CYFROWY POLSAT S.A.

CAPITAL GROUP

Annual Report
for the financial year ended
December 31, 2018

Place and date of publication: Warsaw, March 21, 2019
Place and date of approval: Warsaw, March 20, 2019

CONTENT OF THE ANNUAL REPORT

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

Ladies and Gentlemen,

It is with great pleasure and satisfaction that I am presenting to you the summary of last year's most important events in Cyfrowy Polsat Group. For me it is a special moment for two reasons – last year's 10th anniversary of Cyfrowy Polsat's listing on Warsaw Stock Exchange and my personal decision to move to the Group's Supervisory Boards from April 1, 2019. I am writing this letter with the feeling of enormous satisfaction, fulfillment and pride from managing, during the past several years, this exceptional and dynamically developing Group and from working with a good team of ambitious and knowledgeable managers and employees.

We have managed to accomplish all our plans and assumptions while at the same time strengthening our position on the pay TV, telecommunication as well as TV broadcasting and production markets. We have been also developing dynamically in the segment of multiplay services, while offering to our customers a wide array of services which include pay TV, mobile LTE and fixed-line Internet access, mobile voice services, banking and insurance services, electricity and gas supply as well as asset monitoring.

Once again we have demonstrated that we have the concept of what the Group should be and we are consistently implementing this concept, which is strongly supported by the competence of our staff, long-running experience from operation on media and telecommunication markets, awareness of the needs and expectations of Poles and also by the assets that we have in our disposal.

Our success is best demonstrated by specific figures – we already have nearly 1.8 million multiplay customers who have already combined in excess of 5 million TV, telephony and Internet access services into service packages. For the first time in history we provide more than 14 million contract services in total. Plus was the leader in the MNP area and was the only infrastructural operator who posted positive MNP balance last year, while the churn ratio was record low, at 7.6%. The total audience share of our TV stations was 24.3%, giving Polsat TV a 27.2% share in the TV advertising and sponsoring market.

Our operations in 2018 were successfully supported by our strategic acquisitions. Adding Netia to Cyfrowy Polsat Group enabled our companies to start cooperation in the key areas of operations. Fiber-optic Internet access, offering transfer rates of up to 900Mbps, was added to our smartDOM loyalty scheme while Netia's TV offer was extended to include the new TV channels from Polsat TV's extensive portfolio as well as the package featuring UEFA Champions League and Europa League matches.

We have acquired a majority stake in Eleven Sports Network Polska which owns broadcasting rights to attractive sports programs and manages four premium sports channels which are dynamically developing on the Polish market. We also started multi-faceted distribution of the rights to the UEFA Champions League matches by launching our new Polsat Sport Premium channels and services which offer coverage of the matches and we introduced offers which provide access to these channels to Cyfrowy Polsat, Plus network, Netia and IPLA, while taking care that the new channels are also present in the offers of other operators.

We also upgraded our LTE network and boosted our pay TV offer. Internet access is provided based on a total of 95 MHz of various LTE carrier frequencies. We were implementing further solutions in LTE Advanced technology, which has enabled us to increase the data transfer rates offered by our Internet access service to 600 Mbps, and the service's coverage footprint to the territory inhabited by 73% of Poland's population. We have been successful in offering LTE Home Internet service while the latest version of the devices, i.e. the Home Internet Set 300 supports LTE Advanced technology and enables data downloading at the rate of even up to 300 Mbps. As regards Cyfrowy Polsat's TV offer, we have introduced two new EVOBOX family set-top boxes – EVOBOX LITE and EVOBOX HD, both of which are manufactured in our InterPhone Service factory in Mielec. The devices combine reception of satellite TV with the possibility of using VOD services over the Internet.

New film productions, "Narzeczony na niby" (Pretended Fiancé) and "Serce nie sługa" (Love Cannot Be Compelled), which were produced in cooperation with our Group, were shown in cinemas in 2018, while the film entitled "Niepodległość" (Independence), based on archival, restored and colored film recordings, was made on the occasion of the 100th anniversary of Poland's independence, with Polsat TV being the co-producer of that film. We presented the new release of IPLA – our Internet entertainment service. It is not only that the graphical design has changed but also new functions and content have been added, including HBO channels and UEFA Champions League matches.

We ended last year with very good financial results. The Group's revenue exceeded PLN 10 billion, EBITDA increased to PLN 3.7 billion while net profit amounted PLN 0.8 billion. We invariably continued to generate very high levels of free cash flow, which enabled us to pursue further acquisitions with a simultaneous debt reduction.

Our plans for 2019 include, above all, further development and strengthening of our position and value on the media-and-telecommunications market, growth of the number of provided services (RGUs) as well as the number of smartDOM program members, care for high quality of customer service, extensive distribution of our own content as well as assuring top level entertainment, information and sports coverage to our customers. Moreover, our very efficient financial policy has enabled us to propose an attractive, predictable dividend policy to our shareholders. Based on our estimates, the implementation of this policy should not interfere with further debt reduction and generation of top-notch financial results, thus guaranteeing strong and stable foundations for the Group's further development.

Finally, in connection with my moving to the Supervisory Boards of Cyfrowy Polsat Group's companies, I would like to express my gratitude to all those who are turning our dreams into business projects, thanks to which or plans materialize while specific solutions achieve success. I would like to thank all the employees of the entire Group for their hard work and unwavering willingness to tackle new challenges. I would like to thank the Supervisory Board for the approval of the actions we propose and for their support for us in the implementation of our plans. And finally, I would like to thank our customers and shareholders for their trust in us, their loyalty and the long-running relations they maintain with us. Both for me, as well as for the whole Group, the past few years were the time of intense development, with a focus on customer needs and expectations and on the consolidation of the Group's value. I am glad that while working together we have been able to cope with all these challenges while achieving such good results. I am convinced that the Group is ready to tackle further challenges, now under the new leadership of experienced managers with proven track record.

Yours faithfully,

Tobias Solorz

President of the Management Board, Cyfrowy Polsat S.A.

LETTER OF THE CHAIRMAN OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

Last year was yet another successful year for Cyfrowy Polsat Group. The Group was able to effectively pursue its most important goal, i.e. the development strategy which is focused on strengthening the position on the entertainment, media and telecommunication markets in Poland. Both, in terms of operational and financial performance.

The finalized acquisitions as well as the organic growth, resulting from the significant potential of the companies constituting the Group, undoubtedly formed the milestones of the Group's development in 2018. The Group owes its strong position to the effective accomplishment of the goals, at Group level as well as by the individual companies, i.e. Cyfrowy Polsat which is the biggest in Poland DTH platform offering TV content and on-line video services, Polkomtel – the operator of Plus and Plush networks and the technology leader on the telecommunication market, as well as Telewizja Polsat – the leading TV broadcaster offering over 30 diversified channels. In addition the Group's potential was further reinforced by Netia and its telecommunication assets as well as by Eleven Sports Polska premium channels.

Thanks to such components the Group can focus on the consistent pursuit of its mission of being the leader on the entertainment and telecommunication markets in Poland. Based on this strategy and while using the best and the most advanced technologies we create and deliver the most attractive TV content, telecommunication services and multiplay services for homes and individual customers as well as for business clients. Launch of fixed-line Internet access by Plus, including the service offering top quality and transfer rates which is provided over fiber-optic lines, was a particularly important development last year. The premium segment in the TV broadcasting and production areas definitely gained strength, with Polsat Sport Premium channel (showing UEFA Champions League and UEFA Europa League matches) and Eleven Sports channels (broadcasting top level sports events from around the world, including top European soccer league matches, Formula 1 races and motorsports) being very well received by viewers.

Year 2018, and the decisions taken during that year, both strategic acquisition decisions and on-going activities related to the offers and programs, enabled us to respond to our customers' needs even better while maintaining customer satisfaction, and hence also their loyalty, at a top level. Universal nature of our offer, which is understood as availability in every Polish household, and the possibility of reception via all potential distribution channels, i.e. the way customers can enjoy our offer, be it the media or the telecommunication offer, is equally important for our customers as it is for us.

The Group's operational and management model enables us to pursue the main goal for our investors, i.e. sustained growth of value for Cyfrowy Polsat's shareholders. We are trying to achieve this goal through consistent pursuit of the assumptions underlying our operational strategy and also in the research and development area. The main components or our strategy include growth of revenue from the services provided to residential and business customers, maximization of the revenue generated from programming content, effective cost base management as well as effective management of the Group's finances. Last year was characterized by high efficiency in this field and by the accomplishment of the targets.

All of the above elements of our strategy and our market activities enable the Group to respond properly to the dynamically evolving market environment, especially in the area of content delivery over the Internet. Expansion of foreign players on the video on-line market is visible also in Poland but our Group demonstrates effectiveness and flexibility in adjusting to the changing situation and developing its services, which enables it to participate in this increasingly accelerating competitive race.

Own film productions, including cinema movies, have been recently added to our strategy, giving the Group the leadership position on the entertainment market. On the one hand, these productions give us unique, own content, and on the other hand they offer the possibility of exploitation across all fields of distribution. The growth of this segment is also supported by the expansion of the Group's own production center which already today includes several state-of-the-art, very well equipped production studios.

We must also not forget about another area which is essential not only for the Group itself and for its customers but for all inhabitants of Poland. As a Group we are actively involved in the regulatory work which shapes the market and which establishes the grounds for the introduction of the latest global technologies to Poland. Hence the involvement of our companies in the work related to 5G technology and the terms of its implementation in Poland. The way in which the respective frequency bands will be distributed as well as the network roll out model, but also the role played by the state in the whole process, will have influence on Poland's technological development over the next dozen or so if not several dozen years forward. Our Group is ready for intensification of the work associated with the implementation of 5G technology, while at the same time underscoring that the joint activities of state administration and the telecommunication sector seem to be the absolutely necessary requirement for our country to be able to embark on the next state of digital and civilizational development.

On behalf of the Supervisory Board of Cyfrowy Polsat I would like to thank you – our customers, shareholders and business partners – for another good year and for your trust in us. Particular thanks to the Management Boards and the employees of the Group, as well as to the Supervisory Boards of the Group's companies whose effective work – characterized by creativity, full professionalism, innovative approach and deep involvement – has contributed to the accomplishment of our goals. I believe that further cooperation within our globally-unique technology-and-content Group will translate to ifs further success, growing satisfaction of the employees and customers, as well as consistent consolidation of the Group's shareholder value.

Yours faithfully,

Marek Kapuściński

Chairman of the Supervisory Board
Cyfrowy Polsat S.A.

REPORT OF THE MANAGEMENT BOARD ON THE ACTIVITIES OF CYFROWY POLSAT S.A. CAPITAL GROUP IN THE FINANCIAL YEAR ENDED DECEMBER 31, 2018

TABLE OF CONTENTS

POLSAT GROUP AT A GLANCE

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

- pay digital TV services offered mainly by Cyfrowy Polsat – the largest pay TV provider in Poland and one of the leading satellite platforms in Europe. We offer our customers access to about 170 TV channels as well as additional modern OTT services (e.g. Cyfrowy Polsat GO, pay-per-view, Video On Demand) and Multiroom. We also provide online video services through IPLA, the leader on Poland's online video market, by offering them in a subscription and transaction (PPV) model, as well as free of charge (financed by advertising revenue);

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

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

- fixed-line broadband Internet, offered under Netia and Plus brands based on the infrastructure of our subsidiary Netia whose own access networks reach over 2.5 million homes passed in ca. 180 Polish locations. In addition, Netia provides services based on the access to the infrastructure of Orange Polska;

- broadcasting and television production through Telewizja Polsat, the leading commercial TV broadcaster on the Polish market, offering 33 popular TV channels, including our main channel POLSAT, one of the leading FTA channels in Poland;

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

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

Cyfrowy Polsat shares are listed in the Warsaw Stock Exchange in Warsaw since May 6, 2008.

Our mission and main strategic goals

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

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

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

POLSAT GROUP IN FIGURES IN 2018

CUSTOMERS AND SERVICES(1)

5.7 million contract customers

16.9 million services provided

- ✓ 84% of our services are provided in a contract model
- ✓ Systematic upselling of services to the combined customer base
- ✓ Growing loyalty of our customers

7.6% churn

SUCCESS OF OUR MULTI-PLAY STRATEGY(1)

1.8 million multi-play customers

5.4 million services provided

- ✓ Flexible smartDOM program offering unique combinations of services for the home
- ✓ Attractive discounts and wide array of equipment
- ✓ Positive impact on ARPU
- ✓ Positive impact on churn

PLN **83.2** ARPU

STRONG, STABLE POSITION ON THE TV BROADCASTING AND PRODUCTION MARKET

24.2% audience share

27.2% TV advertising share

- ✓ Rich content offer, including numerous own productions which are matched to profile of a Polish viewer
- ✓ Consistently growing advertising revenue
- ✓ Strong position in terms of exclusive sports broadcasting rights

SOLID FINANCIAL PERFORMANCE

PLN **10.7 billion** Revenue

PLN **3.7 billion** EBITDA

PLN **0.8 billion** net profit

- ✓ Stable and diversified revenue, mainly based on recurring, regular contract services
- ✓ High EBITDA margin, significantly above the market average

PLN **1.5 billion** free cash flow

2.7x net debt /EBITDA ratio

- ✓ Very high level of conversion of financial results to cash
- ✓ Fast debt reduction
- ✓ Readiness to stable dividend payouts

(1) Excluding operational indicators of Netia Group which are being published separately from the results of Cyfrowy Polsat Group. Detailed information concerning operating results of Netia Group is available at www.inwestor.netia.pl.

DISCLAIMERS

This constitutes the annual report of Cyfrowy Polsat Capital Group S.A. (the “Report”) prepared as required by Article 60 section 1 and 2 and Article 71 of the Ordinance of the Minister of Finance of March 29, 2018 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 (Journal of Laws 2018.757 dated April 30, 2018).

Presentation of financial data and other information

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

Financial and operating data

This Report contains financial statements and financial information relating to the Company and the Group. In particular, this Report contains our consolidated financial statements for the financial year ended December 31, 2018. The financial statements for the twelve month period ended December 31, 2018 attached to this Report have been prepared in accordance with International Financial Reporting Standards as approved for use in the European Union ("IFRS") and are presented in millions of zlotys. The financial statements have been audited by an independent auditor.

Starting from January 1, 2018, the Group is obligated to apply IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. The Group has decided to apply IFRS 15 retrospectively without restating the comparative figures for 2017.

IFRS 9 *Financial Instruments* specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

IFRS 15 establishes a single, five-step model for determining and recognizing revenues, which shall be applied to all contracts with customers. It replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts.*

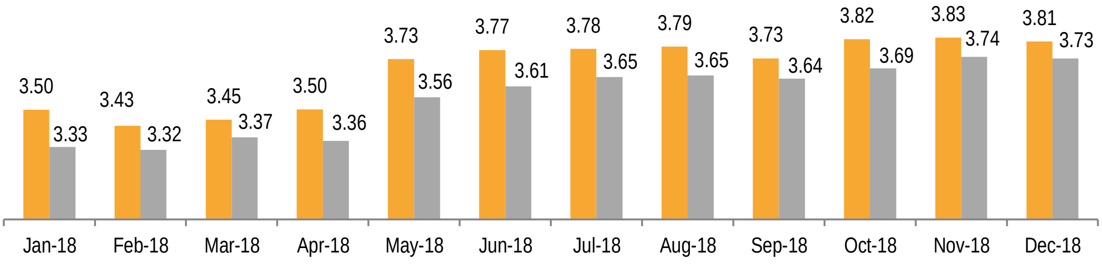
Certain arithmetical data contained in this Report, including financial and operating information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this Report may not conform exactly to the total figure given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

Currency presentation

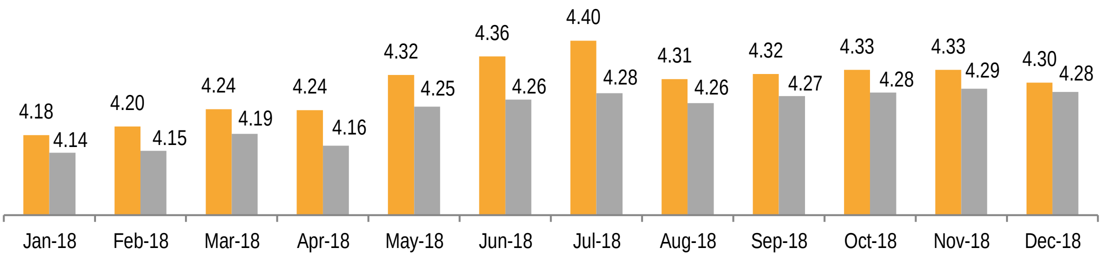
Unless otherwise indicated in this Report, all references to "PLN" or "zloty" in this Report are to the lawful currency of the Republic of Poland, all references to "USD" or "US dollars" are to the lawful currency of the United States and all references to "EUR" or the "euro" are to the lawful currency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

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

Year [PLN per USD 1.00]	2013	2014	2015	2016	2017	2018
Exchange rate at end of period	3.0120	3.5072	3.9011	4.1793	3.4813	3.7597
Period average exchange rate	3.1608	3.1551	3.7701	3.9431	3.7777	3.6134
Highest exchange rate during period	3.3724	3.5458	4.0400	4.2493	4.2271	3.8268
Lowest exchange rate during period	3.0105	3.0042	3.5550	3.7193	3.4813	3.3173



Year [PLN per EUR 1.00]	2013	2014	2015	2016	2017	2018
Exchange rate at end of period	4.1472	4.2623	4.2615	4.4240	4.1709	4.3000
Period average exchange rate	4.1975	4.1852	4.1839	4.3625	4.2576	4.2623
Highest exchange rate during period	4.3432	4.3138	4.3580	4.5035	4.4157	4.3978
Lowest exchange rate during period	4.0671	4.0998	3.9822	4.2355	4.1709	4.1423



Forward looking statements

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

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

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

Industry and market data

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

- Eurostat, for data relating to the Polish economy and GDP growth;
- the Polish Chamber of Electronic Communication;
- the Office of Electronic Communications (UKE);
- the Central Statistical Office of Poland (GUS);
- the Body of European Regulators for Electronic Communications (BEREC);
- the European Commission (Digital Agenda Scoreboard);
- Nielsen Audience Measurement;
- Starcom (previously SMG Starlink);
- IAB AdEX;
- PwC (Global entertainment and media outlook: 2016-2020);
- Zenith media house;
- Gemius/PBI;
- PMR;
- GfK Polonia;
- Ericsson Mobility Report;
- IQS;
- Fibre to the Home Council Europe; and
- operators functioning on the Polish market.

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

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

FINANCIAL DATA OVERVIEW

The following tables set out selected consolidated financial data for the 3 and 12-month periods ended December 31, 2018 and December 31, 2017. The selected financial data presented in the tables below is expressed in millions PLN, unless otherwise stated. This information should be read in conjunction with consolidated financial statements for the financial year ended December 31, 2018 (including the notes thereto) attached to this Report and the information included in item 4 of this Report – *Operating and financial review of Polsat Group*.

Selected financial data:

- from the consolidated income statement for the 3-month periods ended December 31, 2018 and December 31, 2017 have been converted into euro at a rate of PLN 4.2997 per EUR 1, being the average of daily average exchange rates announced by the NBP in the reporting period i.e. from October 1, 2018 to December 31, 2018;
- from the consolidated income statement and the consolidated cash flow statement for the 12-month periods ended December 31, 2018 and December 31, 2017 have been converted into euro at a rate of PLN 4.2617 per EUR 1, being the average of daily average exchange rates announced by the NBP in the reporting period i.e. from January 1, 2018 to December 31, 2018;
- from the consolidated balance sheet data as at December 31, 2018 and December 31, 2017 have been converted into euro at a rate of PLN 4.3000 per EUR 1 (average exchange rate published by NBP on December 31, 2018).

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

It should be noted that data for the periods of 3 and 12 months ended December 31, 2018 are not fully comparable to data for the periods of 3 and 12 months ended December 31, 2017 due to the disposal of LTE Holdings Limited on June 19, 2017, the acquisition of 51% of shares in Plus Flota Sp. z o.o. (formerly Paszport Korzyści Sp. z o.o.) on September 7, 2017, the acquisition of 100% of shares in Eska TV S.A. and Lemon Records Sp. z o.o. on December 4, 2017, the acquisition of 34.02% and later 15.46% of shares in TV Spektrum Sp. z o.o. on December 4, 2017 and February 2, 2018, respectively, the acquisition of 31.76% of shares of Netia S.A. on December 5, 2017 and the acquisition of additional shares in Netia S.A. on May 22, 2018, July 3, 2018 and October 2, 2018, the disposal of shares in New Media Ventures Sp. z o.o. on December 8, 2017, the acquisition of 100% of shares in Coltex ST Sp. z o.o. on March 1, 2018, the acquisition of 50% plus one share in Eleven Sports Network Sp. z o.o. on May 25, 2018, the acquisition of 45,1% shares in TVO Sp. z o.o. on May 29, 2018, the acquisition of 100% shares in Superstacja Sp. z o.o. on June 4, 2018, the acquisition of 100% shares in Netshare Media Group Sp. z o.o. on June 25, 2018 and reaching 24.47% of votes in Premium Mobile S.A.in 2018. Furthermore, the comparability of figures presented below is affected by the retrospective implementation from January 1, 2018 of IFRS 9 and IFRS 15 without the restatement of the comparative figures.

Consolidated balance sheet

	December 31, 2018 *data in accordance with IFRS 15*		December 31, 2017 *data in accordance with IAS 18*	
	mPLN	mEUR	mPLN	mEUR
Cash and cash equivalents[(1)]	1,178.7	274.1	1,172.0	272.6
Assets	30,696.8	7,138.8	27,756.0	6,454.9
Non-current liabilities	11,803.0	2,744.9	11,723.7	2,726.4
Non-current financial liabilities	9,597.1	2,231.9	10,285.7	2,392.0
Current liabilities	5,018.6	1,167.1	3,915.5	910.6
Current financial liabilities	1,661.8	386.5	1,394.1	324.2
Equity	13,875.2	3,226.8	12,116.8	2,817.9
Share capital	25.6	6.0	25.6	6.0

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

Consolidated cash flow statement

	for the 12-month period ended			
	December 31, 2018 *data in accordance with IFRS 15*		December 31, 2017 *data in accordance with IAS 18*	
	mPLN	mEUR	mPLN	mEUR
Net cash from operating activities	2,915.1	684.0	2,941.4	690.2
Net cash used in investing activities	(1,835.5)	(430.7)	(1,573.3)	(369.2)
Net cash used in financing activities	(1,074.3)	(252.1)	(1,527.7)	(358.5)
Net increase/(decrease) in cash and cash equivalents	5.3	1.2	(159.6)	(37.4)

Consolidated income statement

	for the 3 month period ended December 31				for the 12 month period ended December 31			
	2018 *data in accordance with IFRS 15*		2017 *data in accordance with IAS 18*		2018 *data in accordance with IFRS 15*		2017 *data in accordance with IAS 18*	
	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR
Revenue	3,002.0	698.2	2,579.2	599.9	10,686.1	2,507.5	9,828.6	2,306.3
Retail revenue	1,627.8	378.6	1,497.9	348.4	6,092.6	1,429.6	6,067.9	1,423.8
Wholesale revenue	927.8	215.8	735.8	171.1	3,043.8	714.2	2,538.6	595.7
Sale of equipment	398.2	92.6	298.8	69.5	1,386.0	325.2	1,055.2	247.6
Other sales revenue	48.2	11.2	46.7	10.9	163.7	38.4	166.9	39.2
Total operating cost	(2,588.9)	(602.1)	(2,139.2)	(497.5)	(8,978.8)	(2,106.9)	(8,015.9)	(1,880.9)
Technical costs and cost of settlements with telecommunication network operators	(691.1)	(160.7)	(533.8)	(124.1)	(2,448.9)	(574.6)	(2,014.0)	(472.6)
Depreciation, amortization, impairment and liquidation	(521.9)	(121.4)	(434.8)	(101.1)	(1,970.7)	(462.4)	(1,783.0)	(418.4)
Cost of equipment sold	(338.1)	(78.6)	(357.9)	(83.2)	(1,174.2)	(275.5)	(1,323.6)	(310.6)
Content costs	(424.0)	(98.6)	(321.2)	(74.7)	(1,355.3)	(318.0)	(1,153.6)	(270.7)
Distribution, marketing, customer relation management and retention costs	(268.7)	(62.5)	(243.3)	(56.6)	(933.9)	(219.1)	(894.3)	(209.8)
Salaries and employee-related costs	(238.7)	(55.5)	(164.2)	(38.2)	(738.9)	(173.4)	(553.1)	(129.8)
Cost of debt collection services and bad debt allowance and receivables written off	(19.6)	(4.6)	(10.5)	(2.4)	(83.9)	(19.7)	(67.4)	(15.8)
Other costs	(86.8)	(20.2)	(73.5)	(17.1)	(273.0)	(64.1)	(226.9)	(53.2)
Other operating income/(cost), net	6.3	1.5	(2.1)	(0.5)	19.7	4.6	21.3	5.0
Profit from operating activities	419.4	97.5	437.9	101.8	1,727.0	405.2	1,834.0	430.3
Gain/(loss) on investment activities, net	4.6	1.1	19.1	4.4	(33.0)	(7.7)	7.2	1.7
Finance costs, net	(113.6)	(26.4)	(105.4)	(24.5)	(386.7)	(90.7)	(509.0)	(119.4)
Share of the profit/(loss) of associates accounted for using the equity method	(2.8)	(0.7)	2.8	0.7	(1.2)	(0.3)	2.8	0.7
Gross profit for the period	307.6	71.5	354.4	82.4	1,306.1	306.5	1,335.0	313.3
Income tax	(242.2)	(56.3)	(197.2)	(45.9)	(490.0)	(115.0)	(389.8)	(91.5)
Net profit for the period	65.4	15.2	157.2	36.6	816.1	191.5	945.2	221.8
Net profit attributable to equity holders of the Parent	71.1	16.5	168.1	39.1	833.6	195.6	980.6	230.1
Net loss attributable to non-controlling interest	(5.5)	(1.3)	(9.9)	(2.3)	(17.5)	(4.1)	(35.4)	(8.3)
Basic and diluted earnings per share in PLN (not in millions)	0.10	0.02	0.25	0.06	1.28	0.30	1.48	0.35
Weighted number of issued shares (not in million)	639,546,016		639,546,016		639,546,016		639,546,016	

Other consolidated financial data

	for the 3-month period ended December 31				for the 12-month period ended December 31			
	2018 *data in accordance with IFRS 15*		2017 *data in accordance with IAS 18*		2018 *data in accordance with IFRS 15*		2017 *data in accordance with IAS 18*	
	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR
EBITDA[(1)]	941.3	218.9	872.7	203.0	3,697.7	867.7	3,617.0	848.7
EBITDA margin	31.4%	31.4%	33.8%	33.8%	34.6%	34.6%	36.8%	36.8%
Operating margin	14.0%	14.0%	17.0%	17.0%	16.2%	16.2%	18.7%	18.7%
Capital expenditures[(2)]	295.0	68.6	173.2	40.3	928.4	217.8	739.1	173.4

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

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

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

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

1.1. Composition and structure of Polsat Group

The following table presents the organizational structure of Polsat Group as at December 31, 2018 and December 31, 2017, indicating the consolidation method.

Company	Registered office	Activity	Share in voting rights (%) as at	
			December 31, 2018	December 31, 2017
Parent Company				
Cyfrowy Polsat S.A.	Łubinowa 4a, 03-878 Warsaw	radio, TV and telecommunication activities	n/a	n/a
Subsidiaries consolidated using the full consolidation method				
Cyfrowy Polsat Trade Marks Sp. z o.o. (1)	Łubinowa 4a, 03-878 Warsaw	non-current assets and intellectual property rights management	-	100%
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	television broadcasting and production	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o. Sp. k.	Ostrobramska 77, 04-175 Warsaw	advertising activities	100%	100%
Polsat License Ltd.	Alte Landstrasse 17, 8863 Buttikon, Switzerland	trade of programming licenses	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	media	100%	100%
Polkomtel Infrastruktura Sp. z o.o. (formerly PL 2014 Sp. z o.o.)	Konstruktorska 4, 02-673 Warsaw	telecommunication activities	100%	100%
Polsat Brands AG	Alte Landstrasse 17, 8863 Buttikon, Switzerland	intellectual property rights management	100%	100%
Polsat Ltd.	238A King Street, W6 0RF London, Great Britain	TV broadcasting	100%	100%
Muzo.fm Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	radio broadcasting and production	100%	100%
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	radio and TV activities	100%	100%
CPSPV1 Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	technical services	100%	100%
CPSPV2 Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	technical services	100%	100%
Eileme 1 AB (publ)(2)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	-	100%
Polkomtel Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	telecommunication activities	100%	100%
Nordisk Polska Sp. z o.o.	Al. Stanów Zjednoczonych 61 A, 04-028 Warsaw	telecommunication activities	100%	100%
Liberty Poland S.A.	Katowicka 47, 41-500 Chorzów	telecommunication activities	100%	100%
Polkomtel Business Development Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	other activities supporting financial services, gaseous fuels trading activities	100%	100%
Plus TM Management Sp. z o.o.(3)	Konstruktorska 4, 02-673 Warsaw	intellectual property rights management and rental	-	100%

Company	Registered office	Activity	Share in voting rights (%) as at	
			December 31, 2018	December 31, 2017
TM Rental Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	intellectual property rights rental	100%	100%
Orsen Holding Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Orsen Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Dwa Sp. z o.o.	Al. Jerozolimskie 81, 02-001 Warsaw	holding activities	100%	100%
Interphone Service Sp. z o.o.	Inwestorów 8, 39-300 Mielec	production of set-top boxes	100%	100%
Teleaudio Dwa Sp. z o.o. Sp.k.	Al. Jerozolimskie 81, 02-001 Warsaw	call center and premium-rate services	100%	100%
IB 1 FIZAN	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	finance activities	(4)	(4)
Litenite Ltd.	Kostaki Pantelidi 1, 1010 Nicosia, Cyprus	holding activities	100%	100%
Aero2 Sp. z o.o.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	100%	100%
Sferia S.A.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	51%	51%
AltaLog Sp. z o.o.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	software	66%	66%
Plus Flota Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	management and rental services	100%	100%
ESKA TV S.A.	Jubilerska 10, 04-190 Warsaw	television broadcasting and production	100%	100%
Lemon Records Sp. z o.o.	Jubilerska 10, 04-190 Warsaw	television broadcasting and production	100%	100%
Coltex ST Sp. z o.o.(5)	Katowicka 47, 41-500 Chorzów	telecommunication activities	100%	-
Netia S.A.(6)	Poleczki 13, 02-822 Warsaw	telecommunication activities	65.98%	-
Internetia Sp. z o.o.(6)	Poleczki 13, 02-822 Warsaw	telecommunication activities	65.98%	-
Netia 2 Sp. z o.o.(6)	Taśmowa 7A, 02-677 Warsaw	telecommunication activities	65.98%	-
TK Telekom Sp. z o.o.(6)	Kijowska 10/12A, 03-743 Warsaw	telecommunication activities	65.98%	-
Telefonia Dialog Sp. z o.o. (6) (7)	Strzegomska 142A, 54-429 Wrocław	telecommunication activities	-	-
Petrotel Sp. z o.o.(6)	Chemików 7, 09-411 Płock	telecommunication activities	65.98%	-
Eleven Sports Network Sp. z o.o. (8)	Plac Europejski 2, 00-844 Warsaw	television broadcasting	50% plus 1 share	-
Superstacja Sp. z o.o.(9)	Al. Stanów Zjednoczonych 53, 04-028 Warsaw	television broadcasting and production	100%	-
Netshare Media Group Sp. z o.o. (10)	Ostrobramska 77, 04-175 Warsaw	advertising	100%	-

Company	Registered office	Activity	Share in voting rights (%) as at	
			December 31, 2018	December 31, 2017
Subsidiaries consolidated using the equity method				
Polsat JimJam Ltd.	105-109 Salusbury Road London NW6 6RG Great Britain	television activities	50%	50%
Polski Operator Telewizyjny Sp. z o.o.	Wiertnicza 159, 02-952 Warsaw	radio communications and radio diffusion	50%	50%
TV Spektrum Sp. z o.o. (11)	Dęblińska 6, 04-187 Warsaw	television broadcasting and production	49.48%	34.02%
Netia S.A.(12)	Poleczki 13, 02-822 Warsaw	telecommunication activities	-	31.76%
TVO Sp. z o.o. (13)	Batorego 28-32, 81-366 Gdynia	retail sales	45.1%	-
Premium Mobile S.A.	Gintrowskiego 31, 02-697 Warszawa	telecommunication activities	24.47%	-

(1) The company was merged with Cyfrowy Polsat S.A. on November 30, 2018.
(2) The company was merged with Cyfrowy Polsat S.A. on April 28, 2018.
(3) The company was merged with Polkomtel Sp. z o.o. on November 30, 2018.
(4) Cyfrowy Polsat owns indirectly 100% of certificates.
(5) Consolidated since March 1, 2018 following the acquisition of 100% of its shares by the Group.
(6) Consolidated since May 22, 2018 as a result of obtaining control by the Group over Netia S.A. As at September 30, 2018, Cyfrowy Polsat S.A. held 48.48% of shares of Netia S.A. while Karswell Limited held 17.49% of shares of Netia S.A.
(7) The company was merged with Netia S.A. on November 30, 2018.
(8) Consolidated since May 25, 2018 following acquisition of 50% shares plus one share by the Group.
(9) Consolidated since June 4, 2018 following the acquisition of 100% of its shares by the Group.
(10) Consolidated since June 25, 2018 following the acquisition of 100% of its shares by the Group.
(11) On February 4, 2018 Telewizja Polsat Sp. z o.o. acquired 15.46% shares in TV Spektrum Sp. z o.o.
(12) On May 22, 2018 Cyfrowy Polsat S.A. took control over Netia S.A.
(13) On May 29, 2018 Cyfrowy Polsat Trade Marks Sp. z o.o. acquired 45.1% shares in TVO Sp. z o.o.

Additionally, the following entities were included in the consolidated financial statements for the financial year ended December 31, 2018:

Company	Registered office	Activity	Share in voting rights (%) as at	
			June 30, 2018	December 31, 2017
Karpacka Telewizja Kablowa Sp. z o.o.(1)	Warszawska 220, 26-600 Radom	dormant	99%	99%
Polskie Badania Internetu Sp. z o.o.	Al. Jerozolimskie 65/79, 00-697 Warsaw	web portals activities	4.55%	4.55%
InPlus Sp. z o.o.	Wilczyńskiego 25e/216 10-686 Olsztyn	infrastructure project advisory	1.5%(2)	1.5%(2)

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

Changes in the organizational structure of Polsat Group and their effects

From January 1, 2018 until the date of approval of this Report, i.e. March 20, 2019, the following changes were implemented in the structure of Polsat Group. These changes are the effect of acquisitions and the systematically executed process of simplifying the capital structure of the Group. The changes in the Group's structure entail, among other things, improved efficiency of financial management on the consolidated level through the simplification and streamlining of intragroup financial flows and the elimination of redundant costs. What is more, they translate into greater credibility and transparency of Polsat Group, which in turn has a positive influence on the possibilities of obtaining and using external debt financing.

Date	Description
January 12, 2018	Acquisition of 1% of shares in Premium Mobile S.A.
February 2, 2018	Acquisition of 15.46% of shares in TV Spektrum Sp. z o.o. (total shareholding increased to 49.48%).
March 1, 2018	Acquisition of 100% of shares in Coltex ST Sp. z o.o.
April 28, 2018	Registration of the cross-border merger by acquisition of Cyfrowy Polsat with Eileme 1 AB (publ).
May 22, 2018.	Acquisition of 10.33% of shares in Netia S.A.
May 25, 2018	Acquisition of 50% + 1 share in Eleven Sports Network Sp. z o.o.
May 29, 2018	Acquisition of 45.1% shares in TVO Sp. z o.o.
June 4, 2018.	Acquisition of 100% shares in Superstacja Sp. z o.o.
June 25, 2018	Acquisition of 100% share in Netshare Media Group Sp. z o.o.
July 3, 2018	Acquisition of 5.16% shares in Netia S.A.
August 31, 2018.	Transfer of telecommunications infrastructure of Polkomtel to Polkomtel Infrastruktura Sp. z o.o. (formerly PL 2014 Sp. z o.o.)
October 2, 2018	Acquisition of 17.49% of shares in Netia S.A.
November 30, 2018	Registration of the merger by acquisition of Cyfrowy Polsat with Cyfrowy Polsat Trade Marks Sp. z o.o.
November 30, 2018	Registration of the merger by acquisition of Polkomtel Sp. z o.o. with Plus TM Management Sp. z o.o.
November 30, 2018	Registration of the merger by acquisition of Netia S.A. with Telefonia Dialog Sp. z o.o.
November 30, 2018	Registration of the contribution of the a2mobile brand by Aero 2 Sp. z o.o. to Premium Mobile S.A. and reaching of a total of 24.47% votes in Premium Mobile S.A.

1.2. Who we are

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

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

In the segment of services to individual and business customers we provide the following services: digital television transmission signal, mobile and fixed-line Internet access, mobile TV, video online, mobile and fixed-line telephony services, wholesale services for other telecommunications operators as well as sales of telecommunication equipment and production of set-top boxes. As at December 31, 2018 we had over 5.7 million contract customers and companies from our Group provided a total of over 16.9 million active services, including 14.3 million contract RGUs (the above data does not include the activities conducted by Netia Group companies).

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

1.2.1. Segment of services to individual and business customers

Pay TV

Cyfrowy Polsat is the largest pay TV provider in Poland and a leading satellite platform in Europe in terms of the number of customers. Since 2006 we are the leader on the Polish market in terms of the number of active services, as well as market share. We actively expand our pay TV offer by adding additional services, such as Multiroom or paid video online subscriptions, providing nearly 5.2 million pay TV services as at December 31, 2018.

Our offer includes mainly digital pay TV services distributed directly to end-users via satellite through set-top boxes and satellite antennas. Our programming strategy is to offer a wide range of channels that appeal to the whole family at attractive prices. At present we provide access to about 170 TV channels, including all of Poland's main terrestrial channels as well as general entertainment, sports and esports, music, lifestyle, news/information, children's, education and movie channels. In addition, we offer our customers access to over 80 HD channels and also provide OTT services, such as Cyfrowy Polsat GO, VOD/PPV, online video, catch-up TV and Multiroom HD services.

Currently, we are the only operator in Poland to offer our customers high quality set-top boxes manufactured in our plant in Mielec. We systematically develop the software of our set-top boxes and improve their functionality, so as to better address the changing consumer preferences and video consumption trends.

Furthermore, Netia from Cyfrowy Polsat Group provides IPTV service under the brand of 'Personal Television' ('Telewizja Osobista'). The product includes 'Netia Player', a set-top-box which allows access to digital pay TV over IP, fast and easy access to popular Internet services or own multimedia resources through a screen of a TV set, as well as access to VOD services such as IPLA, TVN Player or HBO GO. Currently Netia's Personal Television offering includes over 200 channels, with over 100 channels in HD or super HD technology, and a number or TV services as at December 31, 2018 reached near 215 thousand.

Online video

The entertainment website IPLA offers the largest database of legal video content and live broadcasts in Poland and over 100 online TV channels, live coverage of major national and international sports events, a vast and regularly expanded library of feature films, TV series and television programs provided by both Polish and international licensors. In 2018 IPLA's sports content offering was expanded with the Polsat Sport Premium package which broadcasts live football matches of the UEFA Champions League and the UEFA Europa League. At present, IPLA offers over 500 hours of live coverage per month from the largest sports events nationwide and worldwide. IPLA provides its users access to content in the free of charge model accompanied by advertisements and the paid model, as well as the possibility to download selected content and view it offline. Nearly 90% of IPLA VOD content is available free of charge, whereas advertisements constitute the source of revenue.

Access to video materials and channels via the Internet is based on one of three models. The first is a pay model, where a customer makes a fixed payment for the right to access a given video material. The second model consists in access to a package of video materials and channels in exchange for a periodic (e.g. monthly) fee. The third model is based on free access in exchange for viewing advertisements. Approximately 80% of IPLA's total revenue is generated by the advertisement-based model, while about 20% is derived from the purchase of access to content made by users.

Thanks to the http://www.ipla.tv website and dedicated applications the content of IPLA online television is available on a wide array of consumer devices, including computers with Windows, mobile devices powered by iOS, Android and Windows Phone, TV sets with internet connections (Samsung, LG, Sony, Panasonic, Philips, Sharp, Ikea, Toshiba, Thomson, TCL), set-top boxes (cable TV TOYA, Netia), game consoles (PlayStation 3) and Blu-ray. Since its inception IPLA's mobile app has been already downloaded more than 10 million times. In February 2018, we refreshed our IPLA website by introducing changes which made the service even more user-friendly and adjusted to users' needs.

Moreover, we offer to our satellite TV customers an access to the video on demand (VOD) "Home Film Rental" service which allows paid access to the latest novelties and film hits through a decoder. The service does not require any additional technological solutions and is available via a TV set.

Mobile and fixed-line telephony

We provide mobile telephony services mainly through our subsidiary Polkomtel, Plus network operator. Polkomtel is one of the leading Polish mobile telecommunications network operators. As at December 31, 2018 we provided nearly 10 million mobile telephony services under both the postpaid and prepaid models.

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

We provide fixed-line telecommunications services under "Netia" and "Plus" brands based on the infrastructure of our subsidiary Netia, which operates based on both own telecommunications infrastructure and an access to the infrastructure of Orange Polska. The dedicated retail offering of fixed-line telephony offered under "Netia" brand includes both business customers, including institutions, medium and large enterprises and small companies, as well as residential customers.

Mobile broadband Internet

In 2011, we were the first commercial service provider in Poland to launch an LTE-based broadband Internet access service, offering technical features and quality parameters which allow to compete effectively with fixed-line Internet services, thus meeting the increasing demand of consumers. In addition, LTE-based broadband access offers mobility, which is a significant feature for a significant group of consumers. Our LTE Internet and HSPA/HSPA+ Internet cover nearly 100% of Poland's population. Since 2016 we have been offering our customers services in the LTE Advanced technology. This technology is being successively developed, as demonstrated by our launch of the 256 QAM and MIMO 4x4 modulation, which allows for increased transmission speed by 33% while using the same radio band. We are also pursuing aggregation of bands in two, three and, selectively, four frequencies which further contributes to increasing the capacity of our network, thus making our mobile Internet faster and more stable. Thanks to the applied technological solutions, in May 2018 the speed of out LTE Advanced Internet ranged from 300 Mb/s to 500 Mb/s in over 300 locations. Furthermore, the tests of download transmission speed conducted in Białystok on aggregated four bands along with modulation allowed us to achieve data transfer speed above 600 Mb/s. As at December 31, 2018, we provided nearly 2.0 million mobile broadband Internet access services, mostly in the contract model.

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

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

Fixed-line broadband Internet

Through our subsidiaries Netia and Polkomtel we also provide fixed-line broadband Internet services, among others in fiber optic technologies. Fixed-line fiber optic services are being rendered via own access networks with over 2.5 million homes passed in approximately 180 locations. They are also supported by an extensive, nationwide backbone infrastructure. Moreover, Netia offers fixed-line Internet services based on regulated access to Orange Polska's network.

Netia provides fixed-line broadband Internet services to both residential and business customers.

Services to residential customers are sold mainly in bundles with TV and voice telephony services, including a mobile offering under an MVNO model. The service offering is supplemented by a number of value added services which support ARPU levels and loyalty of the customer base. Netia Spot, a wireless WIFI router, and Netia Player, an innovative multimedia set-top box with an access to a variety of TV channels, VOD services, Internet apps and a possibility to open own multimedia files, constitute a part of a home multimedia platform which uses broadband Internet access for distribution of content to members of a household.

Broadband Internet access services for business customers are offered in fiber optic, Ethernet, xDSL and HFC technologies. They are part of a wide range of services, including traditional fixed-line telephony solutions (analogue and ISDN access), the latest IP telephony services with hosted PABX (NGN – Next Generation Network technology), Unified Communications services, video communications (video conference services in HD quality), wholesale messaging, lease of digital lines, VPN and Ethernet networks, and data center services which are addressed to companies using Internet in business solutions, running portals and news services.

In December 2018 Polkomtel launched, based on Netia's infrastructure, a new fixed-line broadband Internet offering "Plus Internet Stacjonarny". The service is addressed to residential customers living in both single- and multi-family housing as well as to small companies from the SOHO segment. "Plus Internet Stacjonarny" service is provided in four technologies depending on available infrastructure: copper (CU), Ethernet (ETTH), cable (HFC) and fiber optic (PON). Under the offering, a customer receives an additional SIM card for LTE Plus Advanced mobile Internet service. The offering is also available within the smartDOM and smartFIRMA programs.

Bundled services

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

As part of our strategy of integrating products and services, Polsat Group promotes its unique savings programs - smartDOM and smartFIRMA - which enable profitable bundling of modern services for the home or company. Our bundled services offer is based on a simple and flexible mechanism - a customer subscribed to one service receives an attractive discount for the entire term of the contract for every additional product or service purchased from the Group's portfolio. Our customers can combine flexibly products such as satellite TV, broadband LTE and fixed-line Internet, mobile and fixed-line telephony, banking and insurance services, energy and gas, home security services or supplies of telecommunications and electronics equipment, saving on each added service or product.

Starting from June 2018 we have expanded our bundled services offering with services of Netia. Since September 2018 the customers of Plus and Cyfrowy Polsat can purchase in approximately 470 points of sale fixed Internet access offered by Netia, along with TV services based on it, and fixed-line telephony services, all of them available with a smartDOM discount. In the fourth quarter of 2018 we extended the range of our bundled services with fixed Internet access offered in Plus network based on Netia's infrastructure.

Wholesale business

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

Network interconnection

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

Shared access to network assets and lease of telecommunications infrastructure

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

International roaming

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

Cooperation with roaming partners represents a major part of sales in Polkomtel's wholesale channel. We offer the wholesale roaming service over our own network to foreign operators under discount agreements in exchange for favorable terms offered by foreign partners for the handling of roaming traffic generated by our customers, who use roaming services abroad. This translates into reduction of costs of wholesale international roaming services incurred by Polkomtel and therefore enables us to provide competitively priced international roaming services to both our own customers and customers of MVNOs who operate based on our telecommunications network.

National roaming and virtual operators (MVNOs)

We provide local operators with wholesale access to Polkomtel's mobile telecommunications network based on different models of cooperation. As part of the wholesale national roaming service, we offer voice calls, text messaging and packet data transmission services (including MMS service) to P4, operator of Play network. P4's customers use Polkomtel's mobile telecommunications network since commencing operations by P4 (in 2007).

Mobile Virtual Network Operators (MVNOs) are operators that provide mobile telephony and packet data transmission services, as well as fixed-lined telephony services based on Polkomtel's networks in a model in which Polkomtel provides an access to its mobile network, an exchange of interconnection traffic to/from MVNOs' customers and other possible forms of wholesale support to operations of MVNOs. As a rule, this type of cooperation is used by operators who do not own all technical infrastructure required to provide telecommunications services (including frequency allocations). The parties to such cooperation use strengths of each party, high quality nationwide network of Polkomtel, Polkomtel's support in servicing telecommunications aspects of MVNOs operations as well as dedicated offering, marketing and own-brand sales of MVNOs wholesale partners.

As part of the cooperation with MVNOs, we provide wholesale services including voice calls, text messaging and packet data transmission (including MMS services), premium rate services, value-added services, international roaming, services provided to specific governmental authorities and agencies, hosting services on Polkomtel's billing platform, customer support, handling claims of MVNOs' customers, access to SIM cards, telephone devices and Polkomtel's telephone card recharging sales channels as well as other services, depending on the needs and selected technical model of cooperation.

1.2.2. Broadcasting and television production segment

Production and sale of television channels

Our portfolio comprises 33 channels including our flagship channel POLSAT, available in SD and HD formats, and 32 thematic channels. Moreover, there is a group of 8 cooperating channels which are related with Polsat Group either by capital links or joint broadcasting projects.

The main channel POLSAT, broadcast since December 5, 1992, was the first commercial channel in Poland to obtain the nationwide license for analogue broadcasting. POLSAT is one of the leading Polish TV channels in terms of share in the commercial audience group, totaling 11.07% in the fourth quarter of 2018 and 11.34% in 2018. POLSAT broadcasts daily, 24/7. The channel is available via digital terrestrial TV on the second multiplex (MUX-2) and on local multiplexes (MUX-L4 and MUX-TVS). Apart from terrestrial signal, POLSAT is also available in SD and HD formats in most cable networks and satellite platforms. The channel features a broad selection of films, entertainment shows, news and commentaries, Polish and foreign TV series, as well as popular sporting events.

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

Thematic channel	Description
Polsat Sport HD	The first sports channel of Polsat Group broadcasting major sports events in Poland and worldwide (volleyball, athletics, football, world class boxing and MMA contests), which include live broadcasts.
Polsat Sport Extra HD	Sports channel broadcasting premium sport events, primarily the largest international tennis tournaments such as Wimbledon.
Polsat Sport News HD	Sports channel dedicated to sports news. Broadcast within the DTT technology until January 1, 2017, since January 2, 2017 available only from cable and satellite networks.
Polsat Sport Fight HD	Channel dedicated to martial arts, broadcasting, among others, professional boxing galas and mixed martial arts, as well as coverages of Polsat Boxing Night.
Eleven Sports 1 HD	Sports channel devoted solely to football. The most interesting live events, matches from the most interesting European leagues, championships and qualifying games. Eleven Sports 1 HD broadcasts 24 hours a day, in HD quality and with commentary in Polish.
Eleven Sports 2 HD	International television that broadcasts from large sports events and offers sports fans entertainment of the premium quality. The channel broadcasts 24 hours a day, in HD quality and with commentary in Polish.
Eleven Sports 3 HD	Channel offering the most important European football live matches. In addition, the channel presents documentary films about sports and reruns of the most interesting events broadcasted by the Eleven Sports 1 and Eleven Sports 2 channels.
Eleven Sports 4 HD	Channel broadcasting large sports events, documentary films about sports and reruns of the most interesting events broadcasted by the Eleven Sports 1, Eleven Sports 2 and Eleven Sports 3 channels.
Polsat Sport Premium 1	Premium sports channel. Launched in August 2018 in connection with the Group's acquisition of rights to the UEFA Champions League and the UEFA Europa League. The channel is offered in a package with four Polsat Sport Premium's PPV services airing during the matches. Broadcasts without adverts, in Super HD quality. Available in Cyfrowy Polsat, NC+, UPC and IPLA.
Polsat Sport Premium 2	Premium sports channel. Launched in August 2018 in connection with the Group's acquisition of rights to the UEFA Champions League and the UEFA Europa League. The channel is offered in a package with four Polsat Sport Premium's PPV services airing during the matches. Broadcasts without adverts, in Super HD quality. Available in Cyfrowy Polsat, NC+, UPC and IPLA.
Polsat Games HD	Channel devoted to gamers. Addressed not only to fans of computer games or e-sports, but also to enthusiasts of new technologies and animation. The channel's programming includes original gaming programs, coverage from e-sports tournaments, Japanese animated series and documentary.
Polsat Film HD	Movie channel broadcasting movie hits, top box office productions and non-mainstream movies from a library of major US movie studios.
Polsat Cafe HD	Channel dedicated to women focusing on lifestyle, fashion and gossip as well as talk-shows.
Polsat Play HD	Channel dedicated to men, focusing on consumer gadgets, the automotive industry, angling and cult series.
Polsat 2 HD	Channel broadcasting reruns of programs that premiered on our other channels.
Polsat News HD	24-hour news channel broadcasting live shows and covering primarily news from Poland and key international events.
Polsat News 2	News channel offering debates on politics, business and world economy, as well as programs on culture, society, current and international affairs. Addressed to viewers interested in economics.
TV4 HD	Nationwide entertainment channel, the programming offer of which includes feature movies, series, entertainment and popular science programs and sports. The channel is available in digital terrestrial television.
TV6 HD	Nationwide entertainment channel broadcasting popular foreign formats, as well as series, entertainment programs and feature movies from Polsat's library. The channel is available in digital terrestrial television.
Polsat Romans	Channel created for and dedicated to women. The programming offer includes both feature movies as well as popular Polish and foreign series.
Disco Polo Music	Music channel broadcasting disco polo, dance and feast music.
Polsat Music (formerly MUZO.TV)	Channel broadcasting rock and pop music as well as the best video clips, both the classics and the novelties. Polsat Music is the second music channel in Polsat's programming offer.

Thematic channel	Description
Polsat 1	Channel addressed to Poles living abroad, broadcasts various productions from the libraries of the channels: Polsat, TV4, Polsat Cafe and Polsat Play.
Super Polsat Super Polsat HD	Channel offering entertainment and information programs, movies, series and live sports coverage. Available in digital terrestrial television.
Polsat Doku HD	Documentary channel broadcasting historical and scientific programs, addressed to viewers interested in the problems of today's world, travel and nature.
Eska TV Eska TV HD	Music and entertainment channel broadcasting the latest music clips, exclusive interviews, gossips about show biz stars and information about musical events. Available in digital terrestrial television.
Eska TV Extra Eska TV Extra HD	Channel broadcasting recent hits on time and the greatest pop music hits from the recent 20 years.
Eska Rock TV	Channel offering music defined as mainstream pop-rock, classic rock and alternative rock.
Polo TV	Channel broadcasting the greatest hits of disco polo and dance, reports from the most famous festivals of disco dance, concerts and euro disco hits, italo disco and dance music from the 80s and the 90s. Available in the DTT technology.
Vox Music TV	Music and entertainment channel broadcasting disco hits from the 80s and the 90s, italo disco, euro dance and disco polo. The channel's programming offer includes also programs devoted to pop stars and hit lists.
Superstacja	News and entertainment channel addressed to people who are active and curious about the world. The channel broadcasts 24 hours a day, including over 12 hours of new programs. It offers journalism in light edition. Famous politicians are being hosted in the studio. The channel's programming offer is not just politics, but also sensational news from the showbiz and sports world.
Polsat Rodzina HD	Family channel for three generations: from children, via parents, to grandparents, and living anywhere in Poland. The channel helps to deal with challenges of the modern world. Its programing includes informative programs, educational cartoon, series and Christian matters programs.

Channels cooperating with Cyfrowy Polsat Group (non-consolidated)	
Polsat Jim Jam	Children's channel based exclusively on programs by Hit Entertainment, the channel is a joint venture launched by TV Polsat and ChelloZone.
CI Polsat HD	Criminal channel that takes its viewers to the world of crime providing the insight to criminal laboratories, police archives and courtrooms. The channel is a joint project of Polsat Group and A+E Networks UK.
Polsat Viasat Explore HD	Channel dedicated to men, simple-unusual people, who work hard and have fun realizing extraordinary dreams. Polsat Viasat Explore operates based on cooperation with Viasat Broadcasting.
Polsat Viasat Nature HD	Nature channel targeted at the entire family, which allows viewers to accompany wildlife researchers, veterinary doctors and celebrities in their journeys and develop knowledge on dangerous predators, domestic pets and wild animals from around the world. Polsat Viasat Nature operates based on cooperation with Viasat Broadcasting.
Polsat Viasat History HD	Channel offering viewers a journey to the past through high-quality programs, that entertain and educate at the same time; the content features historical events, that influenced the world's history. Polsat Viasat History operates based on cooperation with Viasat Broadcasting.
Fokus TV	Thematic channel of an educational and cognitive character, addressed to an entire family, broadcasted in DDT technology. Main thematic sections are knowledge, documentary and entertainment. Fokus TV's mission is to convey knowledge through fun and in an accessible way.
Nowa TV	TV station of a universal character. It airs lifestyle programs, series, news, journalistic shows and cabaret skits. Available in the DTT technology.
TV Okazje	Channel broadcasting 24 hours a day, dedicated to teleshopping and broadcasting solely spots that encourage shopping.

Sales of TV channel advertising airtime and sponsoring

Within our wholesale business we sell advertising and sponsoring time on our own channels as well as third-party channels. Based on data from Starcom we estimate that in 2018 Polsat Group channels captured 27. 2% of the Polish TV advertising market worth approximately PLN 4.4 billion in that period while in the fourth quarter alone the share of the Group's channels reached 27.7% in the market valued at PLN 1.3 billion in that period.

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

Sale of channel broadcasting rights

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

1.3. Strategy of the Group

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

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

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

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

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

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

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

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

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

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

The channels we produce and broadcast enjoy strong, well-established positions on the Polish TV market as well as high ratings in their target groups. We currently broadcast 33 channels, programmed to appeal to most target groups within the Polish audience. Moreover, there is a group of 8 cooperating channels which are linked with Polsat Group either through ownership relations or through joint broadcasting undertakings. Our goal is to maintain our audience share at a stable level and consistently improve our viewer profile. We believe that by making sensible investments in programming, and wider distribution of our own content, we will be able to gradually improve our viewer profile. This in turn will have a positive effect on the advertising airtime pricing.

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

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

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

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

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

Predictable dividend payouts to Shareholders constitute one of important goals underlying our capital resources management policy. In parallel, we consistently aim to reduce our debt, which shall assure attractive profitability levels for the capital employed by our Shareholders.

1.4. Competitive advantages

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

Our major competitive advantage is that we have gathered and manage all key assets within our Group. Thanks to this we can efficiently operate a diversified business comprising DTH and IPTV, mobile and fixed-line telephony, mobile and fixed-line broadband Internet, wholesale business as well as TV broadcasting and production and on-line video services.

We are the largest provider of pay TV services in Poland and a leading DTH provider in Europe. Since 2006, Cyfrowy Polsat has been the leader of the Polish pay TV market both in terms of customers and the number of active services and market share. Our subsidiary, Polkomtel, which focuses on provision of mobile telecommunication services under Plus brand, is one of the leading telecommunication operators in terms of the value of generated revenues and the size of the contract base of mobile telephony and the mobile broadband Internet access services. In turn, our subsidiary Netia over which we took control in 2018 is a leading provider in fixed-line services, including broadband Internet offered, among others, in fiber optic technologies. At the same time we are the leading TV group in Poland in terms of growth dynamics of advertising revenues and audience share.

Our pay TV, telephony and Internet access services are sold through a nationwide distribution network consisting of 1,127 stationary points of sale of Cyfrowy Polsat and Polkomtel and 44 points of sale of Netia. We simultaneously offer our services in alternative telemarketing, door-to-door channels as well as online in Plus's, Cyfrowy Polsat's and Netia's online stores. Furthermore, both Polkomtel and Netia have their own separate B2B sales and service channels and, additionally, Polkomtel has an extensive prepaid distribution network.

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

Our key brands - "Cyfrowy Polsat," "Plus," "Telewizja Polsat", "IPLA" and "Netia" - are well recognized by Polish consumers and we believe they are associated with high quality and value-for-money services aimed at the entire family. According to a survey conducted by GfK Polonia agency on the Polish telecommunication market in November and December 2017, spontaneous and aided brand recognition of the "Plus" brand was 88% and 98%, respectively, in the voice segment and 72% and 86%, respectively, in the data transmission segment. The GfK survey also demonstrated that Cyfrowy Polsat is the best recognized pay TV provider in Poland with spontaneous and aided brand recognition on the level of 78% and 95%, respectively.

Polsat Group's advertising sales office, Polsat Media, has 75 TV channels in its portfolio, including Polsat, a large nationwide TV station, and a dynamically growing set of thematic channels. The total share in viewership of TV stations serviced by the office in terms of advertising reached 32% in a target group aged 16-49 years. Polsat Media also offers a comprehensive range of non-TV products, comprising Polsat Media Online (video and display advertisements), Polsat Media AdScreen (OOH media), Polsat Media AdTube (a platform gathering popular Internet authors: youtubers and influencers) and Muzo.fm, a supraregional radio station. In years 2009, 2010, 2012, 2013, 2014 and 2017 Polsat Media was recognized as the best advertising office among national stations in the report of Media and Marketing Polska. Last year it was distinguished by obtaining the highest total score among TV brokerage firms.

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

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

Polsat Group has a significant base of customers, consisting of the individual customers of Cyfrowy Polsat and Polkomtel, business and corporate customers, as well as prepaid users. This base includes 5.7[1] million unique customers, bound by contracts for definite or indefinite periods of time, which entails the generation of regular monthly revenues.

Our strategy assumes up-selling to this base of an extensive portfolio of telecommunication, television and other services by our companies independently or in partnership with other entities, in order to increase the amount of revenues generated by unique customers. We believe that up-selling of services to our own base will enable us to increase the revenue in a cost-effective way, while simultaneously offering to our customers attractive price terms, which should translated into an improvement of customer satisfaction and loyalty.

[1] Excluding customer of Netia Group.

Following the acquisition of a controlling stake in Netia, we have significantly expanded the potential of cross-selling our products and services, which can currently be addressed to a combined customer base of all companies in the Group. In particular, thanks to the reach of Netia's access infrastructure, a new market of residential customers in large cities and urban areas has opened for us and we can offer them cross-selling of products and services under bundling. Furthermore, thanks to Netia's broad competence in servicing business customers we have strengthened our competitive position on the market of convergent services for business customers.

We offer a unique combination of integrated services

We provide multi-play services combining pay DTH offer, Internet and telecommunication services. In addition, we offer our customers the option to purchase electric energy and gas, electronic equipment, banking, insurance or home security services at attractive prices. The ability to provide comprehensive multi-play services represents our significant competitive advantage on the pay TV market in Poland. At the same time we are the telecommunication operator who offers bundled services comprising pay TV over our own assets and infrastructure, which ensures greater price elasticity and more effective operating activities on the competitive market.

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

We are the leader of Internet access services in LTE and LTE Advanced technologies

As the first commercial supplier in Poland we started to provide broadband Internet access service in LTE technology in 2011. The advantage of the LTE technology over HSPA+ or UMTS is based on greater capacity and transmission speed with lower latency, which enables LTE Internet service users to use interactive and multimedia applications requiring high bandwidth and transmission in real time, such as online games, video communication and HD TV over the Internet. In 2018, residential customers of Cyfrowy Polsat and Polkomtel transferred ca. 965 PB of data. Striving to maintain a high quality of provided services, we continue to invest in our telecommunication network roll-out. In particular, upon having approached the level of coverage of over 99% of the population with our LTE network, we are currently focusing on expanding the capacity of our telecommunication network and extending the coverage footprint of LTE Advanced, which already reaches 73% of Poles, as well as expanding our territory coverage in Poland.

Investments in the development of our LTE network are mainly conducted using own spectrum in the 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz frequency bands. As at the end of 2018 we had over 13.3 thousand active eNodeB nodes in operation in LTE/LTE Advanced technologies on various bands from our frequency portfolio.

We expect that LTE network roll-out, relying mainly on continuous 20 MHz spectrum blocks in the 1800 MHz and 2600 MHz bands as well as using a unique 50 MHz block in the 2600 MHz TDD band, combined with increasing the density of the base station network, distinct growth of the number of operating transceivers as well as the use of the ODU-IDU (Outdoor Unit Indoor Unit) solution will enable us to maintain our competitive advantage in terms of the quality of provided mobile broadband access.

The next crucial phase in the development of our network consisted in the refarming of the 900 MHz and 2100 MHz spectrum, resulting in the allocation of part of the bandwidth previously used for 2G and 3G services to LTE and LTE Advanced technologies. In particular, we have released the 900 MHz bandwidth, used so far for the provision of services in the 2G technology, on the entire territory of Poland, and migrated traffic provided in new and definitely more effective technologies to this frequency. By the end of 2018 we put into operation for our customers over 6.2 thousand LTE base stations operating based on the 900 MHz band frequency.

Simultaneously, work is in progress throughout Poland with a view of expanding the capacity of our transmission network to support the continuously increasing data transfer volumes. Transmission network roll-out enables us to use our existing towers and other network locations, which have so far operated in 2G and 3G technologies, for the provision of LTE and LTE Advanced services. We also consistently aggregate spectrum, available at a given site, in the 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz bandwidths in successive cities, which – combined with the application of the 256 QAM modulation, MIMO4x4 – allows us to offer our customers increasingly higher service quality.

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

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

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

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

Mobile video traffic is the fastest growing segment of global mobile data traffic. According to estimates presented in the Ericsson Mobility Report dated November 2018 in the years 2018-2024 data consumption of video content will increase at an average annual rate of 35%, reaching ca. 74% of the entire data traffic in 2024. Bearing this in mind, we believe that IPLA online television will make an increasingly significant element of our business in the future.

Attractive content of our TV channels and monetization of sports rights

We offer the biggest and most versatile portfolio of TV channels on the Polish market, which places us in the leading position in terms of viewership among private television groups in Poland and translates into our share in the advertising market. Our direct production covers mainly news programs, documentaries, shows and series based on international formats as well as solely created concepts. Moreover, we have contracts with major film studios which provide access to a wide selection of the most attractive films and series.

An important element that differentiates us on the market is a rich and unique broadcasting offer of the largest and the most interesting sports events worldwide. We offer, among others, broadcasts of qualifiers to the UEFA EURO 2020, FIFA World Championships 2022, two editions of the football Nations League 2018/19 and 2020/21, big volleyball tournaments – the men's and women's World Volleyball Championships 2022, new, attractive games of the volleyball Nations League (2018-2024), the 2019 and 2023 World Cup, qualifying competitions for the Olympic Games in Tokyo (2020) and Paris (2024), Plus Liga and Orlen Liga, boxing and mixed martial arts galas (KSW, FEN and UFC), Wimbledon and ATP 1000 and 500 tournaments, and many others. Additionally, in 2017 we acquired rights to the most popular football club competitions – the UEFA Champions League and UEFA Europa League (for the years 2018-2021). Thanks to taking control over the Polish company Eleven Sports Network Sp. z o.o. in 2018, we obtained an access to attractive sports rights, which are sold as program packages to pay TV operators active on the Polish market, including the Company. These sports rights include football league competitions of LaLiga Santander, Bundesliga, Serie A TIM, The Emirates FA Cup, F1™ races and Polish and foreign speedway. Unique content represents an important element that helps in building the value of our pay TV offering.

We believe that attractive content, including exclusive content that is not available in the offer of other pay TV operators is a significant competitive advantage over other pay TV operators in Poland.

We control the process of production of set-top boxes

As the only operator on the Polish market we produce our own set-top boxes. In 2007, we launched own production of SD set-top boxes, in 2010 we began to produce HD set-top boxes, in 2012 we started to produce DVB-T set-top-boxes, in 2013 we began the production of PVR set-top-boxes, and in 2016 we started producing a PVR set-top box offers the possibility of simultaneous recording of as many as three channels. By the end of 2018, 8.4 million set-top boxes left our production lines. We control the entire process of production of set-top boxes, from the hardware and software design phase to the production in our own factory as well as in our subcontractors' facilities. This enables us to produce high quality set-top boxes while incurring manufacturing costs which are noticeably lower than the price of purchasing such equipment from third-party providers. The functionalities of our set-top boxes are designed in line with the customers' expectations as analyzed by the surveys, so that we can be sure the equipment will meet their needs. The fact that software installed on our set-top boxes is developed by in-house engineers, enabling us to rapidly respond to emerging customer needs.

We own the biggest portfolio of TV channels in Poland

TV Polsat Group channels' portfolio consists of 33 channels. The portfolio of our thematic channels includes general entertainment, music, sports, news, business, lifestyle, movie and children's channels. This is the largest and most diversified portfolio of channels on the Polish market, giving us a leading position in terms of audience share among private television groups in Poland. In December 2017 we acquired new music channels: Eska TV, Eska TV Extra, Eska Rock TV, Polo TV and Vox Music and initiated cooperation with the broadcaster of channels Fokus TV and Nowa TV.

We believe that attractive content of our channels is a significant competitive advantage. We have contracts with major film studios, such as Sony Pictures Entertainment Inc., 20th Century Fox International Television, Inc., The Walt Disney Company, Warner Bros International TV Distribution, CBS Studios or Monolith Films Sp. z o.o., which guarantees access to a wide selection of the most attractive films and series. Our direct production is concentrated mainly on news, documentary and entertainment programs and series based on international formats, as well as created on the basis of our own concepts.

a significant competitive advantage over other pay TV operators in Poland.

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

We provide telecommunication services including voice, data transmission and wholesale services, as well as a broad array of added services based on our own, integrated 2G/3G/4G mobile network. The Group's network supports the following technologies: GSM/GPRS/EDGE (2G), UMTS/HSPA/HSPA+/HSPA Dual Carrier (3G) and LTE/LTE Advanced (4G). In addition, we possess an extensive CDMA network. As the first operator in Poland we introduced services based on the LTE and LTE Advanced technologies. Within the Group we own spectrum reservations in an extensive portfolio of telecommunication frequencies, including 420 MHz, 900 MHz, 1800 MHz, 2100 MHz, 2600 MHz, 2600 MHz TDD and 3600 MHz bands. Our extensive frequency resources ensure not only flexibility in bandwidth management, but also offer many possibilities in terms of network reconfiguration in the future. In particular, in 2018 we conducted nationwide refarming of spectrum in the 900 MHz bandwidth, which consisted in the allocation of part of the bandwidth previously used for 2G and 3G services to LTE and LTE Advanced technologies. We additionally aggregate frequencies from the 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz bands which are available at a given site and offer our customers in certain areas of Poland LTE Advanced technology with maximum data transmission speed of above 600 Mbps.

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

Currently, practically the entire population of Poland is within the coverage of our 2G/3G mobile services (including data transmission in HSPA+), while 99% of Poles have access to our LTE technology. Concurrently, we concentrate on aggregating frequency bands that we use, thanks to which the coverage of our LTE Advanced network already reaches over 73% of Poles.

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

We believe that we benefit from significant market entry barriers that will aid us in maintaining our leadership positions in the competitive Polish pay TV, telecommunication and TV broadcasting markets. Unlike potential entrants to the Polish pay TV market, we benefit from economies of scale and a loyal customer base, and we can spread the relatively high cost of the necessary technology over our large customer base and leverage the stronger bargaining power that comes with a leading market position.

On the other hand, the entry to the telecommunication market requires obtaining the direct access to telecommunication frequencies and very expensive and time-consuming investments into telecommunication network or obtaining a paid access to the radio frequency via one of the four mobile operators. However, the significant majority of the radio spectrum allocated to mobile technologies has been nearly fully distributed among the current market players and a scenario assuming emergence of a new infrastructure operator seems to be very unlikely. Operators who provide mobile services based only on paid access to the existing mobile networks so far have failed to achieve the scale of business in Poland which could create a significant competitive threat to us. As far as fixed-line telecommunications services, in particular broadband Internet access, are concerned, the entry barriers include time- and capital-consuming outlays which new players would need to incur to develop their network infrastructure.

We have strong, stable and diversified cash flows

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

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

We have experienced managing staff

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

1.5. Market opportunities

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

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

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

According to the European Commission's report "E-Communications and the Digital Single Market" of July 2018 the penetration rate of multi-play services (defined as more than one service within the offer of one operator) in Poland in April 2017 amounted to 38% while the average penetration rate in the European Union reached 59%. The leading European countries in this respect included the Netherlands, Malta or Slovenia, where the level of penetration with bundled services reached 93%, 86% and 84%, respectively. We believe that as a result of the low saturation of integrated services and poor quality of Internet access services offered in low-urbanized areas, Cyfrowy Polsat may become the leading provider of high quality multi-play services in Poland.

Growing importance of convergent services

Currently, convergence, meant as a combination of at least two services from different base groups of telecommunications services, is one of the strongest trends both on the Polish media and telecommunications market and worldwide. Operators develop their bundled offerings in response to changing preferences of customers, who more and more often seek media and telecommunications services provided at competitive prices by a single operator under a single contract, a single invoice and a single fee. With the high saturation of the pay TV and mobile telephony markets, bundled services play an increasingly important role in maintaining the existing customer base.

In the wake of the increasing importance of convergence and bearing in mind the significant level of fragmentation of the broadband access market, it can be expected that the future shape of the Polish telecommunications and media market will be substantially impacted by consolidation trends which have been visible for a long time on more developed foreign markets where mobile and fixed-line operators merge with content providers.

The acquisition transaction of a controlling stake in the fixed-line operator Netia, finalized by Cyfrowy Polsat in May 2018, can serve as the first example of such consolidation in Poland. Thanks to this transaction Polsat Group possessed all assets necessary to provide fully convergent services which shall facilitate better adjustment of the offering to customers' needs and more effective cost management. Already in June 2018 we offered our customers, under a pilot project, Netia's fixed-line broadband Internet, complemented by TV services based on the Internet as well as voice telephony. We are also working on expanding the offering and availability of our convergent services.

Development of the Internet access market in Poland

Based on data published by the European Commission in the Digital Scoreboard, in 2018 the penetration rate of broadband Internet access services among Polish households was 79.3%. Concurrently, European data demonstrates that fixed-line broadband Internet access penetration was 59.6% in Poland, which was one of the lowest rates among European Union countries. For 28 member states average penetration was 76.6% of households, while in the case of selected countries (the Netherlands, Germany or Great Britain) it exceeded 85%. The low penetration with fixed-line broadband Internet access services in Poland combined with the progressing development of mobile technologies make the broadband access market the fastest growing telecommunication market segment at present.

According to PMR forecasts, in 2018 there were approximately 15.4 million users of broadband Internet, out of which 52% used mobile connections. According to PMR, by 2023 the total number of broadband users, both mobile and fixed-line, is expected to grow by ca. 7% (data on mobile Internet include exclusively customers using modems/dedicated SIM cards 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. The driver behind the growth of fixed-line broadband will be the modernization and roll-out of existing infrastructure. In the area of fixed-line broadband access fiber-optical technology (FTTx) is going to rapidly gain importance. To a significant extent it is replacing obsolete copper infrastructure as a result of large scale investments of fixed-line operators.

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

As the market for innovative technologies is growing at a fast pace, the number of mobile devices (notebooks, tablets, smartphones or Smart TV sets) owned by consumers is on the rise as well. This has spurred a sharp increase in access to video content, and hence in video viewership. According to Ericsson Mobile Report dated November 2018, video content remains the biggest and fastest growing segment of the mobile data transmission. It is expected that in the years 2018-2024 the use of data related to watching video content will grow by 35% per year on average, reaching ca. 74% of the entire mobile data traffic in 2024. Consumers expect service providers to offer them the possibility of watching TV on any screen, anywhere and at any time. We perceive this group as a prospective customer segment for television services, opening also the opportunity for the monetization of our audiovisual content. At the same time, the above mentioned trend will translate into an increased demand of our customers for data transmission services on mobile devices, which will result in a growing stream of revenues from the sale of these devices to our customers.

Growing popularity of smartphones

In Poland the popularity and sales of smartphones has been gradually growing. Currently, smartphones have almost completely replaced traditional handsets in our sales structure. Concurrently, we estimate that among all handsets used by our customers only 73% constitute smartphones. This disproportion shows that the saturation of our mobile services customer base with smartphones will continue to grow in the next years.

Popularization of smartphones translates into growing sales of data transmission products in the segment of small screen devices. According to estimates presented in the Ericsson Mobility Report dated June 2018, the volume of transmitted data in the Central and Eastern Europe region, to which Poland belongs, will grow six-fold in the years 2018-2024.

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

Development of advertising market in Poland

A significant part of our wholesale revenue comes from the sale of advertising airtime and sponsoring slots on TV channels. Demand for advertising airtime is highly correlated with the macroeconomic situation. In the past, given the increasing GDP of Poland, the TV advertising market was characterized by a regular single-digit (in percentage terms) growth rate and in 2018 it recorded high growth dynamics of 6.3%. Assuming further positive GDP growth dynamics in the years 2019-2020 (forecasted by European Commission at 3.5% and 3.2%, respectively), we expect continued growth of the Polish advertising market.

In our opinion, television remains an effective advertising medium, and given the relatively low level of advertising expenditures in Poland as a percentage of GDP and per capita in comparison to other European markets, we believe there is still growth potential for TV advertising in Poland in the long term. What is more, the expected high rate of economic growth in 2019-2020 should have a positive influence on the level of advertising expenditures in Poland. For example, media house Starcom in its report from March 2019 forecasts that in 2019 the total Polish advertising market will grow by 4.5%-5.5%. It is worth noticing that despite the growing importance of new media, it is forecasted that television will remain an attractive and popular pastime, primarily thanks to new technical opportunities, which include an increasing number of HD channels and VOD, as well as thanks to a growing number of smart-TVs. According to the estimates of media house Starcom, the dynamics of advertising spending in 2019 will be around 3%.

Prospects of the online advertising market are also positive. According to the IAB AdEx report, in the first half of 2018 online advertising expenditures increased at a rate of 16.8% YoY and reached the value of PLN 2.17 billion. The growth dynamics of this form of advertising is influenced to a significant extent by expenditures in the video advertising segment, in which we generate part of our revenue. In the first half of 2018, those expenditures increased by 41% and represented 14% of the total expenditures on online advertising. We believe that thanks to the leading position on the online video market (through IPLA internet television and other services of Cyfrowy Polsat group) we will benefit from the growth of this promising advertising market segment

Growing importance of thematic channels

With the high penetration of the Polish market by pay TV, that provides viewers with an increasingly greater selection of thematic channels, as well as a broader offer of channels available via digital terrestrial television (DTT), main general entertainment channels (FTA) are experiencing a gradual decline in audience shares. According to data published by Nielsen Audience Measurement, in 2018 the total share of the four leading channels (POLSAT, TVN, TVP1 and TVP2) in the commercial group (16-49 years old) was 37. 2%, while in 2017 it was equal to 37.9%.

Furthermore, according to Starcom media house's data the advertising market share of thematic stations and channels broadcast via terrestrial television multiplexes is consistently growing. In order to maintain total audience share and advertising market share, we focus on developing our thematic channels portfolio and increasing the attractiveness of the content offered to our viewers. From that point of view, the initiation of cooperation and acquisitions in the field of thematic TV channels, made by the Group in 2017 and 2018, are perfectly in line with the Group's long-term strategy to maintain a strong market presence, measured by viewership results, on an increasingly fragmented market. The channels Eska TV, Eska TV Extra, Eska Rock TV, Polo TV and Vox Music TV, acquired in December 2017, significantly strengthen the music programming in Telewizja Polsat while establishment of cooperation in the scope of developing two other channels available via digital terrestrial television, Nowa TV and Fokus TV, attractively complements our comprehensive program range. All channels mentioned above have a strong market position and solid viewership. Moreover, in June 2018 we included Superstacja, a news channel, into our thematic channels portfolio.

Next step in strengthening our position was starting in May 2018 the strategic cooperation with Eleven Sports in Poland. By taking control over its Polish company, Eleven Sports Network, we gained access to the premium sports content of the highest quality. This represents yet another strategic investment aimed at consistent creating of the best programming offering for our viewers.

1.6. Development prospects

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

We are the largest media and telecommunications group in Poland and we have a unique portfolio of products and services that includes pay TV, mobile and fixed-line telephony, data transmission and mobile and fixed-line broadband Internet, as well as a wide array of complementary services, such as modern OTT services (e.g. Cyfrowy Polsat GO, PPV, VOD Home Movie Rental, TV online, Catch-Up TV), Multiroom. Through our online service IPLA also we provide online video services in a subscription and transaction (PPV) model, as well as free of charge (financed by advertising revenue). In line with our strategy, we focus on marketing and sales activities aimed at cross-selling stand-alone products and services to the customer base of Polsat Group 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 significantly lower compared to the average saturation in the European Union. Concurrently, our customers are increasingly interested in bundled services, a trend reflected in the excellent sales results of our integrated offer smartDOM. We are convinced that our unique combination of pay TV and telecommunication services, including in particular high quality LTE mobile Internet access will allow us to benefit from the growth potential of the Polish bundled services market. By increasing the number of services sold to each customer we are able to generate growth of average revenue per customer (ARPU) and effectively increase our customers' loyalty.

LTE Internet offered by us has become the standard for mobile broadband Internet access in Poland, effectively replacing the UMTS standard. We consistently develop our infrastructure in order to improve the parameters that characterize our LTE network, such as coverage, capacity and transfer speed. At the same time we perform the aggregation of frequency bands used by us, as a result of which we were able to offer our customers in selected areas of Poland the LTE Advanced technology, which offers transmission speed of the range of 600 Mbps.

We believe that in line with the development of modern fixed-line infrastructure and nationwide radio infrastructure, broadband access will revolutionize not only the communication market but also the content distribution market. We believe that our broadband Internet services, both in the LTE/LTE Advanced mobile technologies and in modern fixed-line technologies, will allow us to grow our customer base, both of single and integrated services.

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

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

In May 2018 we tool control over Netia S.A., an operator of an extensive nationwide fixed-line infrastructure reaching with its existing access infrastructure over 2.5 million households in Poland. Netia's strategy until present, focused very strongly on business customers market segment (B2B) while simultaneously addressing needs of residential customers (B2C) using both own resources and the infrastructure leased from Orange Polska, the incumbent, resulted in a relatively low level of saturation of Netia's own access infrastructure with services for residential customers, which stands presently below 15%. We believe that thanks to investing in modernization of Netia's access network to NGA standard and preparing a convergent offering for customers, expanded with an attractive video content at the Group's disposal, we shall be able to increase significantly the scale of commercialization of Netia's existing access network. We shall also strive to transfer Netia's fixed-line customers to whom the services are provided over the leased infrastructure, as well as customers of Netia's mobile services who are serviced over networks of other operators onto Polsat Group's own infrastructure resources, with an aim to keep a higher margin generated on these services within the Group. We are of the opinion that assets owned by Polsat Group, such as a widespread sales network and own advertising channels, shall allow us to achieve satisfying sales results on our fixed-line services while maintaining high cost efficiency of operations.

Development prospects in the broadcasting and television production segment

We are one of the leading groups on the Polish TV broadcasting market in terms of both audience shares and advertising revenue and advertising market shares. Based on data from Starcom, we estimate that in 2018, we captured 27.2% (y-o-y increase by 0.1 p.p.) of the Polish TV advertising market worth approximately PLN 4.4 billion.

The audience shares of thematic channels are growing continuously as the process of fragmentation of the Polish television market continues to progress. We believe that we can profit from this fragmentation by strengthening our wide portfolio of channels targeted to the entire family, extending and strengthening our distribution network on cable and satellite platforms including also our segment of services to individual and business customers, within which we manage the largest pay TV platform in Poland. We believe that our presence on all significant satellite platforms and our distribution by cable TV operators will result in a further increase in the audience share of our thematic channels, and, consequently, give us the opportunity to grow at least in line with the TV advertising market, and increase subscription fee revenue. Currently, our thematic channels portfolio includes 32 channels (12 new channels in the Group in the last five years), and their total audience share is in an upward trend.

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

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

2. Business overview of Polsat Group

2.1. Activities on the pay TV market

2.1.1. Pay TV market in Poland

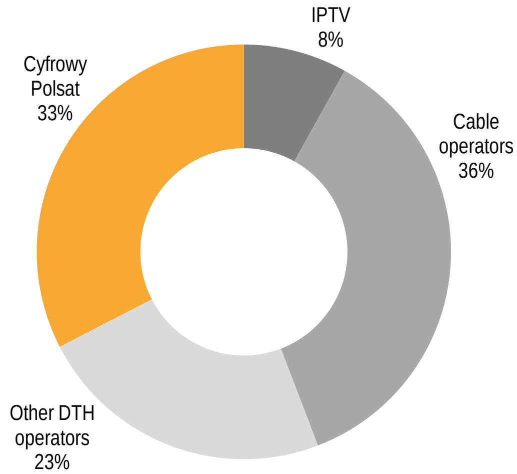
The Polish pay TV market is a mature market characterized by a high degree of penetration and low growth dynamics. According to PMR estimates, in 2017 the market was worth almost PLN 6 billion and remained at a stable level year-on-year.

The process of digitization of terrestrial TV in Poland, completed in July 2013, had been an important negative factor for the development of the Polish pay TV market. Initially, competition from digital terrestrial TV (DVB-T standard) led to an outflow of pay TV customers, which was particularly visible in the case of low-end programming packages. Since 2015 the pace of migration towards digital terrestrial TV has been substantially slower.

Both in terms of the number of subscribers and value, the situation on the Polish pay TV market is stable. On the one hand, a high level of market penetration with pay TV services (estimated by PMR at ca. 72% of households) leads to a very low growth potential. On the other hand, pay TV operators actively loyalize their subscriber bases, most of all through increasingly popular bundling of services, by combining pay TV with telecommunication services (Internet, phone), or developing and offering to customers their own online (*OTT – over the top*) video services, enabling the users to consume content on demand on a wide range of mobile devices. This trend leads to an increasingly strong interpenetration of pay TV and telecommunication markets.

We believe that at present our programming packages offer the best value-for-money on the Polish pay TV market. Moreover, we invest in new, attractive and unique content, as demonstrated, e.g. by the purchase of broadcasting rights to the UEFA Champions League and Europa League for the seasons 2018-2021. This gives us a chance to attract a significant portion of migrating customers to our platform. Moreover, we offer pay TV services as part of our integrated offer, which has a positive impact of the level of loyalty of our customer base and contributes to maintaining a low churn rate.

Pay TV market in Poland in 2018 in terms of subscriber base



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

Pay TV services in Poland are offered by satellite platform operators (DTH) and cable TV operators as well as through IPTV providers. According to our own estimates, sector data and PMR forecasts, in 2018 operators of satellite TV platforms had the dominant share, both in terms of the number of subscribers and revenue, on the pay TV market – approximately 56% in terms of subscriber base, followed by cable TV operators with approximately 36%. Despite strong growth dynamics, the significance of IPTV remains marginal, with market share of approximately 8%.

As a rule pay TV services provided by the operators mentioned above, satellite platforms and cable TV operators in particular, are substitutes. However, DTH providers compete with cable TV operators only to a limited extent given the geographical reach of the services they provide. DTH operators are able to provide their services to customers residing in urban, less densely populated and rural areas without incurring significant additional costs, whereas 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. Polish towns with up to 20 thousand inhabitants, suburban and rural areas, inhabited by ca. 53% of the Poland's population, are therefore natural target markets for DTH because these areas have poorly developed cable TV infrastructure and are less attractive for cable TV companies to develop cable TV infrastructure there.

Poland has also seen successive development of the video-on-demand market – VOD (*video on demand) and* OTT (*Over the top*). Video content is supplied to customers directly as an independent service, offered via Internet connection, or as an element of pay TV packages. Improvement of the quality of broadband Internet connections, and consequently of data transfer rates offered to customers, as well as changing preferences of consumers who wish to have access to their favorite content at any time and place of their choice are the factors that have a positive influence on the growth of the OTT and VOD services market in Poland. Several dozen online services operate on the market, including those offered by TV broadcasters, DTH satellite platform operators, cable TV networks or telecommunication operators, as well as global players (like the US giant Netflix or Amazon Prime Video). In terms of the number of users, the most popular services of this type include vod.pl, player.pl, vod.tvp.pl and ipla.tv. A high level of Internet piracy in Poland as well as the low propensity of Poles to pay for video content remain the major barriers to the development of the OTT and VOD segment in Poland. It cannot be excluded that the above mentioned factors were behind a decision of Naspers Group which decided to terminate in 2019 the operators of its Showmax service in Poland. We consequently develop our services which consist in providing our customers with content on demand – our VOD rental service, the leading online television in Poland, IPLA, as well as our online service Cyfrowy Polsat GO which allows access to content on mobile devices anytime and anywhere. These products are complementary to our core business in the field of pay TV and allow us to broaden our content distribution channels. We are also working on development of customer equipment for pay TV services, manufactured by us, in order to widen the distribution of our services beyond a traditional model of satellite TV access.

DTH operators

According to own estimates and PMR forecasts, the subscriber base of the DTH market in Poland is relatively stable and in 2018 it reached approximately 6 million. There are three DTH platforms operating in Poland: Cyfrowy Polsat, nc+ and Orange, while the market is practically divided between the first two. Orange does not offer pay TV as a stand-alone service, but as an add-on to its integrated offer. Orange's offer is based to a significant extent on cooperation with nc+.

Cyfrowy Polsat is the market leader in terms of the number of customers. At the same time we actively expanded our offer, selling paid access to online television in our service Cyfrowy Polsat GO or the Multiroom HD service, as a result of which as at December 31, 2018 we provided over 5 million contract pay TV services (together with services of paid access to online television), including 1.2 million Multiroom services. Based on own and PMR forecasts we estimate that at the end of 2018 our share in the Polish pay TV market, in terms of the number of subscribers, was at the level of approximately 33%.

The second player in terms of subscriber base was nc+ platform, providing services to approximately 2.2 million subscribers at the end of 2018, as reported by Vivendi (shareholder of the platform), which translated into a market share in the pay TV market of ca. 21%. Orange cooperates with nc+ platform, offering pay DTH TV based on nc+ programming offer as an element of its integrated packages.

Cable TV operators

The Polish cable TV market is strongly fragmented as the number of companies operating on it is estimated at ca. 400.The market is dominated by three major players: UPC Polska Sp. z o.o., Vectra S.A. and Multimedia Polska S.A. At the end of 2018 the total combined estimated share in the Polish pay TV market of these three operators did not exceed 30%.

On the cable TV market, there is an ongoing process of migration of cable TV users from analogue services towards digital services. Possibilities of acquiring new subscribers are limited due to a high penetration rate of cable TV in urban areas as well as the reluctance of cable TV operators to make significant investments in cable TV infrastructure in the less-densely populated and rural areas of Poland. As a result, inhabitants of those areas currently have access only to a limited number of Polish terrestrial channels and alternative providers of broadband Internet and mobile telephony services.

There are attempts to consolidate the Polish cable TV market. In October 2016 UPC Polska signed a preliminary agreement to acquire shares in Multimedia Polska, however the transaction has not been finalized. At present, proceedings are being held in the Office of Consumer and Competition Protection concerning the potential acquisition of Multimedia Polska by Vectra.

According to analysts, consolidation of cable TV operators increases chances for larger scale transactions between sectors, namely the construction of convergent offerings (i.e., offerings combining mobile and fixed-line services) by mobile operators. Taking control by Cyfrowy Polsat over Netia in 2018 can serve as an example of such a transaction.

The potential merger of Vectra and Multimedia Polska may be also an opportunity for other telecoms to acquire selected elements of infrastructure. In connection with the previous transaction of this type, concluded between UPC Polska and Aster, in 2013 Netia acquired from UPC certain redundant network resources which could not be used by UPC due to the regulations of the antimonopoly office.

Digital television through the IP protocol (IPTV)

The leading IPTV providers in Poland are Orange Polska and Netia. The remaining part of the IPTV market is divided among Multimedia Polska S.A. and local ISPs. This is the most rapidly growing segment of the pay TV market, among others due to the improving quality of broadband connections, fiber-optic networks in particular, following widespread infrastructural investments.

