in Foreign Trade.

8.8.3. Bylaws of the Management Board

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

The Management Board runs our matters in a transparent and efficient way pursuant to the provisions of the law, our internal provisions and 'the Best Practices 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, the Vice-president of the Management Board acting jointly with a member of the Management Board two members of Management Board acting jointly, the Vice-president of the Management Board acting jointly with a proxy, or a member of the Management Board acting jointly with a proxy.

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

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

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

Resolutions are adopted in a meeting or in a manner set out below. The President of the Management Board, or a person they authorized, calls meetings of the Management Board. The meetings of the Management Board are held in our offices or another place indicated by the person calling the meeting.

The voting is open. A secret voting shall be administered upon a request of just one member of the Board present in the meeting.

Moreover, according to the Bylaws of the Management Board, the Management Board may adopt resolutions in writing, or in a manner enabling instantaneous communication of the members of the Management Board by means of audio-video communication (e.g. teleconferencing, videoconferencing).

8.8.4. Remuneration of the Members of the Management Board

Information regarding remuneration of members of the Management Board for the financial year ended December 31, 2014 is included in Note 41 of the financial statements for the financial year ended December 31, 2014.

8.8.5. Management contracts with members of the management board setting out severance packages payout as a result of their resignation or dismissal from the position without a material cause

The management contract with **Tomasz Gillner-Gorywoda** sets out the notice period at four months. In addition the non-competition agreement concluded with Tomasz Gillner-Gorywoda sets out a monthly payment of PLN 40,000 over the number of months specified in non-competition agreement.
In the case of termination of the management contract (including its expiry) Tomasz Gillner-Gorywoda will be entitled to a severance package ('Severance Package') in the amounts and on the conditions indicated below:

- in the case of expiry of the contract or the lack of its extension (failure to be reappointed by the entitled body of Cyfrowy Polsat as member of the Management Board of Cyfrowy Polsat for a subsequent term or lack of a new, subsequent management contract) due to reasons caused by Cyfrowy Polsat – in the net amount of PLN 240,000 paid by Cyfrowy Polsat on the date of the expiry of the contract or its discontinuation;
- in the case of the termination of the contract by Cyfrowy Polsat – in the net amount of PLN 240,000 paid by Cyfrowy Polsat on the last day of the notice period.

The management contract with **Dariusz Działkowski** sets out the notice period at four months. In addition the non-competition agreement concluded with Dariusz Działkowski sets out a monthly payment of PLN 40,000 over the number of months specified in non-competition agreement.

In the case of termination of the management contract (including its expiry) Dariusz Działkowski will be entitled to a severance package ('Severance Package') in the amounts and on the conditions indicated below:

- in the case of expiry of the contract or the lack of its extension (failure to be reappointed by the entitled body of Cyfrowy Polsat as member of the Management Board of Cyfrowy Polsat for a subsequent term or lack of a new, subsequent management contract) due to reasons caused by Cyfrowy Polsat – in the net amount of PLN 240,000 paid by Cyfrowy Polsat on the date of the expiry of the contract or its discontinuation;

- in the case of the termination of the contract by Cyfrowy Polsat – in the net amount of PLN 240,000, paid by Cyfrowy Polsat on the last day of the notice period.

The management contract with **Aneta Jaskólska** sets out the notice period at four months. In addition the non-competition agreement concluded with Aneta Jaskólska sets out a monthly payment of PLN 40,000 over the number of months specified in non-competition agreement.

In the case of termination of the management contract (including its expiry) Aneta Jaskólska will be entitled to a severance package ('Severance Package') in the amounts and on the conditions indicated below:

- in the case of expiry of the contract or the lack of its extension (failure to be reappointed by the entitled body of Cyfrowy Polsat as member of the Management Board of Cyfrowy Polsat for a subsequent term or lack of a new, subsequent management contract) due to reasons caused by Cyfrowy Polsat – in the net amount of PLN 240,000 paid by Cyfrowy Polsat on the date of the expiry of the contract or its discontinuation;
- in the case of the termination of the contract by Cyfrowy Polsat – in the net amount of PLN 240,000, paid by Cyfrowy Polsat on the last day of the notice period.

The management contract with **Tomasz Szeląg** sets out the notice period at four months. In addition the non-competition agreement concluded with Tomasz Szeląg sets out a monthly payment of PLN 40,000 over the number of months specified in non-competition agreement.

In the case of termination of the management contract (including its expiry) Tomasz Szeląg will be entitled to a severance package ('Severance Package') in the amounts and on the conditions indicated below:

- in the case of expiry of the contract or the lack of its extension (failure to be reappointed by the entitled body of Cyfrowy Polsat as member of the Management Board of Cyfrowy Polsat for a subsequent term or lack of a new, subsequent management contract) due to reasons caused by Cyfrowy Polsat – in the net amount of PLN 240,000 paid by Cyfrowy Polsat on the date of the expiry of the contract or its discontinuation;
- in the case of the termination of the contract by Cyfrowy Polsat – in the net amount of PLN 240,000, paid by Cyfrowy Polsat on the last day of the notice period.

8.9. The Supervisory Board

8.9.1. The Composition of the Supervisory Board

The Supervisory Board comprises five members. The Supervisory Board has acted in a stable composition throughout 2014.

The following persons were Members of the Supervisory Board:

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Zygmunt Solorz-Żak	Chairman of the Supervisory Board Member of the Remuneration Committee	2008	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 active in various business sectors of Poland's economy. At the end of the 1980s, he founded Przedsiębiorstwo Zagraniczne SOLPOL, a foreign trade enterprise. At the beginning of the 1990s, Mr. Solorz-Żak entered the media sector by investing in Kurier Polski Sp. z o.o., a daily newspaper. In 1993, he launched Polsat, the first private satellite television in Poland, which received a broadcasting license later that year and transformed into a nationwide television channel. Within the first few years of its operations, Telewizja Polsat became one of the leaders of the TV broadcasting market in Poland.

Currently, Mr. Solorz-Żak focuses his business activities on the media and telecommunication sectors, where he operates chiefly through such companies as Cyfrowy Polsat (being also its founder), Telewizja Polsat, Polkomtel and companies of Midas Group. Mr. Solorz-Żak has many years' experience in serving on the governing bodies of commercial-law companies, which includes positions on the Supervisory Boards of such companies as Telewizja Polsat, Polkomtel, Midas S.A., Plus Bank S.A. (formerly: Invest-Bank S.A.) and Zespół Elektrowni Pątnów-Adamów-Konin S.A.

Robert Gwiazdowski holds a post-doctoral degree of Habilitated Doctor (doctor habilitatus) in law and is a professor at Łazarski University. Mr. Gwiazdowski is an active attorney-at-law and tax advisor and has served as President of Adam Smith Centre since 2004.

In 2006-2007, he served as Chairman of the Supervisory Board of the Polish Social Insurance Institution (Zakład Ubezpieczeń Społecznych). At present, Mr. Gwiazdowski serves as Member of the Supervisory Boards of the following listed companies: DGA S.A., SARE S.A., Dom Maklerski IDM S.A., and MNI S.A., which operates on the telephony and TV markets.

Andrzej Papis, who is a legal counsel, graduated from the Faculty of Law and Administration of the University of Warsaw and completed legal counsel training with the District Chamber of Legal Counsels in Warsaw.

In 1998-1999, he was an assistant in the team of Prof. Michał Kulesza in charge of Poland's administration reform and then an associate of the Government Plenipotentiary Office for Implementation of the General Health Insurance Programme. Since 2000, he has worked as a lawyer for Telewizja Polsat Sp. z o.o. and since 2001 – for Inwestycje Polskie Sp. z o.o., where he also serves as commercial proxy. He has served as Member of the Management Board of TFP Sp. z o.o. since 2004, becoming its President in 2013, and as Member of the Supervisory Board of Elektrim S.A. since 2004. Mr. Papis was also a Member of the Supervisory Board of Media-Biznes Sp. z o.o. in 2007-2010 and President of the Management Board of Market Sp. z o.o. in 2010-2013. He was appointed to the Supervisory Board of Polkomtel Sp. z o.o. in 2011, where he served until February 2014, and to the Supervisory Board of Teleaudio Dwa Sp. z o.o. S.K.A. in 2012. As a legal counsel, Mr. Papis specialises in commercial and copyright laws as well as construction and civil laws, with a particular focus on real property use.

Leszek Reksa graduated from the Foreign Trade Faculty of the Central School of Planning and Statistics in Warsaw (currently: Warsaw School of Economics). He has also completed numerous specialist seminars and courses in management and finance, including a seminar on corporate management at the Faculty of Finance at DePaul University in Chicago.

He has vast experience in managerial positions at various companies, including 20 years in the banking sector (Powszechna Kasa Oszczędności Bank Polski S.A.). Mr. Reksa also has many years' experience in serving on the governing bodies of commercial-law companies, which includes the positions of President of the Management Board of PHU BIMOT S.A., Member of the Supervisory Board of Bankowy Fundusz Leasingowy S.A., and Member of the Supervisory Board of Zakłady Azotowe Kędzierzyn S.A.

Heronim Ruta graduated from the Electrical Faculty of the Warsaw University of Technology.

From 1978 to 1979, he was a specialist supervising the development of an experimental car for ultrasonic detection of cracks in rail tracks at the National Railway Technology Research Centre (Centralny Ośrodek Badań Techniki Kolejnictwa). In 1980-1987, he was head of Wytwórczo-Usługowa Spółdzielnia Pracy (a production and services cooperative). In 1987, he founded Herom Sp. z o.o., where he was President until 1992. In 1992-1994, he was President of Ster Sp. z o.o. In 2002-2005, he was Member of the Management Board of Polaris Finance B.V., and from 2002 to 2004 – Member of the Supervisory Board of Uzdaroji Akcine Bendrove 'Baltijos Televizja. Mr. Ruta serves on the Supervisory Boards of various companies, including Plus Bank S.A., PAI Media S.A. w likwidacji (in liquidation), Dolnośląskie Centrum Aktywności Gospodarczej S.A. (formerly: Gurex S.A.), Cyfrowy Polsat and Telewizja Polsat. From November 2011 to February 2014, he was also Chairman of the Supervisory Board of Polkomtel, where he now serves as Deputy Chairman.

8.9.2. Competences and by-laws of the Supervisory Board

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

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

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

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

a) 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 of the Chairman prevails. A resolution of the Supervisory Board requires inviting all the members of the Supervisory Board and presence of at least half of the members of the Supervisory Board to be valid.

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

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

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

a) once a year prepare and present before the General Meeting a concise evaluation of the situation of the Company, considering the evaluation of the internal control system and the management system of risks that are important for the Company.
b) once a year prepare and present before the Annual General Meeting an evaluation of its own performance,
c) discuss and issue opinions about matters to be subjects of resolutions of the General Meeting.

8.9.3. Committees of the Supervisory Board

Pursuant to the Bylaws of the Supervisory Board the Supervisory Board may appoint permanent committees, in particular the Audit Committee, or the Remuneration Committee, or ad hoc committees to investigate certain issues remaining in the competence of the Supervisory Board or acting as advisory and opinion bodies of the Supervisory Board.

The Audit Committee, as at December 31, 2014 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, 2014, comprised the following members of the Supervisory Board:

- Zygmunt Solorz – Żak,
- Heronim Ruta.

The provisions of the Bylaws apply to meetings, resolutions, and minutes of the committees of the Supervisory Board, with reservation of the following information.

A committee is appointed by the Supervisory Board from among its members by means of a resolution. The committee appoints, by means of a resolution, the Chairman of the particular committee from among its members. The mandate of a member of a particular committee expires upon expiry of the mandate of the member of the Supervisory Board. The Supervisory Board may, by means of a resolution, resolve to dismiss a member from the composition of a particular committee before the expiry of the mandate of the member of the Supervisory Board. Dismissal from membership in a committee is not tantamount to dismissal from the Supervisory Board.

The first meeting of a committee is convened by the Chairman of the Supervisory Board or other member of the Supervisory Board they indicate. Meetings of the committees are convened as needs arise, ensuring thorough delivery of duties assigned with a particular committee. Minutes of committee's meetings and adopted resolutions are made available to the members of the Supervisory Board not being members of the committee. The Chairman of a given committee chairs its proceedings. The Chairman also performs supervision over preparation of the agenda, distribution of documents, and preparation of minutes of the meetings of the committee.

8.9.4. Remuneration of the Members of the Supervisory Board

Information regarding remuneration of members of the Supervisory Board for the financial year ended December 31, 2014 is included in Note 42 of the financial statements for the financial year ended December 31, 2014.

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

Warsaw, March 3, 2015

Glossary

General terms

Term	Definition
Argumenol	Argumenol Investment Company Limited, a company under Cypriot law with its registered office in Nicosia, Cyprus
B2B	Business to Business, a transaction between businesses.
B2C	Business to Consumer, a transaction between a business and a consumer.
Copyright Law	Copyright and Neighboring Rights Act of February 4, 1994 (consolidated text in Dz. U. of 2006, No. 90, item 631, as amended).
CP Finance, Cyfrowy Polsat Finance	Cyfrowy Polsat Finance AB (publ), a company under Swedish law, registered under No. 556842-4435.
CPT	Cyfrowy Polsat Technology spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. 0000254220. Deleted from the register following its acquisition by Cyfrowy Polsat.
Cyfrowy Polsat, the Company	Cyfrowy Polsat Spółka Akcyjna, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000010078.
Cyfrowy Polsat Trade Marks CPTM	Cyfrowy Polsat Trade Marks spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. 0000373011.
EBRD	European Bank for Reconstruction and Development, an international organization established by virtue of a treaty signed on May 29, 1990 in Paris, having its registered office in the United Kingdom of Great Britain and Northern Ireland.
Eileme 1	Eileme 1 AB (publ), a company under Swedish law, registered under No. 556854-5668.
Eileme 2	Eileme 2 AB (publ), a company under Swedish law, registered under No. 556854-5676.
Eileme 3	Eileme 3 AB (publ), a company under Swedish law, registered under No. 556854-5692.
Eileme 4	Eileme 4 AB (publ), a company under Swedish law, registered under No. 556854-5684.
Eileme Companies	Jointly Eileme 1, Eileme 2, Eileme 3 and Eileme 4.
Environmental Protection Law	Environmental Protection Law of April 27, 2001 (consolidated text in: Dz. U. of 2008, No. 25, item 150, as amended).
the Group, Polsat Group, Cyfrowy Polsat Group	Cyfrowy Polsat and the indirect and direct subsidiaries of the Company.
IFRS	The International Accounting Standards, International Financial Reporting Standards and the related Interpretations by the Standing Interpretations Committee and International Financial Reporting Interpretations Committee, adopted pursuant to Commission Regulation (EC) No. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council (OJ L 320/1 of November 29, 2008, as amended), as defined in Art. 2 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards (OJ L 243/1 of September 11, 2002, as amended).
Investment Agreements	Jointly the Investment Agreement of November 14, 2013 made by Cyfrowy Polsat with Argumenol Investment Company Limited, Karswell Limited and Sensor Overseas Limited and Investment Agreement of December 19, 2013 made by Cyfrowy Polsat with Argumenol Investment Company Limited, Karswell Limited Sensor Overseas Limited, and the EBRD.
Karswell	Karswell Limited, a company under Cypriot law with its registered office in Nicosia, Cyprus
KRRiT	Krajowa Rada Radiofonii i Telewizji, National Broadcasting Council.
LTE Group	Litenite Limited, a company under Cypriot law, registered under No. 240249 and the indirect and direct subsidiaries of Litenite.
Metelem	Metelem Holding Company Limited, a company under Cypriot law, registered under No. 286591, indirectly controlling 100% shares in Polkomtel.
Metelem Group	Metelem jointly with the following companies: Eileme 1, Eileme 2, Eileme 3, Eileme 4, Polkomtel, Nordisk Polska, Liberty Poland, Polkomtel Finance, Polkomtel Business Development, Plus TM Group SKA, Plus TM Group, LTE Holdings, and Plus TM Management.

