

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

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

Ladies and Gentlemen,

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

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

That we turned yet another year into a success can be seen in the Group's excellent operating and financial results. The number of subscribers to our pay TV services remained broadly flat at 3.54m, while the number of our broadband Internet users rose to almost 235 thousand. The other business segment also delivered as expected: our flagship channel, POLSAT, maintained its high audience share of 13.51%, and the audience share of our thematic channels, including the newly acquired TV4 and TV6, rose to 7.63%, which translated into a total market share of 21.14%. We saw our share in the TV advertising and sponsorship market rise to 24.1% in 2013, and thanks to a well-rounded programme schedule and optimum investments in content, our TV advertising and sponsorship revenue – alone amongst the other market players' – also rose. In 2013, our total consolidated revenue grew by 4.8%, to PLN 2.91bn, with EBITDA standing at PLN 1.0bn, and profit at PLN 525m.

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

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

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

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

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

Yours sincerely,

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

**MANAGEMENT BOARD'S REPORT ON ACTIVITIES
OF CYFROWY POLSAT S.A. CAPITAL GROUP
IN THE FINANCIAL YEAR ENDED DECEMBER 31, 2013**

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in the financial year ended December 31, 2013
(all financial data presented in PLN thousand, unless otherwise stated)

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Item 1. Introduction

We are a leading media group in Poland, composed of Cyfrowy Polsat – the largest in Poland and the fourth largest DTH platform in Europe, Telewizja Polsat – the leading commercial TV broadcaster in Poland offering 24 popular TV channels, including 5 HD channels, and Redefine – the creator of IPLA, a leading on-line video service on the market. Cyfrowy Polsat platform has over 3.5 million subscribers. It offers access to over 140 Polish-language TV channels, including 40 HD channels and modern services: PPV (pay-per-view), VOD Home Video Rental, TV online, catch-up TV, and Multiroom. The platform has its own set-top-boxes factory. Since September 2008, Cyfrowy Polsat offers mobile telephony services in the MVNO model and in cooperation with Polkomtel Sp. z o.o., Plus network operator. Since February 2010, Cyfrowy Polsat provides broadband Internet access in mobile HSPA+ technology, and since September 2011 – mobile Internet in the latest LTE technology. In June 2012, it introduced mobile pay television services in DVB-T technology. Cyfrowy Polsat is listed on the Warsaw Stock Exchange since May 2008.

We operate through two business segments: our Retail business segment, comprising pay digital television services, broadband Internet access services, mobile telephony services as well as production of set-top-boxes and Broadcasting and television production segment. Our two business segments produce revenue streams with distinct characteristics: retail subscription fees and related revenue (through our Retail business segment), and TV broadcasting advertising revenue (through our Broadcasting and television production segment).

Our consolidated revenue from services, products, goods and materials sold in 2013 increased to PLN 2,910,759 from PLN 2,778,215 in 2012. Our net profit amounted to PLN 525,445 compared to PLN 598,298 in the previous year, which constitutes a decrease of 12.2%.

We sell our services on the entire territory of Poland.

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

References to the Company contained in this report of the Management Board on the activities of Cyfrowy Polsat S.A. Capital Group ("**Report**") apply to Cyfrowy Polsat S.A. (Cyfrowy Polsat) and all references to the Capital Group, Cyfrowy Polsat Group, Cyfrowy Polsat Capital Group or Polsat Group apply to Cyfrowy Polsat S.A. and its subsidiaries. Expressions such as "we", "us", "our" and similar apply generally to the Group, unless from the context it is clear that they apply to the Company; „**DTH**” relates to digital satellite platform services which we provide in Poland since 2001; „**SD**” relates to the television signal in the standard definition technology (Standard Definition); „**HD**” relates to the television signal in the high definition technology (High Definition); „**DVR**” relates to set-top boxes with hard disk used to record television channels (Digital Video Recorder); „**Family Package**” – starting programming package offered within the pay digital television service including the subscribers to the following packages: Family Package, Family HD Package, Family Max HD Package and premium packages related to them; „**Mini Package**” – starting programming package offered within the pay digital television service, which includes subscribers to the following packages: Mini Package, Mini HD Package, Extra Package (TV Mobilna); „**Mobile TV**” relates to our pay mobile TV service rendered in DVB-T technology; „**Extra Package**” relates to the pay programming package offered within our services in DVB-T technology; „**DVB-T**” (Digital Video Broadcasting – Terrestrial) relates to technology of terrestrial broadcasting of digital television; „**DTT**” relates to digital terrestrial television; „**Our pay digital TV services**” relate to our paid DTH, mobile and internet television services offered in both prepaid and postpaid models; „**Subscriber**” relates to a person who signed an agreement for subscription to pay digital television services and who is obligated, under the terms of agreement, to make payments to access a package or packages of television and radio channels or who has access to such packages within pay digital television services, after making required monthly payments but without having signed such an agreement; „**ARPU**” relates to average monthly net revenue per subscriber to whom we rendered services calculated as a sum of net revenue generated by our subscribers from our pay digital television services in the reporting period divided by the average number of subscribers to whom we rendered services in this reporting period; „**ARPU Family Package**” and „**ARPU Mini Package**” relate to average monthly net revenue per subscriber to the Family Package and Mini Package, respectively; „**Churn**” relates to the churn rate, defined as the ratio of the number of contracts terminated during a 12-month period to the average number of contracts during such 12-month period. The number of terminated contracts is net of churning subscribers entering into a new contract with us no later than the end of the same 12-month period as well as of subscribers who used to have more than one agreement and terminated one of them to replace it with the commitment to use Multiroom service; „**Churn Family Package**” and „**Churn Mini Package**” relate to churn rate calculated for the Family Package and Mini Package, respectively; „**Audience share**” relates to percentage of television viewers tuned to a particular channel during a given period, expressed as a percentage of the

total number of people watching TV, data are presented based on Nielsen Audience Measurement (NAM), 16-49 years of age group, all day; **“Advertising market share”** relates to the share of Cyfrowy Polsat Capital Group revenues from advertising and sponsoring in the total revenues from TV advertising in Poland, the source of our data on the size of the market is Starlink; **“GRP”** relates to gross rating point, defined as the number of people watching a particular spot at a specific time, expressed as a percentage within the target group. One GRP, as applied to Poland, is equal to 0.2 million inhabitants in the basic commercial target group (16-49 years old); **“Technical reach”** or **“Technical Coverage”** relate to the percentage of television households in Poland which have the technical ability to receive a given channel broadcast by Telewizja Polsat Sp. z o.o.; **“Real users”** relates to estimated number of people who at least once in the given month opened the internet application or the website; **“VoD”** or **“VOD - Home Movie Rental”** relate in general to our services in the video on demand category, while **“nVoD”** relates to our service “VoD - Home Movie Rental” - on TV; **“PPV”** relates to pay-per-view, pay access to chosen programming content; **“Catch-up TV”** relates to services enabling access to chosen programming content for a certain period of time after the original broadcast on TV channel; **“Multiroom”** relates to our service enabling to profit from the same variety of channels simultaneously on two TV-sets in one household within one subscription fee; **“MVNO”** relates to mobile virtual network operator services; **“Internet access services”** relates to broadband Internet access services; **“HSPA+”** relates to radio data transfer technology in mobile networks (High Speed Packet Access Plus); **“LTE”** relates to radio data transfer technology in mobile networks (Long Term Evolution), characterized by much higher data transfer speed, greater capacity and lower network latency; **“Integrated services”** relates to a bundle of two or more services from delivered by us pay TV services, mobile telephony services and Internet access services provided under one agreement and one subscription fee; **“IPLA”** relates to internet platform enabling access to video content operated by entities from Redefine Sp. z o.o. Group; **“CP”** relates to the company Cyfrowy Polsat S.A.; **“CPT”** relates to Cyfrowy Polsat Technology Sp. z o.o. (merged with Cyfrowy Polsat on December 31, 2012); **“CPTM”** relates to Cyfrowy Polsat Trade Marks Sp. z o.o.; **“Cyfrowy Polsat Finance”**, **“CP Finance”** relate to Cyfrowy Polsat Finance AB (publ), Cyfrowy Polsat subsidiary registered in Sweden; **“Telewizja Polsat”** or **“TV Polsat”** relates to the company Telewizja Polsat Sp. z o.o.; **“TV Polsat Capital Group”** or **“TV Polsat Group”** relates to Telewizja Polsat Sp. z o.o. and its consolidated subsidiaries; **“Redefine Sp. z o.o. Group”** relates to Redefine Sp. z o.o. and its consolidated subsidiaries: Poszkole.pl Sp. z o.o. and Stat24 Sp. z o.o. (until the merger with Redefine Sp. z o.o. on November 30, 2012); **“INFO-TV-FM”** relates to the company INFO-TV-FM Sp. z o.o.; **“Polskie Media”** relates to Polskie Media S.A. (merged with Telewizja Polsat on December 31, 2013); **“Polsat Media”** relates to Polsat Media Biuro Reklamy Sp. z o.o. Sk. k.; **“POLSAT”** relates to our main FTA channel, available also in digital terrestrial television; **“Polsat HD”** relates to our channel on which we broadcast the content of our main channel in HD technology; **“Polsat Sport”** relates to our sport channel dedicated to sports and major sports events in Poland and in the world; **“Polsat Sport HD”** relates to our channel on which we broadcast the content of Polsat Sport channel in HD technology (until the end of May 2012, the content of this channel differed from Polsat Sport); **“Polsat Sport Extra”** relates to our sport channel broadcasting premium sport events; **“Polsat Sport Extra HD”** relates to our channel on which we broadcast the content of Polsat Sport Extra channel in HD technology, the channel is broadcast since June 2012; **“Polsat Sport News”** relates to our sport channel dedicated to sport news available in digital terrestrial television; **“Polsat Film”** relates to our movie channel; **“Polsat Film HD”** relates to our channel on which we broadcast the content of Polsat Film channel in HD technology, the channel is broadcast since November 2012; **“Polsat Café”** relates to our lifestyle channel dedicated to women; **“Polsat Play”** relates to our lifestyle channel dedicated to men; **“Polsat2”** relates to our channel broadcasting mainly reruns of programs that premiered on our other channels; **“Polsat News”** relates to our 24-hour news channel; **“Polsat News HD”** relates to our channel on which we broadcast the content of Polsat News channel in HD technology, the channel began broadcasting in February 2014; **“Polsat Biznes”** relates to our channel dedicated to the latest news on the economy and financial markets, until February 2013 the channel operated under “TV Biznes” brand; **“Polsat Jim Jam”** relates to children’s channel based mainly on programs by Hit Entertainment, the channel is a joint venture launched by TV Polsat and ChelloZone; **“Polsat Crime & Investigation Network”** relates to the criminal channel, this channel is a joint project of Telewizja Polsat and British company A+E Networks UK; **“Polsat Food”** relates to culinary and lifestyle channel launched by Telewizja Polsat in cooperation with Scripps Networks Interactive in November 2012; **“Polsat Viasat Explorer”** relates to a channel dedicated to men, since March 2013 broadcast based on cooperation between Viasat Broadcasting and Telewizja Polsat; **“Polsat Viasat Nature”** relates to a nature channel dedicated to entire family, since March 2013 broadcast based on cooperation between Viasat Broadcasting and Telewizja Polsat; **“Polsat Viasat History”** relates to a history channel since March 2013 broadcast based on cooperation between Viasat Broadcasting and Telewizja Polsat; **“Polsat Romans”** relates to our newest channel (launched in September 2013) broadcasting Polish and foreign series and feature movies targeted to women; **“TV4”** relates to general entertainment channel; **“TV6”** relates to general entertainment channel targeted to young audience; **“Shares”** relates to the shares of Cyfrowy Polsat S.A., which were introduced to public trading on the Warsaw Stock Exchange on 6 May 2008 and are marked with a code PLCFRPT00013; **“Senior Facilities”** relates to senior secured facilities under Senior Facilities Agreement (**“SFA”**) with a syndicate of banks including Term Facility Loan (**“Term Facility”**) of PLN 1,400,000,000 (not in thousands) maturing December 31, 2015; and Senior Secured Revolving Facility Loan (**“Revolving Facility”**) of up to PLN 200,000,000 (not in thousands) maturing December 31, 2015; **“Bridge Loan”** relates to senior secured bridge facility of EUR 350,000,000 (not in thousands) with a syndicate of banks, that was fully repaid on May 20, 2011; **“Senior Notes”** or **“Notes”** relates to 7.125% senior secured notes of EUR 350,000,000 (not in thousands) issued

by Cyfrowy Polsat Finance AB on May 20, 2011; "**Indenture**" relates to the indenture dated May 20, 2011 governing the 7.125% Senior Notes; "**PLN**" or "**zloty**" refers to the lawful currency of Poland; "**USD**" or "**dollars**" refers to the lawful currency of the United States of America; and "**EUR**" or "**euro**" refers to the single currency of the participating Member States in the Third Stage of European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time.

Presentation of financial information

Unless otherwise indicated, financial information presented in this Report was prepared pursuant to the International Financial Reporting Standards as approved for use in the European Union ("IFRS").

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

Industry and market data

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

- Eurostat;
- European Commission;
- Polish Central Statistical Office;
- Polish Chamber of Electronic Communication;
- Office of Electronic Communications;
- Nielsen Audience Measurement;
- Starlink;
- ZenithOptimedia;
- PMR;
- Ericsson ConsumerLab;
- IAB AdEx;
- PwC (Global entertainment and media Outlook: 2013-2017);
- GFK Polonia
- TNS; 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.

Forward looking statements

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

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

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

Item 2. Currency presentation and exchange rate information

The following tables present - for the periods indicated - certain information regarding the average buying/selling rates as published by the National Bank of Poland (“NBP”), for the zloty (the “effective NBP exchange rate”), expressed in zloty per dollar and zloty per euro. The exchange rates set out below may differ from the actual exchange rates used in the preparation of our 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 (zloty per 1.00 dollar)	2009	2010	2011	2012	2013
Exchange rate at end of period	2.8503	2.9641	3.4174	3.0996	3.0120
Yearly average exchange rate.....	3.1162	3.0157	2.9634	3.2570	3.1608
Highest exchange rate during period	3.8978	3.4916	3.5066	3.5777	3.3724
Lowest exchange rate during period	2.7093	2.7449	2.6458	3.0690	3.0105

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

Management Board's report on activities of Cyfrowy Polsat S.A. Capital Group
in the financial year ended December 31, 2013
(all financial data presented in PLN thousand, unless otherwise stated)

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

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

Item 3. Selected financial data

The following tables set forth our selected historical financial data for the 3 and 12 month periods ended December 31, 2013 and December 31, 2012. The historical financial data should be read in conjunction with Item 6. "Presentation of operating and financial results" and the consolidated financial statements for the fiscal year ended December 31, 2013 (including the notes thereto) and condensed interim consolidated financial statements for 3 and 12 month periods ended December 31, 2013 attached to this Report. We have derived the financial data presented in accordance with IFRS from the audited consolidated financial statements for the fiscal year ended December 31, 2013 and unaudited interim condensed consolidated financial statements for 3 and 12 month periods ended December 31, 2013.

Selected financial data

- from the consolidated profit and loss statement for the periods of three months ended December 31, 2013 and December 31, 2012 have been converted into euro at the rate of PLN 4.1849 per 1 euro, (being the average of exchange rates announced by the NBP in the reporting period i.e. from October 1 to December 31, 2013),
- from the consolidated profit and loss statement and the consolidated cash flow for the periods of twelve months ended December 31, 2013 and December 31, 2012 have been converted into EURO at the rate of PLN 4.1975 per 1 euro, (being the yearly average exchange rate in 2013, announced by the NBP),
- from the consolidated balance sheet as at December 31, 2013 and December 31, 2012 have been converted into euro at the rate of PLN 4.1472 per 1 euro (average NBP exchange rate on December 31, 2013).

The reader is advised not to view such conversions as a representation that such zloty amounts actually represent such euro amounts, or could be or could have been converted into euro at the rates indicated or at any other rate. All data in the table below are presented in thousands.

It should be noted that the periods of 3 and 12 months ended December 31, 2013 cannot be comparable to the periods of 3 and 12 months ended December 31, 2012 as shares in INFO-TV-FM were acquired on January 30, 2012, shares of entities running the IPLA platform were acquired on April 2, 2012, shares in Polskie Media S.A. were acquired on August 30, 2013 and shares in RS TV were sold on August 30, 2013.