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

Development forecasts for the pay TV market

According to PMR forecasts, in the years 2018-2023 the pay TV market in Poland will remain stable, both in terms of the number of customers and market value, with little dynamics of changes that will not exceed -2% during the nearest six years. This is mainly due to high market penetration and high saturation of the target group for terrestrial TV services with DVB-T standard services.

According to PMR, in the years 2018-2023 satellite platforms will continue to be the biggest segment of pay TV market in Poland, reaching a market share of around 53% (in terms of subscribers) at the end of the forecast period. Cable TV operators will remain the second major segment, with a market share of approximately 33% at the end of the forecast period. Thanks to the highest growth dynamics IPTV services will systematically gain importance, supported by the development of broadband Internet access networks, especially fiber-optics. According to PMR, by the end of 2023 IPTV operators will have a market share of over 14% in terms of the number of subscribers, however growth of market share measured in terms of market value will be slower.

To attract DVB-T users, pay TV operators will aim to increase their competitiveness and to propose a unique offer to such users. Bundled offers containing telecommunication and content services combined with sales of equipment (tablets, smartphones, laptops, TV sets) and supplementary services as well as an extended offer of exclusive content are of great importance in customer retention policies and increasing customer loyalty. State-of-the-art technologies are rapidly gaining in importance as they enable operators to provide personalized content (such as content on demand) via Internet, to mobile devices in particular.

2.1.2. Pay TV offer

We build customer loyalty by offering a wide array of channels at competitive prices. That is why we make sure that our pay TV packages offer very good value for money. Currently, our Customers have access to as many as 170 TV channels on diverse topics: general, sports, movie, lifestyle, education, music, news/information and children's channels. A number of channels are available exclusively via satellite from Cyfrowy Polsat, such as Polsat Sport HD or Polsat Sport Extra HD sports channels. Exclusive content is a significant element that helps build the value of our pay TV offer, that is why in 2017 Polsat Group acquired from UEFA exclusive rights to broadcasting football competitions of the UEFA Champions League and the UEFA Europa League.

In order to meet the changing trends in television content consumption, in 2016 we launched a new online service - Cyfrowy Polsat GO. This service ensures access to thousands of programs on demand and over 100 linear channels, available according to the satellite television channel chosen by the customer. Access to Cyfrowy Polsat GO via a set-top box is free of charge, but thanks the option On The Go the service is simultaneously accessible on three chosen devices: a personal computer, a tablet or a smartphone.

Programming packages

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

- Rodzinny HD which provides access to 78 encoded channels;
- Familijny HD which provides access to 106 encoded channels;

- Familijny Max HD which provides access to 133 encoded channels.

Monthly subscription fees for the basic packages range from PLN 20 to PLN 50. Moreover, we offer 6 additional thematic packages, VOD rental on television, and access to popular on-line services: Cyfrowy Polsat GO and HBO GO. By purchasing a thematic package, ex. a sports or film package, our customers can construct an offer tailored to their specific needs for a small additional monthly fee.

In order to help our customers make their choice, we have prepared attractive package sets, such as the Familijny Max HD combined with the Sport HD, Film HD and Cinemax HD channels (156 channels) or the Premium Max Plus + Polsat Sport Premium offer (170 channels) addressed to our most demanding customers, comprising additional channels – HBO together with the online service HBO GO, the Package Eleven Sports HD, the Package Polsat Sport Premium and the option On the Go, which enables to watch over 100 channels on mobile devices in the Cyfrowy Polsat GO service. The described above sets come with a benefit – the monthly subscription fee is lower than the sum of standard fees for each packages separately.

Flexibility

In order to offer our customers a better insight into our programming offer, each of our basic packages comes with a set of bonuses. A customer signing a contract can receive, free-of-charge, access to additional channels, online services or our VOD package for the first few months of the subscription period. This strategy not only helps to better customize the offer to suit the customer's individual needs and expectations, but also constitutes an important tool for supporting the migration of customers to higher-end programming packages.

Set-top boxes

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

All new set-top boxes that we lease to our customers are produced in-house at our manufacturing plant in Mielec. We constantly work on developing the portfolio of available set-top boxes. Therefore, in 2018, we included into our offering two new models with a built-in Wi-Fi module: EVOBOX LITE, including software created by Cyfrowy Polsat which is valued by our subscribers for its simplicity and legibility, and EVOBOX HD, offering an intuitive interface which helps to access content of interest quickly.

Multiroom HD

We also offer our customers the Multiroom HD service, which provides access to the same range of TV channels on several television sets in one household, for a single subscription fee. Customers who decide to purchase the Rodzinny 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 (on one additional set-top box) varies from PLN 5 to PLN 10 per month, depending on the programming package chosen by the customer.

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

Our service portfolio includes the Mobile TV service in the DVB-T standard. The Mobile TV service enables the reception of the same channels as on television but on mobile devices via a DVB-T set-top box, connecting through the radio network with a smartphone, tablet or laptop. An advantage of this solution is that the service does not require Internet connection, hence using Mobile TV does not generate data transmission and the user does not incur additional costs.

Under the Mobile TV service, we offer access to the Extra Package which includes 12 encrypted TV channels grouped in 4 thematic categories (sports, movies, news and children's channels) and 11 radio channels. The service is available either in a subscription or a prepayment model. Additionally, set-top boxes offered by Cyfrowy Polsat and dedicated to the Mobile TV service enable the reception of not only encrypted channels included in the Extra Package, but also of all free channels available via digital terrestrial television.

2.1.4. IPLA entertainment website offer

The entertainment website IPLA offers the largest database of legal video content and live broadcasts in Poland and over 100 online TV channels, live coverage of major national and international sports events, a vast and regularly expanded library of feature films, TV series and television programs provided by both Polish and international licensors. In 2018 IPLA's sports content offering was expanded with the Polsat Sport Premium package which broadcasts live football matches of the UEFA Champions League and the UEFA Europa League. At present, IPLA offers over 500 hours of live coverage per month from the largest sports events nationwide and worldwide. IPLA provides its users access to content in the free of charge model accompanied by advertisements and the paid model, as well as the possibility to download selected content and view it offline. Nearly 90% of IPLA VOD content is available free of charge, whereas advertisements constitute the source of revenue.

Access to video materials and channels via the Internet is based on one of three models. The first is a pay model, where a customer makes a fixed payment for the right to access a given video material. The second model consists in access to a package of video materials and channels in exchange for a periodic (e.g. monthly) fee. The third model is based on free access in exchange for viewing advertisements. Approximately 80% of IPLA's total revenue is generated by the advertisement-based model, while about 20% is derived from the purchase of access to content made by users.

Thanks to the http://www.ipla.tv website and dedicated applications the content of IPLA online television is available on a wide array of consumer devices, including computers with Windows, mobile devices powered by iOS, Android and Windows Phone, TV sets with internet connections (Samsung, LG, Sony, Panasonic, Philips, Sharp, Ikea, Toshiba, Thomson, TCL), set-top boxes (cable TV TOYA, Netia), game consoles (PlayStation 3) and Blu-ray. Since its inception IPLA's mobile app has been already downloaded more than 10 million times. In February 2018, we refreshed our IPLA website by introducing changes which made the service even more user-friendly and adjusted to users' needs.

2.1.5. Video on demand offer

Our pay TV customers can use our video on demand service VOD – Home Video Rental, offering paid access to new movies and hits via set-top boxes. The service requires no additional technology solutions and can be accessed via a TV set.

VOD - Home Video Rental is based on 7 satellite channels, with as many as 30 films available each month. Our customers may usually choose from a selection of about 7 titles every day, which are updated on a regular basis and can be rented for up to 48 hours. Movie rental fees are paid on a one-off basis and depend on the film category ("Hit," "New," "Catalogue," "For adults") or as monthly fees under the "VOD Package" service, which offers unlimited access to movies within a given catalogue category, available on 4 satellite positions. In selected pay TV packages we provide access to the "VOD Package" within the subscription fee for promotional periods dependent on the basic package.

2.1.6. Technology and infrastructure pay TV services

Conditional access system

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

Moreover, we cooperate with another provider of a conditional access system the company Irdeto B.V. Beside securing digital content transmitted using DVB-T technology, Irdeto B.V. provides also security of satellite system (DHT) and IPTV (a new service under implementation in Cyfrowy Polsat). Furthermore, Irdeto B.V. provides us with specialized and complete monitoring of the Internet enabling the collection and analysis of occurrences that may infringe copyrights of entities in our Group.

Satellite

We have signed a long-term contract with Eutelsat S.A. regarding the lease of capacity on Hot Bird satellites. In September 2017 we have prolonged the hitherto lease agreement and we have extended the satellite capacity available to us by 33 MHz. As a result we currently dispose of capacity on 7 transponders dedicated to SD and HD TV channels. Thanks to the technological solutions applied we can place both SD and HD channels within the same satellite capacities (transponders), which enables us to manage the leased capacity more efficiently. Since May 2012 we use part of the transponder on the Eutelsat satellite for mobile television purposes.

Broadcasting center

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

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

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

Compression and TV signal multiplexing systems

Compression and TV signal multiplexing systems allow for efficient use of satellite capacity by digital edition of the signal. We use solutions provided by leading market players (Ericsson, Harmonic for satellite systems and Ateme for mobile television systems).

We regularly modernize our compression systems dedicated to service 7 transponders. Thanks to such operations we gain capacity for additional HD channels without incurring additional costs related to transponder capacity lease and we maintain a very high quality of broadcasted programs.

Services for television and radio broadcasters

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

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

Services provided in DVB-T technology

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

Set-top boxes

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

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

We have the possibility of flexible adjustment of production levels thanks to a chain of international suppliers who are ready to support and service internal and external orders. The production of our STBs relies on proven solutions. As a result of research and development work related to state-of-the-art technologies applied in the products offered by world class manufacturers, we have designed a new line of STBs, in which we implemented multi-tuner solutions based on Digital Unicable (dCSS) technologies offering the possibility of wireless data transmission, via WiFi, directly from the STB. These technologies substantially reduce the time needed to change from one channel to another, allow simultaneously recording of programs aired on many channels, and they also serve as the base for supplementary products and services, which we wish to offer to our customers in the future. The first product from this line, the EVOBOX PVR set-top box, was launched to the market in January 2016.

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

In 2018, set-top boxes manufactured in-house represented 94.9% of the overall number of set-top boxes leased. As of the end of 2018, we produced a total of 8.4 million set-top boxes. We cooperate with external providers of set-top boxes, mainly Samsung, Echostar and Thomson, but back in 2010 we limited purchases from external providers. We also cooperate with TV producers, such as Sony, Vestel, Panasonic and LG, in order to develop a solution enabling the reception of Cyfrowy Polsat's satellite signal. We also provide services to other operators interested in modern, functional devices at attractive prices.

Internet content distribution

With respect to our IPLA online television, we use our own platform adapted to the leading operating systems and a wide range of consumer devices. We have developed unique technological competencies in encoding and streaming audiovisual content on the Internet, as well as optimizing distribution of this type of signal. Unlike our competitors, we apply proprietary solutions, which enable us to provide services optimally adjusted to the limited Internet infrastructure in Poland and the capacities of external systems with which our applications are integrated. We use our own Origin servers as well as technologies that offer us independence in the choice of a distribution system CDN (*Content Distribution Network*). As a result we can offer services of the highest quality while optimizing transmission costs. This issue becomes especially important in the case of broadcasting over 100 linear channels, PPV or over 2000 single sports events annually. Our platform uses a proprietary system of recommendations that enable us to deliver content tailored to the customer's individual preferences. The protection system (DRM), applied in IPLA, also enables us to offer paid content on different browsers, mobile devices, smartTV sets and independent set-top boxes. Consequently, our platform meets current trends and accommodates all the needs of our customers regarding access to on-line video irrespectively of location, time and the device used.

2.2. Operations on the telecommunications market

2.2.1. Mobile telephony market in Poland

The Polish mobile telephony market is a mature market characterized by a high rate of services saturation and competitiveness. Based on estimates published by PMR, the number of mobile telephony SIM cards per capita amounts statistically to 1.4.

Over the past years, the reported rate of penetration with SIM cards in Poland has decreased considerably. It was a result of gradual realigning of the number of reported SIM cards by operators in order to reflect only those SIM cards which are active and generate revenues, as well as a result of introducing an obligation to register all prepaid SIM cards by February 1, 2017. At the same time, the share of postpaid SIM cards in the structure of the Polish mobile market is clearly growing. Furthermore, the high level of saturation with mobile services is impacted by SIM cards used in the m2m segment (machine-to-machine communication) and the segment of dedicated mobile Internet services (in the "router/card + computer" model).

PMR expects that in the years 2018–2023 the base of SIM cards used in Poland will grow organically, with the market becoming stable (at growth rates below 1%) in the long-term horizon. In the opinion of PMR, the growth will continue to be generated primarily by the mobile Internet segment, machine-to-machine cards and the business segment. The share of the prepaid segment will continue to decrease in the volumes of SIM cards reported by operators.

Due to high market competitiveness and service penetration the main driver of growth of mobile customer base will be, according to PMR, by attracting customers of competitors. Mobile number portability with keeping the old telephone number became possible in 2009. According to UKE, in 2018 there were approximately 1.9 million users who switched their operator. Importantly, the volume of numbers transferred between the networks decreased in 2019 for the first time in history (by approximately 12% YoY) which, in our view, proves the maturity of the market and equaling of pricing levels between the offers of various operators.

The mobile telephony remains the largest segment of the Polish telecommunications market, with a share in total market revenue of 59% in 2017 (including revenue from mobile Internet access). According to PMR, the estimated value of mobile telephony market in Poland in 2017, expressed as the sum of operators' retail and wholesale revenues (including revenue from sales of equipment and other revenue) was PLN 26.5 billion and recorded growth of 2.6% YoY.

One of the trends visible in the market is growing revenue from subscribed services. According to PMR over 80% of retail mobile telephony revenue in 2017 was generated by customers of postpaid services. Other market trends include an increased share of smartphones among mobile phones, an increase usage of mobile Internet in mobile phones and growing interest in integrated services. According to UKE's survey from December 2018, the share of smartphones among residential customers reached 75%, approximately 70% of respondents used Internet over their phones and approximately 25% respondents used convergent services offered in packages.

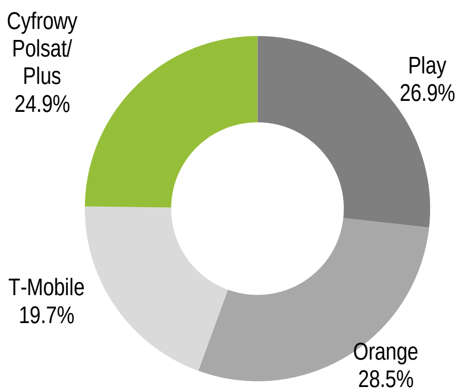
In recent years average revenue per SIM cards of mobile voice services (ARPU per SIM) decreased systematically as a result of competitive pressure stimulated by regulatory reductions of wholesale voice and SMS termination rates (MTR) and regulations relating to international roaming (RLAH). According to PMR, in 2017 APRU amounted to PLN 41.0, which is still one of the lowest levels recorded among EU member states.

PMR estimates that the mobile telephony market, including revenue from mobile Internet access, will grow at an average rate of 0.9% (CAGR 2018-2023) until 2023 when its value will reach PLN 28.0 billion. The growth driver in coming years will be the data transmission segment, wholesale services and growing revenue from sales of equipment, while revenue from voice connections will continue to record negative dynamics.

The Polish mobile telephony market is highly competitive and relatively polarized. Four leading infrastructural operators operate on the Polish market: Polkomtel (Plus network), Orange Polska (Orange network), T-Mobile Polska (T-Mobile network) and P4 (Play network).There are also over 20 mobile virtual network operators (MVNOs), but their market share in terms of revenue and customer base is relatively low (excluding MVNOs belonging to Polsat Group, according to PMR at the end of 2017 the remaining virtual operators held jointly less than 1 million SIM cards).

The graph below presents market shares of the major MNOs in terms of number of contract SIM cards at the end of 2018.

Market shares in 2018 in terms of the number of reported contract SIM cards



Source: Based on own estimates and data published by operators

Infrastructural operators (MNOs)

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

According to our estimates, Polkomtel, Orange, T-Mobile and P4 together accounted for approximately 99% of total revenue generated on the Polish mobile telephony market in 2018.

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

Orange Polska, operates under the umbrella Orange brand and also has an alternative brand nju.mobile. As at December 31, 2018 Orange reported ca. 14.8 million SIM cards. Apart from the operations on the mobile market, Orange Polska is also a leading Polish fixed-line telephony operator, currently focusing its strategy on the development of broadband access services based on the fiber optic infrastructure, also delivered to residential customers.

P4 operates under the umbrella Play brand, and also has additional brands Red Bull Mobile and Fakt Mobile. As at December 31, 2018, P4 reported 15.0 million SIM cards. P4 operates solely on the mobile services market, supporting itself with a wholesale purchase of access to mobile networks of its competitors. On July 27, 2017 Play Communications, the owner of P4, debuted on the Warsaw Stock Exchange.

T-Mobile operates under the umbrella T-Mobile brand and also uses additional brands such as Heyah and Tu Biedronka. As at December 31, 2018, T-Mobile reported 10.8 million SIM cards. T-Mobile is currently providing fixed-line telephony services addressed to business customers based on the infrastructure of the company GTS Poland, acquired in 2014. On the other hand, T-Mobile plans to launch in 2019 its offering of broadband fiber-optic Internet for residential customers based on cooperation with Orange Polska.

Aero2 operates on the residential market, where, in line with its concession obligations, it offers free-of-charge broadband Internet access and provides residential services in the prepaid model based on "wRodzinie" brand. As of February 29, 2016, Aero2 is part of Polsat Group.

Frequency allocations

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

MNO	Frequency band	Size of allocated band	Date of issue of first allocation decision	Allocation decision expiry date
Polkomtel	900 MHz	2x9 MHz	February 23, 1996	February 24, 2026
	1800 MHz	2x9.6 MHz	September 13, 1999	September 14, 2029
	2100 MHz	2x14.8 MHz + 1x5 MHz	December 20, 2000	January 1, 2023
	2600 MHz	2x20 MHz	January 25, 2016	January 25, 2031
	410 MHz (1)	2x2.5 MHz	May 25, 2006	December 31, 2020
Aero2	900 MHz	2x5 MHz	December 9, 2008	December 31, 2023
	1800 MHz	2x19.8 MHz	November 30, 2007	December 31, 2022
	2600 MHz	1x50 MHz	November 10, 2009	December 31, 2024
Netia	3400-3800 MHz	2x7 MHz + 2x7 MHz	July 25.2005	December 31, 2020
Orange	800 MHz	2x10 MHz	January 25, 2016	January 25, 2031
	900 MHz	2x6.8 MHz	July 5, 1999	July 6, 2029
	1800 MHz(1)	2x9.6 MHz	August 21, 1997	August 22, 2027
	2100 MHz	2x14.8 MHz + 1x5 MHz	December 20, 2000	January 1, 2023
	2600 MHz	2x15 MHz	January 25, 2016	January 25, 2031
T-Mobile	800 MHz	2x10 MHz	January 25, 2016	June 23, 2031
	900 MHz	2x9 MHz	February 23, 1996	February 28, 2026
	1800 MHz	2x9.6 MHz	August 11, 1999	August 12, 2029
	1800 MHz	2x10 MHz	June 14, 2013	December 31, 2027
	2100 MHz	2x14.8 MHz + 1x5 MHz	December 20, 2000	January 1, 2023
	2600 MHz	2x15 MHz	January 25, 2016	January 25, 2031
	3400-3800 MHz	2x15 MHz	December 28, 2004	December 29, 2019
P4	800 MHz	2x5 MHz	January 25, 2016	June 23, 2031
	900 MHz	2x5 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
	2600 MHz	2x20 MHz	January 25, 2016	January 25, 2031
	3400-3800 MHz	2x15 MHz	December 28, 2004	December 29, 2019

Source: Own analysis based on UKE's summary dated August 29, 2017 and December 27, 2018

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

For the purpose of planning, building and maintaining a new mobile telecommunications network, and participating in related tenders, Orange Poland and T-Mobile formed a joint venture in 2011 under the name NetWorks! The agreement related to sharing of RAN resources was signed for a period of 15 years with an option for further extension. Next year these operators extended their cooperation by declaring that Orange will be able to provide LTE services while also using the 1800 MHz spectrum owned by T-Mobile. In 2016, both operators signed an agreement under which they will develop their own LTE networks based on 800 MHz band, jointly using the network of NetWorks! transmitters, however without sharing the owned RAN resources. In May 2018 both operators signed an annex to the agreement based on which they terminated cooperation with regard to sharing frequencies in the 900 MHz and 1800 MHz bands.

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 infrastructural operators provide frequency resources and the necessary infrastructure to MVNOs. According to the UKE report, 26 operators provided mobile services under the MVNO model in 2017.

Although the number of MVNOs is on the increase, none of them has significant market power. According to the UKE report, in 2017 the joint share of all MVNOs (including MVNOs belonging to Polsat Group) in the mobile market was 4.3% in terms of the number of users. According to the UKE report, total revenue of all MVNOs accounted for a mere 2.8% of the total value of the Polish mobile telephony market in 2017.

2.2.2. Broadband Internet access market in Poland

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

Based on the data from the UKE report, there were 14.5 million subscribers of broadband Internet access services in Poland in 2017, 7.4 million of which used mobile access and 7.1 million used fixed-line access. This translated to a household penetration ratio of 103%. Data published by the European Commission indicate, however, that the level of this ratio is lower, placing it at the level of 79.3% in 2018. At the same time, however, EU data show that fixed-line Internet access saturation was only 59.6% of households in Poland, which consistently remains the lowest level among all European Union countries, where average penetration reached the level of 76.6% of households and in the case of selected countries (e.g. the Netherlands, Germany and Great Britain) exceeded 85%.

Concurrently, mobile Internet penetration in Poland is significantly better compared to the European Union. According to data published by the European Commission on June 2017 there were 144 mobile subscriptions per 100 inhabitants in Poland, which ranked Poland second among EU member states. Due to the relatively low saturation of the Polish broadband Internet access market and the progressing development of mobile technologies, in particular the roll-out of LTE networks by all mobile operators, mobile data transmission consistently remains the fastest growing segment of the telecommunication market.

According to UKE report, in 2017 the number of mobile and fixed-line broadband users remained on a similar level versus the previous year. 2G/3G/4G modems are gaining popularity (growth of market share from 39.4% in 2013 to 51.2% in 2017), while the popularity of the xDSL technology is declining (from 25.7% in 2013 to 16.2% in 2017). According to UKE data, fiber-optic technologies constituted only 5.2% of the broadband access market in 2017 but their share is consistently growing from the level of 1.3% in 2014. The factor stimulating investments in fiber-optic technologies is the execution of the governmental program of constructing broadband fiber-optic networks using subsidies from the European Union funds (Operating Program Digital Poland (Program Operacyjny Polska Cyfrowa – POPC)). Moreover, operators (Orange Polska, Netia, UPC Polska, Inea) are conducting their own investments in FTTH broadband networks.

A dynamic increase in the number of fast links is observed on the market, while the share of lines with lower throughputs is declining. According to the UKE report, in 2017 the number of links with throughput exceeding 100 Mbps increased by 58%. At the same time the share of Internet users using links with throughputs lower than 10 Mbps is shrinking (25% in 2017 as compared to 32% a year earlier), while the share of Internet users connecting with the use of links offering over 30 Mbps increased to 56.2% in 2017 from 46.4% a year earlier.

According to the UKE report, the value of the Polish broadband market, measured in terms of revenue from sales of services, was PLN 4.7 billion in 2017, having recorded negative dynamics of 4.1% compared to the year 2016, which was to a significant extent due to the erosion of revenues obtained from a majority of fixed-line access technologies, excluding optical fiber links. Concurrently, mobile technologies once again increased their share in terms of value in the revenue structure to

35.1% (from 34.0% in 2016). According to the UKE report, the average monthly revenue per user of Internet services (ARPU) decreased by PLN 1.0 in 2017 as compared to 2016, down to PLN 27.2. The fall in ARPU was, among others, caused by the increasingly popular bundling of services, as part of which operators often reduce prices on Internet access.

Fixed broadband Internet access

In Poland, availability of fixed-line broadband services is limited mainly to urban areas. Outside urban areas, fixed-line broadband services are offered only to a limited extent, which is due to historical underinvestment resulting primarily from the high cost of build-out of local loops and strategies adopted by leading fixed-line operators. According to the UKE report, cable modems, offered by cable TV operators, have become the most popular fixed-line access technology (18.9% market share in 2017, market defined as comprising both fixed and mobile technologies). In 2017 UPC Polska (41.4% share in terms of user base), Vectra (20.8%) and Multimedia Polska (13.6%) were the major operators on this market.

There are also attempts to consolidate the Polish cable TV market. In October 2016 UPC Polska signed a preliminary agreement to acquire shares in Multimedia Polska, however the transaction has not been finalized. At present, proceedings are being held in the Office of Consumer and Competition Protection concerning the potential acquisition of Multimedia Polska by Vectra.

The second most popular fixed-line access technology in 2017 was xDSL with a market share of 16.0% (down by 7.0 p.p. YoY). Orange is the dominant player operating in xDSL technology, whose share in the total number of xDSL customers amounted to 77.7% in 2017. The second largest xDSL operator is Netia, a company of Cyfrowy Polsat Group, with a market share of 17.3%.

Fiber-optic access (FTTx) is a relatively new though dynamically growing Internet access technology. According to the UKE report, the share of fiber-optic technology in the Internet access market nearly doubled in 2017, and reached 5.2% (up from 3.6% in 2016). The reason for this could be the highest available data throughputs provided by the fiber-optic technologies which currently offer data transfer rates of up to 1 Gbps (Orange Polska), 10 Gbps (Inea) or 900 Mbps (Netia), as well as operators' sales strategies which focus on promoting fiber-optic Internet access also in multiplay offers. Currently fiber-optic technology is also the investment priority for a vast part of telecommunication operators, including Orange Polska. In September 2017, Orange announced that its goal was to feeding fiber-optic technology to 5 million Polish households, i.e. to around 40% of all households in Poland. Netia, in turn, is pursuing an investment plan based on a comprehensive modernization of its access network, which currently covers over 2.5 million households. According to this plan, fiber-optic technology is ultimately expected to dominate by 2020.

As indicated by the report published by UKE, the market of Internet access relying on fiber-optic technology is currently significantly fragmented, which is demonstrated by the fact that the three largest providers who operate on this market (Orange, Inea and Multimedia) controlled only 40.6% of the market in 2017. Hence, telecommunication operators are seeking possibilities of acquisition of smaller local companies, which is manifested by deals recently announced by such players as Orange Polska, Vectra, or Inea. At the same time, models of commercial cooperation between operators in the field of use of existing fiber-optic network resources are sought, e.g. the agreement signed in July 2017 concerning the purchase of wholesale access to Orange's fiber-optic network by T-Mobile Polska.

According to the ranking published by the FTTH Council Europe, with fiber-optic network penetration of 5.1% Poland ranked very far behind the rest of Europe in September 2018 (27th position) in terms of popularity of Internet access relying on fiber-optic access. In the same period fiber-optic technology was used by 13.9% households in the 28 EU nations, with penetration levels reaching 40-50% in the most advanced European countries (Latvia, Lithuania, Spain, Sweden, Belarus).

Mobile broadband Internet access

The market of broadband Internet access based on mobile technologies (defined as access via modems or dedicated SIM cards integrated with laptop computers or tablets) is dominated by four mobile operators. According to the UKE report the four leading providers of those services (Polkomtel, T-Mobile, Orange and P4) jointly held ca. 80% of the market in 2017. The remaining 20% is divided between MVNO operators, including Cyfrowy Polsat, who actively promotes and sells under its own brand name mobile broadband access in LTE/HSPA+ since 2011.

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

According to the UKE report, in 2017 mobile technologies became the most popular Internet access technology in terms of the number of users (market share of 51.2%). The success of mobile broadband can be attributed to broad availability and the ease of installation of this form of broadband access, affordability, the growing HSPA+ and LTE network coverage, and increasing data transmission speeds, also thanks to the implementation of the new data transmission technologies, e.g. LTE Advanced. The mobility feature constitutes an advantage of this form of broadband access to a group of customers.

Development forecasts for the broadband Internet access market

According to PMR forecasts, the Data Transmission, Line Rental and Internet Services Provision (DLISP) market will continue to grow. Further investments in the roll-out of last mile by both mobile and fixed-line operators, in particular investments in developing fiber-optic networks as well as further development of the LTE technology, will be the most significant factors. According to PMR forecasts, in 2018-2023 the value of the broadband Internet access market will demonstrate continuous positive average annual dynamics of ca. 0.3%, reaching the level of PLN 5.3 billion in 2023.

In accordance with PMR forecasts, in years 2018-2023 the number of broadband Internet access subscribers in Poland will increase to about 16.5 million, i.e., by 7% (in case of mobile access the forecast does not include users who surf the Internet using their mobile phones but only those who operate in the router/card + computer model), out of which 53% will use mobile technologies.

The advancing popularity of mobile technologies in Poland will be the result of competitive pricing as well as growth of mobile network coverage, which will directly translate to improved quality and continuity of coverage of the purchased service. The fast development of LTE and LTE Advanced network coverage, as well as 5G in the future is an additional factor stimulating the development of mobile Internet services. These standards will enable the provision of mobile services characterized by transmission rates and network throughput levels which have so far been unachievable for radio access technologies.

In the area of fixed-line broadband access fiber-optical technology (FTTx) is going to rapidly gain importance. To a significant extent it is replacing obsolete copper infrastructure as a result of large scale investments of fixed-line operators. In our opinion in the next years these investments will lead to a gradual growth of users of fixed links characterized by NGA parameters.

2.2.3. Mobile telephony offer

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

Residential mobile voice services

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

Our postpaid residential offer, marketed under our main brand Plus and sub-mark Plush, is based on a monthly subscription fee which includes minutes for voice calls and other services such as text and multimedia messaging, data packages, packages of minutes and data in roaming, online video services available on the handset, such as IPLA or HBO GO, or finally Internet protection and screen repair services. Similarly to other offers available on the Polish market, our offer is currently based on unlimited tariffs which allow the customer to make unlimited calls in both mobile and fixed networks and send unlimited text messages and multimedia messages (MMS). We also offer our customers data packages within a subscription fee, the size of which depend on the value of the commitment. As a rule, the higher the fee, the larger the data package available without additional costs. Customers, who choose to pay a lower subscription fee, can purchase additional services not included in the subscription such as data packages or roaming packages. Our offer also includes a family tariff plan - our customers can purchase up to 3 SIM cards, which share the packages under a single subscription fee gaining a 50% discount on each added card. Under our sub-brand “Plush” we also offer an option to purchase more than one subscription which results in a 20% discount for each subscription/SIM card owned.

The contracts are concluded for a fixed term - typically 24 months, while in our sub-mark Plush contracts for an indefinite period of time can be concluded. Contract plans give customers the possibility to choose from a broad selection of handsets offered in the installment plan model. Customers can also select a tariff without a handset. The monthly subscription fees range from ca. PLN 25 to PLN 129, and in the case of SIM-only tariffs – from PLN 25 to PLN 50.

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

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

Solutions for business customers

Our Group offers to business customers, through Polkomtel and Netia companies who operate on the telecommunications market, mainly contract solutions which are often prepared on the basis of solicited tenders.

Beside traditional mobile telephony (such as voice, data, texting), Polkomtel offers a variety of fixed telephony services, Internet access solutions (mobile broadband access and fixed-line access), SMS Center (texting) services as well as ICT solutions including Data Center or lease of IT equipment. Netia, in turn, conducts sales of traditional fixed-line telecommunications services, such as voice, Internet access and data transmission, and successfully develops its offering of ICT services. On a wholesale market, Netia offers transit and termination of voice traffic, data transmission, telehousing, lease of infrastructure and digital lease.

When analyzing Polkomtel's product offering, it is worth noticing a wide range of innovative application solutions prepared jointly with business partners. These solutions facilitate the management of the equipment fleet by Polkomtel's customers and ensure security of the equipment in use. Last year's successful implementation of a self-test service for mobile phone displays can serve as a good example in this area. Moreover, thanks to introducing to the market a new platform which enables mass management of SIM cards, devices, locations and provides constant monitoring SLA (service level agreement), Polkomtel became a market leader in the m2m *(machine to machine)* segment.

In turn, Netia expands ICT services through, among others, the development of data centers and cloud computing (including potentially selective acquisitions of competencies or infrastructure in this areas), the construction of partnerships with regard to convergent services in order to offer a full scope of telecommunications services which are based on data transmission, the development of competencies and services in cybersecurity, and the development of integrator competencies within the NetiaNext project in the areas of IT outsourcing, data center & cloud, Internet of things, solutions based on data analysis (big data, business intelligence).

Our offering for business customers includes also phone handsets, tablets and other devices that can be chosen from a broad selection of available models.

International roaming

As part of retail services, Polkomtel provides to its customers international roaming thanks to which the customers can use telecommunications services while being abroad and logged into foreign networks.

Effective June 15, 2017, Polkomtel's customers may freely use roaming in the EEA countries at the same pricing and on the same rules as in their domestic country. Thanks to the acquisition of new roaming partners, in 2018 we opened 260 new roaming services which allow our customers to enjoy even wider coverage of telecommunication services during their stays abroad, in particular the rapidly growing coverage footprint of the ultrahigh speed LTE data transmission offered in roaming. In 2018, we launched data transmission services in international roaming in 61 new networks offering LTE data transmission services and another 37 networks offering access to 3G technology. While developing the scope of international roaming services, above all we focused on the activation of access to ultrahigh speed LTE Internet in European Union countries most willingly visited by our customers. As regards the remaining roaming services (voice calls and text messages), our priority is to expand the reach of roaming services so that our customers can use our services in any place in the world.

Simultaneously, we took steps aimed at promoting Polkomtel as the first choice network for roaming customers visiting Poland.

2.2.4. Internet access offer

We provide a comprehensive array of data services to both residential and business customers under two main brands: Plus and Cyfrowy Polsat. Internet LTE Plus Advanced from Plus and Cyfrowy Polsat was the winner on the category "2018 Mobile Internet of the year" in the Mobility Trends 2018 competition.

We offer our mobile broadband Internet services in the LTE technology since 2011 and in the latest LTE Advanced technology since 2016. Our broadband Internet offering is universal, and provides broadband Internet access via all supported technology platforms, for a single monthly fee. Thanks to this solution today almost 100% of Poles live in areas covered by our LTE Internet network and 73% live within the coverage footprint of our LTE Plus Advanced Internet service. We apply state-of-the art- network solutions which render the Internet connection offered by Cyfrowy Polsat and Plus more stable and faster. Currently, the maximum technological speed of LTE Advanced Plus is above 600 Mbps.

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

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

Our offer includes basic data packages ranging from 30 to 100 GB. After having used up the basic data package in the 45 Gb or more package, the customer can continue to use the LTE Plus Internet thanks to the service *LTE without end*. Monthly subscription fees range from PLN 30 for a 30 GB package in the SIM-only model, to PLN 70 for a 100 GB package. Contracts are usually concluded for a fixed term of 24 months. 12-month contracts with data packs from 15 GB to 50 GB for monthly fees from PLN 30 to PLN 70 are also available.

Customers who prefer prepaid services can choose a prepaid tariff plan that allows customers to receive a data package, whose size and period of validity are determined by the value of the top-up. PLN 5 is the minimum available top-up, together with which bonuses, in the form of extra GB, are awarded. The highest top-up entitles to 100 GB.

Thanks to our LTE Plus Internet access service combined with the LTE Home Internet Set, created specifically for Cyfrowy Polsat and Polkomtel, we can offer customers a product that constitutes a substitute for fixed-line Internet. Based on a special technical solution ODU-IDU technology (Outdoor Unit Indoor Unit), the LTE Home Internet Set consists of an external LTE modem (ODU) and a WiFi router (IDU). The latest version of the Home Internet 300 Set also works within the coverage area of LTE Plus Advanced and introduces numerous improvements as compared to its predecessor, the ODU/IDU-200 model. The Home Internet 300 Set works perfectly in non-typical locations where the signal strength is low, as well as in all the places where no fixed-line access to the Internet is offered via cable connection. The modem, which is installed outdoors, improves the strength of the signal by eliminating signal attenuation by walls and other structural elements of buildings, and hence it significantly increases the coverage area of the service. Installation of a modem at a certain height can reduce the adverse influence of some terrain obstacles, e.g. high buildings or elevated areas which exist in the neighborhood. Thanks to this one can enjoy LTE Internet access with the potentially highest parameters available in a given location. ODU/IDU devices can be installed separately, or they can be integrated with the existing satellite or terrestrial TV antenna systems, thus reducing the amount of cabling fed into a home. The signal is transmitted from the ODU-300 modem to a WiFi IDU-300 router over a concentric cable. The router, in turn, distributes the signal to all the rooms, thus ensuring wireless access to the Internet.

The standard LTE Internet access offer is accompanied by various types of bonuses, depending on the value of the subscription fee. Such as strategy supports the promotion of our other services and gives our customers the possibility to test services, which they might purchase in the future. Currently, in selected subscription plans we offer our customers access to three special IPLA packages free of charge for the first two months of the duration of the contract with the possibility of extending the period of using these packages for a monthly fee of PLN 10. In selected tariffs Plus network customers also have the possibility to test for one month, free of charge, the Internet Protection and HBO GO services.

In December 2018, Plus introduced a new fixed-line Internet offering based on Netia's infrastructure. It includes an access to high speed Internet, provided mostly in fiber-optic technologies. "Plus Internet Stacjonarny" ensures a quick and stable access to network regardless of time of day or a number of users. The service "Plus Internet Stacjonarny" is provided based on an extensive, nationwide fixed-line infrastructure of Netia which comprises both a backbone network and an access network. This network reaches currently over 2.5 million households across the country, which translates into the reach of 18%, and over 800 largest office buildings. "Plus Internet Stacjonarny" is targeted to apartments, houses and small companies. The service "Plus Internet Stacjonarny" is provided in four technologies depending on available infrastructure: copper (CU), Ethernet (ETTH), cable (HFC) and fiber optic (PON). The new offering includes three subscriptions to select from, depending on the Internet speed offered: up to 150 Mbps at the price of PLN 60 (for apartments), PLN 80 (for houses) or PLN 50 (net of VAT) for SOHO; 300 Mbps at the price of PLN 80 (for apartments), PLN 100 (for houses) or PLN 65 (net of VAT) for SOHO; and up to 900 Mbps at the price of PLN 100 (for apartments), PLN 120 (for houses) or PLN 80 (net of VAT) for SOHO. Under the new offering, a customer receives an additional SIM card for LTE Plus Advanced mobile Internet service with the data package of 5 GB, priced at PLN 0, or 10 GB, priced at PLN 50 (or PLN 40, net of VAT, for SOHO), and a possibility to purchase additional GBs. The offering is concluded for a 24-month period, including one month free of charge. In addition, the service is available under the smartDOM and the smartFIRMA programs, which means that customers of Plus and Cyfrowy Polsat may receive a PLN 10 discount from a subscription.

2.2.5. Consumer devices offer

Handsets

We offer our customers a wide array of state-of-the-art smartphones and traditional handsets. The share of traditional handsets remains at a low level of several percent of total sales. In 2018, smartphones constituted over 90% of handsets sold by us and the penetration of our voice customer base with smartphones approached 73%. The majority of smartphones sold in 2018 supported LTE technology for data transmission. Terminals that support data transmission speed of above 1 Gbps are a novelty in our offer.

Handsets are sold primarily in the installment plan model. An installment for the purchased equipment is added to the monthly subscription fee for the telecommunication service. Bundled data packages, also for use in LTE technology, are now offered at all subscription levels. In the B2B segment we also sell equipment in the subsidized model.

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

Internet equipment

We offer our customers a wide selection of devices used to access broadband Internet. Our equipment portfolio comprises several categories: modems, mobile and fixed-line routers, tablets and laptops. All of the modems and routers offered by us support LTE (data transmission speed of up to 150 Mbps) or LTE Advanced technology (up to 1 Gbps).

Consumer devices are sold in the installment plan model (with or without an initial fee), while modems and routers are also leased at rental fee. In the installment plan model, the monthly subscription fee for the telecommunication service is increased by an installment for the purchased equipment. The value of the installment depends of the type of chosen device. Customers can chose to pay for the equipment in 24, 36 or 48 installments.

Over half of the contracts sold with equipment comprise the sale of mobile or fixed-line routers. Among the available devices the Home LTE Internet set, based in the ODU-IDU (Outdoor Unit-Indoor Unit) technology, is particularly worth noting. It is a combination of an LTE modem for installation outdoors, which is able to operate in difficult conditions, and a router which distributes the signal inside the house. This solution provides much better signal power and consequently higher quality transfer than traditional modems and routers.

Other device categories

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

2.2.6. Technology and infrastructure of telecommunication services

Network

Our broadband Internet access services are based on a radio infrastructure provided by our subsidiaries. Our Group operates an integrated 2G, 3G and 4G mobile communication network. The Group's network supports GSM/GPRS/EDGE (2G), UMTS/HSPA+/HSPA+ Dual Carrier (3G) and LTE/LTE Advanced (4G) technologies. We also have an extensive CDMA network.

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

As at December 31, 2018, Polsat Group's 2G access network consisted of 7,569 BTS systems, while the 3G network consisted of 10,419 NodeB systems (UMTS/HSPA+) stations. The CDMA network included 576 base transceiver stations. Moreover, the LTE network consisted of 13,313 eNodeB systems operating in the LTE/LTE Advanced technology.

	Number of BTS on-air as at December 31, 2018	Change YoY
2G technology, incl.:	7 554	
GSM900	*6 883*	*55*
GSM1800	*671*	*-70*
3G technology, incl.:	10 419	
WCDMA 2100	*4 020*	*39*
WCDMA900	*6 399*	*237*
CDMA	576	*1*
4G technology, incl.:	13 313	
LTE 1800	*6 347*	*340*
LTE 2600 TDD	*31*	*31*
LTE 2600 FDD	*595*	*221*
LTE 2100	*91*	*31*
LTE 900	*6 249*	*6 249*

As regards LTE transceivers, on whose roll-out we currently concentrate, our mobile network relies mainly on the LTE1800 and LTE2600 technologies. We emphasize that the majority of locations has not yet been equipped with LTE2600 transceivers (in both TDD and FDD versions), which means that thus we still have potential for further development of capacity and quality of the LTE layer without having to incur the cost of leasing new base station locations.

Development in the area of LTE800 technology, in turn, has been stopped. Instead, we were intensely developing the LTE900 bandwidth obtained thanks to refarming performed in the previous years. As at December 31, 2018, we had already 6,249 LTE transceivers operating on the frequencies from the 900 MHz bandwidth. The capacity of our network was further increased thanks to expanding the number of the LTE2600FDD, LTE2600TDD and LTE2100 transceivers.

Our access network is supported by a transmission network using mainly packet data transmission technologies. The network is divided into an access layer (microwave links with throughput ranging from 180 Mbps to 1 Gbps and fiber optic links); an aggregation layer (solely fiber optic), using the existing Carrier Ethernet Transport MPLS-TP technology (mainly 10 Gbps of throughput) and the completely new, modern, program-driven IP/MPLS network (with throughput being the multiple of 10 Gbps and 100 Gbps); and a backbone layer (solely fiber optic), using the IP/MPLS technology, with throughput being the multiple of 100 Gbps.

The backhaul microwave network is composed of 8,406 PHD links. The aggregation layer of the backhaul network is composed of 576 nodes equipped with CET switches and 136 new generation and high capacity IP/MPLS nodes. The backbone layer consists of 10 nodes with redundant IP/MPLS routers. 94 DWDM nodes operate in the physical layer, all equipped with facilities enabling traffic transmission at the multiple of 100 Gbps throughput (the multiple is adjusted to current needs of a given node). The transport network is used to provide dedicated services to the business segment, such as virtual private network (with broadband Internet access), PBX (private branch exchange) switchboards and leased lines.

The span of Polsat Group's fiber optic network is approximately 25,000 km, with approximately 10,000 km of own or leased fiber optic cables are used for the purposes of the mobile network.

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

Network upgrade and maintenance

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

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

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

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

Development of the LTE/LTE Advanced technology

Compared to HSPA+ or UMTS, LTE is characterized by much lower latency and has the capacity to support a significantly greater number of users. The potential of the LTE technology is based on greater capacity and transmission speed with lower latency, which enables LTE Internet service customers to use interactive and multimedia applications requiring greater bandwidth and transmission in real time, such as online games, video communication and HD TV through Internet. We use a frequency bandwidth dedicated to LTE that enables us to offer services with transmission speed of up to 200 Mbps for download and 50 Mbps for upload. On the other hand, after aggregating selected bandwidths using Carrier Aggregation, with higher MIMO (4x4), we can significantly increase data transmission speed available to end-users (currently above 600 Mbps), while the maximum speed depends on the quantity of aggregated radio bandwidths.

In 2011, as the first commercial provider in Poland we started offering broadband Internet access in LTE technology, which currently is able to provide a maximum speed of up to 200 Mbps (with MIMO2x2) based on a continuous 20 MHz block in the 1800 MHz band which, combined with the clearly intensified roll-out of the LTE 1800 in the second half of 2016, allowed us to increase the coverage of mobile LTE Internet from Cyfrowy Polsat and Plus to the level of 99% of the population in January 2017. Concurrently, we began the aggregation of frequencies, available at a given site, from the 900, 1800, 2100 and 2600 MHz (both FDD and TDD) bandwidths we use. As a result, we offer our customers the LTE Advanced technology which enables data transmission with maximum speed exceeding 600 Mbps in selected regions of the country. In December 2018 the service LTE Plus Advanced was available to over 73% of Poles.

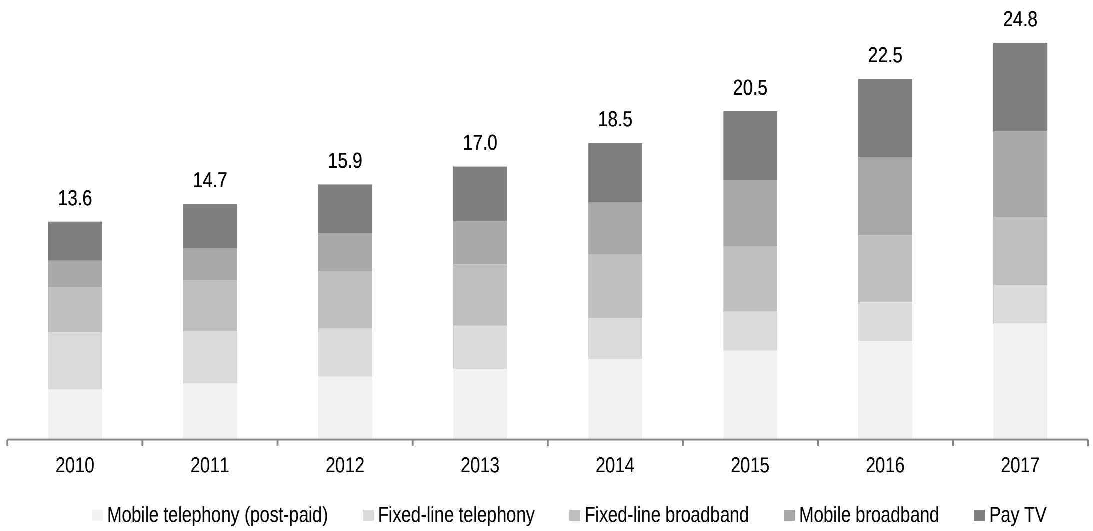
2.3. Activities on the bundled services market

2.3.1. Bundled services market in Poland

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

The Polish multi-play services market is systematically growing. According to PMR estimations, as at the end of 2017 the number of services sold in bundles amounted to 24.8 million, recording a 10% annual growth rate. PMR estimates that the total number of subscribers (both residential and business) of bundled services amounted to over 10.5 million in 2017 and each of them had on average 2.35 services.

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



Source: PMR, "Bundled telecommunication services market in Poland 2018" (estimated data)

The multi-play market is consistently growing since 2010 in terms of value. ARPU is characterized by a similar trend – PMR estimates that in 2017 average revenue per customer from sales of multi-play packages increased by 1.1% YoY to PLN 87.6 in 2017 from PLN 86.6 in 2016.

Bundled services in Poland are provided primarily by cable TV operators and telecommunications service providers. According to PMR, in 2016 nearly two thirds of the bundled services market was held by five major players – Orange, Polsat Group, UPC, P4 and T-Mobile. With respect to the number of subscribers the share of Polsat Group on the bundled services market in Poland in 2016 was 17%, according to PMR estimates. Other important players on the market include cable operators Vectra and Multimedia Polska, as well as the fixed-line operator Netia.

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

According to European Commission report "E-Communications and Digital Single Market" published in May 2016, in October 2015 the penetration rate of multi-play services (defined as more than one service within the offer of one operator) in Poland amounted to 37%, while in the European Union average penetration reached 50%, and in the Netherlands and Malta amounted to 87% and 78%, respectively. These data can be underestimated, however, due to the methodology applied in the survey. According to PMR, in the fourth quarter of 2017, 63% of households in Poland declared that they use at least two telecommunication services provided by the same supplier.

Research by PMR demonstrates that a bundle combining two services remains the most popular option. In the fourth quarter of 2017, 56% of Poles chose this option. At that time, 29% of Poles used triple-play services (a bundle comprised of three services), while 12% of customers decided to purchase a bundle containing four services. 3% of customers had a bundled of five services in the fourth quarter of 2017. As for the structure of the bundles, fixed-line Internet access services and pay TV dominate, followed by mobile telephony. Fixed-line telephony and mobile Internet access is a component of only a third of purchased bundles.

Development forecasts for the bundled services market

According to PMR forecasts, the bundled services market will consistently grow in subsequent years, both in terms of the number of subscribers and value, which results from the fact that service bundling is becoming a strategic goal for telecommunication and pay TV operators. According to PMR expectations the growth rate of the bundled services market in Poland will slow down in coming years and the expected average annual compound growth rate will be 4% in 2018-2022. In 2022 the number of subscribers using bundled services will exceed 12.5 million and the number of services sold in bundles will reach 33.7 million in 2022.

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

2.3.2. Bundled services offer

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

smartDOM and smartFIRMA are unique savings programs offering a wide array of products and services, which enable our customers to create a comfortable, safe and modern home or effectively run a business. They are based on a simple and flexible mechanism – a customer subscribed to one service receives an attractive discount for the entire term of the contract for every additional product or service purchased from the Group's portfolio. This way every customer has the possibility to create a set of services for the family or the company consisting of satellite TV, terrestrial television with additional TV and radio channels, access to LTE and fixed Internet and telephony services (mobile and wireless home telephony).

Currently, the programs smartDOM and smartFIRMA comprise even ten products and services. Apart from our basic, core products and services: mobile telephony (including wireless home telephony), Plus's LTE and fixed Internet and satellite TV from Cyfrowy Polsat, smartDOM and smartFIRMA customers can also buy banking services offered by Plus Bank, comprehensive insurance services and home security services, such as monitoring. Moreover, the offer also comprises telecommunication devices and home electronics. All the products and services offered play an important role in the household and in the company. Thanks to the unique formula of the smartDOM and smartFIRMA programs the customer can purchase all products and services necessary in the household or in the company in one place and generate savings on each additional service bought.

2.4. Sales and marketing

Marketing and branding

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

Our key brands have a longs-standing, solid position on the Polish market. According to the Ranking of Most Valuable Polish Brands 2017, prepared by the daily Rzeczpospolita in cooperation with BTFG Advisory, our main brands "Cyfrowy Polsat," "Plus" and "Polsat" were the leading brands in terms of value and awareness in their respective lines of business.

According to a survey conducted in November and December 2017 by the agency GfK on the Polish telecommunication market, the spontaneous and aided awareness ratio of the "Plus" brand reached 88% and 98%, respectively, in the voice segment, while in the data transmission segment the results were 72% and 86%, respectively. This survey also demonstrated that Cyfrowy Polsat is the most recognizable provider of pay TV in Poland, with the spontaneous awareness ratio of 78% and aided awareness ratio of 95%.

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

Cyfrowy Polsat's and Polkomtel's commercial websites are an important channel of communication with new and existing customers. In addition, we maintain communication with our existing customers using telemarketing tools, email bulletins, a dedicated customer channel and the Internet Customer Service Center.

Sales network

As at December 31, 2018, the sales network of Cyfrowy Polsat and Polkomtel covered 1,127 stationary points of sale nationwide. Both Cyfrowy Polsat's pay TV and Internet offers and Polkomtel's telecommunications offer are available at the majority of those sales points. Most of points of sale offer additional products and services to customers of both operators, such as insurance and banking services or the sale of electric energy and gas. In 2018 the product portfolio offered by 475 points of sale of Cyfrowy Polsat and Polkomtel was enriched with Netia's services. Moreover, the sales potential of the Group increased by 44 stationary points of sale of Netia's sales network.

Sales of Polsat Group's services also take place through remote channels. As at December 31, 2018 Cyfrowy Polsat had 5 telemarketing centers (own and external), whose role was customer retention and the sale of core products. Furthermore, as at December 31, 2018 Netia was using 4 telemarketing centers (own and external).

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

Sales of prepaid telecommunication services take place through other channels of distribution. At December 31, 2018, Polkomtel had 30 active agreements with non-exclusive independent dealers of its prepaid services, with a total of approximately 60 thousand outlets selling starter kits and scratch cards and approximately 140 thousand outlets selling electronic top-ups.

Our Group's B2B area has an extensive sales structure adjusted to support various segments of business customers. The customers from the corporate segment (excluding smaller entrepreneurs who are classified as SMEs) are served by a group of ca. 75 Key Customer Managers and ca. 80 dedicated account managers. The customers from the SME segment (Small and Medium Enterprises) and larger customers in the SOHO segment (Small Office/Home Office), i.e. customers having at least five SIM cards and generating revenue higher than the average SOHO, are served by about 430 authorized business advisers. The remaining Small Office/Home Office customers, along with residential customers, are served by authorized points of sales of Plus network as well as by own call center, call centers of our telesales partners and an e-shop.

Call center

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

Cyfrowy Polsat's call center currently has over 600 operator stands as well as approximately 320 back-office stands handling written requests (including faxes and e-mails), while the call center of Plus network consists of over 800 operator stands and about 350 back-office stands and Netia's call center comprises over 250 operator stands and about 250 back-office stands (including handling technical requests). Our call center services are available to our present and potential customers 24 hours a day, seven days a week, and are responsible for providing comprehensive and professional customer service. The call service operators provide information on our services, enter into service agreements with customers, accept customer complaints and provide information on payments, technical support and other support for customers.

Online communication

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

We have commercial websites that contain detailed information on the offers of Cyfrowy Polsat and Polkomtel, as well as on the smartDOM program - the bundled offer of the two operators. On Cyfrowy Polsat's website (http://www.cyfrowypolsat.pl/) customers can find information about the current pay TV and telecommunication offer, they can chose a TV or Internet access package they are interested in or select a device (set-top box, tablet, laptop or router. Moreover, our website contains details on various competitions for subscribers, our video on demand offer and the most interesting content available in our VOD Home Video Rental, and the online services Cyfrowy Polsat GO and HBO GO, accompanied by links which transfer the user directly to the webpage of the chosen service.

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

On the commercial websites www.plus.pl and www.plushbezlimitu.pl customers can verify Polkomtel's telecommunication offer, chose a handset or Internet access device (tablet, laptop, router or game console) and finally check current promotional offers. Polkomtel operates its own e-shop with products and services available to both existing and new customers. Given the diversity of available offers, our website is divided into three categories: got individual customers, for small business and for medium and large business. When placing an order for contract services a customer can also choose additional services. Recently, we introduced new standards of customer service for our online customers, which resulted in a significant increase of customer satisfaction and their willingness to buy services through the online channel. Thanks to regular research regarding user experience when surfing on our websites, we have been able to improve sales process through online channels. The website www.lte.pl contains the latest technological solutions with respect to broadband Internet that we offer.

We offer our customers access to online accounts – the Internet Customer Service Center for Cyfrowy Polsat's customers and Plus Online for Polkomtel's customers. Thanks to these functionalities our customers can manage their subscriber accounts through the Internet, where, after logging in, they can check the status of purchased services, payments, subscribed packages, dates of payments or order additional services. Furthermore, in response to market trends – in particular to the dynamically growing popularity of smartphones and the increasing role of mobile services, Polkomtel launched a mobile application dedicated to subscriber account management. It offers a wide array of functionalities and is compatible with the most popular mobile operating systems available on the market.

Thanks to the http://www.ipla.tv website and dedicated applications the content of IPLA online television is available on a wide array of consumer devices, including computers with Windows, mobile devices powered by iOS, Android and Windows Phone, TV sets with internet connections (Samsung, LG, Sony, Panasonic, Philips, Sharp, Ikea, Toshiba, Thomson, TCL), set-top boxes (cable TV TOYA, Netia), game consoles (PlayStation 3) and Blu-ray. IPLA's mobile application has been downloaded more that 10 million times since its launch. In February 2018, we refreshed our IPLA website by introducing changes which made the service even more user-friendly and adjusted to users' needs.

2.5. Customer relations and retention management

Customer relations management

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

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

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

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

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

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

Netia's customers, beside getting support via phone, email and Facebook platform, have also at their disposal a self-care system Netia Online, self-care mechanisms within an IVR (interactive voice response) system, and a possibility to introduce changes and purchase TV packages via set-top boxes. As part of technical support, the customers are partly serviced by an application which runs automatic diagnostics and repair of technical issues. In 2018 the mode of logging into Netia Online by customers was changed into more intuitive one and, additionally, allowing for integrated login from a Facebook or Google account. Some more user-friendly modifications in the IVR's tree and mechanisms were also introduced. In 2019 it is planned to further develop and optimize Netia Online, the IVR and automatic solutions in technical support.

Since 2000, Polkomtel has an implemented and consistently improved quality management system and since 2012 also an environmental management system. To confirm the above, Polkomtel obtained international certification ISO 9001:2015 and ISO 14001:2015 issued by DEKRA Certification Sp. z o.o. The scope of the certificates comprises sales of telecommunication products and services, sales of electric energy and customer management and retention. In September 2018, Polkomtel was successfully audited by DEKRA Certification Sp. z o.o. for compliance of quality management and environmental management systems.

Customer retention management

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

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

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

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

2.6. Wholesale business

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

Exchange of traffic between operators (network interconnection)

Our telecommunications infrastructure used in interconnection cooperation enables us to effectively manage telecommunications traffic routing to networks of all operators domestically and abroad. As at December 31, 2018, Polkomtel was party to 29 interconnection agreements with national and international operators. Such a number of interconnection relations allows for optimizing the costs of call termination in the networks of other operators, while maintaining the highest quality of telecommunication services for our end-users with respect to the traffic, both initiated and terminated in our network.

As part of interconnection cooperation with other operators, in 2018, as in previous years, active steps were taken in relations with domestic and foreign operators in order to reduce the incurred costs of wholesale call termination. To accomplish this goal we negotiate interconnection agreements with new international partners and combine roaming and interconnection negotiations in order to improve the terms of cooperation and reduce wholesale rates for international calls. Cooperation with the biggest international operators and active management of traffic routing enabled us to immediately benefit from the reduction of wholesale termination rates (MTR/FTR) in the networks of foreign operators. In 2018, we recorded an increase of wholesale revenues from call termination services in Polkomtel's network and the service of the sale of interconnection traffic transit to Polish mobile operators. In 2018, we continued a project involving the migration of points of interconnect of Polkomtel's network with other operators to the new IP technology which relies on SIP (Session Initiation Protocol) signaling protocol, which enables making of interconnect voice calls in HD quality (HD voice) and reducing costs of interconnection traffic.

In connection with taking control over Netia during 2018, we started the implementation of synergy initiatives aimed at obtaining additional benefits for the Group. In the wholesale business, the main areas having a positive impact on financial results were exchange of voice traffic, optimization of costs related to domestic termination of calls and a project of optimizing interconnection points between Polkomtel and Netia which was associated with replacing the infrastructure bought from third parties with the infrastructure of Cyfrowy Polsat Group and dismantling of duplicating interconnection points.

International roaming

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

Cooperation with roaming partners represents a significant part of sales in the wholesale channel of Polkomtel. We offer the wholesale roaming service over our own network to foreign operators under discount agreements in exchange for favorable terms offered by foreign partners for the handling of roaming traffic generated by our customers who use roaming services abroad. This helps reduce costs of wholesale international roaming services incurred by Polkomtel and, as a result, enables the provision of competitive prices to our customers and customers of MVNOs operating on our telecommunication network.

In 2018, we continued opening new LTE relations making LTE services available to the customers of our roaming partners, thanks to which we are an attractive partner for roaming services in Poland. This helps us increase wholesale revenues from the sale of inbound roaming services in Poland to foreign operators.

In 2018, we continued our policy of reducing the roaming costs, among others by focusing on the reduction of the costs of voice and data transmission services in international roaming in foreign networks, which enabled us to offer to our residential and business customers the most competitive and safe roaming data packs on the Polish market, that is the “Atlantic” pack which includes 35 European countries as well as Andorra, USA and Turkey, and the “Oriental” pack which includes 101 most popular countries in the world outside Europe, in terms of Poles’ trips. Thanks to the active policy of acquisition of new roaming partners for discount agreements, mainly outside of the EAA, i.e. in areas where the costs of wholesale international roaming have been quite high so far, we are constantly reducing the costs of roaming in exotic countries, so that our customers could use our services in these countries at lower prices.

Our goal is to ensure that each EEA country has an LTE roaming service available for our customers, and at least two 2G/3G networks are available in every country in other regions. We are also extending CAMEL (protocol used to settle roaming services in real time) service for prepaid and mix users to new countries, to facilitate dialing and voice calls in international roaming without the need of using the callback function. Currently, the CAMEL service is available in 274 networks in 157 countries.

Furthermore, we have negotiated new discount agreements for 2019, while focusing on compensating the costs of using regulated roaming in EEA by our customers with the wholesale revenues from the sale of inbound roaming services to the customers of our roaming partners.

As at December 31, 2018, Polkomtel offered international roaming services for voice calls in 586 networks in 217 countries and designated areas. In addition, our international roaming service offers roaming data transmission packages in 509 networks in 186 countries and designated areas. Access in LTE technology is possible in 198 networks in 98 countries and designated areas, while access in 3G was offered in 393 networks in 154 countries and designated areas.

National roaming and virtual operators (MVNOs)

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

National roaming

As a part of the wholesale national roaming service, we offer voice calls, text messaging and packet data transmission services (including MMS) to P4. In December 2018, in connection with the investment program exercised by P4 and aimed at enabling the resignation from national roaming wholesale services, P4's terminated its agreement with Polkomtel for the provision of the above mentioned service with a 12-month period of notice.

Virtual operators (MVNOs)

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

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

Polkomtel was the first mobile operator in Poland who opened access to its network for MVNOs back in 2006. In the past year, our MVNO partners achieved significant successes in terms of acquiring customers on the mobile market. This is proved, among others, by the results of customer acquisitions through mobile number portability (MNP). In the MNP ranking for 2018, our three MVNO partners, i.e., Premium Mobile, Aero2 and Multimedia Polska, scored the first three places among all Polish mobile operators in terms of net customer acquisitions.

Very good results of MVNO partners operating on Polkomtel's network indicate, on the one hand that the market is still open to offers of new MVNO operators, and on the other, they may constitute an additional stimulus for new, potential partners to make a decision about launching operations under the MVNO model with Polkomtel. They are also evidence that cooperation with Polkomtel is beneficial to both new entities and to these ones which use Polkomtel's services already for some time. Flexible wholesale offering and professional technical support enable the MVNO partners to develop dynamically.

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

2.7. Broadcasting and television production segment

2.7.1. Market overview

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

TV broadcasting in Poland started in the 1950s by the state-owned TV broadcaster TVP, which was the sole Polish TV broadcaster until 1992. Following political changes the Polish TV market was opened to private commercial broadcasters in 1992, the number of TV channels has increased substantially. On July 23, 2013, the process of implementing digital terrestrial television (DTT – Digital Terrestrial Television) had ended. Currently, DTT offers free access to 28 channels and the outreach of the multiplexes exceeds 99% of Poland's population.

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

Polish TV advertising market

According to the estimates of Zenith media house, in 2018 Poland was the third largest advertising market in Central-Eastern Europe (after Russia and Turkey) with a total net advertising expenditure of PLN 7.4 billion (after discounts or rebates) and a growth rate of almost 5.4% compared to 2017. The value of TV advertising amounted to almost PLN 3.8 billion and increased by 5.5% as compared to 2017.

In 2018, TV was the dominant advertising medium in Poland with 51% share in the total advertising expenditure. According to Zenith forecasts, this share is expected to remain stable in upcoming years with a slight downward tendency. The increase of the share of Internet as an advertising medium does not influence television's position in a substantial way, due to the decline of advertising expenditures in printed media.

Advertising expenditure by medium from 2013 to 2020:

	2013	2014	2015	2016	2017	2018	2019F	2020F
TV	52%	53%	53%	52%	51%	51%	51%	50%
Print	11%	9%	8%	6%	5%	4%	4%	4%
Outdoor	7%	7%	7%	6%	6%	6%	6%	6%
Radio	7%	7%	7%	8%	7%	7%	7%	7%
Internet	20%	22%	24%	26%	29%	30%	31%	32%
Cinema	2%	2%	2%	2%	2%	2%	2%	2%

Source: Zenith, "*Advertising Expenditure Forecasts - December 2018*"

The Polish TV ad market is characterized by a high level of TV consumption. In 2018, the average daily TV viewing time among the surveyed population remained at a very high level, estimated at 257 minutes. Considering such a high average TV viewing time, it is justified to assume that the TV market will continue to be an attractive communications platform for advertisers.

Based on data from the media house Starcom, we estimate that in 2018 Polsat Group had a 27.2% share of the Polish TV advertising market, estimated at ca. PLN 4.4 billion and an advertising power ratio (measured as the ratio of advertising market share to total individual audience share in the group All 4+) of 1.2.

We believe TV is a highly effective advertising medium. Moreover, given the relatively low level of advertising expenditures in Poland as a percentage of GDP and per capita in comparison to other European markets, in our opinion there is still substantial growth potential for TV advertising in Poland. The Polish advertising market constitutes 0.36% of GDP, representing a substantially lower value as a percentage of GDP than in certain other European markets such as the United Kingdom (0.95%), Slovakia (0.78%), Germany (0.6%), the Netherlands (0.53%) or Austria (0.49%).

Key TV channels

The Polish TV market remains dominated by the four largest terrestrial channels: TVP1, TVP2, TVN and POLSAT, which collectively had 37.2% of the aggregate audience share in the commercial group in 2018. In 2018, further significant fragmentation of the TV market was observed. The importance of smaller broadcasters available on the multiplexes was growing, mainly at the expense of the abovementioned four largest TV channels available earlier in analogue terrestrial television.

In 2018, our main channel POLSAT had an all-day audience share of 11.4%. Average annual technical coverage was 100%. Our thematic channels had a 12.9% combined audience share. We broadcast 32 thematic channels with competitive offers on each important market segment (including sport, information, music and channels dedicated to female and male audiences). They include channels distributed by cable and satellite networks, as well as six channels available through DTT: four on MUX-2 (POLSAT, TV4, TV6 and Super Polsat), and two on MUX-1 (newly acquired ESKA TV and Polo TV as of December 4, 2017). The Group's main channel POLSAT available on MUX-2, competes with nationwide channels: TVN, TVP1, TVP2 and smaller channels available on digital terrestrial television.

In 2018, POLSAT's main competitor, TVN achieved a 12.2% all-day audience share and had 100% average annual technical coverage. The TVN channel, launched in 1997, is broadcast by TVN Group, which is currently a 100% subsidiary of the media corporation Scripps Network Interactive, owned by Discovery Group. Discovery Group's thematic channels achieved a 14.9% combined all-day audience share in 2017.

TVP Group broadcasts 12 channels, including TVP1 and TVP2, and is one of the main players on the Polish TV advertising market. In 2018, the main channels of TVP Group had 6.7% (TVP1) and 6.9% (TVP2) all-day audience shares. The technical reach of both channels reaches 99.9% of TV households in Poland. TVP's thematic channels had 7.9% audience share. Except advertising revenue, as the national state-owned broadcaster, TVP receives additional revenue from license fees mandatorily charged to Polish citizens owning TV or radio sets under the License Fees Act of April 21, 2005. The regulations preventing TVP from interrupting programs to broadcast advertising significantly decreases its advertising inventory and TVP group generated only 38.2% of its revenue from license fees in 2017.

Digital Terrestrial TV

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

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

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

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

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

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

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

MUX-8 began broadcasting successively since October 25, 2016. Initially, 4 channels were put into operation - Metro, Zoom TV, Nowa TV (currently closely cooperating with Polsat Group) and WP. According to a resolution of the National Broadcasting Council, TVP can launch three SD channels or one SD and one HD channel on MUX-8. Accordingly, at present two channels are being broadcast: TVP Sport (HD) and TVP Rozrywka (TVP Entertainment) (SD).

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

2.7.2. Offer

Channels

We believe we have a portfolio of channels that appeal to the important audience segments and that we will maintain the leading position in sports programming and we will strengthen our position in news programming. Our portfolio of channels addresses the entire family. As at the date of approval of this Report the Group's portfolio comprised 33 channels (excluding cooperating channels).

Channels portfolio of Cyfrowy Polsat Group

Channel	Broadcasting standard	Start date	Thematic group	Signal distribution	Availability	Household coverage(1)
POLSAT	SD/HD	December 5, 1992	General interest	Terrestrial/cable/satellite	FTA	100.0%
Polsat Sport	HD	August 11, 2000	Sport	Cable/satellite	non-FTA	46.3%
Polsat Sport Extra	HD	October 15, 2005	Sport	Cable/satellite	non-FTA	36.1%
Polsat Film	HD	October 2, 2009	Movie	Cable/satellite	non-FTA	54.2%
Polsat Café	HD	October 6, 2008	Lifestyle	Cable/satellite	non-FTA	55.3%
Polsat Play	HD	October 6, 2008	Lifestyle	Cable/satellite	non-FTA	53.1%
Polsat2	HD	March 1, 1997	General interest	Cable/satellite	non-FTA	62.2%
Polsat News	HD	June 7, 2008	News	Cable/satellite	non-FTA	55.8%
Polsat News 2	SD	February 8, 2007	Business	Cable/satellite	non-FTA	58.8%
Polsat Sport News(2)	HD	June 1, 2011	Sport	Cable/satellite	non-FTA	29.6%
TV4	SD/HD	April 1, 2000	General interest	Terrestrial /cable/satellite	FTA	100.0%
TV6	HD	May 30, 2011	Entertainment	Terrestrial /cable/satellite	FTA	95.9%
Polsat Romans	SD	September 1, 2013	Women's	Cable/satellite	non-FTA	49.9%
Disco Polo Music	SD	May 1, 2014	Music	Cable/satellite	non-FTA	49.2%
Polsat Music	HD	September 26, 2014	Music	Cable/satellite	non-FTA	47.7%
Polsat 1(3)	SD	December 18, 2015	General interest	Satellite	Non-FTA	n/a
Polsat Sport Fight	HD	August 1, 2016	Sport	Satellite	non-FTA	18.3%
Super Polsat(4)	SD/HD	January 2, 2017	General interest	Terrestrial /cable/satellite	FTA	97.5%
Polsat Doku(5)	HD	February 10, 2017	General interest	Cable/satellite	non-FTA	30.1%
Eska TV(6)	SD/HD	August 8, 2008	Music	Terrestrial /cable/satellite	FTA	98.1%
Eska Rock TV(6)	SD	September 1, 2017	Music	Cable/satellite	non-FTA	44.5%
Eska TV Extra(6)	SD/HD	June 16, 2017	Music	Cable/satellite	non-FTA	59.1%

Channel	Broadcasting standard	Start date	Thematic group	Signal distribution	Availability	Household coverage[1]
Polo TV[6]	SD	May 7, 2011	Music	Terrestrial/cable/satellite	FTA	98.2%
VOX Music TV[6]	SD	April 28, 2014	Music	Cable/satellite	non-FTA	53.9%
Superstacja[7]	SD/HD	October 2, 2006	News/ entertainment	Cable/satellite	non-FTA	57.0%
Eleven Sports 1[8]	HD/UHD	August 2, 2015	Sport	Cable/satellite	non-FTA	12.9%
Eleven Sports 2[8]	HD	August 8, 2015	Sport	Cable/satellite	non-FTA	13.1%
Eleven Sports 3[8]	HD	September 12, 2016	Sport	Cable/satellite	non-FTA	n/a
Eleven Sports 4[8]	HD	November 20, 2017	Sport	Cable/satellite	non-FTA	n/a
Polsat Sport Premium 1[9]	HD	August 21, 2018	Sport	Satellite	non-FTA	n/a
Polsat Sport Premium 2[9]	HD	August 21, 2018	Sport	Satellite	non-FTA	n/a
Polsat Games[10]	HD	October 15, 2018	Sport	Cable/satellite	non-FTA	28.7%
Polsat Rodzina TV[11]	HD	October 16, 2018	Family	Cable/satellite	non-FTA	26.1%

Channels cooperating with Cyfrowy Polsat Group (non-consolidated)

Channel	Broadcasting standard	Start date	Thematic group	Signal distribution	Availability	Household coverage(1)
Polsat Jim Jam	SD	August 2, 2010	Children	Cable/satellite	non-FTA	45.1%
CI Polsat	HD	November 24, 2011	Criminal	Cable/satellite	non-FTA	40.4%
Polsat Viasat Explore	HD	March 1, 2013	Lifestyle	Cable/satellite	non-FTA	44.7%
Polsat Viasat Nature	HD	March 1, 2013	Nature	Cable/satellite	non-FTA	44.6%
Polsat Viasat History	HD	March 1, 2013	History	Cable/satellite	non-FTA	50.0%
Fokus TV	SD/HD	April 28, 2014	Educational	Terrestrial/cable/satellite	FTA	97.7%
Nowa TV	SD/HD	November 9, 2016	General interest	Terrestrial/cable/satellite	FTA	78.8%
TV Okazje	SD	October 2, 2017	Sales	Cable/satellite	non-FTA	n/a

(1) NAM, average TV household coverage, arithmetic average of monthly coverage in 2018.
(2) As of January 2, 2017 the channel is available only via cable and satellite platforms.
(3) Channel addressed to viewers abroad.
(4) Channel launched on January 2, 2017, replaced Polsat Sport News on MUX-2.
(5) Channel launched on February 10, 2017.
(6) Channel included in Polsat Group's portfolio from December 4, 2017.
(7) Channel included in Polsat Group's portfolio from June 5, 2018.
(8) Channel included in Polsat Group's portfolio from May 2, 2018.
(9) Channel operating during league games.
(10) Channel broadcasting since October 15, 2018.
(11) Channel broadcasting since October 16, 2018.

POLSAT

POLSAT, our main channel, is the number one channel in Poland in terms of audience share in the commercial group (all, ages 16-49), with an audience share of 11.4% in 2018. The channel broadcasts 24 hours a day, seven days a week. The channel is available on the digital terrestrial television on the second multiplex (MUX-2). Apart from terrestrial broadcasting, POLSAT is also provided in SD and HD by all major Polish cable TV operators as well as DTH platforms. POLSAT airs a broad variety of movies, Polish and foreign series as well as talent shows realized based on license agreements. Sports offer has also an important place in our programming.

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

Thematic channels of Cyfrowy Polsat Group

Channel	Target audience segment	Average audience share in the target audience segment in 2018	Core programming	Additional information
TV4 TV4 HD	All aged 16-49	3.85%	Programming offer includes films, series and intelligent entertainment.	Channel included in Polsat Group's portfolio since August 30, 2013. Available in DTT technology.
TV6 HD	All aged 16-49	1.47%	Offers films and drama series, including animated movies, and entertainment programs.	Channel included in Polsat Group's portfolio since August 30, 2013. Available in DTT technology.
Polsat Sport Polsat Sport HD	Men aged 16-59	0.47%	The first sport channel in the Group's offer. It airs sports events and thematic programs. The most important sports are: (i) volleyball (World Championships, World League, World Grand Prix, Plus Liga, Orlen Liga), (ii) athletics (e.g. Diamond League), (iii) football (Champions League, Nations League) (iv) handball, (v) boxing and (vi) KSW (Martial Arts Confrontation) and MMA (Mixed Martial Arts) contests.	
Polsat Sport Extra Polsat Sport Extra HD	Men aged 16-44	0.08%	Premium sport events, primarily the largest international tennis tournaments such as Wimbledon and handball Champions League.	Broadcast since 2009.
Polsat Sport News Polsat Sport News HD	Men aged 16-44	0.04%	The programming includes sport news, sport events transmissions and journalistic materials.	Until January 1, 2017 it was broadcast in DTT, as of January 2, 2017 available in HD standard only in cable and satellite networks.
Polsat Sport Fight HD	Men aged 16-44	0.06%	Channel dedicated to martial arts, broadcasting, among others, HBO professional boxing galas, TOP Rank, Showtime, Matchroom and mixed martial arts KSW, MMA Attack, as well as coverages of Polsat Boxing Night	Broadcast since August 1, 2016.
Polsat Film Polsat Film HD	All aged 16-49	0.65%	Wide offer of movies. Hit movies, top box-office productions and non-mainstream movies. The offer based to a large extent on productions of Sony Pictures Television International and 20th Century Fox TV.	
Polsat Cafe HD	Women aged 16-44	0.33%	Lifestyle, fashion, health and beauty, cooking. The offer includes own productions as well as foreign editions of various shows.	
Polsat Play HD	Men aged 16-44	0.65%	Male hobbies, including fishing, automotive industry, documentary and guide series, lifestyle and trendy consumer gadgets.	
Polsat 2 HD	All aged 16-49	1.37%	Reruns of programs that premiered on our other channels.	On December 18, 2015 replaced abroad by the channel Polsat 1, remains available to viewers in Poland.
Polsat News HD	All aged 16-49	0.69%	24-hour news channel mainly broadcasting live and covering primarily news from Poland and key international events.	

Channel	Target audience segment	Average audience share in the target audience segment in 2018	Core programming	Additional information
Polsat News 2	Top manage-ment	0.22%	The latest news on the economy and financial markets.	Channel acquired by TV Polsat Group in February 2007. Until June 9, 2014 broadcast under the name Polsat Biznes.
Polsat Romans	Women aged 16-49	0.15%	Channel dedicated to women, broadcasts both Polish and foreign drama films and series.	Broadcasts since September 1, 2013.
Disco Polo Music	All aged 16-49	0.20%	Channel presents disco polo, dance and festive music.	Started broadcasting on May 1, 2014.
Polsat Music HD	All aged 16-49	0.05%	Entertainment channel dedicated to pop and rock music.	Started broadcasting on September 26, 2014.
Polsat 1	Poles living abroad	n/a	Latest Polish series produced by Polsat, hit productions selected from the programming libraries of Polsat, TV4, Polsat Cafe and Polsat Play.	Started broadcasting on December 18, 2015.
Super Polsat	All aged 16-49	1.05%	Offers entertainment and news programs, films, series and sports.	Started broadcasting on January 2, 2017. Available in DTT technology.
Polsat Doku HD	All aged 16-49	0.06%	Documentary channel, offers historical and science programs addressed to viewers who are interested in the problems of today's world, travel and nature.	Started broadcasting on February 10, 2017.
Eska TV Eska TV HD	All aged 15-34	1.26%	Entertainment and music channel presenting the latest music clips, exclusive interviews, celebrity gossip and music news.	Started broadcasting on August 8, 2008, joined the Group's portfolio on December 4, 2017.
Eska Rock TV	All above 20 years	0.01%	Channel offering mainstream pop-rock, classic rock and alternative music.	Started broadcasting on September 1, 2017, joined the Group's portfolio on December 4, 2017.
Eska TV Extra Eska TV Extra HD	All aged 16- 49	0.08%	Channel broadcasting current hits and greatest pop music hits from the last two decades.	Started broadcasting on June 16, 2017, joined the Group's portfolio on December 4, 2017.
Polo TV	All aged 16- 49	0.94%	Channel broadcasting the greatest disco polo and dance hits, most popular disco polo festivals as well as euro disco hits, italo disco and dance music from the 80s and 90s.	Started broadcasting on May 7, 2011, joined the Group's portfolio on December 4, 2017.
VOX Music TV	All aged 25-45	0.11%	Entertainment and music channel broadcasting disco hits from the 80s and 90s, italo disco, euro dance and disco polo. The channels programming schedule also includes programs dedicated to pop stars and hits.	Started broadcasting on April 28, 2014, joined the Group's portfolio on December 4, 2017.
Superstacja	All above 16 years	0.16%	Information and entertainment channel.	Started broadcasting on October 2, 2018, joined the Group's portfolio on June 5, 2018

Channel	Target audience segment	Average audience share in the target audience segment in 2018	Core programming	Additional information
Eleven Sports 1	Men aged 16-49 Towns above 50 thous., Wages above PLN 3.5 thous.	0.48%	Sport channel offering matches of leading football leagues, motor sports (F1), handball, basketball, martial sports galas and ATP 250 tennis tournaments.	Joined the Group's portfolio on May 24, 2018.
Eleven Sports 2	Men aged 16-49 Towns above 50 thous., Wages above PLN 3.5 thous.	0.12%	Sport channel offering matches of leading football leagues, motor sports (F1), handball, basketball, martial sports galas and ATP 250 tennis tournaments.	Joined the Group's portfolio on May 24, 2018.
Eleven Sports 3	Men aged 16-49 Towns above 50 thous., Wages above PLN 3.5 thous.	n/a	Sport channel offering matches of leading football leagues, motor sports (F1), handball, basketball, martial sports galas and ATP 250 tennis tournaments.	Joined the Group's portfolio on May 24, 2018.
Eleven Sports 4	Men aged 16-49 Towns above 50 thous., Wages above PLN 3.5 thous.	n/a	Sport channel offering matches of leading football leagues, motor sports (F1), handball, basketball, martial sports galas and ATP 250 tennis tournaments.	Joined the Group's portfolio on May 24, 2018.
Polsat Sport Premium 1	Men aged 16-59	n/a	Channel broadcasting matches of the UEFA Champions League and the UEFA Europa League.	Channel operating during league games.
Polsat Sport Premium 2	Men aged 16-59	n/a	Channel broadcasting matches of the UEFA Champions League and the UEFA Europa League.	Channel operating during league games.
Polsat Games	All aged 12-24	0.13%	Channel dedicated mainly to video games, e-sports and anime.	Started broadcasting on October 15, 2018.
Polsat Rodzina TV	All aged 16-49	0.03%	Channel dedicated mainly to family, series, drama movies, quizzes, entertainment programs, informative programs, Christianity related programs and cartoons.	Started broadcasting on October 16, 2018.

Channels cooperating with Cyfrowy Polsat Group (non-consolidated)

Channel	Target audience segment	Average audience share in the target audience segment in 2018	Core programming	Additional information
Polsat Jim Jam	Children aged 4-7	1.22%	Entertainment for children.	Polsat Jim Jam is a joint venture launched by TV Polsat and ChelloZone.
CI Polsat	All aged 16-49,	0.13%	Criminal programs based on true stories. Documentaries presenting the work of police, detectives and criminal laboratories.	Joint project of Polsat Group and A+E Networks UK. The channel is aired since the end of November 2011.
Polsat Viasat Explore HD	Men aged 16-49	0.14%	Channel dedicated to men, it offers programs featuring extreme jobs, sports, journeys to places that are hard to reach.	Joint project of Polsat Group and Viasat Broadcasting.
Polsat Viasat Nature HD	All aged 16-49	0.03%	Offers nature programs for the entire family.	Joint project of Polsat Group and Viasat Broadcasting.
Polsat Viasat History HD	All aged 16-49	0.11%	Offers various programs presenting the history of different times.	Joint project of Polsat Group and Viasat Broadcasting.
Fokus TV	All aged 16-49	0.89%	Educational and informative channel and movie channel.	Polsat Group owns shares in TV Spektrum since December 2017. Available in DTT technology.
Nowa TV	All aged 16-49	0.29%	General interest channel, with lifestyle programs, series, news and documentary.	Polsat Group owns shares in TV Spektrum since December 2017. Available in DTT technology.
TV Okazje	All aged 16-49	n/a	24-hour TV sales channel.	Polsat Group owns shares in TVO since May 29, 2018. Available in DTT technology.

Audience share for our channels for 2016-2018[(1)]

Channel	Audience share (SHR %)		
	2016	2017	2018
POLSAT	13.19%	12.34%	11.37%
TV4	3.64%	4.06%	3.85%
TV6	1.70%	1.56%	1.47%
Polsat2	1.44%	1.43%	1.37%
Polsat News	0.80%	0.75%	0.69%
Polsat Sport	0.44%	0.35%	0.32%
Polsat Film	0.79%	0.77%	0.65%
Polsat Play	0.67%	0.57%	0.52%
Polsat Cafe	0.39%	0.39%	0.32%
Polsat Sport Extra	0.09%	0.09%	0.07%
Polsat Sport News[(2)]	0.35%	0.04%	0.03%
Polsat News 2	0.08%	0.07	0.04%
Food Network[(3)]	0.10%	n/a	n/a
Polsat Romans	0.16%	0.12%	0.14%
Disco Polo Music	0.27%	0.21%	0.20%
Polsat Music[(4)]	0.03%	0.05%	0.5%
Polsat 1[(5)]	n/a	n/a	n/a
Polsat Sport Fight[(6)]	n/a	0.03%	0.03%
Super Polsat[(7)]	n/a	0.84%	1.05%
Eska TV[(8)]	0.65%	0.48%	0.08%
Eska Rock TV[(8)]	0.01%	0.01%	0.02%
Eska TV Extra[(8)]	n/a	0.10%	0.08%
Polo TV[(8)]	1.33%	1.11%	0.94%
VOX Music TV[(8)]	0.08%	0.06%	0.09%
Superstacja[(9)]	0.07%	0.08%	0.06%
Eleven Sports 1[(10)]	0.01%	0.09%	0.13%
Eleven Sports 2[(10)]	0.03%	0.06%	0.05%
Eleven Sports 3[(10)]	n/a	n/a	n/a
Eleven Sports 4[(10)]	n/a	n/a	n/a
Polsat Sport Premium 1[(11)]	n/a	n/a	n/a
Polsat Sport Premium 2[(11)]	n/a	n/a	n/a
Polsat Games[(12)]	n/a	n/a	0.04%
Polsat Rodzina TV[(13)]	n/a	n/a	0.03%

Channels cooperating with Cyfrowy Polsat Group (non-consolidated)

Channel	Audience share (SHR %)		
	2016	2017	2018
Polsat JimJam	0.24%	0.15%	0.10%
CI Polsat	0.14%	0.17%	0.13%
Polsat Viasat Explore	0.11%	0.10%	0.11%
Polsat Viasat History	0.14%	0.15%	0.11%
Polsat Viasat Nature	0.03%	0.02%	0.03%
Fokus TV	0.93%	0.83%	0.89%
Nowa TV	0.11%	0.21%	0.29%
TV Okazje	n/a	n/a	n/a

Source: NAM, target group: all aged 16-49, all day

(1) Data accounts from Time Shift Viewing, live+2
(2) As of January 2, 2017 channel available only in cable networks and satellite platforms.
(3) The channel was transferred to TVN capital group in January 2017.
(4) Until May 26, 2017 the channel was broadcast under the name MUZO.TV
(5) Channel not included in the telemetric panel.
(6) Included in the telemetric panel since January 2017.
(7) Channel launched on January 2, 2017, replaced Polsat Sport News on MUX-2.
(8) Channel included in Polsat Group's portfolio since December 4, 2017.
(9) Channel joined Polsat Group on June 5, 2018.
(10) Channel joined Polsat Group on May 24, 2018.
(11) Channel broadcasting since October 15, 2018.
(12) Channel broadcasting since October 16, 2018.

Scheduling

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

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

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

Sources of Polish programming

We aim at having diversified sources of Polish content, enabling us to efficiently manage production costs. Thanks to that we are able to choose from a wide range of offerings these ones which are both attractive and cost-effective in order to ensure successful scheduling. In case of formats owned by us, we organize tenders in order to select the most cost-effective producers that ensure high quality. Polish programs are primarily commissioned to independent external producers. However, we also create programs in-house. Approximately 60% of our programming hours consist of Polish content (Polsat, Polsat HD, Polsat2, Polsat Play, Polsat Cafe, Polsat Film, Polsat News, Polsat Sport, Polsat Sport Extra, Polsat Sport News, Polsat News 2, TV4, TV6, Polsat Romans, Disco Polo Music, Polsat Music HD, Super Polsat, Polsat Doku, Polsat Rodzina, Polsat Games.).

Commissioned programs are sub-contracted, when justifiable, to third-party production companies to provide us with additional production capacity, thereby reducing overhead costs related to production employees, facilities and equipment. Our external producers include approximately 50 Polish and foreign producers such as: ATM Grupa S.A., Akson Studio Sp. z o.o., Tako Media Sp. z o.o. Sp.k., Constantin Entertainment Polska Sp. z o.o., Rochstar Sp. z o.o., Endemol Shine Polska Sp. z o.o., Jake Vision Sp. z o.o., Outset Films Sp. z o.o., Eskander, Goliat, Promiss, Sp. z o.o., Maxima Models Sp. z o. o., Artama Sp. z o.o., Albert-Art. Sp. z o.o., Golden Media Sp. z o.o, Nowa Scena Sp. z o.o., Frenzy Sp. z o.o. To provide content for Polsat Play, Polsat Cafe, Super Polsat, Polsat Rodzina and Polsat Games, we use the services of smaller local production companies. Polsat News relies mainly on Polsat Group's own production resources. Sport channels rely mainly on broadcasts of sports events, to which we have acquired broadcasting rights, and are supported by in-house production.

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

Programs supported by in-house production include sports, news ad journalistic programs as well as special events.

Sources of foreign programming

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

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

Purchase of sports broadcasting rights

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

In January 2018, Telewizja Polsat prolonged an agreement with the International Volleyball Federation FIVB and, as a result will broadcast the most important events in world and national team volleyball for the next seven years. The package of acquired rights includes the Volleyball Nations League (replacing the men's World League and women's Grand Prix) – 260 matches in total during the season and qualifying tournaments to the Volleyball Nations League, Challenger Cup, qualifying tournaments to the 2020 and 2024 Olympic Games, men's and women's 2022 World Championship, and 2019 and 2023 World Cup.