Term	Definition
Metelem Shareholders	Karswell Limited of Cyprus, Sensor Overseas Limited of Cyprus, Argumenol Investment Company Limited of Cyprus and the EBRD.
Midas Group	Midas S.A., entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000025704 and the indirect and direct subsidiaries of Midas S.A.
Mobyland	Mobyland spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000269979.
Orange	Orange Polska Spółka Akcyjna, entered in the register of entrepreneurs of the National Court register under entry No. KRS 0000010681, previously operating under the name of Telekomunikacja Polska Spółka Akcyjna.
P4	P4 spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000217207.
PLK Senior Facilities Agreement	The Senior Facilities Agreement of June 17, 2013 between Eileme 2, Eileme 3, Eileme 4, Polkomtel and subsidiaries, and a syndicate of banks.
Plus Bank	Plus Bank Spółka Akcyjna entered in the register of entrepreneurs of the National Court Register under entry No. 0000096937.
Pola	Pola Investments Limited, a company under Cypriot law, with its registered office in Nicosia, Cyprus.
Polish Energy Law	Polish Energy Law of April 10th 1997 (consolidated text in Dz. U. of 2012, item 1059).
Polkomtel	Polkomtel spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. 0000419430. The company was established following the transformation of Polkomtel Spółka Akcyjna, which was entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000020908.
Polkomtel Group	Polkomtel jointly with the following companies: Nordisk Polska, Liberty Poland, Polkomtel Finance, Polkomtel Business Development, Plus TM Group SKA, Plus TM Group, LTE Holdings, and Plus TM Management.
Revolving Facility Loan	The multi-currency revolving facility loan of up to the equivalent of PLN 500 million, issued under the New Senior Facilities Agreement, whose final repayment date is April 11, 2019.
Shares	Shares of Cyfrowy Polsat S.A. admitted to trading on the Warsaw Stock Exchange in Warsaw S.A.
Senior Facilities Agreement	The Senior Facilities Agreement of April 11, 2014 between the Company, Telewizja Polsat, CPTM, Polsat License Ltd. and Polsat Media, and a syndicate of Polish and foreign banks, covering the Term Facility Loan and the Revolving Facility Loan.
Senior Notes	Senior secured notes with a value of EUR 350 million, bearing interest at a rate of 7.125%, issued by Cyfrowy Polsat Finance in 2011, redeemed in full in 2014.
Sensor	Sensor Overseas Limited, a company under Cypriot law, with its registered office in Nicosia, Cyprus.
Telecommunications Law	Telecommunications Law of July 16, 2004 (Dz. U. of 2004, No. 171, item 1800, as amended).
Telewizja Polsat, TV Polsat	Telewizja Polsat spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000388899. The company was established following the transformation of Telewizja Polsat Spółka Akcyjna, which was entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000046163.
Telewizja Polsat Group, TV Polsat Group	Telewizja Polsat together with its direct and indirect subsidiaries.
Term Loan	The term facility loan of up to PLN 2.5 billion, issued under the Senior Facilities Agreement, whose final repayment date is April 11, 2019.
TiVi Foundation	TiVi Foundation, a family foundation of Kirchstrasse 12, 9490 Vaduz, Liechtenstein.
T-Mobile	T-Mobile Polska Spółka Akcyjna, entered in the register of entrepreneurs of the National Court register under entry No. KRS 0000391193, previously operating under the name of Polska Telefonia Cyfrowa Spółka Akcyjna.

Technical terms

Term	Definition
2G	Second-generation cellular telecommunications networks commercially launched on the GSM standard in Europe.
3G	Third-generation cellular telecommunications networks that allow simultaneous use of voice and data services.
4G	Fourth-generation cellular telecommunications networks.
Add-on sales	Sales technique combining cross-selling and up-selling.
CAGR	Compounded Annual Growth Rate – the average annual growth rate calculated for a given value using the following formula: $$\mathrm{CAGR} = \left(\frac{W_{rk}}{W_{rp}}\right)^{\left(\frac{1}{rk-rp}\right)} - 1$$ where: rp – start year, rk – end year, Wrp – value in start year, Wrk – value in end year.
Catch-up TV	Services providing access to view selected programming content for a certain period after it was broadcast. Cyfrowy Polsat provides such services from 2011.
CDMA	A family of mobile telecommunications standards developed by the 3rd Generation Partnership Project 2, comprising e.g. CDMAOne and CDMA2000. CDMA is mainly used for data transmission services in rural areas. Its maximum transmission speed is 3.1 MB/s. CDMA also supports direct communication between user terminals and restriction of access to selected devices, and the technology is therefore used for digital trunked communications.
Churn	Termination of the contract with Customer by means of the termination notice, collections or other activities resulting in the situation that after termination of the contract the Customer does not have any active service provided in the contract model. Churn rate presents the relation of the number of customers for whom the last service has been deactivated (by means of the termination notice as well as deactivation as a result of collection activities or other reasons) within the last 12 months to the annual average number of customers in this 12-month period.
Contract ARPU	Average monthly revenue per customer generated in a given settlement period (including interconnect revenue)
Converged (integrated) services	A package of two or more services from our pay TV, mobile telecommunications and broadband Internet access offering, provided under a single contract and for a single subscription fee.
Customer	Natural person, legal entity or an organizational unit without legal personality who has at least one active service provided in a contract model.
DTH	Satellite pay TV services provided by us in Poland from 2001.
DTT	Digital Terrestrial Television.
DVB-T	Digital Video Broadcasting – Terrestrial technology.
DVR	Set-top boxes equipped with a hard drive enabling the recording of TV programs (Digital Video Recorder)
EDGE	Cellular telecommunications technology supporting faster data transmission as a backward-compatible extension of the 2G network. EDGE increases the capacity of the radio interface and ensures more convenient use of data transmission services. Its maximum design speed is nearly 1 Mb/s (Enhanced Data rates for GSM Evolution).
ERP	A family of IT systems supporting enterprise management or shared operation of a group of collaborating enterprises through data collection and enabling transactions on the collected data (enterprise resource planning).
GB	Gigabyte – a measure of digital information, comprising one billion bytes, or 1024^3 bytes, depending on the interpretation – decimal or binary, respectively.
GPRS	Mobile data transmission service for GSM users (General Packet Radio Service).

Term	Definition
GRP	A rating point defined as the overall number of persons viewing a given advertising spot over a specific time, expressed as a percentage share of the target group. In Poland, one GRP equals 0.2 million residents in the primary target group for advertisers aged 16-49 (Gross Rating Point).
GSM	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols, in particular regarding access to voice services (Global System for Mobile Communications).
GSM-1800	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols in the 1800 MHz bands, in particular regarding access to voice services.
GSM-900	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols in the 900 MHz bands, in particular regarding access to voice services.
HD	Above-standard resolution signal (High Definition).
HSPA/HSPA+	Radio data transmission technology for wireless networks, increasing the capacity of the UMTS network (High Speed Packet Access/High Speed Packet Access Plus). It also covers the HSPA+ Dual Carrier technology (Evolved High Speed Packet Access Dual Carrier). It supports transmission speeds of up to 42 Mb/s for download and up to 5.7 Mb/s for upload.
IPLA	Internet platform providing access to video content, operated by Redefine Group, Frazpc.pl Sp. z o.o., Gery.pl Sp. z o.o. and Netshare Sp. z o.o.
IPTV	Technology enabling transfer of a television signal over IP broadband networks (Internet Protocol Television).
IVR	A telecommunications system enabling human-computer interaction using voice or tone signals (Interactive Voice Response).
LTE	A standard for faster data transmission for wireless networks (Long Term Evolution). It supports the maximum design transmission speed of 326.4 Mb/s.
Mb/s	A unit of telecommunications channel capacity, being one million or 1024^2 bytes (Megabyte) per second, depending on the interpretation – decimal or binary, respectively.
Mobile TV	Our pay mobile TV service rendered in DVB-T technology;
MTR	A wholesale charge for call termination in another operator's mobile telecommunications network (Mobile Termination Rate).
Multiroom	Our service providing access to the same range of TV channels on two television sets in one household for a single subscription fee.
MUX, Multiplex	A package of TV and radio channels and additional services, simultaneously transmitted digitally to the user over a single frequency channel.
MVNO	Mobile Virtual Network Operator.
Node B	A device for wireless connection between a mobile terminal and a fixed part of the third-generation telecommunications network.
PPV	Services providing paid access to selected TV content (pay-per-view).
Prepaid ARPU	Average monthly revenue per prepaid RGU generated in a given settlement period (including interconnect revenue)
PVR	Electronic commodity hardware for digital recording of TV programs on its hard drive (Personal Video Recorder).
real users	An estimated number of persons who visit a website or open an Internet application at least once in a given month (Real Users).
RGU (Revenue Generating Unit)	Single, active service of pay TV, Internet Access or mobile telephony provided in contract or prepaid model.
SD	Standard-resolution television signal (Standard Definition).
SMS	Service enabling the sending of short text messages over telecommunications networks (Short Message Service).

Term	Definition
streaming	A technical process initiated by the user, enabling the replaying (of video or audio/video content) of material available on the Internet on the user's terminal device, without it being necessary to download the entire content. The process involves the sending of digital data streams, being sections of the entire content spread over time, instead of the entire material.
Technical coverage	Percentage of households in Poland capable of receiving the broadcast of a given channel by Telewizja Polsat.
UMTS	Globally-used European 3G telecommunications standard based on GSM, enabling the provision of data transmission services with a maximum speed of 384 kb/s (Universal Mobile Telecommunications System).
Usage definition (90-day for prepaid RGU)	Number of reported RGUs of prepaid services of mobile telephony and Internet access refers to the number of SIM cards which received or answered calls, sent or received SMS/MMS or used data transmission services within the last 90 days.
USSD	A protocol used in GSM networks, which enables communication between a mobile phone and a network operator's computer.
Value-added services, VAS	Services offered by telecommunications undertakings and including entertainment, news, location and financial services.
Virtual private network	Network enabling a private connection over a public network (e.g. Internet).
VOD - Home Movie Rental	Our video on demand services
WCDMA	Network access technology developed by 3rd Generation Partnership Project from 1999, and used in UMTS-standard 3G networks (Wideband Code Division Multiple Access).
WiFi	A set of standards for the development of wireless computer networks.

Management Board's representations

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

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

Tomasz Gillner-Gorywoda	Tobias Solorz	Tomasz Szeląg
President of the Management Board	Vice-president of the Management Board	Member of the Management Board

Dariusz Działkowski	Aneta Jaskólska	Maciej Stec
Member of the Management Board	Member of the Management Board	Member of the Management Board

Warsaw, 3 March 2015

pwc

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 2014 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 2014, 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.
3 March 2015
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 2014

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

Table of contents

APPROVAL OF THE FINANCIAL STATEMENTS

On 3 March 2015, 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 2014 to 31 December 2014 showing a net profit for the period of:	PLN 177.2
Statement of Comprehensive Income for the period from 1 January 2014 to 31 December 2014 showing a total comprehensive income for the period of:	PLN 174.0
Balance Sheet as at 31 December 2014 showing total assets and total equity and liabilities of:	PLN 12,876.4
Cash Flow Statement for the period from 1 January 2014 to 31 December 2014 showing a net decrease in cash and cash equivalents amounting to:	PLN 12.8
Statement of Changes in Equity for the period from 1 January 2014 to 31 December 2014 showing an increase in equity of:	PLN 6,025.1

Supplementary Information to the Financial Statements

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

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

Dorota Wołczyńska
Chief Accountant

Warsaw, 3 March 2015

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

Income Statement

		for the year ended	
	Note	31 December 2014	31 December 2013
Revenue	9	2,034.6	1,922.9
Operating costs	10	(1,735.6)	(1,552.2)
Other operating income, net		22.1	1.9
Profit from operating activities		**321.1**	**372.6**
Gain/loss on investment activities, net	11	168.2	312.4
Finance costs	12	(309.5)	(234.1)
Gross profit for the period		**179.8**	**450.9**
Income tax	13	(2.6)	(21.9)
Net profit for the period		**177.2**	**429.0**
Basic and diluted earnings per share (in PLN)	15	**0.33**	**1.23**

Statement of Comprehensive Income

		for the year ended	
	Note	31 December 2014	31 December 2013
Net profit for the period		**177.2**	**429.0**
Items that may be reclassified subsequently to profit or loss:			
Valuation of hedging instruments	27	(3.9)	14.4
Income tax relating to hedge valuation	27	0.7	(2.8)
Items that may be reclassified subsequently to profit or loss		**(3.2)**	**11.6**
Other comprehensive income, net of tax		**(3.2)**	**11.6**
Total comprehensive income for the period		**174.0**	**440.6**

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

Balance Sheet - Assets

	Note	31 December 2014	31 December 2013
Reception equipment	16	421.1	407.6
Other property, plant and equipment	16	164.8	167.1
Goodwill	17	52.0	52.0
Other intangible assets	18	75.6	72.1
Investment property		1.8	1.9
Shares in subsidiaries	19	11,561.5	4,719.9
Non-current deferred distribution fees	20	35.1	29.5
Other non-current assets	21	35.3	12.3
Total non-current assets		**12,347.2**	**5,462.4**
Inventories	22	124.0	144.7
Trade and other receivables	23	260.5	214.3
Income tax receivable		26.0	-
Current deferred distribution fees	20	74.5	70.1
Other current assets	24	30.9	105.1
Cash and cash equivalents	25	13.3	26.1
Total current assets		**529.2**	**560.3**
Total assets		**12,876.4**	**6,022.7**

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

Balance Sheet - Equity and Liabilities

	Note	31 December 2014	31 December 2013
Share capital	26	25.6	13.9
Share premium	26	7,237.4	1.295.1
Hedge valuation reserve	27	(12.2)	(9.0)
Retained earnings		2,195.5	2,121.2
Total equity		**9,446.3**	**3,421.2**
Loans and borrowings	28	1,846.2	239.9
Issued bonds	29	-	1,322.7
Finance lease liabilities	30	0.8	1.5
Deferred tax liabilities	13	97.7	93.8
Deferred income	34	4.7	4.1
Other non-current liabilities and provisions	31	18.5	7.2
includes derivative instruments (IRS/CIRS) liabilities		*7.0*	*0.1*
Total non-current liabilities		**1,967.9**	**1,669.2**
Loans and borrowings	28	927.1	297.3
Issued bonds	29	-	112.2
Finance lease liabilities	30	0.8	2.2
Trade and other payables	32	316.8	304.7
includes derivative instruments (IRS/CIRS) liabilities		*8.4*	*12.0*
Income tax liability		-	3.9
Deposits for equipment	33	1.4	2.7
Deferred income	34	216.1	209.3
Total current liabilities		**1,462.2**	**932.3**
Total liabilities		**3,430.1**	**2,601.5**
Total equity and liabilities		**12,876.4**	**6,022.7**

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

Cash Flow Statement

		for the year ended	
	Note	**31 December 2014**	**31 December 2013**
Net profit		**177.2**	**429.0**
Adjustments for:		**226.1**	**28.8**
Depreciation, amortization, impairment and liquidation	10	222.6	219.0
Gain on sale of property, plant and equipment and intangible assets		(0.3)	-
Interest expense		197.4	208.2
Change in inventories		20.7	15.2
Change in receivables and other assets		5.4	56.7
Change in liabilities, provisions and deferred income		44.7	(69.8)
Valuation of hedging instruments		(3.9)	14.4
Foreign exchange losses, net		22.7	20.1
Income tax	13	2.6	21.9
Net increase in reception equipment provided under operating lease		(193.1)	(158.8)
Dividends income		(166.9)	(303.2)
Other adjustments		74.2	5.1
Cash from operating activities		**403.3**	**457.8**
Income tax paid		(27.9)	(11.4)
Interest received from operating activities		0.9	1.1
Net cash from operating activities		**376.3**	**447.5**
Dividends received		166.9	303.2
Proceeds from realization of forward instruments (USD)		8.1	-
Proceeds from sale of property, plant and equipment		0.8	0.1
Loans granted		(10.0)	-
Acquisition of property, plant and equipment		(28.8)	(40.3)
Acquisition of intangible assets		(34.6)	(40.1)
Share capital increase in subsidiaries and acquisition of shares		(883.7)	(131.0)
Net cash (used in)/from investing activities		**(781,3)**	**91.9**
Term loans received	28	2,800.0	-
Net cash from Cash Pool with paid interest		326.8	14.8
Proceeds from realization of forward instruments (EUR)		3.0	-
Finance lease – principal repayments		(2.1)	(2.2)
Payment of share issuance-related consulting costs		(3.9)	-
Dividend paid	26	(102.9)	-
Payment of interest on loans, borrowings, bonds, finance lease and commissions*		(269.6)	(178.9)
Repayment of loans and borrowings	28	(887.1)	(406.3)
Bonds redemption	29	(1,472.0)	-
Net cash (used in)/from financing activities		**392.2**	**(572.6)**
Net decrease in cash and cash equivalents		**(12.8)**	**(33.2)**
Cash and cash equivalents at the beginning of the year		**26.1**	**59.3**
Effect of exchange rate fluctuations on cash and cash equivalents		-	-
Cash and cash equivalents at the end of the year		**13.3**	**26.1**

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

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

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

	Note	Number of shares	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total Equity**
Balance as at 1 January 2014		**348,352,836**	**13.9**	**1,295.1**	**(9.0)**	**2,121.2**	**3,421.2**
Issue of shares	26	291,193,180	11.7	5,942.3	-	-	**5,954.0**
Dividend declared and paid	26	-	-	-	-	(102.9)	**(102.9)**
Total comprehensive income		-	-	-	(3.2)	177.2	**174.0**
Hedge valuation reserve	*27*	-	-	-	*(3.2)*	-	***(3.2)***
Net profit for the period		-	-	-	-	*177.2*	***177.2***
Balance as at 31 December 2014		**639,546,016**	**25.6**	**7,237.4**	**(12.2)**	**2,195.5**	**9,446.3**

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

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

	Number of shares	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total Equity**
Balance as at 1 January 2013	**348,352,836**	**13.9**	**1.295.1**	**(20.6)**	**1,692.2**	**2,980.6**
Total comprehensive income	-	-	-	11.6	429.0	**440.6**
Hedge valuation reserve	-	-	-	*11.6*	-	***11.6***
Net profit for the period	-	-	-	-	*429.0*	***429.0***
Balance as at 31 December 2013	**348,352,836**	**13.9**	**1.295.1**	**(9.0)**	**2,121.2**	**3,421.2**

* The capital excluded from distribution amounts to PLN 4.6. 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 cash amounts presented in text are in million with currency specification, all amounts presented in tables are in PLN million, except where otherwise stated)

Notes to the Financial Statements

1. The Company

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

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

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

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

2. Composition of the Management Board of the Company

- Tomasz Gillner-Gorywoda	President of the Management Board (from 28 October 2014),
- Dominik Libicki	President of the Management Board (until 28 October 2014),
- Tobias Solorz	Vice-President of the Management Board (from 10 December 2014), Member of the Management Board (from 1 September 2014 to 9 December 2014),
- Dariusz Działkowski	Member of the Management Board,
- Aneta Jaskólska	Member of the Management Board,
- Maciej Stec	Member of the Management Board (from 4 November 2014),
- 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 2014 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 2014 and the financial statements for 2013, 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 2014 and changes to the accounting policies presented in note 5.