Management Board's report on activities of Cyfrowy Polsat S.A. Capital Group
in the financial year ended December 31, 2013
(all financial data presented in PLN thousand, unless otherwise stated)

	For the three-month period ended				For the twelve-month period ended			
	December 31,				December 31,			
	2013		2012		2013		2012	
	PLN	EUR	PLN	EUR	PLN	EUR	PLN	EUR
Consolidated Income Statement								
Retail revenue	466 417	111 452	447 350	106 896	1 831 694	436 377	1 734 798	413 293
Advertising and sponsorship revenue	287 246	68 639	249 800	59 691	869 850	207 230	852 580	203 116
Revenue from cable and satellite operator fees	25 078	5 992	22 980	5 491	97 322	23 186	93 660	22 313
Sale of equipment	9 686	2 315	7 263	1 736	41 706	9 936	18 770	4 472
Other revenue	12 012	2 870	23 223	5 549	70 187	16 721	78 407	18 679
Revenue	800 439	191 268	750 616	179 363	2 910 759	693 451	2 778 215	661 874
Total operating costs	(591 667)	(141 381)	(562 519)	(134 416)	(2 157 670)	(514 037)	(1 971 663)	(469 723)
Other operating income /costs, net	(1 969)	(471)	(12 648)	(3 022)	36 764	8 759	(17 373)	(4 139)
Profit from operating activities	206 803	49 416	175 449	41 924	789 853	188 172	789 179	188 012
Gains and losses on investment activities, net	4 120	984	5 033	1 203	16 058	3 826	14 353	3 419
Finance costs	(22 833)	(5 456)	(43 130)	(10 306)	(216 014)	(51 463)	(110 782)	(26 392)
Share of the profit of jointly controlled entity accounted for using the equity method	595	142	853	204	2 924	697	2 897	690
Gross profit	188 685	45 087	138 205	33 025	592 821	141 232	695 647	165 729
Income tax	(15 541)	(3 714)	(16 581)	(3 962)	(67 376)	(16 051)	(97 349)	(23 192)
Net profit	173 144	41 374	121 624	29 063	525 445	125 180	598 298	142 537
Basic and diluted earnings per share (not in thousands)	0.50	0.12	0.35	0.08	1.51	0.36	1.72	0.41
Weighted average number of issued ordinary and preference shares (not in thousands)	348 352 836		348 352 836		348 352 836		348 352 836	
Consolidated Cash Flow Statement								
Net cash from operating activities					802 659	191 223	781 367	186 151
Net cash used in investing activities					(133 837)	(31 885)	(133 431)	(31 788)
Cash flow from/(used in) financing activities					(596 464)	(142 100)	(653 347)	(155 651)
Net change in cash and cash equivalents					72 358	17 238	(5 411)	(1 289)
Other consolidated financial data								
Depreciation, amortization, impairment and disposal	68 590	16 390	71 711	17 136	256 416	61 088	243 066	57 907
EBITDA ¹	275 393	65 806	247 160	59 060	1 046 269	249 260	1 032 245	245 919
EBITDA margin	34.4%	34.4%	32.9%	32.9%	35.9%	35.9%	37.2%	37.2%
Operating margin	25.8%	25.8%	23.4%	23.4%	27.1%	27.1%	28.4%	28.4%
Capital expenditures ²	24 432	5 838	27 474	6 565	122 886	29 276	91 177	21 722

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 jointly controlled entities. The reconciling item between EBITDA and reported operating profit/ (loss) is depreciation and amortization expense and impairment charges and reversals on property, plant and equipment and intangible assets and net value of disposed property, plant and equipment and intangible assets.

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

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

	As at			
	December 31, 2013		December 31, 2012	
	PLN	EUR	PLN	EUR
Consolidated balance sheet				
Cash and cash equivalents	342 251	82 526	270 354	65 190
Assets	5 676 230	1 368 690	5 561 345	1 340 988
Non-current liabilities	1 700 186	409 960	2 026 162	488 561
Current liabilities	974 831	235 058	1 066 780	257 229
Equity	3 001 213	723 672	2 468 403	595 197
Share capital	13 934	3 360	13 934	3 360

Item 4. Presentation of Cyfrowy Polsat S.A. Capital Group

Item 4.1. General information about our Capital Group

We are a leading integrated multimedia group in Poland with the number one position in pay TV through Cyfrowy Polsat, and a leading position in TV broadcasting through TV Polsat. Additionally to the offer of pay TV (delivered through satellite, terrestrial and the Internet), we provide to our subscribers broadband Internet access and mobile telephony services.

We operate through two business segments: our Retail business segment, comprising pay digital TV, broadband Internet and mobile telephony services and our Broadcasting and television production segment. Our two business segments produce revenue streams with distinct characteristics: retail subscription fees and related revenue (through our Retail business segment), and TV broadcasting advertising revenue (through our Broadcasting and television production segment).

Retail business segment

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

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

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

Since April 2012, we are the owner of internet TV IPLA. IPLA is the leader on the online video market in Poland both in terms of availability on various devices (computers/laptops, tablets, smartphones, smart TVs, set-top boxes and game consoles) and range of offered content. IPLA has also a leading position in terms of the number of users and time spent on watching

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

video content by an average user. In 2013, the average number of users of IPLA application and website per month, according to our data, amounted to almost 3,9 million.

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

Broadcasting and television production segment

In TV broadcasting, we are one of the two leading private TV groups in Poland in terms of revenue and advertising market share. Our main channel, POLSAT, is number two in terms of audience share with a 13.5% share in 2013. We also broadcast thematic channels, which had a 7.6% combined audience share, and sell advertising on our channels and certain third-party channels. TV Polsat Group channels' portfolio consists of 24 stations including 5 HD channels. We broadcast general entertainment, sports, news, business, lifestyle, movie and children's channels. Based on data from Starlink, we estimate that we captured a 24.1% share of the approximately PLN 3.53 billion (not in thousands) Polish TV advertising market in 2013.

Our television channels include: POLSAT, Polsat HD, TV4, TV6, Polsat Sport, Polsat Sport Extra, Polsat Sport HD, Polsat Sport Extra HD, Polsat Film, Polsat Film HD, Polsat Café, Polsat Play, Polsat2, Polsat News, Polsat News HD, Polsat Crime & Investigation Network, Polsat Biznes, Polsat Jim Jam, Polsat Sport News, Polsat Food, Polsat Viasat Explorer, Polsat Viasat Nature, Polsat Viasat History and Polsat Romans. POLSAT, our main channel, was the first commercial channel in Poland, that received a nationwide analogue license and broadcasts 24 hours a day, seven days a week. It is the number two channel in Poland in terms of audience share. POLSAT airs a broad variety of movies (most of them created in the major US studios), lifestyle programs, news and feature programs, Polish and foreign series as well as popular sport events.

Our thematic channels are distributed via majority of cable networks in Poland including such operators as UPC, Multimedia and Vectra and via all major satellite platforms, excluding our sport channels to which Cyfrowy Polsat platform has exclusive rights.

Polsat Sport is a sports channel broadcasting major sports events in Poland and worldwide which are mostly broadcast live (volleyball, athletics, football, handball, world class boxing and MMA contests). Polsat Sport Extra is a sport channel broadcasting premium sport events, primarily the largest international tennis tournaments such as Wimbledon and handball Champions League. Polsat Sport HD and Polsat Sport Extra HD broadcast the content of both our sports channels in HD standard. Polsat Sport News is our new sport channel dedicated to sport news, it is an FTA channel broadcast within DTT technology. Polsat Film broadcasts hit movies, top box-office productions and non mainstream movies from a library of major US movie studios. Polsat Film HD is a version of our movie channel offering high definition broadcast. Polsat Café is our channel dedicated to women that focuses on lifestyle, fashion and gossip programs as well as talk-shows. Polsat Play is dedicated to men, its core programming concerns consumer gadgets, the automotive industry, angling and cult series. Polsat2 broadcasts reruns of programs that premiered on our other channels, it is also broadcast to Polish communities abroad (mainly in USA). Polsat News is a 24-hour news channel broadcasting live and covering primarily news from Poland and key international events. Polsat News HD broadcasts the content of Polsat News in high definition. Polsat Crime & Investigation Network is our criminal channel that takes its viewers to the world of crime providing the insight to criminal laboratories, police archives and courtrooms. Polsat Biznes covers the latest news on the economy and financial markets. Polsat Jim Jam is a children's channel based exclusively on programs by Hit Entertainment, the channel is a joint venture launched by TV Polsat and ChelloZone. Polsat Food is a culinary channel, based on the content library of Food Network's, one of the most popular channels on American television. This is a joint venture of TV Polsat and Scripps Network Interactive. Polsat Viasat Explorer is a channel dedicated to men, simple-unusual people, who work hard and have fantastic fun realizing extraordinary dreams. Polsat Viasat Nature is a nature channel targeted to entire family, that aims to accompany wildlife researchers, veterinary doctors and celebrities in their journey developing knowledge on dangerous predators, domestic pets and wild animals from around the world. Polsat Viasat History is a 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 Explorer, Polsat Viasat Nature and Polsat Viasat History operate based on the cooperation with Viasat Broadcasting. TV4 is a nationwide entertainment channel, whose programming offer includes feature movies, series, entertainment programs and sports. TV6 is a nationwide entertainment channel broadcasting popular entertainment formats in original versions, as well as series, entertainment programs and feature movies from Polsat's library. Both TV4 and TV6 are owned by TV Polsat since August 30, 2013. Both channels are available in digital terrestrial television. Polsat Romans is the newest channel in Polsat Group's portfolio – it was launched on September 1,

2013 and is targeted at women. The programming offer includes both feature movies and popular and much-liked Polish and foreign series.

Item 4.2. Organizational structure of the Capital Group

The following table presents the companies included in the organizational structure of Cyfrowy Polsat Capital Group as at December 31, 2013 together with the consolidation method:

	Entity's registered office	Activity	Share in voting rights (%)	
			December 31, 2013	December 31, 2012
Parent Company				
Cyfrowy Polsat S.A.	Łubinowa 4a, Warsaw	radio, TV and telecommunication activities	n/a	n/a
Subsidiaries				
Cyfrowy Polsat Trade Marks Sp. z o.o. ⁽¹⁾	Łubinowa 4a, Warsaw	non-current assets and intellectual property rights management	100%	100%
Cyfrowy Polsat Finance AB ⁽¹⁾	Stureplan 4C, 4 TR 114 35 Stockholm, Sweden	financial transactions	100%	100%
Telewizja Polsat Sp. z o.o. ⁽¹⁾⁽²⁾	Ostrobramska 77, Warsaw	broadcasting and television production	100%	100%
RS TV S.A. ⁽³⁾	Chorzowska 15, Radom	terrestrial transmission	-	100%
Polsat Media Biuro Reklamy Sp. z o.o. Sp. k. ⁽¹⁾ (former Polsat Media Sp. z o.o.)	Ostrobramska 77, Warsaw	advertising activities	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o. ⁽¹⁾	Ostrobramska 77, Warsaw	media	100%	-
Polsat Futbol Ltd. ⁽¹⁾⁽⁴⁾	Office 1D 238-246 King St. London W6 0RF, UK	television activities	100%	100%
Nord License AS ⁽¹⁾	Vollsvseien 13B Lysaker, Norway	trade of programming licenses	100%	100%
Polsat License Ltd. ⁽¹⁾	Poststrasse 9 6300 Zug, Switzerland	trade of programming licenses	100%	100%
Telewizja Polsat Holdings Sp. z o.o. ⁽¹⁾	Ostrobramska 77, Warsaw	broadcasting and TV production	100%	100%
Media-Biznes Sp. z o.o. ⁽¹⁾	Ostrobramska 77, Warsaw	television activities	100%	100%
Polsat Brands (<i>einfache Gesellschaft</i>) ⁽⁵⁾	Poststrasse 9 6300 Zug Switzerland	Intellectual property rights management	100%	n/a
INFO-TV-FM Sp. z o.o. ⁽¹⁾	Łubinowa 4a, Warsaw	radio and TV activities	100%	100%
Redefine Sp. z o.o. ⁽¹⁾	Al. Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%	100%
Poszkole.pl Sp. z o.o. ⁽¹⁾	Al. Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%	100%
Gery.pl Sp. z o.o. ⁽¹⁾	Al. Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%	100%
Frazpc.pl Sp. z o.o. ⁽¹⁾	Al. Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%	100%
Netshare Sp. z o.o. ⁽¹⁾	Al. Stanów	Electronic media (Internet)	100%	100%

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

	Zjednoczonych 61 A, Warsaw	advertising broker		
CPSPV1 Sp. z o.o. ⁽⁶⁾	Łubinowa 4a, Warsaw	technical services	99%	-
CPSPV2 Sp. z o.o. ⁽⁶⁾	Łubinowa 4a, Warsaw	technical services	99%	-
PL 2014 Sp. z o.o. ⁽⁷⁾	Al. Stanów Zjednoczonych 53, Warsaw	remaining activity related to sports ⁽⁸⁾	60%	-

1) Consolidation using full consolidation method

2) the merger of Telewizja Polsat Sp. z o.o. with Polskie Media S.A. (as the acquired company) was registered as at 31 December 2013

3) Consolidation using full consolidation method until August 30, 2013

4) Polsat Futbol Ltd. was dissolved on 21 January 2014

5) Consolidation using full consolidation method since October 4, 2013

6) Consolidation using full consolidation method since March 15, 2013

7) Consolidation using full consolidation method since September 16, 2013

8) As at December 31, 2013 the company has not began activities

Investments accounted for under the equity method:

	Entity's registered office	Activity	Share in voting rights (%)	
			December 31, 2013	December 31, 2012
Polsat Jim Jam Ltd.	105-109 Salusbury Road London NW6 6RG UK	television activities	50%	50%
Polski Operator Telewizyjny Sp. z o.o.*	Huculska 6, Warsaw	radio communications and radio diffusion	50%	50%

* the company has suspended operations

Additionally, the following entities were included in these consolidated financial statements:

	Entity's registered office	Activity	Share in voting rights (%)	
			December 31, 2013	December 31, 2012
Karpacka Telewizja Kablowa Sp. z o.o.*	Chorzowska 3, Radom	dormant	85%	85%

* Investment accounted for at cost less any accumulated impairment losses

Changes in the organizational structure of Cyfrowy Polsat Capital Group

Establishment of Polsat Media Biuro Reklamy Sp. z o.o.

On January 10, 2013, a company Polsat Media Biuro Reklamy Sp. z o.o. was established and on February 14, 2013, was entered into the National Court Register. Telewizja Polsat Sp. z o.o. held 100% shares in the share capital of this company.

On March 28, 2013, Polsat Media Biuro Reklamy Sp. z o.o. acquired shares in the increased capital of Polsat Media Sp. z o.o. in exchange for cash contribution. Consequently, Polsat Media Biuro Reklamy Sp. z o.o. acquired 1.01% share in Polsat Media Sp. z o.o.

Transformation of Polsat Media Sp. z o.o. in Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp. k. (limited partnership)

On June 12, 2013, Extraordinary Shareholders Meeting of Polsat Media Sp. z o.o. resolved on the transformation of the company into Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp. k. (limited partnership). The articles of association of the company were signed by Polsat Media Biuro Reklamy Sp. z o.o. (general partner) holding 1.01% share in Polsat Media Sp. z o.o. and Telewizja Polsat Sp. z o.o. (limited partner) holding 98.99% share in Polsat Media Sp. z o.o. On July 1, 2013, the company Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp.k. was entered into the National Court Register.

On July 1, 2013, new companies have contributed and joined the company as limited partners: Redefine Sp. z o.o. (30.5% share), Media-Biznes Sp. z o.o. (10%), Netshare Sp. z o.o. (2.5%), Gery.pl Sp. z o.o. (2.25%), Poszkole.pl Sp. z o.o. (1%), Frazpc.pl Sp. z o.o. (0.75%). After the change of the articles of association, Telewizja Polsat Sp. z o.o. holds 51% of shares and Polsat Media Biuro Reklamy Sp. z o.o. – 2%.

Transfer of shares and division of RS TV S.A.

On March 6, 2013, the shares in RS TV S.A. were transferred from Telewizja Polsat Sp. z o.o. to Telewizja Polsat Holdings Sp. z o.o.

On June 28, 2013, the court registered the division of RS TV S.A., including the transfer of a part of the company's assets to INFO-TV-FM Sp. z o.o. The division of the company was one of the conditions precedent contained in the conditional agreement concerning the sale of shares in RS TV S.A. to Emitel Sp. z o.o.