In 2016 we signed a license agreement with the UEFA for package of qualifying matches to the 2020 European Championships and 2022 World Championships. The purchased package also includes new European football competitions – the League of Nations: qualifying matches and the finals (Final Four) in 2019 and 2021. Furthermore, we have been holding broadcasting rights purchased from PLPS (Polish Professional Volleyball League) to Plus League and Orlen League matches already for a decade. In 2014 we extended this contract for another five seasons 2015-2020.

In June 2017, Polsat Group acquired exclusive broadcasting rights to over 1000 matches of the UEFA Champions League and Europa League for three consecutive years (from 2018 until 2021) for all channels of distribution, including television, the Internet, and mobile devices. This is a strategic investment due to the growing popularity of football games in recent years. The games are broadcast in dedicated to them channels Polsat Sport Premium.

Sale of advertising and sponsoring

Advertising options

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

Advertising

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

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

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

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

Sponsoring

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

Pricing of commercials

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

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

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

GRP prices are established for specific channels each month during a calendar year by Polsat Media Biuro Reklamy advertising sales team and GRP delivery is guaranteed. Advertising sold on a cost per GRP basis is scheduled by Polsat Media on the basis of available resources after the booking of sales based on rate-cards. We believe this sales model to be the most profitable way to sell our advertising breaks. In 2018, rate-card sales accounted for 70% of all advertising sales on our main channel, POLSAT.

Pricing of sponsoring

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

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

2.7.3. Sales

Sale of advertising and sponsorship

The key source of revenue for our broadcasting and television production segment is advertising and sponsorship revenue (approximately 75% in 2018). Almost all of our advertising revenue is collected through our advertising sales office Polsat Media Biuro Reklamy, which acts as our advertising agent (sales house). Polsat Media Biuro Reklamy is responsible for the sale of advertisements, sponsoring services and contracts connected therewith. Polsat Media Biuro Reklamy is responsible for the sale of advertising services (advertising time) for our channels.

In 2018, Polsat Media Biuro Reklamy carried out the sale of advertising time for our TV channels and 39 other broadcasters outside our Group. Polsat Media Biuro Reklamy often works with international media buying agencies that operate as intermediaries, negotiating purchase conditions and conducting campaigns for their customers. The sale of advertising time is carried out both through annual contracts entered into with media buying agencies, as well as individual direct customers. In 2018, our ten largest media agencies collectively accounted for approximately 68% of our net advertising and sponsorship revenue. Like the other nationwide broadcasters in Poland, we have a relatively stable group of advertisers that we work with.

Sale of broadcasting rights to Polsat Group's channels

The second largest source of our revenue in our broadcasting and television production segment after commercials and sponsoring, are agreements with cable TV networks and satellite TV operators to broadcast our channels, which comprised 20% of total revenue in this business segment in 2018. Our agreements with cable TV networks and satellite TV operators are generally non-exclusive licenses for the broadcasting of our channels. Under typical licenses, operators agree to pay us a monthly license fee, the amount of which generally depends on the number of customers to individual packages and set rates for the package or channel customers.

Distribution of content online

Sale of content via Internet, through our online television IPLA, is another source of revenue of TV Polsat Group. IPLA is one of the leading platforms on online video market in Poland both in terms of availability on different devices (computers/laptops, tablets, smartphones, Smart-TVs, set-top-boxes, game consoles) and in terms of content offered. Online access to our programming is based on three settlement models. The first is a transactional model, where a customer makes a fixed payment for the right to access a given video material. The second model consists in access to a package of video materials and channels in exchange for a periodic (e.g. monthly) fee. The third model is based on free access in exchange for viewing advertisements.

Sales team

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

Since 2009, Polsat Media Biuro Reklamy uses the PROVYS Sales system, a new sales and optimization software compatible with our fully-integrated ERP system, PROVYS TV Office, used by the Group to manage i.a. programming broadcasting. PROVYS Sales enables to simultaneously sell airtime on 75 channels serviced by Polsat Media Biuro Reklamy in 2019 with fully automated broadcasts of commercial airtime as well as campaign results verification based on daily uploaded NAM data.

In 2017, the Provys Sales system was integrated with the new platform Polsat Media AdFlow, which allows advertisers and media agencies for transfer and management of advertising materials. Thanks to this Polsat Media customers have direct contact and technical support of a team seconded to service the flow of broadcasted materials. This integration enables the automatization of a majority of processes related to billing and sending electronic invoices to users of the platform.

In addition, Polsat Media Biuro Reklamy advertising sales department conducts a wide range of market analyses based on external independent industry reports, including research conducted by Starcom and Zenith. Polsat Media Biuro Reklamy also uses data from TGI consumer research held by the Polish branch of Millward Brown, the Gemius/PBI which provides information on the behavior of Internet users in Poland and other dedicated tools provided by Gemius group (gemiusPrism, gemiusStream, AdOcean).

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

2.7.4. Technology and infrastructure

Broadcasting of TV channels

We broadcast TV channels through digital terrestrial television, cable TV and digital satellite platforms. Certain channels are available as online streams, although this type of distribution only begins to take real part in reaching viewers through a connected TV or a computer.

Terrestrial transmission

POLSAT, our main channel, and the channels Super Polsat, TV4 and TV6 are broadcast via a nation-wide network of digital terrestrial transmitters within the MUX-2 operated by Emitel Sp. z o.o. (unrelated entity) and on local multiplexes operated by Telewizja Dolnośląska Echo Sp. z o.o. and MUX-TVS. Polsat Group's new channels Eska TV and Polo TV are available on MUX-1, also operated by Emitel Sp. z o.o., while the channel Eska TV Extra is broadcast on local multiplexes MUX-L1 (Emitel/Telewizja Łużyce), MUX-L2 (TVT), MUX-L3 (NTL), MUX-L4 (Telewizja Dolnośląska Echo Sp. z o.o.) and additionally on a trail multiplex in Łódź. We have agreements with the above mentioned operators for transmission, up-linking, multiplexing and monitoring of our channels in the digital network. The remaining channels of Telewizja POLSAT are broadcast via digital satellite platforms, cable TV networks and IPTV distributors.

Satellite transmission

As a Group we have several lease agreements for transponders belonging to Eutelsat S.A. These are contribution agreements: two 8-year agreements, entered into in 2017, providing the right to use two slots on the Eutelsat 12 West A satellite and a 5-year agreement, entered into in 2017 for access to Eutelsat 33C. Through Cyfrowy Polsat, TV Polsat has access to seven other Eutelsat transponders. The new channels added to the Group's portfolio in December 2017 are available via satellite on the basis of relevant agreements with hitherto service providers.

Technology and infrastructure

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

- four TV studios (A, B, C and D), all of which are equipped with cutting-edge, new or recently modernized, HD equipment:
  - studio A is the biggest studio used by the Polsat News channel and the main news program – "*Wydarzenia" ("News")*,
  - studio B is the studio for sports programs,
  - studio C is a virtual studio designated for short-form TV shows,
  - studio D is used by the channel Polsat News 2,
- two production halls of 1,200m^2 and 1,600m^2 dedicated to the production of medium to large entertainment shows or TV game shows
- two halls of 500m^2 and 700m^2 for the production of journalistic, entertainment, sports and e-sports programs, including two production control rooms in HD technology with advanced multimedia elements of scene design and use of VR and AR technologies as well as virtual studio;
- five fully digital outside broadcast vans, including four HD vans and a new small HD van for the rapid production of short sports programs,
- a two-camera Slow Motion HD van for replays during sports events,
- 13 digital satellite news trucks ensuring on-site signal feed in HD standard,
- a multi-channel automatic TV broadcasting system for broadcasting our channels (broadcasting of the newly acquired channels is executed by an external entity),
- a multiplex system ensuring the effective transmission of the signal to viewers,
- a digital switching system for TV signals in the hub,
- IT systems and networks designed to handle technological tasks in the fields of production of news and sports programs, auto-promotional materials and postproduction,
- digital program archive with a modern MAM (Media Asset Management) system for content management,
- HD editing systems connected via IT and SDI networks,
- more than 80 HD cameras for reporters, with recording on SxS memory cards, together with the necessary equipment and accessories,
- technological systems for signal exchange between head office and regional offices, and
- a twin-engine EC-135 helicopter with a gyro-stabilized camera, used for realization of programs and offering the possibility transmitting HD signal up to 100 km.

2.8. Other aspects of our business

Frequency reservations for the purpose of provision of telecommunication services

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

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

Based on a reservation decision issued by the President of UKE, Sferia, Aero2's subsidiary, was entitled to use frequencies in the 800 MHz band until December 31, 2018.

Based on a reservation decision issued by the President of UKE, Netia, Cyfrowy Polsat's subsidiary, is entitled to use frequencies in the 3400-3800 MHz band until December 31, 2020.

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

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

Broadcasting licenses

In our broadcasting and television production segment we currently dispose of 37 broadcasting licenses, including 6 universal broadcasting licenses and 31 broadcasting licenses for thematic TV channels. 3 broadcasting licenses are for terrestrial broadcasting DTT only (POLSAT channel and TV4), 6 broadcasting licenses are for terrestrial broadcasting DTT and satellite broadcasting (two licenses for Super Polsat, two licenses for TV6, and one license each for Polo TV and Eska TV) and 28 broadcasting licenses are for satellite broadcasting only. Our current broadcasting licenses were granted by the National Broadcasting Council (KRRiT).

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

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

Channel	License holder	Type of license	Licensing body	Date of expiration
POLSAT	TV Polsat	Terrestrial broadcasting license (digital)	KRRiT	March 2, 2024
Super Polsat	TV Polsat	Satellite broadcasting license /Terrestrial broadcasting license (digital)	KRRiT	August 29, 2030
Polsat 2	TV Polsat	Satellite broadcasting license	KRRiT	January 18, 2024
Polsat Sport	TV Polsat	Satellite broadcasting license	KRRiT	January 18, 2024
Polsat Cafe	TV Polsat	Satellite broadcasting license	KRRiT	July 28, 2024
Polsat Sport Extra	TV Polsat	Satellite broadcasting license	KRRiT	October 26, 2025
Polsat Play	TV Polsat	Satellite broadcasting license	KRRiT	November 15, 2025
Polsat News	TV Polsat	Satellite broadcasting license	KRRiT	May 18, 2028

Channel	License holder	Type of license	Licensing body	Date of expiration
Polsat Film	TV Polsat	Satellite broadcasting license	KRRiT	June 4, 2029
Polsat News 2(1)	TV Polsat.	Satellite broadcasting license	KRRiT	October 5, 2024
TV4	TV Polsat	Digital terrestrial broadcasting license	KRRiT	February 2, 2029
TV6	TV Polsat	Satellite broadcasting license/Digital terrestrial broadcasting license	KRRiT	July 22, 2030
Polsat Romans	TV Polsat	Satellite broadcasting license	KRRiT	October 15, 2023
Polsat Sport Fight	TV Polsat	Satellite broadcasting license	KRRiT	October 15, 2023
Disco Polo Music	TV Polsat	Satellite broadcasting license	KRRiT	April 24, 2024
Polsat Music	TV Polsat	Satellite broadcasting license	KRRiT	April 24, 2024
Polsat Film 2(2)	TV Polsat	Satellite broadcasting license	KRRiT	April 24, 2024
Polsat 1 (3)	TV Polsat	Satellite broadcasting license	KRRiT	May 11, 2024
Polsat Sport Premium 1	TV Polsat	Satellite broadcasting license	KRRiT	March 6, 2026
Polsat Doku(3)	TV Polsat	Satellite broadcasting license	KRRiT	March 6, 2026
Polsat Sport Premium 2	TV Polsat	Satellite broadcasting license	KRRiT	March 6, 2026
Polsat Reality(2)	TV Polsat	Satellite broadcasting license	KRRiT	March 7, 2026
Polsat X(2)	TV Polsat	Satellite broadcasting license	KRRiT	March 7, 2026
Polsat Sport News	TV Polsat	Satellite broadcasting license	KRRiT	December 20, 2026
Polo TV	Lemon Records	Satellite broadcasting license/Digital terrestrial broadcasting license	KRRiT	February 23, 2021
VOX Music TV	Lemon Records	Satellite broadcasting license	KRRiT	April 29, 2024
Eska TV	Eska TV	Satellite broadcasting license/Digital terrestrial broadcasting license	KRRiT	May 26, 2029
Eska TV EXTRA	Eska TV	Satellite broadcasting license	KRRiT	August 1, 2026
Eska Rock TV	Eska TV	Satellite broadcasting license	KRRiT	March 16, 2026
Polsat Games	TV Polsat	Satellite broadcasting license	KRRiT	September 16, 2028
Polsat Rodzina	TV Polsat	Satellite broadcasting license	KRRiT	September 16, 2028
Polsat Smart Dom(2)	TV Polsat	Satellite broadcasting license	KRRiT	September 16, 2028
Superstacja	Superstacja Sp. z o.o	Satellite broadcasting license	KRRiT	August 1, 2026

(1) Until June 2014 the channel operated under the name "Polsat Biznes".
(2) The channel has not begun broadcasting yet.
(3) The channel began broadcasting on February 10, 2017.

Restrictions on programming and advertising

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

- minimum daily TV program broadcasting time;
- minimum percentage share of individual categories of programs in the monthly and daily broadcasting time;
- minimum requirements for the broadcast of programming originally produced in the Polish language and programming of European origin and the requirement to ensure that at least 10% of the broadcaster's programming is obtained from independent producers;
- the maximum percentage share of the daily and weekly broadcasting time of shows and other transmissions produced exclusively by the broadcaster or ordered from independent producers; and

- the obligations to ensure that minor viewers do not have access to transmissions containing acts of violence and to encrypt programs broadcast at specified times or to ensure that previews of transmissions containing erotic content will not be broadcast during certain hours.

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

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

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

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

Trademarks

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

Research and development - new services and implementations

In 2017, we continued our efforts in the field of implementation of state-of-the-art technologies and latest technical solutions which offer superior quality and enhanced functionality of services to Polsat Group customers and enable us to expand our offer by adding new services and products.

In January 2018 Cyfrowy Polsat and Plus introduced to sales the new Home Internet 300 Set. It is the latest generation solution and the next step in the development of this unique product which has been successfully offered by Cyfrowy Polsat Group on the Polish market since 2014. The solution offers high speed LTE Internet access in the locations where other solutions do not work well. The new Home Internet 300 Set supports LTE Advanced data transmission technology and enables data to be downloaded at the rates of up to 300 mbps. he latest version of the ODU/IDU-300 Home Internet Set introduces numerous improvements compared to its predecessor, the ODU/IDU-200:

- The ODU-300 outdoor modem is a category 6 LTE modem which supports band aggregation, thus enabling a user to enjoy the latest LTE Advanced technology which is faster and more effective, and which offers data speeds of up to 300 Mbps;
- The device supports more frequency bands: LTE FDD 800, 900, 1800, 2600 and LTE TDD 2600 MHz;
- It has two antenna sockets, thanks to which an additional outdoor antenna can be connected to boost the signal;
- The newer Wi-Fi ac (IDU-300) router enables faster data transmission within the local network.

In February 2019 the Home Internet 300 Set with the LTE Plus Advanced Internet was recognized by customers the "Mobile Internet of the year 2018" and, simultaneously, awarded the Golden Bell prize in the Mobility Trends voting organized by the publisher of "Mobility" specialized magazine since 2010.

In May 2018 Plus network introduced to its offering Poland's first mobile library of illustrated audiobooks for children. Loloki.pl is a website and an application with tales and educational books for kids. It provides unlimited access to 239 titles. These are completely new publications, both the tales and the educational content, which are not available in any other place. Each book is made as an illustrated audiobook with text. A child can in parallel listen to the lector's voice and audio, watch illustrations in various styles and read text displayed in a readable font

In December 2018 Polkomtel introduced in the municipal water and sewer company (MPWiK) in Wrocław an innovative geolocation service with regard to calls made to emergency numbers. It is the first service of such type in Poland that works in real time. The service is addresses to entities and public services that operate emergency numbers (e.g., water supply companies, power plants, heating companies, and gas and oil plants). The new service allows ongoing monitoring and location of sites from which the highest number of phone calls is made at a given time to report malfunctioning. Thanks to the permanently anonymized, aggregated information on the approximate geolocation of calls and attempts of calls, provided by Plus in real time, the company servicing the emergency number can react immediately, especially in case of a large malfunction of a water supply network. The service is a solution to the lack of accessibility to emergency numbers due to their overloads.

In December 2018 Cyfrowy Polsat Group started to implement, as the first operator in Poland, the TDD technology which operates in the 2600 MHz frequency band. This means that the company offers Internet access to its customers while using a total of 95 MHz of radio spectrum in various LTE carrier frequencies. The implementation of the TDD technology is primarily intended to increase network capacity in specific locations as well as to offer even better Internet access to customers. TDD (Time Division Duplex) and FDD (Frequency Division Duplex) are the two different methods of implementation of LTE data transmission. The difference consists in the way the spectrum is used for transmitting data to and from a customer: the FDD technology uses two, permanently separated, parts of the bandwidth to transmit data in both directions simultaneously, while the TDD technology uses one, common chunk of the bandwidth for alternating, in time, the transmission of the data in the uplink and downlink directions. Also, slightly different parts of the frequency bands are used for the needs of the TDD and FDD technologies, which has enabled Cyfrowy Polsat Group to offer access to the Internet based on the 60 MHz of spectrum that it holds in the 2600 MHz band (while using the 20 MHz FDD carrier and the 2x20 MHz TDD carriers). Similarly as in the case of other LTE carrier frequencies, the new resources can be also aggregated with other FDD carriers. In parallel, the implementation of the TDD technology in LTE Plus Advanced network requires relevant hardware that supports the technology on the customer's end. The ODU-IDU 300 set introduced to sales in January 2018 supports the LTE TDD technology.

In the process of further operational integration of Polsat Group, and in connection with the strategy of development of bundled services, Polsat Group is currently implementing a new integrated sales-support and customer care system as well as a convergent billing system for products and services. The project is being implemented in cooperation with Huawei. The omnichannel strategy is what underlies the new approach – it is a multichannel approach to sales, customer retention and customer service. The new system will offer even better, simpler and more effective management of sales, as well as the ability to flexibly respond to changing market dynamics – launching of new products and services to the market will become faster and easier.

Furthermore, during 2018 new employee-targeted programs, aimed at building the innovative culture and promoting new methodologies of work related to creation of innovative solutions, were launched in Cyfrowy Polsat Group. These programs are aimed at engaging employees in the implementation of innovations and educating them in the area of new technologies and their impact onto the Group's business.

In turn, in January 2019 Polkomtel, in cooperation with Vodafone Group, offered a completely new service "Internet in the Car". The service allows, upon purchasing certain Internet packages, to surf Internet in a car using a vehicle's Wi-Fi. The "Internet in the Car" service is currently available for Mercedes-Benz cars of class A, C, CLS, E, G, S with NTG 5.5 telemetric system or newer and for Ford cars equipped with a FordPass Connect router: Ford Focus, Ford Fiesta, Ford EcoSport, Ford Edge 2019, Ford Transit Connect MCA, Ford Tourneo Connect MCA. The "Internet in the Car" service is not attributed to a car but linked with a customer's account. Thus a customer may continue to use the previously purchased data packages after changing a car within the same car brand. The service "Internet in the Car" does not involve roaming fees in majority of European countries.

IT systems

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

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

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

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

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

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

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

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

Simplification and modernization of software development processes and their reorientation towards specific business goals has played an important part in improving the efficiency of our IT systems in recent years.

As part of the operational integration of Polkomtel and Cyfrowy Polsat and relying on the Group's existing IT solutions, Polsat Group is executing a project aimed at developing a shared system environment to develop joint multi-product offers comprising the services of both Cyfrowy Polsat and Polkomtel. These efforts will also enable us to achieve further cost optimization and leverage significant synergies in both know-how and resources. The implementation of a new integrated system supporting sales and customer service, as well as a convergent billing system for products and services, are the essential elements of this undertaking.

The implemented system will enable improved, simpler and more efficient management of sales as well as the ability to respond flexibly to market dynamics – launching of new products and services will become easier and faster. A central catalogue of the Group's services and products will be developed with one, consistent and effective sales solution which will be common for all channels of contact with the customer. IT infrastructure will be simplified and will become more flexible, which will enable reduction of the time and the cost of new business implementations.

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

Real estate property

Cyfrowy Polsat owns the majority of the real estate property on which our DTH satellite TV infrastructure, studios, some offices and warehousing facilities are located. All of our real estate property is located in Poland. We believe that all of our real estate property is well maintained and in good condition. As at December 31, 2018, there was a mortgage registered on the real estate property owned by us, established in respect to the Combined SFA. Some insignificant parts of Cyfrowy Polsat's real estate property are encumbered with typical easement rights for electricity cables and other media. Part of our real estate property is being leased from third parties.

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

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

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

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

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

Insurance agreements

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

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

In 2018, Polsat Group was party to the insurance agreements described below.

In the scope of property insurance general agreements were concluded for the years 2017-2019 with the possibility of extending the term of the contract for another year with STU Hestia S.A. in co-insurance with TUiR Warta S.A. and TU Generali 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 2017-2019 with the possibility of extending the term of the contract for another year with TUiR Warta S.A. in co-insurance with STU Ergo Hestia S.A. regarding third-party liability insurance, including professional liability insurance. Furthermore, an agreement regarding bookkeeping liability insurance was concluded with PZU S.A. The following insurers are engaged in the liability insurance policy of directors and management board members of companies belonging to Polsat Group: TUiR Allianz Polska S.A., Colonnade Insurance S.A. Branch in Poland, Chubb Branch in Poland, TUiR Warta S.A., Sopockie TU Ergo Hestia S.A. and PZU S.A.

In 2018, our subsidiary Polkomtel continued a general fleet motor insurance agreement with STU Ergo Hestia S.A. (collision, comprehensive and third party insurance, theft insurance, accident insurance and assistance), which extends to the entire motor fleet of Polsat Group.

In 2018, the international business travel health insurance with Colonnade Insurance S.A. Branch in Poland and personal injury insurance with Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. were continued.

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

Business Contingency Plan

Within the framework of the Business Contingency Plan of Polkomtel and Cyfrowy Polsat kept by us, we examine threats and vulnerabilities in critical processes and services, which we define periodically through the Business Impact Analysis. We constantly perform risks analysis aimed at identifying main threats and defining recommendations with respect to groups of resources, such as locations, human resources, external and internal service providers, office infrastructure, data stored in both an electronic and paper form, the technical and IT infrastructure. The impact from the part of threats on the execution of critical processes and business services is minimized thanks to implementing recommendations for these threats.

Charity and sponsorship activities

Corporate Social Responsibility is inherently connected with our operations on the market, the achievement of our business goals and building of the value of our companies. Although we have not implemented a formal policy with respect to charity and sponsorship activities, both the Company and companies of the Group are engaged in this type of actions. In particular, we are involved life-saving, healthcare and safety-promoting initiatives, as well as in providing support for those in need or those at risk of social or economic exclusion. In this respect we have been cooperating for many years with public benefit institutions, such as Polsat Foundation, Przyjaciółka Foundation as well as with emergency services (TOPR – Tatra Volunteer Search and Rescue, WOPR- Volunteer Water Rescue Service and GOPR - Mountain Volunteer Rescue Service). Apart from charity activities we are also engaged in a series of sponsoring activities.

Details regarding the activities in the scope of charity and sponsorship that we are engaged in are presented in the "Report of Cyfrowy Polsat S.A. Capital Group and Cyfrowy Polsat S.A. on non-financial information for the years 2016-2017," which is available on our website at http://www.grupapolsat.pl/en/investor-relations in the tab *Results centre/Non-financial reports.*

3. Significant events and agreements

3.1. Corporate events

Changes in the shareholding structure

On January 30 and 31, 2018, the Company received notifications issued pursuant to Article 69 of the Act of July 29, 2005 on public offering and the conditions of introducing financial instruments to an organized system of trading and on public companies, containing information on changes in the shares of votes at the General Meeting of the Company held its significant shareholders.

As a result of the disposal of 16,577,107 ordinary bearer shares of the Company by Karswell on January 26, 2018 and the acquisition by Reddev from Sensor of 21,041,375 registered, privileged with respect to votes shares of Cyfrowy Polsat on January 29, 2018, shares of votes at the General Meeting of the Company held directly by the above mentioned entities have changed, as have the shares of votes at the General Meeting of the Company held indirectly by entities controlling these companies. In particular, as a result of the concluded transactions the indirect engagement of Mr. Zygmunt Solorz increased to 57.34% of the share capital of the Company, representing 65.97% of the total number of votes at the General Meeting of the Company. Prior to the transactions, Mr. Zygmunt Solorz held indirectly 56.64% of the share capital of the Company, representing 62.85% of the total number of votes at the General Meeting of the Company.

Details regarding the changes in the structure of ownership of significant numbers of shares of the Company are presented in the Company's current report no. 7/2018 dated January 31, 2018.

Furthermore, on April 27, 2018 the Company received notifications issued pursuant to Article 69 of the Act of July 29, 2005 on public offering and the conditions of introducing financial instruments to an organized system of trading and on public companies from Karswell, Reddev and TiVi Foundation.

As a result of the disposal by Karswell and the acquisition by Reddev of 123,411,161 ordinary bearer shares of Cyfrowy Polsat on April 26, 2018, the shares held directly by these companies in the total number of votes at the General Meeting of the Company, as well as the share held indirectly by TiVi Foundation, an entity controlling Reddev, changed. Following the concluded transaction, Reddev's direct and TiVI Foundation indirect ownership increased to 46.70% of the share capital of the Company, representing 57.66% of the total number of votes at the General Meeting of the Company, while Karswell's ownership decreased to 1.56% of the share capital of the Company, representing 1.22% of the total number of votes at the General Meeting of the Company.

Details regarding the above mentioned changes in the structure of ownership of significant numbers of shares of the Company are presented in item 1.2. of this Report – *Characteristics of Polsat Group – Shareholders with qualifying holdings of shares of the Company - Changes in the structure of ownership of qualified holdings of shares of the Company* as well as in the Company's current reports no. 13/2018 dated April 27, 2018 and no. 14/2018 dated April 27, 2018.

Decision of the Head of the Małopolska Tax Office in Cracow

On February 15, 2018, the Head of the Małopolska Tax Office in Cracow issued a decision assessing the tax liability from uncollected withholding corporate income tax in 2012 in the amount of PLN 24.2 million increased by interest on tax arrears. The Company informed of the decision of the tax office issued at the first instance in its current report No.11/2018 of March 5, 2018.

In the issued decision the tax authority contested the Company's right to an exemption from the obligation to withhold income tax on certain interest payments in 2012. The Company appealed against the decision of the tax authority on the basis of acquired opinions issued by renowned entities. The Company has not created any provisions encumbering its financial results.

On July 10, 2018 the tax office upheld the previous decision dated February 15, 2018. The Company informed of the decision of the tax authority issued at the second instance in its current report No.27/2018 of July 16, 2018.The Company did not agree with the decision of the tax office in question and appealed against it to the Voivodship Administrative Court in Cracow. In the ruling of February 21, 2019 the Voivodship Administrative Court in Cracow dismissed the appeal. The Company does not agree with the decision of the Voivodship Administrative Court and intends to appeal against it, following the receipt of the written justification, to the Supreme Administrative Court in Warsaw.

Moreover, the tax authority was conducting control activities in the aforesaid matter in relation to 2013 and 2014. Custom and tax control activities have not been transformed into tax proceedings. However, if an unfavorable and, in the opinion of the Company, incorrect interpretation of tax regulations relating to disputed matter is upheld, the tax authority may issue a decision assessing additional tax liabilities in that respect for 2013 and 2014.

At present the Company does not intend to create any provisions encumbering its financial results.

Conclusion of an amendment to the Combined SFA

On March 2, 2018, the Company, acting as the Obligors' Agent, and UniCredit Bank AG, London Branch, acting as the Finance Parties' Agent, executed the Second Amendment and Restatement Deed to the Facilities Agreement of September 21, 2015, amended by the Amendment, Restatement and Consolidation Deed of September 21, 2015.

The Second Amendment and Restatement Deed introduced, among others, amendments relating to the termination date of the Term Facility Loan and the Revolving Facility Loan, by changing to September 30, 2022 (originally falling on September 21, 2020) and the level of the ratio of consolidated net debt to consolidated EBITDA, upon achieving of which the Company may request the release of security established in connection with the Facilities Agreement (excluding the release of guarantees granted pursuant to the Facilities Agreement) or after exceeding of which the Company shall re-establish the released security, by revising it to 3.00:1 (originally 1.75:1). Details regarding the Facilities Agreement and changes introduced by the Second Amendment and Restatement Deed are presented in item 4.3.5. of this Report - *Operating and financial review of Polsat Group – Review of our financial situation – Liquidity and capital resources – Material financing agreements executed by the Group*.

Decision of the Head of the Mazovian Tax Office in Warsaw

On April 30, 2018 the Director of the Revenue Administration Regional Office in Warsaw issued a decision upholding the appealed decision of the Head of the Mazovian Tax Office in Warsaw of May 25, 2017 determining the value of a tax obligation in relation to corporate income tax for the year 2011 at a higher level than the declared value, by PLN 40.6 million plus accrued penalty. The Company informed of the decision issued by the tax office in its current report no. 12/2017 dated May 29, 2017 and in its financial statements for the year 2017.

The Company does not agree with the decision of the Director of the Revenue Administration Regional Office in Warsaw in question and appealed against it to the Voivodship Administrative Court.

At present the Company does not intend to create any provisions encumbering its financial results.

Distribution of profit for 2017

On June 28, 2018 the Annual General Meeting of Cyfrowy Polsat resolved to allocate the entire net profit earned by the Company in the financial year 2017, amounting to PLN 606.0 million, to the reserve capital. The resolution of the Annual General Meeting is in line with the previous recommendation of the Company's Management Board of May 29, 2018, which received a positive opinion of the Supervisory Board on the same date.

Taking into consideration the strategic investments made by the Company and some of its subsidiaries in 2017 and 2018, which ensure the continuation of the development of the Capital Group of the Company in the long term in accordance with its key strategic goal to sustainably grow the Company's value for its shareholders as well as bearing in mind a relatively high level of the Group's indebtedness, the Management Board of the Company decided not to recommend a dividend payment from the profit for 2017. In the opinion of the Management Board, this will allow to reduce the indebtedness level of the Group, in line with the adopted strategic assumptions, and with the goal of the capital resources management policy in particular, which is to reduce in a possibly short time the total net debt ratio for the Group (net debt to EBITDA) below 1.75x. In parallel, the Management Board of the Company confirmed the dividend policy adopted on November 8, 2016.

Appointment of members of the Supervisory Board

On June 28, 2018 the Annual General Meeting of Cyfrowy Polsat resolved that the Supervisory Board of the new term will consist of seven members and appointed to the Company's Supervisory Board for a subsequent three-year term of office Mr. Józef Birka, Mr. Robert Gwiazdowski, Mr. Marek Kapuściński, Mr. Aleksander Myszka, Mr. Leszek Reksa, Mr. Tomasz Szeląg and Mr. Piotr Żak.

During its meeting held on June 28, 2018, the Supervisory Board elected Mr. Marek Kapuściński as the Chairman of the Supervisory Board and appointed its members to the Audit Committee and the Remuneration Committee. The Audit Committee comprises: Mr. Robert Gwiazdowski, Chairman of the Audit Committee, Mr. Leszek Reksa and Mr. Tomasz Szeląg. The Remuneration Committee comprises: Mr. Tomasz Szeląg, Chairman of the Remuneration Committee, and Mr. Marek Kapuściński.

3.2. Business related events

Acquisition of a stake in Netia S.A.

On November 29, 2017 the Management Board of the Company took a decision on effecting the acquisition transaction of a controlling block of shares in Netia accounting for not more than 66% of the total number of votes at the General Meeting of Netia for the total amount of PLN 1.33 billion. The transaction was split into two stages.

The first stage, executed on December 4 and 5, 2017, consisted in the Company purchasing in aggregate a block of shares representing 32.99% of the total number of votes at the Netia General Shareholders Meeting.

In the second stage, initiated on December 5, 2017, the Company announced a tender offer for the sale of Netia shares (the "Tender Offer"). The Tender Offer price for one share of Netia was PLN 5.77. The subscription period began on January 30, 2018 and ended on May 14, 2018. As a result of settlement of the Tender Offer, on May 17, 2018 the Company and Karswell Limited jointly acquired, based on the agreement described below, 110,702,444 shares in Netia constituting in total 32.99% of Netia's share capital and representing 32.99% of the total number votes at its general meeting. In particular, the Company acquired 34,662,045 Netia shares constituting in total 10.33% of Netia's share capital and representing 10.33% of the total number votes at its general meeting while Karswell Limited acquired 76,040,399 Netia shares constituting in total 22.66% of Netia's share capital and representing 22.66% of the total number votes at its general meeting (all percentages of shares in Netia's share capital and total number of votes at Netia's general meeting mentioned above are as at March 20, 2019, i.e., including the effect of registered changes in Netia's share capital).

More information regarding the acquisition of a controlling stake in Netia is presented in item 4.3. of the Annual Report of Cyfrowy Polsat S.A. Capital Group for the financial year ended December 31, 2017 published on March 22, 2018 and in the Company's current reports No. 16/2018 of May 11, 2018, No. 17/2018 of May 14, 2018 and No. 18/2018 of May 22, 2018.

Agreement with Karswell Limited

Provisions of the Combined SFA, concluded on September 15, 2015, permitted companies from Polsat Group to allocate a strictly limited amount of funds to acquisitions. Due to those restrictions, which were binding as at the date of the announcement of the Tender Offer, under the Tender Offer Netia shares were acquired by the Company and its affiliate – Karswell Limited.

On December 5, 2017 the Company and Karswell concluded the Agreement on the Joint Acquisition of Shares in a Tender Offer and Preliminary Share Purchase Agreement (the "Acquirers' Agreement"). Immediately after the conditions precedent for the Acquirers' Agreement have been satisfied, i.e. specifically immediately after amending the Combined SFA or its replacement with other financing agreements in a manner making it possible for the Company to acquire all shares under the Tender Offer, Karswell committed to sell to the Company all the shares acquired for the price paid by Karswell for shares under the Tender Offer. In addition, Karswell was to receive an additional premium for the period between the settlement date on which Karswell acquired the last share under the Tender Offer and the date on which the shares acquired by Karswell under the Tender Offer was sold to the Company (the "Interim Period") in an amount equivalent to the average weighted cost of financing of the Company's Capital Group provided by financial institutions, prorated to the specific portion of the price paid by Karswell for shares under the Tender Offer for each day of the Interim Period. The premium is intended to compensate the burden related to committing Karswell's capital to the Tender Offer.

Additionally, during the Interim Period Karswell shall exercise the voting rights attached to the Netia shares acquired in the Tender Offer as instructed by the Company. Other significant terms and conditions of the Acquirers' Agreement are summarized in the Tender Offer document.

On July 2, 2018 the Company and Karswell executed an amendment to the Acquirers' Agreement amending it in such a way that the obligation of the Company to effect one-off acquisition of all Netia shares acquired by Karswell under the Tender Offer was replaced by the obligation of the Company to acquire said shares in subsequent instalments. On July 3, 2018 the

Company repurchased from Karswell 17,331,023 Netia shares which were acquired by Karswell under the Tender Offer. On October 2, 2018, in a subsequent transaction the Company repurchased from Karswell further 58,709,376 Netia shares. As a result of the above mentioned transactions, the total number of Netia shares acquired jointly by Cyfrowy Polsat and Karswell under the Tender Offer remained unchanged.

As at March 20, 2019, Cyfrowy Polsat holds directly 221,404,885 Netia shares constituting in total 65.98% of the share capital of Netia and entitling to 65.98% of the total number of votes at Netia's general meeting while Karswell holds directly null Netia shares.

Details regarding the amendment to the Acquirers' Agreement and the acquisition of Netia shares by the Company from Karswell are presented in the Company's current reports No. 26/2018 of July 2, 2018 and No. 29/2018 of September 26, 2018.

Acquisition of sports rights by Telewizja Polsat

In January 2018, Telewizja Polsat prolonged an agreement with the International Volleyball Federation FIVB and, as a result will broadcast the most important events in world and national team volleyball during the next seven years. The package of acquired rights includes the Volleyball Nations League (replacing the men's World League and women's Grand Prix) – 260 matches in total during the season and qualifying tournaments to the Volleyball Nations League, Challenger Cup/Match, qualifying tournaments to the 2020 and 2024 Olympic Games, men's and women's 2022 World Championship, and 2019 and 2023 World Cup. In addition, in January 2018 a three year contract was concluded to broadcast on Telewizja Polsat's antennas the events of UFC, a sports organization devoted to martial arts and the largest provider of pay-per-view services.

Taking control over Eleven Sports Network

In May 2018 Telewizja Polsat entered into an agreement with Eleven Sports Network LTD on the acquisition of 3,340 shares in Eleven Sports Network Sp. z o.o. with its registered seat in Warsaw representing 50% + one share in the share capital of Eleven Sports Network.

Eleven Sports Network produces and distributes sports content within the territory of Poland and owns attractive sports rights which are sold as program packages to pay TV operators, including the Company, active on the Polish market. The premium sports content offered by Eleven Sports Network, including Spanish LaLiga Santander, German Bundesliga, Italian Serie A TIM, English The Emirates FA Cup, F1™ and Polish and foreign speedway, are delivered to around two million subscribers and carried by more than 100 operators and online. The acquisition of the shares constitutes a long-term strategic investment by Polsat Group. In the medium term, gaining access to the portfolio of sports rights held by Eleven Sports Network will allow to strengthen the position of the Group in the increasingly fragmented television market, while concurrently securing access to Eleven Sports Network's sports content for the Company's and other Group companies' customers within their Group.

The total price for the acquired shares was set at EUR 38 million. The Share Price is payable in two tranches. The first tranche for the shares of EUR 18 million was paid on May 25, 2018. The second tranche, adjusted for the net debt of Eleven Sports Network, was paid on July 31, 2018.

If the value of Eleven Sports Network based on the results for 2020 exceeds the amount of EUR 80 million, Telewizja Polsat will be required to pay the seller an additional earn-out payment equal to 25% of the surplus of Eleven Sports Network's value over the amount of EUR 80 million (with Eleven Sports Network's value calculated as 9x adjusted EBITDA based on the financial statements of ESN for the financial year ending June 30, 2020).

Details regarding the acquisition of shares in Eleven Sports Network by Polsat Group are presented in the Company's current report No. 20/2018 of May 24, 2018.

Development of the smartDOM program

In February 2018, we launched a refreshed edition of our strategic bundled offer, the smartDOM program, which comprises a portfolio of products and services for each home. Apart from our basic, core products and services: telephony from Plus, broadband LTE Plus and Plus Advances and Cyfrowy Polsat satellite television, smartDOM customers can also buy electric energy and gas, banking, insurance and home security services as well as telecommunication devices.

One of the main, invariable principles of the smartDOM program is the simple relation – the more products and services a customer has, the more he can save thanks to the obtained discounts. However, an important modification we introduced consisted in eliminating the entry threshold. Currently, every customer can join the smartDOM program irrespectively of the value of his or her monthly subscription fee. The discount system was also changed – for every additional service from the pay TV (including DTT), mobile or wireless home telephony and broadband Internet offer the customer receives a discount of PLN 10 each month.

In February 2018, we also decided to modify the smartFIRMA program, which currently functions according to similar principles as the smartDOM program.

While consistently pursuing our strategy of developing integrated services for home, in June 2018 we extended the smartDOM discount system by new products – this time by services offered by Netia: fast, fixed-line Internet access, mainly in fiber optic technologies, as well as TV services which are based on it, and fixed-line voice services. Netia services are currently available in over 470 points of sale of Cyfrowy Polsat and Plus. Moreover, at the end of 2018 we launched fixed-line Internet offered under the "Plus" brand which is provided based on Netia's infrastructure.

Introduction of new TV offerings including the Polsat Sport Premium package

In July 2018 we offered our customers a new sports package "Polsat Sport Premium", thanks to which starting from the new 2018/2019 season club football fans are able to enjoy, for the first time in Poland, live coverage of all the UEFA Champions League matches as well as watch the UEFA Europa League games. The package consists of two Super HD channels, i.e. Polsat Sport Premium 1 and Polsat Sport Premium 2, as well as 4 premium PPV services. Each match day means approximately 8 hours of daily live broadcasts (studio commentaries and matches) and a rich offer of accompanying programs: commentaries before and after the matches, in-depth analyses, reporting, interviews, experienced experts and commentators, special guests. The programs are broadcasted from a new studio designed specifically for the UEFA Champions League and the UEFA Europa League tournaments, which is equipped with a 4x4K video wall and visual realization relying on state-of-the-art technologies – augmented reality (AR) and 3D models. It is one of the most technologically advanced objects in Europe of this type and definitely the most modern studio in Poland.

Polsat Group has acquired exclusive rights to broadcast over 1000 matches of UEFA Champions League and UEFA Europa League for three consecutive seasons (from 2018 to 2021) in all distribution channels, including TV, the Internet and mobile devices.

The football matches are available to Cyfrowy Polsat subscribers, Plus mobile network customers as well as to the users of IPLA web TV. For viewers of Cyfrowy Polsat, the new Polsat Sport Premium package is available in bundles with basic packages at monthly prices ranging from PLN 50 to PLN 120 for a two-year contract. The prices of bundles with IPLA Polsat Sport Premium package in Plus mobile network ranges from PLN 70 to PLN 90 per month for a two-year contract. In case of IPLA web service, the package is available, also for external customers, in two variants: as a whole season subscription at PLN 360 and as a 7-day access at PLN 40.

The Polsat Sport Premium channels are broadcast in Poland by part of competing paid TV platforms, including the operator of nc+ and UPC cable TV or Netia, a company from Polsat Group. In this case, Polsat Group's revenue comprises wholesales fees borne by the above mentioned operators to gain a possibility to broadcast the Polsat Sport Premium channels.

Transfer of the organized part of enterprise of Polkomtel to Polkomtel Infrastruktura Sp. z o.o.

On August 31, 2018 the National Court Register ("KRS") entered into records the transfer of the organized part of enterprise of Polkomtel Sp. z o.o., comprising, among others, the active and passive telecommunications infrastructure, to Polkomtel Infrastruktura Sp. z o.o. (formerly PL 2014 Sp. z o.o.), a sole subsidiary from Cyfrowy Polsat Capital Group. In the same company there are also placed the infrastructure areas which were transferred previously from Aero 2 Sp. z o.o. and Sferia S.A. companies.

The above mentioned move is associated with a dynamic growth of the Group's telecommunications infrastructure, resulting in creation of a dedicated area of competence of telecommunications infrastructure, which is responsible for: (i) development, construction and maintenance of radio and transmission telecommunications infrastructure, (ii) leasing of telecommunications infrastructure, including broadcasting radio signal by the mobile cellular network and providing other telecommunications services (e.g., point-to-point transmission) and (iii) full servicing of the radio and transmission part of the telecommunications network which is necessary to execute the above mentioned tasks.

The main goal of this step is to establish an own operator of infrastructure, concentrate the ownership of network assets in one legal entity, simplify and arrange the structure of entities of the Group, join the identical resources as well as optimize costs of construction and maintenance of the network infrastructure.

Introduction of new models of set-top boxes

In September 2018 we expanded Cyfrowy Polsat's equipment offering with new satellite TV set-top boxes. EVOBOX LITE and EVOBOX HD represent another high quality equipment of HD class which combines modern design with simple, intuitive operation and easy access to extensive VOD content of Cyfrowy Polsat GO and HBO GO multimedia services. The set-top boxes have a built-in Wi-Fi, which allows for a wireless Internet connection and gives a possibility to use online services and watch thousands of films, series and programs of Cyfrowy Polsat GO and HBO GO always when it suits a viewer, also before their airing on TV. The equipment is produced in Polsat Group's factory.

We are constantly working on expanding our equipment offering. We would like to offer our customers a possibility to choose convenient, adjusted to their needs technology solutions which allow to watch TV in the highest quality thanks to using the modern equipment, providing also access to rich premium content of VOD services. A combination of high quality set-top boxes with a wide variety of multimedia services offering freedom, flexibility and convenience to the users when accessing their favorite content is in our opinion an important element of building a competitive advantage on the pay TV market.

Launch of two new TV thematic channels

In October 2018 we launched two new thematic channels: Polsat Games and Polsat Rodzina ("Polsat Family").

Polsat Games is a proposal addressed not only to the fans of computer games or e-sport but also to those whose interests include latest technologies and animation. The station's flagship productions are its own e-sport games. Apart from that, the programing includes game and hardware reviews, talk shows featuring game creators, entertainment programs featuring Internet stars, anime and shows addressed to younger viewers which will propose using games in the learning process. Polsat Games is a 360° project, which means that all live broadcasts will be also available on Twitch and own programs, after their premiere on TV, will be available in the Internet via IPLA and YouTube.

Polsat Rodzina ("Polsat Family") is a TV station with a family-oriented profile. The station's offering includes programs providing guidance and advice on various matters, educational cartoons for kids as well as programs covering Christian topics. A broad range of programs is addressed to three generations – from children, through parents to seniors. The morning advice shows will touch upon such issues as healthy lifestyle, psychology and raising kids. Certain legal and economy advice will also be given. For younger viewers, the station prepared a block of educational tales without violence. The offer will include also programs on Christian matters, which are to be shown in an intriguing way not only for the believers. The programs will focus on matters close to each thinking and sensitive individual and not on ideological or political disputes.

Joining "a2mobile" brand and its customers with Premium Mobile

On October 9, 2018 Aero 2, a company from Cyfrowy Polsat Group, and Premium Mobile announced a plan to join "a2mobile" brand, owned by Aero 2, and its customers with Premium Mobile. The above mentioned decision took into account the fact that both companies have a similar mode of operations and provide services to a group of customers united by similar interests, values and demand for telecommunication services. On November 30, 2018 the contribution of the "a2mobile" brank was registered by the court which resulted in an increase of capital engagement of Cyfrowy Polsat Group in Premium Mobile to the level of 24.47% of votes at its shareholders meeting. Moreover, Cyfrowy Polsat Group shall maintain wholesale revenues from the "a2mobile" and "Premium Mobile" brands. Due to the fact that Cyfrowy Polsat Group has a minority share in Premium Mobile company, starting from the fourth quarter of 2018 the prepaid services used by customers of the "a2mobile" brand are not included into the number of prepaid services reported by Cyfrowy Polsat Group.

Initial steps taken in connection with potential refinancing of bonds

On October 24, 2018 the Management Board of Cyfrowy Polsat adopted a resolution on taking initial steps in connection with potential refinancing of the Company's indebtedness due to unsecured series A bearer bonds with a total nominal value of PLN 1,000.0 million, maturing on July 21, 2021. The Company's intent is to assess possibilities of refinancing the above mentioned bonds in order to decrease costs of servicing the indebtedness.

The actions initiated by the Company are aimed at evaluating the present market demand for new bonds and proposing potential conditions and a timetable of issuance of new bonds that would enable the Management Board to take a decision whether to establish a program of issuance of bonds under which the new bonds would have been issued.

Merger of Cyfrowy Polsat and CPTM

On October 31, 2018 the Extraordinary General Meeting of the Company adopted a resolution on merging Cyfrowy Polsat and Cyfrowy Polsat Trade Marks Sp. z o.o. ("CPTM"), an entity being the Company's sole subsidiary. Cyfrowy Polsat Group consistently pursues the strategy of simplifying its structure, including the centralization of provided services. The merger of the Company with CPTM is in accordance with the Group's long-term strategy and shall facilitate cost optimization of operations.

Details of the merger are provided in the Company's current report no. 33/2018 dated October 31, 2018.

Plus's fixed-line Internet offer

In December 2018 we introduced under the "Plus" brand a new offering of fixed-line Internet which is provided based on Netia's access infrastructure. The offering "Plus Internet Stacjonarny" is addressed to residential customers and small companies from the SOHO segment. It enables an access to fast Internet, provided in four technologies depending on available infrastructure: copper (CU), Ethernet (ETTH), cable (HFC) and fiber optic (PON). At present, Plus offers its customers from the above segments all types of Internet access: in a smartphone, via LTE Internet at home and through a fixed-line link in fiber optic technologies.

Implementation of LTE TDD in the 2600 MHz frequency band

In December 2018 we implemented, as the first operator in Poland, in our LTE Plus Advanced network, the TDD technology which operates in the 2600 MHz frequency band. This means that we offer Internet access to our customers while using a total of 95 MHz of radio spectrum in various LTE carrier frequencies. The implementation of the TDD technology is primarily intended to increase network capacity in specific locations as well as to offer even better Internet access to customers. Several dozen LTE TDD stations are currently on-air all over the country.

TDD (Time Division Duplex) and FDD (Frequency Division Duplex) are the two different methods of implementation of LTE data transmission. The difference consists in the way the spectrum is used for transmitting data to and from a customer: the FDD technology uses two, permanently separated, parts of the bandwidth to transmit data in both directions simultaneously, while the TDD technology uses one, common chunk of the bandwidth for alternating, in time, the transmission of the data in the uplink and downlink directions. Also, slightly different parts of the frequency bands are used for the needs of the TDD and FDD technologies, which has enabled Cyfrowy Polsat Group to offer access to the Internet based on the 60 MHz of spectrum that it holds in the 2600 MHz band (while using the 20 MHz FDD carrier and the 2x20 MHz TDD carriers). Similarly as in the case of other LTE carrier frequencies, the new resources can be also aggregated with other FDD carriers.

3.3. Events after the balance sheet date

Changes in the Management Board of Cyfrowy Polsat S.A.

At the meeting of the Supervisory Board of the Company held on January 17, 2019 Mr. Tobias Solorz resigned from the position of President of the Management Board of the Company, effective March 31, 2019. Subsequently, the Supervisory Board of the Company adopted resolutions on changes in the Management Board of the Company concerning:

(i) the appointment of Mr. Mirosław Błaszczyk, the existing President of the Management Board of Telewizja Polsat Sp. z o.o.., a subsidiary of the Company, to the position of President of the Management Board of Cyfrowy Polsat S.A., effective April 1, 2019;

(ii) the appointment of Mr. Maciej Stec, the existing Member of the Management Board of Cyfrowy Polsat S.A., to the position of Vice-President of the Management Board, effective April 1, 2019.

Mr. Tobias Solorz, who was appointed as Member of the Management Board of Polkomtel in 2011 and who has been the President of the Management Board of Polkomtel since 2014, and subsequently has managed the entire group since 2015, will become in future member of the Supervisory Boards of the Group's companies where he will exercising supervision over the group's assets.

On March 14, 2019 Mr. Dariusz Działkowski and Mr. Tomasz Gillner-Gorywoda resigned from the positions of Members of the Management Board of the Company, effective March 31, 2019. On the same date, the Supervisory Board of the Company adopted a resolution concerning the appointment of Mr. Jacek Felczykowski, the existing Member of the

Management Board of Polkomtel, to the position of Member of the Management Board of Cyfrowy Polsat S.A., effective April 1, 2019.

Letter from the representative of the majority shareholder on dividend policy

On February 7, 2019 the Management Board of the Company received a letter from Mr. Zygmunt Solorz, acting on behalf of the majority shareholder of Cyfrowy Polsat, with a request that the Management Board considers changes to the dividend policy of the Company.

Mr. Zygmunt Solorz proposed that the dividends to be paid to the Company's shareholders during the nearest three years would amount to at least approximately PLN 1.8 billion in total.

In particular, the request included that an annual dividend amount is set at a level of at least 4% of the average capitalization of the Company from December 2018, i.e., approximately PLN 0.93 per share. The nominal annual amount of the new dividend, calculated in such a manner, could be paid out by the Company in three consecutive years.

In the opinion of Mr. Zygmunt Solorz, Cyfrowy Polsat Group, which has been built for a number of years by joint effort and with significant support from minority shareholders, has today solid foundations represented by sound assets and recurrent cash flows. Simultaneously, the very good relations with the banks and Cyfrowy Polsat's bondholders, which have been built for many years, grant the Company an access to financing of its further development. Furthermore, Mr. Zygmunt Solorz informed that he has received repeated suggestions from the minority shareholders of Cyfrowy Polsat concerning distribution of the Company's profits, which has been on a relatively low level since the moment of acquiring Polkomtel company back in 2014. According to Mr. Zygmunt Solorz, the dividend based on the above assumptions shall represent a sound compromise between fair and recurrent distributions to the Company's shareholders and its further deleveraging.

On March 15, 2019 the Company's Management Board informed that the Company adopted a new dividend policy which meets the expectations of the majority shareholder. The new dividend policy is described in detail in chapter *7.5 – Cyfrowy Polsat on the capital market – Dividend policy*.

4. Operating and financial review of Polsat Group

4.1. Factors that may impact our operating activities and financial results

4.1.1. Factors related to social-economic environment

Economic situation in Poland

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

Based on data published by the European Commission, a noticeable recovery of economies both of Poland and other EU countries took place in the years 2015-2018. GDP growth for Poland in this period was 3.8%, 2.9% and 4.6%, respectively, and for 2018 it is estimated at approximately 5%. Current forecasts, published by domestic and international institutions, regarding growth prospects of the Polish economy assume that despite the slower growth, the high rate of growth of Poland's GDP, outperforming corresponding indices for the whole European Union nearly twice fold, will be sustained in 2019 and 2020.

We believe that average consumer spending, including spending on pay TV, mobile telephony, video online, broadband access, bundled services and end-user devices generally will grow in line with the overall GDP growth and further growth of the level of wages in Poland, and will support our future revenue growth. We expect that the positive growth dynamics of GDP in the years 2019-2020 will also have a positive impact on the advertising expenditures in Poland.

Situation on the pay TV market in Poland

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

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

We believe that at present our programming packages offer the best value-for-money on the Polish pay TV market. Moreover, we invest in new, attractive and unique content, as demonstrated, e.g. by the purchase of broadcasting rights to the UEFA Champions League and Europa League for the seasons 2018-2021. This gives us a chance to attract a significant portion of migrating customers to our platform. Moreover, we offer pay TV services as part of our integrated offer, which has a positive impact of the level of loyalty of our customer base and contributes to maintaining a low churn rate.

Dynamic growth of non-linear distribution of content, delivered by video on demand and OTT (over-the-top) services is a global trend. This market is still at an early stage of development in Poland as compared to Western Europe or the United States and in our opinion has significant growth prospects, especially in light of the improving quality of broadband links on the market. The launch of services by global players, such as Netflix or Amazon Prime, is proof that Poland is considered an attractive market. In parallel, Naspers' withdrawal of its Showmax service from Poland is, in our opinion, an evidence of large challenges faced by this segment. We consequently develop our services which consist in providing our customers with content on demand – our VOD rental service, the leading online television in Poland, IPLA, as well as our online service Cyfrowy Polsat GO which allows access to content on mobile devices anytime and anywhere. These products are complementary to our core business in the field of pay TV and allow us to broaden our content distribution channels. We are also working on development of customer equipment for pay TV services, manufactured by us, in order to widen the distribution of our services beyond a traditional model of satellite TV access.

Development of advertising market in Poland

A significant part of our wholesale revenue comes from the sale of advertising airtime and sponsoring slots on TV channels. Demand for advertising airtime is highly correlated with the macroeconomic situation. In the past, given the increasing GDP of Poland, the TV advertising market was characterized by a regular single-digit (in percentage terms) growth rate and in 2018 it recorded high growth dynamics of 6.3%. Assuming further positive GDP growth dynamics in the years 2019-2020 (forecasted by European Commission at 3.5% and 3.2%, respectively), we expect continued growth of the Polish advertising market.

In our opinion, television remains an effective advertising medium, and given the relatively low level of advertising expenditures in Poland as a percentage of GDP and per capita in comparison to other European markets, we believe there is still growth potential for TV advertising in Poland in the long term. What is more, the expected high rate of economic growth in 2019-2020 should have a positive influence on the level of advertising expenditures in Poland. It is worth noticing that despite the growing importance of new media, it is forecasted that television will remain an attractive and popular pastime, primarily thanks to new technical opportunities, which include an increasing number of HD channels and VOD, as well as thanks to a growing number of smart-TVs. According to the estimates of media house Starcom, the dynamics of advertising spending in 2019 will be around 3%.

Prospects of the online advertising market are also positive. According to the IAB AdEx report, in the first half of 2018 online advertising expenditures increased at a rate of 16.8% YoY and reached the value of PLN 2.17 billion. The growth dynamics of this form of advertising is influenced to a significant extent by expenditures in the video advertising segment, in which we generate part of our revenue. In the first half of 2018, those expenditures increased by 41% and represented 14% of the total expenditures on online advertising. We believe that thanks to the leading position on the online video market, through IPLA internet television and other services of Cyfrowy Polsat Group, we will benefit from the growth of this promising advertising market segment.

Growing importance of thematic channels

With the high penetration of the Polish market by pay TV, that provides viewers with an increasingly greater selection of thematic channels, as well as a broader offer of channels available via digital terrestrial television (DTT), main general entertainment channels (FTA) are experiencing a gradual decline in audience shares. According to data published by Nielsen Audience Measurement, in 2018 the total share of the four leading channels (POLSAT, TVN, TVP1 and TVP2) in the commercial group (16-49 years old) was 37.2%, while in 2017 it was equal to 37.9%.

Furthermore, according to Starcom media house's data the advertising market share of thematic stations and channels broadcast via terrestrial television multiplexes is consistently growing. In order to maintain total audience share and advertising market share, we focus on developing our thematic channels portfolio and increasing the attractiveness of the content offered to our viewers. From that point of view, the initiation of cooperation and acquisitions in the field of thematic TV channels, made by the Group in 2018, are perfectly in line with the Group's long-term strategy to maintain a strong market presence, measured by viewership results, on an increasingly fragmented market. The channels Eska TV, Eska TV Extra, Eska Rock TV, Polo TV and Vox Music TV, acquired in December 2017, significantly strengthen the music programming in Telewizja Polsat while establishment of cooperation in the scope of developing two other channels available via digital terrestrial television, Nowa TV and Fokus TV, attractively complements our comprehensive program range. All channels mentioned above have a strong market position and solid viewership. In connection with the above transaction we expect to achieve synergies in the areas of sales and costs, originally estimated at ca. PLN 15 million per year. Moreover, in June 2018 we included Superstacja, a news channel, into our thematic channels portfolio.

Next step in strengthening our position was starting in May 2018 the strategic cooperation with Eleven Sports in Poland. By taking control over its Polish company, Eleven Sports Network, we gained access to the premium sports content of the highest quality. This represents yet another strategic investment aimed at consistent creating of the best programming offering for our viewers.

In July 2018 we introduced to our offering the TV package "Polsat Sport Premium", thanks to which for the next three seasons football fans are able to enjoy live coverage of all the UEFA Champions League matches as well as watch the UEFA Europa League games. The package consists of two Super HD channels, i.e. Polsat Sport Premium 1 and Polsat Sport Premium 2, as well as 4 premium PPV services. With a view of these football games in particular, Polsat launched the most advanced and the biggest sports studio in Poland, allowing football fans to receive complete setting for the matches; in the highest visual quality and with an excellent journalist and reporter team of Polsat Sport.

The latest event was launching in October 2018 two thematic channels "Polsat Games" and "Polsat Rodzina" ("Polsat Family"). Polsat Games is addressed to gamers and s-sports as well as to new technologies and animation. The channel broadcasts, among others, live e-sports tournaments, reviews of newest productions and equipment. The station is a 360^0 project, and its programs will be available everywhere where games fans consume content, also in the Internet. Polsat Rodzina is a family-oriented station. Its offer includes programs providing guidance and advice, educational cartoons for kids as well as programs covering Christian topics.

Growing importance of convergent services

Currently, convergence, meant as a combination of at least two services from different base groups of telecommunications services, is one of the strongest trends both on the Polish media and telecommunications market and worldwide. Operators develop their bundled offerings in response to changing preferences of customers, who more and more often seek media and telecommunications services provided at competitive prices by a single operator under a single contract, a single invoice and a single fee. With the high saturation of the pay TV and mobile telephony markets, bundled services play an increasingly important role in maintaining the existing customer base.

Last year it was possible to observe increased efforts of big Polish market players, especially among mobile operators, aimed at strong promotion of bundled services for the home and solutions being a combination of mobile and fixed services. Operators pay a lot of attention to high quality broadband access for households, which results in wide-scale investments in the modernization and expansion of the footprint of both mobile LTE and LTE-Advance technologies, and modern fixed-line technologies (NGA – Next Generation Network, FTTH – Fiber to the Home).

Moreover, increasing engagement of mobile operators in the acquisition of content that could differentiate a given offering on the market is visible. For example, thanks to the cooperation with international video online services, such as Netflix, HBO GO or the music service Tidal, mobile operators offer access to those services as an add-on to their subscription tariff plans.

In the wake of the increasing importance of convergence and bearing in mind the significant level of fragmentation of the broadband access market, it can be expected that the future shape of the Polish telecommunications and media market will be substantially impacted by consolidation trends which have been visible for a long time on more developed foreign markets where mobile and fixed-line operators merge with content providers.

The acquisition transaction of a controlling stake in the fixed-line operator Netia, finalized by Cyfrowy Polsat in May 2018, can serve as the first example of such consolidation in Poland. Thanks to this transaction Polsat Group possessed all assets necessary to provide fully convergent services which shall facilitate better adjustment of the offering to customers' needs and more effective cost management. Already in June 2018 we offered our customers, under a pilot project, Netia's fixed-line broadband Internet, complemented by TV services based on the Internet and voice telephony. Then, at the end of 2018 we introduced the service "Plus Internet Stacjonarny", a fixed-line Internet access provided to our customers based on Netia's infrastructure. We are working on expanding further the offering and availability of our convergent services.

Changes within the area of convergent services apply also to our competitive environment. In July 2018 T-Mobile Polska and Orange Polska signed an agreement based on which T-Mobile shall provide its customers the bitstream access (BSA) services through part of Orange's FTTH backbone network. In accordance with Orange's press release, the agreement covers a 10-year period, with a possibility of an extension for further 5 years, and concerns multifamily houses in the areas not covered by the regulated BSA access with ca. 1.7 million homes passed. The transaction has not been entered into on exclusivity basis which, on the one hand, allows other operators to start cooperation related to wholesale access to Orange's infrastructure and, on the other hand, does not preclude T-Mobile from entering into an agreement with other wholesale providers of fixed-line infrastructure. Next, in September 2018 T-Mobile Polska concluded an agreement with another operator, Nexera, who is at present constructing its fiber optic network in four voivodships under the POPC program (*Program Operacyjny Polska Cyfrowa – Operating Program Digital Poland).* According to T-Mobile, based on both agreements signed, by 2020 the operator will increase the reach of available fiber optic networks to 4.5 million households. T-Mobile plans to launch full commercial offering of its convergent services for residential customers in the first quarter of 2019 and is currently conducting tests of FTTH services among its employees.

Growing demand for smartphones and data transmission

In Poland the popularity and sales of smartphones has been gradually growing. Currently, smartphones have almost completely replaced traditional handsets in our sales structure. Concurrently, we estimate that among all handsets used by our customers only approximately 73% constitute smartphones. This disproportion shows that the saturation of our mobile services customer base with smartphones will continue to grow in the next years.

Popularization of smartphones translates into growing sales of data transmission products in the segment of small screen devices. According to estimates presented in the Ericsson Mobility Report dated November 2018, the volume of transmitted data in the Central and Eastern Europe region, to which Poland belongs, will grow six-fold in the years 2018-2024.

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

Roll-out of competing LTE networks

Following the resolution in 2015 of the LTE auction of 5 blocks in the 800 MHz bandwidth and 14 blocks in the 2600 MHz bandwidth, Polsat Group's competitors gained the possibility of providing high quality services in LTE based on the 800 MHz frequency band. Since 2017 our competitors have been investing heavily in the roll-out of their mobile networks based on the 800 MHz spectrum, thus consistently increasing the coverage of their respective LTE networks.

Cooperation between certain telecommunication operators in the scope of network sharing may have a significant effect on the shape of the Polish telecoms market. In December 2016 T-Mobile Polska and Orange Polska signed an agreement, pursuant to which they develop their own LTE networks based on the 800 MHz bandwidth using jointly the network of transmitters of the joint venture NetWorks!, however, without sharing the radio resources owned. In May 2018 both operators signed an annex to this agreement, based on which they terminated cooperation relating to co-using the frequency resources in 900 MHz and 1800 MHz bandwidths. In parallel, T-Mobile and Orange plan to increase capacity of LTE network in their respective bandwidths while simultaneously limiting the resources used for the purposes of providing services in 2G technology. Moreover, the operators pursue refarming of their own 2100 MHz bandwidths for the needs of LTE technology and at the expense of limiting 3G technology.

In turn, in March 2019 the operator of Play network informed that it reached the level of 7,000 own sites which are being rolled-out under the investment program aimed at reaching nationwide coverage footprint by the year 2021 and constructing in total 9,500 own sites. The expansion of Play's network is intended to remove the operator's reliance on national roaming services, presently used by Play to ensure nationwide coverage for its customers starting from 2022.

In our opinion the significant improvement of the quality of LTE mobile broadband services provided by our competitors, pursued to a large extent by optimization of the possessed frequency resources (refarming), and the systematic expansion of the coverage footprints of their networks resulting from infrastructural investments, as well as exorbitant costs related to the purchase of the 800 MHz frequencies will influence, in coming periods, the competition model functioning on the Polish mobile broadband market.

Information on seasonality

Wholesale revenue includes *inter alia* advertising and sponsoring revenue which tends to be lowest during the third quarter of each calendar year due to the summer holidays period and highest during the second and fourth quarter of each calendar year due to the introduction of a new programming offer. In the year ended December 31, 2018, TV Polsat Group generated approximately 22.4% of advertising revenue in the first quarter, 26.8% in the second quarter, 20.0% in the third quarter and 30.8% in the fourth quarter.

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

Other revenues are not directly subject to substantial seasonal fluctuations.

4.1.2. Factors related to the operations of the Group

Growing importance of integrated services

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

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

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

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

Strengthening of our market position in integrated services thanks to the acquisition of Netia

Thanks to the acquisition of a controlling stake in Netia we have expanded our portfolio with a wide range of fixed-line products and services, in particular with fixed-line broadband Internet offered, among others, in fiber optic technologies. Netia's services are being rendered via own access networks with over 2.5 million homes passed in approximately 180 locations. They are also supported by an extensive, nationwide backbone infrastructure. Moreover, Netia offers fixed-line Internet services and telephony based on regulated access to Orange Polska's network.

Netia's fiber-optic, nationwide backbone infrastructure perfectly complements our own infrastructure. It will allow for quick and efficient expansion of the capacity of our mobile network, thus strengthening our competitive advantage and will improve flexibility in planning the development of our joint telecommunication network in the future. At the same time, the reach of Netia's last mile network which allows for the provision of fixed-line broadband access in the NGA standard, opens a new market for Polsat Group – large cities and urban areas. Thanks to this we are gaining a new, attractive base of residential customers, thus increasing significantly our potential for cross-selling products and services as part of the integrated offering.

At the same time, we are also substantially improving our position in the business customers segment. We anticipate that the acquisition of Netia, who owns an extensive fixed-line network reaching the majority of the biggest Polish office buildings and has broad competence in serving business customers, will enable us to significantly improve our current competitive position on this market of convergent services for business customers. In particular, by working together we will be able to develop comprehensive offers tailored to customers' individual requirements while optimizing, or eliminating, additional costs associated with the construction of a dedicated telecommunication infrastructure for such customers, which will offer us an opportunity to compete more effectively with other telecommunication operators.

Investments in network roll-out and spectrum refarming

In the first half of 2018, residential customers of Cyfrowy Polsat and Polkomtel transferred ca. 965 PB of data. Striving to maintain a high quality of provided services, we continue to invest in our telecommunication network roll-out. In particular, upon having approached the level of coverage of over 99% of the population with our LTE network, we are currently focusing on expanding the capacity of our telecommunication network and extending the coverage footprint of LTE Advanced, which already reaches 73% of Poles, as well as expanding our territory coverage in Poland.

Investments in the development of our LTE network are mainly conducted using own spectrum in the 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz frequency bands. As at the end of 2018 we had over 13.3 thousand eNodeB systems operating in LTE/LTE Advanced technology on various bands from our frequency portfolio.

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

The next crucial phase in the development of our network consisted in the refarming of the 900 MHz and 2100 MHz spectrum, resulting in the allocation of part of the bandwidth previously used for 2G and 3G services to LTE and LTE Advanced technologies. In particular, we have released the 900 MHz bandwidth, used so far for the provision of services in the 2G technology, on the entire territory of Poland, and are currently migrating traffic provided in new and definitely more effective technologies to this frequency. By the end of 2018 we have already put into operation for our customers over 6.2 thousand transceivers operating based on the 900 MHz band frequency.

Simultaneously, work is in progress throughout Poland with a view of expanding the capacity of our transmission network to support the continuously increasing data transfer volumes. Transmission network roll-out enables us to use our existing towers and other network locations, which have so far operated in 2G and 3G technologies, for the provision of LTE and LTE Advanced services. We also consistently aggregate spectrum in the 800 MHz, 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz bandwidths in successive cities, which – combined with the application of the 256 QAM modulation, MIMO4x4 – allows us to offer our customers increasingly higher service quality.

Development of IPLA

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

Mobile video traffic is the fastest growing segment of global mobile data traffic. According to estimates presented in the Ericsson Mobility Report dated November 2018 in the years 2014-2024 data consumption of video content will increase at an average annual rate of 35%, reaching ca. 74% of the entire data traffic in 2024. Bearing this in mind, we believe that IPLA online television will make an increasingly significant element of our business in the future. Starting from August 2018 a dedicated sports package "IPLA Polsat Sport Premium" is available in IPLA web service. The package offers live broadcasts, without ads, of all the UEFA Champions League matches as well as the UEFA Europa League games to which Polsat Group has acquired exclusive broadcast rights. The package will be offered both to the Group's current customers as well as other operators' customers in two pricing options.

Attractive content of our TV channels and monetization of sports rights

We offer the biggest and most versatile portfolio of TV channels on the Polish market, which places us in the leading position in terms of viewership among private television groups in Poland and translates into our share in the advertising market. Our direct production covers mainly news programs, documentaries, shows and series based on international formats as well as solely created concepts. Moreover, we have contracts with major film studios which provide access to a wide selection of the most attractive films and series.

An important element that differentiates us on the market is a rich and unique broadcasting offer of the largest and the most interesting sports events worldwide. We offer, among others, broadcasts of qualifiers to the UEFA EURO 2020, FIFA World Championships 2022, two editions of the football Nations League 2018/19 and 2020/21, big volleyball tournaments – the men's and women's World Volleyball Championships 2022, new, attractive games of the volleyball Nations League (2018-2024), the 2019 and 2023 World Cup, qualifying competitions for the Olympic Games in Tokyo (2020) and Paris (2024), Plus Liga and Orlen Liga, boxing and mixed martial arts galas (KSW, FEN and UFC), Wimbledon and ATP 1000 and 500 tournaments, and many others. Additionally, in 2017 we acquired rights to the most popular football club competitions – the UEFA Champions League and UEFA Europa League (for the years 2018-2021). Thanks to taking control in May 2018 over the Polish company Eleven Sports Network, we have gained access to attractive sports rights which are sold as program packages to pay TV operators active on the Polish market. The above mentioned premium sports content include Spanish LaLiga Santander, German Bundesliga, Italian Serie A TIM, English The Emirates FA Cup, F1™ races as well as Polish and foreign speedway. Unique content represents an important element that builds the value of our pay TV offering.

We believe that attractive content, including exclusive content that is not available in the offer of other pay TV operators is a significant competitive advantage over other pay TV operators in Poland.

In parallel, we seek to monetize TV channels from our portfolio, also by offering them in a wholesale offer to other entities which provide pay TV services on the Polish market. This translates positively into the level of wholesale revenues we generate in the Broadcasting and television production segment.

4.1.3. Factors related to the regulatory environment

International roaming in mobile networks

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

Pursuant to the Resolution of the European Parliament and Council of November 25, 2015, as of June 15, 2017 retail charges for regulated roaming services were levelled with domestic charges (the *Roam Like at Home* regulation). The majority of tariff plans used on the Polish market include the so-called unlimited tariffs which enable making unlimited domestic calls and sending an unlimited number of short text messages against a fixed monthly subscription fee, and incoming voice calls on the Polish market are free-of-charge, as a general rule. In view of the above, the implementation of the *Roam Like at Home* regulation translated into the reduction of the stream of telecommunication retail revenue of all operators who have fully implemented this regulation, including Polsat Group.

When our customers generate traffic while roaming abroad, we incur costs of purchasing that traffic attributable to foreign telecommunication networks. Wholesale settlement rates for the purchase of roaming traffic on the territory of the EEA are also subject to regulatory reductions. In particular, the implementation of the *Roam Like at Home* regulation starting from June 15, 2017 was preceded by the implementation of an interim plan of a reduction of wholesale charges for international roaming services valid on the territory of the EEA:

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

Despite the considerable reduction of the maximum settlement rates introduced in parallel with the implementation of the *Roam Like at Home* regulation, the hike in the traffic volume generated by our customers roaming abroad translated into a significant growth of costs related to the purchase of roaming traffic, which in the case of services provided on the territory of the EEA, generated losses on selected roaming services. In order to mitigate this negative effect we have been actively renegotiating our wholesale agreements with the view of reducing costs related to the purchase of roaming traffic, which leads to a reduction of the rate of growth of these costs.

Proposal to cap prices for international calls and text messages

In the Regulation of the European Parliament and of the Council establishing the Body of European Regulators for Electronic Communications (BEREC) and the Agency for Support for BEREC (BEREC Office), provisions regulating prices for international voice calls and text messages within the EEA were included. The law provides for the introduction of the maximum retail prices that operators will be able to charge for these services. The price caps are 19 eurocents per minute of an outgoing international voice call and 6 eurocents for an international text message sent (prices excluding VAT). The above mentioned provisions were included into the Roaming Regulation and shall become effective as of May 15, 2019.

4.1.4. Financial factors

Exchange rates fluctuations

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

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

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

Interest rate fluctuations

Market interest rate fluctuations do not impact the Group's revenue directly, but they do affect our cash flows from operating activities through the amount of interest on current bank accounts and deposits, and also cash flows from financing activities through the Group's costs of servicing debt. In particular, our liabilities under the Combined Senior Facilities Agreement dated September 21, 2015 and our liabilities under the Terms of Issue of Series A Notes are calculated based on variable WIBOR, EURIBOR or LIBOR interest rates subject to periodical changes, increased by a relevant margin.

Despite the fact that the Group intends to maintain certain hedging positions the goal of which is to hedge against WIBOR fluctuations, there is no certainty that such a hedging will be still possible or whether it will be available on acceptable terms. The Group analyzes its interest rate risk on an on-going basis, including the refinancing and risk hedging scenarios, which are used to estimate the impact of the specific interest rate fluctuations on our financial result.

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

4.1.5. Influence of changes in financial reporting standards

On January 1, 2018, new standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers came into force. Moreover, the standard IFRS 16 Leases is applicable for annual periods beginning on January 1, 2019.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaced IAS 39 *Financial Instruments: Recognition and Measurement*.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, at fair value though other comprehensive income and at fair value through profit or loss. The new classification requirements didn't have material impact on accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis.

Loans as well as trade and other receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analyzed the contractual cash flow characteristic of those instruments and concluded that they meet the criteria for amortized cost measurement under IFRS 9.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ('ECL') model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. Implementation of the forward-looking model did not have a significant effect on the Group's bad debt allowance.

In addition IFRS 9 includes optional hedge accounting requirements. The Group chose as its accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 provides a single, principles-based five-step model for the determination and recognition of revenue to be applied to all contracts with customers. It replaced in particular the existing standards IAS 18 *Revenue* and IAS 11 *Construction Contracts*.

In the case of the Group, the biggest change caused by the implementation of the standard concerns the recognition of revenues from multi-element contracts (e.g. mobile contract plus handset), which includes sale of subsidized products delivered at date of the agreement: the cumulative amount of revenues over the contract term will not change, but there will be a change in the allocation between revenues from sale of equipment and revenues from the services rendered (a greater part of the total remuneration will be assigned to the equipment delivered in advance, requiring earlier recognition of revenue).

Earlier revenue recognition resulted in the recognition of contract assets in the balance sheet representing the Group's right to future remuneration for the products and serviced provided to the customer. The contract assets are presented as current assets as the Company expects the contracts to be fulfilled within a normal operating cycle. In the case of sale of subsidized products the Group does not adjust the promised amount of consideration for the effects of a significant financing component as the Group expects, at the contract inception, that the period between the transfer of goods or services to a customer and the period when the customer pays for that good or service will be one year or less.

The implementation of IFRS 15 resulted in recognition of contract liabilities in the balance sheet. Contract liabilities represent the Group's obligation to transfer goods or services to customers, for which the Group received consideration or an amount of the consideration is due from the customer.

The Group has not identified any material rights in the contracts which should have been separately presented as Group's obligations.

The Group usually sells its services and goods through distributors who act as an agent, which means that they do not assume all the risks associated with the delivery of goods and services, therefore sales revenue are recognized at the time of sale to the end customer.

The contractual liabilities included in the balance sheet refer mainly to the unused funds within the prepaid system.

The implementation of IFRS 15 resulted in a change in the accounting policy regarding the revenue recognition. The Group's process for revenue recognition from multi-element contracts (e.g. mobile contract and handset) consists of:

a) assessment of all goods and services provided to the client under the contract and identifying separate performance obligations in that contract,

b) determining and allocating the transaction prices to separate performance obligations in the contract; the allocation is based on the reference to their relative standalone selling prices that could be obtained if the promised goods and services were sold individually in a separate transaction.

IFRS 15 is applied by the Group using the "modified retrospective approach" in which the cumulative effect of initially applying the standard is recognized as an adjustment to retained earnings at the date of initial application.

IFRS 16 Leases

The Group is required to adopt IFRS 16 *Leases* from January 1, 2019. IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessee separately recognizes the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

IFRS 16 includes recognition exemptions for short-term leases (i.e. leases with a lease term of 12 months or less) and leases of low-value items (e.g. personal computers).

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as set out in IAS 17 and distinguish between operating and finance leases.

Implementation of IFRS 16 will decrease rental costs, increase depreciation and financial costs which will result in an increase of EBITDA, assets and liabilities (due to the recognition of a right-of-use asset and a lease liability) as well as an increase of debt ratio.

As set out in IFRS 16 the lessee is permitted two transition approaches:

a) full retrospective approach (application of the new standard to all prior periods)

b) modified retrospective approach (no requirement to restate its prior-period financial information)

The Group plans to adopt the new standard using the modified retrospective approach. Cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance as at January 1, 2019, with no restatement of the comparative information.

The Group has assessed the estimated impact that the initial application of IFRS 16 will have on its consolidated financial statements. The estimated impact of the adoption of the standard on the Group as at January 1, 2019 is based on assessments undertaken to date. The actual impact of adopting the standard at January 1, 2019 may change because the

Group is still in the process of confirming final assumptions required to recognize right-of-use assets and lease liabilities as pursuant to the new standard.

For leases previously classified as operating leases under IAS 17, a lessee measures the lease liability at the date of initial application as the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at that date. The Group measured the right-of-use asset on a lease-by-lease basis at an amount equal to the lease liability (adjusted by prepaid/accrued payments if applicable).

As at January 1, 2019 the estimated value of right-of-use assets and lease liabilities is equal and thus no adjustments to equity are recognized. The estimated impact of IFRS 16 implementation as at January 1, 2019 amounts to approximately PLN 1.5 billion due to recognition of right-of-use assets and lease liabilities.

For leases that were previously classified as finance leases under IAS 17, the Group recognizes a right-of-use asset and a lease liability measured at the previous carrying amount under IAS 17.

4.2. Key market trends

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

- high level of market penetration with services provided by the Group as well as a high level of competitiveness of the markets in which we operate;
- bundling of media and telecommunications services, as well as services from other sectors, such as electric energy or financial and banking products;
- decreasing volume of numbers transferred by customers between mobile networks;
- growing smartphone penetration among mobile network users; which entails the development of the mobile data transmission market;
- growing demand for data transmission and high-speed broadband connectivity driven by changing consumer preferences and the resulting growing complexity of data transmission-based services;
- development of state-of-the-art fixed broadband networks (NGA), optical fiber in particular;
- dynamic development of non-linear video content, distributed via VOD and OTT services, accompanied by growing online ad spending;
- entry of global VOD and OTT players to the Polish market, as well as investments of operators already present on the market in offered content on order to adjust it to the preferences of local viewers;
- increasing sales of smart-TVs - television sets with integrated Internet access;
- growing number of mobile customers and users, driven by, inter alia, gradual fixed-to-mobile substitution, and the growing popularity of *machine-to-machine* solutions;
- pressure on revenue from traditional mobile telecommunications services caused by the intensifying competition on the mobile services market, and by traditional mobile telecommunications services being driven out by data transmission communication;
- pressure on revenue from roaming services, resulting from the regulation of roaming charges in the European Union implemented in 2017;
- change of pricelists on the TV advertising market resulting from high demand for advertising observed in 2018 and expected in 2019;
- further fragmentation of the television market (growing share of thematic channels in audience and advertising revenue); and
- consolidation of the pay TV market, in the cable TV segment;
- consolidation of broadband fixed-line Internet;
- ownership changes in the broadcasting and television production market;

- consolidation of the telecommunication markets, manifested by acquisitions of local fixed-line operators by larger telecommunication groups; and
- Significant slowdown of the scale of migration of subscribers towards free of charge digital terrestrial television.

4.3. Major investments in 2018

Acquisition of a stake in Netia S.A.

On November 29, 2017 the Management Board of the Company took a decision on effecting the acquisition transaction of a controlling block of shares in Netia accounting for not more than 66% of the total number of votes at the General Meeting of Netia for the total amount of PLN 1.33 billion. The transaction was split into two stages.

The first stage, executed on December 4 and 5, 2017, consisted in the Company purchasing in aggregate a block of shares representing 32.99% of the total number of votes at the Netia General Shareholders Meeting.

In the second stage, initiated on December 5, 2017, the Company announced a tender offer for the sale of Netia shares (the "Tender Offer"). The Tender Offer price for one share of Netia was PLN 5.77. The subscription period began on January 30, 2018 and ended on May 14, 2018. As a result of settlement of the Tender Offer, on May 17, 2018 the Company and Karswell Limited jointly acquired, based on the agreement described below, 110,702,444 shares in Netia constituting in total 32.99% of Netia's share capital and representing 32.99% of the total number votes at its general meeting. In particular, the Company acquired 34,662,045 Netia shares constituting in total 10.33% of Netia's share capital and entitling to 34,662,045 votes at its general meeting while Karswell Limited acquired 76,040,399 Netia shares constituting in total 22.66% of Netia's share capital and entitling to 76,040,399 votes at its general meeting (all percentages of shares in Netia's share capital and total number of votes at Netia's general meeting mentioned above are as at March 20, 2019, i.e., including the effect of registered changes in Netia's share capital).

More information regarding the acquisition of a controlling stake in Netia is presented in item 4.3. of the Annual Report of Cyfrowy Polsat S.A. Capital Group for the financial year ended December 31, 2017 published on March 22, 2018 and in the Company's current reports No. 16/2018 of May 11, 2018, No. 17/2018 of May 14, 2018 and No. 18/2018 of May 22, 2018.

The acquisition of a controlling stake in Netia is perfectly compatible with the strategy of Polsat Group, according to which we want to deliver the most attractive products and services for the home, as well as residential and business customers using state-of-the-art technologies. It is an amalgamation of two complementary businesses and a natural step in the development of Polsat Group, one that will allow us to offer our existing and future customers new services and add attractive new elements to the offered integrated services package.

Netia's fixed-line Next generation Access (NGA) network is a natural step in the development of Polsat Group's multiplay offer and an attractive addition to it, improving the accessibility of the offer to both individual and business customers. We intend to provide, to the customers of Polsat Group and Netia alike, new, attractive services at competitive prices and additional benefits, such as lower bills for bundled services, ease to shop in the broad shopping network both through traditional and electronic channels, or a simplified customer service process.

Netia owns an extensive, nationwide fixed-line infrastructure which constitutes a valuable asset to Polsat Group, thanks to which we can offer our customers new services based on new generation fixed-line technologies. The possibility of flexible, cost-efficient and time-to-market roll-out of our mobile network coverage, as well as fiber-based fixed-line coverage to selected areas of Poland allows us to offer attractive terms to our customers in the short-term. The development of an equivalent in scale backbone network using own resources would be a long-term process.

In addition to the backbone network, Netia has a large, nationwide last mile network which passes more than 2.5 million locations in Poland. It provides support in the development of the telecommunication network of Polsat Group by allowing for a cost-efficient increase in the capacity of the Group's mobile network in densely populated areas to the benefit of the customers.

Thanks to the joint resources of Polsat Group and Netia we are able to create a flexible and comprehensive offer for business customers. The B2B offer of enlarged Polsat Group can be fully convergent, while existing fixed-line infrastructure of Netia allows for offering new high-quality services without the necessity to finance costs related to connecting to the network.

What is more, the location of Netia's existing customers, both B2B and B2C, as well as the reach of its last mile infrastructure opens a new market for Polsat Group – large cities and urban areas, a market until now reserved predominantly for large cable network operators. In our opinion, the entry of Polsat Group to these markets would have a positive influence on the level of competitiveness, availability and attractiveness of offers for customers.

Acquisition of sports rights by Telewizja Polsat

In January 2018, Telewizja Polsat prolonged an agreement with the International Volleyball Federation FIVB and, as a result will broadcast the most important events in world and national team volleyball during the next seven years. The package of acquired rights includes the Volleyball Nations League (replacing the men's World League and women's Grand Prix) – 260 matches in total during the season and qualifying tournaments to the Volleyball Nations League, Challenger Cup, qualifying tournaments to the 2020 and 2024 Olympic Games, men's and women's 2022 World Championship, and 2019 and 2023 World Cup. In addition, in January 2018 a three year contract was concluded to broadcast on Telewizja Polsat's antennas the events of UFC, a sports organization devoted to martial arts and the largest provider of pay-per-view services.

Taking control over Eleven Sports Network

In May 2018 Telewizja Polsat entered into an agreement with Eleven Sports Network LTD on the acquisition of 3,340 shares in Eleven Sports Network Sp. z o.o. with its registered seat in Warsaw representing 50% + one share in the share capital of Eleven Sports Network.

Eleven Sports Network produces and distributes sports content within the territory of Poland and owns attractive sports rights which are sold as program packages to pay TV operators, including the Company, active on the Polish market. The premium sports content offered by Eleven Sports Network, including Spanish LaLiga Santander, German Bundesliga, Italian Serie A TIM, English The Emirates FA Cup, F1™ and Polish and foreign speedway, are delivered to around 2.3 million subscribers and carried by more than 100 operators and online. The acquisition of the shares constitutes a long-term strategic investment by Polsat Group. In the medium term, gaining access to the portfolio of sports rights held by Eleven Sports Network will allow to strengthen the position of the Group in the increasingly fragmented television market, while concurrently securing access to Eleven Sports Network's sports content for the Company's and other Group companies' customers within their Group.

The total price for the acquired shares was set at EUR 38 million. The Share Price is payable in two tranches. The first tranche for the shares of EUR 18 million was paid on May 25, 2018. The second tranche, adjusted for the net debt of Eleven Sports Network, was paid on July 31, 2018.

If the value of Eleven Sports Network based on the results for 2020 exceeds the amount of EUR 80 million, Telewizja Polsat will be required to pay the seller an additional earn-out payment equal to 25% of the surplus of Eleven Sports Network's value over the amount of EUR 80 million (with Eleven Sports Network's value calculated as 9x adjusted EBITDA based on the financial statements of ESN for the financial year ending June 30, 2020).

Details regarding the acquisition of shares in Eleven Sports Network by Polsat Group are presented in the Company's current report No. 20/2018 of May 24, 2018.

4.4. Operating review of the Group

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

Please note that the ARPU figure for the twelve months and for the fourth quarter of 2018 does not include the impact of the implementation of IFRS 15 *Revenue from Contracts with Customers* and was calculated based on the accounting standard in force until December 31, 2017 (IAS 18 in particular). Such an approach is intended to ensure comparability of figures given that the Company has decided to apply IRFS 15 retrospectively without restating the figures for the comparative periods.

The Group plans to modify the method of calculating ARPU in the future in order to adjust it to the requirements of IFRS 15. Applying IFRS 15 shall change the allocation between revenue from the sale of the equipment and retail revenue (a higher portion of total compensation shall be attributed to the equipment delivered in advance), which shall result in a decrease of ARPU. When implementing IFRS 15, contract ARPU would amount to PLN 84.0 in the fourth quarter of 2018 and PLN 83.2 in the twelve-month period ended December 31, 2018, increasing by 2.6% and 2.8%, respectively, as compared to PLN 81.9 in the fourth quarter of 2017 and PLN 81.0 in 2017.

Please note that the operational indicators (KPIs) for the fourth quarter and for twelve months of 2018 presented below do not include operational results of Netia Group over which Cyfrowy Polsat Group took control effective May 22, 2018.

	for the 3-month period ended December 31		change / %	for the 12-month period ended December 31		change / %
	2018	2017		2018	2017	
SEGMENT OF SERVICES TO INDIVIDUAL AND BUSINESS CUSTOMERS						
Total number of RGUs (EOP) (contract + prepaid)	16,906,133	16,522,597	2.3%	16,906,133	16,522,597	2.3%
Contract services						
Total number of RGUs (EOP), incl.	14,259,264	13,685,044	4.2%	14,259,264	13,685,044	4.2%
Pay TV, incl.	5,098,917	4,942,640	3.2%	5,098,917	4,942,640	3.2%
Multiroom	*1,160,353*	*1,099,582*	*5.5%*	*1,160,353*	*1,099,582*	*5.5%*
Mobile telephony	7,345,213	6,932,676	6.0%	7,345,213	6,932,676	6.0%
Internet	1,815,134	1,809,728	0.3%	1,815,134	1,809,728	0.3%
Number of customers (EOP)	5,706,147	5,776,598	(1.2%)	5,706,147	5,776,598	(1.2%)
ARPU per customer acc. to IFRS 15 [PLN]	84.0	81.9	2.6%	83.2	81.0	2.8%
ARPU per customer acc. to IAS 18 [PLN]	90.5	89.0	1.7%	89.7	89.0	0.8%
Churn per customer	7.6%	8.8%	(1.2 p.p.)	7.6%	8.8%	(1.2 p.p.)
RGU saturation per one customer	2.50	2.37	5.5%	2.50	2.37	5.5%
Average number of RGUs, incl.	14,159,632	13,596,202	4.1%	13,938,900	13,439,272	3.7%
Pay TV, including:	5,070,219	4,905,839	3.4%	5,019,249	4,840,510	3.7%
Multiroom	*1,149,795*	*1,082,951*	*6.2%*	*1,128,443*	*1,057,120*	*6.7%*
Mobile telephony	7,276,732	6,894,295	5.5%	7,109,421	6,822,690	4.2%
Internet	1,812,681	1,796,068	0.9%	1,810,230	1,776,072	1.9%
Average number of customers	5,708,353	5,781,207	(1.3%)	5,729,666	5,821,411	(1.6%)
Prepaid services						
Total number of RGUs (EOP), including:	2,646,869	2,837,553	(6.7%)	2,646,869	2,837,553	(6.7%)
Pay TV	95,685	79,561	20.3%	95,685	79,561	20.3%
Mobile telephony	2,423,774	2,579,613	(6.0%)	2,423,774	2,579,613	(6.0%)
Internet	127,410	178,379	(28.6%)	127,410	178,379	(28.6%)
ARPU per total prepaid RGU [PLN]	20.3	20.1	1.0%	20.4	19.9	2.5%
Average number of RGUs, including:	2,745,638	2,851,766	(3.7%)	2,770,309	2,912,076	(4.9%)
Pay TV	95,346	65,088	46.5%	70,357	59,457	18.3%
Mobile telephony	2,511,226	2,601,552	(3.5%)	2,540,414	2,663,566	(4.6%)
Internet	139,066	185,126	(24.9%)	159,538	189,053	(15.6%)
BROADCASTING AND TELEVISION PRODUCTION SEGMENT						
Audience share	24.2%	23.9%	0.3 p.p.	24.3%	23.9%	0.4 p.p.
Advertising market share	27.7%	27.1%	0,6 p.p.	27.2%	27.1%	0.1 p.p.

