

CYFROWY POLSAT S.A.

Report of the Supervisory Board for the period from January 1, 2016 to December 31, 2016

Warsaw, April 27, 2017



Fulfilling its obligations under the Commercial Companies Code (the “**CCC**”), the Best Practices of GPW Listed Companies 2016 (“**Best Practices 2016**”) as well as the Articles of Association and the By-Laws of the Supervisory Board of Cyfrowy Polsat SA, the Supervisory Board of Cyfrowy Polsat S.A. (hereinafter the “**Company**” or “**Cyfrowy Polsat**”) presents to the Annual General Meeting of the Company’s Shareholders a report for the period from January 1, 2016 to December 31, 2016 which includes:

- I. the Supervisory Board’s report on its activities in the financial year 2016 (II.Z.10.2. Best Practices 2016), including:
 - an assessment of the existence of any relations or circumstances which could affect the ability of a given Supervisory Board Member to meet the criteria of independence (II.Z.6 Best Practices 2016)
 - an assessment of the Company’s standing, including an assessment of the internal control, risk management and compliance systems, and the internal audit function (II.Z.10.1. Best Practices 2016),
 - an assessment of the Company’s compliance with information disclosure obligations regarding the observance of corporate governance principles defined in the Warsaw Stock Exchange Rules and in the regulations governing the provision of current and periodical information by issuers of securities ((II.Z.10.3. Best Practices 2016),
 - an assessment of the rationality of the Company’s policy in the areas of sponsoring, charity and other activities of similar nature (II.Z.10.4. Best Practices 2016);
- II. the report on the results of the audit of the Company’s financial statements for the financial year 2016, the Management Board’s report on the Company’s activities in the financial year 2016, as well as the motion of the Company’s Management Board regarding the distribution of the Company’s net profit for the financial year 2016 (art. 382 § 3 CCC).

I. REPORT OF THE SUPERVISORY BOARD ON ITS ACTIVITIES IN THE FINANCIAL YEAR 2016

1. Composition of the Supervisory Board

From January 1, 2016 to September 30, 2016 the Supervisory Board comprised the following members:

- Mr. Zygmunt Solorz – Chairman of the Supervisory Board,
- Mr. Józef Birka - Member of the Supervisory Board,
- Mr. Robert Gwiazdowski – Independent Member of the Supervisory Board,
- Mr. Aleksander Myszka – Member of the Supervisory Board,
- Mr. Leszek Reksa – Independent Member of the Supervisory Board,
- Mr. Heronim Ruta - Member of the Supervisory Board.

On September 30, 2016, Mr. Zygmunt Solorz tendered in his resignation from Supervisory Board membership with immediate effect. In addition, by virtue of the resolutions adopted on September 30, 2016, the Extraordinary General Meeting appointed Mr. Tomasz Szeląg and Mr. Marek Kapuściński to the Company’s Supervisory Board effective from October 1, 2016.

Acting pursuant to art. 20, section 3 of the Company’s Articles of Association, on October 25, 2016, the Supervisory Board appointed Mr. Marek Kapuściński as the Supervisory Board Chairman.

In the face of the above, from October 1, 2016 to December 31, 2016 the Supervisory Board comprised the following members:

- Mr. Marek Kapuściński,
- Mr. Józef Birka,
- Mr. Robert Gwiazdowski,

- Mr. Aleksander Myszka,
- Mr. Leszek Reksa,
- Mr. Heronim Ruta,
- Mr. Tomasz Szelaĝ.

Assessment of the existence of any relations or circumstances which could affect a given Supervisory Board's Member ability to meet the criteria of independence

Based on submitted declarations, the Supervisory Board confirmed that the below listed Supervisory Board Members met the criteria of independence:

- Mr. Robert Gwiazdowski,
- Mr. Leszek Reksa.

The above constitutes the fulfillment of the rule II.Z.3 of the Best Practices 2016, according to which at least two Members of the Supervisory Board meet the criteria of independence from the Company as well as from entities that are substantially related to the Company.