Following the division, the share capital of RS TV S.A. was reduced, and the increase in share capital of INFO-TV-FM Sp. z o.o. was effectuated. Shares in the increased capital of INFO-TV-FM Sp. z o.o. were acquired by Telewizja Polsat Holdings Sp. z o.o., holding 100% shares in the company being divided.

Consequently, Telewizja Polsat Holdings Sp. z o.o. holds 26.5% share in INFO-TV-FM Sp. z o.o. (thus Cyfrowy Polsat holds directly 73.5% share in INFO-TV-FM Sp. z o.o.).

Acquisition of CPSPV1 Sp. z o.o. and CPSPV2 Sp. z o.o.

On March 15, 2013, Cyfrowy Polsat Trade Marks Sp. z o.o. acquired 99% of shares in two companies mentioned below at the price of PLN 5,445 (not in thousands) per company:

- CPSPV1 Sp. z o.o. seated in Warsaw, with share capital of PLN 5,000 (not in thousands),
- CPSPV2 Sp. z o.o. seated in Warsaw, with share capital of PLN 5,000 (not in thousands).

Transfer of shares in Nord License AS

On May 31, 2013, Telewizja Polsat Holdings Sp. z o.o. purchased from the mother company Telewizja Polsat Sp. z o.o. 100% shares in Nord License AS.

Acquisition of Polskie Media S.A. and consolidation with Telewizja Polsat Sp. z o.o.

On August 30, 2013, following the fulfillment of the conditions precedent included in the preliminary and conditional agreements for the purchase of shares in Polskie Media S.A. seated in Warsaw concluded on March 28, 2013, between Telewizja Polsat Sp. z o.o. seated in Warsaw, subsidiary of Cyfrowy Polsat, and Karswell Limited seated in Nicosia, Cyprus and Sensor Overseas Limited seated in Nicosia, Cyprus, Telewizja Polsat has finalized the purchase transaction of a total of 14,500,000 registered shares in Polskie Media with nominal value of PLN 10 (not in thousands) each, comprising 100% of the share capital and giving right to 100% of the votes at the general meeting of Polskie Media for the total amount of PLN 73 million (not in thousands), comprising price for shares and adjustments related to enterprise value.

We consider the acquisition of Polskie Media a strategic step towards strengthening Telewizja Polsat's market position. This opens the possibility to increase advertising revenue based on the growing technical reach and the Group's stronger negotiations position as well as to achieve synergies in the following areas: access and use of programming content, technical, advertising, marketing and cross-promotion as well as back-office resources.

On December 31, 2013 the National Court Register registered the merger of Telewizja Polsat Sp. z o.o. and Polskie Media S.A. by means of transfer of the property of Polskie Media S.A. to Telewizja Polsat Sp. z o.o. pursuant to art. 492 §1 item 1 of the Code of Commercial Companies and Partnerships of September 15, 2000 ("CCC") with reference to articles 525 and 526 of CCC.

Sale of RS TV S.A.

On August 30, 2013, the transaction of sale of 100% shares in RS TV S.A. ('RS TV') to Emitel Sp. z o.o. for PLN 51.9 million (not in thousands) was finalized by Telewizja Polsat. The execution of the transaction followed the fulfillment of the conditions precedent included in the conditional agreement signed on March 28, 2013. These conditions included consent of the banks which are parties to Cyfrowy Polsat's loan agreement (SFA), release of all securities established on the shares and assets of the company related to the loan agreement and the issuance of Senior Notes as well as registration by court of division of RS TV.

The sale of RS TV, providing signal transmission services primarily for Cyfrowy Polsat Group, aims at focusing the Group's activities on two main business segments – providing retail services and broadcasting and television production.

Following the switch of terrestrial television from analogue to digital broadcasting, continuing RS TV operations would involve additional investments with limited possibilities to achieve synergy.

Establishment of PL 2014 Sp. z o.o.

On September 16, 2013, PL 2014 Sp. z o.o. was registered by the National Court Register. TV Polsat holds 50% of the share capital of the company and 60% of the total number of votes in the company. The remaining shares are held by Polski Związek Piłki Siatkowej (the Polish Volleyball Federation).

The company was established for the purpose of cooperation in relation to the upcoming 2014 FIVB Men's Volleyball World Championship to be held in Poland.

As at December 31, 2013 PL 2014 Sp. z o.o. had not started operations.

Establishment of Polsat Brands

On October 4, 2013, TV Polsat and Polsat License entered into an agreement under which TV Polsat contributed to Polsat Brands - Swiss simple partnership (einfache Gesellschaft; under articles 530 seqq. of the Swiss Code of Obligations), established by TV Polsat and Polsat License – certain trademarks valued at PLN 880 million (not in thousands) (the 'IP-Rights'), while Polsat License agreed to contribute a cash equivalent of 1/100 of the IP-Rights' value.

The IP-Rights transfer to Polsat Brands as in-kind contribution is intended to reorganize the TV Polsat group structure by segregating its core business of TV production and broadcasting from non-core business of intellectual property management.

Item 4.3. 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 2013.

Item 4.4. Strategy, market opportunities and competitive advantages of the Capital Group

Item 4.4.1. Group strategy

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

Our vision is:

We will create and deliver the most attractive TV content and telecoms products, using state-of-the-art technologies to provide top quality multi-play services that match the changing needs of the market, while maintaining the highest possible level of customer satisfaction.

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

The key elements of our strategy include:

- Building the value of our customer base by increasing the number of unique users and average revenue per user (ARPU), and by maintaining high levels of customer satisfaction,
- Maximizing revenue from produced and purchased content by widening its distribution, maintaining the audience share of our channels and improving our viewer profile,
- More effective management of the cost base of our integrated media and telecoms group by exploiting its inherent synergies.

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

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

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

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

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

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

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

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

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

The channels we produce and broadcast enjoy strong, well-established positions on the Polish TV market as well as high ratings in their target groups. With our current portfolio, we broadcast 24 channels, programmed to appeal to most target groups within the Polish audience. Our goal here is to maintain our audience share at a stable level and improve our viewer profile. We believe that by making sensible investments in programming, and wider distribution of our own content, we will be able to gradually improve our viewer profile. This in turn will have a positive effect on the price of advertising time. Another crucial step in building the segment's value will be to maximize our distribution of produced and purchased TV content, both in terms of the customer groups it reaches (FTA and pay TV) and the technologies they use (terrestrial, satellite, Internet). These efforts, in our opinion, will not only allow us to reap the benefits of wide-scale distribution of our content, but will also ensure a higher level of satisfaction among our customers/viewers, who will have more freedom to decide when and what to watch.

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

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

Item 4.4.2. Market opportunities

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

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

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

Growing market for new technologies and equipment and the resultant increase in access to and consumption of audiovisual content. As the market for innovative technologies is growing at a fast pace, the number of mobile devices (notebooks, tablets, smartphones or Smart TV sets) owned by consumers is on the rise as well. This has spurred a sharp increase in access to video content, and hence in video viewership – a survey conducted by Ericsson ConsumerLab shows that 72% of respondents watch video content on mobile devices during the week, of which 42% outside of home. Consumers expect service providers to offer them the possibility to watch TV on any screen, anywhere, and at any time. We perceive this group as a prospective customer segment for television services, opening also the opportunity for monetization of our audiovisual content.

Development of advertising market in Poland. Demand for advertising air-time is highly correlated with the macro-economic situation. ZenithOptimedia Media House forecasts that, following a 5.1% decline of total net TV advertising expenditure in 2013, this segment will increase by 1.1% in 2014. Given that TV is a highly effective advertising medium, and given the relatively low level of advertising expenditures in Poland as a percentage of GDP and per capita in comparison to other European markets, there is still a substantial growth potential for TV advertising in Poland in the long term, and the expected economic recovery in 2014 will positively influence that level of advertising expenditure in Poland. It is worth noticing, that despite the growing importance of new media, it is forecasted that watching television will remain an attractive

and popular activity, primarily thanks to new technical opportunities, including: increasing number of HD channels and VoD, as well as thanks to growing number of smart-TVs.

According to IAB AdEX report Internet advertising market shows a dynamic growth, with the advertising expenditures of PLN 2.2 billion (not in thousands) in 2012, an increase of 10.1% y-o-y. The expenditures on the video advertising segment, in which we generate our revenue, increased in 2012 by 64.9% and represented 5.8% of the total expenditures on online advertising (increase by 2.0 pp. compared to 2011). According to PwC forecasts (Global entertainment and media outlook: 2013-2017) the online video advertising in Poland will grow by an average 48% (CAGR) in the years 2013-2017. We believe that thanks to the leading position on the online video market (through IPLA internet television) we may benefit from the growth of this promising advertising market segment.

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

Growing importance of thematic channels. A key trend emerging on TV market in Poland over the past several years is the increasing importance of thematic TV channels. Thematic channels are TV channels distributed mainly through cable and satellite platforms (pay) and terrestrial multiplexes (free), that specialize in a particular genre of programming, such as children's programming, films, sports, lifestyle, news or weather. Thematic channels market segment in Poland reached 46.7% audience share in 2013 compared to 39.4% in 2012 (NAM, all 16-49, full day, all channels except those operating based on licenses for analogue terrestrial broadcasting). Broadcasters with access to thematic channels and integrated media platforms (such as Cyfrowy Polsat Group) can potentially leverage the niche programming content with targeted and optimized advertising.

Item 4.4.3. Competitive advantages

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

In 2013, we were one of the two leading private television groups in Poland in terms of audience share and share in the advertising market. During this period our main channel was second in terms of audience share. Moreover, thanks to the cooperation with Polkomtel Sp. z o.o., based on cross-selling of services, our subscribers have access to the complete offer of the leading operator of Plus network on preferential terms, while Polkomtel's customers can choose from a dedicated offer of television services provided by the largest satellite platform in Poland. As of the end of December 2013 the cross-selling network comprised 774 points of sales of Polkomtel and 672 points of sales of our own network. Additional benefits for both the subscribers of Cyfrowy Polsat satellite TV and Plus's telephone offer are available in all points of sales of both companies.

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

Our advertising sales office Polsat Media Biuro Reklamy, in 2013, for a consequent time, was elected the best TV advertising broker between the leading nationwide broadcasters. The editorial Media&Marketing Polska (MiMP) acknowledged its

appreciation for Polsat Media Biuro Reklamy, that being one of the largest advertising brokers, it maintains the highest standards of customer services. Our advertising broker earned the highest scores in categories such as: transparent pricing policy, rapid and effective reaction to customer needs and guarantee of high quality services, In the 5-point scale applied by the editorial M&MP, where 5 points is the maximum score, Polsat Media Biuro Reklamy achieved 4.19 points (for comparison: TVN – 3.67; TVP – 3.20), which was the best result achieved by Polsat Media Biuro Reklamy in the history of the research conducted by M&MP in cooperation with Millward Brown.

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 believe that through offering high quality programming packages at competitive prices we built the attractiveness of our services. Moreover, very good market opinion and relations both with media houses and advertisers strengthen our position on very competitive market and have an impact on the trust of television broadcasters, that together with distributing channels on our DTH platform decide also to commission us the sale of airtime on their channels (new channels in Polsat Media portfolio in 2013 and 2014 include i.a. channels of BBC Worldwide Channels, Viasat Broadcasting, NBC Universal, Kino Polska, Eurosport Media, Stopklatka).

We provide integrated services. Since June 2010, we provide multi-play services combining pay DTH offer, Internet and telecommunication services. We are the only pay DTH operator in Poland, that provides full multi-play services, which is a significant competitive advantage on pay DTH market in Poland. We believe that, similarly to highly developed European countries, preferences of the Polish population will go into integrated services direction, which will strengthen our competitive advantage

We provide Internet access services in LTE technology. As the first commercial supplier in Poland, in the third quarter of 2011, we started to provide broadband Internet access service in LTE technology, that currently enables the speeds of up to 150 Mb/s. Compared to HSPA+ or UMTS, LTE is characterized by much lower latency and has the capacity to support a greater number of users. The potential of the LTE technology is based on greater capacity and transmission speed with lower latency, which enables LTE Internet service subscribers to use interactive and multimedia applications requiring high bandwidth and transmission in real time, such as online games, video communication and HD TV through Internet.

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

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

Our technological achievements and strategic approach to the development of proprietary technology have been appreciated by independent experts. In 2011, we were ranked among five fastest-developing technology service providers in Central and Eastern Europe in the Rising Stars category of the Deloitte Technology Fast 50 ranking. In the same year, Redefine was distinguished in the international IBC Connected World, the Connected World TV Awards ranking as one of the world's most interesting projects involving innovative business solutions for the media sector. A year earlier, IPLA was recognized as the most interesting broadband service and received the Broadband Forum award, granted to players that set trends in the broadband market by introducing products and services that drive market growth and competitiveness.

Multi-platform distribution of online video content. The IPLA online video service makes us the only group in Poland to offer access to video content through a wide range of electronic devices, including computers/notebooks, tablets, smartphones, TV sets with internet connections, set-top boxes, game consoles and home cinemas. Our objective is to

provide access to an extensive range of audiovisual content through any type of device for playing online multimedia files. Each type of platform supports all major equipment manufacturers and operating systems.

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

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

We built our own set-top boxes factory. As the only operator on the Polish market we produce our own set-top boxes. In November 2007, we launched own production of SD set-top boxes, in April 2010 we began to produce HD set-top boxes, in 2012 we started to produce DVB-T set-top-boxes, and in 2013 we began the production of PVR set-top-boxes. By the end of 2013, more than five million high technology equipment left our production line, out of which over 3.3 million were HD set-top boxes. Running our own factory enables us to produce high quality set-top boxes while incurring manufacturing costs which are far lower than the price of purchasing such equipment from third-party providers. The functionalities of our set-top boxes are designed in line with the customers' expectations as analyzed by the surveys, so that we can be sure the equipment will meet their needs. The fact that software installed on our set-top boxes is developed by in-house engineers, enabling us to rapidly respond to emerging customer needs. In this area we are completely independent and flexible, which translates into better service for our customers.

Attractive content of our TV channels. TV Polsat Group channels' portfolio consists of 24 stations including 5 HD channels. We broadcast general entertainment, sports, news, business, lifestyle, movie and children's channels. This the the largest and most diversified channels' portfolio on the Polish market, that gives us the leading position in terms of audience share among private television groups in Poland. We believe that attractive content of our channels is a significant competitive advantage. We have contracts with major film studios, such as Sony Pictures Television, International 20th Century Fox, The Walt Disney Company or Warner Bros International TV Distribution assuring us with wide selection of the most attractive films and series. Our direct production covers mainly shows and series based on international formats as well as solely created concepts. We also offer wide selection of sport transmission, including i.a. qualifying matches of European Championships 2016, the final match of Euro 2016, qualifying matches of the World Championships in 2018, volleyball games and many others.

We have strong, stable and diversified cash flows. We generate revenue through two distinct revenue streams: (i) retail business segment and (ii) broadcasting and television production segment. In retail business segment, our large subscriber base, monthly subscription revenue and relatively low churn rates provide us with significant predictability of future revenue and strong recurring cash flows, which have historically proven to be resilient, even during periods of challenging economic conditions. Our retail business segment generated EBITDA margins of 27.5%, 29.3%, 35.0% and 34.4% in 2010, 2011, 2012 and 2013, respectively, and retail subscription revenue grew at a CAGR of 9.4% over the last four years. Our Broadcasting and television production segment generated EBITDA margins of 30.7%, 30.9%, 36.7% and 34.9% in 2010, 2011, 2012 and 2013, respectively, and the revenue in this segment grew at a CAGR of 2.2% over the last four years.

In case of our cost base we focus on initiatives to develop in-house services and systems in order to improve quality and efficiency. The examples are: own set-top-boxes factory, own IT solutions, or centralization of selected back-office processes within the entire Capital Group.

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

Item 4.5. Retail business segment

Item 4.5.1. Market overview

Item 4.5.1.1. Pay-TV market

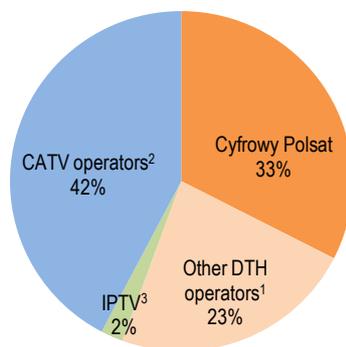
Pay TV services in Poland are offered by DTH operators, cable TV operators and IPTV providers.