During the year ended 31 December 2014 the following became 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) amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*
(vi) amendments to IFRSs 10, 12 and 27 *on investment entities*
(vii) amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*

The changes did not have a significant impact on these financial statements except for introducing certain new disclosures.

Standards published but not yet effective:

(i) IFRS 9 *Financial instruments: Classification and measurement and Hedge accounting*
(ii) IFRS 15 *Revenue from Contracts with Customers*
(iii) amendments to IAS 1 *Disclosure Initiative*
(iv) amendments to IAS 27 *Equity Method in Separate Financial Statements*
(v) amendments to IAS 10 and IAS 28 *Sale or contribution of assets between an investor and its associate or joint venture*
(vi) amendments to IAS 10, IAS 12 and IAS 28 *Investment entities: Applying the Consolidation Exception*
(vii) amendments to IAS 11 *Accounting for acquisitions of interests in joint operations*
(viii) amendments to IAS 19 *Employee Benefits*
(ix) IFRIC 21 *Levies*
(x) annual improvements – 2010-2012 reporting cycle
(xi) annual improvements – 2011-2013 reporting cycle
(xii) annual improvements – 2012-2014 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 (except for IFRS 15 and IFRS 9), other than additional disclosures.

The Company assesses that IFRS 15 will have a significant impact on the financial statements due to the change in the recognition model of revenue from customer contracts. As at the date of publication of these financial statements the Company has not completed the analysis of the impact of the new standards, IFRS 15 and IFRS 9.

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

5. Accounting policies

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

a) Basis of measurement

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

b) Going concern assumption

These financial statements have been prepared assuming that the Company will continue as a going concern in the foreseeable future, not shorter than 12 months from 31 December 2014.

c) Functional currency and presentation currency

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

d) Judgments and estimates

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

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

e) Comparative financial information

Comparative data or data presented in previously published financial statements has been updated, if necessary, in order to reflect presentational changes introduced in the current period. The changes had no impact on previously reported amounts of net income or equity.

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 decreased by share issuance-related consulting costs.

Retained earnings

Retained earnings include net result and effect of merger with the Company. Effect of merger is calculated as the difference between assets and liabilities of the merged entity.

In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital. This capital is excluded from distribution, however, it can be utilised to cover accumulated losses.

i) Property, plant and equipment

(i) Property, plant and equipment owned by the Company

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes purchase price of the asset and other expenditure that is directly attributable to the acquisition and bringing the asset to a working condition for its intended use, including initial delivery as well as handling and storage costs. The cost of purchased assets is reduced by the amounts of vendor discounts, rebates and other similar reductions received.

The cost of self-constructed assets and assets under construction includes all costs incurred for their construction, installation, adoption, and improvement as well as borrowing costs incurred until the date they are accepted for use (or until the reporting date for an asset not yet accepted for use). The above cost also may include, if necessary, the estimated cost of dismantling and removing the asset and restoring the site. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) 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. Equipment that is provided to customers under operational leases is accounted for as property, plant and equipment (Reception equipment in balance sheet).

Assets subject to the lease are depreciated in a manner that is consistent with the policies applied to similar Company-owned assets. Depreciation is based on the principles of IAS 16 *Property, plant and equipment*. Where it is not reasonably certain that the lessee will obtain ownership of the asset before the lease term ends, the asset is depreciated over its useful life or the lease term, if shorter.

Carrying amounts of reception equipment and other items of property, plant and equipment may be reduced by impairment losses whenever there is uncertainty as to those assets' revenue generating potential or their future use in the Company's operations.

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. Till the end of year 2013 cost of acquisition or production cost of inventories was based on the first-in first-out principle. From 1 January 2014 cost of acquisition or production cost of inventories is determined by using the weighted average cost of acquisition or production cost of inventory. Retrospective estimation of the amount of the above mentioned change is impracticable.

The cost of inventories includes purchase price, costs relating directly to the acquisition and the costs related to preparing the inventory for use or sale. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads determined based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In the case of set-top boxes, mobile phones, modems and tablets, which under the business model applied by the Company are sold below cost, the loss on the sale is recorded when 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 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 practice able:
- an estimate of its financial effect;
- an indication of the uncertainties relating to the amount or timing of any outflow and
- the possibility of any reimbursement.

r) Revenue

Revenue, which excludes value added tax, returns, trade discounts and volume rebates, represents the gross inflow of economic benefit from Company's operating activities. Revenue is measured at the fair value of the consideration received or receivable. The Company's main sources of revenue are recognized as follows:

(a) Retail revenue consists primarily of subscription fees paid by our pay digital television contract customers and our contract customers for telecommunication services. Retail revenue also includes contractual penalties related to terminated agreements in the amount expected to recover which are recognized when the contract is terminated and revenue from the rental of reception equipment. Revenue from above mentioned services is recognized as these services are provided.
Revenue from the rental of reception equipment and activation fees are recognized on a straight-line basis over the minimum base period of the subscription contract.
Revenues from prepaid mobile telephone services are recognized in profit or loss once the prepaid credit is utilised or forfeited.

(b) Wholesale revenue consists of revenue from the sale of broadcasting and signal transmission, advertising and sponsorship revenue, revenue from the sale of licenses, sublicenses and property rights and interconnect revenue. Wholesale revenue is recognized, net of any discount given, when the relevant goods or service are provided.

(c) Revenue from sale of equipment is measured at the fair value of the consideration received or receivable, net of discounts, rebates and returns. Revenue from the sale of goods is recognized in profit or loss when the significant risks and rewards of ownership have been transferred to the customer.

(d) Other revenue is recognized, net of any discount given, when the relevant goods or service are provided.

When the Company sells goods and services in one bundled transaction, the total consideration from the arrangement is allocated to each element of such multiple-element arrangements based on residual method in such a way that the amount recognised for items already received cannot be higher than cash already received.

s) Distribution fees

Commissions for distributors for registering new subscribers and for retention existing subscribers are recognized during the minimum basic period of the subscription agreement.

Turnover commissions for concluding a certain number of subscription contracts are recognized in the income statement as they are due.

Commissions for distributors which will be settled within the period of 12 months after the balance sheet date are presented as current assets, however, the commissions, which will be settled after the 12-month period from the balance sheet date, are presented as non-current assets.

t) Revenues and costs of barter transactions

Revenues from barter transactions are recognized when the services are rendered or goods are delivered. Programming licenses, products or services are expensed or capitalized when received or used. The Company recognizes barter transactions based on the estimated fair value of the programming licenses, products or services.

u) Gains and losses on investment activities and finance costs

Gains and losses on investment activities income includes interest income on funds invested, interest expenses (other than interest expenses on borrowings), dividends income, results on the disposal of available-for-sale financial instruments, net foreign currency gains/losses, and results on completed forward exchange contracts and call options related to investment activities, impairment losses recognized on financial assets, 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, realization and valuation costs of hedging instruments and instruments not under hedge accounting related to finance activities, bank and other charges on borrowings as well as guarantee fees resulting from the indebtedness. Borrowing costs are recognized in profit or loss using the effective interest method.

v) Lease payments

Payments under an operating lease are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments due to financial lease agreements are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

w) Taxation

Income tax expense/benefit for the year comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are measured based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, respectively, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be partly or wholly realised. When not recognized deferred tax asset becomes recoverable, it is recognised to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are offset by the Company as criteria for offsetting from IAS 12 are fulfilled.

x) Earnings per share

The Company presents basic and diluted earnings per share for its ordinary and preference shares. Basic earnings per share are calculated by dividing the period’s profit or loss from continuing operations attributable to ordinary and preference shareholders of the Company by the weighted average number of ordinary and preference shares outstanding during the period. Diluted earnings per share are calculated by dividing the period’s profit or loss from the continued operations attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares adjusted for all potentially dilutive ordinary and preference shares.

y) Segment reporting

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

The Company conducts its operating activities in Poland.

Further information on segments is presented in the consolidated financial statements of the Group.

z) Cash flow statement

Cash and cash equivalents in the cash flow statement are equal to cash and cash equivalents presented in the balance sheet.

The purchase of set-top boxes provided to clients under operating lease contracts is classified in the cash flow statement in operating activities. The purchase and sales 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.

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 3 March 2015.

8. Change in presentation

The Company has changed presentation of revenue and operating costs in the consolidated income statement. None of the introduced changes affected the previously reported amounts of revenue, costs, net profit for the period, EBITDA, or equity.

Pursuant to the new presentation, wholesale revenue contains transmission services revenue, advertising and sponsorship revenue and sales of licenses, sublicenses and property rights (presented within Other revenues in previous periods).

Change in presentation of operating costs involved grouping of cost items within new cost category: technical costs and cost of settlements with telecommunication operators which contain broadcasting and signal transmission costs, cost of settlements with telecommunication operators and interconnection charges, infrastructure rental costs (presented within Other costs in previous periods) and IT services costs (presented within Other costs in previous periods). Content costs mainly contain programming costs.

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

Comparable results for the year ended 31 December 2013 have been reclassified to conform to the current period presentation as presented in the table below. Reclassifications have also been made in the notes to the consolidated financial statements.

		Change in presentation Restated data for the year ended 31 December 2013			
	31 December 2013 *(reported)*	**Retail revenue**	**Wholesale revenue**	**Sale of equipment**	**Other revenue**
Retail revenue	1,829.5	1.827.8	1.7	-	-
Sale of equipment	41.7	-	-	41.7	-
Other revenue	51.7	-	32.2	-	19.5
Total	**1,922.9**	**1.827.8**	**33.9**	**41.7**	**19.5**

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

		Change in presentation Restated data for the year ended 31 December 2013							
	31 December 2013 *(reported)*	**Content costs**	**Distribution, marketing, customer relation management and retention costs**	**Depreciation, amortization, impairment and liquidation**	**Technical costs and cost of settlements with telecommu-nication operators**	**Salaries and employee-related costs**	**Cost of equipment sold**	**Cost of debt collection services and bad debt allowance and receivables written off**	**Other costs**
Programming costs	471.4	471.4	-	-	-	-	-	-	-
Distribution, marketing, customer relation management and retention costs	333.4	-	333.4	-	-	-	-	-	-
Depreciation, amortization, impairment and liquidation	219.0	-	-	219.0	-	-	-	-	-
Salaries and employee-related costs	114.2	-	-	-	-	114.2	-	-	-
Broadcasting and signal transmission costs	93.9	-	-	-	93.9	-	-	-	-
Cost of equipment sold	63.8	-	-	-	-	-	63.8	-	-
Cost of settlements with mobile network operators and interconnection charges	77.9	-	-	-	77.9	-	-	-	-
Cost of debt collection services and bad debt allowance and receivables written off	29.8	-	-	-	-	-	-	29.8	-
Other costs	148.8	3.1	-	-	22.3	-	-	-	123.4
Total	**1,552.2**	**474.5**	**333.4**	**219.0**	**194.1**	**114.2**	**63.8**	**29.8**	**123.4**

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

9. Revenue

	for the year ended	
	31 December 2014	**31 December 2013**
Retail revenue	1,913.0	1,827.8
Wholesale revenue	39.5	33.9
Sale of equipment	54.5	41.7
Other revenue	27.6	19.5
Total	**2,034.6**	**1,922.9**

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

10. Operating costs

		for the year ended	
	Note	**31 December 2014**	**31 December 2013**
Content costs		517.2	474.5
Distribution, marketing, customer relation management and retention costs		332.4	333.4
Depreciation, amortization, impairment and liquidation		222.6	219.0
Technical costs and costs of settlements with telecommunication operators		288.5	194.1
Salaries and employee-related costs	a	131.9	114.2
Cost of equipment sold		71.3	63.8
Cost of debt collection services and bad debt allowance and receivables written off		39.2	29.8
Other costs		132.5	123.4
Total		**1,735.6**	**1,552.2**

a) Salaries and employee-related costs

	for the year ended	
	31 December 2014	**31 December 2013**
Salaries	112.6	96.9
Social security contributions	15.5	13.6
Other employee-related costs	3.8	3.7
Total	**131.9**	**114.2**

Average headcount of non-production employees*

	for the year ended	
	31 December 2014	**31 December 2013**
Employment contracts (full-time equivalents)	915	812

* excluding workers who did not perform work in the reporting period due to long-term absences

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

11. Gain/loss on investment activities, net

	for the year ended	
	31 December 2014	**31 December 2013**
Dividends received	166.9	303.2
Guarantee fees from related parties	3.3	9.2
Interest expense	(1.4)	(0.3)
Other foreign exchange gains/(losses), net	(8.3)	0.3
Realization of USD forward	8.1	-
Other	(0.4)	-
Total	**168.2**	**312.4**

12. Finance costs

	for the year ended	
	31 December 2014	**31 December 2013**
Interest expense on loans and borrowings	113.5	64.6
Interest expense on issued bonds	70.4	125.1
Early redemption costs (see note 29)	82.1	-
Foreign exchange differences on issued bonds	22.7	20.0
Valuation and realization of hedging instruments	4.9	18.3
Valuation and realization of derivatives not used in hedge accounting	4.2	-
Guarantee fees	6.0	2.5
Bank and other charges	5.7	3.6
Total	**309.5**	**234.1**

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

13. Income tax

(i) Income tax in the income statement

	for the year ended	
	31 December 2014	**31 December 2013**
Corporate income tax	(2.0)	17.8
Change in deferred income tax in the income statement	4.6	0.4
Correction of income tax statements for previous years	-	3.7
Income tax expense in the income statement	**2.6**	**21.9**

	for the year ended	
Change in deferred income tax	**31 December 2014**	**31 December 2013**
Receivables and other assets	(4.6)	(4.1)
Liabilities	3.8	(7.6)
Hedge valuation	0.1	(0.1)
Deferred distribution fees	1.8	1.4
Tangible and intangible non-current assets	6.4	2.2
Tax loss	(2.9)	8.6
Change in deferred income tax – total	**4.6**	**0.4**

(ii) Income tax recognized in other comprehensive income

	for the year ended	
	31 December 2014	**31 December 2013**
Change in deferred income tax on hedge valuation	(0.7)	2.8
Income tax expense recognized in other comprehensive income - total	**(0.7)**	**2.8**

(iii) Effective tax rate reconciliation

	for the year ended	
	31 December 2014	**31 December 2013**
Profit before income tax	179.8	450.9
Profit before tax multiplied by the statutory tax rate in Poland of 19%	34.2	85.7
Dividend received from subsidiaries	(31.7)	(57.6)
Technology tax relief	(1.5)	(4.5)
Other non-taxable revenue and non-tax deductible costs, net at 19% tax rate	1.6	(1.7)
Tax charge for the year	**2.6**	**21.9**
Effective tax rate	**1.4%**	**4.8%**

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

(iv) Deferred tax assets

	31 December 2014	31 December 2013
Liabilities	37.2	41.0
Hedge valuation	2.9	2.3
Tangible non-current assets	3.2	3.4
Receivables and other assets	8.7	6.9
Tax loss	2.9	-
Total deferred tax assets	**54.9**	**53.6**
Offsetting of deferred tax liabilities and deferred tax assets	(54.9)	(53.6)
Deferred tax assets in the balance sheet	**-**	**-**

(v) Tax losses recognized and carried forward

	31 December 2014	31 December 2013
2014 tax loss carried forward	15.4	-
Tax losses carried forward – total	**15.4**	**-**

As at 31 December 2014 the Company incurred tax losses amounting to 15.4 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 2014	31 December 2013
Receivables and other assets	40.6	43.4
Deferred distribution fees	20.8	19.0
Tangible non-current assets	91.2	85.0
Total deferred tax liabilities	**152.6**	**147.4**
Offsetting of deferred tax liabilities and deferred tax assets	(54.9)	(53.6)
Deferred tax liabilities in the balance sheet	**97.7**	**93.8**

14. EBITDA (unaudited)

EBITDA (earnings before interest, taxes, depreciation, amortization, impairment and liquidation) presents the Company's key measure of earnings performance. The level of EBITDA measures the Company's ability to generate cash from recurring operations. The Company defines EBITDA as operating profit adjusted by depreciation, amortization, impairment and liquidation. EBITDA is not an IFRS EU measure, and as such can be calculated differently by other entities.

	for the year ended	
	31 December 2014	**31 December 2013**
Net profit for the period	177.2	429.0
Income tax (see note 13)	2.6	21.9
Gain/loss on investment activities, net (see note 11)	(168.2)	(312.4)
Finance costs(see note 12)	309.5	234.1
Depreciation, amortization, impairment and liquidation* (see note 10)	222.6	219.0
EBITDA (unaudited)	**543.7**	**591.6**

* Depreciation, amortisation, impairment and liquidation comprise depreciation and impairment of property, plant and equipment, amortisation and impairment of intangible assets and net book value of disposed property, plant, equipment and intangible assets.