In the Supervisory Board's opinion, Mr. Robert Gwiazdowski and Mr. Leszek Reksa meet the criteria of independence mentioned in Annex II to the European Commission Recommendation 2005/162/WE dated February 15, 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Moreover, according to the information obtained by the Supervisory Board, neither Mr. Robert Gwiazdowski, nor Mr. Leszek Reksa are employed by the Company, or by any of its subsidiaries or related parties, and they are not bound by any agreements of similar nature with any of these parties. According to the Supervisory Board's knowledge, Mr. Robert Gwiazdowski or Mr. Leszek Reksa have no actual or financial relations with any shareholder of the Company who is entitled to at least 5% of the total number of votes in the Company.

In the face of the above, the Supervisory Board has concluded that there exist not relations or circumstances which could affect the fulfillment of the criteria of independence by the above mentioned Supervisory Board Members.

2. Composition of the Supervisory Board Committees

In 2016 the Audit Committee and the Remuneration Committee functioned as part of the Supervisory Board.

As at January 1, 2016, the composition of the Audit Committee was as follows:

- Mr. Robert Gwiazdowski – Audit Committee Member,
- Mr. Heronim Ruta – Audit Committee Member,
- Mr. Leszek Reksa – Audit Committee Member.

Pursuant to § 7 section 4 of the Supervisory Board By-Laws, in January 2016 Mr. Robert Gwiazdowski was appointed the Audit Committee Chairman on by the members of the Audit Committee.

Pursuant to § 7 section 3 of the Supervisory Board By-Laws, on October 25, 2016 the Supervisory Board increased the number of the Audit Committee members by entrusting the function of the Audit Committee Member to Mr. Tomasz Szelaĝ.

As a result of the above changes, on December 31, 2016 the Audit Committee had the following composition:

- Mr. Robert Gwiazdowski – Audit Committee Chairman,
- Mr. Heronim Ruta – Audit Committee Member,
- Mr. Leszek Reksa – Audit Committee Member,
- Mr. Tomasz Szelaĝ – Audit Committee Member.

As at January 1, 2016, the composition of the Remuneration Committee was as follows:

- Mr. Zygmunt Solorz,
- Mr. Heronim Ruta.

In the face of resignation of Mr. Zygmunt Solorz from his role as Supervisory Board Member on September 30, 2016, being synonymous with his resignation from Remuneration Committee membership, on October 25, 2016, pursuant to § 7 section 3 of the Company's Supervisory Board By-Laws, the Supervisory Board filled in the vacancy in the Remuneration Committee by appointing thereto Mr. Tomasz Szlag.

Thus, as at December 31, 2016 the composition of the Remuneration Committee was as follows:

- Mr. Heronim Ruta,
- Mr. Tomasz Szlag.

3. Scope of activities of the Supervisory Board and the Supervisory Board Committees

The Supervisory Board acts on the basis of the Commercial Companies Code as well as the Company's Articles of Association and the Supervisory Board By-Laws dated December 3, 2007.

In 2016 the Supervisory Board held 3 meetings and in addition adopted resolutions in the mode stipulated by art. 22, section 3 of the Company's Articles of Association and §5, section 4 of the Supervisory Board By-Laws, i.e. by means of direct remote communication. At the Supervisory Board's invitation, the meetings were attended by Management Board Members who presented issues related to the Company's current business as well as organizational and legal matters.

In 2016 the Supervisory Board exercised permanent supervision over the Company's operations in all areas of its activities.

Acting pursuant to art. 19, section 3, letter h) of the Company's Articles of Association, the Supervisory Board repeatedly expressed its consent for the Company to incur liabilities with a value exceeding PLN 10,000,000 (ten million), i.a. for the following purposes:

- placing orders for the purchase of services,
- concluding contracts for airing commercials and for sponsoring activities,
- entering into license agreements related to re-broadcasting of programs constituting part of Cyfrowy Polsat's offer,
- purchasing end-user equipment, as well as components and accessories required for the manufacturing of satellite TV reception equipment.

Acting pursuant to art. 368 § 4 CCC and art. 15, section 2 of the Company's Articles of Association, the Supervisory Board appointed the existing Management Board Members to the Management Board for the next term of office, and appointed Mr. Tobias Solorz the President of the Management Board (CEO). Acting by virtue of art. 19, section 2, letter g) of the Company's Articles of Association and the Remuneration Committee's recommendations, the Supervisory Board expressed consent to concluding contracts with Management Board Members and determined the principles governing their remuneration.