4.4.1. Segment of services to individual and business customers

As at December 31, 2018, in the segment of services to individual and business customers our Group provided a total of 16,906,133 services in the contract and prepaid models, which represents 2.3% growth YoY. It is worth emphasis that the share of contract services in the total number of services that we provide is growing consistently, and has reached the level of 84.3% at the end of the fourth quarter of 2018, as compared to 82.8% recorded at the end of the fourth quarter of 2017. In the twelve months and in the fourth quarter of 2018 we recorded a YoY growth in the number of all our core services provided in the contract model, i.e. pay TV, mobile telephony services, and mobile broadband. At the same time, following several quarters of visible pressure resulting from the entry into force of legal regulations obligating customers of all mobile networks to register prepaid SIM cards, we observed stabilization of the number of provided prepaid services at high growth dynamics of ARPU. In the fourth quarter of 2018 we took a decision about joining customers using prepaid services offered by our subsidiary Aero 2 under the “a2mobile” brand to Premium Mobile, a company in which we hold a minority stake. Due to that, starting from the fourth quarter of 2018 the services used by the customers of the "a2mobile" brand are not included into the above data while we obtain additional wholesale revenue from traffic generated by these customers.

Contract services

As at December 31, 2018, we provided contract services to a total of 5,706,147 customers, i.e. 1.2% less compared to 5,776,598 customers the Group had as at December 31, 2017. The main reason behind the decline of the contract customer base was the merging of contracts under one common contract for the household, which is reflected in the growing RGU saturation per customer ratio (increase by 5.5% YoY). In line with our strategic assumptions, we avoid conducting an aggressive sales policy on individual products and focus rather on increasing customer loyalty, in particular through offering a wide portfolio of bundled services, as well as on increasing ARPU per contract customer.

The number of contract services provided by us increased by 574,220 in the last 12 months, that is by 4.2%, to 14,259,264 as at December 31, 2018, from 13,685,044 as at December 31, 2017. We recorded growth in the number of all types of services provided in the contract model. The number of pay TV services provided in the contract model amounted to 5,098,917 as at December 31, 2018, which constitutes an increase by 156,277, or 3.2%, compared to 4,942,640 as at December 31, 2017. This increase is mainly due to the growing popularity of our Multiroom service (YoY increase by nearly 61 thousand, to approximately 1.2 million RGUs) and to dynamically increasing sales of paid OTT services. The number of provided mobile telephony services in the contract model increased by 412,537, or 6.0%, reaching the level of 7,345,213 as at December 31, 2018, up from 6,932,676 as at December 31, 2017. This growth was driven by the successful implementation of our strategy of cross-selling and the introduction in February 2018 of new, attractive tariff plans addressed to contract customers, as well as by high demand among business customers for m2m services. In terms of mobile broadband, as at December 31, 2018, we provided 1,815,134 RGUs in the contract model, that is by 5,406, or 0.3%, more than as at December 31, 2017, when we provided 1,809,728 such services. Slower growth dynamics is associated, among others, with the gradual saturation of the market with dedicated mobile Internet access services and constantly growing popularity of data transmission in mobile telephony tariff plans (smartphones). As at December 31, 2018, every customer in our base had on average 2.50 contract services, which constitutes an increase of 5.5% compared to 2.37 contract services per customer as at December 31, 2017. We believe that further saturation of our customer base with integrated services, including our flagship product smartDOM to which we consistently add new products, will positively influence the growth of the number of contract RGUs provided by us in the future.

In line with the assumptions of our long-term strategy we aim to maximize revenue per contract customer through cross-selling, i.e., selling additional products and services to our customer base within the framework of our bundled services offer, which has a positive impact on ARPU per contract customer. In 2018, average revenue per contract customer increased by 0.8% to PLN 89.7, from PLN 89.0 in 2017. In the fourth quarter of 2018 the average revenue per contract customer increased by 1.7% to PLN 90.5 as compared to PLN 89.0 in the fourth quarter of 2017. After applying the currently effective IFRS 15 standard, reported contract ARPU grew YoY by 2.8% to PLN 83.2 in 2018 as compared to PLN 81.0 in 2017 and by 2.6% to PLN 84.0 in the fourth quarter of 2018 as compared to PLN 81.9 in the fourth quarter of 2017.

Our churn rate amounted to 7.6% in the twelve-month period ended December 31, 2018, decreasing by 1.2 p.p. as compared to 8.8% in the twelve-month period ended December 31, 2017. This is primarily the effect of the high level of loyalty of our customers of bundled services resulting from the successful implementation of our multiplay strategy.

Our bundled services offer, based on a mechanism of offering attractive rebates on every additional product or service purchased from the Group's portfolio, remains very popular and continues to record very good sales results, which has a positive effect on the churn rate, RGU saturation per customer rate and ARPU per contract customer. It is also the best recognized convergent offering on the Polish market (according to the GFK survey from January 2018). At the end of December 2018, already 1,795,984 customers were using our bundled services, which constitutes an increase of 285,269 customers, or 18.9%, YoY. This means that the saturation of our contract customer base with multiplay services was at the level of 31.5% at the end of December 2018. This group of customers had a total of 5,384,855 RGUs, that is by 865,094, or 19.1%, more than in 2017. In the first quarter of 2018, we lifted entry thresholds for the smartDOM program, thus making our bundled services offering available to all customers on identical terms, which translated positively into the dynamics of growth of our multiplay services customer base and blended ARPU level for the total customer base. Bearing in mind the long-term goal of our Group - the maximization of revenue per contract customer through cross-selling - our bundled services offer is perfectly in line with our strategy.

Prepaid services

The number of prepaid services provided by us as at December 31, 2018 decreased by 190,684, that is by 6.7%, to 2,646,869 from 2,837,553 as at December 31, 2017. We strive to grow the number of customers using our contract services by, among others, encouraging the customers of prepaid services to choose our contract tariff plans. Furthermore, in the fourth quarter of 2018 we decided to join the customers using the prepaid services provided by our subsidiary Aero 2 under the "a2mobile" brand to Premium Mobile, a company in which we hold a minority stake. Due to that, staring from the fourth quarter of 2018 the services used by customers using the "a2mobile" brand are not included into the above provided data while we obtain additional wholesale revenue from servicing the traffic generated by these customers. In parallel, thanks to the continuous unification of prices between tariff plans for the contract and prepaid customers, a significant portion of them decided to use the contract services offering.

In 2018, average revenue per prepaid RGU (prepaid ARPU) increased by 2.5%, to PLN 20.4 from PLN 19.9 in 2017. In the fourth quarter of 2018, average revenue per prepaid RGU (prepaid ARPU) amounted to PLN 20.3 as compared to PLN 20.1 in the corresponding period of 2017.

4.4.2. Braodcasting and television production segment

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

Audience shares

	3 months ended December 31		*change [pp]*	12 months ended December 31		*change [pp]*
	2018	2017		2018	2017	
Audience share(1) (2), including:	24.17%	23.87%	*0.30*	24.30%	23.87%	*0.43*
POLSAT (main channel)	*11.07%*	*12.04%*	*(0.97)*	*11.37%*	*12.34%*	*(0.97)*
Thematic channels	*13.10%*	*11.82%*	*1.28*	*12.94%*	*11.53%*	*1.41*
TV4	3.85%	4.26%	*(0.41)*	3.85%	4.06%	*(0.21)*
TV6	1.50%	1.45%	*0.05*	1.47%	1.56%	*(0.09)*
Polsat 2	1.26%	1.46%	*(0.20)*	1.37%	1.43%	*(0.06)*
Super Polsat(3)	1.11%	0.85%	*0.26*	1.05%	0.84%	*0.21*
Polsat News	0.61%	0.65%	*(0.04)*	0.69%	0.75%	*(0.06)*
Polsat Sport	0.25%	0.28%	*(0.03)*	0.32%	0.35%	*(0.03)*
Polsat Film	0.71%	0.78%	*(0.07)*	0.65%	0.77%	*(0.12)*
Polsat Play	0.58%	0.52%	*0.06*	0.52%	0.57%	*(0.05)*
Polsat Cafe	0.35%	0.32%	*0.03*	0.32%	0.39%	*(0.07)*
Disco Polo Music	0.21%	0.22%	*(0.01)*	0.20%	0.21%	*(0.01)*
Polsat Romans	0.16%	0.13%	*0.03*	0.14%	0.12%	*0.02*
Polsat Sport Extra	0.07%	0.06%	*0.01*	0.07%	0.09%	*(0.02)*
Polsat Music HD(4)	0.05%	0.05%	-	0.05%	0.05%	-
Polsat Doku(5)	0.09%	0.04%	*0.05*	0.06%	0.03%	*0.03*
Polsat News 2	0.04%	0.04%	-	0.04%	0.07%	*(0.03)*
Polsat Sport News HD(6)	0.03%	0.04%	*(0.01)*	0.03%	0.04%	*(0.01)*
Polsat Sport Fight	0.04%	0.04%	-	0.03%	0.03%	-
Polsat 1(7)	n/a	n/a	*n/a*	n/a	n/a	*n/a*
Polsat Sport Premium 1(7)	n/a	n/a	*n/a*	n/a	n/a	*n/a*
Polsat Sport Premium 2(7)	n/a	n/a	*n/a*	n/a	n/a	*n/a*
Polsat Games(8)	0.04%	0.00%	*0.04*	0.01%	0.00%	*0.01*
Polsat Rodzina(8)	0.03%	0.00%	*0.03*	0.01%	0.00%	*0.01*
Channels acquired in 2017(8)						
Polo TV	1.00%	0.88%	*0.12*	0.94%	1.11%	*(0.17)*
Eska TV	0.72%	0.76%	*(0.04)*	0.80%	0.48%	*0.32*
Vox Music TV	0.09%	0.06%	*0.03*	0.09%	0.06%	*0.03*
Eska TV Extra	0.07%	0.08%	*(0.01)*	0.08%	0.10%	*(0.02)*
Eska Rock TV	0.04%	0.02%	*0.02*	0.02%	0.01%	*0.01*
Channels acquired in 2018(9)						
Superstacja	0.05%	0.06%	*(0.01)*	0.06%	0.08%	*(0.02)*
Eleven Sports 1	0.14%	0.12%	*0.02*	0.13%	0.09%	*0.04*
Eleven Sports 2	0.04%	0.06%	*(0.02)*	0.05%	0.06%	*(0.01)*
Eleven Sports 3(7)	n/a	n/a	*n/a*	n/a	n/a	*n/a*
Eleven Sports 4(7)	n/a	n/a	*n/a*	n/a	n/a	*n/a*
Advertising market share(10)	27.7%	27.1%	*0.6 pp*	27.2%	27.1%	*0.1 pp*

Channels cooperating with Cyfrowy Polsat Group (non-consolidated)	3 months ended December 31		change [pp]	12 months ended December 31		change [pp]
	2018	2017		2018	2017	
Fokus TV	0.87%	0.81%	*0.06*	0.91%	0.80%	*0.11*
Nowa TV	0.28%	0.26%	*0.02*	0.29%	0.20%	*0.09*
CI Polsat	0.13%	0.15%	*(0.02)*	0.13%	0.17%	*(0.04)*
Polsat Viasat History	0.10%	0.13%	*(0.03)*	0.11%	0.15%	*(0.04)*
Polsat JimJam	0.10%	0.12%	*(0.02)*	0.09%	0.15%	*(0.06)*
Polsat Viasat Explore	0.09%	0.09%	-	0.10%	0.10%	-
Polsat Viasat Nature	0.02%	0.03%	*(0.01)*	0.03%	0.02%	*0.02*
TV Okazje(7)	n/a	n/a	*n/a*	n/a	n/a	*n/a*

1) Nielsen Audience Measurement, All day ages 16-49 audience share, including Live+2 (viewership results include 2 additional days of time-shifted viewing).
2) When calculating the total audience share of Polsat Group and audience share of thematic channels, we take into account the moment of including the channel in our portfolio.
3) Channel broadcasting in DTT since January 2, 2017, replaced Polsat Sport News.
4) Until May 26, 2017, channel broadcast under the name "MUZO.TV".
5) Channel broadcast since February 10, 2017, data for the broadcasting period.
6) Channel available only in cable and satellite networks since January 2, 2017 under the name "Polsat Sport News HD".
7) Channel not included in the telemetric panel.
8) Channel launched in October 2018.
9) Channels included in Polsat Group's portfolio on December 4, 2017, data for the entire analyzed period.
10) Channels included in Polsat Group's portfolio in June 2018.
11) Our estimates based on Starcom data.

The audience share in the commercial group (all viewers aged 16-49, including Live+2, i.e. 2 additional days of time-shifted viewing) for the entire Polsat Group in the fourth quarter of 2018 amounted to 24.17% and increased by 0.3 p.p. on a year-on-year basis. The increase was associated with the acquisitions of the new stations and steadily growing audience shares of our thematic channels.

The audience share in the commercial group (all viewers aged 16-49, including Live+2, i.e. 2 additional days of time-shifted viewing) for the entire Polsat Group in 2018 amounted to 24.33% and increased slightly above 0.4 p.p. on a year-on-year basis. The increase was associated with the acquisitions of the new stations and steadily growing audience shares of our thematic channels.

Our thematic channels recorded a year-on-year increase in both the fourth quarter of 2018 (by 1.3 p.p. to the level of 13.7%) and in 2018 (by 1.4 p.p. to the level of 12.9%). Comparing 2018 with 2017, it can be seen that the channels acquired in December 2017 - Eska TV, Eska TV Extra, Eska Rock TV, Polo TV and Vox Music TV – as well as the stations added in June 2018 – i.e., the channels from the Eleven Sports group and Superstacja – strongly support the viewership results of our thematic channels. Besides, it is worth mentioning the consistently growing audience share of Super Polsat channel which was launched in January 2017.

Both in the fourth quarter and in 2018, viewers in the commercial group were attracted by the fixed slots on our main channel's schedule. Premier episodes of the TV series *First Love* turned out to be very popular, gaining an audience share of 16.4% in the fourth quarter and 17.5% in 2018. Monday's film slot *Mega Hit* had an audience share of 15.7% in the fourth quarter and 15.1% in 2018.

The news program broadcast daily at 6.50 p.m., *The News*, maintained high viewership figures with an audience share of 16.9% in the fourth quarter and 17.0% in 2018. The morning block of news and information programs, *New day with Polsat News*, broadcast daily from Monday to Friday, is worth mentioning. This block had an audience share of 13.4% in the fourth quarter and 16.7% in 2018.

The results of the fourth quarter and 2018 were significantly influenced by programs from the season programming. A large audience was gathered by the show *Your Face Sounds Familiar.* The Saturday slots dedicated to this show had an audience share of 16.5% in the fourth quarter and 14.8% in 2018. Another position in our scheduling, the show *Our New House*, gathered on average 15.6% of viewers in the fourth quarter and 14.4% in 2018. The resumed in spring show *Dancing with the Stars* was watched by 14.0% of audience and the show *World of Dance Polska,* aired in autumn in the same programming time, gained 8.3% of viewers. *Live Cabaret* entertainment series, broadcast on Sunday evenings, had an audience share of 9.9% in the fourth quarter and 13.3% in 2018. The reality show *Marry me,* aired in spring, gained an audience share of 11.1% while the show *All Together Now*, presented in the same time in autumn, was watched by 11.8% of audience.

Moreover, it is worth noticing the results of broadcast series. The series *World According to the Kiepski Family* was popular with an audience share of 11.0% in the fourth quarter and 11.3% in 2018. The series *Girlfriends* gained 15.1% of audience share in the fourth quarter and 14.6% in 2018. Another popular series was *In the Heart's Rhythm* with a 10.3% share in the fourth quarter and an 11.0% share in 2018.

Cabaret and entertainment shows were highly popular in the fourth quarter of 2018. The *Świętokrzyska Cabaret Gala* of August 25, 2018 had a 24.0% audience share and the concert Festival of Wedding Hits of August 18, 2018 gained a share of 22.6%. In nine months of 2018 it is particularly worth noticing the audience shares of *Polsat Superhit Festiwal 2018* broadcast on May 27, 2018 which attracted 28.9% of viewers and *The Cabaret Night at Opole – 800 years of Opole* aired on January 7, 2018 with a 20.5% share of audience. Other programs worth mentioning include *Kabaret Skeczów Męczących Radio Muzyka Żarty* of April 1, 2018 which gained a 19.7% share of audience, *XI Płocka Noc Kabaretowa* of July 29, 2018, with an audience share at the level of 20.8%, the cabaret *Paranienormalni Cabaret - The Joke is Over* of February 18, 2018 which gained a 18.2% share and the *Świętokrzyska Cabaret Gala* of January 21, 2018 with a 17.3% share.

Advertising and sponsoring market share

According to estimates of Starcom media house, expenditures on TV advertising and sponsoring in 2018 amounted to PLN 4.4 billion, increasing year-on-year by 6.3%. Based on these data, we estimate that in 2018 our TV advertising market share amounted to 27.2% and remained on a similar level as compared to 27.1% for 2017. In the fourth quarter of 2018, expenditures on TV advertising and sponsoring amounted to PLN 1.3 billion, which constitutes an increase of 2.4% year-on-year. Our TV ad market share increased in the fourth quarter of 2018 to 27.7% from 27.1% in the fourth quarter of 2017.

If we compare the current portfolio of Polsat Group's channels, we generated 2.8% more GRPs in 2018 compared to 2017.

Distribution and technical reach

Technical reach[1]	3 months ended December 31		change [pp]	12 months ended December 31		change [pp]
	2018	2017		2018	2017	
Polsat	100.0%	100.0%	-	100.0%	100.0%	-
TV4	99.9%	100.0%	*(0.10)*	100.0%	99.9%	*0.10*
Polo TV[2]	98.5%	97.6%	*0.90*	98.2%	97.4%	*0.80*
Eska TV[2]	98.3%	97.8%	*0.50*	98.1%	97.6%	*0.50*
Super Polsat[3]	97.7%	97.0%	*0.70*	97.5%	96.5%	*1.00*
TV6	95.8%	95.5%	*0.30*	95.9%	95.5%	*0.40*
Polsat 2	62.9%	62.6%	*0.30*	62.2%	63.0%	*(0.80)*
Eska TV Extra[2]	60.6%	58.8%	*1.80*	59.1%	56.2%	*2.90*
Polsat News 2	57.9%	58.4%	*(0.50)*	58.8%	58.0%	*0.80*
Superstacja	57.9%	57.4%	*0.50*	57.0%	58.1%	*(1.10)*
Polsat News	55.3%	56.0%	*(0.70)*	55.8%	56.3%	*(0.50)*
Vox Music TV[2]	56.7%	35.6%	*21.10*	53.9%	34.8%	*19.10*
Polsat Cafe	56.5%	55.3%	*1.20*	55.3%	55.9%	*(0.60)*
Polsat Film	55.3%	53.3%	*2.00*	54.2%	58.2%	*(4.00)*
Polsat Play	54.3%	51.7%	*2.60*	53.1%	51.0%	*2.10*
Polsat Romans	51.3%	47.9%	*3.40*	49.9%	47.5%	*2.40*
Disco Polo Music	50.1%	48.6%	*1.50*	49.2%	48.3%	*0.90*
Polsat Music HD[4]	47.2%	46.5%	*0.70*	47.7%	44.4%	*3.30*
Polsat Sport	46.9%	46.5%	*0.40*	46.3%	47.2%	*(0.90)*
Eska Rock TV[2]	47.2%	26.2%	*21.00*	44.5%	25.4%	*19.10*
Polsat Sport Extra	36.7%	35.6%	*1.10*	36.1%	36.0%	*0.10*
Polsat Doku[6]	36.7%	24.0%	*12.70*	30.1%	23.1%	*7.00*
Polsat Sport News HD[5]	29.1%	28.3%	*0.80*	29.6%	27.8%	*1.80*
Polsat Sport Fight	18.7%	12.1%	*6.60*	18.3%	11.9%	*6.40*
Eleven Sports 1	12.5%	8.4%	*4.10*	12.9%	6.8%	*6.10*
Eleven Sports 2	12.6%	9.0%	*3.60*	13.1%	7.6%	*5.50*
Polsat 1[7]	n/a	n/a	*n/a*	n/a	n/a	*n/a*
Eleven Sports 3[8]	n/a	n/a	*n/a*	n/a	n/a	*n/a*
Eleven Sports 4[8]	n/a	n/a	*n/a*	n/a	n/a	*n/a*
Polsat Sport Premium 1[8]	n/a	n/a	*n/a*	n/a	n/a	*n/a*
Polsat Sport Premium 2[8]	n/a	n/a	*n/a*	n/a	n/a	*n/a*
Polsat Games[9]	28.7%	n/a	*n/a*	28.7%	n/a	*n/a*
Polsat Rodzina[9]	26.1%	n/a	*n/a*	26.1%	n/a	*n/a*

Channels cooperating with Cyfrowy Polsat Group (non-consolidated)						
	3 months ended December 31		change [pp]	12 months ended December 31		change [pp]
	2018	2017		2018	2017	
Fokus TV	98.0%	97.1%	*0.90*	97.7%	96.7%	*1.00*
Nowa TV	82.0%	75.1%	*6.90*	78.8%	68.4%	*10.40*
Polsat Viasat History	53.1%	48.5%	*4.60*	50.0%	49.3%	*0.70*
Polsat JimJam	45.7%	45.2%	*0.50*	45.1%	45.6%	*(0.50)*
Polsat Viasat Nature	47.2%	43.3%	*3.90*	44.6%	43.7%	*0.90*
Polsat Viasat Explore	46.8%	43.0%	*3.80*	44.7%	43.6%	*1.10*
CI Polsat	41.1%	40.5%	*0.60*	40.4%	40.6%	*(0.20)*
TV Okazje(8)	n/a	n/a	*n/a*	n/a	n/a	*n/a*

1) Nielsen Audience Measurement, percentage of TV households able to receive a given channel; arithmetical average of monthly technical reach.
2) Channel included in Polsat Group's portfolio from December 4, 2017.
3) Channel broadcasting in DTT since January 2, 2017, replaced Polsat Sport News.
4) Channel broadcast since May 26, 2017, replaced MUZO.TV.
5) Channel available only in cable and satellite networks since January 2, 2017 under the name "Polsat Sport News HD".
6) Channel broadcast since February 10, 2017, data for the broadcasting period.
7) Channel broadcast outside of Poland, not included in the telemetric survey.
8) Channel not included in the telemetric survey.
9) Channel included into Polsat Group's portfolio in October 2018.

Thematic channels of Polsat Group are currently available on all significant cable and satellite platforms. The largest increase in technical reach was observed in case of Vox Music TV and Eska TV Extra (through adding them to the program offerings of further TV operators following their inclusion to the Group's portfolio). Besides, when comparing data for the analyzed periods of 2018 with the corresponding periods of 2017 it is worth noticing the increases in reach of other stations, such as Polsat Music HD, Polsat Sport News HD, Polsat Doku as well as Polsat Sport Fight. These represent the latest channels in our portfolio which can be accessed by the growing shares of the Polish audience. The technical reach also increased in case of Eleven Sports 1 and Eleven Sports 2 channels.

4.5. Key positions in the consolidated income statement

Revenue

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

Retail revenue

Retail revenue consists primarily of:

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

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

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

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

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

(vi) activation fees;

(vii) penalties; and

(viii) fees for additional services.

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

Wholesale revenue

Our wholesale revenue comprises:

(i) advertising and sponsorship revenue;

(ii) revenue from cable and satellite operator fees;

(iii) revenue from the lease of infrastructure;

(iv) interconnect revenue;

(v) revenue from roaming;

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

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

(viii) revenue from Premium rate services.

Sale of equipment

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

Other revenue

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

Operating costs

Operating costs consist of:

(i) content costs;

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

(iii) depreciation, amortization, impairment and liquidation;

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

(v) salaries and employee-related costs;

(vi) cost of equipment sold;

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

(viii) other costs.

Content costs

Content costs consist of:

(i) programming license costs;

(ii) amortization of purchased film licenses;

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

(iv) other content costs.

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

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

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

Distribution, marketing, customer relation management and retention cost

Distribution costs consist of:

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

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

(iii) costs of warranty service; and

(iv) costs of maintenance of points of sales.

Marketing expenses consist of expenses on TV and radio commercials, press, online and outdoor advertising, promotional activities and materials, as well as other expenses incurred to increase sales and brand recognition.

Customer relation management and retention costs consist of mailing costs, call center costs and other customer relation management costs.

Depreciation, amortization, impairment and liquidation

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

(i) depreciation of network systems components and telecommunication network equipment (access and core network equipment, network management systems and software, fiber optic cables, etc.);

(ii) amortization of costs of telecommunications concessions;

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

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

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

(vi) non-current assets impairment allowance; and

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

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with telecommunication operators comprise:

(i) telecommunications and IT infrastructure lease costs;

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

(iii) telecommunication network maintenance costs and fees;

(iv) IT systems maintenance costs;

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

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

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

(viii) interconnection and roaming charges; and

(ix) other costs.

Salaries and employee-related costs

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

Cost of equipment sold

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

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

In this group of costs we present:

(i) bad debt recovery fees;

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

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

Other costs

Key items of other costs include:

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

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

(iii) legal, advisory and consulting costs;

(iv) property maintenance costs;

(v) taxes and other charges;

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

(vii) other costs.

Other operating income/costs, net

Other operating income/costs consist of:

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

Gains and losses on investment activities, net

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

Finance costs

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

4.6. Review of the Group's financial situation

The following review of results for the three- and twelve-month periods ended December 31, 2018 was prepared based on the consolidated financial statements for the twelve-month period ended September 30, 2018, prepared in accordance with International Financial Reporting Standards as approved for use by the European Union and based on internal analysis.

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

Starting from January 1, 2018, the Group is obligated to apply IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. The Group has decided to apply IFRS 15 retrospectively without restating the comparative figures for 2017. In order to ensure full comparability of the data for the three- and twelve-month periods ended December 31, 2017 and December 31, 2018, financial figures in the income statement for the three- and twelve-month periods ended December 31, 2018 have been presented in two ways:

- in accordance with IAS 18 binding until December 31, 2017 and excluding financial results of Netia Group over which the Company took control effective May 22, 2018, and
- and in accordance with IFRS 9 and IFRS 15 applicable from January 1, 2018 and including the financial results of Netia Group for the consolidated period.

In the Management Board's opinion, when analyzing operational and financial results of the Group year-on-year, above all the comparability of applied accounting standards should be maintained. In particular, comparing the financial results for 2018, presented in accordance with IFSR 9 and IFRS 15, with the financial results for 2017, presented in accordance with the accounting standard binding before January 1, 2018 (IAS 18), would lead, in the Management Board's opinion, to drawing the wrong conclusions concerning the Group's financial results.

It should be noted that the financial data for the three- and twelve-month periods ending December 31, 2018 and December 31, 2017 are not fully comparable due to the disposal of LTE Holdings Limited on June 19, 2017, the acquisition of 51% of shares in Plus Flota Sp. z o.o. (formerly Paszport Korzyści Sp. z o.o.) on September 7, 2017, the acquisition of 100% of shares in Eska TV S.A. and Lemon Records Sp. z o.o. on December 4, 2017, the acquisition of 34.02% and later 15.46% of shares in TV Spektrum Sp. z o.o. on December 4, 2017 and February 2, 2018, respectively, the acquisition of 31.76% of shares of Netia S.A. on December 5, 2017 and the acquisition of additional shares of Netia S.A. on May 22, 2018, July 3, 2018 and October 2, 2018, respectively, the disposal of shares in New Media Ventures Sp. z o.o. on December 8, 2017, the acquisition of 100% of shares in Coltex ST Sp. z o.o. on March 1, 2018, the acquisition of 50% plus one share in Eleven Sports Network Sp. z o.o. on May 25, 2018, the acquisition of 45.1% of shares in TVO Sp. z o.o. on May 29, 2018, the acquisition of 100% of shares in Superstacja Sp. z o.o. on June 4, 2018, the acquisition of 100% of shares in Netshare Media Group Sp. z o.o. on June 25, 2018, and reaching 24.47% of votes in Premium Mobile S.A. in 2018. Furthermore, the comparability of figures presented below is affected by the retrospective implementation from January 1, 2018 of IFRS 9 and IFRS 15 without the restatement of the comparative figures.

Due to the fact that the results of the above mentioned companies, excluding Netia S.A., do not have a material impact on the results of the Group, we do not eliminate them when analyzing the Group's financial situation.

4.6.1. Income statement analysis

Review of financial results for the fourth quarter of 2018 and 2017

[mPLN]	Results in accordance with IFRS 15 incl. Netia Group	Results in accordance with IAS 18 binding until December 31, 2017 excl. Netia Group			
	for the 3 month period ended December 31, 2018	for the 3 month period ended December 31		change	
		2018	2017	[mPLN]	[%]
Revenue	3,002.0	2,682.0	2,579.2	102.8	4.0%
Operating costs	(2,588.9)	(2,266.0)	(2,139.2)	(126.8)	5.9%
Other operating income, net	6.3	0.0	(2.1)	2.1	(100.0%)
Profit from operating activities	419.4	416.0	437.9	(21.9)	(5.0%)
Gain/(loss) on investment activities, net	4.6	4.7	19.1	(14.4)	(75.4%)
Finance costs, net	(113.6)	(113.3)	(105.4)	(7.9)	7.5%
Share of the profit/(loss) of associates accounted for using the equity method	(2.8)	(2.8)	2.8	(5.6)	(200.0%)
Gross profit for the period	307.6	304.6	354.4	(49.8)	(14.1%)
Income tax	(242.2)	(246.7)	(197.2)	(49.5)	25.1%
Net profit for the period	65.4	57.9	157.2	(99.3)	(63.2%)
EBITDA	*941.3*	*846.6*	*872.7*	*(26.1)*	*(3.0%)*
EBITDA margin	*31.4%*	*31.6%*	*33.8%*	*-*	*-*

Revenue

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, our total revenue increased by PLN 102.8 million, or 4.0%, to PLN 2,682.0 million in the fourth quarter of 2018 from PLN 2,579.2 million in the fourth quarter of 2017. The increase in revenue was triggered by factors described below.

In accordance with IFRS 15 and including Netia Group's results, our total revenue amounted to PLN 3,002.0 million in the fourth quarter of 2018.

[mPLN]	Results in accordance with IFRS 15 incl. Netia Group	Results in accordance with IAS 18 binding until December 31, 2017 excl. Netia Group			
	for the 3 month period ended December 31, 2018	for the 3 month period ended December 31		change	
		2018	2017	[mPLN]	[%]
Retail revenue	1,627.8	1,484.8	1,497.9	(13.1)	(0.9%)
Wholesale revenue	927.8	860.1	735.8	124.3	16.9%
Sale of equipment	398.2	286.2	298.8	(12.6)	(4.2%)
Other revenue	48.2	50.9	46.7	4.2	9.0%
Revenue	3,002.0	2,682.0	2,579.2	102.8	4.0%

Retail revenue

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, retail revenue remained stable, changing by PLN 13.1 million, or 0.9%, to PLN 1,484.8 million in the fourth quarter of 2018, from PLN 1,497.9 million in the fourth quarter of 2017, primarily due to lower revenue from voice services which was compensated by higher revenue from pay TV and data transmission services.

In accordance with IFRS 15 and including Netia Group's results, retail revenue amounted to PLN 1,627.8 million in the fourth quarter of 2018.

Wholesale revenue

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, wholesale revenue increased by PLN 124.3 million, or 16.9%, to PLN 860.1 million in the fourth quarter of 2018 from PLN 735.8 million in the fourth quarter of 2017. The increase of wholesale revenue was triggered primarily by higher advertising revenue and the inclusion of new TV channels to our wholesale offering, in particular the Eleven Sports Network and Polsat Sport Premium packages, which resulted in higher revenue from cable and satellite operators. Furthermore, we recorded higher revenue from the sale of programming sublicenses.

In accordance with IFRS 15 and including Netia Group's results, wholesale revenue amounted to PLN 927.8 million in the fourth quarter of 2018.

Sale of equipment

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, revenue from the sale of equipment decreased by PLN 12.6 million, or 4.2%, to PLN 286.2 million in the fourth quarter of 2018 from PLN 298.8 million in the fourth quarter of 2017, which was primarily due to a lower volume of sales of end-user devices, which was also reflected in the lower cost of equipment sold.

In accordance with IFRS 15 and including Netia Group's results, revenue from the sale of equipment amounted to PLN 398.2 million in the fourth quarter of 2018.

Other revenue

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, other revenue increased by PLN 4.2 million, or 9.0%, to PLN 50.9 million in the fourth quarter of 2018 from PLN 46.7 million in the fourth quarter of 2017. This increase was mainly due to by higher revenue from interest on installment plan sales of equipment to residential customers, which compensated lower margin on sale of electricity.

In accordance with IFRS 15 and including Netia Group's results, other revenue amounted to PLN 48.2 million in the fourth quarter of 2018.

Operating costs

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, our operating costs increased by PLN 126.8 million, or 5.9%, to PLN 2,266.0 million in the fourth quarter of 2018 from PLN 2,139.2 million in the fourth quarter of 2017. Operating costs increased for the reasons set forth below.

In accordance with IFRS 15 and including Netia Group's results, operating costs amounted to PLN 2,588.9 million in the fourth quarter of 2018.

[mPLN]	Results in accordance with IFRS 15 incl. Netia Group	Results in accordance with IAS 18 binding until December 31, 2017 excl. Netia Group			
	for the 3 month period ended December 31, 2018	for the 3 month period ended December 31		change	
		2018	2017	[mPLN]	[%]
Technical costs and cost of settlements with telecommunication operators	691.1	560.1	533.8	26.3	4.9%
Depreciation, amortization, impairment and liquidation	521.9	430.6	434.8	(4.2)	(1.0%)
Cost of equipment sold	338.1	331.7	357.9	(26.2)	(7.3%)
Content costs	424.0	406.8	321.2	85.6	26.7%
Distribution, marketing, customer relation management and retention costs	268.7	265.6	243.3	22.3	9.2%
Salaries and employee-related costs	238.7	184.2	164.2	20.0	12.2%
Cost of debt collection services and bad debt allowance and receivables written off	19.6	19.0	10.5	8.5	81.0%
Other costs	86.8	68.0	73.5	(5.5)	(7.5%)
Operating costs	2,588.9	2,266.0	2,139.2	126.8	5.9%

Technical costs and cost of settlements with telecommunication operators

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, technical costs and cost of settlements with telecommunication operators increased by PLN 26.3 million, or 4.9%, to PLN 560.1 million in the fourth quarter of 2018 from PLN 533.8 million in the fourth quarter of 2017. This increase resulted mainly from higher costs of telecommunications network maintenance, in particular due to higher provisions for the cost of electricity.

In accordance with IFRS 15 and including Netia Group's results, technical costs and cost of settlements with telecommunication operators amounted to PLN 691.1 million in the fourth quarter of 2018.

Depreciation, amortization, impairment and liquidation

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, depreciation, amortization, impairment and liquidation costs decreased by PLN 4.2 million, or 1.0%, to PLN 430.6 million in the fourth quarter of 2018 from PLN 434.8 million in the fourth quarter of 2017.

In accordance with IFRS 15 and including Netia Group's results, depreciation, amortization, impairment and liquidation costs amounted to PLN 521.9 million in the fourth quarter of 2018.

Cost of equipment sold

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, the cost of equipment sold decreased by PLN 26.2 million, or 7.3%, to PLN 331.7 million in the fourth quarter of 2018 from PLN 357.9 million in the fourth quarter of 2017, as a consequence of a lower volume of sales of end-user devices.

In accordance with IFRS 15 and including Netia Group's results, the cost of equipment sold amounted to PLN 338.1 million in the fourth quarter of 2018.

Content costs

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, content costs increased by PLN 85.6 million, or 26.7%, to PLN 406.8 million in the fourth quarter of 2018 from PLN 321.2 million in the fourth quarter of 2017. This increase was mostly the result of higher cost of internal and external production and amortization of sports rights due to, among others, the consolidation of the Eleven Sports Networks channels and the launch of the Polsat Sport Premium channels broadcasting, among others, football games of the UEFA Champions League and the UEFA Europa League.

In accordance with IFRS 15 and including Netia Group's results, content costs amounted to PLN 424.0 million in the fourth quarter of 2018.

Distribution, marketing, customer relation management and retention costs

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, distribution, marketing, customer relation management and retention costs increased by PLN 22.3 million, or 9.2%, to PLN 265.6 million in the fourth quarter of 2018 as compared to PLN 243.3 million in the fourth quarter of 2017. This increase was mainly due to the intensification of marketing campaigns, including those related to football games of the UEFA Champions League and the UEFA Europa League and to Eleven Sports Network.

In accordance with IFRS 15 and including Netia Group's results, distribution, marketing, customer relation management and retention costs amounted to PLN 268.7 million in the fourth quarter of 2018.

Salaries and employee-related costs

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, salaries and employee-related costs increased by PLN 20.0 million, or 12.2%, to PLN 184.2 million in the fourth quarter of 2018 from PLN 164.2 million in the fourth quarter of 2017, due to concluded acquisitions and the related increase in Group's headcount, an increase in the average salary per employee (including a bonus provision) as well as increased scope of trainings for employees.

In accordance with IFRS 15 and including Netia Group's results, salaries and employee-related costs amounted to PLN 238.7 million in the fourth quarter of 2018.

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

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, cost of debt collection services and bad debt allowance and receivables written off increased by PLN 8.5 million, or 81.0%, to PLN 19.0 million in the fourth quarter of 2018 from PLN 10.5 million in the fourth quarter of 2017, mainly resulting from the revaluation adjustment of certain overdue receivables made to reflect the current market conditions.

In accordance with IFRS 15 and including Netia Group's results, cost of debt collection services and bad debt allowance and receivables written off amounted to PLN 19.6 million in the fourth quarter of 2018.

Other costs

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, other costs decreased by PLN 5.5 million, or 7,5%, to PLN 68,0 million in the fourth quarter of 2018 from PLN 73.5 million in the fourth quarter of 2017, mainly as a result of lower legal, advisory and consulting costs.

In accordance with IFRS 15 and including Netia Group's results, other costs amounted to PLN 86.8 million in the fourth quarter of 2018.

Other operating income and costs, net

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, other operating income, net amounted to null in the fourth quarter of 2018 as compared to other operating costs, net of PLN 2.1 million in the fourth quarter of 2017.

In accordance with IFRS 15 and including Netia Group's results, other operating income, net amounted to PLN 6.3 million in the fourth quarter of 2018.

Gains on investment activities, net

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, gains on investment activities, net amounted to PLN 4.7 million in the fourth quarter of 2018, compared to gains on investment activities, net of PLN 19.1 million in the fourth quarter of 2017. The change in net gains was mainly the effect of foreign exchange rates differences related, among others, to the valuation of UMTS license liabilities and liabilities related to the purchase of content, caused by depreciation of the PLN versus the EUR in the fourth quarter of 2018 versus its visible appreciation in the comparative period.

In accordance with IFRS 15 and including Netia Group's results, gains on investment activities, net amounted to PLN 4.6 million in the fourth quarter of 2018.

Finance costs, net

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, finance costs, net amounted to PLN 113.3 million in the fourth quarter of 2018 and increased by PLN 7.9 million, or 7.5%, compared to PLN 105.4 million in the fourth quarter of 2017. This increase was due to a change in valuation of transactions hedging interest rate risk executed under the Group's hedging policy.

In accordance with IFRS 15 and including Netia Group's results, finance costs, net amounted to PLN 113.6 million in the fourth quarter of 2018.

Income tax

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, income tax amounted to PLN 246.7 million in the fourth quarter of 2018 and increased by PLN 49.5 million, or 25.1%, compared to PLN 197.2 million in the fourth quarter of 2017. In both periods compared this item was adversely impacted by a one-off, non-cash change in the balance of deferred income tax liabilities (PLN 162.6 million in the fourth quarter of 2018 and PLN 144.0 million in the fourth quarter of 2017).

In accordance with IFRS 15 and including Netia Group's results, income tax amounted to PLN 242.2 million in the fourth quarter of 2018.

Net profit

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, as a result of changes mentioned above net profit decreased by PLN 99.3 million, or 63.2%, to PLN 57.9 million in the fourth quarter of 2018 from PLN 157.2 million in the fourth quarter of 2017.

In accordance with IFRS 15 and including Netia Group's results, net profit amounted to PLN 65.4 million in the fourth quarter of 2018.

EBITDA & EBITDA margin

In accordance with IFRS 15 and including Netia Group's results, EBITDA was PLN 941.3 million and EBITDA margin was 31.4% in the fourth quarter of 2018. It represents a higher result than EBITDA recorded for the fourth quarter of 2017 which, in accordance with IAS 18 binding until the end of 2017, amounted to PLN 872.7 million while EBITDA margin amounted to 33.8%. The increase in EBITDA results mainly from the consolidation of Netia Group results.

Employment

The average employment of permanent workers not engaged in production in Polsat Group, excluding workers who did not perform work in the reporting period due to long-term absences, amounted to 7,066 full-time equivalents (FTE) in the fourth quarter of 2018, i.e., increased by 2,256 FTE or 46.9%, compared to 4,810 FTE in the corresponding period of 2017. This increase was mainly attributable to concluded acquisitions and an inclusion of Netia Group's headcount in particular.

Comparison of financial results for 2018 and 2017

[mPLN]	Results in accordance with IFRS 15 incl. Netia Group	Results in accordance with IAS 18 binding until December 31, 2017 excl. Netia Group			
	for the 12 month period ended December 31, 2018	for the 12 month period ended December 31		change	
		2018	2017	[mPLN]	[%]
Revenue	10,686.1	9,955.0	9,828.6	126.4	1.3%
Operating costs	(8,978.8)	(8,199.7)	(8,015.9)	(183.8)	2.3%
Other operating income/(cost), net	19.7	9.5	21.3	(11.8)	(55.4%)
Profit from operating activities	1,727.0	1,764.8	1,834.0	(69.2)	(3.8%)
Gain/(loss) on investment activities, net	(33.0)	(20.4)	7.2	(27.6)	(383.3%)
Finance costs, net	(386.7)	(385.5)	(509.0)	123.5	(24.3%)
Share of the profit/(loss) of associates accounted for using the equity method	(1.2)	(1.2)	2.8	(4.0)	(142.9%)
Gross profit for the period	1,306.1	1,357.7	1,335.0	22.7	1.7%
Income tax	(490.0)	(504.2)	(389.8)	(114.4)	29.3%
Net profit for the period	816.1	853.5	945.2	(91.7)	(9.7%)
EBITDA	*3,697.7*	*3,541.5*	*3,617.0*	*(75.5)*	*(2.1%)*
EBITDA margin	*34.6%*	*35.6%*	*36.8%*	*-*	*-*

Revenue

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, our total revenue increased by PLN 126.4 million, or 1.3%, to PLN 9,955.0 million in 2018 as compared to PLN 9,828.6 million in 2017. The increase in revenue was triggered by factors described below.

In accordance with IFRS 15 and including Netia Group's results, our total revenue amounted to PLN 10,686.1 million in 2018.

[mPLN]	Results in accordance with IFRS 15 incl. Netia Group	Results in accordance with IAS 18 binding until December 31, 2017 excl. Netia Group			
	for the 12 month period ended December 31, 2018	for the 12 month period ended December 31		change	
		2018	2017	[mPLN]	[%]
Retail revenue	6,092.6	5,920.4	6,067.9	(147.5)	(2.4%)
Wholesale revenue	3,043.8	2,882.3	2,538.6	343.7	13.5%
Sale of equipment	1,386.0	971.5	1,055.2	(83.7)	(7.9%)
Other revenue	163.7	180.8	166.9	13.9	8.3%
Revenue	10,686.1	9,955.0	9,828.6	126.4	1.3%

Retail revenue

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, retail revenue decreased by PLN 147.5 million, or 2.4%, to PLN 5,920.4 million in 2018, from PLN 6,067.9 million in 2017, primarily due to lower revenue from voice services which was compensated by higher revenue from pay TV and data transmission services.

In accordance with IFRS 15 and including Netia Group's results, retail revenue amounted to PLN 6,092.6 million in 2018.

Wholesale revenue

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, wholesale revenue increased by PLN 343.7 million, or 13.5%, to PLN 2,882.3 million in 2018 from PLN 2,538.6 million in 2017. The increase of wholesale revenue was triggered primarily by higher revenues from advertising and sponsoring and from interconnection services, as well as by higher revenue from cable and satellite operators and from the sale of programming sublicenses. The increase in interconnection revenue was the result of the increasing volume of traffic exchanged with other networks while higher advertising revenue was mainly due to the inclusion of new TV channels to the Group's portfolio. In turn, higher revenue from cable and satellite operators and from the sale of programming sublicenses were impacted by the inclusion of new TV channels to our wholesale offering, in particular the Eleven Sports Network and Polsat Sport Premium packages.

In accordance with IFRS 15 and including Netia Group's results, wholesale revenue amounted to PLN 3,043.8 million in 2018.

Sale of equipment

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, revenue from the sale of equipment decreased by PLN 83.7 million, or 7.9%, to PLN 971.5 million in 2018 from PLN 1.055.2 million in 2017, which was primarily due to a lower volume of sales of end-user devices, which was also reflected in the lower cost of equipment sold.

In accordance with IFRS 15 and including Netia Group's results, revenue from the sale of equipment amounted to PLN 1,386.0 million in 2018.

Other revenue

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, other revenue increased by PLN 13.9 million, or 8.3%, to PLN 180.8 million in 2018 from PLN 166.9 million in 2017. This increase was mainly due to growing revenue from interest on installment plan sales of equipment to residential customers which compensated lower margin on sale of electricity.

In accordance with IFRS 15 and including Netia Group's results, other revenue amounted to PLN 163.7 million in 2018.

Operating costs

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, our total operating costs increased by PLN 183.8 million, or 2.3%, to PLN 8,199.7 million in 2018 from PLN 8,015.9 million in 2017. Factors influencing our operating costs are set forth below.

In accordance with IFRS 15 and including Netia Group's results, total operating costs amounted to PLN 8,978.8 million in 2018.

[mPLN]	Results in accordance with IFRS 15 incl. Netia Group	Results in accordance with IAS 18 binding until December 31, 2017 excl. Netia Group			
	for the 12 month period ended December 31, 2018	for the 12 month period ended December 31		change	
		2018	2017	[mPLN]	[%]
Technical costs and cost of settlements with telecommunication operators	2.448,9	2,136.1	2,014.0	122.1	6.1%
Depreciation, amortization, impairment and liquidation	1.970,7	1,776.7	1,783.0	(6.3)	(0.4%)
Cost of equipment sold	1.174,2	1,142.6	1,323.6	(181.0)	(13.7%)
Content costs	1.355,3	1,316.6	1,153.6	163.0	14.1%
Distribution, marketing, customer relation management and retention costs	933,9	902.7	894.3	8.4	0.9%
Salaries and employee-related costs	738,9	610.9	553.1	57.8	10.5%
Cost of debt collection services and bad debt allowance and receivables written off	83,9	82.0	67.4	14.6	21.7%
Other costs	273,0	232.1	226.9	5.2	2.3%
Operating costs	8.978,8	8,199.7	8,015.9	183.8	2.3%

Technical costs and cost of settlements with telecommunication operators

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, technical costs and cost of settlements with telecommunication operators increased by PLN 122.1 million, or 6.1%, to PLN 2,136.1 million in 2018 from PLN 2,014.0 million in 2017. This increase resulted mainly from higher interconnection costs due to a higher volume of calls terminated by our customers in networks of other operators. Other factors included higher cost of telecommunications network maintenance, in particular higher provisions concerning cost of electricity as well as higher cost of renting transponder capacity and terrestrial broadcasting, associated with an increased number of TV channels produced by Polsat Group.

In accordance with IFRS 15 and including Netia Group's results, technical costs and cost of settlements with telecommunication operators amounted to PLN 2,448.9 million in 2018.

Depreciation, amortization, impairment and liquidation

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, depreciation, amortization, impairment and liquidation costs amounted to PLN 1,776.7 million in 2018 and remained on a similar level as compared to PLN 1,783.0 million in 2017.

In accordance with IFRS 15 and including Netia Group's results, depreciation, amortization, impairment and liquidation costs amounted to PLN 1,970.7 million in 2018.

Cost of equipment sold

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, the cost of equipment sold decreased by PLN 181.0 million, or 13.7%, to PLN 1,142.6 million in 2018 from PLN 1,323.6 million in 2017, as a consequence of a lower volume of sales of end-user devices.

In accordance with IFRS 15 and including Netia Group's results, the cost of equipment sold amounted to PLN 1,174.2 million in 2018.

Content costs

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, content costs increased by PLN 163.0 million, or 14.1%, to PLN 1,316.6 million in 2018 from PLN 1,153.6 million in 2017. This increase was mostly the result of higher cost of internal and external production and amortization of sports rights, which was due to recording the costs of the newly acquired TV channels, including the consolidation of the Eleven Sports Networks channels and the launch of the Polsat Sport Premium channels which are broadcasting, among others, the UEFA Champions League and the UEFA Europa League football games as well as 2018 FIVB World Championships and FIVB Volleyball World League.

In accordance with IFRS 15 and including Netia Group's results, content costs amounted to PLN 1,355.3 million in 2018.

Distribution, marketing, customer relation management and retention costs

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, distribution, marketing, customer relation management and retention costs amounted to PLN 902.7 million and remained on a similar level compared to PLN 894.3 million in 2017. Higher marketing costs were off-set by lower distribution and logistics costs. Moreover, we have recorded decreases in costs of customer servicing and retention and in storage costs.

In accordance with IFRS 15 and including Netia Group's results, distribution, marketing, customer relation management and retention costs amounted to PLN 933.9 million in 2018.

Salaries and employee-related costs

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, salaries and employee-related costs increased by PLN 57.8 million, or 10.5%, to PLN 610.9 million in 2018 from PLN 553.1 million in 2017, due to, among others, concluded acquisitions and the related increase in Group's headcount, an increase in the average salary per employee (including a bonus provision) as well as increased scope of trainings for employees.

In accordance with IFRS 15 and including Netia Group's results, salaries and employee-related costs amounted to PLN 738.9 million in 2018.

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

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, cost of debt collection services and bad debt allowance and receivables written off increased by PLN 14.6 million, or 21.7%, to PLN 82.0 million in 2018 from PLN 67.4 million in 2017, mainly resulting from the revaluation adjustment of certain overdue receivables made to reflect the current market conditions.

In accordance with IFRS 15 and including Netia Group's results, cost of debt collection services and bad debt allowance and receivables written off amounted to PLN 83.9 million in 2018.

Other costs

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, other costs increased by PLN 5.2 million, or 2.3%, to PLN 232.1 million in 2018 from PLN 226.9 million in 2017, among others due to the incurred cost of licenses sold, which were related to film productions supported by Cyfrowy Polsat Group as well as higher cost of real property maintenance and the higher cost of taxes and fees resulting from the concluded acquisitions. This, in turn, was compensated with lower legal, advisory and consulting cost.

In accordance with IFRS 15 and including Netia Group's results, other costs amounted to PLN 273.0 million in 2018.

Other operating income, net

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, other operating income, net amounted to PLN 9.5 million in 2018 as compared to other net operating income of PLN 21.3 million in 2017.

In accordance with IFRS 15 and including Netia Group's results, other net operating income amounted to PLN 19.7 million in three quarters of 2018.

Gain and loss on investment activities, net

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, loss on investment activities, net amounted to PLN 20.4 million in 2018, compared to gain on investment activities, net of PLN 7.2 million in 2017. This was mainly the effect of non-cash changes on foreign exchange rates differences related, among others, to the valuation of UMTS license liabilities and content liabilities, caused by a depreciation of the PLN versus the EUR in 2018 versus its appreciation in 2017. Moreover, interest income was lower as a result of, among others, lower level of cash maintained by the Group.

In accordance with IFRS 15 and including Netia Group's results, net losses on investment activities amounted to PLN 33.0 million in 2018.

Finance costs, net

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, finance costs, net amounted to PLN 385.5 million in 2018 and decreased by PLN 123.5 million, or 24.3%, compared to PLN 509.0 million in 2017. This decrease was caused, among others, by lower interest expenses on loans and bonds, resulting from the scheduled repayments of the Combined SFA during 2017, as well as our Group's consistent policy of deleveraging. In turn, an increase in costs was recorded due to the conclusion of IRS derivate transactions. Furthermore, in April 2017 we executed the early redemption of the Litenite Notes, which was associated with a one-time premium reflected in higher financial costs for the first quarter of 2017. In turn, in March 2018 we renegotiated the terms and conditions of the Combined SFA which resulted, among others, in extending the agreement's term. This resulted in a one-time non-cash reduction of finance costs in the first quarter of 2018 due to extending the amortization period of costs related to acquisition of financing incurred in 2015.

In accordance with IFRS 15 and including Netia Group's results, finance costs amounted to PLN 386.7 million in 2018.

Income tax

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, income tax amounted to PLN 504.2 million in 2018 and increased by PLN 114.4 million, or 29.3%, compared to PLN 389.8 million in 2017. In both periods compared this item was adversely impacted by a one-off, non-cash change in the balance of deferred income tax liabilities (PLN 162.6 million in the fourth quarter of 2018 and PLN 144.0 million in the fourth quarter of 2017).

In accordance with IFRS 15 and including Netia Group's results, finance costs amounted to PLN 490.0 million in 2018.

Net profit

In accordance with IAS 18 binding until the end of 2017 and excluding Netia Group, as a result of changes mentioned above net profit decreased by PLN 91.7 million, or 9.7%, to PLN 853.5 million in 2018 from PLN 945.2 million in 2017.

In accordance with IFRS 15 and including Netia Group's results, net profit amounted to PLN 816.1 million in 2018.

EBITDA & EBITDA margin

In accordance with IFRS 15 and including Netia Group's results, EBITDA was PLN 3,697.7 million and EBITDA margin was 34.6% in 2018. It represents a higher result than EBITDA recorded for 2017 which, in accordance with IAS 18 binding until the end of 2017, amounted to 3,617.0 million while EBITDA margin amounted to 36.8%. The increase in EBITDA results mainly from the consolidation of Netia Group results.

Employment

The average employment of permanent workers not engaged in production in Polsat Group, excluding workers who did not perform work in the reporting period due to long-term absences, amounted to 6,086 full-time equivalents (FTE) in 2018, i.e., increased by 1,284 FTE or 26.7%, compared to 4,802 FTE in 2017. This increase was mainly attributable to concluded acquisitions and an inclusion of Netia Group's headcount in particular.

4.6.2. Operating segments

The Group operates in the following two segments:

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

The Group conducts its operating activities primarily in Poland.

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

Services to individual and business customers segment include:

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

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

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

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the year ended December 31, 2018:

The year ended December 31, 2018 *IFRS 15 basis* [mPLN]	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	9,170.1	1,516.0	-	10,686.1
Inter-segment revenues	60.6	179.9	(240.5)	-
Revenues	9,230.7	1,695.9	(240.5)	10,686.1
EBITDA (unaudited)	3,144.9	552.8	-	3,697.7
Depreciation, amortization, impairment and liquidation	1,930.0	40.7	-	1,970.7
Profit from operating activities	1,214.9	512.1	-	1,727.0
Acquisition of property, plant and equipment, reception equipment and other intangible assets	960.1*	52.7	-	1,012.8
Balance as at December 31, 2018				
Assets, including:	25,229.1	5,540.3**	(72.6)	30,696.8
Investments in joint venture	18.3	30.6	-	48.9

* This item also includes the acquisition of reception equipment for operating lease purposes.
** Includes non-current assets located outside of Poland in the amount of PLN 12.8 million.

All material revenues are generated in Poland.

It should be noted that the financial data for the year ending December 31, 2018 and December 31, 2017 allocated to the "Services to individual and business customers" segment are not fully comparable due to the disposal of LTE Holdings Limited on June 19, 2017, the acquisition of 51% of shares in Plus Flota Sp. z o.o. (formerly Paszport Korzyści Sp. z o.o.) on September 7, 2017, the acquisition of 31.76% of shares of Netia S.A. on December 5, 2017 and the acquisition of additional shares in Netia S.A. on May 22, 2018, July 3, 2018 and October 2, 2018, respectively, the disposal of shares in New Media

Ventures Sp. z o.o. on December 8, 2017, the acquisition of 100% of shares in Coltex ST Sp. z o.o. on March 1, 2018, the acquisition of 45.1% of shares in TVO Sp. z o.o. on May 29, 2018, the acquisition of 100% of shares in Netshare Media Group Sp. z o.o. on June 25, 2018 and reaching 24.47% of votes in Premium Mobile S.A. in 2018.

It should be also noted that the financial data for the year ending December 31, 2018 and December 31, 2017 allocated to the "Broadcasting and television production" segment are not fully comparable due to the acquisition of 100% of shares in Eska TV S.A. and Lemon Records Sp. z o.o. on December 4, 2017, the acquisition of 34.02% and later 15.46% of shares in TV Spektrum Sp. z o.o. on December 4, 2017 and February 2, 2018, respectively, the acquisition of 50% plus one share in Eleven Sports Network Sp. z o.o. on May 25, 2018 and the acquisition of 100% shares in Superstacja Sp. z o.o. on June 4, 2018.

Furthermore, the comparability of figures presented below is affected by the retrospective implementation from January 1, 2018 of IFRS 9 and IFRS 15 without the restatement of the comparative figures.

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the year ended December 31, 2017:

The year ended December 31, 2017 *IAS 18 basis* [mPLN]	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	8,562.5	1,266.1	-	9,828.6
Inter-segment revenues	42.5	167.7	(210.2)	-
Revenues	8,605.0	1,433.8	(210.2)	9,828.6
EBITDA (unaudited)	3,112.5	504.5	-	3,617.0
Depreciation, amortization, impairment and liquidation	1,746.3	36.7	-	1,783.0
Profit from operating activities	1,366.2	467.8	-	1,834.0
Acquisition of property, plant and equipment, reception equipment and other intangible assets	852.8*	25.1	-	877.9
Balance as at December 31, 2017				
Assets, including:	23,191.6	4,621.5**	(57.1)	27,756.0
Investments in joint venture	-	5.9	-	5.9

* This item also includes the acquisition of reception equipment for operating lease purposes.
** Includes non-current assets located outside of Poland in the amount of PLN 12.1 million.

Reconciliation of EBITDA and net profit for the period:

[mPLN]	for the year ended December 31, 2018 *(data in accordance with IFRS 15)*	for the year ended December 31, 2017 *(data in accordance with IAS 18)*
EBITDA (unaudited)	3,697.7	3,617.0
Depreciation, amortization, impairment and liquidation	(1,970.7)	(1,783.0)
Profit from operating activities	1,727.0	1,834.0
Share of the profit/(loss) of associates accounted for using the equity method	(1.2)	2.8
Finance costs	(386.7)	(509.0)
(Gain)/loss on investment activities, net	(33.0)	7.2
Gross profit for the period	1,306.1	1,335.0
Income tax	(490.0)	(389.8)
Net profit for the period	816.1	945.2

4.6.3. Balance sheet analysis

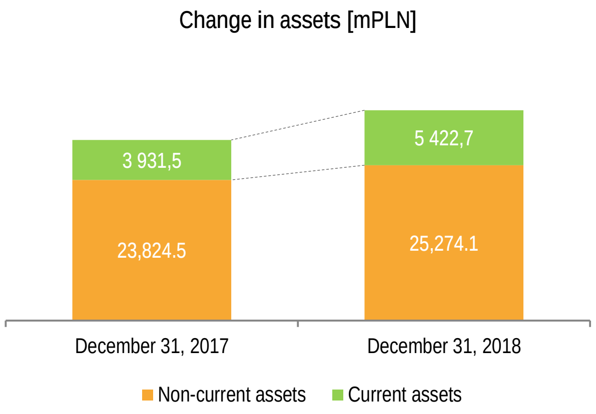
As at December 31, 2018 our balance sheet amounted to PLN 30,696.8 million and increased by PLN 2,940.8 million, or 10.6%, from PLN 27,756.0 million as at December 31, 2017.

Assets

[mPLN]	December 31, 2018 *data in accordance with IFRS 15*	December 31, 2017 *data in accordance with IAS 18*	Change	
			[mPLN]	[%]
Reception equipment	264.5	325.3	(60.8)	(18.7%)
Other property, plant and equipment	4,792.2	2,867.1	1,925.1	67.1%
Goodwill	11,309.4	11,041.7	267.7	2.4%
Customer relationships	2,212.2	2,557.3	(345.1)	(13.5%)
Brands	2,096.1	2,037.1	59.0	2.9%
Other intangible assets	3,005.5	3,261.5	(256.0)	(7.8%)
Non-current programming assets	503.8	170.1	333.7	196.2%
Investment property	29.9	5.1	24.8	486.3%
Non-current deferred distribution fees	99.7	91.4	8.3	9.1%
Other non-current assets, includes:	701.1	1,270.7	(569.6)	(44.8%)
shares in associates accounted for using the equity method	*43.0*	*665.2*	*(622.2)*	*(93.5%)*
derivative instruments	-	*1.9*	*(1.9)*	*(100.0%)*
Deferred tax assets	259.7	197.2	62.5	31.7%
Total non-current assets	25,274.1	23,824.5	1,449.6	6.1%
Current programming assets	543.2	251.7	291.5	115.8%
Contract assets	648.4	-	648.4	n/a
Inventories	394.0	283.7	110.3	38.9%
Trade and other receivables	2,370.4	1,983.2	387.2	19.5%
Income tax receivables	34.6	1.3	33.3	2,561.5%
Current deferred distribution fees	218.5	207.9	10.6	5.1%
Other current assets	34.9	31.7	3.2	10.1%
includes derivative instruments	-	*5.1*	*(5.1)*	*(100.0%)*
Cash and cash equivalents	1,167.0	1,161.5	5.5	0.5%
Restricted cash	11.7	10.5	1.2	11.4%
Total current assets	5,422.7	3,931.5	1,491.2	37.9%
Total assets	30,696.8	27,756.0	2,940.8	10.6%

As at December 31, 2018 and December 31, 2017, our non-current assets amounted to PLN 25,274.1 million and PLN 23,824.5 million, respectively, and accounted for 82.3% and 85.8% of total assets, respectively.

As at December 31, 2018 and December 31, 2017, our current assets amounted to PLN 5,422.7 million and PLN 3,931.5 million, respectively, and accounted for 17.7% and 14.2% of the total assets, respectively.



The value of reception equipment amounted to PLN 264.5 million as at December 31, 2018 and decreased by PLN 60.8 million, or 18.7%, compared to PLN 325.3 million as at December 31, 2017.

The value of other property, plant and equipment increased by PLN 1,925.1 million, or 67.1%, to PLN 4,792.2 million as at December 31, 2018 from PLN 2,867.1 million as at December 31, 2017, mainly due to the recognition of the technical infrastructure and telecommunications network equipment of Netia Group companies.

The value of goodwill increased by PLN 267.7 million, or 2.4%, to PLN 11,309.4 million as at December 31, 2018 from PLN 11,041.7 million as at December 31, 2017 following the concluded acquisitions, in particular due to taking control over Netia S.A. and Eleven Sports Network Sp. z o.o. in May 2018. In the fourth quarter of 2018 we allocated the price of purchasing Netia Group which resulted in a decrease of this item between the consecutive quarters.

The value of customer relationships decreased by PLN 345.1 million, or 13.5%, to PLN 2,212.2 million as at December 31, 2018 compared to PLN 2,557.3 million as at December 31, 2017, among others due to calculated amortization for the twelve-month period ended December 31, 2018, which was partially off-set with the recognition of the value of relationships with Netia Group customers.

As at December 31, 2018, the value of brands was PLN 2,096.1 million, which constitutes an increase by PLN 59.0 million, or 2.9%, compared to PLN 2,037.1 million as at December 31, 2017, This change was, among others, due to the recognition of the value of Netia brand following our taking control over it in May 2018, which was compensated by the recognition of the amortization of the Plus trademark for the twelve-month period ended December 31, 2018.

The value of other intangible assets amounted to PLN 3,005.5 million as at December 31, 2018 which constitutes a decrease by PLN 256.0 million, or 7.8%, compared to PLN 3,261.5 million as at December 31, 2017. The main reason behind this decrease is the recognition of amortization of telecommunication licenses for 2018, which was partially offset by the recognition of other intangible assets of the newly acquired companies and Netia Group in particular.

The value of non-current and current programming assets increased by PLN 625.2 million, or 148.2%, to PLN 1,047.0 million as at December 31, 2018, from PLN 421.8 million as at December 31, 2017. This increase was primarily the effect of the recognition of a higher value of sports licenses and rights, resulting from taking the control over Eleven Sports Network Sp. z o.o. in May 2018, and recognizing the value of sports rights to broadcast football matches of the UEFA Champions League and the UEFA Europa League.

Investment property increased by PLN 24.8 million to PLN 29.9 million as at December 31, 2018 compared to PLN 5.1 million as at December 31, 2017 following the recognition of investment property of Netia Group companies.

The value of non-current and current deferred distribution fees increased by PLN 18.9 million, or 6.3%, to PLN 318.2 million as at December 31, 2018 compared to PLN 299.3 million as at December 31, 2017 due to the recognition of distribution fees in Netia Group companies.

The value of other non-current assets amounted to PLN 701.1 million as at December 31, 2018 and decreased by PLN 569.6 million, or 44.8%, compared to PLN 1,270.7 million as at December 31, 2017. Due to taking control over Netia S.A., effective May 22, 2018 we fully consolidated Netia Group's results while as at December 31, 2017 this category included a valuation of our ca. 32% minority stake in the company.

The value of deferred tax assets amounted to PLN 259.7 million as at December 31, 2018, which constitutes an increase by PLN 62.5 million, or 31.7%, compared to PLN 197.2 million as at December 31, 2017.

The value of contract assets amounted to PLN 648.4 million as at December 31, 2018. This item was recognized for the first time as at January 1, 2018 as a result of applying IFRS 15 and represents the Group's right to future remuneration for the products and services provided to the customer.

The value of inventories increased by PLN 110.3 million, or 38.9%, to PLN 394.0 million as at December 31, 2018 from PLN 283.7 million as at December 31, 2017, mainly due to the higher level of inventories of end-user equipment and spare parts used in manufacturing our pay TV set-top boxes.

The value of trade and other receivables amounted to PLN 2,370.4 million as at December 31, 2018 and increased by PLN 387.2 million, or 19.5%, from PLN 1,983.2 million as at December 31, 2017, primarily due to the recognition of receivables of Netia Group companies.

The value of income tax receivables amounted to PLN 34.6 million as at December 31, 2018 and increased by PLN 33.3 million, from PLN 1.3 million as at December 31, 2017.

The value of other current assets amounted to PLN 34.9 million as at December 31, 2018, which constitutes an increase by PLN 3.2 million, or 10.1%, compared to PLN 31.7 million as at December 31, 2017.

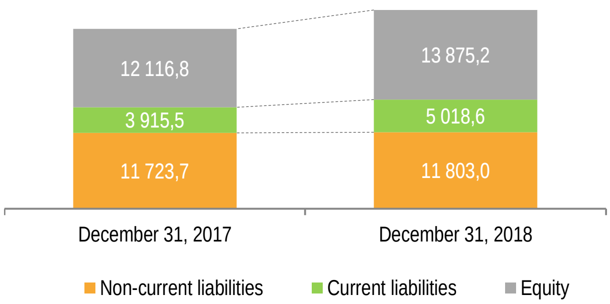
The value of cash and cash equivalents and restricted cash remained stable and amounted to PLN 1,178.7 million as at December 31, 2018 as compared to PLN 1,172.0 million as at December 31, 2017.

Equity and liabilities

[mPLN]	December 31, 2018 *data in accordance with IFRS 15*	December 31, 2017 *data in accordance with IAS 18*	change [mPLN]	change [%]
Share capital	25.6	25.6	-	-
Share premium	7,174.0	7,174.0	-	-
Other reserves	(162.5)	3.2	(165.7)	(5178.1%)
Retained earnings	6,189.9	4,871.4	1,318.5	27.1%
Equity attributable to equity holders of the Parent	13,227.0	12,074.2	1,152.8	9.5%
Non-controlling interests	648.2	42.6	605.6	1421.6%
Total equity	13,875.2	12,116.8	1,758.4	14.5%
Loans and borrowings	8,605.3	9,291.4	(686.1)	(7.4%)
Issued bonds	976.0	975.7	0.3	0.0%
Finance lease liabilities	15.8	18.6	(2.8)	(15.1%)
UMTS license liabilities	348.2	440.8	(92.6)	(21.0%)
Deferred tax liabilities	1,160.1	879.8	280.3	31.9%
Deferred income	-	3.2	(3.2)	(100.0%)
Other non-current liabilities and provisions	697.6	114.2	583.4	510.9%
includes derivative instruments liabilities	*165.2*	-	*165.2*	*n/a*
Total non-current liabilities	11,803.0	11,723.7	79.3	0.7%
Loans and borrowings	1,611.3	1,341.9	269.4	20.1%
Issued bonds	42.3	42.5	(0.2)	(0.5%)
Finance lease liabilities	8.2	9.7	(1.5)	(15.5%)
UMTS license liabilities	118.1	114.5	3.6	3.1%
Contract liabilities	705.2	-	705.2	n/a
Trade and other payables	2,382.4	1,727.3	655.1	37.9%
includes derivative instruments liabilities	*8.8*	*3.6*	*5.2*	*144.4%*
Income tax liability	151.1	61.3	89.8	146.5%
Deferred income	-	618.3	(618.3)	(100.0%)
Total current liabilities	5,018.6	3,915.5	1,103.1	28.2%
Total liabilities	16,821.6	15,639.2	1,182.4	7.6%
Total equity and liabilities	30,696.8	27,756.0	2,940.8	10.6%

Equity increased by PLN 1.758,4 million, or by 14.5%, to PLN 13.875,2 million as at December 31, 2018 from PLN 12,116.8 million as at December 31, 2017, mainly due to the profit generated in the twelve-month period ended December 31, 2018 in the amount of PLN 816.1 million, the acquisition of Netia S.A. and the implementation of IFRS 15 which resulted in the earlier recognition of profit on equipment sold in the past under the subsidized model.

Change in liabilities [mPLN]



As at December 31, 2018 and December 31, 2017 the value of our non-current liabilities amounted to PLN 11,803.0 million and PLN 11,723.7 million, which constituted 70.2% and 75.0% of the Group's total liabilities, respectively.

As at December 31, 2018 and December 31, 2017 the value of our current liabilities amounted to PLN 5,018.6 million and PLN 3,915.5 million, which constituted 29.8% and 25.0% of the Group's total liabilities, respectively.

Loans and borrowings (short- and long-term) decreased by PLN 416.7 million, or 3.9%, to PLN 10,216.6 million as at December 31, 2018 from PLN 10,633.3 million as at December 31, 2017, which was mainly the effect of the partial repayment of the Revolving Facility Loan.

Senior Notes liabilities (short- and long-term) amounted to PLN 1,018.3 million and remained at a similar level compared to PLN 1,018.2 million as at December 31, 2017.

Finance lease liabilities (short- and long-term) decreased by PLN 4.3 million, or 15.2%, to PLN 24.0 million as at December 31, 2018 from PLN 28.3 million as at December 31, 2017.

UMTS license liabilities (short- and long-term) decreased by PLN 89.0 million, or 16.0%, to PLN 466.3 million as at December 31, 2018 from PLN 555.3 million as at December 31, 2017, due to the subsequent payment for the UMTS license executed in September 2018.

Deferred income tax liabilities increased by PLN 280.3 million, or 31.9%, to PLN 1,160.1 million as at December 31, 2018 from PLN 879.8 million as at December 31, 2017. This item was adjusted in connection with the implementation of IFRS 15 from January 1, 2018. Moreover, in the fourth quarter of 2018 this item included PLN 162.2 million of a non-cash increase related to the assets of subsidiaries which are being recognized in the consolidated balance sheet.

Non-current and current deferred income amounted to null as at December 31, 2018 as compared to PLN 621.5 million as at December 31, 2017. This item was adjusted in connection with the implementation of IFRS 15 from January 1, 2018.

The value of other non-current liabilities and provisions amounted to PLN 697.6 million as at December 31, 2018 and increased by PLN 583.4 million, or 510.9%, from PLN 114.2 million as at December 31, 2017 following the recognition of liabilities related to the purchase of programming licenses from UEFA as well as the consolidation of non-current liabilities from purchases of programming assets of Eleven Sports Network Sp. z o.o. and the recognition of a liability on a put option constituting part of the agreement to acquire a controlling stake in this company.

The value of contract liabilities amounted to PLN 705.2 million as at December 31, 2018. This item was recognized for the first time as at January 1, 2018 as a result of applying IFRS 15.

The value of trade and other payables amounted to PLN 2,382.4 million as at December 31, 2018 which constitutes an increase by PLN 655.1 million, or 37.9%, compared to PLN 1,727.3 million as at December 31, 2017. This increase was driven primarily by the consolidation of liabilities of the Netia Group companies and increased liabilities on programming assets.

Income tax liabilities amounted to PLN 151.1 million as at December 31, 2018 as compared to PLN 61.3 million as at December 31, 2017.

4.6.4. Cash flow analysis

The table below presents selected data from the consolidated cash flow statement for the 12-month periods ended December 31, 2018 and 2017.

[mPLN]	for 12 months ended December 31		change	
	2018 *data in accordance with IFRS 15*	2017 *data in accordance with IAS 18*	[mPLN]	[%]
Net profit	816.1	945.2	(129.1)	*(13.7%)*
Net cash from operating activities	2,915.1	2,941.4	(26.3)	(0.9%)
Net cash used in investing activities	(1,835.5)	(1,573.3)	(262.2)	(16.7%)
Capital expenditures	*(928.4)*	*(739.1)*	*(189.3)*	*(25.6%)*
Net cash used in financing activities	(1,074.3)	(1,527.7)	453.4	29.7%
Net increase/(decrease) in cash and cash equivalents	1,172.0	1,336.7	(164.7)	(12.3%)
Cash and cash equivalents at the beginning of the period	1,178.7	1,172.0	6.7	0.6%
Cash and cash equivalents at the end of the period	816.1	945.2	(129.1)	*(13.7%)*

Net cash from operating activities

Net cash from operating activities amounted to PLN 2,915.1 million in 2018 and remained stable compared to net cash from operating activities in the amount of PLN 2,087.7 million in 2017.

A higher level of generated EBITDA and lower expenditures on reception equipment provided under operating lease versus the corresponding year allowed to fully compensate for higher expenditures on film and sports licenses, an increase in the level of inventories and a higher amount of income tax paid.

Furthermore, in 2018 the Group continued to record a significant scale of engagement of its working capital in the financing of sales of equipment for residential customers in the installment plan model, which was related to the high popularity of this form of sales among our customers.

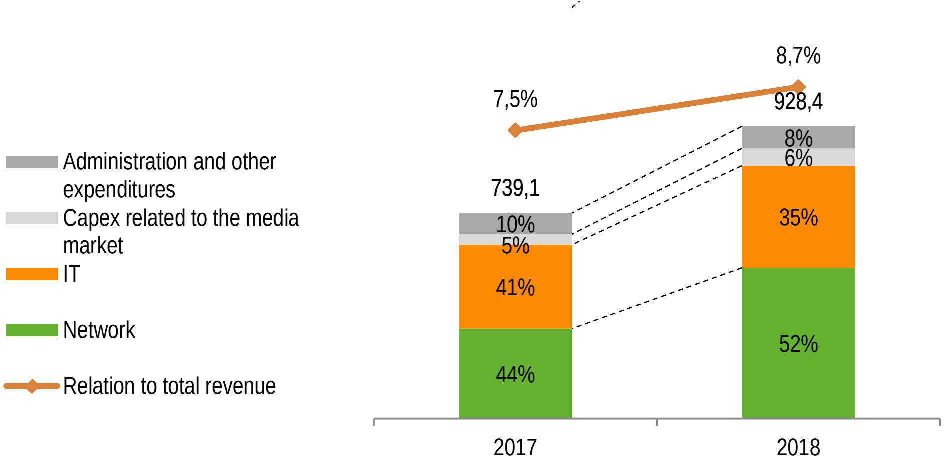
Net cash used in investing activities

Net cash used in investing activities amounted to PLN 1,835.5 million in 2018 which constitutes an increase by PLN 262.2 million, or 16.7%, from PLN 1.573.3 million in 2017.

In 2018, capital expenditures on the purchase of property, plant and equipment and intangible assets amounted to PLN 928.4 million, which constitutes an increase by PLN 189.3 million, or 25.6%, compared to PLN 739.1 million in 2017. This increase resulted from the consolidation of capital expenditures of Netia Group effective May 22, 2018. Furthermore, the expenditures included the continued roll-out of our access network, based primarily on the 900 MHz, 1800 MHz and 2600 MHz bands, expansion of the capacity of the telecommunications network based on LTE and LTE Advanced technologies, expansion of radio links and transmission nodes and expenditures related to the continued project of complex modernization and exchange of the IT environment within the Group. At the same time we also invested in the expansion of space used for television production, the replacement of equipment used for TV recordings, the purchase of broadcast vans, upgrade and development of routers, the expansion of servers used to develop the IPLA service, the construction of a new logistics center and we also successively exchanged the interior design of our points of sales.

On top of regular capital expenditures, in 2018 net cash used in investing activities included other expenditures, related among others to the acquisition of Coltex ST Sp. z o.o., the increase of our stakes in TV Spektrum Sp. z o.o. and Netia S.A., and the acquisitions of shares of Eleven Sports Network Sp. z o.o. and Superstacja Sp. z o.o.

CAPEX decomposition in 2017-2018



Net cash from/(used in) finance activities

Net cash used in financing activities amounted to PLN 1,074.3 million in 2018, which constitutes a decrease by PLN 453.4 million, or 29.7% compared to PLN 1,527.7 million in 2017. In 2018 we reduced the debt from the Revolving Facility Loan by PLN 400.0 million and repaid the whole inherited indebtedness of Netia S.A. In parallel, we incurred current debt-servicing costs, as well as borne one-time costs associated with the amendment of conditions of the Combined SFA.

4.6.5. Liquidity and capital resources

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

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

The table below presents a summary of the indebtedness of the Group as at December 31, 2018.

	Balance value as at December 31, 2018 [mPLN]	Coupon / interest / discount	Maturity date
Combined SFA, incl.	10,198.5	WIBOR + margin	2022[1]
Revolving Facility Loan	*600.0*	*WIBOR + margin*	
Series A Notes	1,018.3	WIBOR + 2.5%	2021
Leasing and other	42.1		
Gross debt	11,258.9	-	-
Cash and cash equivalents[2]	(1,178.7)	-	-
Net debt	10,080.2	-	-
EBITDA LTM[3]	3,697.7	-	-
Total net debt / EBITDA LTM	2.73	-	-
Weighted average interest cost[4]	3.3%	-	-

1 Accounting for the provisions of the second amendment and restatement deed to the Combined SFA dated March 2, 2018.

2 This position comprises cash and cash equivalents, including restricted cash, as well as short-term deposits.

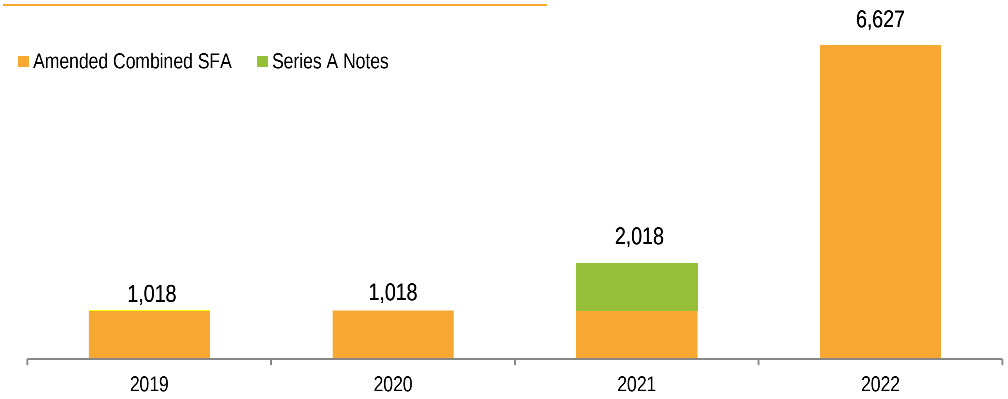
3 In accordance with the requirements of the Combined SFA, EBITDA LTM includes the EBITDA figures calculated according to IFRS 15. In parallel, the definition adopted under the Combined SFA excludes the impact of the introduction of IFRS 16, which will become binding starting from January 1, 2019. The above exclusion concerns both the calculation of EBITDA LTM and the calculation of debt.

4 Prospective average weighted interest cost of the Combined SFA (including the Revolving Facility Loan) and the Series A Notes, excluding hedging instruments, as at December 31, 2018 assuming WIBOR 1M of 1.64% and WIBOR 6M of 1.79%.

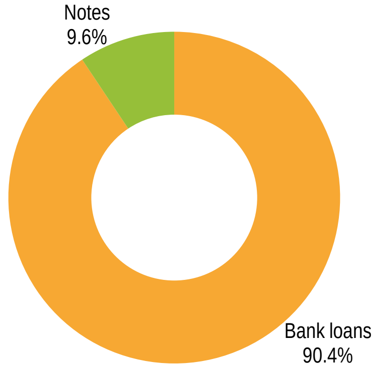
As a result of the conclusion on March 2, 2018 of the second amendment and restatement deed to the Combined SFA, the termination date of the Term Loan and consequently the repayment schedule have changed. The extended repayment schedule resulted, i.a. in the freezing of repayments of capital installments in 2018.

The graphs below present the aging balance of the Group's debt (expressed in nominal values and excluding the indebtedness under the revolving facility loans and leasing) as well as its structure according to instrument type and currency as at December 31, 2018.

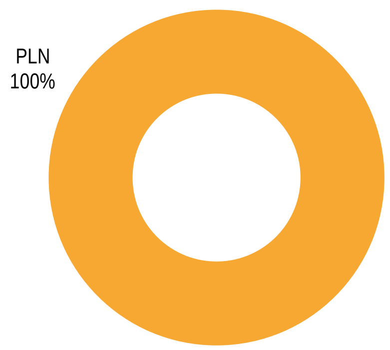
Debt maturing profile as at December 31, 2018 [mPLN]



Debt strucutre by instrument type as at December 31, 2018



Debt structure by currency as at December 31, 2018



In order to reduce exposure to interest rate risk related to interest payments on the Combined SFA, as amended, based on a floating rate, we actively apply hedging strategies based on derivative instruments, swaps (IRS) in particular. As at December 31, 2018 transactions hedging the WIBOR interest rate changes, opened by companies from the Group, amounted to a maximum of PLN 3,500.0 million with maturity falling in different period in 2019-2021. Additionally, as at December 31, 2018 companies from the Group concluded one transaction for the amount of PLN 250.0 million beginning in March 2019 and two transactions for the total amount of PLN 500.0 million beginning in June 2019, all of them terminating in different periods in 2021.

Material financing agreements executed by the Group

Below we present information on significant agreements executed by the Company and the Group companies, which remain in force as at the date of publication of this Report.

Combined Senior Facilities Agreement

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

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

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

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

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

Moreover, on March 2, 2018 the Group concluded the Second Amendment, Restatement and Consolidation Deed incorporating further changes in the CP SFA. The modification related, among others, to the extension of the term of repayment of the Term Loan until September 30, 2022, which entailed a modification of the repayment schedule (details described in the item above) and the modification of the ratio of consolidated net debt to consolidated EBITDA, below which the Company will not be obligated to establish or maintain securities in connection with the CP Facilities Agreement (excluding the release of guarantees granted pursuant to the CP Facilities Agreement), by revising it to from 1.75:1 up to 3.00:1.

We will refer to the CP SFA amended by both aforementioned Amendment, Restatement and Consolidation Deeds as the Combined SFA, and the term loan and revolving facility granted under this agreement as the Term Loan and Revolving Facility, respectively.

The Term Facility and the Revolving Facility bear interest at a variable rate equal to WIBOR for the relevant interest period plus margin. The margin on the Term Facility and the Revolving Facility depends on the ratio of net consolidated indebtedness to consolidated EBITDA in such a way that the lower the ratio – the lower the margin, with the maximum margin level applicable when the net consolidated indebtedness to consolidated EBITDA ratio exceeds 3.50:1, and the minimum margin level applicable when that ratio is no higher than 1.50:1, whereby the value of consolidated net debt used in the calculation of this ratio, pursuant to the definition set out in the Combined SFA, does not include debt instruments under which capital is repaid not sooner than 6 months after the term of repayment of the Term Facility and Revolving Facility and interest is not paid in cash on a current basis. Pursuant to the provisions of the amended Combined SFA the final repayment date for the Term Facility and the Revolving Facility is September 30, 2022. Starting from 2019, the Term Facility is to be repaid in quarterly installments of variable value according to an established schedule.

Pursuant to the Combined SFA the Company and its Group companies establish, in specified cases, certain collaterals for the credit facilities granted thereunder. In particular, these collaterals include registered pledges on collections of movables and economic interests of variable composition comprised in the enterprise of the Company and its selected subsidiaries, registered and financial pledges on shares in the Company's subsidiaries, registered and financial pledges on receivables related to bank accounts kept for the Company or its selected subsidiaries, ordinary and registered pledges on selected trademarks, assignments of rights for security, mortgages, notarial submissions to enforcement and similar collaterals on shares or assets of the Company's subsidiaries, to be governed by foreign laws. A detailed description of established securities is presented in item 4.6.7. of this Report – *Operating and financial review of Polsat Group – Review of our financial situation - Information on guarantees granted by the Company or subsidiaries.*

Pursuant to the provisions of the Combined SFA when the net consolidated indebtedness to consolidated EBITDA ratio falls to or below 3.00:1, the Company will have a right to demand that the collaterals for the Combined Senior Facilities Agreement be released (save for guarantees granted on the basis of the Combined SFA). However, such released collateral will need to be re-established if the net consolidated indebtedness to consolidated EBITDA ratio again rises above 3.00:1. Additionally, if certain members of the Company's Group incur secured indebtedness, a pari passu collateral will need to be established in favor of the Security Agent (acting for, among others, the lenders under the Combined Senior Facilities Agreement).

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

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

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

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

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

The CP SFA, PLK SFA and the Amendment and Restatement Deed of September 21, 2015 provided for typical conditions precedent for the disbursement of the contemplated facilities and certain conditions subsequent for the disbursement of the contemplated facilities, also typical for this kind of transactions.

On July 19, 2018, the Combined CFA was entered into by Netia as an additional borrower and an additional guarantor. Netia's entering into the Combined CFA was based on the resolution of the Management Board of Netia dated June 13, 2018 of which Netia informed in its current report No. 35/2018 dated June 13, 2018.

Furthermore, in the said resolution the Management Board of Netia resolved: (i) to amend the conditions of the previously binding credit facility agreement in the way that the repayment of the indebtedness totaling PLN 200.0 million was made in a single payment on July 26, 2018; and (ii) to terminate the financing agreement signed with European Investment Bank.

Series A Bonds issued by Cyfrowy Polsat

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

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

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

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

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

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

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

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

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

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

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

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

On October 24, 2018 the Management Board of the Company adopted a resolution on taking initial steps in connection with potential refinancing of the Company's indebtedness due to 1,000,000 unsecured Series A Bonds with a total nominal value of PLN 1,000 million, maturing on July 21, 2021. The Company informed about the resolution concerned in the current report No. 32/2018 dated October 24, 2018.

The Company's intent is to assess possibilities of refinancing the Series A Bonds in order to decrease costs of servicing the related indebtedness.

The actions initiated by the Company shall be aimed at evaluating the present market demand for new bonds and proposing potential conditions and a timetable of issuance of the new bonds that would enable the Management Board to take a decision whether to establish a program of issuance of bonds under which these new bonds would have been.

The final decision concerning the establishment of the program and its terms shall be taken at the stage of adopting a relevant resolution by the Company's Management Board, about which the Company shall inform in a separate current report.

Contractual obligations

Contractual commitments to purchase programming assets

As at December 31, 2018 the Group had outstanding contractual commitments in relation to purchases of programming assets. The table below presents a maturity analysis for such commitments:

[mPLN]	December 31, 2018	December 31, 2017
within one year	317.4	192.6
between 1 to 5 years	418.9	612.1
more than 5 years	19.4	15.0
Total	755.7	819.7

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

[mPLN]	December 31, 2018	December 31, 2017
within one year	-	0.2
Total	**-**	**0.2**

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of property, plant and equipment was PLN 171.5 million as at December 31, 2018 (PLN 110.4 million as at December 31, 2017). The total amount of contractual liabilities resulting from agreements for the purchases of intangible assets as at December 31, 2018 was PLN 212.6 million (PLN 272.5 million as at December 31, 2017).

Ratings

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

Rating agency	Rating / perspective	Previous rating / perspective	Update
Moody's Investor Service	Ba2 / positive	Ba2 / stable	08.08.2017
S&P Global Ratings	BB+ / positive	BB+ / positive	20.12.2017

On August 8, 2017 Moody's Investors Service ("Moody's") revised the rating outlook for Cyfrowy Polsat Group to positive from stable, concurrently affirming the Ba2 corporate family rating. In its justification Moody's stated that the upward revision of the rating outlook reflects in particular the Group's improved leverage metrics and strong cash flows, thanks to which the Group proactively reduced its indebtedness over the past year. The positive outlook reflects Moody's expectations with respect to further deleveraging and consistent improvement of indebtedness ratios over the next two years and it assumes that the Group will not implement significant changes to its dividend and leverage policies.