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

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

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

Pay-TV market in Poland



¹ Data as at the end of 2013, based on own estimates and data published by operators (Annual reports for 2013 of TVN S.A. Group and Orange Polska S.A. Group)

² Data as at the end of Q3'2013, based on own estimates and data published by PIKE

³ Data as at the end of 2013, based on own estimates and data published by operators (Annual reports for 2013 of Orange Polska S.A. Group and Netia S.A.)

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

DTH

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

Cable TV

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

IPTV

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

Item 4.5.1.2. Internet access market

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

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

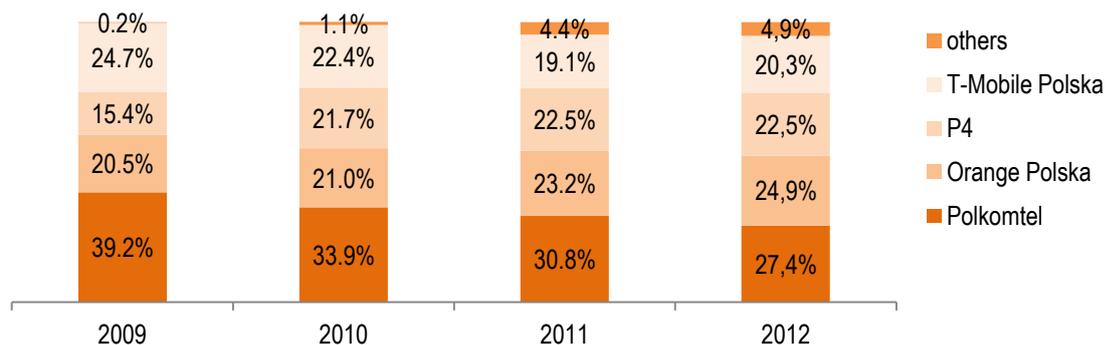
According to UKE (“Report on telecommunications market in Poland 2012”, June 2013), in 2012, 83.5% of households in Poland had access to broadband Internet, while the penetration rate for 100 inhabitants in 2012 was 29.3%. Almost 7.6 million residents of Poland had fixed connection to the network, which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

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

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

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

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



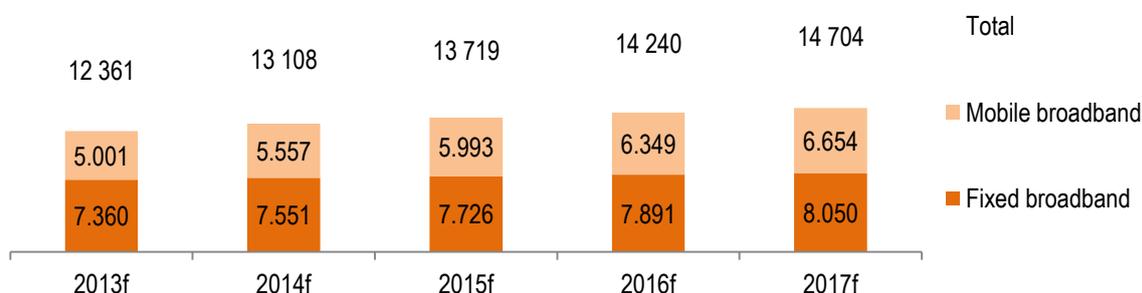
Source: UKE

According to PMR estimates (“Telecommunications market in Poland 2013 – Development forecasts for 2013 - 2017”), the market of data transmission, leased lines and Internet access services will continue to be the fastest growing segment of the telecommunications market. Further investments in development of broadband networks and the progress of LTE technology will have a crucial impact on the market. Until 2017, the market will grow at 3.9% CAGR and its value in 2017 will amount to PLN 8.05 billion (not in thousands), including Internet access segment of PLN 4.47 billion (not in thousands) and data transmission segment of PLN 2.34 billion (not in thousands). In 2017 the number of subscribers to broadband access services in Poland will increase to 14.7 million (not in thousands), with continued growth in the demand for mobile services.

The growing interest in mobile Internet results, among others, from the decline in prices of mobile services and the expanding coverage of 3G network, that directly impacts the quality and continuity of the service purchased.

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

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



Source: PMR Report

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

Item 4.5.1.3. Mobile telephony market

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

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

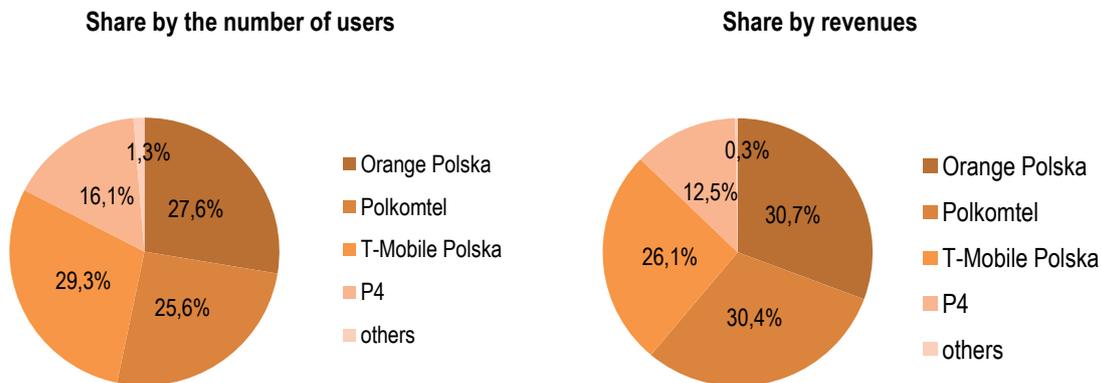
The Polish mobile telephony market is mature. Based on UKE data, the penetration rate of the mobile telephony market, calculated based on the number of SIM cards, increased in 2012 by 6.4% and amounted to 140%, which translated to 53.9 million SIM cards used by customers. According to UKE, the mobile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

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

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

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

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



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

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

PMR experts also expect a continued growth of the number of SIM cards used in Poland to the level of 64.8 million cards in 2017, however the growth dynamic will be much weaker compared to previous years. As a result the penetration rate of the polish mobile telephony market will increase from 140% at present to 168% in 2017.

Item 4.5.1.4. Multi-play services market

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

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

According to European Commission report "E-Communications Household Survey" dated November 2013, the penetration rate of multi-play services market (defined as more than one service within an offer of one operator) in Poland as at the end

of March 2013 amounted to 25%, while in European Union it reached 45%, and in Luxembourg and the Netherlands even over 60% (68% and 66%, respectively).

Currently, triple-play services, that include TV, Internet and telephone services, are offered by cable-TV operators, such as UPC Polska Sp. z o.o., Multimedia Polska S.A. and Vectra S.A., telecommunications operators, such as Orange Group (Telekomunikacja Polska S.A.), Netia S.A. (that in 2011 included mobile TV service in its offer) and Telefonía Dialog S.A. acquired by Netia in 2011, and among DTH operators – Cyfrowy Polsat.

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

Item 4.5.2. Offer

Item 4.5.2.1. DTH offer

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

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

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

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

Mini HD Package

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

Rodzinny HD Package

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

Family HD Package

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

Family Max HD Package

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

Additional packages

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

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

* Prices expressed not in thousands

**Including channels available promotionally.

Premium Offer

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

Flexible offer

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

Multiroom HD

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

Free-to-air channels

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

VOD Home Movie Rental

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

"VOD Home Video Rental" service consists of 20 satellite channels with approximately 50 movies available per month on a rotary basis. Our subscribers can choose from 20 movies daily. We update our offer by adding new titles on a weekly basis. Subscribers are charged gross for each individual movie they select as follows: PLN 11.90 (not in thousands) for access to a movie in the "New" category, PLN 8.90 (not in thousands) for access to a movie in the "Hit" category, PLN 5.90 (not in thousands) for access to a movie in the "Catalogue" category and PLN 11.90 (not in thousands) for access to a movie in the "For adults" category. Often introduced promotions are a strong aspect of our offer. A selected movie is available to the subscriber for 24 hours. In addition, within "Monthly VoD Catalogue", subscribers of Cyfrowy Polsat pay TV can purchase monthly unlimited access to films in the "Catalogue" category for a price of PLN 20 (not in thousands).

Online Services

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

Item 4.5.2.2. Mobile pay TV offer provided in DVB-T technology

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

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

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

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

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

Item 4.5.2.3. IPLA internet television offer

IPLA online television offers access to 1,500 movies, over 20 TV channels, live sports broadcasts in high quality and Poland's largest authorized base of television content, comprising approximately 48 thousand items. IPLA consists of over 100 TV series, TV programmes from over 30 television stations and some 200 hours of major sports broadcasts per month.

On IPLA television, content is offered either on a separate basis or in thematic packages: IPLA NET TV, IPLA SPORT, IPLA PREMIERES, IPLA PREMIUM, FILMBOX LIVE, IPLA WORLD OR IPLA EXTRA. The packages may be activated for 30 days at prices ranging from PLN 4.90 to PLN 29.90 (not in thousands). Also, users can purchase a 48-hour-access to individual content items at prices ranging from PLN 4.90 to PLN 9.90 (not in thousands). Subscribers to Cyfrowy Polsat's satellite TV can profit from special, reduced prices. IPLA also comprises a vast library of content available free of charge (90% of the whole base), which is available with commercials.

Access to IPLA resources, through the www.ipla.tv website and dedicated applications, is available to users of computers running Windows or Windows 8, iOS and Android-powered smartphones, Windows Phone, tablets (Android-based and iPad), TV sets with internet connections (Samsung, LG, Sony, Panasonic, Philips, Sharp, Ikea, Loewe, Thompson, Dune HD, PEAQ), operators (Cyfrowy Polsat, cable TV TOYA, Netia) and game consoles (PlayStation 3). IPLA is also available on Cyfrowy Polsat's set-top boxes.

Item 4.5.2.4. Internet access offer

We offer our mobile broadband Internet services through the use of third generation technologies: HSPA+ and HSPA+ Dual Carrier and since 2011 also the world's latest, cutting edge LTE technology.

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

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

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

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

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

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

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

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

Item 4.5.2.5. Mobile telephony offer

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

Item 4.5.2.6. Bundle services offer

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

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

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

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

Item 4.5.3. Sales and marketing, customer service and maintenance

Item 4.5.3.1. Marketing

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

Item 4.5.3.2. Sales

Digital TV products and services sales network

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

We supply our points of sale with marketing materials, such as posters and leaflets in order to increase client awareness of our services. At these points of sale, customers can sign an agreement to purchase our services, obtain equipment necessary to receive our services or order the installation of a satellite dish. In addition, these points of sale provide

subscribers with technical assistance and widely understood after-sales service. We organize training seminars for employees at our points of sale aimed at improving their sales skills and their knowledge of customer service standards. We organize incentive programs for the sales representatives which award bonuses based on the number of subscribers each sales representative acquires or serviced within their loyalty agreements and type of programming packages they declared to subscribe for.

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

Sales of broadband Internet services

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

Sales of mobile telephony services

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

Call center

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

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

Online

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

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

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

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

Central warehouse

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

Item 4.5.3.3. Customer Relations and Retention Management

Customer Relations Management

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

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

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

Retention Management

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

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

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

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

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

Item 4.5.4. Technology and infrastructure

Item 4.5.4.1. Technology and infrastructure – pay TV

Conditional access system

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

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

Satellite

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

Broadcasting center

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

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

Services for television and radio broadcasters

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

Services provided in DVB-T technology

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

Set-top boxes

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

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

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

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

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

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

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

Internet content distribution

Within IPLA internet television, we use our own technology adapted to the leading operating systems and a wide range of consumer devices. We have developed unique technological competencies in encoding and streaming audiovisual content on the Internet, as well as optimizing distribution of this type of signal. Unlike our competitors, we apply proprietary solutions, which enable us to provide optimum services 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 in IPLA helps reduce the broadband required to deliver the signal by half as compared with the solutions implemented by other operators on the Polish market. The protection system (DRM), additionally applied in IPLA, enables us to offer pay content on mobile devices. Consequently, our platform meets current trends and tendencies in 100%, but more importantly accommodates all the needs of our consumers regarding access to on-line video irrespectively of location, time and the device used.

Item 4.5.4.2. Technology and infrastructure – Internet access service

Network

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

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

In 2011, as the first commercial provider in Poland we started offering broadband Internet access in LTE technology, which currently is able to provide a maximum speed of up to 150 Mb/s. We provide a service through the LTE network on 1800 MHz frequencies, that has been constructed since 2010 by Mobyland in cooperation with CenterNet. Compared to HSPA+ or UMTS, LTE is characterized by much lower latency and has the capacity to support a greater number of users. The potential of the LTE technology is based on greater capacity and transmission speed with lower latency, which enables LTE Internet service subscribers to use interactive and multimedia applications requiring high bandwidth and transmission in real time, such as online games, video communication and HD TV through Internet. Devices offered for customers of Cyfrowy Polsat LTE service enable the speeds of up to 150 Mb/s for data received from the Internet and 50 Mb/s for data sent by a user.

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

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

In January 2012, International Telecommunication Union (ITU) has approved a new standard of mobile technology. ITU decided, that "LTE-Advanced" and "WirelessMAN-Advances" solutions will be commonly named IMT-Advanced. In the future, IMT-Advanced will replace the developed since 2000 IMT-2000 standard, commonly known as 3G. The target speed offered by technologies compatible with the IMT-Advanced standard will be 100 Mb/s on the move (ex. while driving) and 1 Gb/s when stationary (through mobile network). The term 4G remains undefined, but it is still used by operators using LTE, HSPA+ or WiMax technologies.

Internet equipment

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

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

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

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

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

Moreover, we offer our subscribers the first on the market tablet, that is equipped with a module supporting LTE technology up to 100 Mb/s speed – Samsung Galaxy Tab 8.9 LTE and Huawei MediaPad 10.1 LTE 150, which allows use of the Internet up to 150 Mb/s. These devices also support HSPA+ technology. We also offer other models of tablets: Samsung Galaxy Tab 2.7.0 3G, Manta MID9701 9.7" Wi-Fi, Manta MID802 8" WiFi, Ferguson S3 7" Wi-Fi DVB-T (with built-in DVB-T tuner and GPS function) and Prestigio Multipad 2 Ultra Duo 8.0 3G, as well as Acer Aspire E1 laptops with Windows 8 operating system, that supplied with a modem enable fast and easy Internet access.

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

Item 4.5.4.3. Technology and infrastructure – MVNO

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

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

Item 4.6. Broadcasting and television production segment

Item 4.6.1. Market overview

The Polish TV broadcasting market consists of state-owned and private commercial broadcasters airing both at the regional and national levels, significant number of stations offer pay-channels (through cable and DTH platforms).

TV broadcasting in Poland was started in the 1950s by the state-owned TV broadcaster TVP, which was the sole Polish TV broadcaster until 1992. Since the opening of the Polish TV market to private commercial broadcasters in 1992, the number of TV channels has increased substantially. On July 23, 2013 the process of implementing digital terrestrial television (DTT – Digital Terrestrial Television) ended. Currently DTT offers free access to 20 channels and the outreach of the multiplexes is 98%.

First switch-offs of the analogue signal took place on November 7, 2012, and the last on July 23, 2013. Since that date the analogue signal is no longer available on the entire territory of Poland. Currently, the offer of digital terrestrial television includes three multiplexes with 20 TV channels available for free. In addition, the tender was concluded for four more channels (socio-religious, film, educational and for children aged 4 to 12 years) to be included in the offer of the first multiplex after TVP releases space, for which it currently holds a reservation. The deadline for TVP to release its space is April 27, 2014. The entering new channels are: Telewizja TRWAM (socio-religious channel), STOPKLATKA TV (film channel), Fokus TV (educational channel) and TVP ABC (channel for children aged 4 to 12 years). An earlier release of space by TVP is for Telewizja TRWAM and TVP ABC took place February 15, 2014.

Potential entrants, who want to apply for broadcasting licenses, must meet license requirements related to the legally regulated content of channels as well as ownership structure of the companies. In addition, potential entrants to the TV broadcasting industry would incur high costs in order to create a proper technical facilities, purchase a programming library, to establish an adequate distribution network as well as an efficient advertising sales team. Due to high level of competencies of the professionals working for the broadcasters already present on the Polish market and thus highly

competitive sales teams, barriers to entry into the Polish broadcasting market by new participants are very difficult to overcome in the short term.