Acting pursuant to art. 368 § 4 CCC and art. 19, section 2 letter c) of the Company's Articles of Association, the Company's Supervisory Board appointed Ms. Katarzyna Ostap-Tomann as Management Board Member of Cyfrowy Polsat effective October 1, 2016.

Acting pursuant to art. 19, section 3, letter f) of the Company's Articles of Association, the Supervisory Board expressed its consent several times regarding the appointment or dismissal of members of corporate authorities of the Company's subsidiaries.

Acting pursuant to art. 19, section 3, letter b) of the Company's Articles of Association, upon becoming acquainted with the draft resolutions of the General Meetings of the Company's Shareholders in 2016, the Company positively reviewed these draft resolutions and filed for their adoption by the General Meeting.

Acting pursuant to art. 382 § 3 of the Commercial Companies Code, art. 19, section 2, points a) and b) of the Company's Articles of Association and the principle contained in point II.Z.10 of the Best Practices 2016, the Supervisory Board approved the report on its activities in the financial year 2015, which included in particular the results of the assessment of the Management Board's report on the Company's operations in the financial year 2015, the Company's financial statement for the financial year 2015, and the Management Board's motion concerning the distribution of the profit generated by the Company in the financial year 2015.

In 2016, the Supervisory Board recommended that the Annual General Meeting approve the financial statements for the financial year 2015 and grant a vote of approval for the performance of their duties in 2015 to the Members of the Management Board.

Following a detailed analysis, the Supervisory Board issued a positive opinion on the Management Board's motion regarding the distribution of net profit earned by the Company in the financial year 2015 in the amount of PLN 446,146,891.55 (four hundred forty six million one hundred forty six thousand eight hundred ninety one zlotys and fifty five grosze) by allocating it in full to the reserve capital.

Acting pursuant art. 19, section 2, letter h) o the Company's Articles of Association, upon having acquainted itself with the recommendations of the Management Board and the Audit Committee, the Company's Supervisory Board appointed PricewaterhouseCoopers Sp. z o.o., with its seat in Warsaw, to conduct the audit of the financial statements of the Company and the consolidated financial statements of Cyfrowy Polsat Group for the financial year 2016.

In 2016 the Supervisory Board conducted no controls or investigations and did not suspend any Members of the Management Board of the Company.

Activities of the Audit Committee

The basic tasks of the Audit Committee include supporting the Supervisory Board in the fulfillment of its duties, in particular in the field of correctness and efficiency of functioning of internal controls in the Company, as well as supervising the integrity of financial information presented by the Company. In 2016, the Audit Committee held a meeting which was attended by the Management Board Member responsible for finance (CFO) and the Director of the Audit and Internal Control Division. In the course of its work in 2016, the Audit Committee:

- reviewed both, the Company's and Cyfrowy Polsat Group's interim reports, as well as positively assessed the correctness and the compliance of the accounting principles followed by the Company,
- presented its recommendation to the Supervisory Board regarding the appointment of a certified auditor, his remuneration and terms of contract. The Audit Committee recommended that the Supervisory Board reappoints PricewaterhouseCoopers Sp. z o.o. as the party authorized to perform the audit of the financial statements of Cyfrowy Polsat S.A. as well as the consolidated financial statements of Cyfrowy Polsat Group for the financial year ended December 31, 2016,
- reviewed the internal control and risk management systems, as well as the internal audit function in the Company and issued its opinion confirming the effective functioning of these systems, as well as that of the internal audit function.

Activities of the Remuneration Committee

The Remuneration Committee advises the Supervisory Board on the overall remuneration policy in Cyfrowy Polsat Group and provides recommendations regarding the appointment of Management Board Members, the terms and conditions of remuneration and the amounts of bonuses for Management Board Members. In 2016, the Remuneration Committee prepared numerous recommendations for the Supervisory Board. In particular, the Committee recommended the re-appointment of the existing Management Board Members for the next term of office and issued a positive opinion regarding the terms of remuneration of the Management Board Members of the next term of office. In addition, the Remuneration Committee recommended that a new member be added to the Management Board by nominating Ms. Katarzyna Ostap-Tomann as a member of the company's Management Board and issued a positive opinion with regard to the terms of employment and remuneration of Ms. Katarzyna Ostap-Tomann. Moreover, the Remuneration Committee evaluated the degree of accomplishment of the goals and fulfillment of the tasks by Management Board Members, which served as the basis for recommending the amount of the variable portion of Board Members' compensation in 2016.