On December 18, 2018, S&P affirmed the Group's rating at BB+ revising the outlook from stable to positive. In the rationale S&P stated that upward revision of the rating outlook reflects in particular its opinion that the Group has potential and willingness to deleverage to below 3.0x (S&P adjusted) by 2019 supported by the expectation of organic revenue growth and the consolidation of Netia Group. S&P anticipates the Group's organic revenue growth in 2019 given: (i) the expansion in its premium sports content in the pay TV segment, (ii) the increase in advertising revenues, and (iii) revenue stabilization in the mobile segment. In S&P's view, the addition of Netia further strengthens the Group's position as the Polish telecom operator providing a full-scope convergent offering. Concurrently, S&P expects the Group to maintain reported free operating cashflow (FOCF) of about PLN 1.5 billion, despite temporary higher investments to upgrade Netia's access network. S&P may raise the rating of the Group by one notch over the next 12 months if, as a result of a modest growth in revenues and EBITDA, the Group reduces its adjusted debt to EBITDA below 3.0x coupled with FOCF to debt remaining above 15%. On the other hand, a downward revision of the outlook from positive to stable could result from the Group's maintaining its adjusted debt to EBITDA above 3x, which could stem from a lack of return to organic revenue growth, higher-than-expected investments needed to upgrade Netia's network, or higher-than-expected shareholder returns.

4.6.6. Information on guarantees granted by the Company or subsidiaries

Securities related to the Combined Senior Facilities Agreement

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

(i) registered pledges over variable collections of movable property and rights comprised in the enterprises of the Company, Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp.k., Telewizja Polsat, Polkomtel, Aero2, Polkomtel Infrastruktura Sp. z o.o. (formerly PL 2014 Sp. z o.o.) and Plus Flota Sp. z o.o., governed by Polish law;

(ii) financial and registered pledges on shares in Telewizja Polsat (with an aggregate nominal value of PLN 236,946,700), Polkomtel (with a total nominal value of PLN 2,360,069,800) and Aero2 (with a total nominal value of PLN 91,958,700), governed by Polish law, together with powers of attorney to exercise corporate rights attached to the shares in the said companies. the pledged shares represent 100% of the share capital of each company and are held by the Company as a long-term capital investment;

(iii) financial and registered pledges on shares in Netia S.A. (with a total nominal value of PLN 110,702,441), governed by Polish law, together with powers of attorney to exercise corporate rights attached to the shares in the said company, the pledged shares represent 32.99% of the share capital of the company;

(iv) financial and registered pledges on shares in TV Spektrum Sp. z o.o. (with a total nominal value of PLN 2,400,000), governed by Polish law, together with powers of attorney to exercise corporate rights attached to the shares in the said company, the pledged shares represent 49.48% of the share capital of the company;

(v) financial and registered pledges on shares in Polkomtel Infrastruktura Sp. z o.o. (formerly PL 2014 Sp. z o.o.; with a total nominal value of PLN 29,494,600), governed by Polish law, together with powers of attorney to exercise corporate rights attached to the shares in the said company, the pledged shares represent approximately 28.50% of the share capital of the company;

(vi) financial and registered pledges on receivables under bank account agreements of the Company, Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp.k., Telewizja Polsat, Polkomtel, Aero2 and Polkomtel Infrastruktura Sp. z o.o. (formerly PL 2014 Sp. z o.o)., governed by Polish law;

(vii) powers of attorney to bank accounts of the Company, Polsat Media Biuro Reklamy spółka z ograniczoną odpowiedzialnością Sp.k., Telewizja Polsat, Polkomtel, Dwa Sp. z o.o., Teleaudio Dwa Spółka z ograniczoną odpowiedzialnością Sp. k., Polsat Media Biuro Reklamy Sp. z o.o., Interphone Service Sp. z o.o., Muzo.fm Sp. z o.o., INFO-TV-FM Sp. z o.o., Polkomtel Business Development Sp. z o.o., Nordisk Polska Sp. z o.o., TM Rental Sp. z o.o., Liberty Poland S.A., Aero2, Polkomtel Infrastruktura Sp. z o.o. (formerly PL 2014 Sp. z o.o.) and Plus Flota Sp. z o.o., governed by Polish law;

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

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

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

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

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

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

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

(xv) pledge on shares in Litenite (with the total nominal value of EUR 1,800), governed by Cypriot law;

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

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

(xviii) pledge on bank accounts taken over by Cyfrowy Polsat following the merger with Metelem, governed by Cypriot law.

(xix) assignment for security of receivables and rights to and in bank accounts taken over by Cyfrowy Polsat following the merger with Metelem, governed by the Swiss law;

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

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

(xxii) statements of the Company, Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością sp.k., Telewizja Polsat, Polkomtel, Aero2 and Polkomtel Infrastruktura Sp. z o.o. (formerly PL 2014 Sp. z o.o.) on the submission to enforcement on the basis of a notarial deed, governed by Polish law; and

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

5. Other significant information

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

Transactions concluded in 2018 by us or our subsidiaries with entities related to Polsat Group have all been concluded on market conditions and are described in Note 43 of the consolidated financial statements for the year ended December 31, 2018.

5.2. Information on loans granted

Information on loans granted is presented in Note 39 of the consolidated financial statements for the financial year ended December 31, 2018.

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

Cyfrowy Polsat Group had not published any financial forecasts.

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

Management believes that the provisions for litigations as at September 30, 2018 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

Proceedings before the Office of Competition and Consumer Protection (UOKiK)

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

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

On December 27, 2012 the President of UOKiK issued a decision ending investigations related to Polkomtel's (Company's indirect subsidiary) alleged practices which infringed upon the collective interests of consumers by presenting misleading slogans in advertising campaigns. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 4.5 million. The company appealed to SOKiK against the decision. On October 15, 2014 SOKiK issued a decision where the penalty has been reduced to PLN 1.5 million. On February 10, 2016 SOKiK's decision has been revoked thus re-establishing the penalty back at PLN 4.5 million. On March 15, 2016 Polkomtel made a payment in the amount of PLN 1.8 million. On March 23, 2018, SOKiK dismissed Polkomtel's appeal by upholding the decision of the President of UOKiK. On July 13, 2018 Polkomtel made a payment in the amount of PLN 2.7 million. The case is finally closed.

On December 23, 2014 the President of UOKiK issued a decision ending investigations related to Polkomtel's (Company's indirect subsidiary) alleged practices which infringed upon the collective interests of consumers by including certain clauses in the terms and conditions of the online shop and including certain clauses in the equipment return policy when telecommunication agreements are terminated by the subscriber. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 8.8 million. The company appealed to SOKiK against the decision. On October 24, 2017 the appeal has been rejected by SOKiK. The company appealed against the SOKiK verdict. On August 30, 2018 Court of Appeals issued a decision where the penalty has been reduced to PLN 1.5 million. On November 20, 2018 Polkomtel made a payment in the amount of PLN 1.5 million.

On December 30, 2014 the President of UOKiK issued a decision ending investigations related to Polkomtel's (Company's indirect subsidiary) alleged practices which infringed upon the collective interests of consumers by not providing its telecommunication clients (which entered into a written agreement) with terms and conditions of the preferential sales offer as well as not informing about the termination of the preferential sales offer. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 6.0 million. The company appealed to SOKiK against the decision. On March 5, 2018, SOKiK issued a decision where the penalty has been annulled and dismissed the appeal in remaining scope. Both parties appealed to the Court of Appeals in Warsaw.

On December 30, 2016 the President of UOKiK issued a decision stating that the operations of the Company and Polkomtel (Company's indirect subsidiary) were allegedly infringing collective consumer interests by presenting advertising slogans, which in the opinion of the authorities were misleading and suggested that the LTE data transmission will not be limited. Pursuant to the decision of the President of UOKiK the Company and Polkomtel were charged with a penalty in the amount of PLN 5.3 million and PLN 18.4 million, respectively. The Group appealed to SOKiK against the decision.

On December 30, 2016 the President of UOKiK issued a decision stating that the operations of the Company and Polkomtel (Company's indirect subsidiary) were allegedly infringing collective consumer interests by presenting sale offers, which in the opinion of the authorities were impossible to conclude. Pursuant to the decision of the President of UOKiK the Company and Polkomtel was charged with a penalty in the amount of PLN 4.4 million and PLN 12.3 million, respectively. The Group appealed to SOKiK against the decision.

Legal dispute in respect to the telecommunication concession

There is a pending legal dispute in respect to the telecommunication license for the 1800 MHz frequency granted in 2007 to Mobyland Sp. z o.o. (currently Aero2 Sp. z o.o.) and Centernet S.A. (currently Aero2 Sp. z o.o.).

Proceedings to invalidate the 1800 MHz frequency allocation tender have been instigated by T-Mobile and Orange. The Supreme Administrative Court (NSA), in its ruling dated May 8, 2014, sustained the decision of the Court of First Instance and repealed the decision issued by the President of the Office of Electronic Communications (UKE) on September 23, 2011 which partially invalidated the above mentioned tender. Following the decision of the Supreme Administrative Court, UKE informed that "the decisions regarding re-running the tender will be taken by the Office upon careful analysis of the written justification of NSA's rulings and the Court's guidelines regarding further procedure as well as upon analysis of the legal situation". UKE also stated that the "reservation decisions issued by UKE President remained valid while the operators could continue providing their services while using these frequencies." On December 23, 2016, the President of UKE notified the parties that the tender annulment proceedings relating to the 1800 MHz frequency have been adopted. Pursuant to the decision dated August 4, 2017 the President of UKE notified the parties that the tender dated 2007 has been annulled. On October 13, 2017 Aero2 Sp. z o.o. (legal successor of CenterNet S.A. and Mobyland Sp. z o.o.) filed a motion to reconsider the decision of the President of UKE dated August 4, 2017 concerning the annulment of the tender procedure. On January 31, 2018, the President of UKE upheld its decision dated August 4, 2017. On 7 March 2018 Aero2 filed a complaint with the Provincial Administrative Court in Warsaw, on 4 October 2018 complaint was dismissed. On 27 December 2018, Aero2 filed a cassation appeal against judgment. The case is awaiting the appointment by the NSA.

The decision issued by the President of UKE does not affect reservation decisions issued following the administrative tender. In accordance with President of UKE's press release, these reservation decisions remain valid and telecommunication operators may continue to provide their services based on these reservation decisions. In management's opinion this issue should have no negative impact on the results and financial condition of the Group. Accordingly, no valuation adjustment has been made in these consolidated financial statements.

Other proceedings

On December 15, 2014 Polkomtel (Company's indirect subsidiary) received a claim from Orange for the total amount of PLN 21.0 million related to the actions allegedly contrary to the obligations arising under the agreement for the transfer of rights to radio frequencies. On January 13, 2015 the company filed an answer to the claim. Pursuant to the decision of the District Court in Warsaw the penalty has been lowered to PLN 9.0 million. On April 20, 2017 the penalty has been affirmed by the Court in the amount of PLN 9.0 million. On May 12, 2017 Polkomtel made a payment in the amount of PLN 9.0 million. Polkomtel filed cassation appeal. On August 28, 2018 the cassation appeal has been rejected by Supreme Court. In management's opinion the claim is groundless.

In September 2015, Polkomtel (Company's indirect subsidiary) received a claim from P4 Sp. z o.o., in which the company demands compensation of PLN 316.0 million (including interest of PLN 85.0 million), for the alleged actions relating to the pricing of the mobile services rendered between July 2009 and March 2012. The claim assumes payment of the above amount jointly by Orange Poland S.A., Polkomtel and T-Mobile Poland S.A. On December 27, 2018 Court dismissed entire claim. P4 Sp. z o.o. can appeal against the decision. Management believes that the claim is unfounded, as Polkomtel's conduct alone or with other tort entities was not wrongful, in particular relating to the pricing of retail mobile services directed to the telecommunications network of P4 Sp. z o.o. In management's opinion, there is no legal basis for the overall assessment of the alleged actions of each of the operators on the telecommunications market, which is fully a competitive market, and each of the operators has its own business and pricing strategy. The claim of P4 Sp. z o.o. indicates neither nature (premises liability) nor the amount.

On April 28, 2017, ZASP filed a lawsuit against Cyfrowy Polsat for payment of PLN 20.3 million. The Company issued an objection in the writ-of-payment proceedings and filed for its dismissal entirety. On January 10, 2018 the Court issued a decision to refer the case to mediation proceedings. Mediation ended without a settlement. The date of the next hearing was scheduled for May 9, 2019.

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

5.5. Changes to the principle rules of management of our Company and the Capital Group

There were no changes to the principle rules of management of our Company and the Capital Group in the year 2018.

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

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

5.7. Trade unions

Two trade unions are active at Polkomtel: Niezależny Samorządny Związek Zawodowy Solidarność (the Solidarity Independent Self-Governing Trade Union) and Ogólnopolskie Porozumienie Związków Zawodowych (All-Poland Alliance of Trade Unions), with the latter active also in Polkomtel Infrastruktura as the intercompany organization. As at December 31, 2018, 121 employees (expressed as full-time equivalents), or ca. 3.3% of the total workforce of Polkomtel Group were trade union members. Trade union organization are also active in Netia Group over which Cyfrowy Polsat Group took control effective May 22, 2018.

5.8. Disclosure of non-financial information

On March 21, 2019, the Company published, as a separate document, the "Report of Cyfrowy Polsat S.A. Capital Group and Cyfrowy Polsat S.A. on non-financial information for the year 2018", which comprehensively addresses key non-financial issues for both the Group and Cyfrowy Polsat, and demonstrates how we aim to achieve our goals in a sustainable and responsible manner. The publication complies with the Global Initiative Reporting Standard, in the Core option, as well as the amended Accounting Act and contains detailed information relating to environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters with respect to both Polsat Group and Cyfrowy Polsat as the dominant entity of the Group.

The "Report of Cyfrowy Polsat S.A. Capital Group and Cyfrowy Polsat S.A. on non-financial information for the year 2018" is available on Polsat Group's corporate website at http://www.grupapolsat.pl/en/investor-relations in the tab Results centre/Non-financial reports.

6. Risk factors

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

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

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

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

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

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

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

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

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

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

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

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

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

Our performance depends on our ability to acquire attractive television programs. Our pay TV customers' access to television channels depends entirely on our purchase of licenses from TV broadcasters. In the TV production and broadcasting segment, we independently produce certain TV programs, while other TV programs and content are broadcast under license agreements. Our license agreements are usually concluded for definite periods, usually two to three years for films and TV series, and three to seven years for sports programs. Under certain circumstances, a licensor may terminate a license agreement before it expires without our consent. This is particularly likely if we fail to fulfil our obligations, including the obligation to pay license fees. In order to acquire and retain customers and advertisers, it is necessary to maintain an attractive selection of TV programs. There can be no assurance that our license 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 license agreement before its agreed expiry date. Our inability to obtain, maintain, or extend important program licenses may make it difficult for us to provide and offer new attractive channels and programs, which may result in losing our ability to acquire and retain customers and advertisers. This in turn may have a material adverse effect on the results of our operations, financial condition and prospects.

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

We operate an organized and specialized Poland-wide sales network, which distributes the products and services offered by our Group. Because of growing competition with other pay TV providers and telecommunications services providers, as well as rapid increase in wages observed on the domestic labor market we might have to raise fees paid to our distributors in order to expand the sales and distribution network, and change the channels we are using to distribute our services. Any potential increase on 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 reorganization 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 the results of our operations, financial condition and prospects.

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

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.

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

To broadcast our terrestrial channels, we use the services provided by Emitel S.A. We also rely on another third-party contractor, Nagravision S.A., which provides to us a conditional access system to secure our networks against unauthorized 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.

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

We rely on continued maintenance and supply services rendered by manufacturers of telecommunications equipment, including Nokia Solutions and Networks, Ericsson and Huawei. Continued cooperation with some of them is important for us to maintain our operations without disruption. In particual, we are in the process of implementing a new, integrated IT environment supporting sales and customer care as well as a convergent billing system for our products and services. The purpose of the implementation is to redefine and standardize the sales processes and the offers across the Polsat Group as well as to provide a single, consistent and effective tool which will enable management of sales and customer relations in all possible spheres. The project is being implemented in cooperation with Huawei who acts as the main integrator of the system and who is responsible for effecting the implementation. IT architecture shall be simplified and made more flexible, which shall lead to reduction of the time and the cost of new business implementations. We cannot excude that the process of replacing the above mentioned IT systems will have no temporarily adverse effect on sales levels executed by the Group.

We also rely on agreements with external suppliers of handsets and modems (including Samsung, Sony, LG, Lenovo, Huawei and Microsoft Mobile) and providers of IT services (including Huawei, Intec Billing, CGI, Infovide Matrix, Oracle). We do not have any control over our key suppliers and have limited influence on the manner in which these key suppliers perform their obligations under concluded contracts. There can be no assurance that these providers will not terminate their contracts with us, extend them upon expiry, extend them on the same or more favorable terms, or that we will be able to acquire the necessary equipment and services in the future from these or other suppliers, in required amounts and at the right time, or at all. Accordingly, due to dependence on third-party suppliers, we are exposed to the risk of delayed provision of necessary services or equipment or lack of such provision.

If such third-party providers do not perform their contractual obligations towards us or do not adjust to changes in requirements of the Group's companies, or are unable or refuse to provide services or deliver infrastructure or equipment, on which the possibility of timely and economically justified provision of certain services and products to our customers depends, our customers may experience service interruptions, which could adversely affect the perceived quality of our services and products, therefore, adversely impact the brand and reputation of the Group's companies, thus affecting the results of our operations, financial condition and prospects.

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

The technologies used in broadcasting and delivering pay TV, mobile and fixed-line telephony and broadband Internet access develop extremely quickly, which is why there can be no assurance that we will be able to introduce new and/or enhanced technologies, services and products in a fast and efficient enough way.

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

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

It is expected that certain communications technologies that are currently under development, including LTE Advanced or 5G, as well as fiber optics technology allowing for faster data transmission at lower unit costs, to become increasingly important in the markets in which we operate. Technological developments may also shorten product life cycles and facilitate convergence of various segments in the telecommunications industry. We cannot currently predict how emerging and future technological changes will affect the Group's operations, nor can we predict whether new technologies required to support our planned services will be available when expected, if at all.

Furthermore, fixed-line broadband services are associated with a need for investments in modernization of access networks. Some market players are currently conducting large investments programs which allow to significantly increase throughput provided to end-users. In particular, Orange Polska plans to cover with its FTTH (Fiber To The Home) network ca. 5 million households by year 2020 and, moreover, a governmental program of construction of broadband fiber optic networks using subsidies from the European Union funds (POPC – Operating Program Digital Poland) is underway. We are not able to guarantee that upon completion of the modernization of our access network the demand for our fixed-line broadband services will be sufficient to reach our revenue targets.

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

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

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

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

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

We are exposed to the risk of fraudulent activities by customers

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

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

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

Goodwill and brand values may be impaired

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

We may lose our management staff and key employees

Our performance, as well as successful implementation of our strategy, depend on the experience of our management staff and the commitment of our key employees. Whether we are successful in the future will depend partly on our ability to retain the Management Board members who have made considerable contributions to the development of our company, as well as to acquire and retain qualified employees who will ensure effective operation of our business segments. In the television and telecommunication sectors, both in Poland and worldwide, there is strong competition for highly qualified employees. Therefore, no assurance can be given that in the future we will be able to acquire or retain Management Board members or qualified employees. Loss of our key managers or our inability to acquire, properly train, motivate and retain key employees may have a material adverse effect on the results of our operations, financial condition and 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 or lease set-top boxes at lower prices, we are currently producing most of the set-top boxes we offer to our customers at our manufacturing plant in Mielec. Set-top boxes manufactured by us accounted for a majority of all the set-top boxes leased by us. Should any batch of the set-top boxes we have manufactured prove defective and need to be withdrawn from the market, we are under the obligation to replace the set-top boxes we have made available to our customers. Furthermore, the withdrawal of reception equipment due to a confirmed epidemic defect could be harmful to our reputation.

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

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

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

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

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

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

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

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

Such events may have a material adverse effect on the results of our operations, financial condition and prospects.

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

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

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

Two trade unions are active at Polkomtel: Niezależny Samorządny Związek Zawodowy Solidarność (the Solidarity Independent Self-Governing Trade Union) and Ogólnopolskie Porozumienie Związków Zawodowych (All-Poland Alliance of Trade Unions), with the latter active also in Polkomtel Infrastruktura as the intercompany organization. As at December 31, 2018, 121 employees (expressed as full-time equivalents), or ca. 3.3% of the total workforce of Polkomtel Group were trade union members. Trade union organizations are also active in Netia Group over which Cyfrowy Polsat Group took control effective May 22, 2018. At the date of approval of this Report, we had no knowledge of any disputes with trade unions or any other collective disputes at Polkomtel. However, involvement in lengthy negotiations with the trade unions or in collective disputes cannot be ruled out; strikes, work interruptions or other industrial action (triggered, for example, by an attempt to optimize the employment level or labor costs or the need to restructure the workforce), as well as employees' pay rise demands may also be experienced. The occurrence of strikes, significant disputes with the trade unions active at Polkomtel or the Netia Group, or increase in employment costs may disrupt Polkomtel's or the Netia Group's operations, preventing it from timely or cost-effective provision of services to its customers, which can have a material adverse effect on the results of our operations, financial condition and prospects.

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

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

Any unsuccessful court, arbitration and administrative proceedings may have an adverse effect on the results of our operations, financial condition and 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 license 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 licenses, 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 the results of our operations, financial condition and 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 unauthorized access to our services and theft of our programming content. Furthermore, our proprietary content and the content we use under licenses may be accessed, copied or otherwise used by unauthorized persons. The risk of piracy is particularly harmful to our segments of TV production and broadcasting and the distribution of paid content. Media piracy is a problem well known in many geographies, including Poland. Technological advancements and digital conversion of multimedia content are powerful incentives for pirating, as they enable the production and distribution of high-quality unauthorized copies, recorded on various carriers, of pay-per-view programs delivered via set-top boxes, license-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. Unauthorized 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 the results of our operations, financial condition and prospects.

Our broadcasting licences may be revoked or may not be renewed

Our business operations in the broadcasting and television production segment require that we obtain licenses issued by the National Broadcasting Council (KRRiT). These licenses may be revoked or may not be renewed. In our segment of services to individual and business customers, broadcasting of TV programs by DTH service providers requires no license, only registration by the Chairperson of KRRiT.

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

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

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

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

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

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

In particular, Group companies currently hold frequency allocations in the 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz bandwidths. These allocations are fundamental for the roll-out of our mobile telecommunications network. Our competitors have taken a number of steps, some of which may still lead to various consequences; among others in respect of rights of disposal of frequencies granted to companies belonging to Aero2 Group, including the 1800 MHz band frequency allocations.

No assurance can be given that as a result of the pending proceedings or proceedings the instigation of which cannot be excluded, as events lying outside the control of beneficiaries of 1800 MHz spectrum reservation decisions, our reservation decisions could be contested, which could have a material effect on our ability to provide LTE services. Proceedings to invalidate the 1800 MHz frequency allocation tender have been instigated by T-Mobile, Orange and Inquam Broadband GmbH. Supreme Administrative Court (NSA), in its ruling dated May 8, 2014, sustained the decision of the Court of First Instance and repealed the decision issued by the President of the Office of Electronic Communications (UKE) on September 23, 2011 which partially invalidated the above-mentioned tender. Following the decision of the Supreme Administrative Court, UKE informed that “the decisions regarding re-running the tender will be taken by the Office upon careful analysis of the written justification of NSA’s rulings and the Court’s guidelines regarding further procedure as well as upon analysis of the legal situation.” UKE also stated that the “reservation decisions issued by UKE President remained valid while the operators could continue providing their services while using these frequencies.” In correspondence dated December 23, 2016, the President of UKE informed the parties involved that proceedings to invalidate the tender for the 1800 MHz frequency band have been opened. The instigation of the abovementioned proceedings by UKE remains without direct effect on the final and legally binding character of the reservation decision, which constitutes the basis for Polsat Group to use capacity in the 1800 MHz spectrum. On August 4, 2017, the President of UKE issued a decision annulling the tender dated 2007. Polsat Group companies decided to exercise their rights and filed motions for reconsideration of the case. On January 31, 2018 the President of UKE issued a decision of second instance, upholding the decision of August 4, 2017, by which he annulled the 2007 tender. On March 7, 2018, Aero2 filed a complaint against the decision of the President of UKE of January 31, 2018 with the Provincial Administrative Court in Warsaw, on October 4, 2018 the complaint was dismissed. Aero2 has filed for a cassation from the above mentioned ruling, which is pending. The issued decision does not affect reservation decisions issued in a procedure separate from the tender. In accordance with the press release published by the President of UKE, these reservation decisions remain valid and telecommunication operators may continue to provide their services based on these reservation decisions.

No assurance can be given that if we lost certain frequency allocations on the basis of which we provide telecommunication services, we would be able to gain access to sufficient alternative frequency band resources on satisfactory terms or at all, and failure to obtain access to such resources could have a negative impact on the implementation of business strategies and consequently a material adverse effect on the results of our operations, financial condition and prospects.

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

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

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

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

We may not be able to reap the expected benefits of the past or future Group's acquisitions and strategic alliances

Whether the Group will be able to reap all expected benefits from past or future acquisitions or strategic alliances (including the acquisition of control over the Netia Group) may depend on various factors, including our ability to implement our strategy of integrating business processes leading to noticeable income and cost synergies on acquisitions or strategic alliances. Through acquisitions or strategic alliances, the scale of our business continues to grow and we make efforts on a day to day basis to integrate the business processes of the target companies within the Issuer group's structure, as well as other actions aimed at consummating the benefits of strategic alliances. If we are unable to attain all or some of our goals, the benefits from past or future acquisitions or strategic alliances, including the estimated income or cost synergies, may deviate from the plans or may fail to be obtained in full or at all, or obtaining them may take longer than anticipated.

It cannot be ruled out that the process of integration of business processes after past or future acquisitions, or the implementation of past or future strategic alliances may result in losing key employees, disruptions to our day-to-day business in some business areas and incoherencies in standards, procedures or policies, which might adversely affect our ability to maintain the existing relations with third parties and employees or our ability to obtain the expected benefits from past or future acquisitions or strategic alliances. In particular, in order to achieve all expected benefits from our past or future acquisitions or strategic alliances, we need to identify and optimize some areas of our business and assets across the whole organization. Our inability to achieve all or any expected benefits from our past or future acquisitions or strategic alliances, as well as any delays in the integration processes related to past or future strategic alliances may have an adverse effect on us. Furthermore, the integration may require additional, unanticipated costs and the benefits of acquisitions or strategic alliances may never the consummated.

All these factors may have a material adverse effect on the results of our operations, financial condition and prospects.

Risks related to the implementation of a project to modernize access network of the Netia Group companies

On March 1, 2016 the Supervisory Board of Netia S.A., which is currently part of the Group, approved a project to modernize access network of Netia Group companies in the years 2016-2020, aimed at bringing it up to the next-generation access (NGA) standard, supporting bitrates above 100 Mbps (the "Program"). In the period 2016-2020 Netia expects to spend a total of approximately PLN 417 million for the network modernization under the Program. The Program launched in the end of 2016 and is implemented in phases. The implementation of the Program may involve certain technical, cost-related and commercial risks. In the commercial aspect, a failure to achieve the anticipated service penetration level of the modernized network, especially given the strong competition on the telecommunication market, may affect the expected rates of return in the anticipated timeline.

Additionally, the financial plan for the Program assumes certain savings/efficiencies for subsequent years of its implementation which partly depend on prices from external providers. There is a number of risks attached to this assumption. For instance, as demand for optic fibers is strong, it cannot be ruled out that the price of this component will raise. Simultaneously, the growing payroll expenses in Poland combined with a low unemployment rate may translate into problems with recruitment of employees needed for the implementation of the Program. If the price or payroll expenses turn out to be higher than assumed, it will have a negative impact on the rates of return.

In the technical aspect, one challenge under the Program is obtaining approvals for modernization works from cooperatives and homeowners' associations. With the tight schedule of technical works and the need to coordinate external providers as well as partial dependence on weather conditions - this brings about a risk of delays in some areas of individual projects and the whole Program. In the face of major investment programs pursued by majority of the market participants, e.g. the modernization of Orange Polska network, consolidation and modernization of the cable operators market or the wide-spread adoption of the LTE technology by mobile operators, the Program is a prerequisite for the Company to keep the competitive edge of the fixed broadband Internet access services offered by Netia.

The foregoing factors may have a material adverse effect on the results of our operations, financial condition and prospects.

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

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

Our Group uses large financial leverage. In the past, debt servicing and other cash requirements were financed with cash flows from operating activities and revolving credit facilities. Our debt servicing liabilities increased significantly following the acquisition of Telewizja Polsat, Polkomtel, Aero2 Group and Netia , 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 restrict or postpone certain business and investment projects; dispose of assets; incur more debt or raise new capital; or restructure or refinance our debts, in part or in full, at or prior to their maturity. The terms and conditions of our debts limit our ability to take the above measures. Therefore, we cannot guarantee that they will be taken on commercially reasonable terms, or at all, if need arises.

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

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

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

We may need to incur a significant amount of new debt in the future. In particular, the terms and conditions of the Combined SFA as well as the Series A Bonds Terms impose certain limitations on, but do not prohibit us from, incurring new debt or other liabilities. In particular, a high level of debt may (i) limit our ability to repay our liabilities under the Combined SFA, 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 the results of our operations, financial condition and 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 the results of our operations, financial condition and prospects.

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

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

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

6.3. Risks related to market environment and economic situation

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

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

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

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

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

The Polish mobile telecommunications industry is highly competitive

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

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

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

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

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

Group's reduced competitiveness and increased pricing pressures could have a material adverse effect on the financial situation, results of our operations and growth prospects of the Group in the future.

We face competition from entities offering alternative forms of entertainment and leisure

Technological progress, as well as a number of various other factors expose our operations to growing competition for the time and form of customers' leisure and entertainment activities. In particular, we compete with entities offering such alternative forms of leisure and entertainment as cinema, radio, home video, printed media, as well as other non-media forms of leisure, including live events. Moreover, new technologies, such as video on demand (VoD), Internet streaming and downloading, have broadened and may continue to broaden the selection of entertainment options available to existing and potential users of our services. In particular, increasing activity of foreign players operating in the OTT model (Netflix, Amazon Prime or Showmax) can be observed on the Polish market recently. 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 the financial situation, results of our operations and growth prospects of the Group in the future.

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

In 2018, ca. 75% of the revenue generated by our TV production and broadcasting segment came from sale of advertising time and sponsored time slots on our TV channels. The Polish advertising market sees television competing with other advertising media, such as the Internet, newspapers, magazines, radio, and outdoor advertising. There can be no guarantee that TV commercials will maintain their position on the Polish advertising market, or that changes in the regulatory regime will not favor other advertising media or other broadcasters. The growing competitive pressure among advertising media, driven by the increasing prominence of Internet advertising in Poland, significantly higher spending on thematic channels, and the development of new forms of advertising may have an adverse effect on advertising revenue generated by our TV production and broadcasting segment, and thus on our operations, financial condition, performance, and cash flows.

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

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

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

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

Following completion of the terrestrial television digital switchover process in Poland in July 2013, there are currently 28 TV channels broadcasted terrestrially. According to Nielsen Audience Measurement, in 2018 the audience shares of all DTT channels in the 16-49 age group reached 66.5% (compared to 65.1% in 2017). The aggregate audience share in this age group of the main four channels (POLSAT, TVN, TVP1 and TVP2) was 37.2% in 2018 compared to 37.9% in 2017. The aggregate audience share of the other DTT channels was 29.3% in 2018 vs. 27.2% in 2017, which reflects the growing market fragmentation, to a large extent at the expense of the leading TV channels, including POLSAT.

Our main competitors on the TV advertising markets are other broadcasters, such as TVN (Discovery Group) − a leading commercial broadcaster, and TVP – the broadcaster financed partly from public funds, which provides public service. Because TVP is the public broadcaster, it cannot interrupt programs and films with commercial breaks. Any changes in this respect may contribute to the strengthening of TVP's competitive position, reducing our advertising revenue. Furthermore, we will be forced to compete with current and future market participants for terrestrial and satellite broadcasting licenses in Poland. Such participants may include major broadcasters with greater resources and more recognizable brands. This is especially true in the case of foreign companies which may find the Polish TV market attractive for various reasons, including its current regulatory environment (which allows TV stations to broadcast more advertising during programs and films than in other countries), as well as the increasing extent of other permitted advertising activities. And lastly, continued growth of cable TV, DTH and DTT providers in Poland may lead to further market and audience fragmentation, which may make advertisers reluctant to buy air-time on our channels. Losing customers and advertisers to our competitors may have a material adverse effect on the results of our operations, financial condition and prospects.

6.4. Factors relating to market risks

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

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

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

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

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

It is permitted to use the following types of instruments:

- swaps (IRS/CIRS),
- forwards and futures,
- options.

Currency risk

One of the main risks that the Group is exposed to is currency risk resulting from fluctuations in exchange rate of the Polish zloty against other currencies. Revenues generated by the Group are denominated primarily in the Polish zloty, while a portion of operating costs and capital expenditures are incurred in foreign currencies. The Parent's currency risk is associated mainly to royalties to TV and radio broadcasters (USD and EUR), transponder capacity leases (EUR), fees for conditional access system (EUR) and purchases of reception equipment and accessories for reception equipment (USD and EUR). After the purchase of Telewizja Polsat Sp. z o.o. currency risk exposure is also associated to purchases of foreign programming licences (USD). After the purchase of Metelem Holding Company Ltd. currency risk exposure is also associated to UMTS license liabilities (EUR), agreements with suppliers of stock, mainly mobile phones, and suppliers of telecommunication network equipment (EUR), roaming and interconnect agreements and some agreements concerning rental of space required for network locations and rental of office space (various currencies).

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

The Group does not hold any assets held for trading denominated in foreign currencies.

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

in millions	December 31, 2018					
	EUR	USD	CHF	GBP	SEK	XDR
Trade receivables	10.3	2.9	-	-	-	0.9
Cash and cash equivalents	28.5	4.8	2.6	0.1	-	-
UMTS license liabilities	(108.4)	-	-	-	-	-
Trade payables	(153.2)	(15.3)	(2.3)	-	-	(1.3)
Gross balance sheet exposure	(222.8)	(7.6)	0.3	0.1	-	(0.4)
Forward transactions	-	-	-	-	-	-
Net exposure	(222.8)	(7.6)	0.3	0.1	-	(0.4)

in millions	December 31, 2017					
	EUR	USD	CHF	GBP	SEK	XDR
Trade receivables	7.8	1.9	-	-	-	0.5
Cash and cash equivalents	3.2	8.4	2.3	0.1	1.2	-
UMTS license liabilities	(133.1)	-	-	-	-	-
Trade payables	(13.1)	(14.5)	(0.1)	-	-	(0.8)
Gross balance sheet exposure	(135.2)	(4.2)	2.2	0.1	1.2	(0.3)
Forward transactions	44.0	-	-	-	-	-
Net exposure	(91.2)	(4.2)	2.2	0.1	1.2	(0.3)

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

PLN	Average rate		Rates at the reporting date	
	2018	2017	December 31, 2018	December 31,2017
1 EUR	4.2617	4.2583	4.3000	4.1709
1 USD	3.6117	3.7782	3.7597	3.4813
1 GBP	4.8168	4.8595	4.7895	4.7001
1 CHF	3.6912	3.8364	3.8166	3.5672
1 XDR	5.1098	5.2368	5.2212	4.9653
1 SEK	0.4156	0.4422	0.4201	0.4243

For the purposes of the exchange rate sensitivity analysis as at December 31, 2018 and December 31, 2017, exchange rate volatility in the +/-5% range was assumed as probable. This analysis assumes that all other variables, in particular interest rates, remain constant.

in millions	2018					2017				
	as at December 31, 2018		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	as at December 31, 2017		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	10.3	44.3	5%	2.2	-	7.8	32.7	5%	1.5	-
USD	2.9	11.1	5%	0.3	-	1.9	6.5	5%	0.4	-
XDR	0.9	4.7	5%	0.2	-	0.5	2.3	5%	0.3	-
Cash and cash equivalents										
EUR	28.5	122.6	5%	6.1	-	3.2	13.5	5%	0.5	-
USD	4.8	18.2	5%	0.7	-	8.4	29.1	5%	1.6	-
CHF	2.6	9.9	5%	0.5	-	2.3	8.2	5%	0.4	-
GBP	0.1	0.5	5%	-	-	0.1	0.3	5%	0.2	-
SEK	-	-	5%	-	-	1.2	0.5	5%	-	-
UMTS license liabilities										
EUR	(108.4)	(466.3)	5%	(23.1)	-	(133.1)	(555.3)	5%	(27.6)	-
Trade payables										
EUR	(153.2)	(658.8)	5%	(32.9)	-	(13.1)	(54.8)	5%	(2.6)	-
USD	(15.3)	(57.5)	5%	(2.9)	-	(14.5)	(50.6)	5%	(2.4)	-
XDR	(1.3)	(6.8)	5%	(0.3)	-	(0.8)	(3.9)	5%	(0.3)	
CHF	(2.3)	(8.8)	5%	(0.4)	-	(0.1)	(0.2)	5%	(0.2)	-
Change in operating profit				(49.6)	-				(28.2)	-
Forwards										
EUR	-	-	5%	-	-	(44.0)	(183.5)	5%	(9.2)	-
Income tax				9.4	-				3.6	-
Change in net profit				(40.2)	-				(15.4)	-

in millions	2018					2017				
	as at December 31, 2018		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	as at December 31, 2017		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	10.3	44.3	-5%	(2.2)	-	7.8	32.7	5%	1.5	-
USD	2.9	11.1	-5%	(0.3)	-	1.9	6.5	5%	0.4	-
XDR	0.9	4.7	-5%	(0.2)	-	0.5	2.3	5%	0.3	-
Cash and cash equivalents										
EUR	28.5	122.6	-5%	(6.1)	-	3.2	13.5	5%	0.5	-
USD	4.8	18.2	-5%	(0.7)	-	8.4	29.1	5%	1.6	-
CHF	2.6	9.9	-5%	(0.5)	-	2.3	8.2	5%	0.4	-
GBP	0.1	0.5	-5%	(6.1)	-	0.1	0.3	5%	0.2	-
SEK	-	-	-5%	(0.7)	-	1.2	0.5	5%	-	-
UMTS license liabilities										
EUR	(108.4)	(466.3)	-5%	23.1	-	(133.1)	(555.3)	5%	(27.6)	-
Trade payables										
EUR	(153.2)	(658.8)	-5%	32.9	-	(13.1)	(54.8)	5%	(2.6)	-
USD	(15.3)	(57.5)	-5%	2.9	-	(14.5)	(50.6)	5%	(2.4)	-
XDR	(1.3)	(6.8)	-5%	0.3	-	(0.8)	(3.9)	5%	(0.3)	
CHF	(2.3)	(8.8)	-5%	0.4	-	(0.1)	(0.2)	5%	(0.2)	-
Change in operating profit				49.6	-				(28.2)	-
Forwards										
EUR	-	-	-5%	-	-	(44.0)	(183.5)	5%	(9.2)	-
Income tax				(9.4)	-				3.6	-
Change in net profit				40.2	-				(15.4)	-

In millions	2018		2017	
	Estimated change in profit [PLN]	Estimated change in other comprehensive income [PLN]	Estimated change in profit [PLN]	Estimated change in other comprehensive income [PLN]
Estimated change in exchange rate by 5 %				
EUR	(38.7)	-	(15.4)	-
USD	(1.5)	-	(0.4)	-
CHF	0.1	-	0.2	-
GBP	-	-	0.2	-
XDR	(0.1)	-	-	-
Estimated change in exchange rate by -5 %				
EUR	38.7	-	15.4	-
USD	1.5	-	0.4	-
CHF	(0.1)	-	(0.2)	-
GBP	-	-	(0.2)	-
XDR	0.1	-	-	-

Had Polish zloty strengthened 5% against the basket of currencies as at December 31, 2018 and December 31, 2017, the Group's net profit would have decreased by PLN 40.2 million and decreased by PLN 15.4 million, respectively, and other comprehensive income would have been unchanged both in 2018 and 2017. Had the Polish zloty weakened by 5%, the Group's net profit would have correspondingly increased by PLN 40.2 million in 2018 and increased by PLN 15.4 million in 2017, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

Interest rate risk

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

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

In order to reduce interest rate risk exposure resulting from Parent's interest payments on floating rate senior facility, the Group stipulated interest rate swaps for which hedge accounting was adopted. In order to reduce interest rate risk exposure resulting from Metelem Holding Company Ltd. group (currently Polkomtel Sp. z o.o. group) interest payments on floating rate senior facilities the Group also uses interest rate swaps and for them hedge accounting was not adopted.

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

mPLN	Carrying amount	
	December 31, 2018	December 31, 2017
Fixed rate instruments		
Financial assets	258.0	242.5
Financial liabilities*	(12.8)	-
Variable rate instruments		
Financial assets	830.3	802.6
Financial liabilities*	(11,283.5)	(11,679.5)
Net interest exposure	(10,453.2)	(10,876.9)

*Nominal debt

The Group classifies loan liabilities as variable rate instruments. Changes in the interest rate components do not result in a change in the carrying amount of the loan liability. The changes are reflected prospectively in the interest expense on loans and borrowings.

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

mPLN	Income statement		Other comprehensive income		Equity	
	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp
December 31, 2018						
Variable rate instruments*	(50.4)	50.4	3.1	(3.1)	(47.3)	47.3
Cash flow sensitivity (net)	(50.4)	50.4	3.1	(3.1)	(47.3)	47.3
December 31, 2017						
Variable rate instruments*	(77.4)	77.4	3.1	(3.1)	(74.3)	74.3
Cash flow sensitivity (net)	(77.4)	77.4	3.1	(3.1)	(74.3)	74.3

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

For some instruments the Group applies cash flow hedge model under IAS 39 for interest rate exposure from floating rate interest payments in PLN on senior facility hedged by interest rate swap.

Information regarding financial instruments related to:

- credit risk and liquidity risk, to which the Group is exposed; and
- objectives and methods established by the Group in order to manage financial risk, including methods of securing significant types of planned transactions to which hedging accounting is applicable

are described in Note 39 of the consolidated financial statements for the financial year ended December 31, 2018.

6.5. Risk factors associated with the legal and regulatory environment

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

Tax laws in Poland are complex, unclear and subject to frequent and unpredictable changes. Polish tax laws include, since July 15, 2016, the so-called General Anti-Avoidance Rule (GAAR), intended to prevent establishing and using artificial legal arrangements with tax savings as its principal purpose. Frequent amendments in the tax laws and contradicting legal interpretations among the tax authorities result in uncertainties and lack of consistency in the tax ordinance, which in fact lead to difficulties in the judgement of the tax consequences in the foreseeable future.

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

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

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

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

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

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

The tax regime applicable to our operations and the sector in which we operate creates numerous uncertainties

The tax regime applicable to transactions and events typical for our operations and the sector in which we operate are a source of numerous interpretation uncertainties. In particular, there is uncertainty as to the interpretation of income tax laws with respect to the possibility, manner, and timing of recognition of income and tax-deductible expenses on individual transactions and events and the requirements for their documentation. Also, VAT legislation is characterized by vague and complex regulations, particularly where it concerns goods and services subject to the tax, the tax rate, tax base or time at which the tax liability arises with respect to transactions subject to VAT. 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 harmonized with the changing legal (including tax) regulations and their changing application.

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

Property tax laws give rise to numerous interpretation uncertainties

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

The Group's companies are subject to legal regulations (including tax legislation) in force in different jurisdictions

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

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

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

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

Our operations are reviewed by institutions of competition and consumer protection to ensure that we comply with Polish and European laws prohibiting practices that limit competition or violate the collective interests of consumers, such as for example providing inaccurate information to customers, dishonest market practices or use of abusive contract clauses. As a general rule, our operations are subject to the assessment of the President of the Polish Office of Competition and Consumer Protection (UOKiK). If the regulator finds any of our practices or contract terms to be misleading or in conflict with Polish or European competition and consumer protection laws, we may be subject to fines and our reputation could be harmed. In addition, if any clauses in our standard consumer contracts are considered abusive, the President of UOKiK prohibits their application (which will require amendments to our standard contracts), may impose a fine and define the measures to remedy the subsisting effects of breaching the prohibition from applying the abusive clauses.

If the President of UOKiK determines that any of our practices had the effect of limiting competition or violating consumer rights, we could be required to discontinue the unlawful practice. In addition, the President of UOKiK could impose on us a cash fine of up to 10% of our revenue generated in the financial year immediately preceding the year in which the fine is imposed and additionally, pursuant to the provisions of the amended Act on Protection of Competition and Consumers, can, for example, impose on us the obligation to pay compensation to consumers, who were affected by the practices in question or apply other measures. Fines of up to PLN 2 million may also be imposed on our managing persons, if through their actions or omissions, they permitted a breach of the prohibition from entering into agreements limiting competition. Moreover, if we, even unintentionally, fail to provide the President of UOKiK with the required information or provide misleading information, a fine of up to EUR 50 million may be imposed on us.

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

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

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

As part of telecommunications market regulation in Poland, the President of UKE may determine rates in settlements between operators for termination of voice calls in mobile networks (MTR) and fixed-line networks (FTR). In the past, the regulator used this power several times, and reduced MTRs. As a result of decisions of the President of UKE, voice MTRs were reduced by 74% in the period from January 2010 to July 2013. There can be no assurance that there will not be any further MTR reductions in the future. At present, the regulator is conducting administrative proceedings to determine FTRs at the level ten times lower than currently applied on the market. The implementation of further regulations of MTRs or FTRs may directly affect our financial performance.

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

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

The President of UKE supervises our telecommunications operations, as well as TV broadcasting and production. As part of our telecommunications services, we mainly provide mobile voice services, broadband Internet access as well as certain wholesale services to other operators. Telecommunications enterprises operating in Poland are subject to a number of legal and administrative requirements having a direct impact on their business, both in relations with individual and business customers (for instance, by specifying the scope of customers' rights or the content of standard terms and conditions for the provision of telecommunications services, setting rules for settlements in international roaming services, caps for pricing of international services or restricting the maximum time for which contracts can be concluded with customers) and wholesale customers (for instance, by imposing MTR and FTR caps or defining caps for rates used in roaming traffic settlements). Our TV production and broadcasting segment is in turn overseen by the President of UKE for compliance with the terms of licenses and frequency allocations assigned by the President of UKE for the purposes of TV broadcasting services. We cannot give any assurance that we will be able to meet the numerous requirements imposed on us by the Polish Telecommunications Law. In the event of our non-compliance with any provisions of the Telecommunications Law, companies from the Group may face a fine from the President of UKE of up to 3% of revenue generated in the year preceding the year in which such fine is imposed.

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

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

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

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

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

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

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

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

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

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

No assurance can be given that we will not breach any personal data protection laws or regulations, or that we will not fail to meet requirements imposed by the President of the Personal Data Protection Office and we may incur pecuniary penalties for non-compliance with GDPR

In the course of its business the Group companies gather, keep and use customer data which are protected by personal data protection regulations. Therefore, since 25 May 2018, these companies, as personal data processors, are required to comply with the Regulation of the European Parliament and of the Council (EU) 2016/679 of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC ("GDPR").

GDPR has elevated the standards required of personal data administrators and the entities processing personal data on their behalf, and authorized the competent authorities to impose pecuniary penalties of up to EUR 20 million or 4% of total global turnover for the past year on personal data administrator and entities processing personal data on their behalf. It has also authorized the competent authorities to temporarily or indefinitely impose a complete ban on personal data processing.

If the solutions that we implement in order to protect personal data prove ineffective, it may result, for instance, in a disclosure of customer personal data either as a result of a human error, willful, unlawful misconduct by third parties or failure of IT systems, or it result in inappropriate use of such data in other ways. A breach of the personal data regulations and the requirements of the President of the Polish Personal Data Protection Office may result in imposing pecuniary penalties on us, as well as a loss of customer confidence and thus have a material adverse effect on our business, financial condition or development prospects.

We also use external providers, cooperate with external partners, agents, suppliers and other external entities, therefore we are unable to entirely rile out the risk of a malfunction of the systems involved in the processing or transmission of restricted information in these entities. A breach of the personal data regulations by us or by those entities may result in imposing pecuniary penalties, as well as in a loss of reputation and loss of customers and in consequence have a material adverse effect on the results of our operations, financial condition and prospects.

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, 2018:

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	100,000.0
B	2,500,000	Preference shares (2 voting rights)	5,000,000	100,000.0
C	7,500,000	Preference shares (2 voting rights)	15,000,000	300,000.0
D	166,917,501	Preference shares (2 voting rights)	333,835,002	6,676,700.0
D	8,082,499	Ordinary bearer shares	8,082,499	323,300.0
E	75,000,000	Ordinary bearer shares	75,000,000	3,000,000.0
F	5,825,000	Ordinary bearer shares	5,825,000	233,000.0
H	80,027,836	Ordinary bearer shares	80,027,836	3,201,113.4
I	47,260,690	Ordinary bearer shares	47,260,690	1,890,427.6
J	243,932,490	Ordinary bearer shares	243,932,490	9,757,299.6
Total	639,546,016		818,963,517	25,581,840.6
including:	179,417,501	registered	358,835,002	7,176,700.0
	460,128,515	floating	460,128,515	18,405,140,6

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

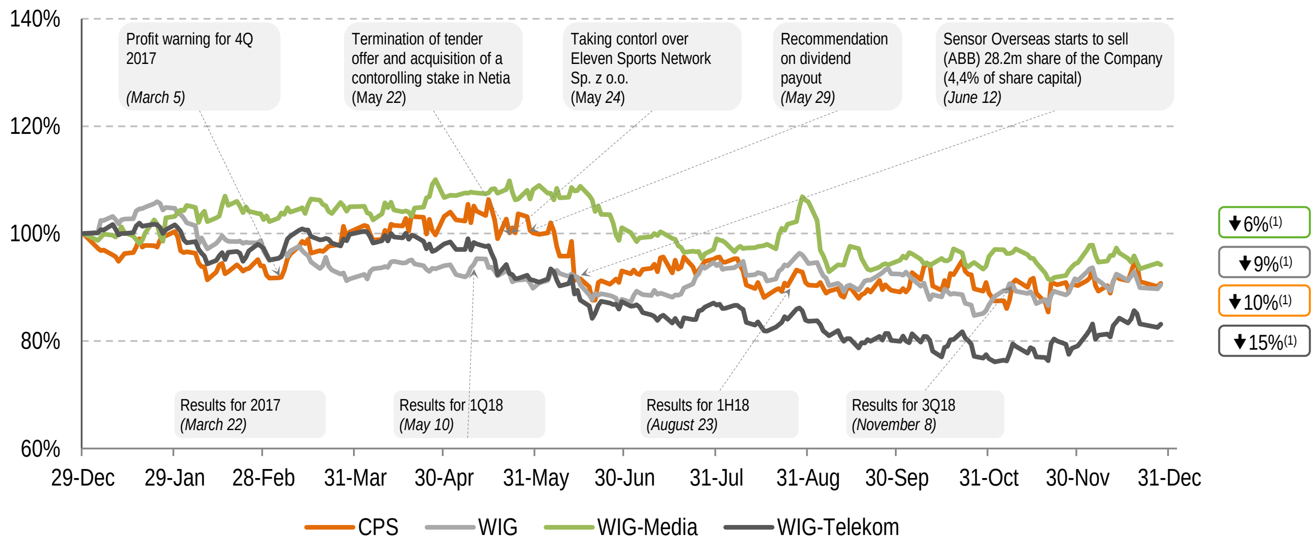
The shareholding structure as at the date of approval of this Report together with a description of changes in the structure of ownership of significant number of shares of the Company in the period since the publication of the last periodic report are set forth in detail in item 8.4 –*Corporate Governance Statement – Share capital and shareholding structure of Cyfrowy Polsat*.

Basic data on the Cyfrowy Polsat shares in trading

Date of first quotation	May 6, 2008
Component of indices	WIG, WIG20, WIG30, WIG-telekomunikacja
Macrosector/sector	TECHNOLOGY/telecommunication
Market	main
Quotation system	continuous
International Securities Identification Number (ISIN)	PLCFRPT00013
Cyfrowy Polsat's identification codes	
• Warsaw Stock Exchange	CPS
• Reuters	CYFWF.PK
• Bloomberg	CPS:PW

7.2. Shares quotes

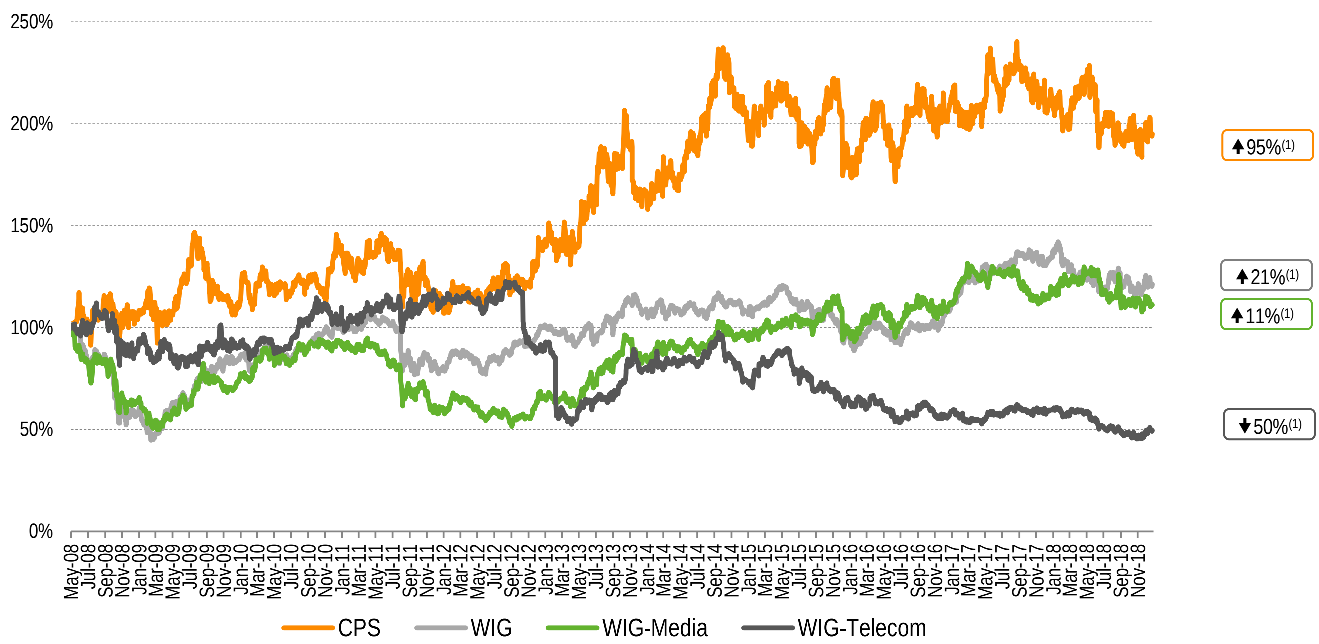
(indexed; 100 = closing price on December 29, 2017)



(1) change December 29, 2017 vs December 28, 2018

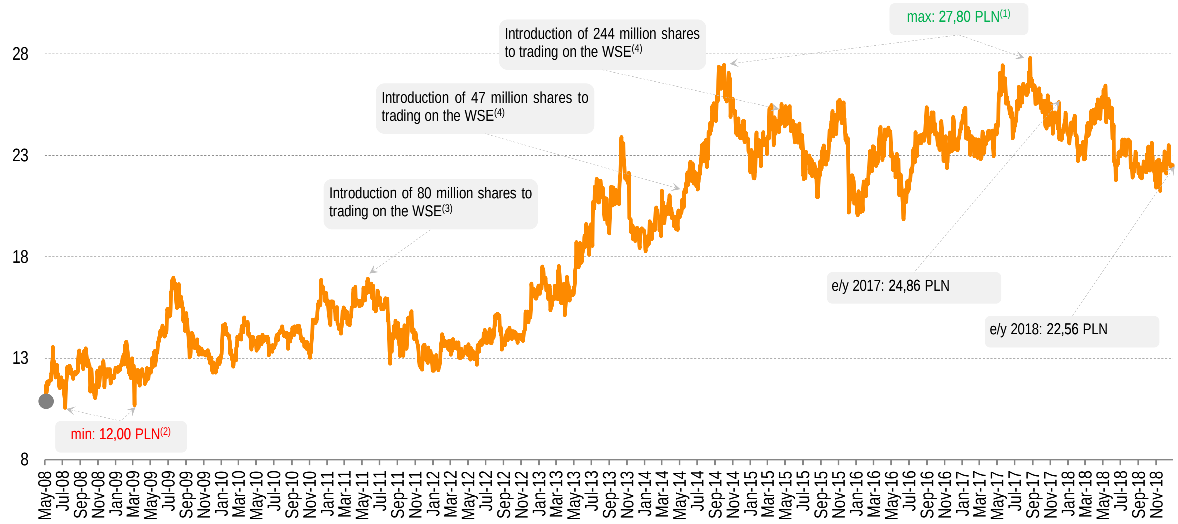
Performance of Cyfrowy Polsat shares since the debut on the WSE in May 2008 until the end of 2017 compared to WSE indexes

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



(1) change December 28, 2018 vs. May 6, 2008

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



(1) Share price on October 6-7, 2014 and August 28, 2017.

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

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

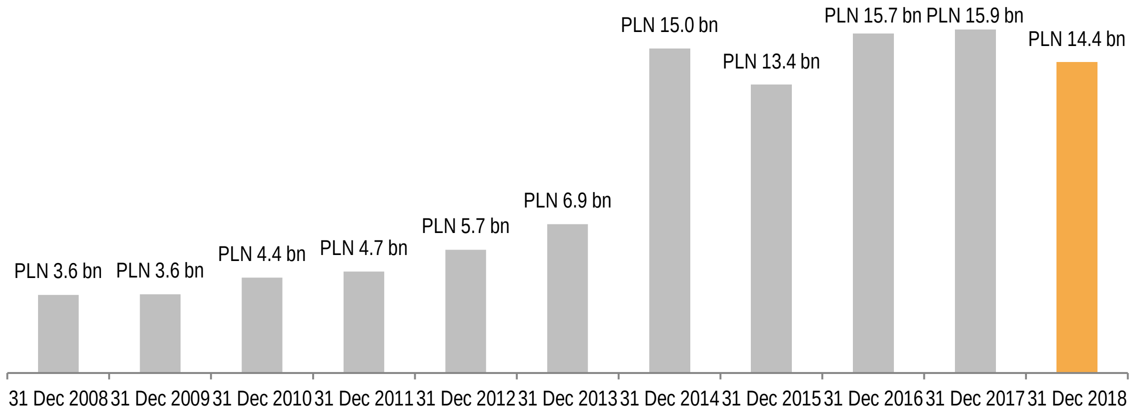
(4) On May 7, 2014 the Company issued 47,260,690 Series I shares and 243,932,490 Series J shares with the nominal value of PLN 0.04 each. On May 14, 2014 these shares were registered in the Central Securities Depository of Poland with ISIN codes PLCFRPT00013 and PLCFRPT00021, respectively. Series I shares were admitted to trading on May 12, 2014 and Series J shares – on April 20, 2015, pursuant to the resolutions of the Management of the Warsaw Stock Exchange in Warsaw. The issue of Series I and J shares provided the source of financing of the transaction of acquisition of Metelem Holding Company Limited. The issued shares were acquired by shareholders of Metelem Holding Company Limited.

Cyfrowy Polsat shares on the stock exchange in 2018

		2018	2017
Year-end price	PLN	22.56	24.86
High for the year	PLN	26.60	27.80
Low for the year	PLN	21.20	23.09
Average for the year	PLN	23.48	25.08
Average daily turnover	PLN '000	12,050	13,218
Average daily trading volume	shares	515,845	527,587
Number of shares (as at year-end)	shares	639,546,016	639,546,016
Bearer shares	shares	460,128,515	460,128,515
Market capitalization (as at year-end)	PLN '000	14,428,158	15,899,144

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

Cyfrowy Polsat is the largest in terms of market capitalization, that amounted to PLN 14.4 billion as of the end of 2018, media and telecommunications company quoted on the Warsaw Stock Exchange and one of the largest in Middle and Eastern Europe.



7.3. Analysts' recommendations

Brokers covering the Company:

Local

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

International

- Citigroup Global Markets Inc.
- ERSTE Group Research
- Goldman Sachs
- Haitong Bank S.A.
- Raiffeisen Centrobank AG
- UBS Investment Bank
- Wood&Company
- Santander Biuro Maklerskie

Recommendations for the shares of Cyfrowy Polsat published in 2018

Date	Institution	Recommendation		Target price [PLN]
December 18	Wood&Co	-	Hold	25.00
December 11	Haitong Bank S.A.	↑	Buy	26.00
December 9	Dom Maklerski BOŚ S.A	–	Hold	24.50
December 7	Trigon Dom Maklerski S.A.	–	Hold	24.10
December 4	DM PKO BP S.A.	–	Hold	24.50
November 28	Pekao Investment Banking S.A.	↑	Buy	29.70
November 26	DM mBanku S.A.	–	Hold	23.20
November 26	Citigroup Global Markets Inc.	–	Neutral	25.20
October 18	Trigon Dom Maklerski S.A.	–	Hold	23.20
October 11	Goldman Sachs	–	Neutral	24.40
October 4	ERSTE Group Research	↑	Buy	32.00
August 28	Raiffeisen CENTROBANK	↑	Buy	27.00

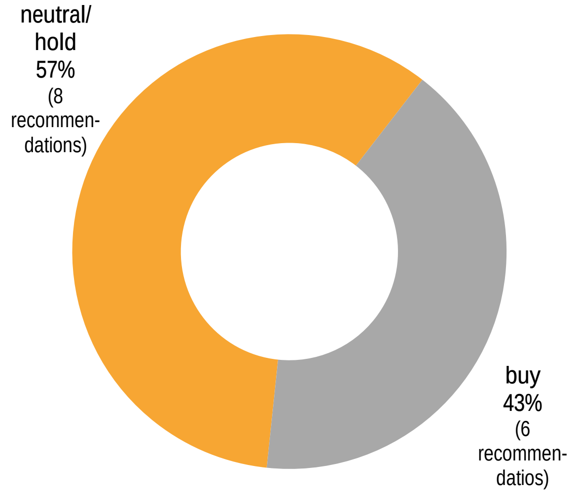
Date	Institution	Recommendation		Target price [PLN]
August 20	Dom Maklerski BZ WBK S.A.[1]	–	Hold	24.00
July 19	Trigon Dom Maklerski S.A.	–	Hold	24.90
July 18	Goldman Sachs	–	Neutral	28.70
June 27	Pekao Investment Banking S.A.	↑	Buy	29.30
June 15	DM mBanku S.A.	↑	Cumulate	24.90
June 14	Raiffeisen CENTROBANK	↑	Buy	27.50
June 7	IPOPEMA Securities S.A.	↑	Buy	28.00
June 1	ERSTE Group Research	↑	Buy	32.00
May 10	Dom Maklerski BOŚ S.A	–	Hold	27.00
April 12	Goldman Sachs	–	Neutral	27.60
April 10	Trigon Dom Maklerski S.A.	↑	Buy	27.40
April 6	Citigroup Global Markets Inc.	–	Neutral	27.70
April 6	DM mBanku S.A.	–	Hold	25.30
April 4	DM PKO BP S.A	↑	Buy	28.50
March 20	Goldman Sachs	–	Neutral	27.90
March 19	Citigroup Global Markets Inc.	–	Neutral	26.70
March 5	DM mBanku S.A.	↑	Cumulate	24.90
February 13	Raiffeisen CENTROBANK	↑	Buy	27.30
February 8	Goldman Sachs	–	Neutral	27.80
February 2	Berenberg	-	Hold	27.50
January 31	DM mBanku S.A.	-	Hold	25.70

[1] *Currently Santander Dom Maklerski*

Recommendations released in 2019 after the reporting period

Date	Institution	Recommendation		Target price [PLN]
February 23	UBS Investment Bank	↑	Buy	30,00
January 23	ERSTE Group Research	↑	Buy	30.00
January 16	Goldman Sachs	-	Neutral	24.50
January 9	IPOPEMA Securities S.A.	↑	Buy	26.20

Structure of recommendations as at March 20, 2019



Target price as at March 20, 2019 [PLN]

minimum	23.2
maximum	30.0
average	26.0

7.4. Close dialogue with the capital market

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

In order to ensure current access to information we participate in conferences with investors, we organize numerous individual meetings and roadshows both in Europe and in the United States. Moreover, every quarter, after the publication of financial results, we organize periodical meetings with investors and sell-side analysts as well as teleconferences with the members of the Company's management. Both are open events. In 2018, we attended meetings with approximately 270 representatives of the capital market during 20 conferences and roadshows outside of Poland.

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

In connection with implementation of European Parliament's and Council's Directive 2014/57/UE of 16 April 2014 - the Market Abuse Directive (MAD), as well as European Parliament's and Council's Regulation (EU) no. 596/2014 of 16 April 2014 - the Market Abuse Regulation (MAR), the reporting standards and the information obligations of security issuers have changed fundamentally on the Polish capital market. To ensure proper fulfillment of the information obligations imposed by the relevant regulations, including the MAR Regulation, we have implemented, at the Capital Group level, detailed internal rules which define such things as the principles of analysis and identification of events occurring within our organization, the procedures to be followed upon obtaining any information which is subject to reporting as well as the deadlines for fulfillment of information obligations. We have also adopted the so-called Individual Reporting Standard which supports identification and classification of events as inside information.

In order to reach a wide audience we also use state-of-the-art tool to communicate with capital market representatives, such as a website dedicated to investors (http://www.grupapolsat.pl/en/investor-relations), a reliable and practical source of information about Polsat Group, electronic newsletters, RSS, periodic newsletters including both information on current events in the Company and latest market developments (press review), as well as reminders of the most important events in the Company.

Numerous distinctions presented to Cyfrowy Polsat in the field of investor relations are the confirmation of our efforts which are aimed at guaranteeing high quality and top standards of the Group's communication with the capital markets in Poland and around the world. Several times in the past years we were ranked at the top spots of the Best Listed Company of the

Year ranking organized by *Puls Biznesu* daily. In 2018, we were once again named "Best IR Department in a Listed Company - Poland", with the award presented to us during the fourth edition of the CEE Capital Markets Awards. Moreover, in 2018, Cyfrowy Polsat was also a finalist in the ranking "Transparent Company 2017", organized by the daily *Parkiet* in cooperation with the Institute of Accountancy and Taxes. We also received awards in the Institutional Investor's 2018 ranking which covered listed companies from across Europe. In this ranking, by the votes of analysts we were awarded in the "Best Inventors Relations Program", "Best CFO" and "Best IR Professional" categories among the companies from the media sector while by the votes of analysts and investors we were distinguished in the "Best Investor Relations Program" and "Best Website" categories among the SME companies (according to the pan-European scale) from the media sector. In March 2019, Cyfrowy Polsat was announced the winner of the investor relations survey among WIG30 companies, organized by the daily *Parkiet* and the Chamber of Brokerage Houses in the poll of representatives of financial institutions. Furthermore, we received the main prize in the 12th edition of the Corporate Social Responsibility Reports Contest, organized by the Responsible Business Forum and Deloitte.

7.5. Dividend policy

On March 15 2019 the Management Board of the Company adopted a new dividend policy of the Company, worded as follows:

"The main goal of the strategy of Cyfrowy Polsat S.A. Capital Group (the "Group," "Polsat Group") is the permanent growth of the value of Cyfrowy Polsat S.A. (the "Company") for its shareholders. We intend to achieve this goal by implementing the major elements of our operational strategy which include:

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

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

3. effective management of the cost base of our integrated media and telecom group by exploiting its inherent synergies and economies of scale, and

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

Predictable dividend payout to shareholders is one of the main goals underlying the capital resources management policy of Cyfrowy Polsat S.A. At the same time, bearing in mind the strategy of deleveraging of the Group, the Management Board has set the desirable consolidated debt level, as measured by the net debt/EBITDA ratio, which should be reduced to below the threshold of 1.75x.

In view of the above, the Management Board of Cyfrowy Polsat S.A. has adopted a resolution regarding the dividend policy which assumes that dividend payout proposals, along with the Management Board's recommendations, will be presented every year to the General Meeting, subject to the observance of the following general principles:

1. the amount of a dividend paid out every year shall guarantee the Company's shareholders an attractive return from invested capital;

2. the level of the obtained return shall be shaped in relation to the commonly available on the Polish market forms of safe investing of funds, in particular in relation to the level of bank deposits rates, while taking into account a risk premium associated with floating of Cyfrowy Polsat's share prices on the Warsaw Stock Exchange;

3. in parallel, a yearly submitted proposal for distribution of the Group's net profit for the previous financial year should allow for the continuation of gradual reduction of Cyfrowy Polsat Group's net debt in order to achieve the desired ratio of net debt to EBITDA at the level below 1.75x.

Simultaneously, the Management Board of Cyfrowy Polsat S.A. reviewed the plans of Cyfrowy Polsat Capital Group and evaluated possibilities of allocating the expected cash resources of the Group with an aim to pay out a stable and predictable dividend stream to its shareholders in medium term. Based on the conducted analysis, the Management Board intends to recommend for 2019-2021 the dividend payout in the total amount of not less than PLN 2.79 per share in three equal installments as follows:

1. at least PLN 0.93 per share to be paid out in 2019;

2. at least PLN 0.93 per share to be paid out in 2020;

3. at least PLN 0.93 per share to be paid out in 2021.

In parallel, the Management Board notes that every time when presenting a proposal for distribution of the profit for the previous year it will take into account the Group's net profit, financial standing and liquidity, existing and future liabilities (including potential restrictions related to facility agreements and other financial documents), the assessment of the Group's prospects in specific market and macroeconomic conditions, potential necessity of spending funds for the Group's development, in particular through acquisitions and embarking on new projects, one-off items, as well as valid legal regulations.

The dividend policy will be subject to regular verification by the Company's Management Board. In particular, the Management Board expects modification to the aforementioned dividend policy following the refinancing of Polsat Group's debt which is expected in 2022.

The new dividend policy will take effect from April 1, 2019."

The payout at the level of PLN 0.93 per share generates an annual return rate of approximately 4% as compared to the average capitalization of the Company in December 2018. Thus, in the Management Board's opinion, it meets the general principles of the dividend policy presented above and the expectations of the majority shareholder of Cyfrowy Polsat, expressed in the letter received from Mr. Zygmunt Solorz on February 7, 2019 (see the Company's current report No. 4/2019 dated February 7, 2019). Simultaneously, in the Management Board's opinion the above mentioned schedule and amounts of dividend payouts shall not interrupt the development concept of Cyfrowy Polsat Capital Group, enabling at the same time its further deleveraging.

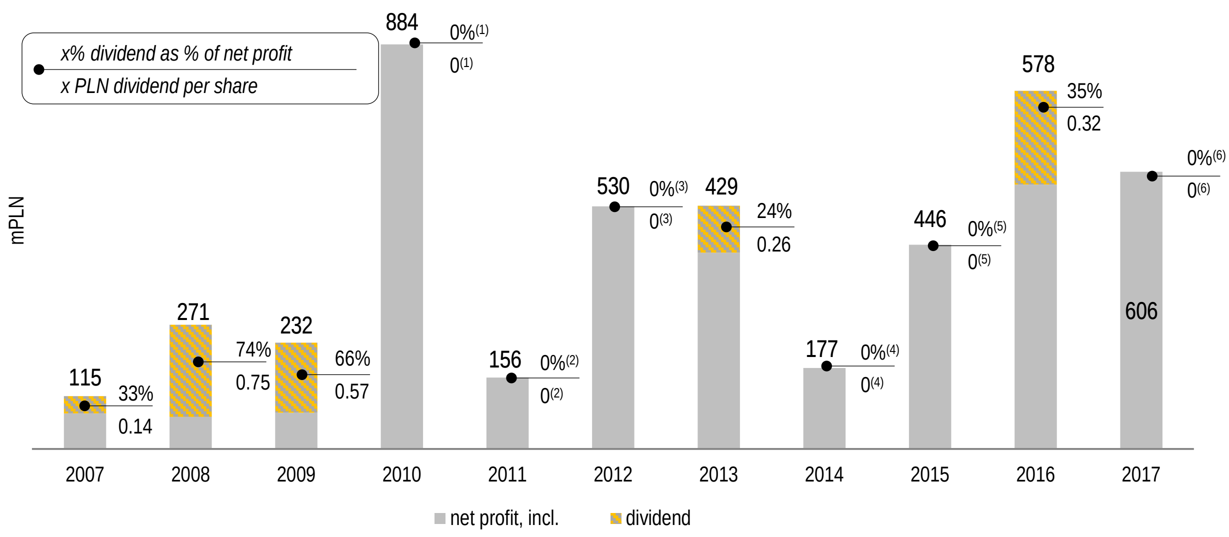
Distribution of net profit of Cyfrowy Polsat for 2017

Acting in accordance with resolution no. 33 of the Ordinary General Meeting, held on June 28, 2018, regarding profit distribution, the entire net profit earned by the Company in the financial year ended December 31, 2017 in the amount of PLN 606.0 million was allocated to the reserve capital.

Taking into consideration the strategic investments made by the Company and some of its subsidiaries in 2017 and 2018, which ensure the continuation of the development of the capital group of the Company (the "Group") in the long term in accordance with its key strategic goal to sustainably grow the Company's value for its shareholders as well as bearing in mind a relatively high level of the Group's indebtedness, the Management Board of the Company decided not to recommend a dividend payment from the profit for 2017. In the opinion of the Management Board, this will allow to reduce the indebtedness level of the Group, in line with the adopted strategic assumptions, and with the goal of the capital resources management policy in particular, which is to reduce in a possibly short time the total net debt ratio for the Group (net debt to EBITDA) below 1.75x. In parallel, the Management Board of the Company confirms the dividend policy adopted on November 8, 2016.

On March 15, 2019 the Management Board of the Company adopted a new dividend policy, which is described above. It takes into consideration predictable dividend payout to shareholders, which is one of the main goals underlying the capital resources management policy of Cyfrowy Polsat, while bearing in mind the strategy of deleveraging the Group, as measured by the net debt/EBITDA ratio, below the threshold of 1.75x.

History of Cyfrowy Polsat's profit sharing



(1) Net profit allocated entirely to reserve capital according to the resolution of the General Meeting of May 19, 2011.
(2) Net profit distributed in total to reserve capital and to cover losses from previous years according to the resolution of the General Meeting on June 5, 2012.
(3) Net profit distributed in total to reserve capital according to the resolution of the General Meeting of June 11, 2013.
(4) Net profit distributed in total to reserve capital according to the resolution of the General Meeting of April 2, 2015.
(5) Net profit distributed in total to reserve capital according to the resolution of the General Meeting of June 29, 2016.
(6) Net profit allocated entirely to reserve capital according to the resolution of the General Meeting of June 28, 2018.

8. Corporate governance Statement

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

In 2017, Cyfrowy Polsat S.A was subject to the set of principles of corporate governance in the form of the "Best Practices of WSE Listed Companies in 2016" ("Best Practices 2016"), constituting an appendix to resolution No. 26/1413/2015 of the Council of WSE of October 13, 2015. The rules set out in the Best Practices 2016 came into force on January 1, 2016. The document is available on the official website of the Warsaw Stock Exchange dedicated to the issues of the corporate governance of listed companies, at http://corp-gov.gpw.pl.

Application of principles of corporate governance

Following the entry into force of the Best Practices 2016 on January 1, 2016, the Management Board of the Company has adopted the recommendations and principles specified in the aforementioned document, except for the recommendations included in items III.R.1., IV.R.2., VI.R.1., VI.R.2., VI.R.3. and the detailed principles included in items I.Z.1.3., II.Z.1., II.Z.7., III.Z.2., III.Z.4., III.Z.5., IV.Z.2., V.Z.6., VI.Z.4. At the same time, the Management Board decided that the recommendations and detailed principles, marked as items III.Z.6., VI.Z.1. and VI.Z.2. do not apply to the Company.

Pursuant to § 29 section 3 of the Warsaw Stock Exchange Rules, on January 29, 2016, the Company published via the Electronic Information Base (EIB) system Report no. 1/2016/CG on non-compliance with detailed principles included in the set of Good Practices 2016. The above information was subsequently updated by the Company on April 16, 2018 with the EIB report no. 1/2018/CG. At the same time, the Company published on its website – according to the requirements of the principle I.Z.1.13. – information about the application by the Company of the recommendations and principles included in the Best Practices 2016.

The Company does not comply or complies partially with the below mentioned recommendations and detailed principles included in the Best Practices 2016:

- Principle II.Z.1. stating that the internal division of responsibilities for individual areas of the company's activity among management board members should be clear and transparent. As a consequence the Company also does not apply the principle marked as I.Z.1.3., requiring the publication of a chart describing that division on the company's website. The Commercial Companies Code provides that in a joint stock company matters are managed by the Management Board in a collective manner, while a formal division of duties can be introduced optionally. Due to the broad scope of responsibilities of each Management Board Member, it is impossible, both within the entire capital group, as well as in individual companies, to define and allocate specific tasks and responsibilities to respective Board Members.

- Principle II.Z.7. regarding the application of the provisions of Annex I to the Commission Recommendation 2005/162/EC of February 15, 2005 with respect to the tasks and the operation of the committees of the Supervisory Board. Within the Company's Supervisory Board there are two standing committees operating: the Audit Committee and the Remuneration Committee. The Company does not fulfill all the detailed requirements regarding the functioning of supervisory board committees as indicated in the above mentioned Annex I to the Commission Recommendation.

  Principles governing the creation, composition and operations of specific committees of the Supervisory Board of the Company are set out in § 7 of the Supervisory Board By-laws. Moreover, the provisions of the Bylaws of the Audit Committee apply to meetings, resolutions, and minutes of the Audit Committee.

  At the current stage of operations of the Supervisory Board Committees, Company authorities do not see the need for introducing more detailed regulations governing the functioning of these committees

- Recommendation III.R.1. stating that the company's structure should include separate units responsible for the performance of tasks in individual systems or functions, (that is internal control, risk management and compliance systems, as well as an internal audit function). An Internal Audit and Internal Control unit operates in the Company. No organizational units responsible for tasks related to risk management and compliance have been set up within the Company's structure. Nonetheless, relevant internal processes and procedures have been implemented and are in place to guarantee effective financial and operational risk management as well as monitoring the compliance of the Company's operations with regulations in force. In the Management Board's opinion, the internal regulations and processes covering risk management function properly and effectively, and setting up of dedicated units responsible for risk management and compliance will not improve the efficiency of these processes and procedures in a substantial degree. At the same time, the Management Board is of the opinion that the cost associated with setting up and maintaining the above-mentioned organizational units will be incommensurate to the benefits offered by them.

Due to the fact that the Company has not implemented centralized, formal risk and compliance management systems, the Company does not apply the principles marked as III.Z.2., III.Z.4. and III.Z.5. to those systems. The Company applies the principle III.Z.2 with regard to persons responsible for internal audit. The person responsible for internal audit in the Company reports directly to the Chief Financial Officer and has the right to communicate directly with the Audit Committee. Once per year the Management Board and the person responsible for internal audit asses independently the functioning of the internal control system and the internal audit function and present their assessment to the Supervisory Board.

Numerous internal procedures and processes are in place in the Company with regard to operational and financial risk management, including the process of drafting of financial statements. These procedures ensure effective identification and monitoring of various types of risks at the level of respective organizational units and they also provide for actions to be taken in the event a given risk materializes. High level managers in charge of the areas covered by respective procedures, are responsible for ensuring effective and correct operation of these procedures.

In spite of the lack of a centralized compliance system, the control of the Company's compliance with legal regulations in respective areas is regulated by internal corporate regulations and takes place at the level of individual organizational units, which deal with a relevant area of activity.

The Management Board carries out on-going verification of the correctness of functioning of internal processes in the areas of risk management and regulatory compliance, and takes necessary actions when needed. The Supervisory Board, and in particular the Audit Committee, monitors and evaluates the effectiveness of functioning of internal processes with regard to operational and financial risk management, including the process of drafting of financial statements, based on documents and reports submitted by the Management Board and a person responsible for the internal audit as well as other information obtained during the daily business activities of the Supervisory Board.

- Recommendation IV.R.2. stating that the company should enable its shareholders to participate in a general meeting using means of electronic communication, in particular through:
  - real-time broadcast of the general meeting;
  - real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;
  - exercise of the right to vote during a general meeting either in person or through a plenipotentiary.

Ensuring the smooth running and the validity of the resolutions adopted by the General Meeting are the priorities of the Management Board. The relatively small popularity of the practice of conducting General Meetings using electronic means of communication and insufficient readiness of the market may lead to an increased risk of organizational and technical problems, which may disturb the smooth running of the General Meeting, as well as a risk of possible questioning of the resolutions passed by the General Meeting, in particular due to the occurrence of technical defects. Furthermore, domestic and foreign investors have not reported to the Company their interest or need of organizing General Meetings in this form. In view of the above, the Management Board decided not to apply the said recommendation permanently.

- Principle IV.Z.2. about ensuring publicly available real-time broadcasts of general meetings. An efficient course of proceedings of general meetings as well as cost optimization are priorities for the Management Board. The Management Board makes every effort to ensure that the documentation, as well as the proceedings of general meetings ensure transparency and protect the rights of all shareholders. Information regarding draft resolutions and adopted resolutions, as well as additional materials, is disclosed in the form of current reports and published on the Company's website, thus enabling equal access to information on the matters addressed at general meetings for all stakeholders. In view of the above, the Management Board is of the opinion that ensuring real-time coverage of general meetings would not be economically justified. At present the Management Board plans no changes to the manner in which general meetings are organized.

- Principle V.Z.6. stating that in its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company. The Company's internal regulations related to prevention, identification and solving of conflicts of interests do not meet the requirements of principle V.Z.6. In particular, they do not include a list of criteria and circumstances under which a conflict of interest may arise in the Company. In accordance with § 3 item 4 of the Supervisory Board By-laws and § 3 item 3 of the Management Board Bylaws, a Supervisory Board Member or a Management Board Member should inform the Supervisory Board, or both the Management Board and the Supervisory Board - in the case of a Management Board Member - of any existing conflict of interests, or the possibility of its emergence, and such an individual should refrain from participation in discussions or voting on resolutions related to a matter in which there exists a conflict of interests. In the opinion of the Company's Management Board, current internal regulations properly address the principles of conduct in a situation of conflict of interests.

- Recommendation VI.R.1. stating that the remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy and recommendation VI.R.2., stating that the remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.

  The Company will not comply with recommendation VI.R.1. due to the fact that a formalized remuneration policy covering the members of the Company's authorities and its key managers has not been implemented in the Company. Nonetheless, individual corporate documents and internal regulations define the manner of determining the remuneration of the members of the Company's authorities and its employees.

  In accordance with article 24 d) of the Company's Articles of Association, the remuneration of the members of the Supervisory Board requires a resolution of the General Meeting, except for the members of the Supervisory Board delegated to temporarily perform functions of a member of the Management Board, pursuant to article 19 2d) of the Articles of Association, when the decision is taken by the Supervisory Board. The remuneration relates to the scope of tasks and responsibilities related to the function performed, reflects the size of the Company and keeps a healthy relation to its financial results.

  In accordance with article 19, item 2 g) of the Company's Articles of Association, the principles of remuneration of Management Board Members are defined by the Supervisory Board, with the remuneration corresponding to the scopes of duties and responsibilities of respective Management Board Members.

  In accordance with the Employee Remuneration Regulations valid in the Company, determination of the structure and the amounts of remuneration of key managers is the competence of the Management Board.

- Recommendation VI.R.3. stating that If the supervisory board has a remuneration committee, principle II.Z.7. applies to its operations. A Remuneration Committee operates as a standing committee of the Supervisory Board. The Company does not fulfill all the detailed requirements related to functioning of the Remuneration Committee as listed in Annex I to the Commission Recommendations discussed in principle II.Z.7.

  Principles governing the creation, composition and operations of specific committees of the Supervisory Board are set out in § 7 of the Supervisory Board By-laws. At the current stage of operations of the Supervisory Board Committees, Company authorities do not see the need for introducing more detailed regulations governing the functioning of the Remuneration Committee.

- Principle VI.Z.4. regarding providing of general information on the Company's remuneration policy. The Company does not have a formalized remuneration policy for the members of the Company's authorities and its key managers. Pursuant to article 24 d) of the Company's Articles of Association, the remuneration of the Supervisory Board Members is determined by the General Meeting, save for the remuneration of the Supervisory Board Members who have been temporarily delegated to perform the duties of a Management Board Member by virtue of article 19 item 2d) of the Company's Articles of Association. In such a situation the decision is taken by the Supervisory Board. The amount of the remuneration depends on the scope of tasks and responsibilities of a function and it also corresponds to the size of the Company, while being in a reasonable proportion to its financial performance.

  In accordance with article 19, item 2 g) of the Company's Articles of Association, the principles of remuneration of Management Board Members are defined by the Supervisory Board, with the remuneration corresponding to the scopes of duties and responsibilities of respective Management Board Members. In accordance with the Employee Remuneration Regulations valid in the Company, determination of the structure and the amounts of remuneration of key managers is the competence of the Management Board.

  Nonetheless, it should be underscored that in accordance with the regulations related to information disclosure, the Company presents, in its annual report, general information regarding the remuneration principles valid in the Company as well as the information regarding the remuneration obtained in a given financial year by Management Board Members and Supervisory Board Members, while indicating the fixed and the variable components. The presented information also indicates the rules of payment of severance pay and other payments on account of termination of employment.

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

The Management Board is responsible for our internal control system and its effectiveness in the process of preparing financial statements and interim reports prepared and published in accordance with the provisions of the Ordinance of the Minister of Finance of March 29, 2018 regarding current and periodic information to be submitted by issuers of securities, and the conditions for recognizing equivalence of information required under non-member states regulations.

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

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

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

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

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

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

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

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

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

The 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. Two out of three Members of the Audit Committee meet the independence criteria set out in the Best Practices 2016 in section II.Z.4. and the requirements listed in article 129 item 3 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight.

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

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

On July 6, 2018, the Company entered into an agreement with Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k., with registered office in Warsaw, for the performance of an audit of standalone financial statements of Cyfrowy Polsat S.A. and the consolidated financial statements of Cyfrowy Polsat Group for the financial years ended December 31, 2018 and December 31, 2019.

The following summary presents a list of services provided by the certified auditor and remuneration for the services in the twelve month period ended on December 31, 2018 and December 31, 2017.

[mPLN]	For the year ended December 31	
	2018	2017[(1)]
Review of interim financial statements	0.2	0.1
Audit of financial statements for the year and other certifying services	2.2	1.7
Business and tax consulting (provision of services terminated by December 31, 2017)	-	2.3
Total	2.4	4.1

(1) In years 2012 – 2017 the Company used the audit services of PricewaterhouseCoopers Sp. z o.o.

8.4. Share capital and shareholding structure of Cyfrowy Polsat

8.4.1. Shareholders with qualifying holdings of shares of Cyfrowy Polsat

The table below presents Shareholders of Cyfrowy Polsat S.A. holding at least 5% of votes at the General Meeting of Cyfrowy Polsat S.A.as at the date of approval of this Report, i.e. March 20, 2019. Data included in the table is based on the information received from shareholders on January 30, January 31 and April 27, 2018 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 (Journal of Laws 2018, item 512, as amended).

Shareholder	Number of shares	% of shares	Number of votes	% of votes
Zygmunt Solorz, through:	366,720,780	57.34%	540,267,031	65.97%
Reddev Investments Limited(1)	298,656,832	46.70%	472,203,083	57.66%
Embud2 Sp. z o.o. Sp. K.A.	58,000,000	9.07%	58,000,000	7.08%
Karswell Limited	10,000,000	1.56%	10,000,000	1.22%
Argumenol Investment Company Limited	63,948	0.01%	63,948	0.01%
Others	272,825,236	42.66%	278,696,486	34.03%
Total	639,546,016	100.00%	818,963,517	100.00%

(1) An entity controlled indirectly by Mr. Zygmunt Solorz through TiVi Foundation.

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

From the date of publication of the previous interim report, i.e. November 8, 2018 (interim report for the third quarter of 2018), until the date of approval of this Report, i.e. March 20, 2019, the Company's did not receive notices concerning changes in the structure of ownership of significant packages of the issuer's shares.

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

As at the date of approval of this Report, i.e. March 20, 2018, the Company did not have any information on agreements which can result in a change in the proportion of shares held by hitherto shareholders in the future.

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

To the Company's best knowledge members of the Management Board did not hold any shares of the Company, directly and indirectly, as at the date of approval of this Report, i.e. March 20, 2019 as well as at the date of publication of the previous interim report, i.e. November 8, 2018 (interim report for the third quarter of 2018).

To the Company's best knowledge as at the date of approval of this Report, i.e. March 20, 2018, Mr. Aleksander Myszka, Member of the Supervisory Board, held directly 50.000 shares of the Company with the nominal value of PLN 2,000.00. To the Company's best knowledge the remaining Members of the Supervisory Board did not hold any shares of the Company, directly and indirectly, as at the date of approval of this Report, i.e. March 20, 2019, as well as at the date of publication of the previous interim report, i.e. November 8, 2018 (interim report for the third quarter of 2018).

8.4.4. 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, 2017 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.

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

8.4.5. Limitations related to shares

There are no limitations to the exercise of voting rights in the Company.

Except for the limitations regarding our securities ownership rights transfer resulting from the general provisions of the law there are no other limitations, in particular contractual limitations, regarding our securities ownership rights transfer.

8.5. Articles of Association of the Company

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

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

8.6. General Shareholders' Meeting

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

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

a) discussion and approval of Reports on the Management Board's activity and the Supervisory Board's activity, and the financial statements for the previous year,

b) decision about distribution of profits, or covering losses,

c) signing off for the Supervisory Board's and the Management Board's performance of duties,

d) appointment and dismissal of members of the Supervisory Board and determination of their compensation,

e) amendments to the Articles of Association of the Company,

f) amendments to the business activity of the Company,

g) increase or decrease in the share capital,

h) merger or transformation of the Company,

i) dissolution or liquidation of the Company,

j) issuance of convertible bonds or seniority bonds,

k) sale or lease of the Company and establishment of a right of use or sale of the Company's plant,

l) purchase of real estate or equipment for the Company, serving for permanent usufruct for a price exceeding by 1/5 (one fifth) the paid-up share capital if the purchase takes place within two years of the Company's registration,

m) all decisions regarding claims for damages upon establishment of the Company, or activities of management or supervision,

n) other issues set out by the provisions of the commercial companies code.