15. 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 2014	**31 December 2013**
Net profit for the period	177.2	429.0
Weighted average number of ordinary and preference shares in the year	539,024,535	348,352,836
Earnings per share in PLN (not in millions)	**0.33**	**1.23**

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

16. Property, plant and equipment

	Reception equipment	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Tangible assets under construction	**Other property, plant and equipment**
Cost								
Cost as at 1 January 2014	**823.1**	**6.9**	**102.0**	**156.9**	**11.6**	**22.8**	**7.3**	**307.5**
Additions	194.9	-	2.2	17.1	0.4	1.4	1.6	22.7
Transfer from assets under construction	-	-	-	3.7	-	-	(3.7)	-
Disposals	(57.5)	-	(0.6)	(11.1)	(0.4)	(0.6)	-	(12.7)
Cost as at 31 December 2014	**960.5**	**6.9**	**103.6**	**166.6**	**11.6**	**23.6**	**5.2**	**317.5**
Accumulated impairment losses as at 1 January 2014	**(17.5)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Recognition	(2.4)	-	-	(0.1)	-	-	-	(0.1)
Reversal	0.4	-	-	-	-	-	-	-
Utilisation	3.0	-	-	-	-	-	-	-
Accumulated impairment losses as at 31 December 2014	**(16.5)**	**-**	**-**	**(0.1)**	**-**	**-**	**-**	**(0.1)**
Accumulated depreciation								
Accumulated depreciation as at 1 January 2014	**398.0**	**-**	**25.7**	**93.0**	**7.5**	**14.2**	**-**	**140.4**
Additions	171.8	-	4.2	13.2	1.3	3.0	-	21.7
Additions (depreciation in the value of produced equipment)	-	-	-	1.2	-	0.1	-	1.3
Disposals	(46.9)	-	(0.4)	(9.5)	(0.3)	(0.6)	-	(10.8)
Accumulated depreciation as at 31 December 2014	**522.9**	**-**	**29.5**	**97.9**	**8.5**	**16.7**	**-**	**152.6**
Carrying amount								
As at 1 January 2014	**407.6**	**6.9**	**76.3**	**63.9**	**4.1**	**8.6**	**7.3**	**167.1**
As at 31 December 2014	**421.1**	**6.9**	**74.1**	**68.6**	**3.1**	**6.9**	**5.2**	**164.8**

The Company recognized an impairment loss on items of property, plant and equipment whose carrying amounts exceeded their recoverable amounts. The impairment increase for reception equipment relates to the equipment that is under vindication. The impairment provision is recognized in ‘depreciation, amortization, impairment and liquidation’.

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

	Reception equipment	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Tangible assets under construction	**Other property, plant and equipment**
Cost								
Cost as at 1 January 2013	**717.4**	**6.9**	**90.8**	**136.8**	**11.1**	**21.7**	**21.5**	**288.8**
Additions	161.7	-	3.4	11.7	0.8	3.1	6.5	25.5
Transfer from assets under construction	-	-	8.1	11.0	0.4	1.2	(20.7)	-
Disposals	(56.0)	-	(0.3)	(2.6)	(0.7)	(3.2)	-	(6.8)
Cost as at 31 December 2013	**823.1**	**6.9**	**102.0**	**156.9**	**11.6**	**22.8**	**7.3**	**307.5**
Accumulated impairment losses as at 1 January 2013	**(28.0)**	**-**	**-**	**(0.8)**	**-**	**(0.1)**	**-**	**(0.9)**
Recognition	(2.5)	-	-	-	-	-	-	-
Reversal	-	-	-	0.8	-	0.1	-	0.9
Utilisation	13.0	-	-	-	-	-	-	-
Accumulated impairment losses as at 31 December 2013	**(17.5)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Accumulated depreciation								
Accumulated depreciation as at 1 January 2013	**269.3**	**-**	**20.8**	**75.2**	**6.3**	**13.5**	**-**	**115.8**
Additions	168.8	-	5.0	17.8	1.8	3.6	-	28.2
Additions (depreciation in the value of produced equipment)	-	-	-	2.0	-	0.1	-	2.1
Disposals	(40.1)	-	(0.1)	(2.0)	(0.6)	(3.0)	-	(5.7)
Accumulated depreciation as at 31 December 2013	**398.0**	**-**	**25.7**	**93.0**	**7.5**	**14.2**	**-**	**140.4**
Carrying amount								
As at 1 January 2013	**420.1**	**6.9**	**70.0**	**60.8**	**4.8**	**8.1**	**21.5**	**172.1**
As at 31 December 2013	**407.6**	**6.9**	**76.3**	**63.9**	**4.1**	**8.6**	**7.3**	**167.1**

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 liquidation’.

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

17. Impairment test on goodwill allocated to the "Services to individual and business customers" cash-generating unit

The Company recognized goodwill in the amount of PLN 52.0 on the acquisition of M.Punkt Holdings Ltd. in the financial statements and allocated it to the "Services to individual and business customers" cash-generating unit. "Services to individual and business customers" cash-generating unit is equivalent to the Company. Upon merger of M.Punkt Holdings 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 2014. 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 2014 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 2019. Cash flow projections after 5-year forecast period are estimated using the terminal growth. Terminal growth rate does not exceed the long-term average growth rate for the country in which the Company operates.

The key financial assumptions

The most sensitive key financial assumptions used in the value-in-use calculations of the "Services to individual and business customers" cash-generating unit were as follows:
- discount rate
- terminal growth rate used for estimating fee cash flows beyond the period of financial plans

	Services to individual and business customers	
	2014	2013
Terminal growth	3%	3%
Discount rate before tax	6.7%	8.6%

Discount rate – the discount rate reflects the estimate made by the management of the risks specific to cash-generating unit, taking into account the time value of money and risks specific to the asset. The discount rate was estimated on the basis of weighted average cost of capital method (WACC) and considered Company's business environment. WACC considers both debt and equity. Cost of equity is based on the return on investment excepted by the Company's investors while cost of debt is based on the interest bearing debt instruments. Operating segment - specific risk is considered by the estimation of beta. Beta is estimated annually and is based on the market data.

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

Terminal growth rate – growth rates are based on widely available published market data such as International Monetary Fund publications.

Sensitivity analysis of key financial assumptions

The Company believes that the key assumptions made in testing for impairment of the "Services to individual and business customers" cash-generating unit as at 31 December 2014 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.

18. Other intangible assets

	Software and licences	**Other**	**Under development**	**Total**
Cost				
Cost as at 1 January 2014	**122.9**	**5.8**	**28.8**	**157.5**
Additions	13.6	0.2	11.6	25.4
Transfer from intangible assets under development	13.8	0.1	(13.9)	-
Disposals	(2.5)	-	-	(2.5)
Cost as at 31 December 2014	**147.8**	**6.1**	**26.5**	**180.4**
Accumulated impairment losses as at 1 January 2014	**-**	**-**	**-**	**-**
Reversal	-	-	-	-
Accumulated impairment losses as at 31 December 2014	**-**	**-**	**-**	**-**
Accumulated amortization				
Accumulated amortization as at 1 January 2014	**82.2**	**3.2**	**-**	**85.4**
Additions	19.5	0.1	-	19.6
Additions (depreciation in the value of produced equipment)	-	1.8	-	1.8
Disposals	(2.0)	-	-	(2.0)
Accumulated amortization as at 31 December 2014	**99.7**	**5.1**	**-**	**104.8**
Carrying amounts				
As at 1 January 2014	**40.7**	**2.6**	**28.8**	**72.1**
As at 31 December 2014	**48.1**	**1.0**	**26.5**	**75.6**

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

	Software and licences	Other	Under development	Total
Cost				
Cost as at 1 January 2013	**93.4**	**3.1**	**15.9**	**112.4**
Additions	21.5	1.2	22.4	45.1
Transfer from intangible assets under development	8.0	1.5	(9.5)	-
Disposals	-	-	-	-
Cost as at 31 December 2013	**122.9**	**5.8**	**28.8**	**157.5**
Accumulated impairment losses as at 1 January 2013	**-**	**-**	**-**	**-**
Reversal	-	-	-	-
Accumulated impairment losses as at 31 December 2013	**-**	**-**	**-**	**-**
Accumulated amortization				
Accumulated amortization as at 1 January 2013	**63.8**	**0.8**	**-**	**64.6**
Additions	18.4	0.6	-	19.0
Additions (depreciation in the value of produced equipment)	-	1.8	-	1.8
Disposals	-	-	-	-
Accumulated amortization as at 31 December 2013	**82.2**	**3.2**	**-**	**85.4**
Carrying amounts				
As at 1 January 2013	**29.6**	**2.3**	**15.9**	**47.8**
As at 31 December 2013	**40.7**	**2.6**	**28.8**	**72.1**

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

19. Shares in subsidiaries

Shares in subsidiaries as at 31 December 2014

	Company's registered office	Activity	Voting rights percentage	Cost and carrying amount
Metelem Holding Company Limited	1, Kostakis Pantelides 1010, Nicosia Cyprus	holding and financial activities	100%	6,841.4
Telewizja Polsat Sp. z o.o.	ul. Ostrobramska 77, Warsaw	broadcasting and television production	100%	3,899.0
Cyfrowy Polsat Trade Marks Sp. z o.o.	ul. Łubinowa 4a, Warsaw	non-current assets and intellectual property rights management	100%	615.4
Cyfrowy Polsat Finance AB	Stureplan 4C, 4 TR 114 35 Stockholm, Sweden	financial transactions	100%	0.2
INFO-TV-FM Sp. z o.o.	ul. Łubinowa 4a, Warsaw	radio and TV activities	73.5%	29.3
Redefine Sp. z o.o.	al. Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%	128.7
Gery.pl Sp. z o.o.	al. Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%	15.3
Frazpc.pl Sp. z o.o.	al. Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%	6.5
Netshare Sp. z o.o.	al. Stanów Zjednoczonych 61 A, Warsaw	electronic media (Internet) advertising broker	100%	23.3
Karpacka Telewizja Kablowa Sp. z o.o.	ul. Chorzowska 3, Radom	dormant	99%	2.4
			Total	**11,561.5**

	31 December 2013	Additions	Decreases	31 December 2014
Metelem Holding Company Limited	-	6,841.4	-	6,841.4
Telewizja Polsat Sp. z o.o.	3,899.0	-	-	3,899.0
Cyfrowy Polsat Trade Marks Sp. z o.o.	615.4	-	-	615.4
Redefine Sp. z o.o.	128.7	-	-	128.7
INFO-TV-FM Sp. z o.o.	29.3	-	-	29.3
Netshare Sp. z o.o.	23.3	-	-	23.3
Gery.pl Sp. z o.o.	15.3	-	-	15.3
Frazpc.pl Sp. z o.o.	6.5	-	-	6.5
Karpacka Telewizja Kablowa Sp. z o.o.	2.2	0.2	-	2.4
Cyfrowy Polsat Finance AB	0.2	-	-	0.2
Total	**4.719.9**	**6,841.6**	**-**	**11,561.5**

On 7 May 2014 the Company concluded subscription agreements concerning the acquisition of subscription warrants individually with all of Metelem's shareholders, that is the European Bank for Reconstruction and Development (“EBRD”), Karswell Limited ("Karswell"), Sensor Overseas Limited ("Sensor") and Argumenol Investment Company Limited ("Argumenol"). In these agreements the Company offered registered subscription warrants to the Metelem Shareholders and each of the shareholders accepted the offer of the Company and acquired free registered subscription warrants in such way that: (a) the EBRD acquired 47,260,690 Series I registered subscription warrants; (b) Karswell acquired 157,988,268 Series J registered subscription warrants; (c) Sensor acquired 27,880,274 Series J registered subscription warrants; and (d) Argumenol acquired 58,063,948 Series J registered subscription warrants. The subscription warrants represent rights to acquire shares of the Company in the course of a conditional share capital increase of the Company approved by the Company's Extraordinary General Meeting on 16 January 2014.

In executing the rights attached to the subscription warrants referred to above, on 7 May 2014 the shareholders of Metelem made statements on the acquisition of Series I and Series J shares, respectively, and paid up the new shares with non-cash contribution in the form of Metelem shares held by each of the shareholders. In consequence, the Company acquired the ownership of 2,000,325 shares of Metelem, representing 100% of the capital and votes in that company.

Acquired in consideration for the non-cash contribution in the form of Metelem shares were 291,193,180 ordinary bearer shares with the nominal value of PLN 0,04 (not in millions) each. The fair value of shares was equal to PLN 20.46 (not in millions) each – the closing price of Company’s shares as at 7 May 2014. Share issuance-related consulting costs in amount of PLN 3.9 have been recognized as a reduction of the share premium.

On 23 May 2014 the Company acquired 212,000 new ordinary shares in the increased share capital of its subsidiary Metelem, with the nominal value of EUR 1 (not in millions) per share and the issue price of EUR 1,000 (not in millions) per share. The total issue price for the New Shares amounts to EUR 212 (PLN 883.5).

Metelem is an indirect parent company to Polkomtel Sp. z o.o. - operator of the "Plus" mobile network.

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

Karswell and Argumenol are controlled by Mr. Zygmunt Solorz-Żak, ultimate controlling party of the Company. Sensor is controlled by EVO Foundation.

Changes in the value of shares

Changes in book values of shares in subsidiaries

	2014	2013
Purchase price		
As at 1 January	**4,719.9**	**4,588.9**
Increase	6,841.6	131.0
Decrease	-	-
As at 31 December	**11,561.5**	**4,719.9**
Accumulated impairment losses		
As at 1 January	**-**	**-**
Decrease	-	-
As at 31 December	**-**	**-**
Carrying amounts		
As at 1 January	**4,719.9**	**4,588.9**
As at 31 December	**11,561.5**	**4,719.9**

20. Deferred distribution fees

	31 December 2014	31 December 2013
Deferred distribution fees	109.6	99.6
Of which: Current	*74.5*	*70.1*
Non-current	*35.1*	*29.5*

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 2014, 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 109.1 (as at 31 December 2013: 99.1 PLN).

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

21. Other non-current assets

	31 December 2014	31 December 2013
Non-current trade receivables	24.5	9.1
Non-current loans granted	9.2	-
Other deferred costs	1.6	2.7
Deposits paid	-	0.5
Total	**35.3**	**12.3**

22. Inventories

Types of inventories	31 December 2014	31 December 2013
Set-top boxes and disc drives – merchandise	3.8	12.9
Set-top boxes and disc drives – finished goods	40.2	61.7
Digital Video Broadcasting – Terrestrial units – merchandise	1.2	4.6
Digital Video Broadcasting – Terrestrial units – finished goods	7.6	5.1
SMART and SIM cards	4.1	9.2
Mobile phones, modems, tablets and laptops	32.1	25.0
Antennas and converters	4.3	2.8
Other inventories	34.4	27.9
Total gross value	**127.7**	**149.2**
Write-down of inventories	(3.7)	(4.5)
Total net value	**124.0**	**144.7**

In other inventories are presented mainly materials used in production of reception equipment.

Write-downs of inventories	2014	2013
Opening balance	**4.5**	**3.1**
Increase	1.4	5.7
Utilisation	(0.2)	(3.3)
Decrease	(2.0)	(1.0)
Closing balance	**3.7**	**4.5**

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

23. Trade and other receivables

	31 December 2014	31 December 2013
Trade receivables from related entities (see note 38)	36.6	13.9
Trade receivables from non-related entities	200.5	187.5
Tax and social security receivables	21.7	12.5
Other receivables	1.7	0.4
Total	**260.5**	**214.3**

Trade receivables from non-related entities include receivables from individual clients, distributors and others.

Trade receivables by currency

Currency	31 December 2014	31 December 2013
PLN	220.1	190.2
EUR	16.4	10.8
USD	0.6	0.4
Total	**237.1**	**201.4**

Movements in bad debt allowance

	2014	2013
Opening balance	**31.8**	**42.2**
Increase	20.0	12.7
Reversal	(3.6)	(4.9)
Utilisation	(12.6)	(18.2)
Closing balance	**35.6**	**31.8**

24. Other current assets

	31 December 2014	31 December 2013
Other deferred costs	21.2	101.4
Other deferred income	9.7	3.7
Total	**30.9**	**105.1**

Other deferred costs as at 31 December 2014 comprise mainly deferred costs related to the agreement with Polkomtel Sp. z o.o. (see note 38).

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

25. Cash and cash equivalents

	31 December 2014	31 December 2013
Cash on hand	-	0.1
Current accounts	7.4	12.4
Deposits	5.9	13.6
Total	**13.3**	**26.1**

Currency	31 December 2014	31 December 2013
PLN	10.8	20.4
EUR	1.4	3.0
USD	0.7	2.7
GBP	0.1	-
CHF	0.3	-
Total	**13.3**	**26.1**

As the Company cooperates with well-established Polish and international banks, the risks relating to deposited cash are considerably limited.