Bearing in mind the above, in the opinion of the Supervisory Board, during the reporting period the Supervisory Board fulfilled, properly and efficiently, its statutory obligations involving constant supervision of overall operations of the Company, The Supervisory Board also confirms that its Members fulfilled their roles in a professional and reliable manner, while acting with due diligence, including by being actively involved in the work of the Supervisory Board and of its standing Committees.

4. Assessment of the Company's standing, including the assessment of its internal control, risk management and compliance systems as well as its internal audit function.

Assessment of the standing of the Company and of Cyfrowy Polsat Capital Group

The Supervisory Board became acquainted with and analyzed in detail all the major operating indicators, as well as the financial results achieved by the Company and by Cyfrowy Polsat Group in 2016. The Supervisory Board concluded that in 2016 the Company and its subsidiaries consistently pursued the adopted strategy, which included the maximization of revenue from contract customers by upselling additional products and services to the combined customer base of Cyfrowy Polsat and its subsidiary, Polkomtel Sp. z o.o.

In the segment of services provided to individual and business customers the total number of active revenue generating units (RGUs) continued to grow consistently and reached 16.5 million at the end of 2016. 80% of RGUs were provided in the contract model, which guarantees higher stability of revenues in the future as well as higher customer loyalty. The Group's integrated offer, i.e. the smartDOM program which enjoys high interest among customers and is being successively developed, is yet another factor positively contributing to average revenue per customer. Currently, there are over 1.3 million members of the program who use a total of around 3.9 million services.

In 2016 the broadcasting and TV production segment recorded very good operating results. The segment was characterized by a growing audience share of Cyfrowy Polsat Group's channels, which were the leading channels on the market, accompanied by very dynamic growth of advertising revenue, definitely faster than the market average.

Strong operational performance translated into very good financial results – stable and diversified revenue, mainly generated from recurrent contract services, and very high EBITDA margin, distinctly above the market average. In 2016, Cyfrowy Polsat Group posted PLN 9.7 billion in revenue, which when coupled with effective cost control enabled the Company to maintain its EBITDA at a high level of nearly PLN 3.7 billion. In 2016, Cyfrowy Polsat Group generated free cash flow at the level of PLN 1.5 billion. At the same time, the Supervisory Board positively assessed the process of refinancing of the Group's debt, which was conducted by the Management Board and completed in 2016. The process has enabled substantial interest savings and improved the flexibility and the security of the Company's operations.

In light of the above, the Supervisory Board positively assessed the standing of the Company and of Cyfrowy Polsat Group, both from operating and financial points of view, with good prospects for development in the coming quarters.

Assessment of the Company's internal control, risk management and compliance systems as well as its internal audit function

An internal control system operates in the Company, the effectiveness of which is the responsibility of the Management Board. The internal control system covers the Company's major operational processes which require control mechanisms for monitoring and limiting risks which are material for the Company, including the process of preparing the financial statements and interim reports prepared and published in accordance with the provisions of the Ordinance of the Minister of Finance of February 19, 2009 regarding current and periodic information published by issuers of securities and the conditions for recognizing equivalence of information required under non-member states regulations.

The basic task of the internal control system is to assure the accomplishment of business goals by the Company. The Company has an organizational structure, which is updated on on-going basis. The reporting paths, the responsibilities and the levels of authorization (the rights) are clearly defined in that structure, which constitutes an additional tool for the neutralization of material risks associated with the conducted business activities. In the Supervisory Board's opinion, the internal control system and critical risk management, as well as the internal audit function are of satisfactory quality.

Just like in the past years, the Company's Audit and Internal Control Division, in cooperation with the certified auditor carried out an overall audit of functioning of the key components of the internal control system present in the Company. The results of this audit were presented to the Management Board and to the Audit Committee. Upon becoming acquainted with the report prepared by the Director of Audit and Internal Control Division and by the Management Board, as well as upon having read the Audit Committee's opinion, which assessed the functioning of internal control and risk management systems and

the internal audit function, the Supervisory Board issued a positive opinion on the effectiveness of functioning of the above systems and functions.