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

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

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

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

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

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

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

After creation and signing of the attendance list the Chairman approves that the Shareholders' Meeting has been called in a proper manner and is authorized to pass resolutions; presents the agenda and orders selection of the Ballot Committee.

The General Meeting may pass a motion regarding nonfeasance of voting over an item on the agenda, and also on adjourning the order of issues on the agenda. However, removing an item from the agenda, or its adjourning upon a request of shareholders, requires prior consent of all the shareholders present, who have forwarded such a motion, supported by a majority of votes of the General Meeting. Motions regarding the aforementioned issues shall be justified in detail.

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

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

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

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

As at December 31, 2017 the shareholders participating in the General Meeting had the number of votes corresponding to the number of shares held, observing the fact that the shares listed in item 8.4.3. – *Securities with special controlling rights* – are preferential in such a way that each of them entitles to casting two votes at the General Meeting.

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

8.7. Management Board of the Company

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

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

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

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

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

8.7.2. Composition of the Management Board and changes in 2018

At the date of approval of this Report, i.e. March 20, 2019, the Management Board consisted of seven Members. In 2018 there were no changed in the composition of the Management Board.

The following table presents names, surnames, functions, dates of appointment and dates of expiry of the current term of particular Members of the Management Board as at December 31, 2018.

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Tobias Solorz(1)	President of the Management Board	2014	2016	2019
Dariusz Działkowski(2)	Member of the Management Board	2007	2016	2019
Tomasz Gillner-Gorywoda(2)	Member of the Management Board	2014	2016	2019
Aneta Jaskólska	Member of the Management Board	2010	2016	2019
Agnieszka Odorowicz	Member of the Management Board	2016	2016	2019
Katarzyna Ostap-Tomann	Member of the Management Board	2016	2016	2019
Maciej Stec	Member of the Management Board	2014	2016	2019

(1) On January 17, 2019 Mr. Tobias Solorz resigned from the position of President of the Management Board of the Company, effective March 31, 2019.
(2) On March 14, 2019 Mr. Dariusz Działkowski and Mr. Tomasz Gillner-Gorywoda resigned from the positions of Members of the Management Board of the Company, effective March 31, 2019.

Tobias Solorz has been a Member of the Management Board of Polkomtel since November 2011, where he has held the position of President of the Management Board since February 2014. He was appointed to the position of a Member of the Management Board of Cyfrowy Polsat in September 2014 and took up the position of Vice-president of the Management Board in December 2014. Since December 2015 he has held the position of President of the Management Board of Cyfrowy Polsat. He is also a Member of Supervisory Boards of Liberty Poland S.A. and Polkomtel Business Development Sp. z o.o.

He has many years of professional experience in the field of telecommunication, finance and controlling. He began his career in 2003 at Telewizja Polsat S.A. (currently Telewizja Polsat Sp. z o.o.). Between 2007 and 2008 he held the position of Promotion Manager at Cyfrowy Polsat. Between 2008 and 2010 he was a Member of the Management Board of Sferia S.A., where he served as Marketing, Sales and Operations Director.

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

On January 17, 2019 Mr. Tobias Solorz resigned from the position of President of the Management Board of the Company, effective March 31, 2019. Mr. Tobias Solorz shall serve in the future on the Supervisory Boards of the Group companies and exercise ownership supervision.

By the resolution of the Supervisory Board of the Company dated January 17, 2019, Mr. Mirosław Błaszczyk, the existing President of the Management Board of Telewizja Polsat Sp. z o.o., a subsidiary of the Company, was appointed to the position of President of the Management Board of Cyfrowy Polsat, effective April 1, 2019.

Dariusz Działkowski has been a Member of the Management Board of Cyfrowy Polsat responsible for technology since August 2007. Mr. Działkowski is the Technical Director of the Company since November 2001. He is also a Member of Management Boards of INFO-TV-FM Sp. z o.o., and Polski Operator Telewizyjny Sp. z o.o. Since July 2017 he also holds the function of a Member of Management Board of Telewizja Polsat Sp. z o.o.

Since 2010 he is a Member of the Management Board of Polish Electronics and Telecommunications Chamber of Commerce (Krajowa Izba Gospodarcza Elektroniki i Telekomunikacji), he is also the Chairman of the Audit Committee of the Society Sygnał (Stowarzyszenie Sygnał). Mr. Działkowski gained his previous professional experience with Canal+ and Ericsson where he held the positions of Technical Director and Services Sales Department Manager, respectively. He is one of the founders of Centrum Telemarketingowe Sp. z o.o.

Mr. Działkowski graduated from the Faculty of Electronics at the Warsaw University of Technology with a major in Radio and Television specialization and additionally holds an MBA degree from the University of Maryland.

On March 14, 2019 Mr. Dariusz Działkowski resigned from the position of Member of the Management Board of the Company, effective March 31, 2019.

Tomasz Gillner-Gorywoda held the position of President of the Management Board of Cyfrowy Polsat from October 2014 until December 2015. Since December 2015 he is a Member of the Management Board. Concurrently, he holds the position of General Director, Proxy at Polkomtel and Proxy at Plus Flota 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. (2008-2017). 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.

On March 14, 2019 Mr. Tomasz Gillner-Gorywoda resigned from the position of Member of the Management Board of the Company, effective March 31, 2019.

Aneta Jaskólska has been a Member of the Management Board of Cyfrowy Polsat since July 2010. She is responsible for the Customer Service Department and Safety Department. Ms. Jaskólska is also a Member of the Management Boards of INFO-TV-FM Sp. z o.o., Liberty Poland S.A., CPSPV1 Sp. z o.o., CPSPV2 Sp. z o.o., Plus TM Management Sp. z o.o. and Polkomtel.

Between 2004 and 2007 Ms. Jaskólska held the position of Proxy and Director of Legal Department of UPC Polska Sp. z o.o. She was also a Member of the Copyright Committee (*Komisja Prawa Autorskiego*). Ms. Jaskólska has many years of experience in legal advisory and services to large business entities.

Ms. Jaskólska graduated from the Faculty of Law and Administration at the Warsaw University and completed legal internship with the District Chamber of Legal Advisers in Warsaw, receiving the title of a solicitor. She also graduated from Copyright, Publishing and Press Law Faculty at the Department of Management and Social Communication of the Jagiellonian University.

Agnieszka Odorowicz has been a Member of the Company's Management Board since March 1, 2016 and is responsible for the film production. From 2001 until 2009 she was an academic staff member at the Department of Trade and Market Institutions at the Cracow Academy of Economics and the author of publications on cultural management and economics as well as the promotion of regions. In the years 2002-2004 the authorities of the Academy appointed her to the position of director of the Development and Promotion Center of the Cracow Academy of Economics. In the years 2003-2004 she acted as deputy Minister of Culture for structural funds, responsible for negotiations with the European Commission regarding the use of EU funds for the development of cultural infrastructure. During the years 1997-2003 she was the artistic director of the International Competition of Contemporary Chamber Music and producer of several shows for public television. In the years 2004-2005 she held the position of Secretary of State at the Ministry of Culture, where she was responsible for the legal and economic departments as well as cooperation with the Parliament. During this period she was the Chairwoman of the inter-ministerial group for the media policy of the State. In the years 2005-2010 she was the first director of the Polish Film Institute. Reelected as director in a competition in 2010, she managed the Polish Film Institute until October 2015.

Ms. Odorowicz is a graduate of the Cracow University of Economics, an economist and cultural manager.

Maciej Stec has been a Member of the Management Board of Cyfrowy Polsat S.A since November 2014. Concurrently, he holds the position of the Member of the Management Board and Sales & Foreign Acquisition Director of Telewizja Polsat. He is also a Member of the Supervisory Board of Muzo.fm Sp. z o.o. He also holds the function of Management Board Member at Polsat Ltd. and Polsat JimJam Ltd.

From the beginning his professional career Mr. Stec was connected with television market. From 1998 he worked among others for OMD Poland Sp. z o.o. media house, owned by Omnicom Group, where in the years 1998-2003 held a position of Managing Director of Brand&Media OMD. From February 2003 until May 2007 he was Managing Director of Telewizja Polsat's advertisement office - Polsat Media Sp. z o.o. (currently Polsat Media Biuro Reklamy Sp. z o.o. Sp.k.).

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

By the resolution of the Supervisory Board of the Company dated January 17, 2019, Mr. Maciej Stec was appointed Vice President of the Management Board of Cyfrowy Polsat, effective April 1, 2019. Furthermore, effective April 1, 2019 Mr. Maciej Stec will also hold the position of Vice President of the Management Board of Polkomtel, a subsidiary of the Company's.

Katarzyna Ostap-Tomann has been connected with Cyfrowy Polsat Group since 2009, where she assumed the position of deputy CFO of the Capital Group in 2015, and she has been a Member of the Management Board responsible for the finances of the Group since October 2016. She also holds the position of Member of the Management Board of Telewizja Polsat Sp. z o.o., Polkomtel Sp. z o.o., INFO-TV-FM Sp. z o.o., CPSPV1 Sp. z o.o., CPSPV2 Sp. z o.o. and Polsat License Ltd. She is also a Member of the Supervisory Board of Plus Bank S.A.

In the years 1996–2004 she was employed at various positions at Philip Morris in Poland and in the regional headquarters of the company in Switzerland, where she gained considerable experience in the fields of corporate finance, financial reporting, management accounting and internal audit. In the years 2004-2009 she worked for TVN Group as Financial Controller of the capital group. She was responsible for the preparation of financial statements at the capital group level and internal management reporting. In 2009 she took the position of Director of Controlling at Cyfrowy Polsat, where she became Financial Director in 2012. Since 2011 she has also held the function of Financial Director at Telewizja Polsat, where she was appointed as Member of the Management Board in 2014. She has been a member of the ACCA since 2001. In 2013-2017 she was a member of the ACCA Council in Poland.

Ms. Ostap-Tomann is a graduate of the Warsaw School of Economics with a major in International Economic and Political Relations and also holds the title of MBA from Oxford Brookes University.

8.7.3. Competences and bylaws of the Management Board

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

The Management Board runs our matters in a transparent and efficient way pursuant to the provisions of the law, our internal provisions and the Best Practices 2016. Upon taking decisions related to our matters, the Members of the Management Board act within justified limits of business risk.

The following are entitled to submit statements on our behalf

(i) in the case of one person Management Board – the President of the Management Board acting independently, and

(ii) in the case of a more numerous Management Board – the President of the Management Board acting independently, the Vice-president of the Management Board acting jointly with a Member of the Management Board or another Vice-president, two Members of Management Board acting jointly, the Vice-president of the Management Board acting jointly with a proxy, or a Member of the Management Board acting jointly with a proxy.

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

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

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

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

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

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

8.7.4. Remuneration of the Members of the Management Board

Information regarding remuneration of Members of the Management Board in 2018 is included in Note 45 of the consolidated financial statements for the financial year ended December 31, 2018.

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

The Company has concluded managerial contracts with the following Members of the Management Board: Dariusz Działkowski, Tomasz Gillner-Gorywoda, Aneta Jaskólska, Agnieszka Odorowicz and Katarzyna Ostap-Tomann. These contracts do not provide for the payment of severance packages as a result of the resignation of the mentioned above Members of the Management Board or their dismissal from the position without a material cause, or in the case when their resignation or dismissal results from a merger by acquisition of the Company.

8.8. Supervisory Board

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

The Supervisory Board consists of two Members meeting the criteria of an independent Member of the Supervisory Board as set out in article 129 item 3 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight and in principle II.Z.4 of the Best Practices 2016.A Supervisory Board Member is required to submit a statement to the Management and Supervisory Boards of the Company on his or her compliance with independence criteria.

8.8.1. Composition of the Supervisory Board

As at January 1, 2018 the Supervisory Board comprised the following Members:

- Marek Kapuściński – Chairman of the Supervisory Board,
- Józef Birka – Member of the Supervisory Board
- Robert Gwiazdowski – Independent Member of the Supervisory Board,
- Aleksander Myszka - Member of the Supervisory Board,
- Leszek Reksa – Independent Member of the Supervisory Board,
- Tomasz Szeląg - Member of the Supervisory Board.

On June 28, 2018 the Annual General Meeting of the Company resolved that the Supervisory Board of the new, three-year term of office will consist of seven members. Starting from June 28, 2018, the Company's Supervisory Board is comprised of the following members:

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Marek Kapuściński	Chairman of the Supervisory Board Member of the Remuneration Committee	2016	2018	2021
Józef Birka	Member of the Supervisory Board	2015	2018	2021
Robert Gwiazdowski	Independent(1) Member of the Supervisory Board Chairman of the Audit Committee	2008	2018	2021
Aleksander Myszka	Member of the Supervisory Board	2015	2018	2021
Leszek Reksa	Independent(1) Member of the Supervisory Board Member of the Audit Committee	2008	2018	2021
Tomasz Szeląg	Member of the Supervisory Board Chairman of the Remuneration Committee Member of the Audit Committee	2016	2018	2021
Piotr Żak	Member of the Supervisory Board	2018	2018	2021

(1) conforms with the independence criteria listed article 129 item 3 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight and in principle II.Z.4 of the Best Practices 2016.

Marek Kapuściński joined the Company's Supervisory Board on October 1, 2016, and has performed the function of its Chairman since 25 October 2016. He serves also as Member of the Remuneration Committee. Mr. Kapuściński graduated from the Faculty of Trade of the Academy of Planning and Statistics in Warsaw (now the Warsaw School of Economics) and completed postgraduate studies at SEHNAP in cooperation with Stern School of Business – New York University.

Until the end of September 2016, for over 25 years, he has been part of the Procter&Gamble team. From July 2011 as a General Manager and Vice President (that is a President of the Management Board/CEO) for nine key markets of the Central Europe, and before that – from January 2007 he was responsible for Poland and Baltic states. Currently, he is a Member of the Supervisory Boards of Bank Handlowy w Warszawie S.A. and Cydrownia S.A. and provides consulting services within the Essences Consulting Group. He is also involved in the activities of the public benefit organizations supporting the development of the young Polish culture and arts.

Józef Birka joined the Company's Supervisory Board in April 2015. He is an advocate and graduate of the Faculty of Law of Wroclaw University. He has been associated with Telewizja Polsat S.A. since its inception, he was in charge of the function of the President of the Management Board of Telewizja Polsat during the first licensing procedure granting terrestrial license to broadcast the first independent countrywide TV channel in Poland. Since its establishment, he is a Member of the Board of the POLSAT Foundation, one of the largest non-governmental organizations operating in Poland.

Mr. Józef Birka has extensive experience of working in statutory bodies of commercial-law companies. He is a Member of the Supervisory Boards of Polkomtel, Telewizja Polsat and Elektrim S.A. Between 2004 and 2006 he was also the Supervisory Board Member of Polska Telefonia Cyfrowa Sp. z o.o. He acted actively in the Association of Private Media Employers, incorporated into Polish Confederation of Private Employers "Lewiatan." He was honored by the Polish Bar Council with a medal "Commendable Service to the Advocates Bar."

Robert Gwiazdowski has been a Member of the Company's Supervisory Board since July 2008, where he is also a Chairman of the Audit Committee. Mr. 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.

In the years 2005-2014, he served as President of Adam Smith Centre. He is currently a Chairman of the Institute's Council. In 2006-2007, he served as Chairman of the Supervisory Board of the Polish Social Insurance Institution (Zakład Ubezpieczeń Społecznych). At present, Mr. Gwiazdowski serves as Member of the Supervisory Boards of the following listed companies: DGA S.A., SARE S.A., Dom Maklerski IDM S.A., and MNI S.A., which operates on the telephony and TV markets.

Aleksander Myszka joined the Company's Supervisory Board in April 2015. He is a solicitor and graduate of the Faculty of Law of Wroclaw University. In 1976, he commenced his career as a solicitor in a Law Firm in Oleśnica, and then he worked for Law Office No. 4 in Wrocław where he also held a position of a Director for two terms of office. In particular, he focused in his practice on civil law and since the mid-eighties he has specialized in commercial law and developed legal services for business entities. He was honored by the Polish Bar Council with a medal "Commendable Service to the Advocates Bar." His career has been connected with Telewizja Polsat since its establishing, as Mr. Myszka is one of its co-founders. For 12 years – in the period from 1995 to 2007 – he held the position of the President of the Management Board of Telewizja Polsat.

Since April 2007 Mr. Aleksander Myszka has been a Member of the Supervisory Board of Telewizja Polsat and since November 2011 - a Member of the Supervisory Board of Polkomtel. He is also Member of the Polsat Foundation Council since its creation, that is since 1996. He is also a co-founder and a Member of Stowarzyszenie Kreatywna Polska, a society gathering the community of artists and creative industries, whose main goals are the protection of copyrights and intellectual property. In 2015, Mr. Myszka was elected to the Council of the Polish Film Institute.

Leszek Reksa was appointed a Member of the Company's Supervisory Board in July 2008, where he is also Member of the Audit Committee. Mr. 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. Currently he is Vice President (CFO) of the Management Board of AGRAIMPEX Sp. z o.o. and a Member of Supervisory Board of EBU Węgrzynowo Sp. z o.o.

Tomasz Szeląg has been a Member of the Company's Supervisory Board since October 2016, where he is also Chairman of the Remuneration Committee and Member of the Audit Committee. He graduated from the National Economy Faculty of the Economic Academy of Wrocław, with major in International Economic and Political Relations specializing in Foreign Trade. He has been involved with Cyfrowy Polsat since 2009. In 2016 he was appointed a Member of Supervisory Boards of Polkomtel, Telewizja Polska and ZE PAK.

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

From May 2009 until September 2016 he held the position of Member of the Management Board and Chief Financial Officer in Cyfrowy Polsat S.A. and was responsible for broadly understood finances in the entire capital group. In the years 2010-2016 Mr. Szeląg was a Member of the Management Boards of numerous companies from Polsat Group, including Telewizja Polsat (October 2011-October 2014), INFO-TV-FM Sp. z o.o. (July 2012-November 2016), CPSPV1 and CPSPV2 (April 2013 – November 2016), Plus TM Management (April 2014-December 2016) and Polkomtel (September 2014-December 2016). He was also a President of the Management Board of Cyfrowy Polsat Trade Marks Sp. z o.o. (2010-2016) and Telewizja Polsat Holdings Sp. z o.o. (2012-2016) and Member of the Supervisory Board of Plus Bank S.A. (2016-2018).

Piotr Żak was appointed a Member of the Company's Supervisory Board in June 2018. He graduated in economics from Royal Holloway, University of London.

He has been pursuing business operations in Poland since 2014, among others in the area of establishing and supporting start-up enterprises. He focuses his activities on the high-technology sector, particularly on creating and developing innovative projects that exploit the potential of Internet and traditional media, Internet entertainment, and the use of data transmission in solutions, services and products addressed to individual and business customers. He pursues his professional interests also by developing and implementing modern marketing communications tools for enterprises from the media and telecommunications sector.

He is a founder of such companies as, among others, Frenzy Sp. z o.o., a dynamically developing entity from the e-Sports industry, and Golden Coil Sp. z o.o., a company conducting operations in the field of marketing and Internet advertising.

Since March 2016 Mr. Piotr Żak has been a Member of the Supervisory Board of Telewizja Polsat Sp. z o.o., a leading broadcaster on the Polish television market, and since June 2018 - a Member of the Supervisory Board of Netia S.A., one of the largest Polish telecommunications operators being a part of Cyfrowy Polsat Group.

8.8.2. Competences and Bylaws of the Supervisory Board

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

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

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

The competencies of the Supervisory Board also include matters restricted by the Commercial Companies Code, in particular:

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

b) creating, once a year, and presenting before the Annual General Meeting a concise evaluation of the situation of the Company, considering the evaluation of the internal control system, and the system for managing risks relevant for the Company,

c) appointment of Members of the Management Board,

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

e) suspending particular or all Members of the Management Board for material reasons,

f) approval of the Bylaws of the Management Board,

g) determination of remuneration of the Members of the Management Board,

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

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

Moreover, the competencies of the Supervisory Board include:

a) creation and presentation of an evaluation of the work of the Management Board to the General Shareholders' Meeting,

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

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

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

e) granting consent for participation in other companies,

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

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

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

- activities projected or set out in the annual program for the Company approved by the Supervisory Board, or
- activities resulting in incurring a liability of the value up to PLN 10.0 million, including guarantees or issuing or guaranteeing bills of exchange done in the scope of daily business, in particular the business of pay digital television, Internet service or the business of MVNO.

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

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

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

The Chairman calls a meeting of the Supervisory Board also upon request of a Member of the Management Board, or a Member of the Supervisory Board, or upon a motion of a shareholder representing at least 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 report on its activities and the evaluation of the situation of the Company in the scope provisioned for by corporate governance principle adopted by the Company,

b) investigate and issue opinions about matters to be subjects of resolutions of the General Meeting.

8.8.3. Committees of the Supervisory Board

Pursuant to the Bylaws of the Supervisory Board the Supervisory Board may appoint permanent committees, in particular an Audit Committee, a Remuneration Committee, or a Strategic Committee, as well as 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.

Pursuant to article 128 item 1 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight, an Audit Committee functions in the Company.

As at December 31, 2018, **the Audit Committee** comprised the following Members of the Supervisory Board:

- Robert Gwiazdowski, an independent Member of the Supervisory Board and Chairman of the Audit Committee,
- Leszek Reksa, an independent Member of the Supervisory Board,
- Tomasz Szeląg.

During 2018 the composition of the Audit Committee remained unchanged.

The composition of the Audit Committee meets the requirements article 128 item 1 and article 129 item 3 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight.

As at December 31, 2017, Mr. Tomasz Szeląg was a Member of the Remuneration Committee. On June 28, 2018 the Company's Supervisory Board complemented the composition of the Remuneration Committee by appointing Mr. Marek Kapuściński as its member.

As at December 31, 2018, the Remuneration Committee comprised the following Members of the Supervisory Board:

- Tomasz Szeląg, Chairman of the Remuneration Committee,
- Marek Kapuściński.

The provisions of the Bylaws of the Supervisory Board apply to meetings, resolutions, and minutes of the committees of the Supervisory Board, and in the case of the Audit Committee provisions of the Bylaws of the Audit Committee are also applicable, 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.

Audit Committee

Among the members of the Audit Committee, the statutory independence criteria are met by the following persons:

- Robert Gwiazdowski, an independent Member of the Supervisory Board and Chairman of the Audit Committee,
- Leszek Reksa, an independent Member of the Supervisory Board.

All members of the Audit Committee possess knowledge and skills in accounting or auditing financial statements which were obtained during studies and extensive professional practice.

Mr. Tomasz Szeląg, Member of the Audit Committee, possesses knowledge and skills with regard to the sector in the which the Company operates, obtained during many years of professional career on key managerial positions within Cyfrowy Polsat Group, among others, as Member of the Management Board, Finance, in Cyfrowy Polsat.

Regulations of the Audit Committee apply to the meetings, resolutions and minutes of meetings of the Audit Committee.

Meetings of the Audit Committee are convened by the Chairman of the Audit Committee or a Member of the Audit Committee authorized by the Chairman and are held at least once a quarter, at dates determined by the Chairman of the Audit Committee. Additional meetings of the Audit Committee may be convened by the Chairman of the Audit Committee at the request of the Member of the Audit Committee, Chairman of the Supervisory Board or another Supervisory Board Member, as well as at the request of the Management Board. In 2018 five meetings of the Audit Committee were held.

The Audit Committee passes resolutions if at least half of its Members is present at the Meeting and all Members were properly invited. Resolutions are passed by an absolute majority of votes and in the case of equal number of votes, the Chairman of the Audit Committee shall have a casting vote. Members of the Audit Committee may participate in the Committee's meetings and vote in person, or by means of direct remote communications.

The work of the Audit Committee is managed by its Chairman who is responsible for preparing an agenda of each meeting or may appoint a Secretary of the Audit Committee whose tasks include in particular preparation of an agenda of each meeting and organization of the distribution of documents for Committee's meetings. A notification about the meeting, including its agenda together with all required materials, must be delivered to the Members of the Audit Committee at least 7 days before the meeting and in extraordinary circumstances a Committee's meeting may be convened at a shorter notice than the above mentioned deadline.

The Chairman of the Audit Committee may ask a relevant Management Board Member to prepare appropriate materials.

Minutes are taken of every meeting of the Audit Committee and are then signed by all Members who participated in a given meeting. Minutes of the Audit Committee meetings, including conclusions, instructions, opinions and recommendations are presented to the Supervisory Board at its next meeting as well as to the Management Board.

Members of the Supervisory Board who are not part of the Audit Committee may, at their own initiative, participate in the Committee's meeting, however without a voting right. Chairman of the Audit Committee may invite Members of the Supervisory Board, auditors, employees of the Company and other persons as experts.

The tasks of the Audit Committee include in particular monitoring of the financial reporting process, efficiency of internal control systems and risk management systems as well as internal audit and performing financial revision activities, in particular carrying out audits by an audit company.

The Audit Committee evaluates, controls and monitors independence of a certified auditor and audit company, in particular in the case when the audit company provides the Company with services other than auditing of financial documents in the Company and grants consent to provision of such services by the audit company. The Audit Committee notifies the Company's Supervisory Board about the results of audit and the role of the Committee in the auditing process as well as explains how this audit contributed to the reliability of financial reporting in the Company. In the financial year 2018 the auditing company who audited the financial statements of the Company and the financial statements of the Company's capital group did not provide on the Company's behalf any permitted services other than audit services.

The tasks of the Audit Committee also include developing a policy of selection of an audit company to carry out the audit as well as developing a policy of provision by the selected audit company, its affiliated entities and members of the audit company's network of permitted services which are not part of the audit.

The following are the main assumptions underlying selection of the auditor which are valid in Cyfrowy Polsat:

- In accordance with the Company's Articles of Association, the Company's Supervisory Board is the party selecting the chartered accountant (the auditor) for carrying out the statutory audit, while the General Meeting of Shareholders of the company is the party approving the Company's financial statement.
- The first contract with an auditor for carrying out the statutory audit is concluded by the Company for the period of at least 2 years, subject to the possibility of terminating the contract if justified grounds to do so emerge. It is assumed that the contract for the statutory audit can be extended once for another period of 2 years, however the maximum uninterrupted period of time during which statutory audits can be conducted by the same auditor or by a company related to that auditor, or any member of a given chain of companies operating in EU states of which such companies are members, may not exceed 5 years.
- The Audit Committee approves the procedure of selection of the auditor for performing the statutory audit. The auditor selection procedure is determined at Audit Committee's discretion.
- If the an auditor for statutory audit is selected, the selection procedure must meet the following criteria:
    - the auditor on its own, or as part of a chain of companies operating on the territory of the European Union, has not conducted statutory audits for the Company for a period of at least past 5 consecutive years, or of if such a company did conduct a statutory audit for the Company for a continuous period of 5 consecutive years in the past, then the period of at least 4 years has already elapsed since the last of such audits,
    - the organization of the tender process does not exclude, from the selection process, the companies which have obtained less than 15% of their total remuneration on account of auditing public interest units in the Republic of Poland during the past year which are found in the list of auditors published on the website of the Audit Oversight Committee (Komisja Nadzoru Audytowego) (a sub-page of www.mf.gov.pl).
    - neither the auditor, nor any member of the chain, of which the auditor is a member, has provided, either directly or indirectly to the company or to its subsidiaries, any prohibited services, as defined by Article 136 of the Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017, during the current financial year (the first year of the period covered by the tender), as well as any services related to development and implementation of internal control procedures or risk management procedures associated with the development or control of financial information, or development and implementation of any technological systems concerning financial information during the preceding year (the year preceding the first year of the period covered by the tender).

- The value of permitted services, other than required by the law as provided by the auditor performing a statutory audit of the company and by all of the entities being members of its chain, may not exceed 70% of the average compensation for the audits during past 3 years.

The following are the major assumptions of the policy of provision by the selected auditor to Cyfrowy Polsat of the permitted services which are not audit services:

- The Company shall not conclude, with the auditor, its related companies or the members of the chain of which the auditor is a member, any agreements for the provision of prohibited services, as defined in Article 5, section 1, paragraph 2 of the Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.
- Prior to contracting any work, being permitted services and not being an audit, the Audit Committee performs assessment of the threats and safeguards related impartiality, mentioned in Articles 69-73 of the Act on Statutory Auditors, Audit Firms and Public Oversight. The Audit Committee also oversees compliance of the performed work with the valid law.
- Permitted services include:
    - services involving due diligence procedures related to the company's economic-and-financial standing;
    - issuing comfort letters in connection with prospectuses issued by the audited entity, carried out in accordance with the national standard for related services and consisting of performance of agreed procedures;
    - assurance services related to pro forma financial information, forecasts of results or estimated results which are included in the audited unit's prospectus;
    - audit of historical financial information to be included in the prospectus which is mentioned in the Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements;
    - verification of consolidation packages;
    - confirmation of fulfillment of the terms of facility agreements concluded by the Company based on the financial information coming from the financial statements examined by a given auditor
    - assurance services in the scope related to reporting on corporate governance, risk management and corporate social responsibility;
    - services involving assessment of the compliance of the disclosures made by financial institutions and investment firms with the requirements related to disclosure of information concerning *capital adequacy and variable components of remuneration*
    - assurance concerning financial statements or other financial information intended for the supervisory authority, the supervisory board or any other supervising body of the company, or the owners whose scope exceeds the scope of the statutory audit and which are intended to assist these authorities in the fulfillment of their statutory duties.

The Audit Committee provides the Supervisory Board with recommendation regarding the selection of audit company.

In the financial year 2018 the Audit Committee recommended to the Supervisory Board to appoint Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. to audit the financial statements of the Company and the consolidated financial statements of the Company's capital group for the years 2018 and 2019. The recommendation fulfilled the criteria set in the adopted policy of selection of an audit company and followed the selection procedure organized by the company which met the binding criteria. The recommendation was accepted by the Supervisory Board.

Additionally, the Audit Committee presents recommendations to the Company's Management Board aimed at ensuring the reliability of financial reporting in the Company.

8.8.4. Remuneration of the Members of the Supervisory Board

Information regarding remuneration of Members of the Supervisory Board in 2018 is included in Note 46 of the consolidated financial statements for the financial year ended December 31, 2018.

8.9. Diversity policy applicable to administrative, managing and supervising bodies of the Company

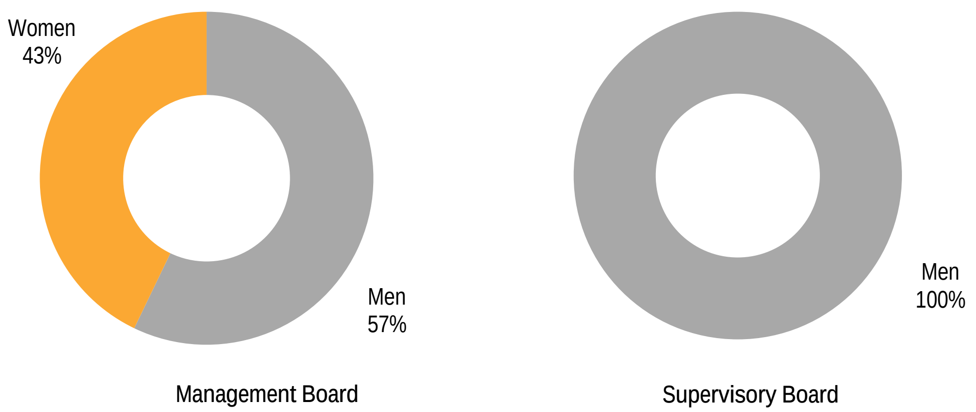
Polsat Group adopted the *Diversity and Human Rights Respect Policy of Cyfrowy Polsat Group* (the "Diversity Policy") which has the purpose of supporting the pursuit of the Group's business goals. The policy enables the Group to respond in a better way to the employees' expectations, make full use of their potential and at the same time help the companies who are part of the Group to adjust to the changes occurring on the labor market. We trust that diversity is one of the sources of our competitive advantage, and competing views, opinions, work styles, skills and experience generate new quality and enable companies to achieve better business results.

The basic principles of Polsat Group's Diversity Policy include respect for human rights and prohibition of any discrimination due to gender, age, sexual orientation, competence, experience, potential degree of disability, nationality, ethnic and social origin, color of skin, language, parental status, religion, confession or lack of any confession, political views, or any other dimensions of diversity which are defined by valid law.

The principles and the goals of Polsat Group's Diversity Policy are regulated in the Group's corporate documents, especially in the Code of Ethics, HR Policy, Work Regulations, Regulations of Anti-Mobbing Committee. The Diversity Policy is implemented, among others, by including diversity-related issues in HR processes and tools, such as organization of training and staff development sessions, recruitment and rewarding processes. An Ethics Ombudsman has been appointed in the Group whose tasks include, among others, the prevention of discrimination and mobbing.

The provisions of Polsat Group's Diversity Policy apply to all employees, including Management Board Members and Supervisory Board Members. The diagrams below present the gender and age structures of the Members of the Management and Supervisory Boards of Cyfrowy Polsat.

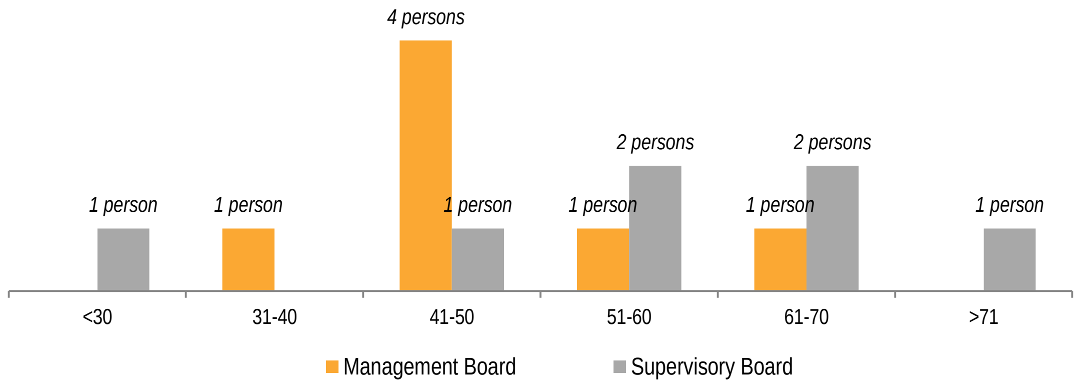
Structure of the Management Board and the Supervisory Board with respect to gender



As at December 31, 2018 four men and three women sat on Cyfrowy Polsat's Management Board while the Supervisory Board included seven men.

Members of the Management Board and the Supervisory Board have education in such fields as management and marketing, law, economy, finance, or technical education as well as rich and diverse professional experience.

Structure of the Management Board and Supervisory Board with respect to age



Tobias Solorz
President of the Management Board

Katarzyna Ostap-Tomann
Member of the Management Board

Dariusz Działkowski
Member of the Management Board

Tomasz Gillner-Gorywoda
Member of the Management Board

Aneta Jaskólska
Member of the Management Board

Agnieszka Odorowicz
Member of the Management Board

Maciej Stec
Member of the Management Board

Warsaw, March 20, 2019

GLOSSARY

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

Glossary of general terms

Term	Definition
Aero2	Aero2 spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000305767, subsidiary of Litenite.
Aero2 Group	Aero2 and its indirect and direct subsidiaries.
AltaLog	AltaLog spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000493305, subsidiary of Aero2.
Amendment, Restatement and Consolidation Deed	Agreement concluded on September 21, 2015 between the Company, Polkomtel, Telewizja Polsat, Cyfrowy Polsat Trade Marks, Polsat License Ltd. and Polsat Media Biuro Reklamy, Eileme 2, Eileme 3, Eileme 4, Plus TM Management, TM Rental, Plus TM Group and a consortium of Polish and foreign financing institutions, amending and consolidating the CP SFA and the PLK SFA.
ATS, WSE ATS	Alternative system of trading in debt instruments organized by the WSE within the Catalyst market.
B2B	Business to Business, a transaction between businesses.
B2C	Business to Consumer, a transaction between a business and a consumer.
Bonds, Series A Bonds	Dematerialized, interest-bearing, senior and unsecured Series A bearer bonds with the total nominal value of PLN 1 billion and the nominal value of PLN 1,000 each, issued pursuant to the Resolution of the Management Board of the Company No. 01/02/07/2015 dated July 2, 2015.
Bonds Terms	Terms and conditions of Bonds issuance together with the supplement.
Catalyst	Trading system of debt instruments operating on markets organized by the WSE and Bondspot, as defined in § 1 of the Catalyst Operating Rules adopted pursuant to resolution no. 59/2010 of the Management Board of WSE on January 27, 2010, as amended.
Coltex	Coltex ST spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000362339.
Combined SFA	CP SFA of September 21, 2015 as amended by the Amendment, Restatement and Consolidation Deed of September 21, 2015 and the Second Amendment and Restatement Deed of March 2, 2018.
CP Revolving Facility Loan	The revolving facility loan of up to PLN 300 million, issued under the CP Senior Facilities Agreement, with the maturity date of September 30, 2022.
CP Senior Facilities Agreement, CP SFA	The Senior Facilities Agreement of September 21, 2015 between the Company, Telewizja Polsat, CPTM, Polsat License Ltd. and Polsat Media Biuro Reklamy, and a syndicate of Polish and foreign banks, covering the CP Term Facility Loan and the CP Revolving Facility Loan.
CP Term Facility Loan	The term facility loan of up to PLN 1.2 billion, issued under the CP Senior Facilities Agreement of September 21, 2015, with the maturity date of September 30, 2022.
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. Merged with Cyfrowy Polsat S.A. on November 30, 2018.
EEA, European Economic Area	Internal Market guaranteeing free move of goods, services, capital and persons, comprising EU Member States and Island, Norway and Lichtenstein.
Eileme 1	Eileme 1 AB (publ), a company under Swedish law, registered under No. 556854-5668. Merged with Cyfrowy Polsat S.A. on April 28, 2018.

Embud2	Embud2 spółka z ograniczoną odpowiedzialnością spółka komandytowo-akcyjna (Limited Liability Company Limited Joint-Stock Partnership) entered in the register of entrepreneurs of the National Court Register under entry No. 0000676753, legal successor of Embud spółka z ograniczoną odpowiedzialnością.
Eleven Sports Network	Eleven Sports Network spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. 0000558277, a producer and distributor of sports content on the territory of Poland.
the Group, Polsat Group, Cyfrowy Polsat Group	Cyfrowy Polsat and the indirect and direct subsidiaries of the Company.
IFRS	The International Accounting Standards, International Financial Reporting Standards and the related Interpretations by the Standing Interpretations Committee and International Financial Reporting Interpretations Committee, adopted pursuant to Commission Regulation (EC) No. 1126/2008 of November 3, 2008, adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council (OJ L 320/1 of November 29, 2008, as amended), as defined in Art. 2 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards (OJ L 243/1 of September 11, 2002, as amended).
Karswell	Karswell Limited, a company under Cypriot law with its registered office in Nicosia, Cyprus.
KRRiT	Krajowa Rada Radiofonii i Telewizji, National Broadcasting Council.
Litenite	Litenite Limited, a company under Cypriot law, registered under No. 240249.
Litenite Notes	Zero-coupon unsecured loan notes 2022 with the total nominal value of PLN 1,524.4 million and the issue price of PLN 782.0 million issued pursuant to the resolution of the management board of Litenite of December 31, 2015. Redeemed in full on April 26, 2017.
Metelem	Metelem Holding Company Limited, a company under Cypriot law, registered under No. 286591, indirectly controlling 100% shares in Polkomtel. Merged with Cyfrowy Polsat on April 7, 2017.
Midas	Midas Spółka Akcyjna previously entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000025704. On November 30, 2016 Midas merged with Aero2.
NBP	Narodowy Bank Polski, the central bank of the Republic of Poland.
Netia	Netia spółka akcyjna entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000041649, a telecommunications operator providing, among others, online solutions and multimedia entertainment.
Netia Group	Netia and the indirect and direct subsidiaries of Netia.
NDS	National Depository for Securities (Krajowy Depozyt Papierów Wartościowych, KDPW).
Orange, Orange Polska	Orange Polska Spółka Akcyjna, entered in the register of entrepreneurs of the National Court register under entry No. KRS 0000010681, previously operating under the name of Telekomunikacja Polska Spółka Akcyjna.
P4	P4 spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000217207, operator of mobile network Play.
Play Communications	Play Communications S.A. (société anonyme), with its registered office in Grand Duchy of Luxembourg and registered with the Luxembourg Trade and Companies under number B183803, owner of P4.
PLK Revolving Facility Loan	The revolving facility loan of up to PLN 700 million, issued under the PLK Senior Facilities Agreement of September 21, 2015, with the maturity date of September 30, 2022.
PLK Senior Facilities Agreement, PLK SFA	The Senior Facilities Agreement of September 21, 2015 between Polkomtel, Eileme 2, Eileme 3, Eileme 4, Plus TM Management, TM Rental and Plus TM Group and a syndicate of Polish and foreign financial institutions, covering the PLK Term Facility Loan and the PLK Revolving Facility Loan.

PLK Senior Notes Indenture	PLK Senior Notes Indenture of January 26, 2012 between Eileme 2, Eileme 3, Eileme 4, Spartan, Ortholuck, Citibank, N.A., London Branch, Citibank, N.A., New York Branch, and Citigroup Global Markets Deutschland.
PLK Term Facility Loan	The term facility loan of up to PLN 10,300 million, issued under the PLK Senior Facilities Agreement of September 21, 2015, with the maturity date of September 30, 2022.
Plus Bank	Plus Bank Spółka Akcyjna entered in the register of entrepreneurs of the National Court Register under entry No. 0000096937.
Plus TM Management	Plus TM Management spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000378997.
Polkomtel	Polkomtel spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. 0000419430. The company was established following the transformation of Polkomtel Spółka Akcyjna, which was entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000020908.
Polkomtel Business Development	Polkomtel Business Development spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000377416.
Polkomtel Group	Polkomtel jointly with its indirect and direct subsidiaries.
Polsat Media Biuro Reklamy	Polsat Media Biuro Reklamy spółka z ograniczoną odpowiedzialnością sp.k. entered in the register of entrepreneurs of the National Court Register under entry No. 0000467579.
Reddev	Reddev Investments Limited, a company under Cypriot law with its registered office in Nicosia, Cyprus.
Roaming Regulation	Regulation (EU) No. 531/2012 of the European Parliament and of the Council of June 13, 2012 on roaming on public mobile communications networks within the Union
Sensor	Sensor Overseas Limited, a company under Cypriot law, with its registered office in Nicosia, Cyprus.
Second Amendment and Restatement Deed	Agreement concluded on March 2, 2018 between the Company and UniCredit Bank AG, London Branch, amending and consolidating the CP SFA and the PLK SFA and amending the Amendment, Restatement and Consolidation Deed.
Sferia	Sferia Spółka Akcyjna, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000246663.
SOKiK	The District Court in Warsaw, 17th Department for Competition and Consumer Protection.
Telecommunications Law	Telecommunications Law of July 16, 2004 (Dz. U. of 2004, No. 171, item 1800, as amended).
Telewizja Polsat, TV Polsat	Telewizja Polsat spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000388899. The company was established following the transformation of Telewizja Polsat Spółka Akcyjna, which was entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000046163.
Telewizja Polsat Group, TV Polsat Group	Telewizja Polsat together with its direct and indirect subsidiaries.
T-Mobile, T-Mobile Polska	T-Mobile Polska Spółka Akcyjna, entered in the register of entrepreneurs of the National Court register under entry No. KRS 0000391193, previously operating under the name of Polska Telefonia Cyfrowa Spółka Akcyjna.
TM Rental	TM Rental spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000567976.
UKE	The Office of Electronic Communications (Urząd Komunikacji Elektronicznej).
UOKiK	The Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów).

Technical terms

Term	Definition
2G	Second-generation cellular telecommunications networks commercially launched on the GSM standard in Europe.
3G	Third-generation cellular telecommunications networks that allow simultaneous use of voice and data services.
4G	Fourth-generation cellular telecommunications networks.
Add-on sales	Sales technique combining cross-selling and up-selling.
Advertising market share	The Group's revenue from advertising and sponsoring in the overall revenue from TV advertising in Poland (market data according to SMG Poland (previously SMG).
Audience share	Percentage of TV viewers watching a channel at a given time, expressed as the percentage of all TV viewers at a given time (based on Nielsen Audience Measurement (NAM), in the "from 16 to 49 years old" demographics throughout the day).
Base transceiver station	(or: relay station / base station / BTS / transmitter / nodeB / eNodeB) – a device equipped with an antenna transceiver which connects a mobile terminal (e.g., mobile phone or mobile router) with a transmission part of a telecommunications network. A base station uses a single technology (2G, 3G or LTE) on a separate carrier (a frequency block from a separate bandwidth). A base station shall not be mistaken with a site.
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.
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.
Commercial group	Viewership group comprising viewers aged 16-49, including time-shifted viewership Live+2, i.e. for two consecutive days after the original airing date).
Contract ARPU	Average monthly revenue per customer generated in a given settlement period (including interconnect revenue).
Converged (integrated) services	A package of two or more services from our pay TV, mobile telecommunications and broadband Internet access offering, provided under a single contract and for a single subscription fee.
Customer, contract customer	Natural person, legal entity or an organizational unit without legal personality who has at least one active service provided in a contract model.
DTH	Satellite pay TV services provided by us in Poland from 2001.
DTT	Digital Terrestrial Television.
DVB-T	Digital Video Broadcasting – Terrestrial technology.
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).
FTR	A wholesale charge for call termination in another operator's fixed-line telecommunications network (Fixed Termination Rate).

Term	Definition
GB	Gigabyte – a measure of digital information, comprising one billion bytes, or 1024^3 bytes, depending on the interpretation – decimal or binary, respectively.
GRP	A rating point defined as the overall number of persons viewing a given advertising spot over a specific time, expressed as a percentage share of the target group. In Poland, one GRP equals 0.2 million residents in the primary target group for advertisers aged 16-49 (Gross Rating Point).
GSM	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols, in particular regarding access to voice services (Global System for Mobile Communications).
GSM-1800	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols in the 1800 MHz bands, in particular regarding access to voice services.
GSM-900	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols in the 900 MHz bands, in particular regarding access to voice services.
HD	Above-standard resolution signal (High Definition).
HSPA/HSPA+	Radio data transmission technology for wireless networks, increasing the capacity of the UMTS network (High Speed Packet Access/High Speed Packet Access Plus). It also covers the HSPA+ Dual Carrier technology (Evolved High Speed Packet Access Dual Carrier). It supports transmission speeds of up to 42 Mb/s for download and up to 5.7 Mb/s for upload.
Interconnect revenue	Wholesale revenue for terminating voice and non-voice traffic on Polkomtel's network from other network operators based on interconnect agreements as well as revenue from transit of traffic.
IPLA	Internet platform providing access to online video content belonging to Polsat Group.
IPTV	Technology enabling transfer of a television signal over IP broadband networks (Internet Protocol Television).
LTE	Long Term Evolution - a standard for high-speed, wireless data transmission also referred to as 4G. Based on a carrier bandwidth limited to a maximum of 20MHz it supports data transmission speed of up to 150 Mb/s (downlink, using MIMO 2x2 antennas).
LTE Advanced	Subsequence standard for high-speed, wireless data transmission of the fourth generation (4G). Through carrier aggregation from different bandwidths (a total of up to 100 MHz) it allows to significantly increase maximum data transmission speed up to 3 Gb/s (downlink, using MIMO 8x8 antennas).
Mb/s	A unit of telecommunications channel capacity, being one million or 1024^2 bytes (Megabyte) per second, depending on the interpretation – decimal or binary, respectively.
MIMO	Multiple Input Multiple Output, a method for multiplying the capacity of a wireless network using multiple transmit and receive antennas.
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 several 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.
ODU-IDU	Outdoor Unit Indoor Unit, a proprietary solution of Polsat Group based on a set comprising an external LTE modem (ODU) and an indoor WiFi router (IDU), which increases effective coverage and improve the quality of the LTE signal.
PPV	Services providing paid access to selected TV content (pay-per-view).
Prepaid ARPU	Average monthly revenue per prepaid RGU generated in a given settlement period (including interconnect revenue).
PVR	Electronic commodity hardware for digital recording of TV programs on its hard drive (Personal Video Recorder).
real users	An estimated number of persons who visit a website or open an Internet application at least once in a given month (Real Users).

Term	Definition
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).
Site	(or: mast/tower/roof construction) – a single steel construction located in a separated geographical region which allows to install one or a number of base stations in order to provide radio signal to mobile terminals of end-users within that region.
Streaming	A technical process initiated by the user, enabling the replaying (of video or audio/video content) of material available on the Internet on the user's terminal device, without it being necessary to download the entire content. The process involves the sending of digital data streams, being sections of the entire content spread over time, instead of the entire material.
Technical coverage	Percentage of households in Poland capable of receiving the broadcast of a given channel by Telewizja Polsat.
TSV (Time Shifted Viewing)	Shifting in time of the consumption of content broadcast on TV in real time by recording it on a storage medium (e.g. digital video recorder) and replaying it at a later time.
UMTS	Globally-used European 3G telecommunications standard based on GSM, enabling the provision of data transmission services with a maximum speed of 384 kb/s (Universal Mobile Telecommunications System).
Usage definition (90-day for prepaid RGU)	Number of reported RGUs of prepaid services of mobile telephony and Internet access refers to the number of SIM cards which received or answered calls, sent or received SMS/MMS or used data transmission services within the last 90 days. In the case of free of charge Internet access services provided by Aero2, the Internet prepaid RGUs were calculated based on only those SIM cards, which used data transmission services under paid packages within the last 90 days.
USSD	A protocol used in GSM networks, which enables communication between a mobile phone and a network operator's computer.
Value-added services, VAS	Services offered by telecommunications undertakings and including entertainment, news, location and financial services.
Virtual private network	Network enabling a private connection over a public network (e.g. Internet).
VOD - Home Movie Rental	Our video on demand services.
VoLTE	Technology which ensures immediate call set-up, high quality of voice and the possibility to provide advanced communication services with the guarantee of quality, such as e.g. HD video streaming based on the standard phone number (*Voice over LTE*).
WCDMA	Network access technology developed by 3rd Generation Partnership Project from 1999, and used in UMTS-standard 3G networks (Wideband Code Division Multiple Access).
WiFi	A set of standards for the development of wireless computer networks.

Statement of the Supervisory Board of Cyfrowy Polsat S.A. on the policy of section of an audit company and the appraisal of the financial statements of Cyfrowy Polsat S.A., the consolidated financial statements of Cyfrowy Polsat S.A. Capital Group, the report of the Management Board on the activities of Cyfrowy Polsat S.A. and the report of the Management Board on the activities of Cyfrowy Polsat S.A. Capital Group in 2018

I. Statement on the policy of section of an auditing company

The Supervisory Board hereby states the following:

1) On January 23, 2018 it selected an audit firm to audit the annual financial statements of Cyfrowy Polsat S.A. and Cyfrowy Polsat S.A. Capital Group, namely Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k., in compliance with the applicable regulations,

2) Both the audit firm and the audit team members met the conditions to develop an impartial and independent report on the audit of annual financial statements in line with the mandatory legal provisions, standards of profession and rules of professional ethics,

3) Cyfrowy Polsat S.A. complies with the provisions on the rotation of the audit firm and the key auditor as well as mandatory cooling-off periods,

4) Cyfrowy Polsat S.A. has adopted the policy of section of an audit company and the policy of provision to the issuer by an audit company, entities affiliated with that audit company or a member of their networks, of authorized non-audit services, including services exempted conditionally from the ban on provision of services by an audit company,

5) The requirements relating to the establishment, composition and functioning of the Audit Committee including those relating to independence of the majority of its members as well as to knowledge and skills in the sector in which Cyfrowy Polsat S.A. operates and in accounting or auditing are fulfilled,

6) The Audit Committee has performed the tasks set forth in the mandatory legal provisions.

II. The appraisal of the financial statements of Cyfrowy Polsat S.A., the consolidated financial statements of Cyfrowy Polsat S.A. Capital Group, the report of the Management Board on the activities of Cyfrowy Polsat S.A. and the report of the Management Board on the activities of Cyfrowy Polsat S.A. Capital Group in 2018

The Supervisory Board has examined and appraised the following documents:

1) the financial statements of Cyfrowy Polsat S.A. for the financial year 2018 prepared in accordance with International Financial reporting Standards, including:

    a) balance sheet as at December 31, 2018, showing the balance sheet total of PLN 13,833.6 million,

    b) profit and loss account for 2018, showing net profit of PLN 488.5 million,

    c) statement of changes in equity for 2018, showing an increase in total equity by PLN 248.7 million,

    d) cash flow statement, showing an increase in net cash and cash equivalents by PLN 228.4 million,

    e) notes to financial statements.

2) the report of the Management Board on the activities of Cyfrowy Polsat S.A. in the financial year 2018,

3) the consolidated financial statements of Cyfrowy Polsat S.A. Capital Group for the financial year 2018 prepared in accordance with International Financial reporting Standards, including:

   a) consolidated balance sheet as at December 31, 2018, showing the balance sheet total of PLN 30,696.8 million,

   b) consolidated profit and loss account for 2018, showing net profit of PLN 816.1 million,

   c) consolidated statement of changes in equity for 2018, showing an increase in total consolidated equity by PLN 1,758.4 million,

   d) consolidated cash flow statement, showing an increase in net cash and cash equivalents by 5.3 million,

   e) notes to consolidated financial statements.

4) the report of the Management Board on the activities of Cyfrowy Polsat S.A. Capital Group in 2018.

Having analyzed the above-mentioned documents and taking into consideration the independent auditor's reports on the audit of the annual financial statements of Cyfrowy Polsat S.A. and the consolidated financial statements of Cyfrowy Polsat S.A. Capital Group for the year ended December 31, 2018, and having acquainted with the information of the Audit Committee on the course and results of the examination of the fairness of financial report in Cyfrowy Polsat S.A. Capital Group, the Supervisory Board hereby states that the information presented in the above mentioned statements reflects in an accurate and proper manner the operational and financial standing of Cyfrowy Polsat S.A.

Considering the above, the Supervisory Board hereby states that:

- the financial statements of Cyfrowy Polsat S.A. for the financial year 2018,
- the report of the Management Board on the activities of Cyfrowy Polsat S.A. in the financial year 2018,
- the consolidated financial statements of Cyfrowy Polsat S.A. Capital Group for the financial year 2018,

the report of the Management Board on the activities of Cyfrowy Polsat S.A. Capital Group in 2018

have been drawn up in compliance with the books and documents as well as with the factual status and mandatory legal provisions.

Management Board's representations

Pursuant to the requirements of the *Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognised as equivalent* the Management Board of Cyfrowy Polsat S.A. represented by:

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

hereby represents that:

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

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

Tobias Solorz
President of the Management Board

Dariusz Działkowski
Member of the Management Board

Tomasz Gillner-Gorywoda
Member of the Management Board

Aneta Jaskólska
Member of the Management Board

Agnieszka Odorowicz
Member of the Management Board

Katarzyna Ostap-Tomann
Member of the Management Board

Maciej Stec
Member of the Management Board

Warsaw, 20 March 2019

EY
Building a better working world

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1
00-124 Warszawa

+48 (0) 22 557 70 00
+48 (0) 22 557 70 01
www.ey.com/pl

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

To the General Shareholders Meeting and Supervisory Board Cyfrowy Polsat

Audit report on the annual consolidated financial statements

Opinion

We have audited the annual consolidated financial statements of Cyfrowy Polsat S.A. Group (the 'Group'), for which the holding company is Cyfrowy Polsat S.A. (the 'Company') located in Warsaw at Łubinowa 4A, containing: the consolidated balance sheet as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement, the consolidated statement of changes in equity for the period from 1 January 2018 to 31 December 2018 and notes to the consolidated financial statements, including a summary of significant accounting policies (the 'consolidated financial statements').

In our opinion the consolidated financial statements:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the period from 1 January 2018 to 31 December 2018 in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Group and the Company's Statute.

The opinion is consistent with the additional report to the Audit Committee issued on 20 March 2019.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing in the version adopted as the National Auditing Standards by the National Council of Statutory Auditors ("NAS") and pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (the 'Act on Statutory Auditors') and the Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (the 'Regulation 537/2014').

Building a better
working world

Our responsibilities under those standards are further described in the *'Auditor's responsibilities for the audit of the financial statements'* section of our report.

We are independent of the Group in accordance with the Code of ethics for professional accountants, published by the International Federation of Accountants (the 'Code of ethics'), adopted by the National Council of Statutory Auditors and other ethical responsibilities in accordance with required applicable rules of the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of ethics. While conducting the audit, the key certified auditor and the audit firm remained independent of the Group in accordance with the independence requirements set out in the Act on Statutory Auditors and the Regulation 537/2014.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They include the most significant assessed risks of material misstatement, including the assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we have summarized our reaction to these risks and in cases where we deemed it necessary, we presented the most important observations related to these types of risks. We do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
<u>First year audit</u> The consolidated financial statements of the Group for the year ended 31 December 2018 were the first being subject to our audit. Bearing in mind the size and scope of operations of the Group, the key was to understand the complexity of the Group's organizational structure and its impact on processes within the Group.	Our audit procedures in response to the described key audit matter included among others: - conducting the kick-off meeting with key personnel responsible for financial reporting of the Group; - gaining an understanding of the control mechanisms implemented by the Group and testing of selected control mechanisms in relation to individual processes;

During the audit of the consolidated financial statements, we performed a number of additional procedures necessary to understand and gain knowledge about: (i) the Group's business profile and its accompanying processes, (ii) specific risks related to the business, (iii) control mechanisms implemented by the Group and policies affecting financial reporting of the Group. These procedures allowed us to assess the risk of the audit, including inherent audit risk and control risk, identify the risk of material misstatement, and in consequence to determine materiality levels and the scope of audit procedures. In addition, as a part of the first-year audit of the consolidated financial statements, the purpose of our additional procedures was to determine whether opening balances contain misstatements that materially affect the consolidated financial statements for the current period and whether the accounting policies were correctly and continuously accounted for in preparation of the financial statements for the current period, or whether changes that were made during the period were properly accounted and presented in accordance with the applicable financial reporting framework.	- understanding of the Group's accounting policy and significant amounts included in the financial statements based on professional judgement and estimates; - meeting with the key auditor acting on behalf of the predecessor audit firm, including discussion on key audit matters and review of the documentation from the prior year audit; - assessment of key audit matters from prior financial year and their impact on the financial statements of the Group for the current period and on the opening balance. The results of our procedures, as well as the audit strategy determined taking those results into considerations, have been communicated to the Management of the Company and the Audit Committee of the Company.
<u>Revenue recognition and accounting</u> Revenues from sales of the Group for the year ended 31 December 2018 amounted to PLN 10.686,1 million. Revenue recognition was assessed as a key audit matter due to the fact that the accuracy of the revenue recognition is an	In the course of performed audit procedures, we have documented our assessment of Group's accounting policies in regards to revenue recognition and accounting in accordance with IFRS 15 and related key judgements and estimates applied by the Company's Management.

Building a better working world

inherent industry risk. This is because of the complexity of the billing and other IT systems, that process large volumes of data, combination of different products and services offered, including bundled offers. The Group also enters into significant agreements with other telecommunication companies as far as access to telecommunication network and wholesale is concerned, what requires specific attention due to value and complexity of contractual provisions and applicability of professional judgment in relation to revenue recognition. Furthermore, the application of International Financial Reporting Standard 15 'Revenue from contracts with customers' ('IFRS 15'), in particular its first time implementation, involves a number of key judgements and estimates, that are related among others to identification of the performance obligations, determination of the transaction price or identification of material rights, as well as calculation of the impact of the above standard as at 1 January 2018. *Reference to related disclosures in the consolidated financial statements* Disclosure related to applied accounting policies and key judgements related to revenue recognition are included in note 7 'Accounting and consolidation policies' to the consolidated financial statements. Disclosure on the first time adoption of IFRS 15 is included in note 5	Additionally, our procedures included, among others: - understanding of the process of implementation of IFRS 15 including identification of significant revenue streams; - understanding of the processes of revenue recognition, as well as identification and assessment of key controls mechanisms; - testing of controls over revenue related processes; - evaluation of relevant IT systems, including testing of controls in place which included manage changes as well as logical access controls in IT systems used in the revenue recognition processes; - analytical procedures, including analysis of monthly trends and data for significant revenue streams versus budgets and forecasts; - reconciliation of balances of contract assets, contract costs and contract liabilities to source documentation; - substantive testing on sample of agreements and invoices for customers in respect of revenue recognition and verification of payments received; - analysis of allowance for bad debt, capitalized contract costs and contract assets, including assessment of the adequacy of methodology applied for the purpose of allowance calculation as well as analysis of significant, unsettled balances. We also assessed the adequacy of the Company's disclosures in respect of the revenue recognition and accounting in the consolidated financial statements.

Building a better
working world

'Implementation of IFRS 9 and IFRS 15' to the consolidated financial statements. Disclosures on revenue are included in note 10 'Revenue' to the consolidated financial statements.	
Fixed assets (including goodwill) impairment analysis As at 31 December 2018 the Group presents fixed assets in the amount of PLN 25.274,1 million (including goodwill of PLN 11.309,4 million), which constitute 82,3% and 36,8% of consolidated total assets respectively. Under requirements of IAS 36 'Impairment of assets' ('IAS 36'), the Group is required to test the amount of fixed assets for impairment in the financial statements. For the purpose of impairment tests the Company's Management used certain judgements such as: (i) identification of cash generating units ('CGU') and allocation of goodwill to these cash generating units, (ii) continuance of current and expected market and economics conditions, (iii) expected revenue and costs levels, (iv) planned CAPEX, (v) weighted average cost of capital ("WACC"). This matter was considered key audit matter from the consolidated financial statements perspective, due to the following (i) significance of the above-mentioned non-current assets in the	Our audit procedures in relation to the described key audit matter, included among others: - understanding and assessment of the accounting policies and procedures applied (including internal control environment) in the area of assessment of impairment indicators, identification of the events indicating the impairment as well as impairment tests; - understanding and assessment of the judgements and estimates used by the Company's Management in relation to grouping the assets within CGUs and goodwill allocation; - assessment, with involvement of the valuation specialists, of assumptions and estimates made by the Company's Management and used for the purposes of defining the recoverable amount, including: (i) applied future key macroeconomic assumptions (including: discount rate, forecasted growth rate) by benchmarking to market data and observable external data, (ii) assumptions applied for establishing terminal values i.e. cash flows and interest rate after the forecast period; - verification of mathematical accuracy of discounted cash flows model; - inquiring the financial personnel and Company's Management about status of

Building a better
working world

financial statements, (ii) intangible nature of significant part of the above-mentioned assets, (iii) significance of the impact of Company's Management professional judgement necessary to establish the carrying amounts of non-current assets based on discounted cash flows, which are uncertain by default. *Reference to related disclosures in the consolidated financial statements* Disclosure related to applied accounting policies and key judgements related to the impairment of assets are included in note 7 'Accounting and consolidation policies' to the financial statements. Disclosures related to key estimates and assumptions, including sensitivity analysis as well as results of impairments tests of assets, goodwill and intangible assets with indefinite useful life, which were prepared by the Company's Management, are included in note 20 'Goodwill and intangible assets with indefinite useful life' and in the note 50 'Judgments, financial estimates and assumptions' to the consolidated financial statements.	historical accuracy of assumptions made, including validity and applicability of these key assumptions; - analysis of information from external sources such as industry press in reference to potential risks related to realization of the assumptions made by the Company's Management; - reconciliation of the source data being the basis for the impairment test models and assessment of impairment indicators based on forecasts and budgets; - comparison of Group's equity balance as of 31 December 2018 with its market capitalization; - assessing the sensitivity analysis of the models prepared by the Company's Management to changes in significant assumptions. We also assessed the adequacy of the disclosures made in the consolidated financial statements describing the impairment test and sensitivity analysis.
Claims, disputes and contingent liabilities Due to its complex structure and the fact that the Group is operating in constantly changing legal and regulatory environment, the Group is a party to court and administrative proceedings, including tax and regulatory authorities. The decision whether to create the provisions and in what amount, as well as the estimate and scope of disclosures of	Our audit procedures in relations to the described key audit matter, included among others: - understanding and evaluation of the applied procedures, including the internal control environment, relating to the identification, recognition and measurement of events indicating the need to recognize provisions or

Building a better working world

contingent liabilities are subject to the Company's Management judgments, often based on currently available information on the legal status of the proceedings, which involves an inherent risk of uncertainty. Consequently, claims, disputes and contingent liabilities were assessed as a key audit matter. *Reference to related disclosures in the consolidated financial statements* Disclosure of accounting policies related to provisions and contingent liabilities is included in note 7 'Accounting and consolidation policies' to the consolidated financial statements. Disclosures related to the claims, disputes and contingent liabilities are included in note 47 'Important agreements and events' and note 50 'Judgments, financial estimates and assumptions' to the consolidated financial statements.	making disclosures in the consolidated financial statements; - monitoring of information from the external sources in order to identify the Group's breach or potential breach of laws and regulations; - analysis and evaluation, with the support of our tax law specialists, of the responses received from law and tax offices responsible for conducting court, tax and administrative proceedings on behalf of the Group, including an assessment of the probability of negative resolutions of these proceedings; - analysis and assessment of contingent liabilities and changes in the value of provisions for claims and litigations; - review of minutes from meetings of the decision making bodies of the Company and its subsidiaries as well as protocols from the controls conducted by supervisory authorities and correspondence with these authorities. We also assessed the adequacy of disclosures regarding significant pending court, out-of-court and tax proceedings and contingent liabilities in the Group's consolidated financial statements.
<u>Taxation (current and deferred tax)</u> The current composition of the Group is a result of consolidation, structure-related activities and other transactions involving assets of considerable value, implemented over the recent years by and between the Group's entities. Those activities had an effect on the tax settlements, deferred tax assets and deferred tax liabilities not only for the companies directly involved in such consolidation, structure-related activities and other transactions involving assets of	Our audit procedures in relations to the described key audit matter, included among others: - understanding and assessment of the procedures applied, including internal control environment, in the area of accounting for tax purposes (current and deferred income tax); - analysis of tax rulings possessed by the Group, internal and external analyses supporting executed structure-related activities

EY Building a better working world

considerable value, but also on respective members or shareholders. Regulations regarding VAT, corporate income tax and social security contributions are subject to frequent changes. These changes result in there being little point of reference and few established precedents that may be followed. The binding regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between tax administration units as well as tax administration authorities and entrepreneurs . In the light of these ambiguities, the final tax treatment application of particular economic transactions may not be known until issuance of the final administration decision by the relevant tax authority or the courts. Based on the above, in accordance with the IFRS, an administration or court dispute or fact of examination of a particular tax treatment by the authorized government authority may affect the Group's accounting for a current or deferred tax asset or liability. Consequently, the Company's Management considered key judgements and estimates in respect of most likely outcomes of tax conclusions made by tax organs. Additionally, on 15 July 2016, amendments were made to the Tax Ordinance to introduce the provisions of General Anti-Avoidance Rule (GAAR). GAAR are targeted to prevent origination and use of factitious legal structures made to avoid payment of tax in Poland.	and adopted treatment for the tax purposes by the Group; - analysis of approach of predecessor auditor in respect of transactions executed in the previous years; - analysis of current correspondence with tax authorities; - monitoring of current case-law and tax rulings for cases where the fact pattern and considered issue were similar to the state and issues existing in the Group (including past transactions impacting deferred tax position); - analysis and assessment, with assistance of tax experts, obtained responses from Group's tax advisors of regarding status of tax controls, including estimation of probability of unfavorable outcome, including significant transactions from previous years having an impact on tax settlements or recognition of additional deferred tax assets or decrease of deferred tax liabilities; - understanding of the current and deferred tax computation process and assessment of key control mechanisms in this area; - review of deferred tax asset recoverability model; - analysis of assumptions used for recognition and computation of deferred tax and their consistency with the analysis of goodwill impairment test and financial forecasts prepared by the Company's Management. We have also assessed the adequacy of disclosures relating to taxes (both current and deferred) included in the consolidated financial statements.

The Management carries out ongoing assessment on tax treatment particular significant economic transactions in the context of GAAR. As at 31 December 2018, the Group performed detailed analysis of the deferred tax assets recoverability. In addition, Company's Management's assessment process in respect to deferred tax asset recoverability is based on assumptions, specifically the timing and amount of future taxable profits, against which deductible temporary differences and tax losses carried forward can be utilized. Due to the significance of tax settlements and significant element of Company's Management judgement related to interpretation of tax regulations as well as, in many cases, lack of unequivocal certification, we considered this topic as key audit matter. *Reference to related disclosures in the consolidated financial statements* Disclosures on taxes are included in note 14 'Income tax', note 47 'Important agreements and events' and note 50 'Judgments, financial estimates and assumptions' of the financial statements as well as in "Key risk and threat factors" included in the Group's Management Report for the period from 1 January 2018 to 31 December 2018.	

Building a better
working world

Other matters

The consolidated financial statements of the Group for the prior financial year ended 31 December 2017 were subject to an audit by a key certified auditor acting on behalf of another authorized audit firm, who on 21 March 2018 issued an unqualified opinion on these consolidated financial statements.

Responsibilities of the Company's Management and members of the Supervisory Board for the financial statements

The Company's Management is responsible for the preparation, based on properly maintained accounting records, the consolidated financial statements that give a true and fair view of the consolidated financial position and the consolidated financial performance in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union, the adopted accounting policies, other applicable laws, as well as the Company's Statute, and is also responsible for such internal control as determined is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, The Company's Management is responsible for assessing the Group's (the holding company and significant components') ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless The Company's Management either intends to liquidate the Group (the holding company or significant components) or to cease operations, or has no realistic alternative but to do so.

The Company's Management and the members of the Company's Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act dated 29 September 1994 (the 'Accounting Act'). The members of the Company's Supervisory Board are responsible for overseeing the Company's financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with NAS will always detect material misstatement when it exists. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in the aggregate, they could influence the economic decisions of the users taken on the basis of these consolidated financial statements.

Building a better
working world

In accordance with International Auditing Standard 320, section 5, the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgment.

The scope of the audit does not include assurance on the future profitability of the Group nor effectiveness of conducting business matters now and in the future by the Company's Management.

Throughout the audit in accordance with NAS, we exercise professional judgment and maintain professional skepticism and we also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control,

- obtain an understanding of internal control relevant to the audit 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 Group's internal control,

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management,

- conclude on the appropriateness of the Company's Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report, however, future events or conditions may cause the Group to cease to continue as a going concern,

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation,

Building a better
working world

- we obtain sufficient appropriate audit evidence regarding the financial information of entities and business activities within the Group for the purpose of expressing an opinion on the consolidated financial statements. We are solely responsible for the direction, supervision and performance of the audit of the Group and we remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Directors' Report

The other information comprises the Directors' Report for the period from 1 January 2018 to 31 December 2018, the representation on the corporate governance and the representation on preparation of the statement on non-financial information, mentioned in article 55, section 2b of the Accounting Act as a separate element of the Directors' Report (jointly 'Other Information').

Responsibilities of the Company's Management and members of the Supervisory Board

The Company's Management is responsible for the preparation the Other Information in accordance with the law.

The Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report (with separate elements) meets the requirements of the Accounting Act.

Auditor's responsibility

Our opinion on the consolidated financial statements does not include the Other Information.
In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially

inconsistent with the consolidated financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other information, we are required to report that fact in our independent auditor's report. Our responsibility in accordance with the Act on Statutory Auditors is also to issue an opinion on whether the Directors' Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the consolidated financial statements.

In addition, we are required to inform whether the Company has prepared the representation on non-financial information and to issue an opinion on whether the Company has included the required information in the representation on application of corporate governance.

Opinion on the Directors' Report

Based on the work performed during our audit, in our opinion, the Directors' Report:

- has been prepared in accordance with the article 49 of the Accounting Act and paragraph 71 of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the 'Decree on current and periodic information'),
- is consistent with the information contained in the consolidated financial statements.

Moreover, based on our knowledge of the Group and its environment obtained during our audit, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

In our opinion, in the representation on application of corporate governance, the Group has included information stipulated in paragraph 70, section 6, point 5 of the Decree on current and periodic information.

Moreover, in our opinion, the information stipulated in paragraph 70, section 6, point 5 letter c-f, h and i of the Decree included in the representation on application of corporate governance is in accordance with applicable laws and information included in the consolidated financial statements.

Information on non-financial information

In accordance with the requirements of the Act on Statutory Auditors, we inform that the Company has included in Directors' Report information on the preparation of a separate report on non-financial information, referred to in art. 55 par. 2c of the Accounting Act and that the Company has prepared such a separate report.

Building a better working world

We have not performed any attestation procedures in respect to the separate report on non-financial information and do not express any assurance in its respect.

Representation on the provision of non-audit services

To the best of our knowledge and belief, we represent that services other than audits of the financial statements, which have been provided to the Group, are compliant with the laws and regulations applicable in Poland, and that we have not provided non-audit services, which are prohibited based on article 5 item 1 of Regulation 537/2014 and article 136 of the Act on Statutory Auditors. The non-audit services, which we have provided to the Group in the audited period, have been disclosed in the Directors' Report.

Appointment of the audit firm

We were appointed for the audit of the Group's consolidated financial statements initially based on the resolution of the Supervisory Board from 23 January 2018. We are auditing the consolidated financial statements of the Group for the first time.

Warsaw, 20 March 2019

Key Certified Auditor

Podpisany certyfikatem wystawionym dla
Jarosław Dac (Certyfikat kwalifikowany).
Utworzony w dniu: 2019-03-20 21:27:21 +0100

Jarosław Dac
certified auditor
no in the register: 10138

on behalf of:
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
no on the audit firms list: 130

CYFROWY POLSAT S.A. GROUP

Consolidated Financial Statements
for the year ended 31 December 2018

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

Table of contents

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

On 20 March 2019, the Management Board of Cyfrowy Polsat S.A. approved the consolidated financial statements of Cyfrowy Polsat S.A. Group prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which include:

Consolidated Income Statement for the period from 1 January 2018 to 31 December 2018 showing a net profit for the period of:	PLN 816.1
Consolidated Statement of Comprehensive Income for the period from 1 January 2018 to 31 December 2018 showing a total comprehensive income for the period of:	PLN 815.9
Consolidated Balance Sheet as at 31 December 2018 showing total assets and total equity and liabilities of:	PLN 30,696.8
Consolidated Cash Flow Statement for the period from 1 January 2018 to 31 December 2018 showing a net increase in cash and cash equivalents amounting to:	PLN 5.3
Consolidated Statement of Changes in Equity for the period from 1 January 2018 to 31 December 2018 showing an increase in equity of:	PLN 1,758.4

Notes to the Consolidated Financial Statements

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

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

Warsaw, 20 March 2019

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

Consolidated Income Statement

	Note	for the year ended 31 December 2018 (IFRS 15 basis)	31 December 2017 (IAS 18 basis)
Continuing operations			
Revenue	10	10,686.1	9,828.6
Operating costs	11	(8,978.8)	(8,015.9)
Other operating income, net		19.7	21.3
Profit from operating activities		**1,727.0**	**1,834.0**
Gain/(loss) on investment activities, net	12	(33.0)	7.2
Finance costs, net	13	(386.7)	(509.0)
Share of the profit/(loss) of associates accounted for using the equity method		(1.2)	2.8
Gross profit for the period		**1,306.1**	**1,335.0**
Income tax	14	(490.0)	(389.8)
Net profit for the period		**816.1**	**945.2**
Net profit attributable to equity holders of the Parent		833.6	980.6
Net loss attributable to non-controlling interest		(17.5)	(35.4)
Basic and diluted earnings per share (in PLN)	16	**1.28**	**1.48**

Consolidated Statement of Comprehensive Income

	Note	for the year ended 31 December 2018 (IFRS 15 basis)	31 December 2017 (IAS 18 basis)
Net profit for the period		**816.1**	**945.2**
Items that may not be reclassified subsequently to profit or loss:		***0.1***	***(0.2)***
Actuarial (loss)/gain		0.1	(0.2)
Items that may be reclassified subsequently to profit or loss:		***(0.3)***	***(1.1)***
Valuation of hedging instruments	30	(0.4)	(1.3)
Income tax relating to hedge valuation	30	0.1	0.2
Other comprehensive income, net of tax		**(0.2)**	**(1.3)**
Total comprehensive income for the period		**815.9**	**943.9**
Total comprehensive income attributable to equity holders of the Parent		833.4	979.3
		(17.5)	(35.4)

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

Consolidated Balance Sheet - Assets

	Note	31 December 2018 *(IFRS 15 basis)*	31 December 2017 *(IAS 18 basis)*
Reception equipment	17	264.5	325.3
Other property, plant and equipment	17	4,792.2	2,867.1
Goodwill	18	11,309.4	11,041.7
Customer relationships	21	2,212.2	2,557.3
Brands	19	2,096.1	2,037.1
Other intangible assets	21	3,005.5	3,261.5
Non-current programming assets	22	503.8	170.1
Investment property		29.9	5.1
Non-current deferred distribution fees	23	99.7	91.4
Other non-current assets, includes:	24	701.1	1,270.7
shares in associates accounted for using the equity method		*43.0*	*665.2*
derivative instruments		-	*1.9*
Deferred tax assets	14	259.7	197.2
Total non-current assets		**25,274.1**	**23,824.5**
Current programming assets	22	543.2	251.7
Contract assets	5	648.4	-
Inventories	25	394.0	283.7
Trade and other receivables	26	2,370.4	1,983.2
Income tax receivable		34.6	1.3
Current deferred distribution fees	23	218.5	207.9
Other current assets	27	34.9	31.7
includes derivative instruments		-	*5.1*
Cash and cash equivalents	28	1,167.0	1,161.5
Restricted cash	28	11.7	10.5
Total current assets		**5,422.7**	**3,931.5**
Total assets		**30,696.8**	**27,756.0**

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

Consolidated Balance Sheet - Equity and Liabilities

	Note	31 December 2018 *(IFRS 15 basis)*	31 December 2017 *(IAS 18 basis)*
Share capital	29	25.6	25.6
Share premium	29	7,174.0	7,174.0
Other reserves		(162.5)	3.2
Retained earnings		6,189.9	4,871.4
Equity attributable to equity holders of the Parent		**13,227.0**	**12,074.2**
Non-controlling interests		648.2	42.6
Total equity		**13,875.2**	**12,116.8**
Loans and borrowings	31	8,605.3	9,291.4
Issued bonds	32	976.0	975.7
Finance lease liabilities	33	15.8	18.6
UMTS license liabilities	34	348.2	440.8
Deferred tax liabilities	14	1,160.1	879.8
Deferred income	37	-	3.2
Other non-current liabilities and provisions	35	697.6	114.2
includes derivative instruments		*165.2*	-
Total non-current liabilities		**11,803.0**	**11,723.7**
Loans and borrowings	31	1,611.3	1,341.9
Issued bonds	32	42.3	42.5
Finance lease liabilities	33	8.2	9.7
UMTS license liabilities	34	118.1	114.5
Contract liabilities	5	705.2	-
Trade and other payables	36	2,382.4	1,727.3
includes derivative instruments		*8.8*	*3.6*
Income tax liability		151.1	61.3
Deferred income	37	-	618.3
Total current liabilities		**5,018.6**	**3,915.5**
Total liabilities		**16,821.6**	**15,639.2**
Total equity and liabilities		**30,696.8**	**27,756.0**

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

Consolidated Cash Flow Statement

	Note	for the year ended 31 December 2018 (IFRS 15 basis)	for the year ended 31 December 2017 (IAS 18 basis)
Net profit		**816.1**	**945.2**
Adjustments for:		**2,416.0**	**2,181.1**
Depreciation, amortization, impairment and liquidation	11	1,970.7	1,783.0
Payments for film licenses and sports rights		(363.5)	(305.1)
Amortization of film licenses and sports rights		337.0	228.6
Interest expense		401.6	432.3
Change in inventories		(77.2)	(5.0)
Change in receivables and other assets		(289.1)	(470.8)
Change in liabilities, provisions and deferred income		(44.2)	183.1
Change in contract assets		47.8	-
Change in contract liabilities		107.6	-
Foreign exchange (gains)/losses, net		15.8	(31.1)
Income tax	14	490.0	389.8
Net additions of reception equipment provided under operating lease		(83.9)	(137.5)
Early redemption costs	13,32	-	58.7
Share of the (profit)/loss of associates accounted for using the equity method		1.2	(2.8)
Other adjustments		(97.8)	57.9
Cash from operating activities		**3,232.1**	**3,126.3**
Income tax paid		(343.2)	(216.2)
Interest received from operating activities		26.2	31.3
Net cash from operating activities		**2,915.1**	**2,941.4**
Acquisition of property, plant and equipment		(624.3)	(524.8)
Acquisition of intangible assets		(304.1)	(214.3)
Concessions payments		(119.6)	(120.7)
Acquisition of shares in associates		(16.1)	(662.5)
Acquisition of subsidiaries, net of cash acquired	38	(792.4)	(66.8)
Proceeds from sale of property, plant and equipment		11.6	19.3
Investment funds outflows		(130.0)	-
Investment funds inflows		130.5	-
Granted loans		(12.4)	(31.1)
Repayment of granted loans		29.3	30.5
Acquisition of bonds		(9.2)	(9.3)
Other inflows		1.2	6.4
Net cash used in investing activities		**(1,835.5)**	**(1,573.3)**

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

Repayment of loans and borrowings	31	(1,282.2)	(1,162.5)
Loans and borrowings inflows	31	635.3	1,200.0
Bonds redemption	32	-	(886.7)
Payment of interest on loans, borrowings, bonds, finance lease and commissions*		(419.0)	(409.9)
Dividend payment		-	(204.7)
Early redemption fee	32	-	(58.7)
Other outflows		(8.4)	(5.2)
Net cash used in financing activities		**(1,074.3)**	**(1,527.7)**
Net increase/(decrease) in cash and cash equivalents		**5.3**	**(159.6)**
Cash and cash equivalents at the beginning of the period		**1,172.0*** **	**1,336.7** **
Effect of exchange rate fluctuations on cash and cash equivalents		1.4	(5.1)
Cash and cash equivalents at the end of the period		**1,178.7** ****	**1,172.0*** **

* includes impact of derivative instruments and payment due to loan agreement modification
** includes restricted cash amounting to PLN 10.7
*** includes restricted cash amounting to PLN 10.5
**** includes restricted cash amounting to PLN 11.7

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

Consolidated Statement of Changes in Equity
for the year ended 31 December 2018

	Note	Number of shares	Share capital	Share premium	Other reserves	Retained earnings*	**Equity attributable to equity holders of the Parent**	**Non-controlling interests**	**Total equity**
Balance as at 31 December 2017		**639,546,016**	**25.6**	**7,174.0**	**3.2**	**4,871.4**	**12,074.2**	**42.6**	**12,116.8**
Impact of the implementation of IFRS 15		-	-	-	-	484.9	484.9	-	**484.9**
Balance as at 1 January 2018		**639,546,016**	**25.6**	**7,174.0**	**3.2**	**5,356.3**	**12,559.1**	**42.6**	**12,601.7**
Acquisition of Netia S.A.	38	-	-	-	-	-	-	622.2	**622.2**
Acquisition of Eleven Sports Network Sp. z o.o.	38	-	-	-	-	-	-	(2.7)	**(2.7)**
Put option valuation	38	-	-	-	(165.5)	-	(165.5)	3.6	**(161.9)**
Total comprehensive income		-	-	-	(0.2)	833.6	833.4	(17.5)	**815.9**
Hedge valuation reserve	*30*	-	-	-	*(0.3)*	-	*(0.3)*	-	***(0.3)***
Actuarial profit		-	-	-	*0.1*	-	*0.1*	-	***0.1***
Net profit for the period		-	-	-	-	*833.6*	*833.6*	*(17.5)*	***816.1***
Balance as at 31 December 2018		**639,546,016**	**25.6**	**7,174.0**	**(162.5)**	**6,189.9**	**13,227.0**	**648.2**	**13,875.2**

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

Consolidated Statement of Changes in Equity
for the year ended 31 December 2017

	Number of shares	Share capital	Share premium	Other reserves	Retained earnings*	**Equity attributable to equity holders of the Parent**	**Non-controlling interests**	**Total Equity**
Balance as at 1 January 2017	**639,546,016**	**25.6**	**7,174.0**	**4.5**	**4,095.5**	**11,299.6**	**78.0**	**11,377.6**
Dividend declared and paid	-	-	-	-	(204.7)	(204.7)	-	**(204.7)**
Total comprehensive income	-	-	-	(1.3)	980.6	979.3	(35.4)	**943.9**
Hedge valuation reserve	-	-	-	*(1.1)*	-	*(1.1)*	-	***(1.1)***
Actuarial loss	-	-	-	*(0.2)*	-	*(0.2)*	-	***(0.2)***
Net profit for the period	-	-	-	-	*980.6*	*980.6*	*(35.4)*	***945.2***
Balance as at 31 December 2017	**639,546,016**	**25.6**	**7,174.0**	**3.2**	**4,871.4**	**12,074.2**	**42.6**	**12,116.8**

* As at 31 December 2018 and 31 December 2017 the capital excluded from distribution amounts to PLN 8.5. In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

General information

1. The Parent Company

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

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

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

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

2. Composition of the Management Board of the Company

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

3. Composition of the Supervisory Board of the Company

- Marek Kapuściński	President of the Supervisory Board,
- Józef Birka	Member of the Supervisory Board,
- Robert Gwiazdowski	Member of the Supervisory Board,
- Aleksander Myszka	Member of the Supervisory Board,
- Leszek Reksa	Member of the Supervisory Board,
- Tomasz Szeląg	Member of the Supervisory Board,
- Piotr Żak	Member of the Supervisory Board (from 28 June 2018).

4. Basis of preparation of the consolidated financial statements

Statement of compliance

These consolidated financial statements for the year ended 31 December 2018 have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU (IFRS EU). The Group applied the same accounting policies in the preparation of the financial data for the year ended 31 December 2018 and the consolidated financial statements for the year 2017, presented in the consolidated annual report, except for the EU-endorsed standards and interpretations which are effective for the reporting periods beginning on or after 1 January 2018.

During the year ended 31 December 2018 the following became effective:

(i) new standard IFRS 15 *Revenue from Contracts with Customers*
(ii) new standard IFRS 9 *Financial Instruments*
(iii) clarifications to IFRS 15 Revenue from Contracts with Customers
(iv) amendments to IFRS 2 *Share-based Payment* – Classification and Measurement of Share-based Payment Transactions
(v) amendments to IFRS 4 Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*
(vi) IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
(vii) amendments to IAS 40 Investment properties
(viii) annual improvements to IFRS Standards 2014-2016 Cycle
Amendments to IFRS 1 First-time Adoption of IFRS – removal of short-term exemptions
Amendments to IAS 28 Investments in Associates and Joint Ventures – investments in associates and joint ventures measured at fair value

The impact of new standard IFRS 15 and IFRS 9 is described in note 5, other amendments did not have a significant impact on these consolidated financial statements.

Standards published but not yet effective:

(i) new standard IFRS 16 *Leases*
(ii) amendments to IFRS 9 *Financial Instruments* – Prepayment Features with Negative Compensation
(iii) IFRIC 23 *Uncertainty over Income Tax Treatments*

The Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following standard is expected to have a material impact on the Group's consolidated financial statements in the period of initial application.

IFRS 16 Leases

Estimated impact of IFRS 16 *Leases* implementation

The Group is required to adopt IFRS 16 *Leases* from 1 January 2019. IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessee separately recognizes the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

IFRS 16 includes recognition exemptions for short-term leases (i.e. leases with a lease term of 12 months or less) and leases of low-value items (e.g. personal computers).

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as set out in IAS 17 and distinguish between operating and finance leases.

Implementation of IFRS 16 will decrease rental costs, increase depreciation and financial costs which will result in an increase of EBITDA, assets and liabilities (due to the recognition of a right-of-use asset and a lease liability) as well as an increase of debt ratio.

Transition to IFRS 16

As set out in IFRS 16 the lessee is permitted two transition approaches:
a) full retrospective approach (application of the new standard to all prior periods)
b) modified retrospective approach (no requirement to restate its prior-period financial information)

The Group plans to adopt the new standard using the modified retrospective approach. Cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance as at 1 January 2019, with no restatement of the comparative information.

The Group has assessed the estimated impact that the initial application of IFRS 16 will have on its consolidated financial statements. The estimated impact of the adoption of the standard on the Group as at 1 January 2019 is based on assessments undertaken to date and is summarised below. The actual impact of adopting the standard at 1 January 2019 may change because the Group is still in the process of confirming final assumptions required to recognize right-of-use assets and lease liabilities as pursuant to the new standard.

For leases previously classified as operating leases under IAS 17, a lessee measures the lease liability at the date of initial application as the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at that date. The Group measured the right-of-use asset on a lease-by-lease basis at an amount equal to the lease liability (adjusted by prepaid/accrued payments if applicable).

As at 1 January 2019 the estimated value of right-of-use assets and lease liabilities is equal and thus no adjustments to equity are recognized. The estimated impact of IFRS 16 implementation as at 1 January 2019 amounts to approximately PLN 1.5 billion (not in million) due to recognition of right-of-use assets and lease liabilities.

For leases that were previously classified as finance leases under IAS 17, the Group recognises a right-of-use asset and a lease liability measured at the previous carrying amount under IAS 17.

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

5. Implementation of IFRS 9 and IFRS 15

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaced IAS 39 *Financial Instruments: Recognition and Measurement*.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains following principal classification categories for financial assets: measured at amortised cost, at fair value though other comprehensive income and at fair value through profit or loss. The new classification requirements didn't have material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis.

Loans as well as trade and other receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristic of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ('ECL') model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. Implementation of the forward-looking model did not have a significant effect on the Group's bad debt allowance.