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

Polish TV advertising market

According to ZenithOptimedia estimates, in 2013 Poland was the third largest advertising market in Central-Eastern Europe (after Russia and Turkey) with a total net advertising expenditure of PLN 6.4 billion (after discounts or rebates) with a 5.6% decline compared to 2012. The value of TV advertising amounted to over PLN 3.3 billion (with a 5.1% decline compared to 2012). ZenithOptimedia forecasts an increase in the value of TV advertising market by 1.1% in 2014 and by 1.0% in 2015.

In 2013, TV was the dominant advertising medium in Poland with 52% share in the total advertising expenditure. According to ZenithOptimedia forecasts, this share is expected to remain stable in the upcoming years. The significant increase in Internet as an advertising medium has not resulted in a substantial change in TV's share of advertising spending but it has had a significant adverse impact on print advertising.

Advertising expenditure by medium from 2009 to 2016:

	2009	2010	2011	2012	2013	2014f	2015f	2016f
TV	52%	53%	52%	52%	52%	52%	51%	51%
Print	20%	18%	16%	14%	12%	10%	8%	6%
Outdoor	9%	8%	8%	7%	7%	7%	7%	6%
Radio	7%	7%	7%	7%	7%	7%	7%	7%
Internet	12%	14%	16%	18%	20%	23%	25%	28%
Cinema	1%	1%	2%	2%	2%	2%	2%	2%

Source: ZenithOptimedia, *Advertising Expenditure Forecasts - December 2013*

The Polish TV market is characterized by high average daily TV viewing time, which was approximately 247 minutes in 2013, an increase of four minutes compared to 2012. 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 Starlink, we estimate that in 2013, Polsat Group had a 24.1% share of the PLN 3.53 billion (not in thousands) Polish TV advertising market and an advertising power ratio, which is a ratio of advertising market share to total individual audience share in the group All 4+, of 1.23.

ZenithOptimedia forecasts that in 2014, the TV advertising market in Poland will increase by 1.1% net. Based on ZenithOptimedia's data, we estimate that TV advertising in Poland will have a 1.1% CAGR between 2014 and 2016. We believe TV is a highly effective advertising medium, and given the relatively low level of advertising expenditures in Poland as a percentage of GDP and per capita in comparison to other European markets that there is still substantial growth potential for TV advertising in Poland. The Polish advertising market constitutes 0.39% of GDP, representing a substantially lower value as a percentage of GDP than in certain other European markets such as the United Kingdom (0.79%), Germany (0.66%) and the Czech Republic (0.57%).

Key TV channels

The Polish TV market is dominated by the four largest terrestrial channels: TVP1, TVP2, TVN and POLSAT, which collectively had 45.9% of the aggregate audience share in the commercial group in 2013. In 2013, significant fragmentation of the TV market was observed related to the termination of broadcasting of analogue terrestrial television and transition to digital terrestrial television (DTT). The importance of smaller broadcasters available on the multiplexes was growing, mainly at the expense of the abovementioned four largest TV channels available so far in the analogue terrestrial television.

In 2013, our main channel, POLSAT, had 13.5% all day audience share, which was the second result on the market. Average annual technical coverage was nearly 99%. Our thematic channels had a 7.6% combined audience share. We broadcast 22 thematic channels with competitive offers on each important market segment (including sport, information, and

channels dedicated to female and male audience). They include channels distributed by cable and satellite networks as well as four channels available through DTT on MUX-2 (POLSAT, Polsat Sport News, TV4 and TV6). POLSAT, the main channel of the Group, competes with the nationwide channels: TVN, TVP1, TVP2 and smaller channels available on digital terrestrial television.

In 2013, POLSAT's main competitor, TVN achieved a 13.96% all day audience share and had approximately 98% average annual technical coverage. The TVN channel, launched in 1997, is transmitted by TVN, which is controlled by ITI Group. TVN Group thematic channels achieved a 8.9% combined all day audience share in 2013.

TVP broadcasts ten channels, including two nationwide, historically available in the analogue signal distribution: TVP1 and TVP2, and is one of the main players on the Polish TV advertising market. In 2013, the main channels of TVP Group had 9.5% (TVP1) and 8.9% (TVP2) all day audience share. The technical reach of both channels reaches almost 100% of TV households in Poland. TVP's thematic channels had 4.6% audience share. Except advertising revenue, as the national state-owned broadcaster, TVP receives additional revenue from license fees mandatorily charged to Polish citizens owning TV or radio sets under the License Fees Act of April 21, 2005 (Journal of Laws of 2005 No. 85 Item 728). Despite regulation preventing TVP from interrupting programs to broadcast advertising, which lessens its advertising inventory, in 2012, TVP generated only 18.3% of its income from license fees.

Digital Terrestrial TV

Poland finished the conversion from analogue terrestrial broadcasting TV to DTT based on Digital Video Broadcasting – Terrestrial (“DVB-T”) standards on July 23, 2013. The switch to digital broadcasting allows to improve picture and sound quality and eliminate the interference that currently accompanies 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 allow broadcasters to introduce additional multimedia services such as additional soundtracks for individual channels (ex. additional narratives) as well as the ability to view programs with subtitles in various languages. DVB-T provides users with a new option of recording programs (PVR).

Digital transmission systems differ from analogue systems in their bandwidth requirements. DTT requires TV-sets equipped with a tuner or a special adapter for older devices. Thanks to the application of DVB-T broadcasting standard with MPEG-4 compression and encryption, it is estimated that viewers will be able to view up to seven - eight channels in one multiplex.

Currently, digital television is offered within three 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. A multiplex (“MUX”) is a term used to describe the package of radio and TV channels, possibly enriched by additional services, transmitted digitally on a specific band.

The first multiplex, MUX-1, is shared between three public TV broadcasters' core channels (TVP1, TVP2, TVP Info) and four commercial channels. TVP is to release space held on this multiplex by April 27, 2014, in order to transfer this space to channels that were elected in a competition. New channels include: Telewizja Trwam (socio-religious channel), STOPKLATKA TV (film channel), Fokus TV (educational channel) and TVP ABC (channel for children aged 4 to 12). An earlier release of space by TVP for Telewizja TRWAM and TVP ABC took place on February 15, 2014. The Office of Electronic Communications (UKE) estimated the reach of MUX-1 at 98.8% of the population in Poland on the date of the final switch-off of analogue terrestrial television broadcasting. MUX-2 is reserved for the commercial broadcasters including TV POLSAT. Regular digital transmissions of POLSAT started on September 30, 2010. On the date of the final switch-off of analogue terrestrial television broadcasting the coverage of MUX-2 was estimated at 98.8%. MUX-3 is reserved solely for the public TV broadcasters. It has 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. The finalization of its expansion is scheduled by the end of April 2014. MUX-4 is currently reserved for INFO-TV-FM (subsidiary of Cyfrowy Polsat) that has launched on it the broadcasting of television on mobile devices.

On November 6, 2013 the Office of Electronic Communications announced the availability of new frequency resources, which are to be used to activate another multiplex. 16 entities have declared their interest in the new resources, therefore the process of preparing procedures to elect those entities, who will receive frequency reservations, was initiated.

In addition to nationwide multiplexes, channels can be broadcast through local multiplexes. Currently two such multiplexes have been activated. The first began functioning on December 19, 2013 in the area of Radomsko, where it broadcasts the programming of the local television NTL Radomsko and two nationwide channels. The second multiplex was activated on

December 20, 2013. It broadcasts in the area of Rybnik the programming of the local television TVT and four nationwide channels.

Item 4.6.2. Offer

Item 4.6.2.1. Channels

We believe we have a portfolio of channels that appeal to the important audience segments and that we will maintain the leading position in sports programming and we will strengthen our position in news programming. Our portfolio of channels addresses the entire family.

Channels portfolio of Polsat Group

Channel	Start date	Thematic group	Signal distribution	Availability	Household coverage⁽¹⁾
POLSAT	December 5, 1992	General interest	Terrestrial/cable/satellite	FTA	98.8%
Polsat Sport	August 11, 2000	Sport	Cable/satellite	non-FTA	49.4%
Polsat Sport Extra	October 15, 2005	Sport	Cable/satellite	non-FTA	34.0%
Polsat Film	October 2, 2009	Movie	Cable/satellite	non-FTA	48.1%
Polsat Café	October 6, 2008	Lifestyle	Cable/satellite	non-FTA	53.3%
Polsat Play	October 6, 2008	Lifestyle	Cable/satellite	non-FTA	43.1%
Polsat2	March 1, 1997	General interest	Cable/satellite	non-FTA	63.0%
Polsat News	June 7, 2008	News	Cable/satellite	non-FTA	54.4%
Polsat Biznes ⁽²⁾	February 8, 2007	Business	Cable/satellite	non-FTA	54.5%
Polsat Jim Jam	August 2, 2010	Children	Cable/satellite	non-FTA	39.7%
Polsat Sport News	June 1, 2011	Sport	Terrestrial /cable/satellite	FTA	78.0%
Polsat Crime & Investigation	November 24, 2011	Criminal	Cable/satellite	non-FTA	35.3%
Polsat Food ⁽³⁾	November 22, 2011	Lifestyle	Satellite	non-FTA	20.8%
Polsat Viasat Explorer ⁽⁴⁾	March 1, 2013	Lifestyle	Satellite	non-FTA	22.2%
Polsat Viasat Nature ⁽⁴⁾	March 1, 2013	Nature	Satellite	non-FTA	19.2%
Polsat Viasat History ⁽⁴⁾	March 1, 2013	History	Satellite	non-FTA	31.5%
TV4 ⁽⁵⁾	April 1, 2000	General Interest	Terrestrial /cable/satellite	FTA	97.0%
TV6 ⁽⁵⁾	May 30, 2011	Entertainment	Terrestrial /cable/satellite	FTA	81.6%
Polsat Romans ⁽⁶⁾	September 1, 2013	Women's	Cable/satellite	non-FTA	24.7%

(1) NAM, average TV household coverage, arithmetic average of monthly coverage in 2013.

(2) Until February 2013, the channel was broadcast under TV Biznes.

(3) Channel included in Polsat Group portfolio since November 2012.

(4) Channel included in Polsat Group's portfolio since March 2013.

(5) Channel included in Polsat Group's portfolio since August 30, 2013.

(6) Channel included in Polsat Group's portfolio since September 2013, data concerning household coverage relate to period of broadcasting

POLSAT

POLSAT, our main channel, is the number two channel in Poland in terms of audience share in the commercial group (all, ages 16-49), that amounted to 13.5% in 2013. 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 the major Polish cable TV operators as well as DTH platforms. POLSAT airs a broad variety of movies, Polish and foreign series as well as talent shows realized based on license agreements. Sports offer has also an important place in our programming.

The strongest programming offer is aired in spring, from March to May, and in autumn, from September to November, in prime time (from 5:00p.m. to 11:00p.m.). It is the key period for advertisers throughout the year. That is when we broadcast the premiere episodes of series, talent shows, and new movies (mainly from Sony Pictures Television, International

20th Century Fox, The Walt Disney Company or Warner Bros International TV Distribution). In off-prime time, POLSAT airs series, docu-soaps, movies or transmissions from sport events.

Thematic channels of the Group

Channel	Target audience segment	Average audience share in the target audience segment in 2013	Core programming	Additional information
Polsat Sport	Men Age 16-59	1.11%	The first sport channel in the Group's offer. It airs sports events and thematic programs. The most important sports are: (i) volleyball (World Championships, World League, World Grand Prix, Plus League, Orlen League), (ii) athletics (e.g. Diamond League), (iii) football, (iv) handball, (v) world class boxing and (vi) MMA (Mixed Martial Arts) and KSW (Martial Arts Confrontation) contests.	The number one sports channel in Poland in 2013, both in commercial group and its target group. The channel is available in SD and HD.
Polsat Sport Extra	Men Age 16-44	0.3%	Premium sport events, primarily the largest international tennis tournaments such as Wimbledon and handball Champions League.	Broadcast since 2009, the channel is available in SD and HD.
Polsat Sport News	Men Age 16-44	0.51%	FTA channel broadcast on DTT. The programming includes sport news, sport events transmissions and journalistic materials.	The number three sports channel in 2013 in both the "Men Aged 16-44" and commercial group audience segments. Channel broadcast since May 2011, audience share data available since November 2012.
Polsat Film	All Age 16-49 cable TV/satellite viewer	0.66%	Wide offer of movies. Hit movies, top box-office productions and non mainstream movies. The offer based to a large extent on productions of Sony Pictures Television International and 20th Century Fox TV.	The channel is available in SD and HD.
Polsat Café	Women Age 16-44	0.5%	Lifestyle, fashion, health and beauty, cooking. The offer includes own productions as well as foreign editions of various shows.	
Polsat Play	Men Age 16-44	0.75%	Male hobbies, including fishing, automotive industry, documentary and guide series, lifestyle and trendy consumer gadgets.	
Polsat2	All Ages 16-49	1.82%	Reruns of programs that premiered on our other channels.	Ranked 10 in terms of audience share in Poland in 2013. The channel is also available via satellite in other countries (eg. USA).
Polsat News	All Ages 16-49	0.81%	24-hour news channel mainly broadcasting live and covering primarily news from Poland and key international events.	The channel is available in SD and since February 2014 in HD
Polsat Biznes	Top management	0.11%	The latest news on the economy and financial markets.	Channel acquired by TV Polsat Group in February 2007. Until February 2013 broadcast under TV Biznes.

Management Board's report on activities of Cyfrowy Polsat S.A. Capital Group
in the financial year ended December 31, 2013
(all financial data presented in PLN thousand, unless otherwise stated)

Channel	Target audience segment	Average audience share in the target audience segment in 2013	Core programming	Additional information
Polsat Jim Jam	Children Age 4-6	4.32%	Entertainment for children.	Polsat Jim Jam is a joint venture launched by TV Polsat and ChelloZone.
Polsat Crime & Investigation Network	Age 16-49, users of cable and DTH TV	0.18%	Criminal programs based on true stories. Documentaries presenting the work of police, detectives and criminal laboratories.	Joint project of Polsat Group and A+E Networks UK. The channel is aired since the end of November 2011.
Polsat Food	Women Age 16-49	0.11%	Culinary channel. Based on Food Network's content.	Joint project of Polsat Group and Scripps Networks Interactive. The channel broadcast since November 22, 2012.
Polsat Viasat Explorer	Men Age 16-49	0.06%	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	Men Age 16-49 lat	0.02%	Offers nature programs for the entire family about wild animals as well as pets.	Joint project of Polsat Group and Viasat Broadcasting.
Polsat Viasat History	All 16-49	0.16%	Offers various programs presenting the history of different times.	Joint project of Polsat Group and Viasat Broadcasting.
TV4.....	All 16-49	2.92%	Programming offer includes films, series, intelligent entertainment	Channel included in Polsat Group's portfolio since August 30, 2013. Ranked 8 in terms of audience share in 2013.
TV6.....	All 16-49	0.68%	Offers drama series, animated movies, soap operas, reality shows and television quiz shows	Channel included in Polsat Group's portfolio since August 30, 2013.
Polsat Romans....	Women Age 16-49	0.08%	Channel dedicated to women, broadcasts both Polish and foreign drama films and series.	Broadcasts since September 1, 2013.

Audience share for our channels standardized to the "All Day 16-49" audience segment for 2011-2013:

Channel	Audience share (%)		
	2011	2012	2013
POLSAT	16.45	15.71	13.51
Polsat2	1.45	1.49	1.82
Polsat News	0.66	0.74	0.81
Polsat Sport	0.65	0.67	0.79
Polsat Film	0.39	0.42	0.53
Polsat Play	0.33	0.39	0.57
Polsat JimJam [JimJam]	0.30	0.38	0.33
Polsat Cafe	0.33	0.36	0.39
Polsat Sport Extra	0.17	0.17	0.21
Polsat Crime & Investigation Network ⁽¹⁾	-	0.12	0.11
Polsat Sport News ⁽²⁾	-	0.28	0.33
Polsat Biznes ⁽³⁾	0.02	0.02	0.06
Polsat Food	-	-	0.08
Polsat Viasat Explorer ⁽⁴⁾	0.01	0.01	0.06
Polsat Viasat History ⁽⁴⁾	0.02	0.02	0.16
Polsat Viasat Nature ⁽⁴⁾	-	-	0.02
TV4 ⁽⁵⁾	2.77	2.74	2.92
TV6 ^{(5) (6)}	0.07	0.23	0.68
Polsat Romans ⁽⁷⁾	-	-	0.08

Source: NAM, target All Day 16-49

- (1) Included in the telemetric panel since January 2012
- (2) Included in the telemetric panel since November 2012 (data for that period)
- (3) Until February 2013 the channel broadcast under TV Biznes
- (4) Channel included in Polsat Group's portfolio in March 2013.
- (5) Channel included in Polsat Group's portfolio on August 30, 2013.
- (6) Included in the telemetric panel since June 2011 (data for that period).
- (7) Included in the telemetric panel since September 2013 (data for that period).