26. Equity

(i) Share capital

Presented below is the structure of the Company's share capital as at 31 December 2014:

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

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

Presented below is the structure of the Company's share capital as at 31 December 2013:

Share series	Number of shares	Nominal value of shares	Type
Series A	2,500,000	0.1	preference shares (2 voting rights)
Series B	2,500,000	0.1	preference shares (2 voting rights)
Series C	7,500,000	0.3	preference shares (2 voting rights)
Series D	166,917,501	6.7	preference shares (2 voting rights)
Series D	8,082,499	0.3	ordinary bearer shares
Series E	75,000,000	3.0	ordinary bearer shares
Series F	5,825,000	0.2	ordinary bearer shares
Series H	80,027,836	3.2	ordinary bearer shares
Total	**348,352,836**	**13.9**	

The shareholders' structure as at 31 December 2014 was as follows:

	Number of shares	Nominal value of shares	% of share capital held	Number of votes	% of voting rights
Karswell Ltd. [1]	157,988,268	6.3	24.70%	157,988,268	19.29%
Reddev Investments Ltd. [2]	154,204,296	6.2	24.11%	306,709,172	37.45%
Argumenol Investment Company Ltd. [1]	28,415,173	1.1	4.44%	28,415,173	3.47%
Sensor Overseas Ltd. [3]	54,921,546	2.2	8.59%	81,662,921	9.97%
Embud Sp. z o.o. [1]	29,648,775	1.2	4.64%	29,648,775	3.62%
Other	214,367,958	8.6	33.52%	214,539,208	26.20%
Total	**639,546,016**	**25.6**	**100%**	**818,963,517**	**100%**

[1] Entity is controlled by Mr. Zygmunt Solorz-Żak

[2] Reddev Investments Ltd. is a direct subsidiary of Pola Investments Ltd., an entity controlled by the TiVi Foundation, the parent entity of which is Mr. Zygmunt Solorz-Żak

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

The shareholders' structure as at 31 December 2013 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	6,2	44.27%	306,709,172	58.11%
Sensor Overseas Ltd. [2]	25,341,272	1,0	7.27%	50,382,647	9.55%
Other	168,807,268	6,7	48.46%	170,678,518	32.34%
Total	**348,352,836**	**13,9**	**100%**	**527,770,337**	**100%**

[1] Pola Investments Ltd. is controlled by the family foundation (trust) TiVi Foundation (the parent entity of which is Mr. Zygmunt Solorz-Żak)

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

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 11.7 by the issue of up to 291,193,180 ordinary bearer shares.

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 were offered to the vendors of shares in Metelem.

On 2 April 2014 the registration of a conditional increase of the Company's share capital for the purposes of the transaction of the takeover of Metelem by the Company took place.

On 28 April 2014 the Polish Financial Supervision Authority approved the prospectus of the Company's Series I and Series J shares prepared for the purposes of applying for the admission of these shares to trading on a regulated market operated by the Warsaw Stock Exchange (the 'WSE').

On 12 May 2014 the Management Board of the WSE declared the admission to stock exchange trading on the main market of 47,260,690 ordinary series I bearer shares of the Company with a nominal value of PLN 0.04 (not in millions) each. The WSE Management Board also resolved to introduce the said shares to trading on the main market, effective 14 May 2014, subject to the registration of the shares and the assignment of the code PLCFRPT00013 to them by the National Depository for Securities on 14 May 2014.

Furthermore on 12 May 2014 the WSE Management Board resolved to admit to trading on the main market of 243,932,490 ordinary series J bearer shares of the Company with a nominal value of PLN 0.04 (not in millions) each.

Due to the fact that the Company's Series J shares are not shares of the same type as the Company's shares introduced to trading on WSE in terms of the rights to dividend and interim dividend incorporated in them, it is the Company's intention to introduce its series J shares to trading on the WSE not earlier than the rights vested in series J shares of the Company are made identical to the rights vested in the Company's shares listed on WSE, i.e., not earlier than in the 2nd quarter of 2015.

Series J shares are subject to disposal restrictions (a lock-up), resulting from statements submitted on 22 January 2014 by Karswell Limited, Sensor Overseas Limited and Argumenol Investment Company Limited.

(ii) Share premium

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

(iii) Retained earnings

On 29 April 2014 the Annual General Meeting of the Company adopted resolution on distribution of profit of the Company for the financial year of 2013. Pursuant to the provisions of the resolution the net profit earned by the Company in the financial year of 2013 in the amount of PLN 429.0 is appropriated as follows: (i) PLN 102.9 to dividends payable to the shareholders of the

Company (PLN 0.26 (not in million) per share), (ii) the remaining portion of the net profit, i.e. PLN 326.1 to the supplementary capital.

27. Hedge valuation reserve

On 31 July 2014 and 1 August 2014 the Company executed Interest Rate Swap (IRS) transactions ("Transactions") consisting in exchanging interest payments based on the floating rate WIBOR 3M for interest payments based on an average fixed rate of 2.50% with the following banks: ING Bank Śląski S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Société Générale Spółka Akcyjna, Oddział w Polsce, Bank Zachodni WBK S.A., BNP Paribas SA and Bank Polska Kasa Opieki SA.
The Transactions were concluded for the period from 30 September 2014 until 31 December 2016 and the total nominal value of the loan being hedged by Transactions mentioned above is PLN 1,136.5.

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 2014

	IRS	CIRS	Total
Liabilities			
Long-term	(7.0)	-	(7.0)
Short-term	(8.4)	-	(8.4)
Total	**(15.4)**	**-**	**(15.4)**

Impact of hedging instruments valuation on assets and liabilities as at 31 December 2013

	IRS	CIRS	Total
Liabilities			
Long-term	(0.1)	-	(0.1)
Short-term	(7.9)	(4.1)	(12.0)
Total	**(8.0)**	**(4.1)**	**(12.1)**

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

Impact of hedging instruments valuation on hedge valuation reserve

	2014	2013
Balance as at 1 January	**(9.0)**	**(20.6)**
Valuation of cash flow hedges	-	13.9
Amount transferred to income statement	11.1	0.5
Deferred tax	(2.1)	(2.8)
Change for the period (old credit facility)	**9.0**	**11.6**
Hedging relationship designation	(15.0)	-
Deferred tax	2.8	-
Change for the period (new credit facility)	**(12.2)**	**-**
Balance as at 31 December	**(12.2)**	**(9.0)**

Due to the repayment of existing debt and its replacement with new credit facility (see note 28) the hedge of existing debt was ended and the amounts presented in hedge valuation reserve were transferred to profit and loss. In connection with new credit facility a new hedging relationship was designated.

28. Loans and borrowings

Loans and borrowings	**31 December 2014**	**31 December 2013**
Short-term liabilities	927.1	297.3
Long-term liabilities	1,846.2	239.9
Total	**2,773.3**	**537.2**

Change in loans and borrowings liabilities

	2014	2013
Loans and borrowings as at 1 January	**537.2**	**903.4**
Repayment of capital	(887.1)	(406.3)
Repayment of interest and commissions	(119.1)*	(40.0)
Facilities agreement	2,800.0	-
Net cash from Cash Pool	328.8	15.5
Interest accrued	113.5	64.6
Loans and borrowings as at 31 December	**2,773.3**	**537.2**

* Includes amount paid for costs related to the new financing

Conclusion of a facility agreement

On 11 April 2014 the Company as the borrower, together with Telewizja Polsat sp. z o.o., Cyfrowy Polsat Trade Marks Sp. z o.o., Polsat License Ltd. and Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp. k. entered into a facilities agreement ("Senior Facilities Agreement") with a syndicate of Polish and foreign banks led by ING Bank Śląski S.A., Powszechna

Kasa Oszczędności Bank Polski S.A., Société Générale Corporate and Investment Banking ("Global Banking Coordinators") and comprising Société Générale Bank & Trust S.A., HSBC Bank plc, Bank Millennium S.A., Bank Pekao S.A., Bank Zachodni WBK S.A., BNP Paribas Fortis SA/NV, Credit Agricole Bank Polska S.A., Credit Agricole Corporate & Investment Banking, DNB Bank ASA, DNB Bank Polska S.A., Erste Group Bank AG, mBank S.A., PZU FIZ AN BIS 1, Raiffeisen Bank Poska S.A., RBS Bank (Polska) S.A., Société Générale S.A., Oddział w Polsce, The Bank of Tokyo-Mitsubishi UFJ, Ltd., The Bank of Tokyo-Mitsubishi UFJ (Holland) N.V., as well as UniCredit Bank AG, London Branch, acting as the Agent and the Security Agent.

The Senior Facilities Agreement provides the granting of a term facility loan ("Term Facility Loan") up to the maximum amount of PLN 2,500 ("Term Facility") and a multicurrency Revolving Facility Loan up to a maximum amount of the equivalent of PLN 500 ("Revolving Facility Loan").

The Term Facility bears interest at a variable rate being the sum of the WIBOR rate for appropriate interest period and the applicable margin, whereas the Revolving Facility Loan bears interest at a variable rate being the sum of, depending on currency of indebtedness, the WIBOR rate (for indebtedness in PLN) or EURIBOR (for indebtedness in EUR) or LIBOR (for indebtedness in another currency permitted under the Senior Facilities Agreement) for the appropriate interest period and the applicable margin. The margin on the Term Facility and the Revolving Facility Loan will depend on the level of the "total leverage" ratio in such way that the lower it is, the lower the margin will also be. The Term Facility is repaid in quarterly instalment of variable value, starting on 30 June 2014, with the final debt repayment date being 11 April 2019. The final date for the repayment of the full amount of the Revolving Facility Loan will also be 11 April 2019.

The receivables of the Company and the remaining debtors under the aforementioned facilities are secured by security interests established by the Company and other entities. In particular, such security interests include registered pledges over a collection of movables and property rights of a variable composition, constituting elements of the business enterprise of the Company and other appropriate entities, registered and financial pledges over share in the Company's subsidiaries, the assignment of rights as security, mortgages, notarial representations on submission to enforcement and similar securities established upon shares in or assets of the Company's subsidiaries which are governed by foreign law.

The Term Facility and the Revolving Facility Loan were used by the Company in particular for repaying the whole indebtedness arising from or referred to in the following documents:

a) the Senior Facilities Agreement of 31 March 2011, as amended, entered into between the Company (as the borrower) and certain finance parties; and
b) the Indenture of 20 May 2011 concerning the issuance of debt securities and relating to Senior Secured Notes; and
c) the Indenture of 17 February 2012 relating to pay-in-kind notes ("PIK Notes") issued by Eileme 1 AB (publ), a company incorporated under the laws of Sweden and a subsidiary of Metelem Holding Company Limited, which in turn is the parent company of Polkomtel Sp. z o.o.

Moreover the Senior Facility Agreement imposes a number of restrictions, disclosure requirements, covenants and other obligations.

In accordance with the provisions of the Senior Facilities Agreement, if the total leverage ratio is maintained below a level designated in that Agreement, the Company may incur additional facilities. The terms of such additional facilities will on each occasion be set out in an additional facility accession deed, executed in connection with the incurring of such additional facility, provided that the termination date of such additional facility shall be no earlier than 6 months after the last termination date of the Term Facility Loan and the Revolving Facility Loan.

The Senior Facility Agreement obliges the Company to enter into hedge transactions designated as hedges of floating interest payments on senior facility denominated in PLN.

Cash Pool liability amounted to PLN 380.0 and PLN 51.3 as at 31 December 2014 and 31 December 2013, respectively. The Company uses Cash Pool that was created by the entities of the Cyfrowy Polsat Capital Group.

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. 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.

Agreement with Bank Pekao S.A.

On 7 May 2009 the Company signed an agreement with Bank Pekao S.A. defining rights and obligations of the parties should the Company order the bank to issue a guarantee or a letter of credit. Bank's total commitment regarding the issued guarantees and letters of credit may not exceed PLN 20,0. As at 31 December 2014 the bank issued guarantees in the total amount of PLN 3.2 and EUR 1.3.

Agreement with mBank

On 14 June 2007 the Company signed an agreement with mBank 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 4.0. As at 31 December 2014 the bank issued guarantees in the total amount of PLN 30 thousand (not in million) and EUR 47 thousand (not in million).

29. Issued bonds

	31 December 2014	31 December 2013
Short-term liabilities	-	112.2
Long-term liabilities	-	1,322.7
Total	**-**	**1,434.9**

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

Change in issued bonds payable

	2014	2013
Issued bonds payable as at 1 January	**1,434.9**	**1,409.2**
Bonds redemption	(1,472.0)	-
Foreign exchange losses	22.7	20.0
Early redemption costs	82.1	-
Repayment of interest and commissions	(138.1)*	(119.4)
Interest accrued	70.4	125.1
Issued bonds payable as at 31 December	**-**	**1,434.9**

* Includes payment of the early redemption costs

.

The funds for repayment of the bonds have been derived from a term facility issued to the Company on 11 April 2014 (see note 28).

30. 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 29 months. After the basic period, the contracts are converted into contracts with indefinite or definite terms, unless terminated by subscribers.

Future minimum lease payments concerning set-top boxes under operating lease are as follows:

	31 December 2014	31 December 2013
within 1 year	2.9	7.9
between 1 and 5 years	0.7	1.9
in more than 5 years	-	-
Total	**3.6**	**9.8**

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

b) Company as a lessee

Operating leases

The Company entered into agreements, which are classified as operating lease contracts based on their economic substance. Assets leased under these contracts are not recorded in the financial statements. The contracts comprise *inter alia* leases of office, lease of satellite transponders capacity, and other equipment.

Future minimum lease payments under operating leases are as follows:

	31 December 2014	**31 December 2013**
within 1 year	112.5	104.7
between 1 and 5 years	273.1	323.7
in more than 5 years	38.2	47.2
Total	**423.8**	**475.6**

In 2014 the Company incurred costs related to operating lease agreements amounting to PLN 113.2 and in 2013 the costs of the Company amounted to PLN 103.9.

Finance leases

The carrying value of devices used on the basis of finance lease contracts amounted to PLN 1.7 as at 31 December 2014 and PLN 3.4 as at 31 December 2013. The lease period is between 1 and 3 years.

Future minimum lease payments under finance leases are as follows:

	31 December 2014	**31 December 2013**
within 1 year	0.8	2.3
between 1 and 5 years	0.9	1.6
in more than 5 years	-	-
Total	**1.7**	**3.9**

The present value of minimum lease payments amounted to PLN 1.6 as at 31 December 2014 and PLN 3.7 as at 31 December 2013.

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

31. Other non-current liabilities and provisions

	31 December 2014	31 December 2013
Derivative instruments (IRS/CIRS) liabilities (see note 27)	7.0	0.1
Deposits	11.0	6.6
Other provisions	0.5	0.5
Total	**18.5**	**7.2**

32. Trade and other payables

	31 December 2014	31 December 2013
Trade payables to related parties	48.3	24.3
Trade payables to non-related parties	90.3	70.9
Taxation and social security payables	10.8	10.5
Payables relating to purchases of non-current assets	3.9	18.9
Accruals	115.4	123.4
Short term provisions	24.9	35.9
Derivative instruments (IRS/CIRS) liabilities (see note 27)	8.4	12.0
Other	14.8	8.8
Total	**316.8**	**304.7**

Accruals

	31 December 2014	31 December 2013
Salaries	20.4	19.9
Royalties for copyright management organisations	4.4	3.8
Licence fees	45.5	47.7
Distribution costs	7.5	11.6
Other	37.6	40.4
Total	**115.4**	**123.4**

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

Short-term and long-term provisions

	2014	2013
Opening balance as at 1 January	**36.4**	**36.4**
Increases	0.1	2.4
Reversal	(11.1)	(2.4)
Closing balance as at 31 December	**25.4**	**36.4**
Of which:		
Short-term	*24.9*	*35.9*
Long-term	*0.5*	*0.5*

Provisions comprise mainly of provisions for license fees, litigation and disputes, warranty provision and onerous contracts.

Trade payables and payables relating to purchases of non-current assets by currency

Currency	31 December 2014	31 December 2013
PLN	113.9	88.2
EUR	7.8	10.1
USD	20.8	15.7
Total	**142.5**	**114.0**

Accruals by currency

Currency	31 December 2014	31 December 2013
PLN	92.7	95.6
EUR	19.3	18.6
USD	3.4	9.2
Total	**115.4**	**123.4**

33. Deposits for equipment

	31 December 2014	31 December 2013
Subscribers	1.4	2.7
Total	**1.4**	**2.7**

Deposits received comprise amounts paid by subscribers under agreements for rental of set-top boxes. Deposits are returned to customers or offset against receivables from subscribers upon contract termination.

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

34. Deferred income

	31 December 2014	31 December 2013
Deferred income	**220.8**	**213.4**
Of which: Short-term	*216.1*	*209.3*
Long-term	*4.7*	*4.1*

Deferred income comprises mainly subscription fees paid in advance and rental fees for set-top boxes.