In addition IFRS 9 includes optional hedge accounting requirements. The Group chose as its accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

As at 1 January 2018 the classification and carrying amount of the Group's financial instruments were as follows:

			IAS 39	**IFRS 9**
	IAS 39 classification	**IFRS 9 classification**	**Carrying amount**	**Carrying amount**
Loans granted	loans and receivables	amortised cost	4.5	4.5
Trade and other receivables	loans and receivables	amortised cost	2,454.5	2,454.5
Cash and cash equivalents and short-term deposits	loans and receivables	amortised cost	1,161.5	1,161.5
Restricted cash	loans and receivables	amortised cost	10.5	10.5
Loans and borrowings	other liabilities	amortised cost	(10,633.3)	(10,633.3)
Issued bonds	other liabilities	amortised cost	(1,018.2)	(1,018.2)
UMTS licence liabilities	other liabilities	amortised cost	(555.3)	(555.3)
Finance lease liabilities	other liabilities	amortised cost	(28.3)	(28.3)
Accruals	other liabilities	amortised cost	(760.5)	(760.5)
Trade and other payables and deposits	other liabilities	amortised cost	(665.3)	(665.3)
Total			**(10,029.9)**	**(10,029.9)**

IFRS 15 Revenue from Contracts with Customers

IFRS 15 provides a single, principles-based five-step model for the determination and recognition of revenue to be applied to all contracts with customers. It replaced in particular the existing standards IAS 18 *Revenue* and IAS 11 *Construction Contracts*.

In the case of the Group, the biggest change caused by the implementation of the standard concerns the recognition of revenues from multi-element contracts (e.g. mobile contract plus handset), which includes sale of subsidized products delivered at date of the agreement: the cumulative amount of revenues over the contract term didn't change, but there was a change in the allocation between revenues from sale of equipment and revenues from the services rendered (a greater part of the total remuneration is assigned to the equipment delivered in advance, requiring earlier recognition of revenue).

Earlier revenue recognition resulted in the recognition of contract assets in the balance sheet representing the Group's right to future remuneration for the products and serviced provided to the customer. The contract assets are presented as current assets as the Company expects the contracts to be fulfilled within a normal operating cycle. In the case of sale of subsidized products the Group does not adjust the promised amount of consideration for the effects of a significant financing component as the Group expects, at the contract inception, that the period between the transfer of goods or services to a customer and the period when the customer pays for that good or service will be one year or less.

The implementation of IFRS 15 resulted in a recognition of contract liabilities in the balance sheet. Contract liabilities represent the Group's obligation to transfer goods or services to customers, for which the Group received consideration or an amount of the consideration is due from the customer.

The Group has not identified any material rights in the contracts which should have been separately presented as Group's obligations.

The Group usually sells its services and goods through distributors who act as an agent, which means that they do not assume all the risks associated with the delivery of goods and services, therefore sales revenue are recognized at the time of sale to the end customer.

The contractual liabilities included in the balance sheet refer mainly to the unused funds within the prepaid system.

The implementation of IFRS 15 resulted in a change in the accounting policy regarding the revenue recognition. The Group's process for revenue recognition from multi-element contracts (eg. mobile contract and handset) consists of:
a) assessment of all goods and services provided to the client under the contract and identifying separate performance obligations in that contract,
b) determining and allocating the transaction prices to separate performance obligations in the contract; the allocation is based on the reference to their relative standalone selling prices that could be obtained if the promised goods and services were sold individually in a separate transaction.

IFRS 15 is applied by the Group using the "modified retrospective approach" in which the cumulative effect of initially applying the standard is recognised as an adjustment to retained earnings at the date of initial application.

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

The implementation of IFRS 15 had following impact on the consolidated balance sheet as at 1 January 2018:

	1 January 2018 prepared in accordance with IAS 18	**Adjustments**	**1 January 2018 prepared in accordance with IFRS 15**
Reception equipment	325.3	-	325.3
Other property, plant and equipment	2,867.1	-	2,867.1
Goodwill	11,041.7	-	11,041.7
Customer relationships	2,557.3	-	2,557.3
Brands	2,037.1	-	2,037.1
Other intangible assets	3,261.5	-	3,261.5
Non-current programming assets	170.1	-	170.1
Investment property	5.1	-	5.1
Non-current deferred distribution fees	91.4	-	91.4
Other non-current assets, includes:	1,270.7	-	1,270.7
shares in associates accounted for using the equity method	*665.2*	-	*665.2*
derivative instruments	*1.9*	-	*1.9*
Deferred tax assets	197.2	-	197.2
Total non-current assets	**23,824.5**	**-**	**23,824.5**
Current programming assets	251.7	-	251.7
Contract assets	-	696.2	696.2
Inventories	283.7	25.2	308.9
Trade and other receivables	1,983.2	(121.4)	1,861.8
Income tax receivable	1.3	-	1.3
Current deferred distribution fees	207.9	-	207.9
Other current assets	31.7	-	31.7
includes derivative instruments assets	*5.1*	-	*5.1*
Cash and cash equivalents	1,161.5	-	1,161.5
Restricted cash	10.5	-	10.5
Total current assets	**3,931.5**	**600.0**	**4,531.5**
Total assets	**27,756.0**	**600.0**	**28,356.0**

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

	1 January 2018 prepared in accordance with IAS 18	Adjustments	1 January 2018 prepared in accordance with IFRS 15
Share capital	25.6	-	25.6
Share premium	7,174.0	-	7,174.0
Other reserves	3.2	-	3.2
Retained earnings	4,871.4	484.9	5,356.3
Equity attributable to equity holders of the Parent	**12,074.2**	**484.9**	**12,559.1**
Non-controlling interests	42.6	-	42.6
Total equity	**12,116.8**	**484.9**	**12,601.7**
Loans and borrowings	9,291.4	-	9,291.4
Issued bonds	975.7	-	975.7
Finance lease liabilities	18.6	-	18.6
UMTS license liabilities	440.8	-	440.8
Deferred tax liabilities	879.8	113.8	993.6
Deferred income	3.2	(3.2)	-
Other non-current liabilities and provisions	114.2	-	114.2
Total non-current liabilities	**11,723.7**	**110.6**	**11,834.3**
Loans and borrowings	1,341.9	-	1,341.9
Issued bonds	42.5	-	42.5
Finance lease liabilities	9.7	-	9.7
UMTS license liabilities	114.5	-	114.5
Contract liabilities	-	597.6	597.6
Trade and other payables	1,727.3	25.2	1,752.5
includes derivative instruments	*3.6*	-	*3.6*
Income tax liability	61.3	-	61.3
Deferred income	618.3	(618.3)	-
Total current liabilities	**3,915.5**	**4.5**	**3,920.0**
Total liabilities	**15,639.2**	**115.1**	**15,754.3**
Total equity and liabilities	**27,756.0**	**600.0**	**28,356.0**

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

To facilitate comparability between periods, the tables below present how the adoption of IFRS 15 affected the Consolidated Financial Statements in the current period.

	for the 12 months ended		
	31 December 2018 prepared in accordance with IAS 18	**Adjustments**	**31 December 2018 prepared in accordance with IFRS 15**
Revenue	**10,746.2**	**(60.1)**	**10,686.1**
Retail revenue	6,539.9	(447.3)	6,092.6
Wholesale revenue	3,043.8	-	3,043.8
Sale of equipment	973.7	412.3	1,386.0
Other revenue	188.8	(25.1)	163.7
Operating cost	**(8,954.5)**	**(24.3)**	**(8,978.8)**
Technical costs and cost of settlements with telecommunication operators	(2,448.9)	-	(2,448.9)
Depreciation, amortization, impairment and liquidation	(1,970.7)	-	(1,970.7)
Cost of equipment sold	(1,149.9)	(24.3)	(1,174.2)
Content costs	(1,355.3)	-	(1,355.3)
Distribution, marketing, customer relation management and retention costs	(933.9)	-	(933.9)
Salaries and employee-related costs	(738.9)	-	(738.9)
Cost of debt collection services, bad debt allowance and receivables written off	(83.9)	-	(83.9)
Other costs	(273.0)	-	(273.0)
Other operating income, net	**19.7**	**-**	**19.7**
Profit from operating activities	**1,811.4**	**(84.4)**	**1,727.0**
Gain/(loss) on investment activities, net	(33.0)	-	(33.0)
Finance costs, net	(386.7)	-	(386.7)
Share of the loss of associates accounted for using the equity method	(1.2)	-	(1.2)
Gross profit for the period	**1,390.5**	**(84.4)**	**1.306.1**
Income tax	(506.0)	16.0	(490.0)
Net profit for the period	**(884.5)**	**(68.4)**	**816.1**

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

	31 December 2018 prepared in accordance with IAS 18	Adjustments	31 December 2018 prepared in accordance with IFRS 15
Reception equipment	264.5	-	264.5
Other property, plant and equipment	4,792.2	-	4,792.2
Goodwill	11,309.4	-	11,309.4
Customer relationships	2,212.2	-	2,212.2
Brands	2,096.1	-	2,096.1
Other intangible assets	3,005.5	-	3,005.5
Non-current programming assets	503.8	-	503.8
Investment property	29.9	-	29.9
Non-current deferred distribution fees	99.7	-	99.7
Other non-current assets, includes:	701.1	-	701.1
shares in associates accounted for using the equity method	*43.0*	-	*43.0*
Deferred tax assets	259.7	-	259.7
Total non-current assets	**25,274.1**	**-**	**25,274.1**
Current programming assets	543.2	-	543.2
Contract assets	-	648.4	648.4
Inventories	385.0	9.0	394.0
Trade and other receivables	2,505.6	(135.2)	2,370.4
Income tax receivable	34.6	-	34.6
Current deferred distribution fees	218.5	-	218.5
Other current assets	34.9	-	34.9
Cash and cash equivalents	1,167.0	-	1,167.0
Restricted cash	11.7	-	11.7
Total current assets	**4,900.5**	**522.2**	**5,422.7**
Total assets	**30,174.6**	**522.2**	**30,696.8**

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

	31 December 2018 prepared in accordance with IAS 18	Adjustments	31 December 2018 prepared in accordance with IFRS 15
Share capital	25.6	-	25.6
Share premium	7,174.0	-	7,174.0
Other reserves	(162.5)	-	(162.5)
Retained earnings	5,773.4	416.5	6,189.9
Equity attributable to equity holders of the Parent	**12,810.5**	**416.5**	**13,227.0**
Non-controlling interests	648.2	-	648.2
Total equity	**13,458.7**	**416.5**	**13,875.2**
Loans and borrowings	8,605.3	-	8,605.3
Issued bonds	976.0	-	976.0
Finance lease liabilities	15.8	-	15.8
UMTS license liabilities	348.2	-	348.2
Deferred tax liabilities	1,062.3	97.8	1,160.1
Deferred income	17.4	(17.4)	-
Other non-current liabilities and provisions	697.6	-	697.6
includes derivative instruments	*165.2*	-	*165.2*
Total non-current liabilities	**11,722.6**	**80.4**	**11,803.0**
Loans and borrowings	1,611.3	-	1,611.3
Issued bonds	42.3	-	42.3
Finance lease liabilities	8.2	-	8.2
UMTS license liabilities	118.1	-	118.1
Contract liabilities	-	705.2	705.2
Trade and other payables	2,374.2	8.2	2,382.4
includes derivative instruments	*8.8*	-	*8.8*
Income tax liability	151.1	-	151.1
Deferred income	688.1	(688.1)	-
Total current liabilities	**4,993.3**	**25.3**	**5,018.6**
Total liabilities	**16,715.9**	**105.7**	**16,821.6**
Total equity and liabilities	**30,174.6**	**522.2**	**30,696.8**

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

	for the 12 months ended		
	31 December 2018 prepared in accordance with IAS 18	**Adjustments**	**31 December 2018 prepared in accordance with IFRS 15**
Net profit	**884.5**	**(68.4)**	**816.1**
Adjustments for:	**2,347.6**	**68.4**	**2,416.0**
Depreciation, amortization, impairment and liquidation	1,970.7	-	1,970.7
Payments for film licenses and sports rights	(363.5)	-	(363.5)
Amortization of film licenses and sports rights	337.0	-	337.0
Interest expense	401.6	-	401.6
Change in inventories	(93.4)	16.2	(77.2)
Change in receivables and other assets	(302.9)	13.8	(289.1)
Change in liabilities, provisions and deferred income	56.8	(101.0)	(44.2)
Change in contract assets	-	47.8	47.8
Change in contract liabilities	-	107.6	107.6
Foreign exchange losses, net	15.8	-	15.8
Income tax	506.0	(16.0)	490.0
Net additions of reception equipment provided under operating lease	(83.9)	-	(83.9)
Share of the loss of associates accounted for using the equity method	1.2	-	1.2
Other adjustments	(97.8)	-	(97.8)
Cash from operating activities	**3,232.1**	**-**	**3,232.1**
Income tax paid	(343.2)	-	(343,2)
Interest received from operating activities	26.2	-	26.2
Net cash from operating activities	**2,915.1**	**-**	**2,915.1**
Acquisition of property, plant and equipment	(624.3)	-	(624.3)
Acquisition of intangible assets	(304.1)	-	(304.1)
Acquisition of shares in associates and other entities	(16.1)	-	(16.1)
Acquisition of subsidiaries, net of cash acquired	(792.4)	-	(792.4)
Concession payments	(119.6)	-	(119.6)
Proceeds from sale of property, plant and equipment	11.6	-	11.6
Investment funds outflows	(130.0)	-	(130.0)
Investment funds inflows	130.5	-	130.5
Granted loans	(12.4)	-	(12.4)
Repayment of granted loans	29.3	-	29.3
Acquisition of bonds	(9.2)	-	(9.2)
Other inflows	1.2	-	1.2
Net cash used in investing activities	**(1,835.5)**	**-**	**(1,835.5)**

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

Loans and borrowings inflows	635.3	-	635.3
Repayment of loans and borrowings	(1,282.2)	-	(1,282.2)
Payment of interest on loans, borrowings, bonds, finance lease and commissions*	(419.0)	-	(419.0)
Other outflows	(8.4)	-	(8.4)
Net cash used in financing activities	**(1,074.3)**	**-**	**(1,074.3)**
Net increase in cash and cash equivalents	**5.3**	**-**	**5.3**
Cash and cash equivalents at the beginning of the period	**1,172.0****	**-**	**1,172.0****
Effect of exchange rate fluctuations on cash and cash equivalents	1.4	-	1.4
Cash and cash equivalents at the end of the period	**1,178.7*****	**-**	**1,178.7*****

* includes impact of derivative instruments and payment due to loan agreement modification
** Includes restricted cash amounting to PLN 10.5
*** includes restricted cash amounting to PLN 11.7

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

6. Group structure

These consolidated financial statements for the year ended 31 December 2018 include the following entities:

			Share in voting rights (%)	
	Entity's registered office	**Activity**	**31 December 2018**	**31 December 2017**
Parent Company				
Cyfrowy Polsat S.A.	Łubinowa 4a, 03-878 Warsaw	radio, TV and telecommunication activities	n/a	n/a
Subsidiaries accounted for using full method:				
Cyfrowy Polsat Trade Marks Sp. z o.o.[(a)]	Łubinowa 4a, 03-878 Warsaw	non-current assets and intellectual property rights management	-	100%
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	television broadcasting and production	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o. Sp. k.	Ostrobramska 77, 04-175 Warsaw	advertising activities	100%	100%
Polsat License Ltd.	Alte Landstrasse 17, 8863 Buttikon, Switzerland	trade of programming licences	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	media	100%	100%
Polkomtel Infrastruktura Sp. z o.o. (formerly PL 2014 Sp. z o.o.)	Konstruktorska 4, 02-673 Warsaw	telecommunication activities	100%	100%
Polsat Brands AG	Alte Landstrasse 17, 8863 Buttikon, Switzerland	intellectual property rights management	100%	100%
Polsat Ltd.	238A King Street, W6 0RF London, UK	television broadcasting	100%	100%
Muzo.fm Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	radio broadcasting and production	100%	100%
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	radio and TV activities	100%	100%
CPSPV1 Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	technical services	100%	100%
CPSPV2 Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	technical services	100%	100%
Eileme 1 AB (publ) [(b)]	Stureplan 4C, 114 35 Stockholm Sweden	holding and financial activities	-	100%

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

			Share in voting rights (%)	
	Entity's registered office	Activity	31 December 2018	31 December 2017
Subsidiaries accounted for using full method (cont.)				
Polkomtel Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	telecommunication activities	100%	100%
Nordisk Polska Sp. z o.o.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	100%	100%
Liberty Poland S.A.	Katowicka 47, 41-500 Chorzów	telecommunication activities	100%	100%
Polkomtel Business Development Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	other activities supporting financial services, gaseous fuels trading activities	100%	100%
Plus TM Management Sp. z o.o. (c)	Konstruktorska 4, 02-673 Warsaw	intelectual property rights management and rental	-	100%
TM Rental Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	intelectual property rights rental	100%	100%
Orsen Holding Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Orsen Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Dwa Sp. z o.o.	Al. Jerozolimskie 81, 02-001 Warsaw	holding activities	100%	100%
Interphone Service Sp. z o.o.	Inwestorów 8, 39-300 Mielec	production of set-top boxes	100%	100%
Teleaudio Dwa Sp. z o.o. Sp. k.	Al. Jerozolimskie 81, 02-001 Warsaw	call center and premium rate services	100%	100%
IB 1 FIZAN	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	financial activities	*	*
Litenite Ltd.	Kostaki Pantelidi 1 1010, Nicosia, Cyprus	holding activities	100%	100%
Aero 2 Sp. z o.o.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	100%	100%
Sferia S.A.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	51%	51%

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

	Entity's registered office	Activity	Share in voting rights (%) 31 December 2018	31 December 2017
Subsidiaries accounted for using full method (cont.)				
Altalog Sp. z o.o.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	software	66%	66%
Plus Flota Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	management and rental services	100%	100%
Eska TV S.A.	Jubilerska 10, 04-190 Warsaw	television broadcasting and production	100%	100%
Lemon Records Sp. z o.o.	Jubilerska 10, 04-190 Warsaw	television broadcasting and production	100%	100%
Coltex ST Sp. z o.o.[(d)]	Katowicka 47, 41-500 Chorzów	telecommunication activities	100%	-
Netia S.A.[(e)]	Poleczki 13, 02-822 Warsaw	telecommunication activities	65.98%	-
Internetia Sp. z o.o.[(e)]	Poleczki 13, 02-822 Warsaw	telecommunication activities	65.98%	-
Netia 2 Sp. z o.o.[(e)]	Taśmowa 7A, 02-677 Warsaw	telecommunication activities	65.98%	-
TK Telekom Sp. z o.o.[(e)]	Kijowska 10/12A, 03-743 Warsaw	telecommunication activities	65.98%	-
Telefonia Dialog Sp. z o.o.[(e,f)]	Strzegomska 142A, 54-429 Wrocław	telecommunication activities	-	-
Petrotel Sp. z o.o.[(e)]	Chemików 7, 09-411 Płock	telecommunication activities	65.98%	-
Eleven Sports Network Sp. z o.o. [(g)]	Plac Europejski 2, 00-844 Warsaw	television broadcasting	50% plus 1 share	-
Superstacja Sp. z o.o. [(h)]	Al. Stanów Zjednoczonych 53, 04-028 Warsaw	television broadcasting and production	100%	-
Netshare Media Group Sp. z o.o. [(i)]	Ostrobramska 77, 04-175 Warsaw	advertising activities	100%	-

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

(a) On 30 November 2018 a merger of Cyfrowy Polsat S.A. with Cyfrowy Polsat Trade Marks Sp. z o.o. was registered. The surviving entity is Cyfrowy Polsat S.A.

(b) On 28 April 2018 the cross-border merger of Cyfrowy Polsat S.A. and Eileme 1 AB (publ) was registered. The surviving entity is Cyfrowy Polsat S.A.

(c) On 30 November 2018 a merger of Polkomtel Sp. z o.o. with Plus TM Management Sp. z o.o. was registered. The surviving entity is Polkomtel Sp. z o.o.

(d) Company consolidated from 1 March 2018 following acquisition of 100% shares by the Group (see note 38).

(e) Company consolidated from 22 May 2018 as a result of obtaining control by the Group over Netia S.A. (see note 38).

(f) On 30 November 2018 a merger of Netia S.A. with Telefonia Dalog Sp. z o.o. was registered. The surviving entity is Netia S.A.

(g) Company consolidated from 25 May 2018 following acquisition of 50% shares plus one share by the Group (see note 38).

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

(h) Company consolidated from 4 June 2018 following acquisition of 100% shares by the Group (see note 38).

(i) Company consolidated from 25 June 2018 following acquisition of 100% shares by the Group (see note 38).

Investments accounted for under the equity method:

			Share in voting rights (%)	
	Entity's registered office	**Activity**	**31 December 2018**	**31 December 2017**
Polsat JimJam Ltd.	105-109 Salusbury Road London NW6 6RG UK	television activities	50%	50%
Polski Operator Telewizyjny Sp. z o.o.	Wiertnicza 159, 02-952 Warsaw	radio communications and radio diffusion	50%	50%
TV Spektrum Sp. z o.o.[(a)]	Dęblińska 6, 04-187 Warsaw	television broadcasting and production	49.48%	34.02%
Netia S.A.[(b)]	Poleczki 13, 02-822 Warsaw	telecommunication activities	-	31.76%
TVO Sp. z o.o. [(c)]	Stefana Batorego 28-32, 81-366 Gdynia	retail sales	45.1%	-
Premium Mobile S.A.	Gintrowskiego 31, 02-697 Warsaw	telecommunication activities	24.47%	-

(a) On 4 February 2018 Telewizja Polsat Sp. z o.o. acquired 15.46% shares in TV Spektrum Sp. z o.o.

(b) On 22 May 2018 Cyfrowy Polsat S.A. took control over Netia S.A.

(c) On 29 May 2018 Cyfrowy Polsat Trade Marks Sp. z o.o. acquired 45.1% shares in TVO Sp. z o.o.

Additionally, the following entities were included in these consolidated financial statements for the year ended 31 December 2018:

			Share in voting rights (%)	
	Entity's registered office	**Activity**	**31 December 2018**	**31 December 2017**
Karpacka Telewizja Kablowa Sp. z o.o.*	Warszawska 220, 26-600 Radom	dormant	99%	99%
Polskie Badania Internetu Sp. z o.o.	Al. Jerozolimskie 65/79, 00-697 Warsaw	web portals activities	4.55%	4.55%
InPlus Sp. z o.o.	Wilczyńskiego 25E lok. 216, 10-686 Olsztyn	infrastructure projects advisory	1.5%**	1.5%**

* Investment accounted for at cost less any accumulated impairment losses.

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

Principles applied in the preparation of financial statements

7. Accounting and consolidation policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements by all entities within the Group.

a) Basis of measurement

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

b) Going concern

These consolidated financial statements have been prepared assuming that the Group's entities will continue as a going concern in the foreseeable future, not shorter than 12 months from 31 December 2018.

c) Functional and presentation currency

These consolidated financial statements are presented in the Polish zloty, rounded to million, the Group's functional currency.

d) Use of estimates and judgments

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about critical estimates and judgments in applying accounting policies is included in note 50.

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.

It should be noted that the year ended 31 December 2018 is not comparable to the year ended 31 December 2017 as LTE Holdings Limited was disposed on 19 June 2017, 51% shares in Plus Flota Sp. z o.o. (formerly Paszport Korzyści Sp. z o.o.) were acquired on 7 September 2017, Eska TV S.A. and Lemon Records Sp. z o.o. were acquired on 4 December 2017, 34.02% shares in TV Spektrum Sp. z o.o. were acquired on 4 December 2017 and additional 15.46% shares in TV Spektrum Sp. z o.o. were acquired on 2 February 2018, 31.76% shares in Netia S.A. were acquired on 5 December 2017 and additional shares in Netia S.A. were acquired on 22 May 2018, 3 July 2018 and 2 October 2018, shares in New Media Ventures Sp. z o.o. were disposed on 8 December 2017, 100% shares in Coltex ST Sp. z o.o. were acquired on 1 March 2018, 50% plus one share in Eleven Sports Network Sp. z o.o. were acquired on 25 May 2018, 45.1% shares in TVO Sp. z o.o. were acquired on 29 May 2018, 100% shares in Superstacja Sp. z o.o. were acquired on 4 June 2018, 100%

shares in Netshare Media Group Sp. z o.o. were acquired on 25 June 2018 and 24.47% votes in Premium Mobile S.A. were taken up in 2018.

It should also be noted that the year ended 31 December 2018 is not comparable to the year ended 31 December 2017 due to implementation of IFRS 15 as at 1 December 2018.

f) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Parent. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The financial statements of subsidiaries are prepared for the same period as the financial statements of the Company and using the accounting policies that are consistent with those of the Company for like transactions and events.

Equity transactions between a parent entity and the non-controlling interests are treated as transactions between shareholders, provided that the transactions do not result in a change of control. No gains or losses are recognised in profit or loss for transactions between the parent entity and the non-controlling interest, unless control is lost. Transactions where control is not lost are recorded within equity.

Put options granted in business combinations to holders of non-controlling interest in the subsidiary (ie. obligating the Group to acquire non-controlling interests in particular circumstances in the future for a particular price) give rise to a financial liability recognised in the consolidated balance sheet.

While such put option remains unexercised, at the end of each reporting period the Group determines the amount of non-controlling interest (including share of profit/losses attributable to the non-controlling interest), de-recognises the controlling interest as if was acquired at that balance sheet date and recognises a financial liability measured at present value of the redemption amount. The difference is accounted for as a transaction between a parent entity and the non-controlling interests as described above.

On expiry of an unexercised put option the Group derecognises the financial liability in full and recognises non-controlling interest as if the put option was never granted.

(ii) Associates and Joint arrangements

Associates are all entities over which the Group has significant influence but not control or joint control, over the financial and operating policies. This is generally the case where the Group hold between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method.

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in an equity-accounted investment equals or exceeds its interests in the entity (which includes any long term interests that, in substance, form part of the Group's net investment), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates and joint ventures are eliminated against the investment to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iv) Entities acquired under common control

Business combinations are governed by IFRS 3 "Business Combinations". However, this standard excludes from its scope transactions between entities under common control. According to IAS 8 par. 10-12, in the absence of an IFRS that specifically applies to a transaction, management shall use its judgment in developing and applying accounting policy that shall be consistently used for similar transactions.

Accordingly, the Group has chosen the acquisition method for entities acquired under common control in accordance with IFRS 3.

g) Foreign currency transactions

Foreign currency transactions

Transactions in foreign currencies are translated to the Polish zloty at exchange rates in effect one day prior to the recording of these transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Polish zloty at the average exchange rate quoted by the National Bank of Poland ("NBP") for that date. The foreign currency exchange differences arising on translation of transactions denominated in foreign currencies and from the reporting date retranslation of monetary assets and liabilities denominated in foreign currencies are recognized in profit and loss. Non-monetary assets and liabilities in a foreign currency that are measured in terms of historical cost are translated using the average NBP exchange rate in effect at the date of the initial recognition. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated at the average NBP foreign exchange rate in effect at the date the fair value was determined.

h) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other liabilities.

Non-derivative financial instruments, other than investments recognized at fair value through profit and loss, are recognized initially at fair value plus any directly attributable transaction costs (with certain exceptions as described below).

A financial instrument is recognized when the Group becomes a party to the contractual obligations of the instrument. The Group derecognises a financial asset when contractual rights to the cash flows from the financial assets expire, or it transfers the financial asset to another party in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Standardised transactions for sale or purchase of financial assets are recognized at the transaction date i.e. on the date the Group assumes an obligation to acquire or sell the asset. Financial liabilities are derecognized when the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash on hand and call deposits. The cash and cash equivalents balance presented in the consolidated cash flow statement comprises the above mentioned elements of cash and cash equivalents.

Principles for recognition of gains and losses on investment activities and costs are presented in note 7u.

Loans and receivables and other financial liabilities

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

(ii) Derivative financial instruments

Hedge accounting

The Group may use derivative financial instruments such as forward currency contracts, foreign exchange call options, interest rate swaps and cross-currency interest rate swaps to hedge its foreign currency and interest rate risks.

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

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

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

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

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

Other derivatives not designated for hedge accounting

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

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

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

i) Equity

Ordinary shares

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

Preference share capital

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

Costs attributable to issue and public offering of shares

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

Share premium

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

Retained earnings

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

j) Property, plant and equipment

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

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

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

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

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

(ii) Investment property

Investment property is defined as a property (land, building, or both) held by the Group to earn rentals or for capital appreciation or both.

Investment property is measured initially at cost. Once recognized all investment property held by the Group are measured using the cost model as set out in IAS 16. This means that the assets are recognized at cost and depreciated systematically over its useful life as presented in (i) above.

Investment property is removed from the balance sheet on disposal or when it is permanently withdrawn from use and no further economic benefits are expected from its disposal.

(iii) Subsequent costs

Subsequent cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group and the amount of the cost can be measured reliably. Replaced item is derecognized. Other property, plant and equipment related costs are recognized in profit and loss as incurred.

(iv) Depreciation

Depreciation expense is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The following are estimated useful lives of respective group of property, plant and equipment:

Reception equipment	2 or 3 or 5	years
Buildings and structures	2 - 61	years
Technical equipment and machinery	2 - 30	years
Vehicles	2 - 10	years
Other	2 - 26	years

Depreciation methods, useful lives and residual values of material assets are reviewed at each financial year-end and adjusted if appropriate.

(v) Leased assets

Assets used under lease, tenancy, rental or similar contracts which meet finance lease criteria, are classified as non-current assets and measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Set-top boxes, modems and routers that are provided to customers under operating lease agreements are recognized within property, plant and equipment (Reception equipment in the balance sheet).

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

Carrying amounts of reception equipment and other items of property, plant and equipment may be reduced by impairment losses whenever there is any indication that an asset may be impaired or there is uncertainty as to those assets' revenue generating potential or their future use in the Group's operations. The accounting policies relating to impairment are presented in note 7n.

k) Intangible assets

(i) Goodwill

Goodwill represents the excess of the sum of consideration transferred and payable, the amount of non-controlling interest in the acquiree and the fair value as at the date of acquisition of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired.

Goodwill is presented at purchase price less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if possible impairment is indicated. Goodwill is allocated to acquirer's cash-generating units for the purpose of testing for impairment. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Customer relationships

Customer relationships acquired as a result of the acquisition of subsidiaries are amortized on a straight-line basis over their useful lives.

(iii) Brands

Brands acquired as a result of the acquisition of subsidiaries are amortized on a straight-line basis over their useful lives, except where an indefinite period of use is justified. Brands with an indefinite useful life are tested annually for impairment or more frequently if impairment indicators exist. The estimated useful lives for respective brands are as follows:

- Polsat, TV4, TV6, Ipla and Polo TV (Lemon Records) brands: indefinite useful life
- Plus brand: 51 years (i.e. 2065)
- Netia brand: 10 years (i.e. 2028).

(iv) Other intangible assets

The Group capitalises costs of IT software internally generated, including employee-related expenses, directly resulting from generation and preparing asset to be capable of operating, if the Group is able to measure reliably the expenditure attributable to such development and when it can reliably establish the commencement as well as the completion date of the software development activities.

Other intangible assets acquired by the Group are measured at cost less accumulated amortization and impairment losses.

Subsequent expenditure on existing intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in the profit or loss as incurred.

Amortization expense is based on the cost of an asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The recoverable amounts of intangible assets which are not yet available for use are measured as at each balance sheet date.

The estimated useful lives for respective intangible assets groups are as follows:
- Computer software: 2-15 years,
- Customer relationships: 3-13 years,
- Concessions: period resulting from an administrative decision,
- Other: 2-7 years.

l) Programming assets

Programming assets comprise acquired formats, licences and copyrights for broadcasting feature films, series, news and shows, capitalized costs of commissioned external productions ordered by the Group, capitalized sports rights and advance payments made (including advance payments for sports rights).

(i) Initial recognition

Programming rights, other than sports rights, are recognized at cost as programming assets when the legally enforceable licence period begins and all of the following conditions have been met:
- the cost of each program is known or reasonably determinable,
- the program material has been accepted by the Group in accordance with the conditions of the licence agreement,
- the program is available for its first showing.

Capitalized costs of productions include costs of programs ordered by the Group, including productions made based on licences purchased from third parties. Capitalized costs of productions are measured individually for each program at their respective production or acquisition costs, not to exceed their recoverable amounts.

Sports broadcasting rights are recognized at purchased price at the time of TV transmission. Broadcasting rights to seasonal sport events, acquired under long-term contracts (frequently multi-seasonal), are recognized at the relative value determined by internal experts and allocated to each of the sport events' season as part of the purchased programming package. The Group's method of recognition of sports broadcasting rights is dependent on the type of sports channel on which the use of these rights is planned:
- sports broadcasting rights for premium sports channels are recognized in relation to all seasons contracted by the Group at the start of the first of them;
- sports broadcasting rights for other channels are recognized separately for each season at the start of each of them.

Advance payments for acquired programming assets, prior to licence begin date, are recognized as prepayments for programming assets.

Signed and binding contracts for purchase of programming, which do not meet recognition criteria for programming assets are not recognized in the balance sheet and are instead disclosed as contractual commitments in the amount of the outstanding contract liability at the reporting date.

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

Programming assets are classified as non-current or current based on the estimate timing of the broadcast. A programming asset is recognized as current when the expected broadcast falls within 1 year from the reporting date. Sport rights and prepayments for sport rights are classified as current or non-current based on dates of related sport events.

(ii) Amortization

Programming assets are amortized using the method reflecting the manner of consuming the economic benefits embodied in the licenses acquired within their estimated useful lives limited by the term of the respective license agreements.

- Feature films and series – amortization starts at the first broadcast. Consumption of the economic benefits is measured using a declining balance method according to a standardized rate matrix and depends on the number of showings permitted or planned, primarily as described below:

	Feature films			
Number of depreciable runs	**Rate per run**			
	I	II	III	IV
1	100%			
2	60%	40%		
3	40%	30%	30%	
4 and more	35%	25%	25%	15%

	TV series	
Number of depreciable runs	**Rate per run**	
	I	II
1	100%	
2	80%	20%

- Feature films and series broadcasted on thematic channels are mainly amortized in four or five runs using the rates of 25% and 20% respectively.
- Sports broadcasting rights - 100% of the right's value is recognized as an expense in the income statement at the time of the first broadcast, however acquired rights to game seasons or rights to many seasons or a series of competitions are amortized on a straight-line basis over the period between the beginning of the first season and the end of the last season in respect to sports broadcasting rights primarily intended for premium sports channels or over the duration of the season or series of competitions in respect to sports broadcasting rights intended for other channels.
- Commissioned external productions intended for only one run are fully amortized on their first broadcast.
- News programming is fully amortized at its first broadcast.
- General entertainment shows are fully amortized at their first broadcast.

Amortization of programming assets is presented in Content costs line in the operating costs of the income statement.

(iii) Impairment

Programming assets are reviewed for impairment at least annually and whenever there is any indication that the carrying amount may not be recoverable. Impairment losses are recognized on each license in case of withdrawal from broadcasting an item in the expected future (resulting from changes in strategic program scheduling, changing audience tastes, media law restrictions on the usability of films) and expected future losses anticipated on disposal of the rights.

Impairment write downs on programming assets are recognized as part of the cost of sales. Impairment of programming assets is reversed if the reason for the original impairment ceases to exist. The reversals are recorded as cost of sales reductions.

m) Inventories

Inventories are measured at the lower of cost and net realizable value. Cost of acquisition or production cost of inventories is determined by using the weighted average cost method.

The cost of inventories includes expenditure incurred in acquiring the inventories and other costs incurred in making them available for use or sale. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads determined based on normal operating capacity.

Net realisable value is the current market price in the ordinary course of business, less the estimated costs of completion and selling expenses. In the case of set-top boxes, mobile phones, modems and tablets, which under the business model applied by the Group are sold below cost, the loss on the sale is recorded when transferred to the customer.

The Group creates an allowance for slow-moving or obsolete inventories.

n) Impairment of assets

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis at each reporting date. The remaining financial assets are assessed for impairment collectively in groups that share similar credit risk characteristics.

Receivables are reduced by an allowance based on the likelihood of future debt collection. The allowance is charged to the cost of debt collection services and bad debt allowance and receivables written off. An allowance for receivables from individuals is estimated based on the historical pattern for overdue receivables collection.

All impairment losses are recognized in profit or loss statement in Cost of debt collection services and bad debt allowance and receivables written off.

Impairment losses are reversed if a subsequent increase in the recoverable amount of a financial asset can be objectively attributed to an event occurring after the impairment losses were recognized.

(ii) Non-financial assets

The carrying amounts of non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated by the Group. The recoverable amount of intangible assets which are not yet available for use as well as of goodwill and brands with indefinite useful life is estimated at each reporting date.

An impairment loss is recognized when the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. A cash-generating unit represents the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of thereof. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of a cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units), and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In the case of assets that do not generate independent cash inflows, the value in use is estimated for the smallest identifiable cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recorded in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

o) Employee benefits

(i) Defined contribution plan

All Group entities that act as employers have an obligation, under applicable legislation, to collect and remit contributions to the state pension fund. According to IAS 19 *Employee Benefits* such benefits represent state plans that are classified as defined contribution plans. Therefore, the Group's obligations for a given period are estimated as the amount of contributions to be remitted for that period.

(ii) Defined benefit plan – retirement benefits

The Group entities have an obligation, under applicable legislation, to pay retirement benefits calculated in accordance with the relevant provisions of the Polish labor code. The minimum retirement benefit is as per the labor code provisions at the moment of payment.

The calculation is carried out using the Projected Unit Credit Method. Employee turnover is estimated based on historical experience and expected future employment levels.
Changes in the amount of the retirement benefits liability are recognized in the income statement. Actuarial gains and losses are recognized in the equity, in other comprehensive income in full in the period they originated.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are recognized as an expense as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term bonus, if the Group has a present legal or constructive obligation to make such payments as a result of past services provided by the employees and the obligation can be estimated reliably.

p) Provisions

A provision is recognized if, as a result of past event, the Group has a present obligation, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Certain disclosures may not be included in these consolidated financial statements as they relate to sensitive information.

(i) Warranties

A provision for warranties is recognized when the underlying products or goods are sold. The amount of the provision is based on historical warranty data and a weighting of all possible outflows against their associated probabilities.

(ii) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of fulfilling the contract. Before a provision is established, the Group recognizes any impairment loss on the assets dedicated to that contract.

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 Group or a present obligation that arises from past events, but its amount cannot be estimated reliably or it is not probable that there will be an outflow of resources embodying economic benefits.

The Group does not recognize a contingent liability, except for contingent liability assumed in a business combination.

Unless the possibility of any outflow in settlement is remote, the Group discloses for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practice able:
- an estimate of its financial effect,
- an indication of the uncertainties relating to the amount or timing of any outflow and
- the possibility of any reimbursement.

r) Revenue

Revenue is measured at the fair value of the consideration received or receivable, representing the gross inflow of economic benefit from Group's operating activities, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists that recovery of the consideration is probable, the associated costs can be estimated reliably and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then such discounts are recognized as a reduction of revenue when it is recognized.

The Group's main sources of revenue are recognized as follows:

(a) Retail revenue consists primarily of monthly subscription fees paid by our pay digital television contract customers for programming packages, subscription fees paid by our contract customers for telecommunication services, fees for telecommunication services provided to our contract customers, which are not included in the subscription fee, payments for telecommunication services paid by our prepaid and mix customers, fees for the lease of set-top boxes, activation fees, penalties, and fees for additional services.
Services revenues are recognized in profit and loss in the period when related services are rendered.
Revenues from prepaid mobile telephone services are recognized in profit or loss once the prepaid credit is utilized or forfeited.
Revenue from the rental of reception equipment and activation fees are recognized on a straight-line basis over the minimum base period of the subscription contract.

(b) Wholesale revenue comprises advertising and sponsorship revenue, revenue from cable and satellite operator fees, revenue from the lease of infrastructure, interconnect revenue, revenue from roaming, revenue from the sale of broadcasting and signal transmission services and revenue from the sale of licenses, sublicenses and property rights and revenue from premium rate services.
Advertising and sponsorship revenue is derived primarily from broadcasting of advertising content and is recognized in the period when the advertising is broadcast. Revenue is recognized in profit or loss in the amount due from customers net of value added tax, taxes on revenue from advertising of alcohol beverages and any rebates granted. Advertising and sponsorship revenue also comprises revenue on commissions on sales of commercial airtime when the Group acts as an agent on behalf of third parties. The commissions are recognized at amounts due from the buyers of advertising airtime or sponsorship services, less of any amounts due to television broadcasters. Revenue from commissions on sales of commercial airtime and from sponsorship is recognized in the consolidated income statement when these services are rendered.
Revenue from charges made to cable and satellite operators includes fees from cable and satellite operators for reemission (rebroadcasting) of programs produced by the Group. Revenue is recognized when the related programs are broadcast.
Services revenues are recognized in profit and loss in the period when related services are rendered, net of any discount given.

(c) Revenue from sale of equipment is measured at the fair value of the consideration received or receivable, net of discounts, rebates and returns. Revenue from the sale of goods is recognized in profit or loss when the significant risks and rewards of ownership have been transferred to the customer.

(d) Other revenue is recognized, net of any discount given, when the relevant goods or service are provided.
Other revenue includes primarily revenue from the lease of premises and facilities, revenue from interest on installment plan purchases, revenue from the sale of electric energy and other sales revenue.

The Group's process for revenue recognition from multi-element contracts (eg. mobile contract and handset) consists of:

(a) assessment of all goods and services provided to the client under the contract and identifying separate performance obligations in that contract,

(b) determining and allocating the transaction prices to separate performance obligations in the contract; the allocation is based on the reference to their relative standalone selling prices that could be obtained if the promised goods and services were sold individually in a separate transaction.

s) Distribution fees

Commissions payable to distributors for registering new subscribers and for retention of existing subscribers are recognized over the minimum base period of the subscription agreement.

Commissions for distributors which will be settled within 12 months of the reporting date are classified as other current assets, while the commissions, which will be settled more than 12-months after the reporting date, are classified as non-current assets.

t) Barter revenue and cost

Barter revenue for dissimilar services or goods is recognized when the services are rendered or goods delivered. Programming licences, products and services received are expensed or capitalized when received or used. The Group recognizes barter transactions at the estimated fair value of the programming licences, products or services received. When products or services are received before related advertising is broadcast, a liability is recognized by the Group. Conversely, when advertising is broadcast before products or services are received, a receivable is recognized by the Group.

u) Gains and losses on investment activities and finance costs

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

Interest income and expense (other than interest expense on borrowings) is recognized as it accrues in profit or loss using the effective interest method. Dividends income is recognized in profit or loss on the date that the Group's right to receive payment is established.

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

v) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

w) Income tax

Income tax expense/benefit comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet approach, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are measured based on the expected manner of recovery or settlement of the carrying amounts of assets and liabilities, respectively, using tax rates that are enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilized. An amount of deferred tax assets is reduced to the extent that it is no longer probable that the related tax benefit will be partly or wholly realized. When not recognized deferred tax asset becomes recoverable, it is recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are offset by the Group companies.

x) Earnings per share

The Group presents basic and diluted earnings per share for its ordinary and preference shares. Basic earnings per share are calculated by dividing the period's profit or loss from continuing operations attributable to ordinary and preference shareholders of the Company by the weighted average number of ordinary and preference shares outstanding during the period. Diluted earnings per share are calculated by dividing the period's profit or loss from the continuing operations attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares, adjusted by the effects of all dilutive potential ordinary and preference shares.

y) Segment reporting

An operating segment is a component of the Group that is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

The Group presents operating segments according to its internal management accounting principles applied in the preparation of periodical management reports which are regularly analysed by the Management Board of Cyfrowy Polsat S.A. These reports are analyzed on regular basis by management which was identified as the chief operating decision maker.

z) Cash flows statement

Cash and cash equivalents in the cash flow statement are equal to cash and cash equivalents presented in the consolidated balance sheet.

Purchases of set-top boxes to be provided to customers under operating lease contracts are classified in the cash flows statement within operating activities. The purchases and disposals of these set-top boxes are classified in the cash flows statement within operating activities and presented as “Net disposals/(additions) in reception equipment provided under operating lease”.

Acquisition of items of property, plant and equipment or intangible assets are presented in their net amount (net of related value added tax).

Payments for film licences and sport rights are presented on a net basis (net of related value added tax) within operating activities. Expenditures on the acquisition of programming assets also include the amount of withholding tax paid to the relevant tax authorities.

8. Determination of fair values

A number of accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. The methods for determining fair values are described below. When applicable further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Derivatives

The fair value of derivatives is calculated based on their quoted closing bid price at the balance sheet date or, in the lack thereof, other inputs that are observable for the asset or liability, either directly (i. e. as prices) or indirectly (i. e. derived from prices). In the second case, the fair value of derivatives is estimated as the present value of future cash flows, discounted using the market interest rate at the reporting date. Information on the structure of Polish and eurozone interest rates and Polish złoty exchange rate are used in order to estimate future cash flows and market interest rate.

(ii) Non-derivative financial assets

The fair value of non-derivative financial asset for disclosure purposes is estimated as the present value of future cash flows discounted using the market rate of interest rate as at the balance sheet date.

(iii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on liabilities’ quoted closing bid price at the balance sheet date or, in the lack thereof, estimated on the present value of future principal and interest cash flows, discounted using the market interest rate at the reporting date. Market interest rate is estimated as interbank interest rate for a given currency zone (WIBOR, EURIBOR) plus a margin regarding the Group’s credit risk. A market interest rate for a finance lease contract is estimated based on interest rates for similar lease contracts.

9. Approval of the Consolidated Financial Statements

These consolidated financial statements were approved for publication by the Management Board of Cyfrowy Polsat S.A. on 20 March 2019.

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

Explanatory notes

10. Revenue

	for the year ended	
	31 December 2018 *(IFRS 15 basis)*	31 December 2017 *(IAS 18 basis)*
Retail revenue	6,092.6	6,067.9
Wholesale revenue	3,043.8	2,538.6
Sale of equipment	1,386.0	1,055.2
Other revenue	163.7	166.9
Total	**10,686.1**	**9,828.6**

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

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

Other revenue mainly consists of revenue from interest on installment plan purchases, revenue from the lease of premises and facilities and revenue from the sale of electric energy.

11. Operating costs

		for the year ended	
	Note	31 December 2018 *(IFRS 15 basis)*	31 December 2017 *(IAS 18 basis)*
Technical costs and cost of settlements with telecommunication operators		2,448.9	2,014.0
Depreciation, amortization, impairment and liquidation		1,970.7	1,783.0
Cost of equipment sold		1,174.2	1,323.6
Content costs		1,355.3	1,153.6
Distribution, marketing, customer relation management and retention costs		933.9	894.3
Salaries and employee-related costs	a	738.9	553.1
Cost of debt collection services and bad debt allowance and receivables written off		83.9	67.4
Other costs		273.0	226.9
Total		**8,978.8**	**8,015.9**

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

a) Salaries and employee-related costs

	for the year ended	
	31 December 2018	31 December 2017
Salaries	620.2	465.0
Social security contributions	93.0	71.0
Other employee-related costs	25.7	17.1
Total	**738.9**	**553.1**

Average headcount of non-production employees*

	for the year ended	
	31 December 2018	31 December 2017
Employment contracts (full-time equivalents)	6,086	4,802

* excluding workers who did not perform work in the reporting period due to long-term absences

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

	for the year ended	
	31 December 2018	31 December 2017
Interest, net	17.3	29.8
Other foreign exchange gains/(losses), net	(28.8)	49.6
Other costs	(21.5)	(72.2)
Total	**(33.0)**	**7.2**

13. Finance costs, net

	for the year ended	
	31 December 2018	31 December 2017
Interest expense on loans and borrowings	358.7	369.6
Interest expense on issued bonds	43.2	69.8
Early redemption costs	-	58.7
One-off income resulting from modification of the loan agreement	(34.7)	-
Valuation and realization of hedging instruments	0.2	(0.2)
Valuation and realization of derivatives not used in hedge accounting – relating to interest	15.7	6.3
Other	3.6	4.8
Total	**386.7**	**509.0**

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

14. Income tax

(i) Income tax expense

	for the year ended	
	31 December 2018 *(IFRS 15 basis)*	**31 December 2017** *(IAS 18 basis)*
Current tax expense	398.5	263.5
Change in deferred tax	91.2	133.1
Other	0.3	(6.8)
Income tax expense in the income statement	**490.0**	**389.8**

	for the year ended	
Change in deferred income tax	**31 December 2018** *(IFRS 15 basis)*	**31 December 2017** *(IAS 18 basis)*
Tax losses carried forward	78.6	109.5
Receivables and other assets	19.5	(20.3)
Liabilities	6.5	78.2
Other property, plant and equipment and intangible assets	27.2	(29.5)
Other	(40.6)	(4.8)
Change in deferred tax recognized in income statement – total	**91.2**	**133.1**

(ii) Income tax recognized in the statement of other comprehensive income

	for the year ended	
	31 December 2018	**31 December 2017**
Change in deferred income tax on hedge valuation	(0.1)	(0.2)
Income tax expense recognized in other comprehensive income - total	**(0.1)**	**(0.2)**

(iii) Effective tax rate reconciliation

	for the year ended	
	31 December 2018 *(IFRS 15 basis)*	**31 December 2017** *(IAS 18 basis)*
Gross profit	1,306.1	1,335.0
Income tax at applicable statutory tax rate of 19%	**248.2**	**253.6**
The difference related to enacted limitations on tax-deductible expenses in the following years relating to assets recognised in the consolidated balance sheet	162.6	144.0
Other	79.2	(7.8)
Tax expense for the year	**490.0**	**389.8**
Effective tax rate	**37.5%**	**29.2%**

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

(iv) Deferred tax assets

	31 December 2018 *(IFRS 15 basis)*	31 December 2017 *(IAS 18 basis)*
Tax losses carried forward	18.3	90.2
Liabilities	382.5	329.7
Tangible and intangible assets	120.2	109.2
Receivables and other assets	75.0	65.5
Other	9.9	5.9
Total deferred tax assets	**605.9**	**600.5**
Set off of deferred tax assets and liabilities	(346.2)	(403.3)
Deferred tax assets in the balance sheet	**259.7**	**197.2**

(v) Tax loss

	31 December 2018	31 December 2017
2018 tax loss carried forward	44.4	-
2017 tax loss carried forward	42.6	4.2
2016 tax loss carried forward	86.4	410.0
2015 tax loss carried forward	34.7	29.9
2014 tax loss carried forward	27.8	47.6
2013 tax loss carried forward	8.9	25.4
2012 tax loss carried forward	-	6.9
Tax losses carried forward – total	**244.8**	**524.0**

(vi) Tax losses recognized

	31 December 2018	31 December 2017
2018 tax loss carried forward	35.1	-
2017 tax loss carried forward	31.2	4.2
2016 tax loss carried forward	6.3	405.7
2015 tax loss carried forward	3.2	7.9
2014 tax loss carried forward	11.4	24.7
2013 tax loss carried forward	8.9	25.4
2012 tax loss carried forward	-	6.9
Tax losses carried forward – total	**96.1**	**474.8**

As at 31 December 2018 the Group recognized deferred tax asset on tax losses to the extent that it was probable that they would be utilized in the future.

According to Art. 7 of the Polish Corporate Income Tax Act dated 15 February 1992, tax losses incurred in a given financial year can be utilized in the subsequent five fiscal years. However, no more than 50% of a tax loss for any given year can be utilized in a single subsequent fiscal year.

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

(vii) Deferred tax liabilities

	31 December 2018 *(IFRS 15 basis)*	31 December 2017 *(IAS 18 basis)*
Receivables and other assets	210.4	67.8
Liabilities	57.7	18.5
Tangible and intangible assets	1,213.6	1,135.3
Other	24.6	61.5
Total deferred tax liabilities	**1,506.3**	**1,283.1**
Set off of deferred tax assets and liabilities	(346.2)	(403.3)
Deferred tax liabilities in the balance sheet	**1,160.1**	**879.8**

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

15. EBITDA (unaudited)

EBITDA (earnings before interest, taxes, depreciation, amortization, impairment and liquidation) presents the Group's key measure of earnings performance. The level of EBITDA measures the Group's ability to generate cash from recurring operations, however it is neither a measure of liquidity nor cash level. The Group defines EBITDA as operating profit adjusted by depreciation, amortization, impairment and liquidation. EBITDA is not an IFRS EU measure, and as such can be calculated differently by other entities.

	for the year ended	
	31 December 2018 *(IFRS 15 basis)*	31 December 2017 *(IAS 18 basis)*
Net profit for the period	816.1	945.2
Income tax	490.0	389.8
(Gain)/loss on investment activities, net	33.0	(7.2)
Finance costs	386.7	509.0
Share of the (profit)/loss of associates accounted for using the equity method	1.2	(2.8)
Depreciation, amortization, impairment and liquidation*	1,970.7	1,783.0
EBITDA (unaudited)	**3,697.7**	**3,617.0**

* depreciation, amortisation, impairment and liquidation comprise depreciation and impairment of property, plant and equipment, amortisation and impairment of intangible assets and net book value of disposed property, plant, equipment and intangible assets (excluding amortization of programming assets)

16. Basic and diluted earnings per share

At the reporting date, the Company did not have any financial instruments that could have a dilutive effect, therefore the diluted earnings per share are equal to basic earnings per share.

	for the year ended	
	31 December 2018 *(IFRS 15 basis)*	**31 December 2017** *(IAS 18 basis)*
Net profit	816.1	945.2
Weighted average number of ordinary and preference shares in the period	639,546,016	639,546,016
Earnings per share in PLN (not in millions)	**1.28**	**1.48**

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

17. Property, plant and equipment

	Reception equipment	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Tangible assets under construction	**Other property, plant and equipment**
Cost as at 1 January 2018	**1,183.1**	**35.7**	**264.0**	**3,893.9**	**82.0**	**103.4**	**500.9**	**4,879.9**
Acquisition of subsidiary (see note 38)	**-**	17.2	44.7	11,679.6	4.1	17.3	160.8	**1,923.7**
Additions	**84.5**	9.7	15.6	291.3	24.6	20.4	390.5	**752.1**
Transfer between groups	**-**	-	-	147.7	-	-	(148.5)	**(0.8)**
Transfer from assets under construction		-	15.7	289.6	1.4	9.7	(316.4)	**-**
Disposals	**(92.9)**	(0.3)	(2.2)	(98.7)	(24.3)	(5.1)	(1.9)	**(132.5)**
Cost as at 31 December 2018	**1,174.7**	**62.3**	**337.8**	**6,203.4**	**87.8**	**145.7**	**585.4**	**7,422.4**
Accumulated impairment losses as at 1 January 2018	**5.1**	**-**	**-**	**3.0**	**-**	**0.3**	**15.5**	**18.8**
Recognition	**1.5**	-	-	12.5	-	-	3.7	**16.2**
Reversal	**-**	-	-	(7.2)	-	(0.4)	(2.0)	**(9.6)**
Utilisation	**(2.4)**	-	-	(2.8)	-	(0.2)	(7.5)	**(10.5)**
Transfer between groups	-	-	-	0.1	-	0.4	-	**0.5**
Accumulated impairment losses as at 31 December 2018	**4.2**	**-**	**-**	**5.6**	**-**	**0.1**	**9.7**	**15.4**
Accumulated depreciation as at 1 January 2018	**852.7**	**-**	**51.3**	**1,849.4**	**30.5**	**62.8**	**-**	**1,994.0**
Additions	**142.2**	-	19.8	663.9	12.6	21.4	-	**717.7**
Disposals	**(88.9)**	-	(1.6)	(82.2)	(8.5)	(4.1)	-	**(96.4)**
Transfer between groups	**-**	-	-	(0.1)	-	(0.4)	-	**(0.5)**
Accumulated depreciation as at 31 December 2018	**906.0**	**-**	**69.5**	**2,431.0**	**34.6**	**79.7**	**-**	**2,614.8**
Carrying amount as at 1 January 2018	**325.3**	**35.7**	**212.7**	**2,041.5**	**51.5**	**40.3**	**485.4**	**2,867.1**
Carrying amount as at 31 December 2018	**264.5**	**62.3**	**268.3**	**3,766.8**	**53.2**	**65.9**	**575.7**	**4,792.2**

The Group recognized an impairment loss on items of property, plant and equipment whose carrying amounts exceeded their recoverable amounts. The impairment allowance is recognized in 'depreciation, amortization, impairment and liquidation'.

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

	Reception equipment	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Tangible assets under construction	**Other property, plant and equipment**
Cost as at 1 January 2017	**1,099.5**	**35.6**	**314.5**	**3,548.1**	**70.9**	**101.0**	**417.8**	**4,487.9**
Additions	**138.8**	-	12.8	198.4	17.9	5.0	256.3	**490.4**
Transfer between groups	**-**	0.1	7.5	144.2	-	3.1	(155.2)	**(0.3)**
Transfer from assets under construction		-	(60.7)	62.8	-	(0.6)	13.5	**15.0**
Disposals	**(55.2)**	-	(10.1)	(59.6)	(6.8)	(5.1)	(31.5)	**(113.1)**
Cost as at 31 December 2017	**1,183.1**	**35.7**	**264.0**	**3,893.9**	**82.0**	**103.4**	**500.9**	**4,879.9**
Accumulated impairment losses as at 1 January 2017	**6.6**	**-**	**-**	**2.7**	**-**	**0.1**	**8.0**	**10.8**
Recognition	**0.3**	-	-	5.3	-	0.2	10.6	**16.1**
Reversal	**-**	-	-	(1.6)	-	-	(2.9)	**(4.5)**
Utilisation	**(1.8)**	-	-	(3.4)	-	-	(0.2)	**(3.6)**
Accumulated impairment losses as at 31 December 2017	**5.1**	**-**	**-**	**3.0**	**-**	**0.3**	**15.5**	**18.8**
Accumulated depreciation as at 1 January 2017	**742.0**	**-**	**45.9**	**1,391.8**	**24.8**	**50.3**	**-**	**1,512.8**
Additions	**162.2**	-	17.8	467.6	11.9	18.1	-	**515.4**
Disposals	**(51.5)**	-	(0.1)	(23.4)	(6.2)	(5.1)	-	**(34.8)**
Transfer between groups	**-**	-	(12.3)	13.4	-	(0.5)	-	**0,6**
Accumulated depreciation as at 31 December 2017	**852.7**	**-**	**51.3**	**1,849.4**	**30.5**	**62.8**	**-**	**1,994.0**
Carrying amount as at 1 January 2017	**350.9**	**35.6**	**268.6**	**2,153.6**	**46.1**	**50.6**	**409.8**	**2,964.3**
Carrying amount as at 31 December 2017	**325.3**	**35.7**	**212.7**	**2,041.5**	**51.5**	**40.3**	**485.4**	**2,867.1**

The Group recognized an impairment loss on items of property, plant and equipment whose carrying amounts exceeded their recoverable amounts. The impairment allowance is recognized in 'depreciation, amortization, impairment and liquidation'.

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

18. Goodwill

	2018	2017
Balance as at 1 January	**11,041.7**	**10,975.4**
Acquisition of 50% + 1 share of Eleven Sports Network Sp. z o. o. (see note 38)	157.1	-
Acquisition of 65.98% shares of Netia S.A. (see note 38)	71.0	-
Acquisition of 100% shares of Coltex ST Sp. z o. o. (see note 38)	22.6	
Acquisition of 100% shares of Superstacja Sp. z o. o. (see note 38)	15.0	
Acquisition of 100% shares of Netshare Media Group Sp. z o.o. (see note 38)	1.6	
Acquisition of 100% shares of ESKA TV S.A. (see note 38)	0.3	34.9
Acquisition of 100% shares of Lemon Records Sp. z o.o. (see note 38)	0.1	31.4
Balance as at 31 December	**11,309.4**	**11,041.7**

	31 December 2018	31 December 2017
Goodwill recognized on the acquisition of Metelem Holding Company Ltd.	7,982.5	7,982.5
Goodwill recognized on the acquisition of Telewizja Polsat S.A.	2,360.2	2,360.2
Goodwill recognized on the acquisition of Litenite Ltd.	368.8	368.8
Goodwill recognized on the acquisition of 50% + 1 share of Eleven Sports Network Sp. z o. o.	157.1	-
Goodwill recognized on the acquisition of entities comprising Ipla platform	145.1	145.1
Goodwill recognized on the acquisition of 65.98% shares of Netia S.A.	71.0	-
Goodwill recognized on the acquisition of M.Punkt Holdings Ltd.	52.0	52.0
Goodwill recognized on the acquisition of ESKA TV S.A.	35.2	34.9
Goodwill recognized on the acquisition of Polskie Media S.A.	34.8	34.8
Goodwill recognized on the acquisition of Lemon Records Sp. z o.o.	31.5	31.4
Goodwill recognized on the acquisition of Coltex ST Sp. z o. o.	22.6	-
Goodwill recognized on the acquisition of Orsen Holding Limited	16.3	16.3
Goodwill recognized on the acquisition of Superstacja Sp. z o. o.	15.0	-
Goodwill recognized on the acquisition of Info-TV-FM Sp. z o.o.	10.7	10.7
Goodwill recognized on the acquisition of Radio PIN S.A.	4.8	4.8
Goodwill recognized on the acquisition of Netshare Media Group Sp. z o. o.	1.6	-
Goodwill recognized on the acquisition of IT Polpager S.A.	0.2	0.2
Total	**11,309.4**	**11,041.7**

Impairment tests performed on goodwill balances as at 31 December 2018 did not indicate impairment (see note 20 for impairment test assumptions).

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

19. Brands

	2018	2017
Balance as at 1 January	**2,037.1**	**2,056.5**
Increase due to acquisition of Netia (see note 38)	88.5	-
Increase due to acquisition of Lemon Records (see note 38)	-	4.7
Amortization of Plus brand	(24.1)	(24.1)
Amortization of Netia brand	(5.4)	-
Balance as at 31 December	**2,096.1**	**2,037.1**

	31 December 2018	31 December 2017
Plus	1,117.5	1,141.6
Polsat	840.0	840.0
Netia	83.1	-
TV4	33.7	33.7
TV6	9.3	9.3
Ipla	7.8	7.8
Polo TV (Lemon Records)	4.7	4.7
Total	**2,096.1**	**2,037.1**

Plus

Following the acquisition of Metelem Holding Company Ltd. in 2014, the Group recognized a value of the Plus brand. The brand is amortized over the useful life of 51 years (until the year 2065). The carrying amount of the brand was allocated to ”Services to individual and business customers” cash-generating unit.

Polsat

The value of the Polsat brand is recognized following the acquisition of Telewizja Polsat S.A. (currently Telewizja Polsat Sp. z o.o.) in 2011.

The Polsat brand is not amortized as it is considered to have an indefinite useful life. The carrying amount of the brand was allocated to ”Broadcasting and television production” cash-generating unit for the impairment testing purposes (see note 20).

Impairment test performed on Polsat brand balance as at 31 December 2018 did not indicate impairment (see note 20 for impairment test assumptions).

IPLA

In the consolidated financial statements, as a result of acquisition of entities comprising IPLA platform, the Group has recognized in 2012 among others goodwill and IPLA brand. Value of IPLA brand as at 31 December 2018 amounted to PLN 7.8. The IPLA brand is not amortized as it is considered to have an indefinite useful life. The carrying amount of the brand was allocated to "Services to individual and business customers" cash-generating unit for the impairment testing purposes (see note 20).

Impairment test performed on Ipla brand balance as at 31 December 2018 did not indicate impairment (see note 20 for impairment test assumptions).

TV4 and TV6

In the consolidated financial statements, as a result of acquisition of Polskie Media S.A., the Group has recognized in 2013 among others goodwill and TV4 and TV6 brands. Value of TV4 and TV6 brands as at 31 December 2018 amounted to PLN 43.0.

The TV4 and TV6 brands are not amortized as they are considered to have an indefinite useful life. The carrying amount of the brand was allocated to "Broadcasting and television production" cash-generating unit for the impairment testing purposes (see note 20).

Impairment test performed on TV4 and TV6 brands balance as at 31 December 2018 did not indicate impairment (see note 20 for impairment test assumptions).

Polo TV (Lemon Records)

The value of the Polo TV (Lemon Records) brand is recognized following the acquisition of Lemon Records Sp. z o.o. on 4 December 2017 (see note 38). Value of Polo TV (Lemon Records) brand as at 31 December 2018 amounted to PLN 4.7.

The Polo TV (Lemon Records) brand is not amortized as it is considered to have an indefinite useful life. The preliminary carrying amount of the brand was allocated to "Broadcasting and television production" cash-generating unit.

Impairment test performed on Polo TV (Lemon Records) brand balance as at 31 December 2018 did not indicate impairment (see note 20 for impairment test assumptions).

Netia

The preliminary value of the Netia brand in the amount of PLN 88.5 is recognized as a result of obtaining control by the Group over Netia S.A. as at 22 May 2018 (see note 38). The preliminary value of Netia brand as at 31 December 2018 amounted to PLN 83.1.

The brand is amortized over the useful life of 10 years (until the year 2028). The preliminary carrying amount of the brand was allocated to "Services to individual and business customers" cash-generating unit.

20. Goodwill and intangible assets with indefinite useful life

The Group recognized goodwill and brands with indefinite useful life in the consolidated financial statements. Their carrying amounts were allocated to the cash generating units which also represent the Group's operating segments.

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

Goodwill and brands with indefinite useful life are tested for impairment annually or more frequently if possible impairment is indicated. Goodwill and brands are allocated to the below cash-generating units for the purpose of testing for impairment. The allocation was made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose and the brands were identified.

The Group tests the total carrying amount of the cash-generating units and any impairment identified is recognized in the profit or loss immediately with respect to goodwill first and is not subsequently reversed. If goodwill is fully impaired the remaining amount of the impairment loss is allocated to the brands and other assets of the cash-generating unit on a pro rata basis.

	2018	2017
"Services to individual and business customers" cash-generating unit	**8,678.6**	**8,583.4**
Goodwill recognized on the acquisition of Metelem Holding Company Ltd.	7,982.5	7,982.5
Goodwill recognized on the acquisition of Litenite Ltd.	368.8	368.8
Goodwill recognized on the acquisition of entities comprising Ipla platform	145.1	145.1
Goodwill recognized on the acquisition of 65.98% of Netia shares	71.0	-
Goodwill recognized on the acquisition of M.Punkt Holdings Ltd.	52.0	52.0
Goodwill recognized on the acquisition of Coltex ST Sp. z o. o.	22.6	-
Goodwill recognized on the acquisition of Orsen Holding Limited	16.3	16.3
Goodwill recognized on the acquisition of Info-TV-FM Sp. z o.o.	10.7	10.7
Goodwill recognized on the acquisition of Netshare Media Group Sp. z o. o.	1.6	-
Goodwill recognized on the acquisition of IT Polpager S.A.	0.2	0.2
Ipla brand	7.8	7.8
"Broadcasting and television production" cash-generating unit	**3,526.3**	**3,353.8**
Goodwill recognized on the acquisition of Telewizja Polsat S.A.	2,360.2	2,360.2
Goodwill recognized on the acquisition 50% + 1 share of Eleven Sports Network Sp. z o. o.	157.1	-
Goodwill recognized on the acquisition of ESKA TV S.A.	35.2	34.9
Goodwill recognized on the acquisition of Polskie Media S.A.	34.8	34.8
Goodwill recognized on the acquisition of Lemon Records Sp. z o.o.	31.5	31.4
Goodwill recognized on the acquisition of Superstacja Sp. z o. o.	15.0	-
Goodwill recognized on the acquisition of Radio PIN S.A.	4.8	4.8
Polsat brand	840.0	840.0
TV4 brand	33.7	33.7
TV6 brand	9.3	9.3
Polo TV (Lemon Records) brand	4.7	4.7

The recoverable amounts of all the cash generating units have been determined based on the value-in-use calculations. These calculations were based on discounted free cash flows and involved the use of estimates related to cash flow before tax projections based on actual financial business plans covering the 5-year period until 2023. Cash flow projections after 5-year forecast period are estimated using the terminal growth. Terminal growth rate does not exceed the long-term average growth rate for the country in which the Group operates.

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

The key financial assumptions used in the value-in-use calculations

The most sensitive key financial assumptions used in the value-in-use calculations of “Broadcasting and television production” cash-generating unit and “Services to individual and business customers” cash-generating unit were as follows:
- discount rate
- terminal growth rate used for estimating the cash flows beyond the period of financial plans.

Discount rate – the discount rate reflects the estimate made by the management of the risks specific to each cash-generating unit, taking into account the time value of money and risks specific to the asset. The discount rate was estimated on the basis of weighted average cost of capital method (WACC) and considered Group’s and its operating segments’ business environment. WACC considers both debt and equity. Cost of equity is based on the return on investment excepted by the Group’s investors while cost of debt is based on the interest bearing debt instruments. Operating segment- specific risk is considered by the estimation of beta. Beta is estimated annually and is based on the market data.

Terminal growth rate – growth rates are based on widely available published market data.

The key financial assumptions used for value-in-use calculations in 2018 and 2017 are as follows:

	Broadcasting and television production		Retail	
	2018	2017	2018	2017
Terminal growth	1.8%	2.0%	2.0%	2.0%
Discount rate before tax	9.1%	8.7%	6.7%	8.0%

The impairment tests for goodwill and brands allocated to “Broadcasting and television production” and “Services to individual and business customers” cash-generating units did not indicate impairment as at 31 December 2018.

Sensitivity analysis of key financial assumptions

The Group believes that the key assumptions made in testing for impairment of the “Broadcasting and television production” and “Services to individual and business customers” cash-generating units as at 31 December 2018 are reasonable and are based on our experience and market forecasts that are published by the industry experts. Management believes that any reasonably possible change in the key assumptions on which the above mentioned cash-generating units’ recoverable amounts are based would not cause the impairment charge to be recognized.

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

21. Customer relationships and other intangible assets

	31 December 2018	31 December 2017
Customer relationships	2,212.2	2,557.3
Customer relationships total	**2,212.2**	**2,557.3**
Software and licenses	533.7	543.1
Concessions	2,015.6	2,467.3
Other	27.9	32.4
Other intangible assets under development	428.3	218.7
Other intangible assets total	**3,005.5**	**3,261.5**

The customer relationships and telecommunication concessions (900 MHz, 1800 MHz and 2100 MHz) were recognized in the balance sheets following the acquisition of Metelem Holding Company Limited based on the Group's acquisition accounting. The carrying amount of the customer relationships and concessions was allocated to "Services to individual and business customers" cash-generating unit.

The telecommunication concessions (800 MHz, 900 MHz, 1800 MHz and 2600 MHz) were recognized in the balance sheets following the acquisition of Midas S.A. based on the Group's acquisition accounting. The carrying amount of the customer relationships and concessions was allocated to "Services to individual and business customers" cash-generating unit.

Customer relationships as at 31 December 2018 include the following:

	Amortization period
Customer relationships with retail clients	8 or 10 years
Customer relationships – roaming	13 years

Concessions as at 31 December 2018 include the following:

	Expiry date
License for frequencies in the 900 MHz band	24.02.2026
License for frequencies in the 1800 MHz band	14.09.2029
License for frequencies in the 2600 MHz FDD band	25.01.2031
License for frequencies in the 2100 MHz band	01.01.2023
License for frequencies in the 900 MHz band	31.12.2023
License for frequencies in the 1800 MHz band	31.12.2022
License for frequencies in the 1800 MHz band	31.12.2022
License for frequencies in the 2600 MHz TDD band	31.12.2024
License for frequencies in the 800 MHz band	31.12.2018
License for frequencies in the 3600-3800 MHz band	31.12.2020

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

	Customer relationships	Software and licenses	Concessions	Other	Other intangible assets under development	**Other intangible assets**
Cost						
Cost as at 1 January 2018	**4,640.0**	**1,193.1**	**3,677.8**	**57.7**	**220.9**	**5,149.5**
Additions	**-**	63.1	-	0.9	263.6	**327.6**
Acquisition of subsidiary (see note 38)	**60.1**	56.0	3.7	0.5	8.1	**68.3**
Transfer from intangible assets under development	**-**	57.6	-	2.6	(60.2)	**-**
Disposals	**-**	(11.1)	-	(6.6)	(4.0)	**(21.7)**
Transfer between groups	**-**	-	-	-	0.8	**0.8**
Cost as at 31 December 2018	**4,700.1**	**1,358.7**	**3,681.5**	**55.1**	**429.2**	**5,524.5**
Accumulated impairment losses as at 1 January 2018	**-**	**-**	**-**	**-**	**2.2**	**2.2**
Recognition	-	-	-	-	-	**-**
Disposals	-	-	-	-	(1.3)	**(1.3)**
Accumulated impairment losses as at 31 December 2018	**-**	**-**	**-**	**-**	**0.9**	**0.9**
Accumulated amortization as at 1 January 2018	**2,082.7**	**650.0**	**1,210.5**	**25.3**	**-**	**1,885.8**
Additions	**405.2**	184.8	455.4	7.8	-	**648.0**
Disposals	**-**	(9.8)	-	(5.9)	-	**(15.7)**
Accumulated amortization as at 31 December 2018	**2,487.9**	**825.0**	**1,665.9**	**27.2**	**-**	**2,518.1**
Carrying amounts						
As at 1 January 2018	**2,557.3**	**543.1**	**2,467.3**	**32.4**	**218.7**	**3,261.5**
As at 31 December 2018	**2,212.2**	**533.7**	**2,015.6**	**27.9**	**428.3**	**3,005.5**

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

	Customer relationships	Software and licenses	Concessions	Other	Other intangible assets under development	**Other intangible assets**
Cost						
Cost as at 1 January 2017	**4,640.0**	**1,083.2**	**3,672.7**	**56.0**	**152.5**	**4,964.4**
Additions	**-**	68.6	-	2.3	208.9	**279.8**
Acquisition of subsidiary	**-**	-	5.1	-	-	**5,1**
Transfer from intangible assets under development	**-**	57.4	-	5.5	(62.6)	**0.3**
Disposals	**-**	(15.3)	-	(5.5)	(64.3)	**(85,1)**
Transfer between groups	**-**	(0.8)	-	0.6	(13.6)	**(15.0)**
Cost as at 31 December 2017	**4,640.0**	**1,193.1**	**3,677.8**	**57.7**	**220.9**	**5,149.5**
Accumulated impairment losses as at 1 January 2017	**-**	**-**	**-**	**-**	**2.4**	**2.4**
Recognition	-	-	-	-	-	**-**
Disposals	-	-	-	-	(0,2)	**(0.2)**
Accumulated impairment losses as at 31 December 2017	**-**	**-**	**-**	**-**	**2.2**	**2.2**
Accumulated amortization as at 1 January 2017	**1,608.8**	**524.3**	**757.4**	**24.1**	**-**	**1,305.8**
Additions	**473.9**	138.1	453.1	6.6	-	**597.8**
Disposals	**-**	(12.2)	-	(5.0)	-	**(17.2)**
Transfer between groups	**-**	(0.2)	-	(0.4)	-	**(0.6)**
Accumulated amortization as at 31 December 2017	**2.082,7**	**650.0**	**1,210.5**	**25.3**	**-**	**1,885.8**
Carrying amounts						
As at 1 January 2017	**3,031.2**	**558.9**	**2,915.3**	**31.9**	**150.1**	**3,656.2**
As at 31 December 2017	**2,557.3**	**543.1**	**2,467.3**	**32.4**	**218.7**	**3,261.5**

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

22. Programming assets

	31 December 2018	31 December 2017
Acquired film licenses	270.4	219.9
Capitalised cost of external production and sports rights	698.9	31.9
Co-productions	0.1	0.1
Prepayments	77.6	169.9
Total	**1,047.0**	**421.8**
Of which: Current	*543.2*	*251.7*
Non-current	*503.8*	*170.1*

Change in programming assets

	2018	2017
Net carrying amount as at 1 January	**421.8**	**343.8**
Acquisition of Eska TV and Lemon Records (see note 38)	-	9.4
Acquisition of Eleven Sports Network (see note 38)	144.2	-
Increase*:	837.0	313.7
Acquisition of film licenses	*184.8*	*173.3*
Capitalized costs of sports rights	*652.2*	*140.4*
Change in impairment losses:	-	(0.6)
Film licenses	-	*(0.6)*
Change in internal production*	7.9	(14.3)
Amortization of film licenses	(143.5)	(136.2)
Amortization of capitalized cost of sports rights	(215.4)	(92.3)
Disposals:	(5.0)	(1.7)
Sale of film licenses	*(5.0)*	*(1.7)*
Net carrying amount as at 31 December	**1,047.0**	**421.8**

* includes change in prepayments

Commitments related to acquisition of programming assets by the Group are presented in note 49.

23. Deferred distribution fees

	31 December 2018	31 December 2017
Deferred distribution fees	**318.2**	**299.3**
Of which: Current	*218.5*	*207.9*
Non-current	*99.7*	*91.4*

Deferred distribution fees include commissions for distributors for contracts effectively concluded with subscribers. These costs are expensed by the Group to profit or loss over the minimum base period of the subscription contracts.

As at 31 December 2018, 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 317.9 (as at 31 December 2017: PLN 298.9).

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

24. Other non-current assets

	31 December 2018	31 December 2017
Non-current trade receivables	616.9	580.3
Shares in associates accounted for using the equity method	43.0	665.2
Deferred costs	19.3	2.5
Bonds	9.5	9.3
Investment in joint ventures	5.9	5.9
Deposits paid	2.4	2.8
Other shares	2.6	2.6
Loans granted to related parties	1.5	0.2
Derivative instruments IRS (note 39)	-	1.9
Total	**701.1**	**1,270.7**

As at 31 December 2018 and 31 December 2017 Non-current trade receivables include receivables from installment plan purchases.

a) *Shares in associates accounted for using the equity method* – TV Spektrum Sp. z o.o.

On 4 December 2017, Company's direct subsidiary acquired 34.02% shares in TV Spektrum Sp. z o.o. ("Spectrum TV") for the amount of PLN 23.7 and on 2 February 2018 Company's direct subsidiary acquired subsequent 15.46% shares in TV Spektrum for the amount of PLN 11.0.

Share of the profit of associates accounted for using the equity method presented in the Group's consolidated income statement includes TV Spectrum's loss in the amount of PLN 9.7 reported in 2018.

b) Shares in associates accounted for using the equity method –TVO Sp. z o.o.

On 29 May 2018, Company's direct subsidiary acquired 45.1% shares in TVO Sp. z o.o. ("TVO") for the amount of PLN 4.5.

Share of the profit of associates accounted for using the equity method presented in the Group's consolidated income statement includes TVO's loss in the amount of PLN 1.0 reported in period June-December 2018 (the acquisition of shares took place on 29 May 2018).

a) Shares in associates accounted for using the equity method –Premium Mobile S.A.

On 30 November 2018 two Company's direct subsidiaries took up 23,47% votes in Premium Mobile S.A. for the amount of PLN 14.7.

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

25. Inventories

Types of inventories	31 December 2018	31 December 2017
Mobile phones	148.3	121.5
Laptops, tablets and modems	32.6	33.7
Set-top boxes and disc drives	44.7	31.2
Other inventories	168.4	97.3
Total net book value	**394.0**	**283.7**

Other inventories comprise primarily of raw materials used in the production of set-top boxes.

Write-downs of inventories	2018	2017
Opening balance	**16.9**	**16.4**
Increase	4.2	6.6
Utilisation	(4.3)	(1.1)
Decrease	(3.1)	(5.0)
Closing balance	**13.7**	**16.9**

26. Trade and other receivables

	31 December 2018	31 December 2017
Trade receivables from related parties	16.0	9.1
Trade receivables from third parties	2,134.2	1,835.0
Tax and social security receivables	143.1	104.7
Other receivables	77.1	34.4
Total	**2,370.4**	**1,983.2**

Trade receivables from third parties include primarily receivables from individual customers, media houses and distributors.

Trade receivables by currency

Currency	31 December 2018	31 December 2017
PLN	2,089.9	1,802.4
EUR	44.3	32.7
USD	11.1	6.5
Other	4,9	2.5
Total	**2,150.2**	**1.844,1**

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

Movements in the allowance for impairment of accounts receivable

	2018	2017
Opening balance	**123.4**	**102.3**
Increase	96.7	63.0
Reversal	(5.3)	(6.6)
Utilisation	(35.0)	(35.3)
Closing balance	**179.8**	**123.4**
Of which:		
Short-term	*143.7*	*97.3*
Long-term	*36.1*	*26.1*

27. Other current assets

	31 December 2018	31 December 2017
Derivative instruments IRS (note 39)	-	5.1
Other deferred income	1.2	0.4
Other deferred costs	33.7	26.2
Total	**34.9**	**31.7**

28. Cash and cash equivalents

	31 December 2018	31 December 2017
Cash on hand	1.2	0.3
Current accounts	308.4	160.5
Deposits	857.4	1,000.7
Total	**1,167.0**	**1,161.5**

The Group places its cash and cash equivalents in banks and financial institutions with reliability proven by ratings awarded by universally recognized agencies Standard & Poor's, Moody's or Fitch, and in Plus Bank and EFG Bank as required by the loan agreement and policies adopted therein. As at 31 December 2018 cash and cash equivalents were placed primarily with institutions rated A and A3 by Moody's Investors Service Ltd.

Currency	31 December 2018	31 December 2017
PLN	1,015.7	1,109.9
EUR	122.6	13.5
USD	18.2	29.1
Other	10.5	9.0
Total	**1,167.0**	**1,161.5**

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

As the Group cooperates with well-established Polish and international banks, the risks relating to deposited cash are considerably limited.

Restricted cash in the amount of PLN 11.7 includes mainly guarantee deposits.

29. Equity

(i) Share capital

Presented below is the structure of the Company's share capital as at 31 December 2018 and at 31 December 2017:

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

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

The shareholders' structure as at 31 December 2018 was as follows:

	Number of shares	Nominal value of shares	% of share capital held	Number of votes	% of voting rights
Reddev Investments Ltd. [1]	298,656,832	12.0	46.70%	472,203,083	57.66%
Embud 2 Sp. z o.o. S.K.A. [2]	58,000,000	2.3	9.07%	58,000,000	7.08%
Karswell Ltd. [2]	10,000,000	0.4	1.56%	10,000,000	1.22%
Argumenol Investment Company Ltd. [2]	63,948	0.0	0.01%	63,948	0.01%
Others	272,825,236	10.9	42.66%	278,696,486	34.03%
Total	**639,546,016**	**25.6**	**100%**	**818,963,517**	**100%**

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

[2] Entity is controlled by Mr. Zygmunt Solorz.

The shareholders' structure as at 31 December 2017 was as follows:

	Number of shares	Nominal value of shares	% of share capital held	Number of votes	% of voting rights
Karswell Ltd. [1]	157,988,268	6.3	24.70%	157,988,268	19.29%
Reddev Investments Ltd. [2]	154,204,296	6.2	24.11%	306,709,172	37.45%
Sensor Overseas Ltd. [3]	55,092,796	2.3	8.61%	82,005,421	10.01%
Embud 2 Sp. z o.o. S.K.A. [1]	58,063,948	2.3	9.08%	58,063,948	7.09%
Other	214,196,708	8.5	33.50%	214,196,708	26.16%
Total	**639,546,016**	**25.6**	**100%**	**818,963,517**	**100%**

[1] Entity is controlled by Mr. Zygmunt Solorz

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

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

(ii) Share premium

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

(iii) Retained earnings

On 28 June 2018 the Annual General Meeting of the Company adopted a resolution on distribution of profit of the Company for the year ended 31 December 2017. Pursuant to the provisions of the resolution the net profit earned by the Company in the financial year of 2017 in the amount of PLN 606.0 is appropriated to the supplementary capital.

(iv) Other reserves

Other reserves include hedge valuation effect and actuarial gains.

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

30. Hedge valuation reserve

On 18 January 2017 the Company concluded interest rate swap transaction with Credit Agricole Corporate and Investment Bank. The transaction exchanges interest payments based on a floating rate WIBOR 3M into interest payments based on a fixed interests rate amounting to 2.0695%.
The transaction was concluded for the period from 31 March 2017 to 30 September 2019. The Transaction protects the nominal amount of a bank loan in the amount of PLN 125.

On 22 June 2018 the Company concluded interest rate swap transaction with Societe Generale Corporate and Investment Bank. The transaction exchanges interest payments based on a floating rate WIBOR 3M into interest payments based on a fixed interests rate amounting to 1.9450%.
The transaction was concluded for the period from 28 September 2018 to 30 September 2020. The Transaction protects the nominal amount of a bank loan in the amount of PLN 125.

Impact of hedging instruments valuation on assets and liabilities as at 31 December 2018

	IRS
Liabilities	
Long-term	(0.1)
Short-term	(0.7)
Total	**(0.8)**

Impact of hedging instruments valuation on assets and liabilities as at 31 December 2017

	IRS
Assets	
Long-term	0.2
Short-term	0.4
Liabilities	
Short-term	(0.5)
Total	**0.1**

Impact of hedging instruments valuation on hedge valuation reserve

	2018	2017
Balance as at 1 January	**0.1**	**1.2**
Hedging instruments acquired with Netia S.A.	(0.4)	-
Valuation of cash flow hedges	(0.4)	(1.3)
Deferred tax	0.1	0.2
Change for the period	**(0.7)**	**(1.1)**
Balance as at 31 December	**(0.6)**	**0.1**

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

31. Loans and borrowings

Loans and borrowings	31 December 2018	31 December 2017
Short-term liabilities	1,611.3	1,341.9
Long-term liabilities	8,605.3	9,291.4
Total	**10.216,6**	**10,633.3**

Change in loans and borrowings liabilities:

	2018	2017
Loans and borrowings as at 1 January	**10,633.3**	**10,572.7**
Loans liabilities acquired with Netia S.A. (see note 38)	259.8	-
Borrowings liabilities acquired with of Superstacja Sp. z o.o. (see note 38)	7.7	-
Revolving facility loan	600.0	1,200.0
Term loan received	18.1	-
Borrowings received	17.2	-
Repayment of capital	(1,282.2)	(1,162.5)
Repayment of interest and commissions	(362.8)	(346.5)
One-off income resulting from modification of the loan agreement	(34.7)	-
Interest accrued	360.2	369.6
Loans and borrowings as at 31 December	**10,216.6**	**10,633.3**

Facilities agreement between the Company and a consortium of financial institutions

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

Based on the CP Facilities Agreement the Company had been awarded a Term Facility Loan up to PLN 1,200 (the “CP Term Facility”) and a Revolving Facility Loan up to PLN 300 (the “CP Revolving Facility”).

The Company used the CP Term Facility and the CP Revolving Facility in particular to:
(i) repay the indebtedness under the Senior Facilities Agreement of 11 April 2014 between the Company (as the borrower) and a consortium of financial institutions, and
(ii) fund general corporate needs of the Group.

Senior Facilities Agreement between Polkomtel sp. z o.o. ("Polkomtel") and a consortium of financial institutions

On 21 September 2015, the Senior Facilities Agreement was concluded between a Company's subsidiary – Polkomtel as the borrower along with Eileme 2 AB (publ), Eileme 3 AB (publ), Eileme 4 AB (publ), Plus TM Management Sp. z o.o., TM Rental Sp. z o.o., Plus TM Group Sp. z o.o. a consortium of Polish and foreign financial institutions, led by Powszechna Kasa Oszczędności Bank Polski S.A., Bank Zachodni WBK S.A., ING Bank Śląski S.A., Société Générale (Global Banking Coordinators) with the participation of PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 1, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2, BNP Paribas Fortis SA/NV, Bank Polska Kasa Opieki S.A., The Bank of Tokyo-Mitsubishi UFJ Ltd., Bank of China (Luxembourg) S.A., Credit Agricole Corporate & Investment Bank, Credit Agricole Bank Polska S.A., DNB Bank Polska S.A., DNB Bank ASA, HSBC Bank Polska S.A., HSBC Bank plc, Bank Handlowy w Warszawie S.A., CaixaBank, S.A. (Spółka Akcyjna) Oddział w Polsce, mBank S.A., Bank Millennium S.A., Raiffeisen Bank Polska S.A., Goldman Sachs Bank USA, Erste Group Bank AG, Deutsche Bank Polska S.A., and UniCredit Bank AG, London Branch, acting as the Facility Agent and Citicorp Trustee Company Limited as the Security Agent (the "PLK Facilities Agreement").

Based on the PLK Facilities Agreement Polkomtel had been awarded a Term Facility Loan up to PLN 10,300 (the "PLK Term Facility") and a Revolving Facility Loan up to PLN 700 (the "PLK Revolving Facility").

The PLK Term Facility and the PLK Revolving Facility was utilized by Polkomtel in particular to:
(i) fully repay the outstanding debt under the refinanced Polkomtel's Facilities Agreement dated 17 June 2013;
(ii) fully repay the indebtedness under the senior notes issued on 26 January 2012 by Eileme 2 AB (publ) – a Company's subsidiary („HY Notes Indebtedness"); and
(iii) fund general corporate needs of the Group.

Amendment, Restatement and Consolidation Deed executed between the parties to the CP Facilities Agreement, PLK Facilities Agreement and certain members of the Group

On 21 September 2015 the Amendment, Restatement and Consolidation Deed was concluded between the Company, Polkomtel Sp. z o.o., Telewizja Polsat Sp. z o.o., Cyfrowy Polsat Trade Marks Sp. z o.o., Polsat License Ltd. and Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością sp.k., Eileme 2 AB (publ), Eileme 3 AB (publ), Eileme 4 AB (publ), Plus TM Management Sp. z o.o., TM Rental Sp. z o.o., Plus TM Group Sp. z o.o. and the consortium of Polish and foreign financing institutions (the "Amendment, Restatement and Consolidation Deed").

According to the Amendment, Restatement and Consolidation Deed, upon repayment of the HY Notes Indebtedness, the indebtedness under the PLK Facilities Agreement was refinanced using the funds made available under the CP Facilities Agreement, as amended in the Amendment, Restatement and Consolidation Deed. The HY Notes Indebtedness were repaid 1 February 2016.

The Amendment, Restatement and Consolidation Deed amends the CP Facilities Agreement as follows:

i. the maximum amount of the CP Term Facility is PLN 11,500, and the maximum amount of the CP Revolving Facility is PLN 1,000;
ii. the Company and other Group members established additional collaterals for the facilities granted on this basis. These collaterals include, in particular, registered pledges on collections of movables and economic interests of variable composition comprised in the enterprise of certain members of the Group, registered and financial pledges on shares in

the Group members, registered and financial pledges on receivables related to bank accounts kept for certain members of the Group, ordinary and registered pledges on selected trademarks, assignments of rights for security, mortgages, notarial submissions to enforcement and similar collaterals on shares (interests) or assets of members of the Group, to be governed by foreign laws.

On 26 January 2016, Polkomtel (an indirect subsidiary of the Company) increased utilization of the PLN facility by PLN 4.8 billion (not in million) pursuant to the terms of the Amendment, Restatement and Consolidation Deed.

Amendments and restatement deed to the facilities agreement

On 2 March 2018 the Company (acting as the obligors' agent) and UniCredit Bank AG (acting as finance parties' agent) entered into Second Amendment and Restatement Deed to the Facilities Agreement dated 21 September 2015 and amended by the Amendment, Restatement and Consolidation Deed dated 21 September 2015. The Second Amendment and Restatement Deed amends *inter alia* the termination date of the Term Facility and the Revolving Facility to 30 September 2022 (originally set on 21 September 2020). Pursuant to the agreement the repayment schedule has been changed as follows:

- in years 2019-2021 the Term Facility annual payments amount to PLN 1,017.6,
- in 2022 the Term Facility payments amount to PLN 6,626.7.