Item 4.6.2.2. 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), talent shows (Wednesday, Friday, Sunday) and popular series (Thursday).

Sources of programming

Polish programming

We aim at having diversified sources of Polish content, enabling us to efficiently manage production costs. We are able to choose from a wide offering to select attractive and cost-effective programs to fit successful scheduling. In addition, for formats owned by us, we organize pitches in order to select the most cost-effective producers that ensure high quality. Polish programs are primarily commissioned to independent external producers. However, we also create programs in-house. Approximately 59% of our programming hours consist of Polish content (data for the following channels: Polsat, Polsat HD,

Polsat2, Polsat Play, Polsat Cafe, Polsat Film, Polsat News, Polsat Sport, Polsat Sport Extra, Polsat Sport HD, Polsat Sport News, Polsat Biznes).

Commissioned programs are sub-contracted to third-party production companies that provide us with additional production capacity when needed, thereby reducing overhead costs related to production employees, facilities and equipment. Our external producers include approximately 20 Polish and foreign producers such as: ATM Group S.A., Akson Studio Sp. z o.o., Tako Media Sp. z o.o., Constantin Entertainment Polska Sp. z o.o., Rochstar Sp. z o.o. and Jake Vision Sp. z o.o. To provide content for Polsat Play and Polsat Café, we use the services of smaller local production companies. Polsat News relies mainly on its own production resources. Sport channels rely mainly on acquired transmissions licenses supported by strong in-house production focused on Polish sports.

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

Programs produced in-house include sports and information programs, journalism and special events.

Foreign programming

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

Our key partners for movie and series licenses are major US movie studios such as Sony Pictures TV International, 20th Century Fox TV, The Walt Disney Company, Warner Bros International TV Distribution or 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: (i) volume contracts, which involve the acquisition of a specified volume of films or series or (ii) spot contracts, which involve the acquisition of the right to broadcast individual series or films.

Purchase of rights to broadcast sports

Sports strategic programming licenses are required for FIVB Volleyball (World League, World Grand Prix, World Cup) and ICEV (European championships in volleyball) . These contracts usually relate to playing seasons and have terms of three to five years. These contracts are generally denominated in euro. Once we have obtained the required programming licenses for certain sports events, we provide our viewers with locally-customized programming either in the form of complete productions or studio commentary. In 2012, we acquired broadcasting rights for Polish national football team matches qualifying to World Cup in Brazil in 2014 and friendly meetings of the team. In 2013 we acquired exclusive broadcasting rights to matches in the eliminations to European football championships in 2016 as well as final matches of the European football championships in 2016. We also acquired broadcasting rights to matches in the eliminations to World football championships in 2018 in Russia. Furthermore, since 2010 we hold broadcasting rights purchased from PLPS (Polish Professional Volleyball League) to Plus League and Orlen League matches.

Item 4.6.2.3. Sale of advertising and sponsoring

Advertising options

There are two main forms of advertising in the TV market: (a) advertisements broadcast in advertising breaks and (b) sponsoring broadcast before and after selected programs and trailers or in advertising breaks in-between sponsored programs.

Advertising

Broadcasters use two forms of sale of advertising time in advertising breaks: (i) GRP sales and (ii) 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

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 (i) a rate card basis and (ii) cost per GRP.

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

GRP prices are established for the channel or group of channels each month during a calendar year by Polsat Media Biuro Reklamy Sp. z o.o. Sp.k. 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 2013, rate-card sales accounted for 38.3% 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.

Item 4.6.3. Sales

The key source of revenue for our Broadcasting and television production segment is advertising and sponsorship revenue (approximately 80% in 2013). Almost all of our advertising revenue is collected through TV Polsat Group's advertising sales house Polsat Media Biuro Reklamy Sp. z o.o. Sp. k., which acts as an advertising agent (sales house) for us under the terms of a Framework Agreement, dated December 27, 2003. Polsat Media Biuro Reklamy Sp. z o.o. Sp.k. is responsible for the sale of advertisements, sponsoring services and contracts connected therewith. Polsat Media Biuro Reklamy Sp. z o.o. Sp.k. is responsible for the sale of advertising services (advertising time) for all our channels (with the only exception of Polsat Jim Jam).

In 2013, Polsat Media Biuro Reklamy Sp. z o.o. Sp.k. carried out the sale of advertising time for eighteen of our TV channels and seven other broadcasters outside our Group. Polsat Media Biuro Reklamy Sp. z o.o. Sp.k. 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 2013, our ten largest media buying agencies collectively accounted for approximately 71% of our net advertising and sponsorship revenue with no single advertiser accounting for more than 1% of our net advertising and sponsorship revenue. Like the other nationwide broadcasters in Poland, we have a relatively stable group of advertisers that we work with.

According to the Media&Marketing Polska report, in 2013, Polsat Media Biuro Reklamy Sp. z o.o. Sp.k. was the highest-rated nation-wide TV advertising sales office in Poland. Similar evaluation was also given in the previous year as well as in 2009 and 2010. Polsat's TV advertising sales office is appreciated for high standards of service and business relations with partners, that received the highest evaluation. It is worth noting that the evaluation of Polsat Media Biuro Reklamy Sp. z o.o. Sp.k. in 2013 improved in a majority of areas examined compared to previous measurements.

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, which comprised 17.5% of total revenue in this business segment in 2013. 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 subscribers to individual packages and set rates for the package or channel subscribers.

Sale of content via Internet

Sale of content via Internet is another source of revenue of TV Polsat Group. The main partner of TV Polsat Group in this field is Redefine Sp. z o.o., a company belonging to the media Group Cyfrowy Polsat. Redefine Sp. z o.o. is the operator of IPLA internet television, the leader on online video market in Poland both in terms of availability on different devices (computers/laptops, tablets, smartphones, Smart-TVs, set-top-boxes, game consoles) and in terms of content offered. Online broadcasting of our programming is based on two settling models. In the first model, there is a fixed monthly fee for the broadcasting right to a specified programming. The second model is based on the share in revenue generated from advertisement placed next to transmitted material.

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

Sales team

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

In 2009, Polsat Media Biuro Reklamy implemented PROVYS Sales, a new sales and optimization software compatible with our fully-integrated ERP system, PROVYS TV Office, used by the Group to manage i.a. programming broadcasting. PROVYS Sales enables to simultaneously sell airtime on 25 channels serviced by Polsat Media Biuro Reklamy in 2013 with fully automated broadcasts of commercial airtime as well as campaign results verification based on daily uploaded NAM data. The number of channels serviced by Polsat Media Biuro Reklamy increased to 31 in January 2014.

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 Starlink and ZenithOptimedia. Polsat Media Biuro Reklamy also uses data from TGI consumer research held by the Polish branch of Millward Brown, that is a standard reference on the Polish market. We are also a member of EGTA (international trade association of TV and radio sales houses), which gives us a unique opportunity to interact and cooperate with sales houses from most European countries.

Item 4.6.4. Technology and infrastructure

Broadcasting of TV channels

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

Terrestrial transmission

POLSAT, our main channel, and channels Polsat Sport News, TV4 and TV6 are broadcast via the nation-wide network of digital terrestrial transmitters within the MUX-2 operated by Emitel (unrelated entity). We have agreements with Emitel for transmission, uplinking, multiplexing and monitoring of the four mentioned channels in digital network. The remaining channels of Telewizja POLSAT are broadcast exclusively via cable TV networks and satellite TV. .

Satellite transmission

We have entered into several agreements for the use of satellite transponders belonging to Eutelsat S.A. These are contribution agreements: (i) two 5-year agreements, entered into in 2012, providing the right to use two slots on the Eutelsat 12 West A (AB 1) satellite, (ii) a 5-year agreement, entered into in 2012 for access to Eutelsat 33A satellite transmission capacity, and one seven-year distribution agreement, entered into in 2010, to provide us with the right to use the entire transponder on Eutelsat HB 13C satellite until the end of 2017 with the right to extend the agreement for additional successive seven-year periods. In addition, through Cyfrowy Polsat, TV Polsat has access to four other Eutelsat transponders.

Technology and infrastructure

Our core technical infrastructure is comprised of: (i) four digital TV studios - one studio used by the Polsat News channel and the main information program - "Wydarzenia", HD-compliant studio for sport programs, studio of Polsat Biznes and a virtual studio designated for short-form TV shows (all studios are equipped with modern, or recently modernized, equipment fully HD-compliant); (ii) five digital outside broadcast vans, including four modern HD vans and a small SD van for the rapid production of short programs; (iii) a two-camera Slow Motion HD van for slow down effects, (iv) 13 digital satellite news gathering trucks ensuring on-site signal feed; five of which are HD-capable, the rest operate in SD; (v) a multiplexer system ensuring the effective transmission of eleven of our channels; (vi) a multi-channel automatic TV broadcasting system; (vii) a digital audio visual routing system; (viii) an IT network capable of handling technological tasks; (ix) network production systems; (x) more than 80 HD and SD camera units; (xi) digital program archive with a modern system MAM and (xii) technological systems for signal exchange between head office and regional offices; (xiii) EC-135 helicopter used for the needs of POLSAT and Polsat News (twin-engine multipurpose helicopter approved for IFR (instrument flight rules) - flights on instruments only, with zero visibility, fit up with specialized audio-video equipment, being able to transmit HD signal up to 100 km and SD signal up to 200 km – broadcasting system currently being up-graded).

Item 4.7. Development prospects

Item 4.7.1. Retail business segment development prospects

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

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

We further believe, that we can significantly expand the pay TV market by adequately responding to changes in the customers behaviors and expectations and addressing new target groups. With the development of the market and technologies, the choice of devices, for which we can produce and distribute television content, has grown significantly. The number of mobile equipment, like laptops, tablets and smartphones, held by customers increases rapidly. In this group we

see the perspective market segment, inter alia for TV services. Furthermore, we see the potential for the market growth in the group of Polish households equipped in more than one TV set as well as in the low ARPU market segment.

Thanks to IPLA internet television acquired in 2012, the leader on online video market, we strengthened our position as aggregator and distributor of content. We continue to develop the service using our experience in sales of pay TV. Developing IPLA is a source of synergies in terms of costs and revenues. Costs synergies come from jointly executed content acquisition and investments in technology development, marketing activities, use of the same infrastructure as well as optimized use of back-office resources. Revenues synergies come from cross-selling and from increased attractiveness of current and new products introduced, that positively impact the customers' satisfaction level. We believe that with the growing importance of the Internet, IPLA internet television will make an increasingly significant element of our business in the future. Already within 6 months after the acquisition, we managed to bring the companies running IPLA to profitability and we are confident that their results will grow gradually. Currently, approximately 75% of the revenues of IPLA service are generated from the sale of advertising in the fastest growing online video segment, and approximately 25% of the revenue comes from content purchase transactions done by users.

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

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

Item 4.7.2. Broadcasting and television production segment development prospects

In TV broadcasting, we are one of the two leading private TV groups and the third largest broadcaster in Poland in terms of audience share, revenue and advertising market share. Based on data from Starlink, we estimate that in 2013, we captured a 24.1% share (y-o-y increase by 0.9 p.p.) of the approximately PLN 3.53 billion Polish TV advertising market.

As the audience share of thematic channels has been continually growing with the progressing fragmentation of the Polish television market, we have focused on launching thematic channels in order to maintain total audience share and ensure continued sufficient growth in advertising revenue. We believe that we can profit from this fragmentation by strengthening our wide portfolio of channels targeted to entire family, extending and strengthening distribution network on cable and satellite platforms including also our Retail segment, within which we manage the largest pay TV platform in Poland. We believe that our presence on all significant satellite platforms and our distribution by cable TV operators will result in further increase in the audience share of our thematic channels, and, consequently, give us the opportunity to grow at least in line with the TV advertising market, and increase subscription fee revenue. Currently our thematic channels portfolio includes 21 channels (8 new channels in the Group in the last five years), and their audience share is in an upward trend.

Following the global trends of changes in media consumption and dynamic development and increasing popularity of mobile devices, we realize our strategy aiming at the widest distribution of content using the best and latest devices and technologies. That is why we want to monetize our content also through distribution in our internet television IPLA, which is the leader on online video market in Poland both in terms of availability on different devices (computers/laptops, tablets, smartphones, Smart-TVs, set-top-boxes, game consoles) and in terms of content offered. IPLA is also the leader in terms of the number of users and the time spent by one user on watching video content.

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

Item 4.7.3. Development prospects of Cyfrowy Polsat Group following the finalization of the conditional transaction of the acquisition of the operator of Plus network

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

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

Taking into considerations the above assumptions, the transaction of the acquisition of Plus network operator will allow us to achieve significant operational synergies, which, according to our estimations, may reach up to approximately PLN 3.5 billion (not in thousands) through the end of 2019. Cost and revenue synergies should increase pro forma EBITDA margin by approximately 2 pp. until the end of 2016 and by a further approximately 1.5 pp. in 2017-2019. Assuming a new structure of the balance sheet and the scale of activity of both entities, there is a real possibility of significant improvement of terms of debt financing, through lower interest rates and better terms of the loan, which could bring an additional approximately PLN 0.5 billion (not in thousands) in savings through the end of 2019.

Item 4.8. Sales markets and dependence on the supplier and client markets

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

Item 4.9. Other Aspects of Our Business

Research, development and IT systems

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

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

Trademarks

In our Retail business segment, we hold a number of trademarks which are registered with, or have applications pending for registration with the appropriate authorities in order to secure our rights to these trademarks. We believe that the most significant trademarks to our business operations are the word and device marks of Cyfrowy Polsat, to which we also hold economic copyrights.

In our Broadcasting and television production segment, we hold protection rights to 32 trademarks (including the word and device "POLSAT" trademark). Currently, registration proceedings are underway with respect to several additional trademarks.

Broadcasting licenses

In our Broadcasting and television production segment we currently hold 32 broadcasting licenses, including 7 universal broadcasting licenses and 25 broadcasting licenses for thematic TV channels. 2 broadcasting licenses are for terrestrial broadcasting DTT only (POLSAT channel), 5 broadcasting licenses are for terrestrial broadcasting DTT and satellite broadcasting (channels Polsat Sport News, TV4 and TV6), 20 broadcasting licenses are for satellite broadcasting only and 5 are local broadcasting licenses (TV Odra). Our current broadcasting licenses were granted by the KRRiT.

The list comprises licenses acquired by the Group in connection with the merger of Telewizja Polsat and Polskie Media. In 2013 TV Polsat acquired licenses for the distribution of nation-wide TV channels already in its possession (POLSAT, Polsat2, Polsat Sport, Polsat Café, Polsat Sport Extra, Polsat Play, Polsat HD, Polsat Sport HD, Polsat News, Polsat Film, Polsat Biznes, TV4 and TV6) for a consecutive 10-year period after the expiry of the licenses currently in force.