35. 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 including 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 million with currency specification, all amounts presented in tables are in PLN million, except where otherwise stated)

Financial assets	Carrying amount	
	31 December 2014	**31 December 2013**
Loans and receivables, including:	**285.9**	**237.0**
Loans granted to related parties	10.2	-
Trade and other receivables from related parties	36.6	13.9
Trade and other receivables from non-related parties	225.8	197.0
Cash and cash equivalents	13.3	26.1

Financial liabilities	Carrying amount	
	31 December 2014	**31 December 2013**
Other financial liabilities valued at amortised cost, including:	**3,060.1**	**2,231.4**
Financial lease liabilities	1.6	3.7
Borrowings and loans	2,773.3	537.2
Issued bonds	-	1,434.9
Trade payables and other payables to third parties and deposits	117.6	107.6
Trade and other payables to related parties	52.2	24.6
Accruals	115.4	123.4
Hedging derivative instruments:	**15.4**	**12.1**
Interest rate swaps	15.4	8.0
Cross-currency interest rate swaps	-	4.1

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 2014, the Company was not materially exposed to credit risk arising from sales on credit. The Company's customer base includes a large number of individual subscribers dispersed geographically over the country who prepay subscription fees. Receivables from subscribers are constantly monitored and recovery actions are taken, including blocking of the signal transferred to subscribers or termination of services to a MVNO and Internet client.

The Company pursues a credit policy under which credit risk exposure is constantly monitored.

Due to diversification of risk in terms of the nature of individual entities, their geographical location and cooperation with highlyrated financial institutions, also taking into consideration the fair value of liabilities arising from derivative transactions, the Company is not materially exposed to credit risk as a result of derivative transactions entered into.

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at the reporting date was as follows:

Maximum exposure to credit risk

	Carrying amount	
	31 December 2014	**31 December 2013**
Loans granted to related parties	10.2	-
Trade and other receivables from non-related parties	225.8	197.0
Trade and other receivables from related parties	36.6	13.9
Cash and cash equivalents	13.3	26.1
Total	**285.9**	**237.0**

The maximum exposure to credit risk for trade and other receivables, by type of customer, was:

	Carrying amount	
	31 December 2014	**31 December 2013**
Receivables from subscribers	194.3	174.0
Receivables from distributors	4.4	2.6
Receivables from media companies	15.5	12.5
Receivables and loans granted to related parties	46.8	13.9
Receivables from DTH and cable TV operators	0.5	0.1
Other receivables and loans granted to non-related parties	11.1	7.8
Total	**272.6**	**210.9**

The ageing of trade and other receivables at the reporting date was:

	31 December 2014			31 December 2013		
	Gross	**Impairment**	**Net**	**Gross**	**Impairment**	**Net**
Not past due	181.9	5.4	176.5	171.4	3.5	167.9
Past due 0-30 days	40.0	1.3	38.7	20.0	1.1	18.9
Past due 31-60 days	22.5	1.5	21.0	6.0	1.1	4.9
Past due more than 60 days	53.6	27.4	26.2	45.3	26.1	19.2
Total	**298.0**	**35.6**	**262.4**	**242.7**	**31.8**	**210.9**

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

Credit quality of such not overdue receivables that are not impaired is very good.

Trade and other receivables with recognized impairment include not past due and past due trade and other receivables where partial recoverability is estimated. Usually impairment is recognized for trade and other receivables past due for more than 60 days or for trade and other receivables for which impairment indicator exists.

Liquidity risk

The Company's objective in liquidity management is to ensure that it always has sufficient funds to meet its liabilities when due. Surplus cash is invested in bank deposits.

The Company prepares, on an ongoing basis, analyses and forecasts of cash requirements based on projected cash flows.

The following are the contractual maturities of the Company's financial liabilities.

	31 December 2014						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	more than 5 years
Loans and borrowings	2,773.3	3,024.7	672.9	266.4	500.7	1,584.7	-
Finance lease liabilities	1.6	1.7	0.4	0.4	0.6	0.3	-
Trade and other payables to non-related parties and deposits	117.6	117.6	117.6	-	-	-	-
Trade and other payables to related parties	52.2	52.2	52.2	-	-	-	-
Accruals	115.4	115.4	115.4	-	-	-	-
IRS*	15.4	15.7	3.7	4.8	7.2	-	-
	3,075.5	**3,327.3**	**962.2**	**271.6**	**508.5**	**1,585.0**	**-**

*Pursuant to the agreements settlements shall be on a net basis

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

	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	537.2	597.0	145.3	168.9	282.8	-	-
Issued bonds	1,434.9	1,984.5	59.2	59.2	118.4	1,747.7	-
Finance lease liabilities	3.7	3.9	1.3	1.0	0.8	0.8	-
Trade and other payables to non-related parties and deposits	107.6	107.6	107.6	-	-	-	-
Trade and other payables to related parties	24.6	24.6	24.6	-	-	-	-
Accruals	123.4	123.4	123.4	-	-	-	-
IRS*	8.0	8.8	5.1	2.9	0.8	-	-
CIRS	4.1						
– inflows		(51.7)	(51.7)	-	-	-	-
– outflows		56.2	56.2	-	-	-	-
	2,243.5	**2,854.3**	**471.0**	**232.0**	**402.8**	**1,748.5**	**-**

*Pursuant to the agreements settlements shall be on a net basis

The Company may utilize revolving facility line of credit up to the amount of 500 PLN with a final maturity date on 11 April 2019 of which PLN 400 was unused as at 31 December 2014. As at December 2013 the amount of unused revolving facility amounted to PLN 200.

Market risk

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

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

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

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

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

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

It is permitted to use the following types of instruments:

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

Currency risk

One of the main risks to which the Company is exposed is currency risk related to fluctuations in the exchange rate between the Polish zloty and other currencies. The revenues generated by the Company are denominated mainly in Polish zloty, however, a portion of operating costs and capital expenditures are incurred in foreign currencies. The Company's currency risk is related to royalties for TV and radio broadcasters (USD and EUR), transponder capacity leases (EUR), fees for conditional access system (EUR) and purchases of reception equipment and accessories for reception equipment (USD and EUR). Since 2011 to May 2014 the level of currency risk exposure has increased because of new financing denominated in EUR obtained to purchase Telewizja Polsat S.A.
In respect of licence fees and transponder capacity leases, the Company partly reduces its currency risk exposure by means of an economic hedge as it denominates receivables from signal broadcast and marketing services in foreign currencies.

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

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

	31 December 2014				**31 December 2013**			
	EUR	**USD**	**GBP**	**CHF**	**EUR**	**USD**	**GBP**	**CHF**
Trade receivables	3.8	0.2	-	-	2.6	0.1	-	-
Cash and cash equivalents	0.3	0.2	-	0.1	0.7	0.9	-	-
Issued bonds	-	-	-	-	(346.0)	-	-	-
Trade payables	(1.8)	(5.9)	-	-	(2.4)	(5.2)	-	-
Gross balance sheet exposure	**2.3**	**(5.5)**	**-**	**0.1**	**(345.1)**	**(4.2)**	**-**	**-**
CIRS	-	-	-	-	12.5	-	-	-
Net exposure	**2.3**	**(5.5)**	**-**	**0.1**	**(332.6)**	**(4.2)**	**-**	**-**

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

Following foreign exchange rates were applied in the presented periods:

	Average rate		Rates at the balance sheet date	
(in PLN)	**2014**	**2013**	**31 December 2014**	**31 December 2013**
1 EUR	4.1852	4.1975	4.2623	4.1472
1 USD	3.1551	3.1608	3.5072	3.0120

For the purposes of exchange rate volatility sensitivity analysis as at 31 December 2014 and 31 December 2013 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 2013.

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

	2014					2013				
	As at 31 December 2014		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at 31 December 2013		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	3.8	16.4	5%	0.8	-	2.6	10.8	5%	0.5	-
USD	0.2	0.6	5%	-	-	0.1	0.4	5%	-	-
Cash and cash equivalents										
EUR	0.3	1.4	5%	0.1	-	0.7	3.0	5%	0.2	-
USD	0.2	0.7	5%	-	-	0.9	2.7	5%	0.1	-
GBP	-	0.1	5%	-	-	-	-	5%	-	-
CHF	0.1	0.3	5%	-	-	-	-	5%	-	-
Issued bonds										
EUR	-	-	5%	-	-	(346.0)	(1.434.9)	5%	(71.7)	-
Trade payables										
EUR	(1.8)	(7.8)	5%	(0.4)	-	(2.4)	(10.1)	5%	(0.5)	-
USD	(5.9)	(20.8)	5%	(1.0)	-	(5.2)	(15.7)	5%	(0.8)	-
GBP	-	-	5%	-	-	-	-	5%	-	-
CHF	-	-	5%	-	-	-	-	5%	-	-
Change in operating profit				(0.5)	-				(72.2)	-
CIRS										
EUR	-	-	5%	-	-	12.5	51.7	5%	0.6	2,0
Income tax				0.1	-				13.6	(0,4)
Change in net profit				(0.4)	-				(58.0)	1.6

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

	2014					2013				
	As at 31 December 2014		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at 31 December 2013		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensiv e income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	3.8	16.4	-5%	(0.8)	-	2.6	10.8	-5%	(0.5)	-
USD	0.2	0.6	-5%	-	-	0.1	0.4	-5%	-	-
Cash and cash equivalents										
EUR	0.3	1.4	-5%	(0.1)	-	0.7	3.0	-5%	(0.2)	-
USD	0.2	0.7	-5%	-	-	0.9	2.7	-5%	(0.1)	-
GBP	-	0.1	-5%	-	-	-	-	-5%	-	-
CHF	0.1	0.3	-5%	-	-	-	-	-5%	-	-
Issued bonds										
EUR	-	-	-5%	-	-	(346.0)	(1.434.9)	-5%	71.7	-
Trade payables										
EUR	(1.8)	(7.8)	-5%	0.4	-	(2.4)	(10.1)	-5%	0.5	-
USD	(5.9)	(20.8)	-5%	1.0	-	(5.2)	(15.7)	-5%	0.8	-
GBP	-	-	-5%	-	-	-	-	-5%	-	-
CHF	-	-	-5%	-	-	-	-	-5%	-	-
Change in operating profit				0.5	-				72.2	-
CIRS										
EUR	-	-	-5%	-	-	12.5	51.7	-5%	(0.6)	(2,0)
Income tax				(0.1)	-				(13.6)	0,4
Change in net profit				0.4	-				58.0	(1.6)

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

	2014		2013	
	Estimated change in profit in PLN	**Estimated change in other comprehensive income in PLN**	**Estimated change in profit in PLN**	**Estimated change in other comprehensive income in PLN**
Estimated change in exchange rate by 5 %				
EUR	0.4	-	(57.5)	1,6
USD	(0.8)	-	(0.5)	-
GBP	-	-	-	-
CHF	-	-	-	-
Estimated change in exchange rate by -5 %				
EUR	(0.4)	-	57.5	(1.6)
USD	0.8	-	0.5	-
GBP	-	-	-	-
CHF	-	-	-	-

Had the Polish zloty weakened 5% against the basket of currencies as at 31 December 2014 and 31 December 2013, the Company's net profit would have decreased by PLN 0.4 and decreased by PLN 58.0, respectively and other comprehensive income would have been unchanged in 2014 and increased by PLN 1.6 in 2013. Had the Polish zloty strengthened 5%, the Company's net profit would have correspondingly increased by PLN 0.4 in 2014 and increased by PLN 58.0 in 2013 and other comprehensive income would have been unchanged in 2014 and decreased by PLN 1.6 in 2013, 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.

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

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

	Carrying amount	
	31 December 2014	31 December 2013
Fixed rate instruments		
Financial assets*	10.0	-
Financial liabilities*	(1.4)	(1,454.5)
Variable rate instruments		
Financial assets	13.3	26.0
Financial liabilities*	(2,810.0)	(568.4)
Net interest exposure	**(2,796.7)**	**(542.4)**

* nominal values

Cash flow sensitivity analysis for variable rate instruments (pre-tax effect):

	Income statement		Other comprehensive income		Equity	
	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp
31 December 2014						
Variable rate instruments*	(28.0)	28.0	17.0	(17.0)	(11.0)	11.0
Cash flow sensitivity (net)	**(28.0)**	**28.0**	**17.0**	**(17.0)**	**(11.0)**	**11.0**
31 December 2013						
Variable rate instruments*	(5.4)	5.4	3.1	(3.1)	(2.3)	2.3
Cash flow sensitivity (net)	**(5.4)**	**5.4**	**3.1**	**(3.1)**	**(2.3)**	**2.3**

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

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

Fair value vs. carrying amount

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

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

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

	Category according to IAS 39	Level of the fair value hierarchy	31 December 2014		31 December 2013	
			Fair value	**Carrying amount**	**Fair value**	**Carrying amount**
Loans granted to related parties	A	2	10.5	10.2	-	-
Trade and other receivables	A	2	262.4	262.4	210.9	210.9
Cash and cash equivalents	A	*	13.3	13.3	26.1	26.1
Loans and borrowings	C	2	(2,831.7)	(2,773.3)	(567.8)	(537.2)
Issued bonds	C	2	-	-	(1,613.0)	(1,434.9)
Finance lease liabilities	C	2	(1.6)	(1.6)	(3.7)	(3.7)
Accruals	C	2	(115.4)	(115.4)	(123.4)	(123.4)
Trade and other payables and deposits	C	2	(169.8)	(169.8)	(132.2)	(132.2)
Total			**(2,832.3)**	**(2,774.2)**	**(2,203.1)**	**(1,994.4)**
Unrecognized gain/(loss)				(58.1)		(208.7)

A – loans and receivables

B – hedges

C – other liabilities

* It is assumed that the fair value of cash and cash equivalents (including restricted cash) and short-term deposits is equal to their nominal value, therefore no evaluation methods were used in order to calculate their fair value.

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

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

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

As at 31 December 2014 loans and borrowings comprised senior facility, revolving facility loan and Cash Pool and as at 31 December 2013 senior facility and Cash Pool. The discount rate for each payment was calculated as a sum of implied WIBOR interest rate and a margin regarding the Company's credit risk. When determining the fair value of senior facility as at 31 December 2014, forecasted cash flows from the reporting date to 11 April 2019 (assumed date of repayment of the loan) were analyzed. When determining the fair value of revolving facility as at 31 December 2014, forecasted cash flows from the reporting date to 31 March 2015 (assumed date of repayment of the loan) were analyzed. When determining the fair value of senior facility as at 31 December 2013, forecasted cash flows from the reporting date to 31 December 2015 (assumed date of repayment of the loan) were analyzed. 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 million with currency specification, all amounts presented in tables are in PLN million, except where otherwise stated)

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

When determining the fair value of issued bonds as at 31 December 2013, 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 2014, the Company held the following financial instruments carried at fair value on the statement of financial position:

Liabilities measured at fair value				
	31 December 2014	**Level 1**	**Level 2**	**Level3**
IRS			(15.4)	
Total		**-**	**(15.4)**	**-**

As at 31 December 2013, the Company held the following financial instruments measured at fair value:

Liabilities measured at fair value				
	31 December 2013	**Level 1**	**Level 2**	**Level3**
IRS			(8.0)	
CIRS			(4.1)	
Total		**-**	**(12.1)**	**-**

(all cash amounts presented in text are in million with currency specification, all amounts presented in tables are in PLN million, 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 2014 to 31 December 2014	Loans and borrowings	Issued bonds	Hedging instruments	**Total**
Interest expense on loans and borrowings	(113.5)	-	(2.9)	**(116.4)**
Interest expense on issued bonds	-	(70.4)	(2.0)	**(72.4)**
Early redemption costs	-	(82.1)	-	**(82.1)**
Foreign exchange rate differences	-	(22.7)	-	**(22.7)**
Total finance costs	(113.5)	(175.2)	(4.9)	**(293.6)**
Total gross profit/(loss)	**(113.5)**	**(175.2)**	**(4.9)**	**(293.6)**
Hedge valuation reserve	**-**	**-**	**(3.9)**	**(3.9)**

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	(64.6)	-	(10.1)	**(74.7)**
Interest expense on issued bonds	-	(125.1)	(8.2)	**(133.3)**
Foreign exchange rate differences	-	(20.0)	-	**(20.0)**
Total finance costs	(64.6)	(145.1)	(18.3)	**(228.0)**
Total gross profit/(loss)	**(64.6)**	**(145.1)**	**(18.3)**	**(228.0)**
Hedge valuation reserve	**-**	**-**	**14.4**	**14.4**

Hedge accounting and derivatives

Cash Flow Hedge of interest rate risk of interest payments

At 31 December 2014, 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 million with currency specification, all amounts presented in tables are in PLN million, except where otherwise stated)

Table below presents the basic parameters of IRS designated as hedging instruments, including the periods in which cash flows occur due to cash flow hedges, periods they will affect the financial results and fair value in PLN of hedging instruments as at the balance sheet date.

	31 December 2014	31 December 2013
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)	1,165.0	978.0
Fair value of hedging instruments	(15.4)	(8.0)
Hedge accounting approach	Cash Flow Hedge	Cash Flow Hedge
Expected period the hedge item affect income statement	Until 31 December 2016	Until 31 March 2015

Change in fair value of cash flow hedges recognized in equity is presented below (pre-tax):

	2014	2013
Opening Balance	**(8.0)**	**(15.3)**
Effective part of gains or losses on the hedging instrument	(16.1)	(2.8)
Reclassification to instruments for which hedge accounting is not adopted	5.1	-
Early settlement	0.4	-
Amounts recognized in equity transferred to the profit and loss statement, of which:	3.2	10.1
- adjustment of interest costs	3.0	10.1
- adjustment due to inefficiency of the hedge relationships	0.2	-
Closing Balance	**(15.4)**	**(8.0)**

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. As at 31 December 2014 the Company held no such CIRS.