The Second Amendment and Restatement Deed also amends the level of the ratio of consolidated net debt to consolidated EBITDA, upon achieving of which the Company may request the release of security established in connection with the Facilities Agreement (excluding the release of guarantees granted pursuant to the Facilities Agreement) or after exceeding of which the Company shall re-establish the released security, is revised to 3.00:1 (originally 1.75:1).

The CP Term Facility and the CP Revolving Facility bear interest at a variable rate equal to WIBOR for the relevant interest period plus margin. The margin on the CP Term Facility and the CP Revolving Facility depends on the ratio of net consolidated indebtedness to consolidated EBITDA in such a way that the lower the ratio – the lower the margin. As at 31 December 2018 the CP Term Facility and the CP Revolving Facility are to be repaid in quarterly installments of variable value with the final repayment date for each of these facilities set at 30 September 2022.

The CP Revolving Facility as at 31 December 2018 was partially utilized. The CP Revolving Facility as at 31 December 2017 was fully utilized.

In accordance with the provisions of the Amendment, Restatement and Consolidation Deed, the Company, Polkomtel and other members of the Group may incur additional facilities. The terms of such additional facilities will be established individually in separate additional facility accession deeds and their terms will have to satisfy certain criteria.

Liabilities related to the CP Facilities Agreement and the PLK Facilities Agreement are secured by collaterals established by the Company, Polkomtel and other members of the Group as a security. A detailed description of the established securities is presented in the Management Report in note 4.6.6.

32. Issued bonds

	31 December 2018	31 December 2017
Short-term liabilities	42.3	42.5
Long-term liabilities	976.0	975.7
Total	**1,018.3**	**1,018.2**

Change in issued bonds:

	2018	2017
Issued bonds as at 1 January	**1,018.2**	**1,878.1**
Bonds redemption	-	(886.7)
Early redemption cost	-	58.7
Early redemption fee	-	(58.7)
Repayment of interest and commission	(43.1)	(43.0)
Interest accrued	43.2	69.8
Issued bonds payable as at 31 December	**1,018.3**	**1,018.2**

Bonds issued by Cyfrowy Polsat S.A.

On 21 July 2015, the Company registered 1,000,000 unsecured series A bearer bonds with a nominal value of PLN 1,000 each (not in millions) and a total nominal value of PLN 1,000,000,000 (not in millions) (the "Bonds") in the securities depository maintained by the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.). The Bonds mature in 6 years. The redemption date for the Bonds is 21 July 2021. The interest rate is floating and is based on the WIBOR 6M rate, increased by a margin which depends on the Leverage Ratio level (defined in the terms and conditions of the Bonds' issuance).

Early redemption

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

33. Group as a lessor and as a lessee

a) Group as a lessor

Operating lease

The Group entered into contracts with third parties, which are classified as operating leases based on their economic substance. The contracts relate to the rental of reception equipment and lease of premises . Reception equipment connected with such contracts are presented as part of property, plant and equipment. The premises are mainly classified as operating lease.

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

Lease contracts for set-top boxes are concluded for a base contractual period ranging from 12 to 29 months. After each base period, the contracts are converted into contracts with indefinite term, unless terminated by the subscribers or new contracts are signed.

Future minimum lease payments with respect to operating lease are as follows:

	31 December 2018	31 December 2017
less than 1 year	179.5	40.7
between 1 and 5 years	112.5	16.4
more than 5 years	0.5	-
Total	**292.5**	**57.1**

b) Group as a lessee

Operating leases

The Group entered into agreements, which are classified as operating lease contracts based on their economic substance. Assets leased under these contracts are not recorded in the financial statements. The contracts comprise leases of premises and other equipment as well as lease of premises for network locations and points-of-sale.

The table below presents a maturity analysis for such commitments:

	31 December 2018	31 December 2017
within one year	380.3	475.3
between 1 to 5 years	839.8	1,260.3
more than 5 years	224.3	477.0
Total	**1,444.4**	**2,212.6**

The table below presents future minimum payments relating to operating lease agreements to related parties:

	31 December 2018	31 December 2017
within one year	34.9	24.5
between 1 to 5 years	90.2	83.4
more than 5 years	18.3	31.2
Total	**143.4**	**139.1**

In 2018 the Group incurred costs related to operating lease agreements amounting to PLN 433.9 and in 2017 to PLN 425.5.

Finance leases

The total carrying amount of vehicles used under finance lease contracts amounted to PLN 23.7 as at 31 December 2018 and PLN 27.3 as at 31 December 2017.

The lease term is up to 5 years with respect to vehicles.

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

Future minimum lease payments under finance leases are as follows:

	31 December 2018	31 December 2017
less than 1 year	9.1	9.7
between 1 and 5 years	16.3	18.6
Total	**25.4**	**28.3**

The present value of minimum lease payments amounted to PLN 24.0 as at 31 December 2018 and PLN 28.3 as at 31 December 2017.

34. UMTS license liabilities

Future payments	31 December 2018	31 December 2017
30 September 2018	-	116.8
30 September 2019	120.4	116.8
30 September 2020	120.4	116.8
30 September 2021	120.4	116.8
30 September 2022	133.3	129.2
Total payments	**494.5**	**596.4**
Amounts representing discount	(28.2)	(41.1)
Discounted minimum payments	**466.3**	**555.3**
Of which:		
Short-term	*118.1*	*114.5*
Long-term	*348.2*	*440.8*

UMTS license liability is denominated in EUR. The value of the liability is a subject to annual reduction due to subsequent installments paid to the regulator. UMTS license liability is due in 2022.

35. Other non-current liabilities and provisions

	31 December 2018	31 December 2017
Provisions	175.3	112.7
Put option	161.9	-
Other	360.4	1.5
Total	**697.6**	**114.2**

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

36. Trade and other payables

	31 December 2018	31 December 2017
Trade payables to related parties	15.4	21.7
Trade payables to third parties	462.9	415.4
Taxation and social security payables	205.7	196.5
Payables relating to purchase of programming rights to related parties	1.4	1.4
Payables relating to purchase of programming rights to third parties	329.7	64.5
Payables relating to purchases of tangible and intangible assets	209.0	96.0
Accruals	964.8	760.5
Short-term provisions	120.0	102.4
Derivative instruments (IRS) liabilities (note 39)	8.8	3.6
Other	64.7	65.3
Total	**2,382.4**	**1,727.3**

Accruals

	31 December 2018	31 December 2017
Salaries	108.8	98.5
License fees and royalties for copyright management organizations	58.3	84.2
Distribution costs	115.1	117.3
Costs of settlements with telecommunication operators	214.9	165.8
Other	467.7	294.7
Total	**964.8**	**760.5**

Short-term and long-term provisions

	2018	2017
Opening balance as at 1 January	**215.1**	**250.7**
Acquisition of subsidiary	34.2	-
Increases	63.0	11.5
Reversal	(11.2)	(37.4)
Utilisation	(5.8)	(9.7)
Closing balance as at 31 December	**295.3**	**215.1**
Of which:		
Short-term	*120.0*	*102.4*
Long-term	*175.3*	*112.7*

Provisions comprise *inter alia* of provision for license fees, litigation and disputes, warranty provision, provision for dismantling.

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

Trade payables and payables relating to purchases of programming rights and non-current assets by currency

Currency	31 December 2018	31 December 2017
PLN	635.3	488.8
EUR	317.9	50.6
USD	57.5	54.8
Other	7.7	4.8
Total	**1,018.4**	**599.0**

Accruals by currency

Currency	31 December 2018	31 December 2017
PLN	844.9	631.8
EUR	95.5	93.8
USD	9.5	17.7
Other	14.9	17.2
Total	**964.8**	**760.5**

37. Deferred income

	31 December 2018 *(IFRS 15 basis)*	31 December 2017 *(IAS 18 basis)*
Deferred income	-	621.5
Of which: *Short-term*	-	*618.3*
Long-term	-	*3.2*

As at 31 December 2017 deferred income comprises mainly deferred retail revenue (subscription fees paid in advance, prepaid services and rental fees for set-top boxes) as well as deferred wholesale revenue (prepaid advertising broadcasts).

Other notes

38. Acquisition of a subsidiaries

Acquisition of shares in ESKA TV S.A. and in Lemon Records Sp. z o.o.

On 4 December 2017 Telewizja Polsat Sp. z o.o. (Company's indirect subsidiary) acquired 100% shares of ESKA TV S.A. ("ESKA TV") from Bookmacher Sp. z o.o., Radio ESKA S.A., Time S.A. and Zjednoczone Przedsiębiorstwa Rozrywkowe S.A.

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

On 4 December 2017 Telewizja Polsat Sp. z o.o. (Company's indirect subsidiary) acquired 100% shares of Lemon Records Sp. z o.o. ("Lemon Records") from Zjednoczone Przedsiębiorstwa Rozrywkowe S.A., ZPR Media S.A. and Time S.A.

The consideration for the 100% shares of ESKA TV and for the 100% shares of Lemon Records amounted to PLN 71.0.

a) Consideration transferred

	Final value of transferred consideration
Cash transferred for the 100% shares of ESKA TV and for the 100% shares of Lemon Records	71.0
Final value	**71.0**

b) Reconciliation of transactional cash flow

Cash transferred in 2017	(69.0)
Cash and cash equivalents received	0.6
Cash decrease in the period of 12 months ended 31 December 2017	**(68.4)**
Cash transferred in 2018	(2.0)
Cash decrease in the period of 12 months ended 31 December 2018	**(2.0)**

c) Fair value valuation of net assets as at acquisition date

The table below presents final fair values of identified assets and liabilities of the acquired companies, as at the acquisition date, and goodwill accounted for an acquisition.

Final fair values of assets and liabilities acquired as at 4 December 2017:

	Final fair value as at the acquisition date (4 December 2017)
Net assets:	
Polo TV (Lemon Records) brand	4.7
Concession for broadcasting television programs	5.1
Programming assets	9.4
Trade receivables and other receivables	8.2
Other current assets	0.2
Cash and equivalents	0.6
Trade liabilities and other liabilities	(23.9)
Value of net assets	**4.3**
Consideration transferred	**71.0**
Goodwill	**66.7**

Goodwill is allocated to the "Broadcasting and television production" operating segment.

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

Acquisition of shares in Coltex ST Sp. z o.o.

On 1 March 2018 Liberty Poland S.A. (Company's indirect subsidiary) acquired 100% shares of Coltex ST Sp. z o.o. („Coltex") from Coltex Rogala sp.j., Star Telecom Sp. z o.o. and R.S. Trading Lachowscy sp.j.

The consideration for the 100% shares of Coltex amounted to PLN 27.5.

a) Consideration transferred

	Final value of consideration transferred consideration
Cash transferred for the 100% shares of Coltex	27.5
Final value as at 1 March 2018	**27.5**

b) Reconciliation of transactional cash flow

Cash transferred	(27.5)
Cash and cash equivalents received	7.0
Cash decrease in the period of 12 months ended 31 December 2018	**(20.5)**

c) Fair value valuation of net assets as at acquisition date

The table below presents final fair values of identified assets and liabilities of the acquired companies, as at the acquisition date, and goodwill accounted for an acquisition.

Final fair values of assets and liabilities acquired as at 1 March 2018:

	Final fair value as at the acquisition date (1 March 2018)
Net assets:	
Inventories	4.0
Trade receivables and other receivables	16.1
Cash and cash equivalents	7.0
Trade liabilities and other liabilities	(22.2)
Value of net assets	**4.9**
Consideration transferred as at 1 March 2018	**27.5**
Goodwill	**22.6**

Goodwill is allocated to the "Services to individual and business customers" operating segment.

The revenue and net profit included in the interim consolidated income statement for the reporting period since 1 March 2018 contributed by Coltex amounted to PLN 19.6 and PLN 0.3, respectively. Had it been acquired on 1 January 2018 the proforma revenue and net income included in the interim consolidated income statement for the 12 months ended 31 December 2018 would have amounted to PLN 10,686.2 and PLN 816.0, respectively.

Acquisition of shares in Netia S.A.

On 22 May 2018 purchase transactions of shares of Netia S.A. ("Netia") were concluded. As a result of the tender offer settlement on 22 May 2018:
(i) Cyfrowy Polsat acquired 34,662,045 shares constituting in total 10.33% of the share capital of Netia and carrying the right to 34,662,045 votes at the general meeting of Netia as well as representing 10.33% of the total number of votes at Netia's general meeting;
(ii) Karswell Limited, with its registered office in Nicosia, Cyprus ("Karswell") acquired 76,040,399 shares constituting in total 22.67% of the share capital of Netia and carrying the right to 76,040,399 votes at the general meeting of Netia as well as representing 22.67% of the total number of votes at Netia's general meeting.

Directly prior to the tender offer settlement, Cyfrowy Polsat held directly 110,702,441 shares in Netia (shares acquired on 5 December 2017) constituting in total 33% of the share capital of Netia and carrying the right to 110,702,441 votes at the general meeting of Netia as well as representing 33% of the total number of votes at Netia's general meeting.

On 5 December 2017 the Company and Karswell concluded the agreement on the joint acquisition of Netia's shares in a tender offer and preliminary share purchase agreement - Karswell shall sell all the shares to the Company acquired for the price paid by Karswell for shares under the tender offer. Karswell shall receive an additional premium for the period between the settlement date on which Karswell acquired the last share under the tender offer and a date on which the shares acquired by Karswell under the tender offer will be sold to the Company (the "Interim Period") in an amount equivalent to the average weighted cost of financing of the Company's capital group provided by financial institutions, prorated to the specific portion of the price paid by Karswell for shares under the tender offer for each day of the Interim Period. Additionally, during the Interim Period Karswell shall exercise the voting rights attached to the Netia shares acquired in the Tender Offer as instructed by the Company.

On 2 July 2018 an amendment to the agreement on the joint acquisition of shares in a tender offer and preliminary share purchase agreement of 5 December 2017 was entered into with Karswell Ltd., which amends the acquirers' agreement in such way that the obligation of Cyfrowy Polsat to effect one-off acquisition of all the shares in Netia S.A. acquired by Karswell Ltd. under the tender offer was replaced by the obligation of Cyfrowy Polsat to acquire said shares in subsequent instalments.

On 3 July 2018 the Company purchased from Karswell Ltd. 17,331,023 shares in Netia S.A. for the total amount of PLN 100.0 and on 2 October 2018 the Company purchased from Karswell Ltd. 58,709,376 shares in Netia S.A. for the total amount of PLN 338.8.

Taking into account the above mentioned circumstances on 22 May 2018 the Company obtained control over Netia.

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

As at 31 December 2018 Cyfrowy Polsat held 221,404,885 shares of Netia constituting in total 65.98% of the share capital of Netia and carrying the right to 221,404,885 votes at the general meeting of Netia as well as representing 65.98% of the total number of votes at Netia's general meeting.

a) Provisional consideration transferred

	Provisional value of consideration transferred consideration
Cash transferred for the 65.98% shares of Netia	1,277.5
Provisional value of 65.98% shares of Netia	**1,277.5**

b) Reconciliation of transactional cash flow

Cash transferred by Cyfrowy Polsat	(638.7)
Cash and cash equivalents received	32.2
Cash decrease in the period of 12 months ended 31 December 2018	**(606.5)**

c) Provisional fair value valuation of net assets as at acquisition date

The table below presents provisional fair values of identified assets and liabilities of the acquired companies, as at the acquisition date, and goodwill accounted for an acquisition.

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

Provisional fair values of assets and liabilities acquired as at 22 May 2018:

	Provisional fair value as at the acquisition date (22 May 2018)
Net assets:	
Other property, plant and equipment	1,920.4
Customer relationships	60.1
Brands	88.5
Other intangible assets	68.2
Investment property	25.0
Other non-current assets	19.3
Deferred tax assets	63.1
Contract assets	19.2
Inventories	3.9
Trade and other receivables	154.7
Income tax receivable	3.4
Other current assets	10.3
Cash and cash equivalents	32.2
Loans and borrowings	(259.8)
Deferred tax liabilities	(75.9)
Other non-current liabilities and provisions	(13.7)
Contract liabilities	(51.4)
Trade and other payables	(231.5)
Income tax liability	(7.3)
Provisional value of net assets (100%)	**1,828.7**
Provisional value of net assets attributable to non-controlling interest	**622.2**
Provisional value of net assets attributable to Cyfrowy Polsat Capital Group and Karswell	**1,206.5**
Consideration transferred for 65.98% of shares as at 22 May 2018	**1,277.5**
Provisional goodwill	**71.0**

Goodwill is allocated to the “Services to individual and business customers” operating segment.

The revenue and net profit included in the interim consolidated income statement for the reporting period since 22 May 2018 contributed by Netia capital group amounted to PLN 838.3 and PLN 45.9, respectively. Had it been acquired on 1 January 2018 the proforma revenue and net income included in the interim consolidated income statement for the 12 months ended 31 December 2018 would have amounted to PLN 11,199.5 and PLN 844.9, respectively.

Acquisition of shares in Eleven Sports Network Sp. z o.o.

On 25 May 2018 the Company’s subsidiary - Telewizja Polsat Sp. z o.o. (”Telewizja Polsat”) acquired 50% plus one share of Eleven Sports Network Sp. z o.o. („Eleven”) from Eleven Sports Network Ltd. („ESN LTD”).

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

The total price for the shares acquired under the agreement has been set at EUR 38. The share price was payable in two tranches. The first tranche in the amount of EUR 18 was paid on 25 May 2018. The second tranche was adjusted for the net debt of Eleven and paid on 31 July 2018 in the amount of EUR 17.9.

If the value of Eleven based on the results for 2020 exceeds the amount of EUR 80, then Telewizja Polsat Sp. z o.o. will be required to pay to Eleven Sports Network Ltd. an additional earn-out payment equal to 25% of the surplus of Eleven's value over the amount of EUR 80 (with Eleven's value calculated as 9x adjusted EBITDA based on Eleven's financial statements for the financial year ending 30 June 2020).

In addition, Telewizja Polsat Sp. z o.o., Eleven Sports Network Ltd. and Eleven executed a shareholders' agreement governing the rights and obligations between the shareholders and Eleven (the "Shareholders' Agreement"). The Shareholders' Agreement includes restrictions in the disposal of Eleven's shares and contractual penalties for a breach of material provisions of the Shareholders' Agreement with the maximum contractual penalty set forth therein in the amount of EUR 10. In addition Telewizja Polsat and ESN LTD have the right to acquire the stake of the other shareholder at the market price or to dispose of their respective stake to the other shareholder at the market price (put options and call options):

a) call option for Telewizja Polsat in the event of lack of unanimity of shareholders in situations demanding it and in the event of non-performance of this option by Telewizja Polsat - a call option for ESN LTD,
b) call option for Telewizja Polsat in the event of a change of control over ESN LTD,
c) mutual call options in the event of unrepaired breach of material terms of the Shareholders' Agreement,
d) put option for ESN UK available for execution in three periods of time (1 January 2022 – 28 February 2022, 1 January 2024 – 29 February 2024, 1 January 2026 – 28 February 2026).

Put options were recognized in the consolidated balance sheet of the Company in accordance with the accounting policy described in note 7.

The privileged position of Telewizja Polsat in Eleven's Management Board, ownership of more than 50% of votes at the general meeting of shareholders of Eleven, combined with the asymmetry of the call and put options described above, constitute the basis for consolidating Eleven on the basis of control over the company. This control is not temporary, due to the long-term nature of investments in Eleven by Telewizja Polsat and sufficient financial liquidity to settle the payment obligation for the purchase of the remaining Eleven shares owned by ESN LTD in the event of the above put and call options resulting in such an obligation.

a) Provisional consideration transferred

	Provisional value of consideration transferred consideration
Cash transferred for the 50% plus one share of Eleven	154.4
Provisional value	**154.4**

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

b) Reconciliation of transactional cash flow

Cash transferred	(154.4)
Cash and cash equivalents received	0.3
Cash decrease in the period of 12 months ended 31 December 2018	**(154.1)**

c) Provisional fair value valuation of net assets as at acquisition date

The table below presents provisional fair values of identified assets and liabilities of the acquired companies, as at the acquisition date, and goodwill accounted for an acquisition.

Provisional fair values of assets and liabilities acquired as at 25 May 2018:

	Provisional fair value as at the acquisition date (25 May 2018)
Net assets:	
Other property, plant and equipment	2.7
Other intangible assets	0.1
Programming assets	144.2
Trade receivables and other receivables	56.8
Other current assets	1.2
Cash and cash equivalents	0.3
Other liabilities and provisions	(6.0)
Deferred income	(38.1)
Trade liabilities and other liabilities	(166.6)
Provisional value of net assets (100%)	**(5.4)**
Provisional value of net assets attributable to non-controlling interest	**(2.7)**
Provisional value of net assets attributable to Cyfrowy Polsat Capital Group	**(2.7)**
Consideration transferred	**154.4**
Provisional goodwill	**157.1**

Goodwill is allocated to the “Broadcasting and television production” operating segment.

The revenue and net profit included in the interim consolidated income statement for the reporting period since 25 May 2018 contributed by Eleven amounted to PLN 83.5 and PLN 1.9, respectively. Had it been acquired on 1 January 2018 the proforma revenue and net income included in the interim consolidated income statement for the 12 months ended 30 December 2018 would have amounted to PLN 10,723.4 and PLN 799.0, respectively.

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

<u>Acquisition of shares in Superstacja Sp. z o.o.</u>

On 4 June 2018 Telewizja Polsat Sp. z o.o. (Company's subsidiary) acquired 100% shares of Superstacja Sp. z o.o. („Superstacja") from Ster Sp. z o.o., Karswell Limited and Sensor Overseas Limited.

The consideration for the 100% shares of Superstacja amounted to PLN 13.0.

a) Provisional consideration transferred

	Provisional value of consideration transferred consideration
Cash transferred for the 100% shares of Superstacja	13.0
Provisional value as at 4 June 2018	**13.0**

b) Reconciliation of transactional cash flow

Cash transferred	(13.0)
Cash and cash equivalents received	3.8
Cash decrease in the period of 12 months ended 31 December 2018	**(9.2)**

c) Provisional fair value valuation of net assets as at acquisition date

The table below presents provisional fair values of identified assets and liabilities of the acquired companies, as at the acquisition date, and goodwill accounted for an acquisition.

Provisional fair values of assets and liabilities acquired as at 4 June 2018:

	Provisional fair value as at the acquisition date (4 June 2018)
Net assets:	
Other property, plant and equipment	0.7
Trade receivables and other receivables	2.8
Cash and cash equivalents	3.8
Loans and borrowings	(7.7)
Trade liabilities and other liabilities	(1.6)
Provisional value of net assets	**(2.0)**
Consideration transferred as at 4 June 2018	**13.0**
Provisional goodwill	**15.0**

Goodwill is allocated to the "Broadcasting and television production" operating segment.

The revenue and net loss included in the interim consolidated income statement for the reporting period since 4 June 2018 contributed by Superstacja amounted to PLN 6.0 and PLN 2.1, respectively. Had it been acquired on 1 January 2018 the proforma revenue and net income included in the interim consolidated income statement for the 12 months ended 31 December 2018 would have amounted to PLN 10,689.7 and PLN 816.3, respectively.

Acquisition of shares in Netshare Media Group Sp. z o.o.

On 25 June 2018 Cyfrowy Polsat S.A. acquired 100% shares of Netshare Media Group Sp. z o.o. („NMG") from Mr. Michał Jordan and Mr. Paweł Ossowski.

The consideration for the 100% shares of NMG amounted to PLN 50,000 (not in millions).

a) Consideration transferred

	Final value of consideration transferred consideration
Cash transferred for the 100% shares of NMG	0.1
Final value as at 25 June 2018	**0.1**

b) Reconciliation of transactional cash flow

Cash transferred	(0.1)
Cash and cash equivalents received	0.0
Cash decrease in the period of 12 months ended 31 December 2018	**(0.1)**

c) Fair value valuation of net assets as at acquisition date

The table below presents final fair values of identified assets and liabilities of the acquired companies, as at the acquisition date, and goodwill accounted for an acquisition.

Final fair values of assets and liabilities acquired as at 25 June 2018:

	Final fair value as at the acquisition date (25 June 2018)
Net assets:	
Trade receivables and other receivables	0.5
Cash and cash equivalents	0.0
Trade liabilities and other liabilities	(2.0)
Value of net assets	**(1.5)**
Consideration transferred as at 25 June 2018	**0.1**
Goodwill	**1.6**

Goodwill is allocated to the “Services to individual and business customers” operating segment.

The revenue and net loss included in the interim consolidated income statement for the reporting period since 25 June 2018 contributed by NMG amounted to PLN 0.0 and PLN 0.0, respectively. Had it been acquired on 1 January 2018 the proforma revenue and net income included in the interim consolidated income statement for the 12 months ended 31 December 2018 would have amounted to PLN 10,686.1 and PLN 816.0, respectively.

39. Financial instruments

Overview

Cyfrowy Polsat S.A. Group has exposure to the following risks from its use of financial instruments:
- credit risk,
- liquidity risk,
- market risk:
    (i) currency risk,
    (ii) interest rate risk.

The Group’s risk management policies are designed to reduce the impact of any adverse conditions on the Group’s results.

The Management Board has overall responsibility for the oversight and management of the risks that the Group is subjected to in its activities. Therefore, the Management Board has established an overall risk management framework as well as specific risk management policies with respect to market, credit and liquidity risks.

This note presents information about the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are also included throughout these consolidated financial statements.

Bank loans, bonds, cash, forwards, interest rate swaps and short-term bank deposits are the main financial instruments used by the Group, with the intention of securing the financing for the Group’s activities. The Group also holds other financial instruments including trade receivables and payables, payables relating to purchases of programming rights and payables relating to purchases of tangible and intangible assets which arise in the course of its business activities.

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

Financial assets	Carrying amount	
	31 December 2018 *(IFRS 15 basis)*	**31 December 2017** *(IAS 18 basis)*
Financial assets measured at amortized cost	**4,014.6**	**3,631.0**
Loans granted	17.3	4.5
Trade and other receivables from related parties	22.6	9.3
Trade and other receivables from third parties	2,796.0	2,445.2
Cash and cash equivalents	1,167.0	1,161.5
Restricted cash	11.7	10.5
Financial assets measured at fair value though other comprehensive income	**0.2**	**-**
Investments in equity instruments	0.2	-
Hedging derivative instruments	**-**	**0.6**
Interest rate swaps	-	0.6
Derivative instruments not designated as hedging instruments	**-**	**6.4**
Interest rate swaps	-	6.4

Financial liabilities	Carrying amount	
	31 December 2018 *(IFRS 15 basis)*	**31 December 2017** *(IAS 18 basis)*
Financial liabilities measured at amortized cost	**14,128.7**	**13,660.9**
Finance lease liabilities	24.0	28.3
Loans and borrowings	10,216.6	10,633.3
Bonds	1,018.3	1,018.2
UMTS license liabilities	466.3	555.3
Trade and other payables to third parties and deposits	1,421.9	641.8
Trade and other payables to related parties	16.8	23.5
Accruals	964.8	760.5
Hedging derivative instruments	**0.8**	**0.5**
Interest rate swaps	0.8	0.5
Derivative instruments not designated as hedging instruments	**11.3**	**3.1**
Forward transactions	-	1.5
Interest rate swaps	11.3	1.6
Put option	**161.9**	**-**

Credit risk

Credit risk is defined as the risk that counterparties of the Group will not be able to meet their contractual obligations. Exposure to credit risk is related to three main areas:

- the creditworthiness of the customers with whom physical sale transactions are undertaken,
- the creditworthiness of the financial institutions (banks/brokers) with whom, or through whom, hedging or other derivative transactions are undertaken,
- the creditworthiness of the entities in which investments are made, or whose securities are purchased.

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

The Group's exposure to credit risk is associated primarily with trade receivables and contract assets. The Parent's customer base includes a large number of individual subscribers who are dispersed geographically over the entire country, and who are required to prepay their subscription fees. Receivables from Parent's sales network are covered with commission liabilities or deposits. Receivables from subscribers are continuously monitored and recovery actions are taken, including blocking of the signal transferred to subscribers or termination of services to a telephony client and Internet customer. Telewizja Polsat and its subsidiaries provide services with deferred payment which may cause the risk of delays. Assessment of the creditworthiness of the counterparties is regularly carried out and in principle the company does not require security in relation to the financial assets. Polkomtel's customer base is dispersed geographically over the entire country. In case of important postpaid clients services are rendered following positive credit approval while in case of individual retail clients the verification process is automatized and based on IT-supported customer relationship management system and characteristics of the billing systems. Receivables from Polkomtel's sales network are continuously monitored; sales limits and utilization limits are used.

The Group pursues a credit policy under which credit risk exposure is constantly monitored.

Due to diversification of risk in terms of the nature of individual entities, their geographical location and cooperation with highly-rated financial institutions, also taking into consideration the fair value of liabilities arising from derivative transactions, the Group is not materially exposed to credit risk as a result of derivative transactions entered into.

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 2018 *(IFRS 15 basis)*	**31 December 2017** *(IAS 18 basis)*
Loans granted	17.3	4.5
Trade and other receivables from related parties	22.6	9.3
Trade and other receivables from third parties	2,796.0	2,445.2
Contract assets	648,4	-
Cash and cash equivalents	1,167.0	1,161.5
Restricted cash	11.7	10.5
Derivative instruments not designated as hedging instruments:	**-**	**6.4**
Interest rate swaps	-	6.4
Total	**4,663.0**	**3,637.4**

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

The concentration of credit risk for trade and other receivables, loans granted and contract assets is presented in the tables below:

	Carrying amount	
	31 December 2018 *(IFRS 15 basis)*	**31 December 2017** *(IAS 18 basis)*
Receivables from subscribers	2,501.1	1,635.6
Receivables from media companies	334.8	321.2
Receivables from satellite and cable operators	21.0	13.3
Roaming and interconnect receivables	332.1	209.3
Receivables from distributors	73.9	103.5
Receivables and loans granted to related parties	39.8	11.4
Other receivables and loans granted to third parties	181.6	164.7
Total	**3,484.3**	**2,459.0**

	Carrying amount	
	31 December 2018 *(IFRS 15 basis)*	**31 December 2017** *(IAS 18 basis)*
Company A	48.8	56.3
Company B	45.7	30.1
Company C	42.6	27.4
Company D	38.3	25.6
Company E	31.8	22.8
Other	3,277.1	2,296.8
Total	**3,484.3**	**2,459.0**

Note: for each year 5 largest debtors are presented, not necessarily the same entities in both periods.

The ageing of trade and other receivables, loans granted and contract assets at the reporting date was:

	31 December 2018 *(IFRS 15 basis)*			**31 December 2017** *(IAS 18 basis)*		
	Gross	**Impairment**	**Net**	**Gross**	**Impairment**	**Net**
Not past due	2,309.0	33.5	2,275.5	2,118.7	60.9	2,057.8
Past due 0-30 days	316.1	7.9	308.2	174.0	2.0	172.0
Past due 31-60 days	188.4	7.4	181.0	136.4	1.9	134.5
Past due more than 60 days	225.4	154.2	71.2	163.7	69.0	94.7
Total	**3,038.9**	**203.0**	**2,835.9**	**2,592.8**	**133.8**	**2,459.0**
Contract assets	662.6	14.2	648.4	-	-	-
Total	**3,701.5**	**217.2**	**3,484.3**	**2,592.8**	**133.8**	**2,459.0**

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

Liquidity risk

The Group's objective in liquidity management is to ensure that it always has sufficient funds to meet its liabilities when due. Any surplus cash is invested mainly into bank deposits.

The Group prepares, on an ongoing basis, analyses and forecasts of its cash requirements based on projected cash flows.

The following are the contractual maturities of the Group's financial liabilities.

	31 December 2018						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	Over 5 years
Loans and borrowings	10,216.6	11,297.0	981.8	667.3	1,295.0	8,352.9	-
Bonds	1,018.3	1,128.8	21.6	21.3	43.0	1,042.9	-
UMTS license liabilities	466.3	494.5	-	120.4	120.4	253.7	-
Finance lease liabilities	24.0	25.4	5.4	3.7	5.3	11.0	-
Trade and other payables to third parties and deposits	1,421.9	1,421.9	1,421.9	-	-	-	-
Trade and other payables to related parties	16.8	16.8	16.8	-	-	-	-
Accruals	964.8	964.8	964.8	-	-	-	-
Hedging derivative instruments:							
IRS*	0.8	0.7	0.4	0.2	0.1	-	-
Derivative instruments not designated as hedging instruments:							
IRS*	11.3	15.6	4.2	4.5	5.7	1.2	-
Put option	161.9	161.9	-	-	161.9	-	-
	14,302.7	**15,527.4**	**3,416.9**	**817.4**	**1,631.4**	**9,661.7**	**-**

* 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 are in PLN million, except where otherwise stated)

	31 December 2017						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	Over 5 years
Loans and borrowings	10,633.3	11,472.6*	1,087.1*	704.1*	1,459.3*	8,222.1*	-
Bonds	1,018.2	1,172.5	21.7	21.4	43.1	1,086.3	-
UMTS license liabilities	555.3	596.5	-	116.8	116.8	362.9	-
Finance lease liabilities	28.3	30.1	5.8	4.7	8.6	11.0	-
Trade and other payables to third parties and deposits	641.8	641.8	641.8	-	-	-	-
Trade and other payables to related parties	23.5	23.5	23.5	-	-	-	-
Accruals	760.5	760.5	760.5	-	-	-	-
Hedging derivative instruments:							
IRS**	0.5	0.5	0.3	0.2	-	-	-
Derivative instruments not designated as hedging instruments:							
IRS**	1.6	1.6	1.0	0.6	-	-	-
Forward transactions	1.5						
– inflows		(183.5)	(183.5)	-	-	-	-
– outflows		185.6	185.6	-	-	-	-
	13,664.5	**14,701.7**	**2,543.8**	**847.8**	**1,627.8**	**9,682.3**	**-**

* loan agreements' contractual cash flows changed pursuant to the new agreement entered into on 2 March 2018 (see note 31)

** pursuant to the agreements settlements shall be on a net basis

Market risk

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

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

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

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

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

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

It is permitted to use the following types of instruments:

- Swaps (IRS/CIRS),
- Forwards and futures,
- Options.

Currency risk

One of the main risks that the Group is exposed to is currency risk resulting from fluctuations in exchange rate of the Polish zloty against other currencies. Revenues generated by the Group are denominated primarily in the Polish zloty, while a portion of operating costs and capital expenditures are incurred in foreign currencies. The Parent's currency risk is associated mainly to royalties to TV and radio broadcasters (USD and EUR), transponder capacity leases (EUR), fees for conditional access system (EUR) and purchases of reception equipment and accessories for reception equipment (USD and EUR). After the purchase of Telewizja Polsat Sp. z o.o. currency risk exposure is also associated to purchases of foreign programming licences (USD). After the purchase of Metelem Holding Company Ltd. currency risk exposure is also associated to UMTS license liabilities (EUR), agreements with suppliers of stock, mainly mobile phones, and suppliers of telecommunication network equipment (EUR), roaming and interconnect agreements and some agreements concerning rental of space required for network locations and rental of office space (various currencies).

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

The Group does not hold any assets held for trading denominated in foreign currencies.

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

	31 December 2018					
	EUR	**USD**	**CHF**	**GBP**	**SEK**	**XDR**
Trade receivables	10.3	2.9	-	-	-	0.9
Cash and cash equivalents	28.5	4.8	2.6	0.1	-	-
UMTS license liabilities	(108.4)	-	-	-	-	-
Trade payables	(155.2)	(15.3)	(2.0)	-	-	(1.3)
Gross balance sheet exposure	**(224.8)**	**(7.6)**	**0.6**	**0.1**	**-**	**(0.4)**
Forward transactions	-	-	-	-	-	-
Net exposure	**(224.8)**	**(7.6)**	**0.6**	**0.1**	**-**	**(0.4)**

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

	31 December 2017					
	EUR	**USD**	**CHF**	**GBP**	**SEK**	**XDR**
Trade receivables	7.8	1.9	-	-	-	0.5
Cash and cash equivalents	3.2	8.4	2.3	0.1	1.2	-
UMTS license liabilities	(133.1)	-	-	-	-	-
Trade payables	(13.1)	(14.5)	(0.1)	-	-	(0.8)
Gross balance sheet exposure	**(135.2)**	**(4.2)**	**2.2**	**0.1**	**1.2**	**(0.3)**
Forward transactions	44.0	-	-	-	-	-
Net exposure	**(91.2)**	**(4.2)**	**2.2**	**0.1**	**1.2**	**(0.3)**

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

	Average rate		Rates at the reporting date	
(in PLN)	**2018**	**2017**	**31 December 2018**	**31 December 2017**
1 EUR	4.2617	4.2583	4.3000	4.1709
1 USD	3.6117	3.7782	3.7597	3.4813
1 GBP	4.8168	4.8595	4.7895	4.7001
1 CHF	3.6912	3.8364	3.8166	3.5672
1 XDR	5.1098	5.2368	5.2212	4.9653
1 SEK	0.4156	0.4422	0.4201	0.4243

For the purposes of the exchange rate sensitivity analysis as at 31 December 2018 and 31 December 2017, exchange rate volatility in the +/- 5% range was assumed as probable. This analysis assumes that all other variables, in particular interest rates, remain constant.

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

	2018					2017				
	As at 31 December 2018		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at 31 December 2017		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	10.3	44.3	5%	2.2	-	7.8	32.7	5%	1.5	-
USD	2.9	11.1	5%	0.3	-	1.9	6.5	5%	0.4	-
XDR	0.9	4.7	5%	0.2	-	0.5	2.3	5%	0.3	-
Cash and cash equivalents										
EUR	28.5	122.6	5%	6.1	-	3.2	13.5	5%	0.5	-
USD	4.8	18.2	5%	0.7	-	8.4	29.1	5%	1.6	-
CHF	2.6	9.9	5%	0.5	-	2.3	8.2	5%	0.4	-
GBP	0.1	0.5	5%	-	-	0.1	0.3	5%	0.2	-
SEK	-	-	5%	-	-	1.2	0.5	5%	-	-
UMTS license liabilities										
EUR	(108.4)	(466.3)	5%	(23.1)	-	(133.1)	(555.3)	5%	(27.6)	-
Trade payables										
EUR	(155.2)	(667.4)	5%	(33.3)	-	(13.1)	(54.8)	5%	(2.6)	-
USD	(15.3)	(57.5)	5%	(2.9)	-	(14.5)	(50.6)	5%	(2.4)	-
XDR	(1.3)	(6.8)	5%	(0.3)	-	(0.8)	(3.9)	5%	(0.3)	-
CHF	(2.0)	(7.7)	5%	(0.3)	-	(0.1)	(0.2)	5%	(0.2)	-
Change in operating profit				**(49.9)**	**-**				**(28.2)**	**-**

Forwards										
EUR	-	-	5%	-	-	44.0	183.5	5%	9.2	-
Income tax				9.5	-				3.6	-
Change in net profit				**(40.4)**	**-**				**(15.4)**	**-**

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

	2018					2017				
	As at 31 December 2018		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at 31 December 2017		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	10.3	44.3	-5%	(2.2)	-	7.8	32.7	-5%	(1.5)	-
USD	2.9	11.1	-5%	(0.3)	-	1.9	6.5	-5%	(0.4)	-
XDR	0.9	4.7	-5%	(0.2)	-	0.5	2.3	-5%	(0.3)	-
Cash and cash equivalents										
EUR	28.5	122.6	-5%	(6.1)	-	3.2	13.5	-5%	(0.5)	-
USD	4.8	18.2	-5%	(0.7)	-	8.4	29.1	-5%	(1.6)	-
CHF	2.6	9.9	-5%	(0.5)	-	2.3	8.2	-5%	(0.4)	-
GBP	0.1	0.5	-5%	-	-	0.1	0.3	-5%	(0.2)	-
SEK	-	-	-5%	-	-	1.2	0.5	-5%	-	-
UMTS license liabilities										
EUR	(108.4)	(466.3)	-5%	23.1	-	(133.1)	(555.3)	-5%	27.6	-
Trade payables										
EUR	(155.2)	(667.4)	-5%	33.3	-	(13.1)	(54.8)	-5%	2.6	-
USD	(15.3)	(57.5)	-5%	2.9	-	(14.5)	(50.6)	-5%	2.4	-
XDR	(1.3)	(6.8)	-5%	0.3		(0.8)	(3.9)	-5%	0.3	
CHF	(2.0)	(7.7)	-5%	0.3	-	(0.1)	(0.2)	-5%	0.2	-
Change in operating profit				**49.9**	**-**				**28.2**	**-**

Forwards										
EUR	-	-	-5%	-	-	44.0	183.5	-5%	(9.2)	-
Income tax				(9.5)	-				(3.6)	-
Change in net profit				**40.4**	**-**				**15.4**	**-**

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

	2018		2017	
	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	(39.0)	-	(15.4)	-
USD	(1.5)	-	(0.4)	-
CHF	0.2	-	0.2	-
GBP	-	-	0.2	-
XDR	(0.1)	-	-	-
Estimated change in exchange rate by -5 %				
EUR	39.0	-	15.4	-
USD	1.5	-	0.4	-
CHF	(0.2)	-	(0.2)	-
GBP	-	-	(0.2)	-
XDR	0.1	-	-	-

Had Polish zloty strengthened 5% against the basket of currencies as at 31 December 2018 and 31 December 2017, the Group's net profit would have decreased by PLN 40.4 and decreased by PLN 15.4, respectively and other comprehensive income would have been unchanged in 2018 and would have been unchanged in 2017. Had the Polish zloty appreciated 5%, the Group's net profit would have correspondingly increased by PLN 40.4 in 2018 and increased by PLN 15.4 in 2017, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

Interest rate risk

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

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

In order to reduce interest rate risk exposure resulting from Parent's interest payments on floating rate senior facility, the Group stipulated interest rate swaps for which hedge accounting was adopted (see note 30). In order to reduce interest rate risk exposure resulting from Metelem Holding Company Ltd. group (actually Polkomtel Sp. z o.o. group) interest payments on floating rate senior facilities the Group also uses interest rate swaps and for them hedge accounting was not adopted.

(all cash amounts presented in text are in million with currency specification, all amounts 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 2018	31 December 2017
Fixed rate instruments		
Financial assets	258.0	242.5
Financial liabilities*	(12.8)	-
Variable rate instruments		
Financial assets*	830.3	802.6
Financial liabilities*	(11,283.5)	(11,679.5)
Net interest exposure	**(10,453.2)**	**(10,876.9)**

* nominal debt

The Group classifies loan liabilities as variable rate instruments. Changes in the interest rate components do not result in a change in the carrying amount of the loan liability. The changes are reflected prospectively in the interest expense on loans and borrowings.

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

	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 2018						
Variable rate instruments*	(50.4)	50.4	3.1	(3.1)	(47.3)	47.3
Cash flow sensitivity (net)	**(50.4)**	**50.4**	**3.1**	**(3.1)**	**(47.3)**	**47,3**
31 December 2017						
Variable rate instruments*	(77.4)	77.4	3.1	(3.1)	(74.3)	74.3
Cash flow sensitivity (net)	**(77.4)**	**77.4**	**3.1**	**(3.1)**	**(74.3)**	**74,3**

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

For some instruments the Group applies cash flow hedge model under IAS 39 for interest rate exposure from floating rate interest payments in PLN on senior facility hedged by interest rate swap.

Fair value vs. carrying amount

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

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

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

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

			31 December 2018 *(IFRS 15 basis)*		31 December 2017 *(IAS 18 basis)*	
	Category according to MSSF 9	**The level of the fair value hierarchy**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**
Loans granted	A	2	17.3	17.3	4.5	4.5
Trade and other receivables	A	*	2,818.6	2,818.6	2,454.5	2,454.5
Cash and cash equivalents and short-term deposits	A	*	1,167.0	1,167.0	1,161.5	1,161.5
Restricted cash	A	*	11.7	11.7	10.5	10.5
Loans and borrowings	B	2	(10,323.9)	(10,216.6)	(10,692.0)	(10,633.3)
Issued bonds	B	1	(1,028.9)	(1,018.3)	(1,036.7)	(1,018.2)
UMTS licence liabilities	B	2	(495.2)	(466.3)	(594.2)	(555.3)
Finance lease liabilities	B	2	(24.0)	(24.0)	(28.3)	(28.3)
Accruals	B	*	(964.8)	(964.8)	(760.5)	(760.5)
Trade and other payables and deposits	B	*	(1,438.7)	(1,438.7)	(665.3)	(665.3)
Total			**(10,260.9)**	**(10,114.1)**	**(10,146.0)**	**(10,029.9)**
Unrecognized gain/(loss)				(146.8)		(116.1)

A – assets measured at amortised costs

B – liabilities measured at amortised costs

* It is assumed that the fair value of these financial assets and liabilities is equal to their nominal value, therefore no evaluation methods were used in order to calculate their fair value

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

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

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

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

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

As at 31 December 2018 loans and borrowings comprised bank loans and other loans. As at 31 December 2017 loans and borrowings comprised bank loans. The discount rate for each payment was calculated as a sum of implied WIBOR or EURIBOR interest rate and a margin regarding the credit risk. When determining the fair value of bank loans granted to Cyfrowy Polsat S.A., Polkomtel Sp. z o.o. and Netia S.A. as at 31 December 2018, forecasted cash flows from the reporting date to 30 September 2022 (assumed dates of repayment of the loans) were analyzed. When determining the fair value of bank loans granted to Cyfrowy Polsat S.A. and Polkomtel Sp. z o.o. as at 31 December 2017, forecasted cash flows from the reporting date to 21 September 2020 (assumed dates of repayment of the loans as at 31 December 2017) were analyzed.

The fair value of issued bonds as at 31 December 2018 and 31 December 2017 was estimated as a last purchase price at the balance sheet date according to GPW Catalyst quotations for bonds issued by Cyfrowy Polsat S.A.

As at 31 December 2018, the Group held the following financial instruments carried at fair value on the statement of financial position.

Assets measured at fair value				
	31 December 2018	**Level 1**	**Level 2**	**Level 3**
Investments in equity instruments		**-**	**0.2**	**-**
Total		**-**	**0.2**	**-**

Liabilities measured at fair value				
	31 December 2018	**Level 1**	**Level 2**	**Level 3**
Derivative instruments not designated as hedging instruments		**-**	**(11.3)**	**-**
Interest rate swaps		*-*	*(11.3)*	*-*
Hedging derivative instruments		**-**	**(0.8)**	**-**
Interest rate swaps		*-*	*(0.8)*	*-*
Put option		**-**	**-**	**(161.9)**
Total		**-**	**(12.1)**	**(161.9)**

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

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

As at 31 December 2017, the Group held the following financial instruments measured at fair value:

Assets measured at fair value

	31 December 2017	Level 1	Level 2	Level 3
Derivative instruments not designated as hedging instruments:			**6.4**	
Interest rate swaps		-	6.4	-
Hedging derivative instruments:			**0.6**	
Interest rate swaps		-	0.6	-
Total		**-**	**7.0**	**-**

Liabilities measured at fair value

	31 December 2017	Level 1	Level 2	Level 3
Derivative instruments not designated as hedging instruments:			**(3.1)**	
Forward transactions		-	(1.5)	-
Interest rate swaps		-	(1.6)	-
Hedging derivative instruments:			**(0.5)**	
Interest rate swaps		-	(0.5)	-
Total		**-**	**(3.6)**	**-**

Items of income, costs, profit and losses recognized in profit or loss generated by loans and bonds (including hedging transactions)

For the period from 1 January 2018 to 31 December 2018	Loans and borrowings	Bonds	Hedging instruments	Derivative instruments not designated as hedging instruments	**Total**
Interest expense on loans and borrowings	(324.0)	-	(0.2)	(15.7)	**(339.9)**
Interest expense on bonds	-	(43.2)	-	-	**(43.2)**
Total finance costs	(324.0)	(43.2)	(0.2)	(15.7)	**(383.1)**
Total gross profit/(loss)	**(324.0)**	**(43.2)**	**(0.2)**	**(15.7)**	**(383.1)**
Hedge valuation reserve	**-**	**-**	**0.9**	-	**0.9**

For the period from 1 January 2017 to 31 December 2017	Loans and borrowings	Bonds	Hedging instruments	Derivative instruments not designated as hedging instruments	**Total**
Interest expense on loans and borrowings	(369.6)	-	0.2	(6.3)	**(375.7)**
Interest expense on bonds	-	(69.8)	-	-	**(69.8)**
Early redemption costs	-	(58.7)	-	-	**(58.7)**
Total finance costs	(369.6)	(128.5)	0.2	(6.3)	**(504.2)**
Total gross profit/(loss)	**(369.6)**	**(128.5)**	**0.2**	**(6.3)**	**(504.2)**
Hedge valuation reserve	**-**	**-**	**1.3**	-	**1.3**

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

Hedge accounting and derivatives

Cash Flow Hedge of interest rate risk of interest payments

At 31 December 2018, the Group held a number of interest rate swaps not designated as hedges in order to reduce the risk of floating interest payments on senior facilities denominated in PLN.

Table below presents the basic parameters of IRS not designated as hedging instruments, including the periods in which cash flows occur, periods they will affect the financial results and their fair value in PLN as at the balance sheet date.

	31 December 2018	31 December 2017
Type of instrument	Interest rate swap	Interest rate swap
Exposure	Floating rate interest payments in PLN	Floating rate interest payments in PLN
Hedged risk	Interest rate risk	Interest rate risk
Notional value of hedging instrument	4,000.0	4,000.0
Fair value of hedging instruments	(11.3)	4.8
Hedge accounting approach	Hedge accounting not adopted	Hedge accounting not adopted
Expected period the hedge item affect income statement	Until 30 June 2021	Until 31 March 2020

At 31 December 2018, the Group held a number of interest rate swaps designated as hedges of floating interest payments on senior facility denominated in PLN. The interest rate swaps are being used to hedge the interest rate risk of the Group's floating rate financing in PLN.

The terms of the interest rate swaps have been negotiated to match the terms of the floating rate financing in PLN. There were no highly probable transactions for which hedge accounting has been claimed that have not occurred and no significant element of hedge ineffectiveness requiring recognition in the income statement.

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 2018	31 December 2017
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	250.0	375.0
Fair value of hedging instruments	(0.8)	0.1
Hedge accounting approach	Cash Flow Hedge	Cash Flow Hedge
Expected period the hedge item affect income statement	Until 30 September 2020	Until 30 September 2019

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

Change in fair value of cash flow hedges is presented below (pre-tax):

	2018	2017
Opening Balance	**0.1**	**1.5**
Effective part of gains or losses on the hedging instrument	(1.1)	(1.2)
Amounts recognized in equity transferred to the profit and loss statement, of which:	0.2	(0.2)
- adjustment of interest costs	0.2	(0.2)
Closing Balance	**(0.8)**	**0.1**

Cash Flow Hedge of foreign exchange risk of operational payments

At 31 December 2017 the Group held a number of forwards not designated as hedges in order to reduce the risk of operational payments in EUR.

Tables below present the basic parameters of forwards not designated as hedging instruments, including the periods in which cash flows occurred, periods they affected the financial results and their fair value in PLN as at the balance sheet date.

	31 December 2018	31 December 2017
Type of instrument	-	Forward
Exposure	-	Operational payments in euro
Hedged risk	-	Foreign exchange risk
Notional value of hedging instrument (EUR)	-	44.0
Fair value of hedging instruments	-	(1.5)
Hedge accounting approach	-	Hedge accounting not adopted
Expected period the hedge item affect income statement	-	Until 27 April 2018

40. Capital management

This note presents information about the Group's management of capital. Further quantitative disclosures are also included throughout these financial statements.

The goal of capital management is to maintain the Group's ability to operate as a going concern in order to provide the shareholders return on investment as well as benefits for other stakeholders. The Group might issue shares, increase debt or sell assets in order to maintain or improve the equity structure.

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

The Group monitors capital on the basis of leverage ratio, which is calculated as a ratio of net debt to sum of equity and net debt. Net debt represents interest-bearing loans and borrowings and issued bonds less cash and cash equivalents (including restricted cash).

	Carrying amount	
	31 December 2018	**31 December 2017**
Loans and borrowings	10,216.6	10,633.3
Bonds	1,018.3	1,018.2
Cash and cash equivalents and restricted cash	(1,178.7)	(1,172.0)
Net debt	**10,056.2**	**10,479.5**
Equity	13,875.2	12,116.8
Equity and net debt	**23,931.4**	**22,596.3**
Leverage ratio	**0.42**	**0.46**

41. Operating segments

The Group operates in the following two segments:

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

The Group conducts its operating activities primarily in Poland.

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

Services to individual and business customers segment includes:

- digital pay television services which primarily relate to direct distribution of technologically advanced pay-TV services and revenues are generated mainly by pay-TV subscription fees,
- mobile telecommunication services (postpaid and mix) which generate revenues mainly from interconnection revenues, settlements with mobile network operators and subscription fees,
- mobile telecommunication prepaid services which generate revenues mainly from interconnection revenues and settlements with mobile network operators,
- fixed telecommunication services, which generate revenues mainly from subscription fees, interconnection and settlements with operators,
- providing access to broadband Internet in mobile and fixed-line technologies which generates revenues mainly from traffic and subscription fees,
- telecommunication wholesale services, including international and domestic roaming as well as telecommunication infrastructure sharing services,
- lease of optical fibers and infrastructure,

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

- online TV services (IPLA) available on computers, smartphones, tablets, SmartTV, game consoles and other TV equipment which generate revenues mainly from subscription fees and advertising on the Internet,
- Premium Rate services based on SMS/IVR/MMS/WAP technology,
- production of set-top boxes,
- sale of telecommunication equipment and production of set-top boxes,
- sale of electric energy and other media to retail customers.

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

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

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the year ended 31 December 2018:

The year ended 31 December 2018 – *IFRS 15 basis*	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	9,170.1	1,516.0	-	10,686.1
Inter-segment revenues	60.6	179.9	(240.5)	-
Revenues	**9,230.7**	**1,695.9**	**(240.5)**	**10,686.1**
EBITDA (unaudited)	**3,144.9**	**552.8**	**-**	**3,697.7**
Depreciation, amortization, impairment and liquidation	1,930.0	40.7	-	1,970.7
Profit from operating activities	**1,214.9**	**512.1**	**-**	**1,727.0**
Acquisition of property, plant and equipment, reception equipment and other intangible assets	960.1*	52.7	-	1,012.8
Balance as at 31 December 2018				
Assets, including:	25,229.1	5,540.3**	(72.6)	30,696.8
Investments in joint venture and shares in associates	18.3	30.6	-	48.9

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

** includes non-current assets located outside of Poland in the amount of PLN 12.8

All material revenues are generated in Poland.

It should be noted that the data for 12 months ended 31 December 2018 allocated to the "Services to individual and business customers" segment are not comparable to the 12 months ended 31 December 2017 as LTE Holdings Limited was disposed on 19 June 2017, 51% shares in Plus Flota Sp. z o.o. (formerly Paszport Korzyści Sp. z o.o.) were acquired on 7 September 2017, 31.76% shares in Netia S.A. were acquired on 5 December 2017 and additional shares in Netia S.A. were acquired on

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

22 May 2018, 3 July 2018 and 2 October 2018, shares in New Media Ventures Sp. z o.o. were disposed on 8 December 2017, Coltex ST Sp. z o.o. were acquired on 1 March 2018, 45.1% shares in TVO Sp. z o.o. were acquired on 29 May 2018, 100% shares in Netshare Media Group Sp. z o.o. were acquired on 25 June 2018 and 24.47% votes in Premium Mobile S.A. were taken up in 2018.

It should be noted also that the data for 12 months ended 31 December 2018 allocated to the "Broadcasting and television production" are not comparable to the 12 months ended 31 December 2017 as Eska TV S.A. and Lemon Records Sp. z o.o. were acquired on 4 December 2017, 34.02% shares in TV Spektrum Sp. z o.o. were acquired on 4 December 2017 and additional 15.46% shares in TV Spectrum Sp. z o.o. on 2 February 2018, 50% plus one share in Eleven Sports Network Sp. z o.o. were acquired on 25 May 2018 and 100% shares in Superstacja Sp. z o.o. were acquired on 4 June 2018.

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the year ended 31 December 2017:

The year ended 31 December 2017 – *IAS 18 basis*	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	8,562.5	1,266.1	-	9,828.6
Inter-segment revenues	42.5	167.7	(210.2)	-
Revenues	**8,605.0**	**1,433.8**	**(210.2)**	**9,828.6**
EBITDA (unaudited)	**3,112.5**	**504.5**	**-**	**3,617.0**
Depreciation, amortization, impairment and liquidation	1,746.3	36.7	-	1,783.0
Profit from operating activities	**1,366.2**	**467.8**	**-**	**1,834.0**
Acquisition of property, plant and equipment, reception equipment and other intangible assets	852.8*	25.1	-	877.9
Balance as at 31 December 2017				
Assets, including:	23,191.6	4,621.5**	(57.1)	27,756.0
Investments in joint venture	-	5.9	-	5.9

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

** includes non-current assets located outside of Poland in the amount of PLN 12.1

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

Reconciliation of EBITDA and Net profit for the period:

	for the year ended	
	31 December 2018 *(IFRS 15 basis)*	31 December 2017 *(IAS 18 basis)*
EBITDA (unaudited)	**3,697.7**	**3,617.0**
Depreciation, amortization, impairment and liquidation (note 11)	(1,970.7)	(1,783.0)
Profit from operating activities	**1,727.0**	**1,834.0**
Other foreign exchange rate differences, net (note 12)	(28.8)	49.6
Share of the profit/(loss) of associates accounted for using the equity method	(1.2)	2.8
Interest costs, net (note 12 and 13)	(400.5)	(415.7)
Cumulative catch-up (note 13)	34.7	-
Early redemption costs (note 13)	-	(58.7)
Other	(25.1)	(77.0)
Gross profit for the period	**1,306.1**	**1,335.0**
Income tax	(490.0)	(389.8)
Net profit for the period	**816.1**	**945.2**

42. Barter transactions

The Group is a party to barter transactions. The table below presents revenues and costs of barter transactions executed on an arm's-length basis. Revenue comprise revenue from services, products, goods and materials sold, costs comprise selling expenses.

	for the year ended	
	31 December 2018	31 December 2017
Revenues from barter transactions	49.0	45.0
Cost of barter transactions	44.2	43.2

	31 December 2018	31 December 2017
Barter receivables	16.4	16.5
Barter payables	1.0	9.0

43. Transactions with related parties

Receivables

	31 December 2018	31 December 2017
Joint ventures	6.3	3.3
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	16.3	6.6
Total*	**22.6**	**9.9**

* amounts presented above do not include deposits paid (31 December 2018 – PLN 3.4, 31 December 2017 – PLN 3.4)

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

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

Other assets

	31 December 2018	31 December 2017
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.6	0.3
Total	**0.6**	**0.3**

Liabilities

	31 December 2018	31 December 2017
Joint ventures	7.5	2.1
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	45.1	35.5
Total	**52.6**	**37.6**

Loans granted

	31 December 2018	31 December 2017
Joint ventures	15.0	-
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	2.2	2.1
Total	**17.2**	**2.1**

Loans received

	31 December 2018	31 December 2017
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	5.0	-
Total	**5.0**	**-**

Revenue

	for the year ended	
	31 December 2018	31 December 2017
Subsidiaries*	18.8	0.1
Joint ventures	21.5	3.0
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	25.3	14.6
Total	**65.6**	**17.7**

* Concerns transaction with subsidiaries executed prior to their acquisition.

Expenses and purchases of programming assets

	for the year ended	
	31 December 2018	31 December 2017
Subsidiaries*	13.5	-
Joint ventures	36.3	4.1
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	296.7	254.7
Total	**346.5**	**258.8**

* Concerns transaction with subsidiaries executed prior to their acquisition.

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

In 12 months ended 31 December 2018 the most significant transactions include cost of electrical energy, advertising services and property rental.
In 12 months ended 31 December 2017 the most significant transactions include include cost of electrical energy, property rental, expenses for programming assets and advertising services.

Gain on investment activities, net

	for the year ended	
	31 December 2018	31 December 2017
Subsidiaries*	-	0.8
Joint ventures	0.5	1.6
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.1	0.1
Total	**0.6**	**2.5**

* Concerns transaction with subsidiaries executed prior to their acquisition.

Finance costs

	for the year ended	
	31 December 2018	31 December 2017
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	5.5	78.4
Total	**5.5**	**78.4**

44. Contingent liabilities

Management believes that the provisions as at 31 December 2018 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

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

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

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

On 27 December 2012 the President of UOKiK issued a decision ending investigations related to Polkomtel's (Company's indirect subsidiary) alleged practices which infringed upon the collective interests of consumers by presenting misleading slogans in advertising campaigns. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 4.5. The company appealed to SOKiK against the decision. On 15 October 2014 SOKiK issued a decision where the penalty has been reduced to PLN 1.5. On 10 February 2016 SOKiK's decision has been revoked thus re-establishing the penalty back at PLN 4.5. On 15 March 2016 Polkomtel made a payment in the amount of PLN 1.8. On 23 March 2018, SOKiK dismissed Polkomtel's appeal by upholding the decision of the President of UOKiK. On 13 July 2018 Polkomtel made a payment in the amount of PLN 2.7. The case is finally closed.

On 23 December 2014 the President of UOKiK issued a decision ending investigations related to Polkomtel's (Company's indirect subsidiary) alleged practices which infringed upon the collective interests of consumers by including certain clauses in the terms and conditions of the online shop and including certain clauses in the equipment return policy when telecommunication agreements are terminated by the subscriber. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 8.8. The company appealed to SOKiK against the decision. On 24 October 2017 the appeal has been rejected by SOKiK. The company appealed against the SOKiK verdict. On 30 August 2018 Court of Appeals issued a decision where the penalty has been reduced to PLN 1.5. On 20 November 2018 Polkomtel made a payment in the amount of PLN 1.5.

On 30 December 2014 the President of UOKiK issued a decision ending investigations related to Polkomtel's (Company's indirect subsidiary) alleged practices which infringed upon the collective interests of consumers by not providing its telecommunication clients (which entered into a written agreement) with terms and conditions of the preferential sales offer as well as not informing about the termination of the preferential sales offer. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 6.0. The company appealed to SOKiK against the decision. On 5 March 2018, SOKiK issued a decision where the penalty has been annulled and dismissed the appeal in remaining scope. Both parties appealed to the Court of Appeals in Warsaw.

On 30 December 2016 the President of UOKiK issued a decision stating that the operations of the Company and Polkomtel (Company's indirect subsidiary) were allegedly infringing collective consumer interests by presenting advertising slogans, which in the opinion of the authorities were misleading and suggested that the LTE data transmission will not be limited. Pursuant to the decision of the President of UOKiK the Company and Polkomtel were charged with a penalty in the amount of PLN 5.3 and PLN 18.4, respectively. The Group appealed to SOKiK against the decision.

On 30 December 2016 the President of UOKiK issued a decision stating that the operations of the Company and Polkomtel (Company's indirect subsidiary) were allegedly infringing collective consumer interests by presenting sale offers, which in the opinion of the authorities were impossible to conclude. Pursuant to the decision of the President of UOKiK the Company and Polkomtel was charged with a penalty in the amount of PLN 4.4 and PLN 12.3, respectively. The Group appealed to SOKiK against the decision.

Other proceedings

On 15 December 2014 Polkomtel (Company's indirect subsidiary) received a claim from Orange for the total amount of PLN 21.0 related to the actions allegedly contrary to the obligations arising under the agreement for the transfer of rights to radio frequencies. On 13 January 2015 the company filed an answer to the claim. Pursuant to the decision of the District Court in Warsaw the penalty has been lowered to PLN 9.0. On 20 April 2017 the penalty has been affirmed by the Court in the amount of PLN 9.0. On 12 May 2017 Polkomtel made a payment in the amount of PLN 9.0. Polkomtel filed cassation appeal. On 28 August 2018 the cassation appeal has been rejected by Supreme Court. In management's opinion the claim is groundless.

In September 2015, Polkomtel (Company's indirect subsidiary) received a claim from P4 Sp. z o.o., in which the company demands compensation of PLN 316.0 (including interest of PLN 85.0), for the alleged actions relating to the pricing of the mobile services rendered between July 2009 and March 2012. The claim assumes payment of the above amount jointly by Orange Poland S.A., Polkomtel and T-Mobile Poland S.A. On 27 December 2018 Court dismissed entire claim. P4 Sp. z o.o. can appeal against the decision.
Management believes that the claim is unfounded, as Polkomtel's conduct alone or with other tort entities was not wrongful, in particular relating to the pricing of retail mobile services directed to the telecommunications network of P4 Sp. z o.o. In management's opinion, there is no legal basis for the overall assessment of the alleged actions of each of the operators on the telecommunications market, which is fully a competitive market, and each of the operators has its own business and pricing strategy. The claim of P4 Sp. z o.o. indicates neither nature (premises liability) nor the amount.

On 28 April 2017, ZASP filed a lawsuit against Cyfrowy Polsat for payment of PLN 20.3. The Company issued an objection in the writ-of-payment proceedings and filed for its dismissal entirety. On 10 January 2018 the Court issued a decision to refer the case to mediation proceedings. Mediation ended without a settlement. The date of the next hearing was scheduled for 9 May 2019.

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

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

45. Remuneration of the Management Board

The table below presents the Management Board's remuneration.

Name	Function	2018	2017
Tobias Solorz	President of the Management Board	1.5	1.5
Dariusz Działkowski	Member of the Management Board	0.9	0.7
Tomasz Gillner-Gorywoda	Member of the Management Board	1.2	1.2
Aneta Jaskólska	Member of the Management Board	0.9	0.9
Agnieszka Odorowicz	Member of the Management Board	0.6	0.6
Katarzyna Ostap-Tomann	Member of the Management Board	1.0	1.0
Maciej Stec	Member of the Management Board	0.9	0.9
Total		**7.0**	**6.8**

The amounts of bonuses and other remuneration payable to each member of the Management Board for 2018 and 2017 are presented below:

Name	Function	2018	2017
Tobias Solorz	President of the Management Board	9.5	1.5
Dariusz Działkowski	Member of the Management Board	-	1.1
Tomasz Gillner-Gorywoda	Member of the Management Board	1.5	1.4
Aneta Jaskólska	Member of the Management Board	1.5	1.3
Agnieszka Odorowicz	Member of the Management Board	0.8	0.6
Katarzyna Ostap-Tomann	Member of the Management Board	1.6	1.4
Maciej Stec	Member of the Management Board	1.7	1.5
Total		**16.6**	**8.8**

46. Remuneration of the Supervisory Board

The Supervisory Board receives remuneration based on the resolution of the Extraordinary General Shareholders' Meeting of Cyfrowy Polsat S.A. dated 5 September 2007. On 29 June 2016 the Annual General Meeting adapted the resolution concerning changes in remuneration of members of the Supervisory Board.

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

Presented below total remuneration payable to the Supervisory Board members in 2018 and 2017:

Name	**Function**	**2018**	**2017**
Marek Kapuściński	President of the Supervisory Board	0.24	0.24
Józef Birka	Member of the Supervisory Board	0.18	0.18
Robert Gwiazdowski	Independent Member of the Supervisory Board	0.18	0.18
Aleksander Myszka	Member of the Supervisory Board	0.18	0.18
Leszek Reksa	Independent Member of the Supervisory Board	0.18	0.18
Heronim Ruta	Member of the Supervisory Board (until 30 November 2017)	-	0.17
Tomasz Szeląg	Member of the Supervisory Board	0.18	0.18
Piotr Żak	Member of the Supervisory Board (from 28 June 2018)	0.09	-
Total		**1.23**	**1.31**

47. Important agreements and events

<u>Decision of the Head of the Mazovian Tax Office in Warsaw</u>

On 30 April 2018 the Director of the Revenue Administration Regional Office in Warsaw issued a decision upholding the appealed decision of the Head of the Mazovian Tax Office in Warsaw ("Tax Office") dated 25 May 2017. The Tax Office's decision dated 25 May 2017 determines the value of tax obligation in relation to corporate income tax for the year 2011 at a higher level than the declared value, by PLN 40.6 plus accrued penalty. The Company informed about the decision in its financial statements for the year 2017.

The Company does not agree with the decision of the Director of the Revenue Administration Regional Office in Warsaw in question and appealed against it to the Voivodship Administrative Court. The first hearing will be on 30 April 2019.

At present the Company does not intend to create any provisions encumbering its financial results.

<u>Decision of the Head of the Małopolska Tax Office in Cracow</u>

On 15 February 2018 the Head of the Małopolska Tax Office in Cracow ("Tax Office") issued the decision assessing the tax liability from uncollected withholding corporate income tax in 2012 in the amount of PLN 24.2 increased by interest on tax arrears.

In the issued decision the Tax Office contested the Company's right to an exemption from the obligation to withhold income tax on certain interest payments in 2012. The Company appealed against the decision of the Tax Authority on the basis of acquired opinions issued by renowned entities. The Company has not created any provisions encumbering its financial results.

On 10 July 2018 the Tax Office upheld the previous decision dated 15 February 2018. The Company does not agree with the decision of the Tax Office in question and appealed against it to the Voivodship Administrative Court in Cracow. The Provincial Administrative Court in Cracow dismissed the mentioned complaint in the ruling as of 21 February 2019. The

Company does not agree with this decision and intends to file a cassation complaint in this respect with the Supreme Administrative Court in Warsaw.

The Tax Office control activities in the aforesaid matter were in progress in relation to 2013 and 2014. Custom and tax control activities has been transformed into tax proceedings. If an unfavorable and, in the opinion of the Company, incorrect interpretation of tax regulations relating to disputed matter is upheld, the Tax Authority may issue a decision assessing additional tax liabilities respect for 2013 and 2014.

At present the Company does not intend to create any provisions encumbering its financial results.

The legal dispute in respect to the telecommunication concession

There is a pending legal dispute in respect to the telecommunication concession for the 1800 MHz frequency granted in 2007 to Mobyland Sp. z o.o. (now Aero 2 Sp. z o.o.) and Centernet S.A. (now Aero 2 Sp. z o.o.). Proceedings to invalidate the 1800 MHz frequency allocation tender have been instigated by T-Mobile and Orange. Supreme Administrative Court (NSA), in its ruling dated 8 May 2014, sustained the decision of the Court of First Instance and repealed the decision issued by the President of the Office of Electronic Communications (UKE) on 23 September 2011 which partially invalidated the above mentioned tender. Following the decision of the Supreme Administrative Court, UKE informed that "the decisions regarding re-running the tender will be taken by the Office upon careful analysis of the written justification of NSA's rulings and the Court's guidelines regarding further procedure as well as upon analysis of the legal situation". UKE also stated that the 'reservation decisions issued by UKE President remained valid while the operators could continue providing their services while using these frequencies'. On 23 December 2016 President of UKE notified the parties that the tender annulment proceedings relating to the 1800 MHz frequency have been adopted. Pursuant to the decision dated 4 August 2017 President of UKE notified the parties that the tender dated 2007 has been annulled. On 13 October 2017 Aero 2 Sp. z o.o. (a successor of CenterNet S.A. and Mobyland Sp. z o.o.) filed a motion to reconsider the decision of the President of UKE dated 4 August 2017 concerning the annulment of the tender procedure. On 31 January 2018 the President of UKE upheld its decision dated 4 August 2017. On 7 March 2018 Aero2 filed a complaint with the Provincial Administrative Court in Warsaw, on 4 October 2018 complaint was dismissed. On 27 December 2018, Aero2 filed a cassation appeal against judgment. The case is awaiting the appointment by the NSA.
The decision issued by UKE President does not affect reservation decisions issued following the administrative tender. In accordance with President of UKE's press release, these reservation decisions remain valid and telecommunication operators may continue to provide their services based on these reservation decisions. In management's opinion this issue should have no negative impact on the results and financial condition of the Group. Accordingly, no valuation adjustment has been made in these consolidated financial statements.

Changes in shareholder structure

On 29 January 2018, Sensor Overseas Limited disposed of 21,041,375 shares of the Company, constituting 3.29% of the share capital and representing 5.14% of the total number of the votes at the General Meeting of the Company.

On 26 January 2018, Karswell Limited ("Karswell") disposed of 16,577,107 shares of the Company, constituting 2.59% of the share capital and representing 2.02% of the total number of the votes at the General Meeting of the Company. On 26 April 2018, Karswell disposed of 123,411,161 shares of the Company, constituting 19.30% of the share capital and representing 15.07% of the total number of the votes at the General Meeting of the Company.

On 29 January 2018 Reddev Investements Limited ("Reddev") acquired 21,041,375 shares of the Company, constituting 3.29% of the share capital and representing 5.14% of the total number of the votes at the General Meeting of the Company. On 26 April 2018 Reddev acquired 123,411,161 shares of the Company, constituting 19.30% of the share capital and representing 15.07% of the total number of the votes at the General Meeting of the Company.

48. Events subsequent to the reporting date

Changes in the Management Board

At the meeting of the Supervisory Board of the Company held on 17 January 2019 Mr. Tobias Solorz resigned from the position of President of the Management Board of the Company, effective 31 March 2019. Subsequently, the Supervisory Board of the Company adopted resolutions on changes in the Management Board of the Company concerning:

a) the appointment of Mr. Mirosław Błaszczyk, the existing President of the Management Board of Telewizja Polsat Sp. z o.o., a subsidiary of the Company, to the position of President of the Management Board of Cyfrowy Polsat S.A., effective 1 April 2019;
b) the appointment of Mr. Maciej Stec, the existing Member of the Management Board of Cyfrowy Polsat S.A., to the position of Vice-President of the Management Board, effective 1 April 2019.

On 14 March 2019 Mr. Dariusz Działkowski and Mr. Tomasz Gillner-Gorywoda resigned from the positions of Members of the Management Board of the Company, effective 31 March 2019. On the same date, the Supervisory Board of the Company adopted a resolution concerning the appointment of Mr. Jacek Felczykowski, the existing Member of the Management Board of Polkomtel, to the position of Member of the Management Board of Cyfrowy Polsat S.A., effective 1 April 2019.

Adoption of a new dividend policy of the Company

On 15 March 2019 the Management Board of Cyfrowy Polsat S.A. has adopted a resolution regarding the dividend policy which assumes that dividend payout proposals, along with the Management Board's recommendations, will be presented every year to the General Meeting, subject to the observance of the following general principles:

1. the amount of a dividend paid out every year shall guarantee the Company's shareholders an attractive return from invested capital;
2. the level of the obtained return shall be shaped in relation to the commonly available on the Polish market forms of safe investing of funds, in particular in relation to the level of bank deposits rates, while taking into account a risk premium associated with floating of Cyfrowy Polsat's share prices on the Warsaw Stock Exchange;
3. in parallel, a yearly submitted proposal for distribution of the Group's net profit for the previous financial year should allow for the continuation of gradual reduction of Cyfrowy Polsat Group's net debt in order to achieve the desired ratio of net debt to EBITDA at the level below 1.75x.

Simultaneously, the Management Board of Cyfrowy Polsat S.A. reviewed the plans of Cyfrowy Polsat Capital Group and evaluated possibilities of allocating the expected cash resources of the Group with an aim to pay out a stable and predictable dividend stream to its shareholders in medium term. Based on the conducted analysis, the Management Board intends to recommend for 2019-2021 the dividend payout in the total amount of not less than PLN 2.79 per share in three equal installments as follows:

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

1. at least PLN 0.93 per share to be paid out in 2019;
2. at least PLN 0.93 per share to be paid out in 2020;
3. at least PLN 0.93 per share to be paid out in 2021.

In parallel, the Management Board notes that every time when presenting a proposal for distribution of the profit for the previous year it will take into account the Group's net profit, financial standing and liquidity, existing and future liabilities (including potential restrictions related to facility agreements and other financial documents), the assessment of the Group's prospects in specific market and macroeconomic conditions, potential necessity of spending funds for the Group's development, in particular through acquisitions and embarking on new projects, one-off items, as well as valid legal regulations.

The dividend policy will be subject to regular verification by the Company's Management Board. In particular, the Management Board expects modification to the aforementioned dividend policy following the refinancing of Polsat Group's debt which is expected in 2022.

The new dividend policy will take effect from 1 April 2019.

49. Other disclosures

Security relating to loans and borrowings

Establishment of security for loan facilities

The Group entered into a series of agreements establishing collateral under the Senior Facilities Agreement, SFA Agreement and Senior Notes. Detailed information in respect to the agreements is presented in the Management Report in note 4.6.6.

Commitments to purchase programming assets

As at 31 December 2018 the Group had outstanding contractual commitments in relation to purchases of programming assets. The table below presents a maturity analysis for such commitments:

	31 December 2018	**31 December 2017**
within one year	317.4	192.6
between 1 to 5 years	418.9	612.1
more than 5 years	19.4	15.0
Total	**755.7**	**819.7**

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

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

	31 December 2018	31 December 2017
within one year	-	0.2
Total	**-**	**0.2**

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of property, plant and equipment was PLN 171.5 as at 31 December 2018 (PLN 110.4 as at 31 December 2017). Total amount of contractual liabilities resulting from agreements for the purchases of intangible assets as at 31 December 2018 was PLN 212.6 (PLN 272.5 as at 31 December 2017).

Other

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

50. Judgments, financial estimates and assumptions

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

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

The most significant estimates and assumptions made primarily related to the following:

- *Classification of lease agreements*

The Group classifies leasing agreements as operating or financial based on the assessment as to what extent the risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The assessment is based on the economical substance of each transaction. The Group concludes agreements for the rental of reception equipment (set-top boxes, modems and routers) to its customers in the course of its business operations. These lease agreements are classified as operating leases as the Group holds substantially all the risks and rewards incidental to ownership of the reception

equipment. The Group also provides vehicles under operating lease agreements which were initially leased from MLeasing and recognized as financial leasing.
The Group entered into land lease agreements (locations for network infrastructure) and leases of office and other premises which are classified as operating leases. For more information see note 33.

- *Depreciation rates of property, plant and equipment and intangible assets with definite useful lives*

Depreciation rates are based on the expected economic useful lives of property, plant and equipment (including reception equipment provided to customers under lease agreements) and intangible assets (including customer relationships and Plus brand). The expected economic useful lives are reviewed on an annual basis based on the experience of the entity.
The economic useful lives of the set-top boxes rented to customers under operating lease agreements are estimated for 5 years, modems and routers 3 years. For information on the useful lives of property, plant and equipment, programming assets and other intangible assets with definite useful lives see notes 7j and 7k. 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 17 and 21.

- *Economic useful lives and amortization method of programming assets*

Economic useful life of programming assets is based on the shorter of the expected consumption of future economic benefits embodied in an asset and the license period. Amortisation method of programming assets reflects how these economical benefits are consumed. The estimation of the useful life and the amortization method requires assessment of the timing during which the Group is expecting to obtain the income from the acquired programming assets and the percentage apportionment of this income in the given period. For more information about the amortization method and amortization charge for the period by programming assets category see notes 7l and 22.

- *Indefinite useful life of Polsat, TV4, TV6, IPLA and Polo TV (Lemon Records) brands*

As at the reporting date, the Group has reviewed whether relevant factors continue to indicate indefinite useful life of Polsat, TV4, TV6, IPLA and Polo TV (Lemon Records) brands recognised in 2011-2017 on the acquisition of Telewizja Polsat S.A., Polskie Media S.A., entities comprising IPLA network and Lemon Records Sp. z o.o.
The Group has reviewed the following factors which are essential for estimating the economic useful life of the Polsat, TV4, TV6, IPLA and Polo TV (Lemon Records) brands:
- The expected usage of the asset by the entity and whether the asset could be managed more efficiently
- Technical, technological, commercial or other types of obsolescence
- The stability of the industry in which the asset operates and changes in the market demand for media services
- Expected actions by competitors or potential competitors
- The level of maintenance expenditure required to obtain the expected future economic benefits from the asset
- Whether the useful life of the asset is dependent on the useful life of other asset of the entity.

Having analyzed the above factors, the Group has concluded that there is no foreseeable limit to the period over which the Polsat, TV4, TV6, IPLA and Polo TV (Lemon Records) brands are expected to generate net cash inflows for the Group and thus the indefinite useful life was assumed. This means that the above brands are not subject to amortization but rather are tested for impairment on annual basis. The Management believes that Polsat, TV4, TV6 and Polo TV (Lemon Records) brands have a positive impact on the revenues from advertising and sponsorship and IPLA brand has a positive impact on acquisition of new customers as well as increase of ARPU among current customers of Cyfrowy Polsat. Furthermore, the Polsat brand is widely recognized by media and is highly appreciated in numerous rankings. Numerous awards for employees, individuals associated with the brand as well as high Power Ratio index also indicate a strong position of the brand.

As at the balance sheet date the Management states there are no plans to cease using or significantly modify Polsat, TV4, TV6, IPLA or Polo TV (Lemon Records) brands. The value assigned to the brands relate to the name “Polsat”, "TV4", “TV6”, “ipla” and “Polo TV” respectively and the related logotypes both of which are reserved trademarks. In case the Group decides about discontinuance of use or significant modification of the name or logotype the Management would review whether events and circumstances continue to support an indefinite useful life assessment of the Polsat, TV4, TV6, IPLA and Polo TV (Lemon Records) brands and assess whether there are indicators of possible impairment.

- *Fair value of assets and liabilities of ESKA TV S.A., Lemon Records Sp. z o.o., Coltex ST Sp. z o.o. and Netshare Media Group Sp. z o.o.*

The Group identified assets and liabilities and estimated their fair value under the purchase price allocation process relating to the acquisition of ESKA TV S.A., Lemon Records Sp. z o.o., Coltex ST Sp. z o.o. and Netshare Media Group Sp. z o.o. For more information see note 38.

- *Preliminary fair value of assets and liabilities of Netia S.A., Eleven Sports Network Sp. z o.o. and Superstacja Sp. z o.o.*

The Group identified assets and liabilities and estimated their preliminary fair value under the purchase price allocation process relating to the acquisition of Netia S.A., Eleven Sports Network Sp. z o.o. and Superstacja Sp. z o.o. For more information see note 38.

- *The impairment of goodwill and intangible assets with indefinite useful lives*

The Group performed impairment test of a goodwill and of the intangible assets with indefinite useful lives (Polsat brand, TV4 and TV6 brands, Ipla brand and Polo TV (Lemon Records) brand). The impairment test was based on the value-in-use calculations of the cash-generating unit to which the goodwill and brands have been allocated on the initial recognition. Goodwill and brands with indefinite useful lives have been allocated to the following cash-generating units, which also represent the Group's business segments:
- “Services to individual and business customers” - goodwill recognized on the acquisition of M.Punkt Holdings Ltd., goodwill recognized on the acquisition of INFO-TV-FM Sp. z o.o., the goodwill and IPLA brand recognized on the acquisition of entities comprising the IPLA platform, the goodwill recognized on the acquisition of Metelem Holding Company Ltd., the goodwill recognized on the acquisition of Orsen Holding Ltd., the goodwill recognized on the acquisition of Litenite Ltd., the goodwill recognized on the acquisition of IT Polpager S.A., the goodwill recognized on the acquisition of 65.98% shares of Netia S.A., the goodwill recognized on the acquisition of Coltex ST Sp. z o.o. and the goodwill recognized on the acquisition of Netshare Media Group Sp. z o.o.;
- “Broadcasting and television production” - goodwill and Polsat brand recognized on the acquisition of Telewizja Polsat S.A., goodwill and TV4 and TV6 brands recognized on the acquisition of Polskie Media S.A., goodwill recognized on the acquisition of Radio PIN S.A., goodwill recognized on the acquisition of Lemon Records Sp. z o.o., the goodwill recognized on the acquisition 50% plus one share of Eleven Sports Network Sp. z o.o. and the goodwill recognized on the acquisition of Superstacja Sp. z o.o.

The value-in-use calculations included estimation of discounted cash flows for the given cash-generating unit and the relevant discount rate. The value of goodwill and brands tested at each cash-generating unit, the key assumptions used in the value-in-used calculations for each cash-generating unit, impairment test results and sensitivity analysis of reasonably possible changes in the key assumptions are presented in note 20.

- *The impairment of non-financial non-current assets*

As at the reporting date the Group has assessed whether there are any indications that intangible and tangible assets with definite useful lives may be impaired. The impairment loss recognised equals the difference between net book value and recoverable amount. The impairment values are presented in note 17 and 21.

- *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 7n, 26 and 39.

- *Impairment of inventories*

The Group provides for slow-moving or obsolete inventories based on inventory turnover ratios and current marketing plans. The purchase cost or production cost is determined based on weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses. For more information see notes 7m and 25.

- *Provisions for pending litigation*

During the normal course of its operations the Group participates in several court proceedings, usually typical and repeatable and which, on an individual basis, are not material for the Group, its financial standing and operations. The provisions are estimated based on the court documentation and the expertise of the Group's lawyers who participate in the current litigations and who estimate Group's possible future obligations taking the progress of litigation proceedings into account. The Group also recognizes provisions for potential unreported claims resulting from past events, should the Management Board find that the resulting outflow of economic benefits is likely. Provisions regarding probable claims are recognized as a result of Management Board's estimates based on accessible information regarding market rates for similar claims. Management believes that the provisions as at 31 December 2018 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

- *Provisions for dismantling*

The Group is required to dismantle equipment and restore sites. The provision is based on the best estimate of the amount required to settle the obligation. The provision for the cost of dismantling and removing the asset and restoring the site is revised, when necessary, along with the value of the relevant asset. The provision is discounted by applying a discount rate that reflects the current market assessments of the time value of money and the risk specific to the liability. The discount rate used in calculating the provision for dismantling and removing the asset and restoring the site is in range 1.54% - 2.77% as at 31 December 2018. The discounting period and discount rate reflect the management's best estimate regarding the expected time of dismantling the assets, taking into account the expiry dates of concessions held by the Group and the expected period of renewal.

- *Deferred tax*

Deferred taxes are recognised for all temporary differences, as well as for unused tax losses. The key assumption in relation to deferred tax accounting is the assessment of the expected timing and manner of realization or settlement of the carrying amounts of assets and liabilities held at the reporting date. In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deductible temporary differences can be utilized. At the end of the reporting period unrecognised deferred tax assets are re-assessed. A previously unrecognised deferred tax asset is recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. For further details refer to note 7w and 14.

- *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 7h.

- *Loan liabilities measured at amortised cost*

The CP Term Facility, the PLK Term Facility, the CP Revolving Facility and the PLK Revolving Facility bear interest at a variable rate equal to WIBOR for the relevant interest period plus margin. The margin on the CP Term Facility, the PLK Term Facility, the CP Revolving Facility and the PLK Revolving Facility depends on the ratio of net consolidated indebtedness to consolidated EBITDA.

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

Financial results for the 3 months ended 31 December 2018 and 31 December 2017

51. Consolidated Income Statement

	for the 3 months ended	
	31 December 2018 unaudited *(IFRS 15 basis)*	**31 December 2017 unaudited** *(IAS 18 basis)*
Continuing operations		
Revenue	3,002.0	2,579.2
Operating costs	(2,588.9)	(2,139.2)
Other operating income/(cost), net	6.3	(2.1)
Profit from operating activities	**419.4**	**437.9**
Gain/(loss) on investment activities, net	4.6	19.1
Finance costs, net	(113.6)	(105.4)
Share of the profit/(loss) of associates accounted for using the equity method	(2.8)	2.8
Gross profit for the period	**307.6**	**354.4**
Income tax	(242.2)	(197.2)
Net profit for the period	**65.4**	**157.2**
Net profit attributable to equity holders of the Parent	70.9	167.1
Net loss attributable to non-controlling interest	(5.5)	(9.9)
Basic and diluted earnings per share (in PLN)	**0.11**	**0.25**

52. Consolidated Statement of Comprehensive Income

	for the 3 months ended	
	31 December 2018 unaudited *(IFRS 15 basis)*	**31 December 2017 unaudited** *(IAS 18 basis)*
Net profit for the period	**65.4**	**157.2**
Items that may not be reclassified subsequently to profit or loss:	***0.1***	***(0.2)***
Actuarial (loss)/gain	0.1	(0.2)
Items that may be reclassified subsequently to profit or loss:	***(0.1)***	***(0.1)***
Valuation of hedging instruments	(0.1)	(0.1)
Income tax relating to hedge valuation		-
Other comprehensive income, net of tax	**-**	**(0.3)**
Total comprehensive income for the period	**65.4**	**156.9**
Total comprehensive income attributable to equity holders of the Parent	70.9	166.8
Total comprehensive income attributable to non-controlling interest	(5.5)	(9.9)

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

53. Revenue

	for the 3 months ended	
	31 December 2018 unaudited *(IFRS 15 basis)*	**31 December 2017 unaudited** *(IAS 18 basis)*
Retail revenue	1,627.8	1,497.9
Wholesale revenue	927.8	735.8
Sale of equipment	398.2	298.8
Other revenue	48.2	46.7
Total	**3,002.0**	**2,579.2**

54. Operating costs

		for the 3 months ended	
	Note	**31 December 2018 unaudited** *(IFRS 15 basis)*	**31 December 2017 unaudited** *(IAS 18 basis)*
Technical costs and cost of settlements with telecommunication operators		691.1	533.8
Depreciation, amortization, impairment and liquidation		521.9	434.8
Cost of equipment sold		338.1	357.9
Content costs		424.0	321.2
Distribution, marketing, customer relation management and retention costs		268.7	243.3
Salaries and employee-related costs	a	238.7	164.2
Cost of debt collection services and bad debt allowance and receivables written off		19.6	10.5
Other costs		86.8	73.5
Total		**2,588.9**	**2,139.2**

a) Salaries and employee-related costs

	for the 3 months ended	
	31 December 2018 unaudited	**31 December 2017 unaudited**
Salaries	205.3	140.6
Social security contributions	24.1	17.7
Other employee-related costs	9.3	5.9
Total	**238.7**	**164.2**

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

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

	for the 3 months ended	
	31 December 2018 unaudited	**31 December 2017 unaudited**
Interest, net	4.3	6.0
Other foreign exchange differences, net	(10.4)	20.1
Other costs	10.7	(7.0)
Total	**4.6**	**19.1**

56. Finance costs

	for the 3 months ended	
	31 December 2018 unaudited	**31 December 2017 unaudited**
Interest expense on loans and borrowings	91.3	91.9
Interest expense on issued bonds	10.9	10.9
Valuation and realization of hedging instruments	0.2	-
Valuation and realization of derivatives not used in hedge accounting – relating to interest	10.2	1.1
Other	1.0	1.5
Total	**113.6**	**105.4**