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

Channel	License holder	Type of license	Licensing body	Date of expiration
POLSAT	TV Polsat	Terrestrial broadcast license (digital)	KRRiT	March 2, 2024
Polsat Sport News	TV Polsat	Satellite broadcast license /Terrestrial broadcast license (digital)	KRRiT	August 29, 2020
Polsat2	TV Polsat	Satellite broadcast license	KRRiT	January 18, 2024
Polsat Sport	TV Polsat	Satellite broadcast license	KRRiT	January 18, 2024
Polsat Café	TV Polsat	Satellite broadcast license	KRRiT	July 28, 2024
Polsat Sport Extra	TV Polsat	Satellite broadcast license	KRRiT	October 26, 2025
Polsat Play	TV Polsat	Satellite broadcast license	KRRiT	November 15, 2025
Polsat HD	TV Polsat	Satellite broadcast license	KRRiT	May 18, 2028
Polsat Sport HD	TV Polsat	Satellite broadcast license	KRRiT	May 18, 2028
Polsat News	TV Polsat	Satellite broadcast license	KRRiT	May 18, 2028
Polsat Film	TV Polsat	Satellite broadcast license	KRRiT	June 4, 2029
Polsat Biznes ⁽¹⁾	Media-Biznes	Satellite broadcast license	KRRiT	October 5, 2024
TV4	TV Polsat	Satellite broadcast license/Digital terrestrial broadcast license	KRRiT	February 2, 2029
TV6	TV Polsat	Satellite broadcast license/Digital terrestrial broadcast license	KRRiT	July 22, 2030
Polsat Romans	TV Polsat	Satellite broadcast license	KRRiT	October 15, 2023
Polsat Sport Weekend ⁽²⁾	TV Polsat	Satellite broadcast license	KRRiT	October 15, 2023
TV ODRA – Jelenia Góra ⁽³⁾	TV Polsat	Local broadcast license	KRRiT	April 13, 2015
TV ODRA – Zielona Góra ⁽³⁾	TV Polsat	Local broadcast license	KRRiT	April 13, 2015
TV ODRA – Wrocław ⁽³⁾	TV Polsat	Local broadcast license	KRRiT	April 13, 2015
TV ODRA – Lubin ⁽³⁾	TV Polsat	Local broadcast license	KRRiT	April 13, 2015
TV ODRA – Gorzów Wielkopolski ⁽³⁾	TV Polsat	Local broadcast license	KRRiT	April 13, 2015

Source: TV Polsat and Cyfrowy Polsat

⁽¹⁾ Until February 2013 the channel operated under "TV Biznes".

⁽²⁾ License acquired in October 2013, the channel had not yet began broadcasting

⁽³⁾ These are regional channels, that are currently not broadcasting. There is a possibility to create local multiplexes for them in time.

Furthermore, Polsat JimJam Ltd., a jointly controlled entity established by Telewizja Polsat at JimJam CEE Limited, in which we hold 50%, has a license granted by Ofcom for an unlimited period for satellite broadcasting of the programming Polsat JimJam.

Restrictions on programming and advertising

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

- minimum daily TV program broadcasting time;
- minimum percentage share of individual categories of programs in the monthly and daily broadcasting time;
- minimum requirements for the broadcast of programming originally produced in the Polish language and programming of European origin and the requirement to ensure that at least 10% of the broadcaster's programming is obtained from independent producers;
- the maximum percentage share of the daily and weekly broadcasting time of shows and other transmissions produced exclusively by the broadcaster or ordered from independent producers, and
- the obligations to ensure that minor viewers do not have access to transmissions containing acts of violence and to encrypt programs broadcast at specified times or to ensure that previews of transmissions containing erotic content will not be broadcast during certain hours.

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

- TV advertising and teleshopping spots must be readily recognizable and distinguishable from editorial content;
- advertising and teleshopping spots 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 its 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 (in particular, the sponsorship announcements);
- broadcasts of advertising and teleshopping spots shall be inserted between programs, however, transmission of movies made for TV (excluding series, serials and documentaries) as well as cinematographic works may be interrupted by advertising and/or teleshopping spots only once for each period of full 45 minutes of the program and provided that at least 20 minutes in a TV program service has elapsed between each successive break in the program; with respect to transmission of sport events, which by their nature, are interrupted by breaks, advertising and teleshopping spots can only be transmitted during such natural breaks; news and current affairs programs, programs with religious content, commentaries and documentaries, the duration of which is less than 30 minutes, and programs intended for children, cannot be interrupted with advertising spots at any time;
- teleshopping spots 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 as a general rule is prohibited with the exception of beer, the advertising of which is allowed between 8 p.m. and 6 a.m.;
 - tobacco and gambling, the advertising of which is strictly prohibited at all times;
 - prohibition of advertising pharmaceutical products, with the exception of pharmaceuticals available without a prescription (OTC pharmaceuticals), the advertising of which must meet certain strict requirements (in particular it must not be misleading and it must inform the recipients of the reasonable use of the medication);
 - prohibition of advertising of health care services, as defined in the regulations on medical activity, available exclusively on the basis of a referral;
 - strict prohibition of advertising of psychotropic substances and/or intoxicating substances as well as foodstuff and other products, within the scope regulated by Act of July 29, 2005 on prevention of drug abuse (Journal of Laws No. 179, item 1485, as amended) (the "Anti-drug Abuse Act").

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 5% of the quarterly broadcasting time (excluding advertising and teleshopping spots) contained such amenities.

Telecommunications operations and distribution of radio and TV channels

We fulfill all requirements specified in applicable regulations necessary to provide services as an MVNO operator, Internet access services and to conduct distribution of radio and TV channels.

We have been entered into the register of telecommunication companies. Moreover, we have acquired the right to use numeration resources, and also radio permits for use of the radio equipment in terrestrial satellite stations. Furthermore, we have registered our business activity based on the distribution of television and radio programs with The National Broadcasting Council's Office (KRRiT) (in accordance with the applicable provisions of the Broadcasting Act).

Real estate property

In our Retail business segment, we own the majority of the real estate property on which our DTH satellite TV infrastructure, office and warehousing facilities are located. All of our real estate property is located in Poland. We believe that all of our real estate property is well maintained and in good condition. As at December 31, 2013, there was a mortgage registered on the entire real estate property owned by us, established in respect to the Senior Facility Agreements and Senior Notes. Some insignificant parts of our real estate property are encumbered with typical easement rights for electricity cable conservation. We lease part of our real estate property from third parties that are not material to our business.

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

Environmental matters

All issues related to environmental protection are very important to us. Compliance with regulations regarding environmental protection and fulfillment of our obligations are a priority. We make every effort to ensure that our operations do not violate environmental protection laws and regulations in force in Poland. We regularly monitor our compliance with the applicable environmental laws and regulations and any other environmental requirements that may apply to us. When necessary, we contact the relevant authorities and cooperate with them in monitoring compliance with the applicable laws and regulations. Moreover, we cooperate on a regular basis with independent companies specializing in environmental consulting and complex service of entities, whose activities may impact the environment. There are no pending legal proceedings against us that might have been initiated in relation to a breach of environmental regulations as a result of our company's activities.

Insurance

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

Item 5. Material agreements

Acquisition of Polskie Media S.A.

On August 30, 2013, following the fulfillment of the conditions precedent included in the preliminary and conditional agreements for the purchase of shares in Polskie Media S.A. seated in Warsaw concluded on March 28, 2013, between Telewizja Polsat Sp. z o.o. seated in Warsaw, subsidiary of Cyfrowy Polsat, and Karswell Limited seated in Nicosia, Cyprus and Sensor Overseas Limited seated in Nicosia, Cyprus, Telewizja Polsat has finalized the purchase transaction of a total of 14,500,000 registered shares in Polskie Media with nominal value of PLN 10 (not in thousands) each, comprising 100% of

the share capital and giving right to 100% of the votes at the general meeting of Polskie Media for the total amount of PLN 73 million (not in thousands), comprising price for shares and adjustments related to enterprise value.

Polskie Media is a broadcaster of two channels, available via terrestrial TV, cable and satellite: TV4 and TV6. An independent opinion issued by KPMG, an advisory firm, confirms that the purchase price for the transaction is fair from the point of view of Cyfrowy Polsat's best interest.

We consider the acquisition of Polskie Media a strategic step towards strengthening Telewizja Polsat's market position. This opens the possibility to increase advertising revenue based on the growing technical reach and the Group's stronger negotiations power as well as the synergies in the following areas: access and use of the programming content, technical, advertising, marketing and cross-promotion as well as back-office resources.

On December 31, 2013 the National Court Register registered the merger of Telewizja Polsat Sp. z o.o. and Polskie Media S.A. by means of transfer of the property of Polskie Media S.A. to Telewizja Polsat Sp. z o.o. pursuant to art. 492 §1 item 1 of the Code of Commercial Companies and Partnerships of September 15, 2000 ("CCC") with reference to articles 525 and 526 of CCC.

Sale of RS TV S.A.

On August 30, 2013, the transaction of sale of 100% shares in RS TV S.A. ('RS TV') to Emitel Sp. z o.o. for PLN 51.9 million (not in thousands) was finalized by Telewizja Polsat. The execution of the transaction followed the fulfillment of the conditions precedent included in the conditional agreement signed on March 28, 2013. These conditions included consent of the banks which are parties to Cyfrowy Polsat's loan agreement (SFA), release of all securities established on the shares and assets of the company related to the loan agreement and the issuance of Senior Notes as well as registration by court of division of RS TV.

The sale of RS TV, providing signal transmission services primarily for Cyfrowy Polsat Group, aims at focusing the Group's activities on two main business segments – providing retail services and broadcasting and television production.

Following the switch of terrestrial television from analogue to digital broadcasting, continuing RS TV operations would involve additional investments with limited possibilities to achieve synergy.

Transfer of intellectual property rights between subsidiaries

On October 4, 2013, Telewizja Polsat Sp. z o.o. and Polsat License Ltd. ('Polsat License'), seated in Zug, Switzerland (subsidiaries of the Company) entered into an agreement under which TV Polsat contributed to Polsat Brands - Swiss simple partnership (einfache Gesellschaft; under articles 530 seqq. of the Swiss Code of Obligations), established by TV Polsat and Polsat License – certain trademarks valued at PLN 880 million (not in thousands) (the 'IP-Rights'), while Polsat License agreed to contribute a cash equivalent of 1/100 of the IP-Rights' value.

The IP-Rights contribution to Polsat Brands is intended to reorganize the TV Polsat group structure by segregating its core business of TV production and broadcasting from non-core business of intellectual property management.

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

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

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

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

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

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

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

- a) the approval by the Polish Financial Supervision Authority of the prospectus for the New Shares for the purpose of applying for their admission to trading on a regulated market operated by the Warsaw Stock Exchange („WSE”),
- b) the execution by EBRD and the Company of a framework agreement concerning in particular the obligations vested in the Company to pursue its operations in compliance with the requirements and policies followed or adopted as standard by EBRD,
- c) the obtaining by EBRD of a legal opinion concerning selected Polish law issues in the context of the contemplated transaction,
- d) the absence, in the period since the execution of the EBRD Investment Agreement, of a Material Adverse Effect for the Company, concerning in principle (i) a material adverse change of the value, operations, assets, real property or standing (financial, operational or otherwise) of the Company, Telewizja Polsat Sp. z o.o. or the Company's Capital Group, whose value exceeds 10% of the aggregate value of all outstanding Company's shares (it being understood that any changes of the price of the Company's shares in WSE trading do not constitute a Material Adverse Effect), or (ii) any event, action or circumstances preventing the Company from performing actions envisaged by the EBRD Investment Agreement or the fulfilment of its obligations specified therein;
- e) satisfaction of the conditions precedent set forth in the investment agreement of November 14, 2013 among the Company, Karswell, Sensor and Argumenol;
- f) the absence, in the period since the execution of the EBRD Investment Agreement until the closing of the transaction under the EBRD Investment Agreement, of financial indebtedness (as defined in the EBRD Investment Agreement) in excess of PLN 3.5 billion (not in thousands).

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

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

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

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

- a) repayment of the entire indebtedness of the Company arising under the Senior Facilities Agreement dated 31 March 2011, as amended and the Senior Secured Notes issued pursuant to the Indenture dated 20 May 2011;
- b) adoption by the Annual General Meeting approving the Company's financial statements for fiscal year 2013 of a resolution regarding the payment of dividend in the total amount of no less than PLN 100,000,000.00 (one hundred million Polish zloty) (not in thousands), and in the case of non-payment of such dividend, the adoption by the Management Board, with the consent of the Supervisory Board, of the interim dividend for 2014 in the total amount of no less than PLN 100,000,000.00 (one hundred million Polish zloty) (not in thousands), provided that the payment, in each case, of the dividend or interim dividend to the shareholders will be conditional upon the delivery, prior to the dividend day, to the holders of subscription warrants of the ordinary shares of the Company under the conditional increase in the share capital of the Company and the acquisition by the Company of 1,675,672 (one million six hundred seventy five thousand six hundred seventy two) shares in Metelem, and the resolution's adoption date and the dividend day shall be determined in a way that will enable such payment.

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

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

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

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

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

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

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

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

Insurance agreements

In 2013 Cyfrowy Polsat Capital Group signed insurance agreements described below.

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

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

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

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

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

Item 6. Presentation of operating and financial results

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

Revenue is derived from (i) retail sales, (ii) advertising and sponsorship, (iii) fees from cable and satellite operators, (iv) sale of equipment and (v) other revenue sources.

Retail subscription revenue

Retail revenue consists primarily of (i) monthly subscription fees paid by our pay digital television subscribers for programming packages, (ii) fees for the leasing of set-top boxes, (iii) activation fees, (iv) penalties due to termination of contracts (v) monthly subscription fees and other revenue from users of our Internet and mobile telephony services and (vi) fees for extra services such as nVoD. The total amount of pay digital television subscription fees depends on the number of subscribers and the amount of monthly subscription fees paid for our packages. Activation fees are collected up-front and amortized over the life of the contract. In this position we also present non-advertising revenue of the companies of Redefine Sp. z o.o. Group, consolidated since April 2, 2012 (primarily revenue from subscription of IPLA and PPV service in IPLA).

Sales of advertising and sponsorship

Our revenue from advertising and sponsorship is generated mainly by TV Polsat Group (approximately 99%), which include since September 2013 revenue generated by the companies of Polskie Media, the remaining 1% relates to the revenue from sale of marketing and advertising services generated by the Group and revenue from advertising generated by Redefine Sp. z o.o. Group, Netshare Sp. z o.o., Frazpc.pl Sp. z o.o. and Gery.pl Sp. z o.o. (consolidated from the second quarter of 2012). We sell advertising on our channels either on a rate-card basis, which reflects the timing and duration of an advertisement, or on a cost per gross rating point, or GRP, basis. A GRP is defined as the number of people watching a particular spot at a specific time. Unlike audience share, which is defined as the number of people watching a particular program at a particular time and is expressed as a percentage of the total number of people watching TV, GRP is expressed as a percentage of the target group. We set and publish rate-card prices on monthly basis. Rate-card pricing is, on average, higher than GRP pricing, as advertisers select the specific advertising breaks, which they believe best meet their marketing objectives. We determine the placement of advertising breaks sold on a GRP basis based on the availability of airtime after the booking of rate-card sales, and advertisers only pay for the actual number of rating points delivered in the relevant commercial breaks.

Revenue from cable and satellite operators

Revenue from cable and satellite operators consists primarily of revenue generated by TV Polsat Group and includes fees from satellite platforms and cable TV networks operators for rebroadcasting our channels.

Sale of equipment

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

Other revenue

Other revenue sources consist primarily of revenue from:

- (i) sales of broadcasting and signal transmission services;
- (ii) the lease of premises and facilities;
- (iii) sales of licenses, sublicenses and property rights;
- (iv) revenue from phone calls to call center;
- (v) other services.

Item 6.2. Sources of operating costs

Operating costs consist of:

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

Programming costs

Programming costs consist of:

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

Costs of internal and external TV production and amortization of sport rights

These costs include production costs for TV programs specifically produced by or for us, either under licenses from third parties or under our own licenses. These costs include also 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 the distributors consisting of the amounts due both to distributors and retail points of sale when they conclude sale or retention agreements with our subscribers for pay television, broadband Internet and mobile telephony services and (ii) costs of courier services, distribution of reception equipment and costs associated with services of our regional agents. Marketing expenses consist of expenses for TV and radio commercials, press and website advertising, promotional activities and materials, as well as other expenses incurred to increase sales and brand recognition. Customer relation management and retention costs consist of mailing costs, call centre costs and other customer relation management costs.

Depreciation, amortization, impairment and disposal

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

Salaries and employee-related costs

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

Broadcasting and signal transmission costs

Broadcasting and signal transmission costs consist of:

- (i) payments for the lease of satellite transponder capacity;
- (ii) payments for the use of conditional access system based on the number of access cards;
- (iii) TV broadcasting costs (analogue and digital terrestrial transmission);
- (iv) costs related to transmission of DVB-T signal; and
- (v) other signal transmission costs.

Amortization of purchased film licenses

These costs include 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.

Cost of settlements with mobile network operators and interconnection charges

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

Cost of equipment sold

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

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

In this group of costs we present:

- (i) bad debt recovery fees, previously included in distribution, marketing, customer relation management and retention costs;
- (ii) bad debt allowance and the cost of receivables written off, previously included in other operating costs.