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

Table below presents the basic parameters of CIRS designated as hedging instruments, including the periods in which cash flows occur due to cash flow hedges, periods they will affect the financial results and fair value in PLN of hedging instruments as at the balance sheet date.

	31 December 2014	31 December 2013
Type of instrument	Cross-currency interest rate swap	Cross-currency interest rate swap
Exposure	n/a	Interest payments in euro
Hedged risk	n/a	Foreign exchange risk
Notional value of hedging instrument (EUR)	n/a	350.0
Fair value of hedging instruments	n/a	(4,1)
Hedge accounting approach	n/a	Cash Flow Hedge
Expected period the hedge item affect income statement	n/a	Until 20 May 2014

Change in fair value of cash flow hedges recognized in equity is presented below (pre-tax):

	2014	2013
Opening Balance	**(4.1)**	**(10.7)**
Effective part of gains or losses on the hedging instrument	(2.0)	(1.5)
Reclassification to instruments for which hedge accounting is not applied	3.5	-
Early settlement	0.6	-
Amounts recognized in equity transferred to the profit and loss statement, of which:	2.0	8.1
- adjustment of interest costs	2.0	8.1
- adjustment due to inefficiency of the hedge relationships	-	-
Closing Balance	**-**	**(4.1)**

36. 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 million with currency specification, all amounts presented in tables are in PLN million, 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 2014	**31 December 2013**
Loans	2,773.3	537.2
Issued bonds	-	1,434.9
Cash and cash equivalents	(13.3)	(26.1)
Net debt	**2,760.0**	**1,946.0**
Equity	9,446.3	3,421.2
Equity and net debt	**12,206.3**	**5,367.2**
Leverage ratio	**0.23**	**0.36**

37. 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 2014	**31 December 2013**
Revenues from barter transactions	4.2	10.8
Cost of barter transactions	4.8	7.8

	31 December 2014	**31 December 2013**
Barter receivables	0.7	1.4
Barter payables	0.3	0.3

38. Transactions with related parties

Receivables

	31 December 2014	**31 December 2013**
Subsidiaries	35.0	7.4
Joint ventures	0.3	0.7
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	1.3	5.8
Total	**36.6**	**13.9**

A significant portion of receivables as at 31 December 2014 is represented by receivables related to sale of Polkomtel Sp. z o.o. ('Polkomtel') services.

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

Other assets

	31 December 2014	31 December 2013
Subsidiaries	28.9	2.2
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	-	98.6
Total	**28.9**	**100.8**

Other current assets as at 31 December 2014 comprise mainly deferred costs related to the agreement with Polkomtel. Other current assets as at 31 December 2013 comprise mainly deferred costs related to the agreement with Mobyland Sp. z o.o. (‘Mobyland’) and Polkomtel.

On 27 March 2014 the Company and Mobyland signed a memorandum of understanding to the data transfer services agreement dated 15 December 2010 under which the previously paid by the Company data package for use in future periods is set at 20.1 million GB as at 31 December 2013. The payment was already made in previous periods.

On 27 March 2014, the Company signed an agreement with Polkomtel as regards the provision of data transmission services which set the commercial start of these services at 1 January 2014. At the date of signing the agreement, the Company placed an order regarding the purchase of 61 million GB of data transfer service with the guaranteed validity period of the package until 31 December 2016. Payment for the above order was settled in monthly installments, starting from 1 January 2014.

As at 31 December 2014 the data package bought from Mobyland was used.

More details regarding the above-mentioned agreements are presented in note 43.

Liabilites

	31 December 2014	31 December 2013
Subsidiaries	63.7	27.3
Joint ventures	1.1	0.4
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	3.1	0.1
Total	**67.9**	**27.8**

A significant portion of liabilities is represented by programming licence fees and fees for using “Cyfrowy Polsat” trade mark.

Loans granted

	31 December 2014	31 December 2013
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	10.2	-
Total	**10.2**	**-**

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

Bond liabilities

	31 December 2014	31 December 2013
Subsidiaries	-	1,434.9
Total	**-**	**1,434.9**

Revenues

	for the year ended	
	31 December 2014	31 December 2013
Subsidiaries	45.2	22.7
Joint ventures	-	-
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	2.8	6.4
Total	**48.0**	**29.1**

The most significant transactions include revenues from signal broadcast services, programming fees, accounting services rendered to subsidiaries, property rental and interconnect services.

Expenses

	for the year ended	
	31 December 2014	31 December 2013
Subsidiaries	302.0	207.8
Joint ventures	2.8	2.9
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	130.6	97.8
Total	**435.4**	**308.5**

The most significant transactions include license fees for broadcasting programs: Polsat Film HD, Polsat Romans, Polsat Sport, Polsat Sport Extra, Polsat Sport Extra HD, Polsat Film, Polsat News, Polsat Play, Polsat Cafe, Polsat Sport HD and Polsat Jim Jam.

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 2014	31 December 2013
Subsidiaries	170.1	312.4
Joint ventures	0.2	-
Total	**170.3**	**312.4**

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

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.

Finance costs

	for the year ended	
	31 December 2014	**31 December 2013**
Subsidiaries	157.0	127.5
Total	**157.0**	**127.5**

Finance costs comprise mostly of interest on bonds, early redemption costs (see note 29) and also guarantee fees in respect to settlement of Term Facility (including Senior Facility loan which was repaid as well as Term Facility loan currently taken).

The acquisition of shares in Metelem was presented in note 19.

39. Litigations

Management believes that the provisions for litigations as at 31 December 2014 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Company's financial situation. Information regarding the amount of provisions was not separately disclosed, as in the opinion of the Group's Management, such disclosure could prejudice the outcome of the pending cases.

40. Other disclosures

Security relating to loans and borrowings

Establishment of collateral for loan facilities

The Company entered into a series of agreements establishing collateral under the SFA (see note 28). Detailed information in respect to the agreements is presented in the Management Report in note 4.6.5.

Other securities

The Company provided to its subsidiary a guarantee in the amount of EUR 13.3 in respect to a programming purchase contract.

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 0.0 as at 31 December 2014 (PLN 1.9 as at 31 December 2013). Total amount of capital commitments resulting from agreements on property construction and improvements was PLN 8.4 as at 31 December 2014 (PLN 0.0 as at 31 December

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

2013). Additionally the amount of deliveries and services committed to under agreements for the purchases of licences and software as at 31 December 2014 was PLN 0.3 (PLN 2.0 as at 31 December 2013).

41. Remuneration of the Management Board

The table below presents the remuneration of the Management Board members of the Company in 2014 and 2013.

Name	Function	2014	2013
Tomasz Gillner-Gorywoda	President of the Management Board (from 28 October 2014)	0.1	-
Dominik Libicki	President of the Management Board (until 28 October 2014)	0.9	1.1
Tobias Solorz	Vice-President of the Management Board (from 10 December 2014), Member of the Management Board (from 1 September 2014 to 9 December 2014)	0.1	-
Dariusz Działkowski	Member of the Management Board	0.6	0.6
Aneta Jaskólska	Member of the Management Board	0.6	0.6
Maciej Stec	Member of the Management Board (from 4 November 2014)	0.0	-
Tomasz Szeląg	Member of the Management Board	0.6	0.6
Total		**2.9**	**2.9**

The bonuses payable to each member of the Management Board of the Company for years 2014 and 2013 from the Company and subsidiaries are presented below:

Name	Function	2014	2013
Tomasz Gillner-Gorywoda	President of the Management Board	0.6	-
Dominik Libicki	President of the Management Board	3.7	3.0
Tobias Solorz	Vice-president of the Management Board	1.4	-
Dariusz Działkowski	Member of the Management Board	0.9	0.4
Aneta Jaskólska	Member of the Management Board	2.1	1.0
Maciej Stec	Member of the Management Board	0.9	-
Tomasz Szeląg	Member of the Management Board	3.1	1.5
Total		**12.7**	**5.9**

The table below presents the remuneration of the Management Board of Cyfrowy Polsat S.A. in 2014 and 2013 from other related companies:

Name	**Function**	**2014**	**2013**
Tomasz Gillner-Gorywoda	President of the Management Board	0.1	-
Dominik Libicki	President of the Management Board	0.1	0.0
Tobias Solorz	Vice-president of the Management Board	0.4	-
Dariusz Działkowski	Member of the Management Board	0.0	0.0
Aneta Jaskólska	Member of the Management Board	0.0	0.0
Maciej Stec	Member of the Management Board	0.1	-
Tomasz Szeląg	Member of the Management Board	0.1	0.1
Total		**0.8**	**0.1**

42. The Supervisory Board remuneration

The Supervisory Board receives remuneration based on the resolution of the Extraordinary General Shareholders' Meeting of Cyfrowy Polsat S.A. dated 5 September 2007.

The table below presents the total remuneration payable to the Supervisory Board members in 2014 and 2013:

Name	**Function**	**2014**	**2013**
Zygmunt Solorz-Żak	President of the Supervisory Board	0.2	0.2
Heronim Ruta	Member of the Supervisory Board	0.1	0.1
Andrzej Papis	Member of the Supervisory Board	0.1	0.1
Robert Gwiazdowski	Independent Member of the Supervisory Board	0.1	0.1
Leszek Reksa	Independent Member of the Supervisory Board	0.1	0.1
Total		**0.6**	**0.6**

43. Important agreements and events

Agreements for the provision of data transfer services

On 27 March 2014 the Company signed a subsequent Memorandum of Understanding ("Memorandum") to the agreement concluded between the Company and Mobyland on the provision of data transfer services. The Memorandum defines in particular a new price per 1 MB and terms and conditions of settlement of the unused data packages resulting from previous orders, and also specifies the volume and conditions of the next order the Company placed through Polkomtel Sp. z o.o. ("Polkomtel").

Under the signed Memorandum, the parties set a new, lower price per 1 MB of data transfer in the amount of PLN 0.00477 net (not in millions) and decided that the unused as at the end of 2013, but already paid for data package will be recalculated in accordance with this new price. Thereby, as a result of the Memorandum, the volume of the unused, but already paid for data package in the HSPA+ and LTE technology, remaining at the Company's disposal as at the end of 2013, amounted to approximately 20,1 million GB.

On 27 March 2014 a framework agreement ("Agreement") was signed between the Company and Polkomtel, concerning the terms of cooperation between parties as regards the provision of data transfer services by Polkomtel for the Company. The parties agreed that the date of validity and moment of commercial start of the Agreement will be 1 January 2014.
Within the framework of the aforesaid Agreement, Polkomtel will provide the Company with access to wireless data transfer, realized on the basis of LTE, HSPA+, HSPA and EDGE technologies. The maturity of the Agreement is unlimited and its value will be defined based on separate orders placed by the Company, regarding the purchase of Data Transfer Service, expressed as a number of GB.

On the Agreement date, the Company placed Order No. 1 with Polkomtel, regarding the purchase of 61 million GB of data transfer service with the guaranteed validity period of the Order until 31 December 2016 and net price of PLN 0.00477 (not in millions) per 1 MB. The total value of Order No. 1 amounts to PLN 298.0 net, and the payment will be settled in monthly installments, starting from January 2014, as follows:

a) for every month from January to December 2014 - in the net amount of PLN 6.7;
b) for every month from January to December 2015 - in the net amount of PLN 10.0;
c) for every month from January to December 2016 - in the net amount of PLN 8.2.

Execution of forward currency transactions

In connection with the indebtedness refinancing under the Senior Secured Notes issued pursuant to the Indenture dated 20 May 2011, the Company has executed forward currency transactions with the following banks: ING Bank Śląski S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Société Générale Spółka Akcyjna, Oddział w Polsce, the last of which was effected on 17 April 2014, as a result of which the aggregate value of these transactions reached EUR 383. The date of settlement of these transactions was defined as 6 May 2014, with the average PLN/EUR exchange rate at the level of 4.1979 PLN/EUR. As a result of settlement of these transactions the Company recognized a gain in amount PLN 2.9.

For the purposes of changing the structure of indebtedness of the Metelem Holding Company Limited group (after a takeover of Metelem by the Company) by way of increasing the capital of Metelem so as to facilitate partial repayment of indebtedness within the Metelem group through the repayment by Eileme 1 AB (publ), a subsidiary of Metelem, of its indebtedness under 14.25% PIK Notes due in 2020, the Company has executed forward currency transactions with the following banks: ING Bank Śląski S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Société Générale Spółka Akcyjna, Oddział w Polsce, the last of which was effected on 7 May 2014, as a result of which the aggregate value of these transactions reached USD 290. The date of settlement of these transactions was defined as 23 May 2014, with the average exchange rate at the level of 3.0247 PLN/USD. As a result of settlement of these transactions the Company recognized a gain in amount PLN 8.1 (see note 11).

Changes in the Management Board of the Company

On 30 July 2014 the Supervisory Board adopted a resolution appointing Mr. Tobias Solorz to the position of Member of the Management Board as of 1 September 2014. Following the registration of amendments to the Articles of association of the Company by the court, Mr. Tobias Solorz will take up the position of Vice-president of the Management Board.

Mr Dominik Libicki, President of the Management Board, has resigned from his position in the Management Board of the Company, effective on 28 October 2014. On 28 October 2014 the Supervisory Board accepted the resignation placed by Mr Dominik Libicki, and appointed Mr Tomasz Gillner-Gorywoda for the position of a President of the Management Board of the Company.

On 4 November 2014 the Supervisory Board appointed Mr Maciej Stec for the position of a Member of the Management Board of the Company.

44. Events subsequent to the reporting date

Repayment of the revolving loan

The Company has made two payments of a principal of the Revolving Facility Loan: on 30 January 2015 the Company has repaid a principal in the amount of PLN 50 and on 27 February 2015 has repaid a principal in the amount of PLN 50. The Company has also repaid the interest on the balance. The outstanding revolving loan liability amounts to zero as at the date of preparation of these financial statements. The repayment was executed using the cash generated from operations.

Agreements for the provision of data transfer services

On 3 March 2015 two memoranda of understanding determining new terms of cooperation in the scope of telecommunication services related to data transmission were concluded:

a) PLK Memorandum – memorandum concluded between Polkomtel Sp. z o.o. ('Polkomtel'), a wholly owned subsidiary of the Company, and Mobyland Sp. z o.o ("Mobyland") under the agreement on the provision of wholesale telecommunications services concluded between Mobyland and Polkomtel on 9 March 2012, and

b) CP Memorandum - memorandum concluded between the Company and Polkomtel under the agreement on the provision of wholesale telecommunications services, concluded on 27 March 2014 ("Framework Agreement").

In accordance with the PLK Memorandum and CP Memorandum, the parties have established new terms of cooperation between Polkomtel and Mobyland, as well as between the Company and Polkomtel, in particular:

a) a new unit price per 1 GB in relation to telecommunication services related to data transmission in the net amount of PLN 2.40 (not in millions);

b) the new price will be applicable to both newly ordered data packages as well as unused data packages already partially paid for under previous orders;

c) the new terms of cooperation will be effective as of 1 January 2015 and the placed orders for data transmission will be valid for a period of 4 years;

d) in the event when Mobyland introduces wholesale services based on other own frequencies or frequencies to which it acquires usage rights, Mobyland will extend the scope of provided telecommunication services related to data transmission to include the new frequencies.

Pursuant to the PLK Memorandum, on 3 March 2015 Polkomtel placed an order with Mobyland for the purchase of a data package of 1,571.68 million GB (the "PLK Order"). The total value of the PLK Order amounts to PLN 3,772.0 (net) and the surplus payments made for the previous order placed by Polkomtel with Mobyland, in relation to the actual usage, in the amount of PLN 144.6 shall be credited towards payments for the PLK Order. Payments for the PLK Order will be made in favor of Mobyland according to the following schedule:

i. PLN 119.3, net – for the first quarter of 2015 in three equal monthly installments,

ii. PLN 132.0, net – for the second quarter of 2015 in three equal monthly installments,

iii. PLN 245.0, net – for the third quarter of 2015 in three equal monthly installments,

iv. PLN 354.0, net – for the fourth quarter of 2015 in three equal monthly installments,

v. PLN 989.3, net – for the year 2016 in twelve equal monthly installments,

vi. PLN 880.0, net – for the year 2017 in twelve equal monthly installments, and

vii. PLN 907.9, net – for the year 2018 in twelve equal monthly installments.

In addition, pursuant to the CP Memorandum, on 3 March 2015 the Company placed the CP Order with Polkomtel for the purchase of a subsequent data package of 600.9 million GB (the "CP Order"). The total value of the CP Order amounts to PLN 1,442.2 (net) and the surplus payments made for the previous order placed by the Company with Polkomtel, in relation to the actual usage, in the amount of PLN 19.6 shall be credited towards payments for the CP Order. Payments for the CP Order will be made in favor of Polkomtel according to the following schedule:

i. PLN 48.8, net – for the first quarter of 2015 in three equal monthly installments,

ii. PLN 53.9, net – for the second quarter of 2015 in three equal monthly installments,

iii. PLN 98.2, net – for the third quarter of 2015 in three equal monthly installments,

iv. PLN 140.1, net – for the fourth quarter of 2015 in three equal monthly installments,

v. PLN 385.5, net – for the year 2016 in twelve equal monthly installments,

vi. PLN 342.8, net – for the year 2017 in twelve equal monthly installments, and

vii. PLN 353.2, net – for the year 2018 in twelve equal monthly installments.