A centralized compliance system does not function in the Company. Nonetheless, the Supervisory Board is of the opinion that there exists satisfactory control of compliance of the Company's operations with the valid law. Compliance control is regulated by the Company's internal regulations and is effectuated at the level of individual organizational units responsible for respective areas of operations.

5. Assessment of the Company's compliance with information disclosure obligations related to implementation of corporate governance principles defined in the WSE Rules, as well as in other regulations concerning current and periodic information disclosure by issuers of securities

In the Supervisory Board's opinion, in 2016 the Company demonstrated reliable and due compliance with information disclosure obligations related to the implementation of the principles of corporate governance as defined in the WSE Rules, as well as in other regulations concerning current and periodic information disclosure by issuers of securities.

In particular, in accordance with §29, section 3 of the WSE Rules and principle I.Z.1.13 of the Best Practices 2016, the Company published information regarding the status of implementation by the Company of the recommendations and the detailed principles defined in the Best Practices 2016. The aforementioned information was published in the form of a report via the EBI (Electronic Information Database) system, as well as on the Company's website.

Moreover, pursuant to §91, point 5.4) of the Ordinance of the Minister of Finance of February 19, 2009 (with subsequent amendments) regarding current and periodic information published by issuers of securities and the conditions for recognizing equivalence of information required under non-member states regulations, the report on the activities of the Company in the financial year ended December 31, 2016 contains a statement confirming the observance of corporate governance rules, which forms a separate section of the report. In the Supervisory Board's opinion, the disclosures found in the declaration are complete and exhaustive and they reflect the actual state of affairs.

6. Assessment of the rationality of the Company's policy in the areas of sponsoring, charity or other similar activities

The Company has not adopted an official policy governing sponsoring and charity activities. Nonetheless, both the Company, and members of Cyfrowy Polsat Group embark on numerous activities of such a nature, including support for sports or cooperation with numerous foundations and public benefit organizations.

The activities which the Company and its subsidiaries conducted in 2016 included the following:

- involvement in numerous initiatives aimed at the protection of human life and health as well as support for people in need who face the risk of marginalization (social or economic), carried out in cooperation with public benefit organizations, including Polsat Foundation, Przyjaciółka Foundation, WIOSNA (SPRING) Association,
- charity projects implemented as part of corporate volunteering activities, targeted on providing material support to people in need,
- involvement in actions promoting safety by providing support for rescue units (TOPR, GOPR and WOPR – mountain rescue units and lifeguard service) and cooperation with such units as a technological partner in educational projects and in projects promoting safety,
- sponsoring activities targeted on support for athletes.

The Supervisory Board views the charity and sponsoring activities conducted by the Company and its subsidiaries in 2016 as rational and beneficial for society. These activities offer direct financial or material support for persons, especially ill and disabled children and children in need, while cooperation with rescue units translates into improved safety. In the opinion of the Supervisory Board, such an attitude strengthens positive relations between the organization and its social environment.

II. ASSESSMENT OF THE COMPANY'S FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2016, THE REPORT OF THE MANAGEMENT BOARD ON THE COMPANY'S ACTIVITIES IN THE YEAR 2016 AS WELL AS THE MANAGEMENT BOARD'S MOTION REGARDING THE DISTRIBUTION OF PROFIT GENERATED BY THE COMPANY IN THE FINANCIAL YEAR 2016

Acting by virtue of art. 382 §3 CCC and art. 19, section 2, letter a of the Company's Articles of Association, in connection with art. 395 §2 CCC, the Company's Supervisory Board has assessed:

- the stand-alone financial statement of Cyfrowy Polsat S.A. for the financial year ended December 31, 2016,
- the Management Board's Report of Operations of Cyfrowy Polsat S.A. for the financial year ended December 31, 2016,
- the motion of the Company's Management Board regarding the distribution of profit generated by the Company in the financial year ended December 31, 2016.

Upon having analyzed the auditor's opinion and the auditor's report of the audit of the Company's financial statements for the financial year 2016, as well as upon having assessed it, the Supervisory Board has concluded that the Company's financial statements for the financial year 2016 have been prepared on the basis of properly kept accounts and that they comply, in terms of form and content, with valid regulations, presenting a true and fair view of all information essential from the point of view of assessment of the profitability and the financial results for the period subject to audit, as well as of the Company's property and financial standing as of December 31, 2016. Moreover, the Supervisory Board has stated that the Company's financial statements for the financial year 2016 comply with the accounts and the Company's documents as well as the factual circumstances. In the face of the above, the Supervisory Board has positively assessed the Company's financial statements for the financial year 2016.

Based on the presented financial statements, the Company's financial results were as follows:

- net profit in the income statement for the period from January 1, 2016 to December 31, 2016: **PLN 578.0** million,
- total comprehensive income shown in the total comprehensive income statement for the period from January 1, 2016 to December 31, 2016: **PLN 585.9** million,
- total assets and total equity and liabilities in the balance sheet as at December 31, 2016: **PLN 13,283.8** million,
- net increase in cash and cash equivalents in the cash flow statement for the period from January 1, 2016 to December 31, 2016: **PLN 142.4** million,
- increase in equity in the statement of changes in equity for the period from January 1, 2016 to December 31, 2016: **PLN 568.0** million.

Upon having analyzed and assessed the Management Board's report on the Company's activities in 2016, the Supervisory Board states that the above mentioned report is consistent with the Company's accounts and documents and with the factual circumstances. In the Supervisory Board's opinion, information presented in the above mentioned document presents a true and reliable view of the Company's operating results and its financial standing. In the face of the above, the Supervisory Board has positively assessed and accepted the Management Board's report on the Company's activities in the year 2016.

Upon having familiarized itself with the Management Board's motion regarding the distribution of the Company's net profit for the financial year 2016 in the amount of PLN 577,955,495.16 (five hundred seventy seven million nine hundred fifty five thousand four hundred ninety five zlotys and sixteen grosze), in such a way that the amount of PLN 204,654,725.12 (two hundred four million six hundred fifty four thousand seven hundred twenty five zlotys and twelve grosze) is allocated to dividend payments while the amount of PLN 373,300,770.04 (three hundred seventy three million three hundred thousand seven hundred seventy zloty and four grosz) is allocated to the reserve capital, the Supervisory Board has assessed the motion as compliant with the dividend policy adopted by the Company and has issued a positive opinion with regard to the motion.

The Supervisory Board recommends that the General Meeting:

- approves the standalone financial statements of Cyfrowy Polsat S.A. for the financial year ended December 31, 2016 and the Management Board's report on the activities of Cyfrowy Polsat S.A. for the financial year ended December 31, 2016,
- adopts a resolution regarding the distribution of the Company's net profit for the financial year ended December 31, 2016 in line with the motion of the Company's Management Board,

- grants votes of approval to the following Management Board Members on account of performance of their duties in the year ended 31 December 2016:
 - Mr. Tobiasz Solorz, President of the Management Board in the year 2016,
 - Mr. Dariusz Działkowski, Management Board Member in the year 2016,
 - Mr. Tomasz Gillner-Gorywoda, Management Board Member in the year 2016,
 - Ms. Aneta Jaskólska, Management Board Member in the year 2016,
 - Ms. Agnieszka Odorowicz, Management Board Member from March 1, 2016 to December 31, 2016,
 - Mr. Maciej Stec, Management Board Member in the year 2016,
 - Mr. Tomaszowi Szelaǳ, Management Board Member from January 1, 2016 to September 30, 2016,
 - Ms. Katarzyna Ostap-Tomann, Management Board Member from October 1, 2016 to December 31, 2016.

At the same time, the Supervisory Board of Cyfrowy Polsat S.A. would like to ask the Company's General Meeting to accept the Supervisory Board's report on its activities in the period from January 1, 2016 to December 31, 2016 and to grant all Supervisory Board Members a vote of approval on account of performance of their duties in the year 2016.

Marek Kapuściński
Supervisory Board Chairman

Józef Birka
Supervisory Board Member

Robert Gwiazdowski
Supervisory Board Member

Aleksander Myszka
Supervisory Board Member

Leszek Reksa
Supervisory Board Member

Heronim Ruta
Supervisory Board Member

Tomasz Szelaǳ
Supervisory Board Member

Warsaw, April 27, 2017