45. Judgments, financial estimates and assumptions

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

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

The most significant estimates and assumptions made primarily related to the following:

- *Classification of lease agreements*

The Company classifies leasing agreements as operating or financial based on the assessment as to what extent the risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The assessment is based on the economical substance of each transaction. The Company concludes agreements for the rental of reception equipment (set-top boxes, modems and routers) to its customers in the course of its business operations. These lease agreements are classified as operating leases as the Company holds substantially all the risks and rewards incidental to ownership of the reception equipment. As a part of its business activities the Company has concluded agreements with Eutelsat for the rental of transponder capacity as well as an agreement with Nagravision for the lease of conditional access system (including SMART cards). These agreements were classified as operating leases as Eutelsat and Nagravision hold substantially all the risks and rewards incidental to the ownership of the transponders and the conditional access system. For more information see note 30.

- *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 16 and 18.

- *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 “Services to individual and business customers” cash-generating unit to which the goodwill has been allocated on the initial recognition. The value-in-use calculations included estimation of discounted cash flows for the given cash-generating unit and the relevant discount rate. The value of goodwill tested at each cash-generating unit, the key assumptions used in the value-in-used calculations for each cash-generating unit, impairment test results and sensitivity analysis of reasonably possible changes in the key assumptions are presented in note 17.

- *The impairment of investment in subsidiaries*

The Company analyzed whether any indicators of potential impairment of investments in subsidiaries exist as at the balance sheet date. The analysis did not indicate such impairment indicators therefore the Company did not perform an impairment test for these assets.

- *The impairment of non-financial non-current assets*

As at the reporting date the Company has assessed whether there are any indications that intangible and tangible assets with definite useful lives may be impaired. The impairment loss recognised equals the difference between net book value and recoverable amount. The impairment values are presented in note 16.

- *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, 23 and 35.

- *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 2014 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Company's financial situation.

- *Deferred tax*

Deferred taxes are recognised for all temporary differences, as well as for unused tax losses. The key assumption in relation to deferred tax accounting is the assessment of the expected timing and manner of realization or settlement of the carrying amounts of assets and liabilities held at the reporting date. In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deductible temporary differences can be utilized. At the end of the reporting period unrecognised deferred tax assets are re-assessed. A previously unrecognised deferred tax asset is recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. For further details refer to note 5w and 13.

- *Fair value of financial instruments*

Fair value of financial instruments for which there is no active market is estimated using appropriate techniques of measurements. The techniques are chosen based on the professional judgment. For more information about the method of establishing the fair value of financial instruments and key assumption made see note 5g.

CYFROWY POLSAT S.A.

Interim Condensed Financial Statements
for 3 and 12 Months Ended 31 December 2014

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

Table of contents

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

Interim Income Statement

		for 3 months ended		for 12 months ended	
	Note	31 December 2014 unaudited	31 December 2013 unaudited	31 December 2014	31 December 2013
Revenue	6	543.6	490.0	2,034.6	1,922.9
Operating costs	7	(501.7)	(410.3)	(1,735.6)	(1,552.2)
Other operating income, net		20.5	3.3	22.1	1.9
Profit from operating activities		**62.4**	**83.0**	**321.1**	**372.6**
Gain/loss on investment activities, net		(2.5)	4.3	168.2	312.4
Finance costs		(28.6)	(27.6)	(309.5)	(234.1)
Gross profit for the period		**31.3**	**59.7**	**179.8**	**450.9**
Income tax		(7.8)	(8.8)	(2.6)	(21.9)
Net profit for the period		**23.5**	**50.9**	**177.2**	**429.0**
Basic and diluted earnings per share (in PLN)		**0.04**	**0.14**	**0.33**	**1.23**

Interim Statement of Comprehensive Income

	for 3 months ended		for 12 months ended	
	31 December 2014 unaudited	31 December 2013 unaudited	31 December 2014	31 December 2013
Net profit for the period	**23.5**	**50.9**	**177.2**	**429.0**
Items that may be reclassified subsequently to profit or loss:				
Valuation of hedging instruments	(3.7)	3.1	(3.9)	14.4
Income tax relating to hedge valuation	0.7	(0.7)	0.7	(2.8)
Items that may be reclassified subsequently to profit or loss	**(3.0)**	**2.4**	**(3.2)**	**11.6**
Other comprehensive income, net of tax	**(3.0)**	**2.4**	**(3.2)**	**11.6**
Total comprehensive income for the period	**20.5**	**53.3**	**174.0**	**440.6**

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

Interim Balance Sheet – Assets

	31 December 2014	31 December 2013
Reception equipment	421.1	407.6
Other property, plant and equipment	164.8	167.1
Goodwill	52.0	52.0
Other intangible assets	75.6	72.1
Investment property	1.8	1.9
Shares in subsidiaries	11,561.5	4,719.9
Non-current deferred distribution fees	35.1	29.5
Other non-current assets	35.3	12.3
Total non-current assets	**12,347.2**	**5,462.4**
Inventories	124.0	144.7
Trade and other receivables	260.5	214.3
Income tax receivable	26.0	-
Current deferred distribution fees	74.5	70.1
Other current assets	30.9	105.1
Cash and cash equivalents	13.3	26.1
Total current assets	**529.2**	**560.3**
Total assets	**12,876.4**	**6,022.7**

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

Interim Balance Sheet – Equity and Liabilities

	31 December 2014	31 December 2013
Share capital	25.6	13.9
Share premium	7,237.4	1,295.1
Hedge valuation reserve	(12.2)	(9.0)
Retained earnings	2,195.5	2,121.2
Total equity	**9,446.3**	**3,421.2**
Loans and borrowings	1,846.2	239.9
Issued bonds	-	1,322.7
Finance lease liabilities	0.8	1.5
Deferred tax liabilities	97.7	93.8
Deferred income	4.7	4.1
Other non-current liabilities and provisions	18.5	7.2
includes derivative instruments (IRS/CIRS) liabilities	*7.0*	*0.1*
Total non-current liabilities	**1,967.9**	**1,669.2**
Loans and borrowings	927.1	297.3
Issued bonds	-	112.2
Finance lease liabilities	0.8	2.2
Trade and other payables	316.8	304.7
includes derivative instruments (IRS/CIRS) liabilities	*8.4*	*12.0*
Income tax liability	-	3.9
Deposits for equipment	1.4	2.7
Deferred income	216.1	209.3
Total current liabilities	**1,462.2**	**932.3**
Total liabilities	**3,430.1**	**2,601.5**
Total equity and liabilities	**12,876.4**	**6,022.7**

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

Interim Cash Flow Statement

	for the year ended	
	31 December 2014	31 December 2013
Net profit	**177.2**	**429.0**
Adjustments for:	**226.1**	**28.8**
Depreciation, amortization, impairment and liquidation	222.6	219.0
Gain on sale of property, plant and equipment and intangible assets	(0.3)	-
Interest expense	197.4	208.2
Change in inventories	20.7	15.2
Change in receivables and other assets	5.4	56.7
Change in liabilities, provisions and deferred income	44.7	(69.8)
Valuation of hedging instruments	(3.9)	14.4
Foreign exchange losses, net	22.7	20.1
Income tax	2.6	21.9
Net increase in reception equipment provided under operating lease	(193.1)	(158.8)
Dividends income	(166.9)	(303.2)
Other adjustments	74.2	5.1
Cash from operating activities	**403.3**	**457.8**
Income tax paid	(27.9)	(11.4)
Interest received from operating activities	0.9	1.1
Net cash from operating activities	**376.3**	**447.5**
Dividends received	166.9	303.2
Proceeds from forward instruments (USD)	8.1	-
Proceeds from sale of property, plant and equipment	0.8	0.1
Loans granted	(10.0)	-
Acquisition of property, plant and equipment	(28.8)	(40.3)
Acquisition of intangible assets	(34.6)	(40.1)
Share capital increase in subsidiaries and acquisition of shares	(883.7)	(131.0)
Net cash (used in)/from investing activities	**(781.3)**	**91.9**
Term loans received	2,800.0	-
Net cash from Cash Pool with paid interest	326.8	14.8
Proceeds from forward instruments (EUR)	3.0	-
Finance lease – principal repayments	(2.1)	(2.2)
Payment of share issuance-related consulting costs	(3.9)	-
Dividend paid	(102.9)	-
Payment of interest on loans, borrowings, bonds, finance lease and commissions*	(269.6)	(178.9)
Repayment of loans and borrowings	(887.1)	(406.3)
Bonds redemption	(1,472.0)	-
Net cash (used in)/from financing activities	**392.2**	**(572.6)**
Net decrease in cash and cash equivalents	**(12.8)**	**(33.2)**
Cash and cash equivalents at the beginning of the year	**26.1**	**59.3**
Effect of exchange rate fluctuations on cash and cash equivalents	-	-
Cash and cash equivalents at the end of the year	**13.3**	**26.1**

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

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

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

	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total Equity**
Balance as at 1 January 2014	**13.9**	**1,295.1**	**(9.0)**	**2,121.2**	**3,421.2**
Issue of shares	11.7	5,942.3	-	-	**5,954.0**
Dividend declared and paid	-	-	-	(102.9)	**(102.9)**
Total comprehensive income	-	-	(3.2)	177.2	**174.0**
Hedge valuation reserve	-	-	*(3.2)*	-	***(3.2)***
Net profit for the period	-	-	-	*177.2*	***177.2***
Balance as at 31 December 2014	**25.6**	**7,237.4**	**(12.2)**	**2,195.5**	**9,446.3**

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

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

	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total equity**
Balance as at 1 January 2013	**13.9**	**1,295.1**	**(20.6)**	**1,692.2**	**2,980.6**
Total comprehensive income	-	-	11.6	429.0	**440.6**
Hedge valuation reserve	-	-	*11.6*	-	***11.6***
Net profit for the period	-	-	-	*429.0*	***429.0***
Balance as at 31 December 2013	**13.9**	**1.295.1**	**(9.0)**	**2,121.2**	**3,421.2**

* The capital excluded from distribution amounts to PLN 4.6. 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 cash amounts presented in text are in million with currency specification, all amounts presented in tables are in PLN million, except where otherwise stated)

Notes to the Interim Condensed Financial Statements for 3 and 12 months Ended 31 December 2014

1. Activity of the Company

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

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

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

2. Composition of the Management Board of the Company

- Tomasz Gillner-Gorywoda	President of the Management Board (from 28 October 2014),
- Dominik Libicki	President of the Management Board (until 28 October 2014),
- Tobias Solorz	Vice-President of the Management Board (from 10 December 2014), Member of the Management Board (from 1 September 2014 to 9 December 2014),
- Dariusz Działkowski	Member of the Management Board,
- Aneta Jaskólska	Member of the Management Board,
- Maciej Stec	Member of the Management Board (from 4 November 2014),
- 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 2014 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 2014, 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 2014 and the financial statements for the year 2013, 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 2014.

The most recent published annual financial statements were prepared and audited for the year ended 31 December 2014. Annual financial statements fully disclose accounting policies approved by the Company.

5. Change in presentation

The Company has changed presentation of revenue and operating costs in the interim condensed consolidated income statement. None of the introduced changes affected the previously reported amounts of revenue, costs, net profit for the period, EBITDA, or equity.

Pursuant to the new presentation, wholesale revenue contains transmission services revenue, advertising and sponsorship revenue and sales of licenses, sublicenses and property rights (presented within Other revenues in previous periods).

Change in presentation of operating costs involved grouping of cost items within new cost category: technical costs and cost of settlements with telecommunication operators which contain broadcasting and signal transmission costs, cost of settlements with telecommunication operators and interconnection charges, infrastructure rental costs (presented within Other costs in previous periods) and IT services costs (presented within Other costs in previous periods). Content costs mainly contain programming costs.

Comparable results for the year ended 31 December 2013 have been reclassified to conform to the current period presentation as presented in the table below. Reclassifications have also been made in the notes to the interim condensed consolidated financial statements.

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

		Change in presentation Restated data for 3 months ended 31 December 2013			
	31 December 2013 *(reported)*	**Retail revenue**	**Wholesale revenue**	**Sale of equipment**	**Other revenue**
Retail revenue	466.6	466.3	0.3	-	-
Sale of equipment	9.7	-	-	9.7	-
Other revenue	13.7	-	8.9	-	4.8
Total	**490.0**	**466.3**	**9.2**	**9.7**	**4.8**

		Change in presentation Restated data for the year ended 31 December 2013			
	31 December 2013 *(reported)*	**Retail revenue**	**Wholesale revenue**	**Sale of equipment**	**Other revenue**
Retail revenue	1,829.5	1.827.8	1.7	-	-
Sale of equipment	41.7	-	-	41.7	-
Other revenue	51.7	-	32.2	-	19.5
Total	**1,922.9**	**1.827.8**	**33.9**	**41.7**	**19.5**

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

		Change in presentation Restated data for 3 months ended 31 December 2013							
	31 December 2013 *(reported)*	**Content costs**	**Distribution, marketing, customer relation management and retention costs**	**Depreciation, amortization, impairment and liquidation**	**Technical costs and cost of settlements with telecommu-nication operators**	**Salaries and employee-related costs**	**Cost of equipment sold**	**Cost of debt collection services and bad debt allowance and receivables written off**	**Other costs**
Programming costs	117.6	117.6	-	-	-	-	-	-	-
Distribution, marketing, customer relation management and retention costs	94.3	-	94.3	-	-	-	-	-	-
Depreciation, amortization, impairment and liquidation	57.5	-	-	57.5	-	-	-	-	-
Salaries and employee-related costs	36.3	-	-	-	-	36.3	-	-	-
Broadcasting and signal transmission costs	24.1	-	-	-	24.1	-	-	-	-
Cost of equipment sold	10.6	-	-	-	-	-	10.6	-	-
Cost of settlements with mobile network operators and interconnection charges	26.2	-	-	-	26.2	-	-	-	-
Cost of debt collection services and bad debt allowance and receivables written off	7.3	-	-	-	-	-	-	7.3	-
Other costs	36.4	-	-	-	5.6	-	-	-	30.8
Total	**410.3**	**117.6**	**94.3**	**57.5**	**55.9**	**36.3**	**10.6**	**7.3**	**30.8**

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

		Change in presentation Restated data for the year ended 31 December 2013							
	31 December 2013 *(reported)*	**Content costs**	**Distribution, marketing, customer relation management and retention costs**	**Depreciation, amortization, impairment and liquidation**	**Technical costs and cost of settlements with telecommu-nication operators**	**Salaries and employee-related costs**	**Cost of equipment sold**	**Cost of debt collection services and bad debt allowance and receivables written off**	**Other costs**
Programming costs	471.4	471.4	-	-	-	-	-	-	-
Distribution, marketing, customer relation management and retention costs	333.4	-	333.4	-	-	-	-	-	-
Depreciation, amortization, impairment and liquidation	219.0	-	-	219.0	-	-	-	-	-
Salaries and employee-related costs	114.2	-	-	-	-	114.2	-	-	-
Broadcasting and signal transmission costs	93.9	-	-	-	93.9	-	-	-	-
Cost of equipment sold	63.8	-	-	-	-	-	63.8	-	-
Cost of settlements with mobile network operators and interconnection charges	77.9	-	-	-	77.9	-	-	-	-
Cost of debt collection services and bad debt allowance and receivables written off	29.8	-	-	-	-	-	-	29.8	-
Other costs	148.8	3.1	-	-	22.3	-	-	-	123.4
Total	**1,552.2**	**474.5**	**333.4**	**219.0**	**194.1**	**114.2**	**63.8**	**29.8**	**123.4**

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

6. Revenue

	for 3 months ended		for 12 months ended	
	31 December 2014 unaudited	**31 December 2013 unaudited**	**31 December 2014**	**31 December 2013**
Retail revenue	496.3	466.3	1,913.0	1,827.8
Wholesale revenue	11.6	9.2	39.5	33.9
Sale of equipment	26.0	9.7	54.5	41.7
Other revenue	9.7	4.8	27.6	19.5
Total	**543.6**	**490.0**	**2,034.6**	**1,922.9**

7. Operating costs

	for 3 months ended		for 12 months ended	
	31 December 2014 unaudited	**31 December 2013 unaudited**	**31 December 2014**	**31 December 2013**
Content costs	134.3	117.6	517.2	474.5
Distribution, marketing, customer relation management and retention costs	94.6	94.3	332.4	333.4
Depreciation, amortization, impairment and liquidation	59.0	57.5	222.6	219.0
Technical costs and costs of settlements with telecommunication operators	101.3	55.9	288.5	194.1
Salaries and employee-related costs	37.8	36.3	131.9	114.2
Cost of equipment sold	31.9	10.6	71.3	63.8
Cost of debt collection services and bad debt allowance and receivables written off	9.6	7.3	39.2	29.8
Other costs	33.2	30.8	132.5	123.4
Total	**501.7**	**410.3**	**1,735.6**	**1,552.2**