Other costs

Key items of other costs include:

- (i) infrastructure rental and network maintenance cost;
- (ii) the cost of SMART and SIM cards provided to customers;
- (iii) IT services costs;
- (iv) property maintenance costs;
- (v) guarantee services costs;
- (vi) legal, advisory and consulting costs;
- (vii) taxes and other charges;
- (viii) the cost of licenses and other current assets sold;
- (ix) technical and production costs, such as costs of costumes, set design, staging services, other cost which cannot be directly attributable to production;

- (x) costs of purchase of advertising space generated by the companies from Redefine Sp. z o.o. GroupNetshare Sp. z o.o., Frazpc.pl Sp. z o.o. and Gery.pl Sp. z o.o.; and
- (xi) other costs.

Item 6.3. Other operating income/costs, net

Other operating income/costs consists of:

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

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

Macroeconomic environment

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

Despite relatively good condition of the Polish economy, world economic downturn had a negative impact on the expenditures on advertising in Poland, including TV advertising.

Exchange rates fluctuations

Our functional and reporting currency is zloty. Our revenues are expressed in zloty, while approximately 35% of our operating expenses (in 2013) were denominated in currencies other than zloty, mainly US dollars and euro.

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

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

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

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

Competition on DTH market

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

Increased competition on the market and the changing market environment (including consolidation processes on pay TV and cable TV market) influenced our special offers to newly acquired subscribers. Preparing the Christmas offer, in the fourth quarter of 2012, we introduced additional attractive promotional offers and services combined with modern devices (i.a. laptops, tablets, modems).

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

Condition of the advertising market in Poland

The majority of the revenue generated in our television broadcasting and production segment (approximately 80% in 2013) comes from the sale of advertising airtime and sponsoring slots on TV channels.

Demand for advertising air-time is highly correlated with macro-economic situation. In the second half of 2013 the Polish economy began to recover, which had a positive impact on the television advertising market. As a result of these factors, the total net expenditures on TV advertising declined in 2013 by 3.6%, according to Starlink Media House. In the same time, our revenue from advertising and sponsorship recorded an increase of 0.4%, translating into 0.9p.p. growth in TV Polsat Group's share in the TV advertising market, to 24.1%.

Development of digital terrestrial television

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

Within the broadcasting and television production segment, due to the digitalization process of terrestrial TV, we incurred double costs of broadcasting of the signal of our main channel (analogue and digital). During this period the cost of digital broadcasting was increasing along with the expanding range of terrestrial multiplexes (it concerned our two channels distributed terrestrially - POLSAT and Polsat Sport News).

Reduction of indebtedness

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

Acquisition and consolidation of Polskie Media S.A.

On August 30, 2013 Telewizja Polsat has finalized the purchase transaction of Polskie Media S.A. for the total amount of PLN 73 million (not in thousands), comprising price for shares and adjustments related to enterprise value.

Polskie Media is a broadcaster of two channels distributed both in terrestrial and cable-satellite television: TV4 and TV6. We consider the acquisition of Polskie Media a strategic step towards strengthening Telewizja Polsat's market position. This opens the possibility to increase advertising revenue based on the growing technical reach and the Group's stronger negotiations power as well as the synergies in the following areas: access and use of the programming content, technical, advertising, marketing and cross-promotion as well as back-office resources.

In consequence of the acquisition the financial results of Cyfrowy Polsat and Polskie Media S.A. are consolidated since September 1, 2013. As a result, the financial results of the Group in 2013 are not comparable to the corresponding periods in 2012.

Sale of RS TV S.A.

On August 30, 2013, the transaction of sale of RS TV S.A. (subsidiary of Telewizja Polsat) for the total amount of PLN 51.9 million (not in thousands) was finalized.

The sale of RS TV, providing signal transmission services primarily for Cyfrowy Polsat Group, was aimed at focusing the Group's activities on two main business segments – providing retail services and broadcasting and television production. Following the switch of terrestrial television from analogue to digital broadcasting, continuing RS TV operations would involve additional investments with limited possibilities to achieve synergy.

Profit gained through this transaction was recognized in Other operating revenue/costs, net of Cyfrowy Polsat Group in 2013.

Expansion of technical reach of HSPA+ and LTE Internet

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

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

Item 6.5. Trend information

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

1. Development of pay television market (growing interest in OTT services);
2. Development of digital terrestrial television (development of programming offer);
3. Development of Internet services market (growing demand for data transmission and fast Internet connections, higher growth dynamics of mobile services vs. cable connections);
4. Growing number of users of mobile devices (including laptops, smartphones and tablets);
5. Increase in sales of TV-sets connected to the Internet;
6. Growing importance of multi-play services (joint telecommunication and television services);
7. Growth of the TV advertising market;
8. Further fragmentation of the television market (increasing share of thematic channels in both audience share and revenue from advertising);
9. Growth in expenditures on online video advertising.

Item 6.6. Major investments

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

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

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

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

Acquisition of Polskie Media S.A.

On August 30, 2013, following the fulfillment of the conditions precedent included in the preliminary and conditional agreements for the purchase of shares in Polskie Media S.A. seated in Warsaw concluded on March 28, 2013, between Telewizja Polsat Sp. z o.o. seated in Warsaw, subsidiary of Cyfrowy Polsat, and Karswell Limited seated in Nicosia, Cyprus and Sensor Overseas Limited seated in Nicosia, Cyprus, Telewizja Polsat has finalized the purchase transaction of a total of 14,500,000 registered shares in Polskie Media with nominal value of PLN 10 each, comprising 100% of the share capital and giving right to 100% of the votes at the general meeting of Polskie Media for the total amount of PLN 73 million (not in thousands), comprising price for shares and adjustments related to enterprise value.

Polskie Media is a broadcaster of two channels, available via terrestrial TV, cable and satellite: TV4 and TV6. An independent opinion issued by KPMG, an advisory firm, confirms that the purchase price for the transaction is fair from the point of view of Cyfrowy Polsat's best interest.

We consider the acquisition of Polskie Media a strategic step towards strengthening Telewizja Polsat's market position. This opens the possibility to increase advertising revenue based on the growing technical reach and the Group's stronger negotiations power as well as the synergies in the following areas: access and use of the programming content, technical, advertising, marketing and cross-promotion as well as back-office resources.

On December 31, 2013 the National Court Register registered the merger of Telewizja Polsat Sp. z o.o. and Polskie Media S.A.

Item 6.7. Review of operating and financial situation

Item 6.7.1. Operating results

Retail business segment

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

	3 months ended December 31			12 months ended December 31		
	2013	2012	Change / %	2013	2012	Change / %
Number of subscribers at end of period, of which:	3 535 045	3 566 144	-0.9%	3 535 045	3 566 144	-0.9%
Family Package	2 685 422	2 761 248	-2.7%	2 685 422	2 761 248	-2.7%
Mini Package	849 623	804 896	5.6%	849 623	804 896	5.6%
Average number of subscribers¹, of which:	3 521 584	3 526 068	-0.1%	3 536 754	3 537 603	0.0%
Family Package	2 682 728	2 742 889	-2.2%	2 716 510	2 763 276	-1.7%
Mini Package	838 856	783 180	7.1%	820 244	774 327	5.9%
Churn rate, of which:	9.5%	8.6%	0.9 pp.	9.5%	8.6%	0.9 pp.
Family Package	9.6%	9.0%	0.6 pp.	9.6%	9.0%	0.6 pp.
Mini Package	9.5%	7.1%	2.4 pp.	9.5%	7.1%	2.4 pp.
Average monthly revenue per user² (ARPU) (PLN), of which:	41.2	40.4	2.0%	40.5	39.3	3.1%
Family Package (PLN)	49.8	48.2	3.3%	48.9	46.6	4.9%
Mini Package (PLN)	13.5	13.4	0.7%	13.1	13.4	-2.2%

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

Subscribers

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

Churn rate

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

ARPU

We define "ARPU" as the average net revenue per subscriber to whom we rendered services calculated as a sum of net revenue generated by our subscribers from our pay digital television services in the reporting period divided by the average number of subscribers to whom we rendered services in this reporting period. ARPU increased by 2.0% to PLN 41.2 in the fourth quarter of 2013 from PLN 40.4 (not in thousands) in the fourth quarter of 2012. The growth was due to the migration of subscribers to higher programming packages and revenue from additional services, including Multiroom and internet television. Family Package ARPU increased by 3.3%, to PLN 49.8 in the fourth quarter of 2013 from PLN 48.2 (not in thousands) in the fourth quarter of 2012. Mini Package ARPU increased by 0.7%, to PLN 13.5 in the fourth quarter of 2013 from PLN 13.4 (not in thousands) in the fourth quarter of 2012.

ARPU increased by 3.1% to PLN 40.5 in 2013 from PLN 39.3 (not in thousands) in 2012. The growth was due to the migration of subscribers to higher programming packages and revenue from additional services, including Multiroom, PPV and internet television. Family Package ARPU increased by 4.9%, to PLN 48.9 in 2013 from PLN 46.6 (not in thousands) in 2012. Mini Package ARPU decreased by 2.2%, to PLN 13.1 in 2013 from PLN 13.4 (not in thousands) in 2012.

Broadcasting and television production segment

We consider audience share by channel, advertising market share and technical reach when analyzing and evaluating our Broadcasting and television production segment. The tables below set forth these key performance indicators for the relevant periods and are followed by a detailed explanation of each key performance indicator.

	Three months ended December 31			Twelve months ended December 31		
	2013	2012	Change / %	2013	2012	Change / %
Audience share, of which⁽¹⁾⁽⁹⁾	23.06%	20.84%	10.65%	21.14%	20.54%	2.92%
POLSAT	12.83%	15.57%	-17.60%	13.51%	15.71%	-14.00%
Thematic channels⁽⁹⁾	10.23%	5.27%	94.12%	7.63%	4.83%	57.97%
Polsat2	1.77%	1.71%	3.51%	1.82%	1.49%	22.15%
Polsat News	0.77%	0.69%	11.59%	0.81%	0.74%	9.46%
Polsat Sport	0.63%	0.69%	-8.70%	0.79%	0.67%	17.91%
Polsat Sport Extra	0.20%	0.21%	-4.76%	0.21%	0.17%	23.53%
Polsat Sport News ⁽²⁾	0.31%	0.28%	10.71%	0.33%	0.28%	17.86%
Polsat Film	0.62%	0.45%	37.78%	0.53%	0.42%	26.19%
Polsat JimJam [JimJam]	0.34%	0.37%	-8.11%	0.33%	0.38%	-13.16%
Polsat Cafe	0.38%	0.36%	5.56%	0.39%	0.36%	8.33%
Polsat Play	0.62%	0.47%	31.91%	0.57%	0.39%	46.15%
Polsat Crime & Investigation Network	0.10%	0.10%	0.00%	0.11%	0.12%	-8.33%
Polsat Biznes ⁽³⁾	0.05%	0.02%	150.00%	0.06%	0.02%	200.00%
Polsat Food ⁽⁴⁾	0.08%	--	--	0.09%	--	--
Polsat Viasat Explorer ⁽⁵⁾	0.06%	--	--	0.06%	--	--
Polsat Viasat History ⁽⁵⁾	0.14%	--	--	0.16%	--	--
Polsat Viasat Nature ⁽⁵⁾	0.03%	--	--	0.02%	--	--
Polsat Romans ⁽⁷⁾	0.08%	--	--	0.08%	--	--
TV4 ⁽⁸⁾	3.13%	2.80%	11.79%	2.92%	2.74%	6.57%
TV6 ⁽⁸⁾	0.91%	0.34%	167.65%	0.68%	0.23%	195.65%
Advertising market share⁽⁶⁾	25.5%	22.7%	12.3%	24.1%	23.2%	4.1%

⁽¹⁾ NAM, All day ages 16-49 audience share.

⁽²⁾ Channel monitored since November 2012.

⁽³⁾ Until February 2013 the channel operated under "TV Biznes".

⁽⁴⁾ The channel broadcast since November 2013.

⁽⁵⁾ The channels operate under the Polsat brand since March 2013, data for Q1-3' 2013 include March – September.

⁽⁶⁾ Our estimates based on Starlink data.

⁽⁷⁾ Channel broadcast since September 2013, data for the period of broadcasting.

⁽⁸⁾ Channel included in Polsat Group since September 2013, data relate to full periods indicated in the table above.

⁽⁹⁾ 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 into our portfolio (audience share of Polsat Viasat channels are included since March 2013, and audience share of Polsat Romans, TV4 and TV6 are included since September 2013, other months are calculated as zero audience share).

Polsat Group channel: technical reach¹

	3 months ended December 31			12 months ended December 31		
	2013	2012	Change / %	2013	2012	Change / %
Polsat	99,4	98,6	0,8%	98,8	98,5	0,3%
Polsat2	63,5	61,5	3,3%	63,0	58,0	8,6%
Polsat Biznes ²	55,3	53,4	3,6%	54,5	52,4	4,0%
Polsat News	54,9	52,1	5,4%	54,4	49,7	9,5%
Polsat Café	54,0	50,9	6,1%	53,3	48,7	9,4%
Polsat Sport	50,2	46,9	7,0%	49,4	44,0	12,3%
Polsat Play	45,7	39,6	15,4%	43,1	39,0	10,5%
Polsat JimJam	40,9	38,1	7,3%	39,7	37,4	6,1%
Polsat Film	49,8	40,7	22,4%	48,1	37,3	29,0%
Polsat Sport News	86,0	57,8	48,8%	78,0	43,4	79,7%
Polsat Sport Extra ³	34,9	31,6	10,4%	34,0	30,7	10,7%
Polsat Crime & Investigation Network	36,5	32,5	12,3%	35,3	31,2	13,1%
Polsat Food ⁴	21,4	19,3	10,9%	20,8	19,3	7,8%
Polsat Viasat Explorer ⁵	24,3	18,8	29,3%	22,2	10,1	119,8%
Polsat Viasat History ⁵	34,3	27,2	26,1%	31,5	17,6	79,0%
Polsat Viasat Nature ⁶	21,9	14,9	47,0%	19,2	9,8	95,9%
Polsat Romans ⁷	25,8	--	--	24,7	--	--
TV4	99,3	91,1	9,0%	97,0	87,7	10,6%
TV6	87,3	65,7	32,9%	81,6	53,6	52,2%

¹ NAM, percentage of TV households able to receive a given channel; arithmetical average of monthly technical reach

² Until February 2013 the channel broadcast under TV Biznes

³ Data since June 2012, aggregated with Polsat Sport Extra HD (new channel)

⁴ Channel broadcast since November 2012

⁵ Channels broadcast based on cooperation of TV Polsat and Viasat Broadcasting since March 2013 (data for prior periods relate to the technical reach before the cooperation with TV Polsat)

⁶ Channel broadcast based on cooperation of TV Polsat and Viasat Broadcasting since March 2013 (data for prior periods relate to the technical reach before the cooperation with TV Polsat), the channel was not broadcast in the first seven months of 2012

⁷ Channel broadcast since September 2013

Audience share

When analyzing audience shares of Polsat in 2013, it is necessary to divide the airing time slots into two main groups: prime time – the period of the day with the largest audience share, during evening hours (5.00 p.m. to 11.00 p.m.); and off-peak – remaining periods, less attractive to broadcasters due to a lower audience share.

During prime time the most popular programming in Polsat's schedule in 2013 was the music talent show *Must be the Music – Tylko Muzyka*, which gained an average audience of 1.5 million viewers during premiere episodes (21.6% audience share in the All Aged 16-49 segment). Other entertainment programming with high audience shares included *Top Chef* with an average audience of 1 million viewers (16.4% audience share) and *Got to Dance – Tylko Taniec* with an average audience slightly below 1 million viewers (15.8% audience share).

The most popular series in the prime time included: the series *Przyjaciółki*, which was aired since February until May, with an average audience of 1.2 million viewers (19.8% audience share); a fixed slot on our schedule, the series *Pierwsza Miłość*, which attracted on average 1 million viewers (23.8% audience share); *CSI NY – Kryminalne Zagadki Nowego Jorku* broadcast on Sundays in January and February, which gathered on average 1 million viewers (14.8% audience share); and the five-episode mini-series *Biblia*, aired in October and November with an average audience of just below 1 million viewers (16% audience share). The premiere episodes of one of the fixed slots on our schedule, the series *Świat według Kiepskich*, attracted on average 0.9 million viewers (16% audience share).

The main edition of our news program *Wydarzenia* attracted on average 0.9 million viewers (19.8% audience share).

The KSW Galas were sport events with the highest audience shares: KSW 25 on December 7 was viewed by 1.2 million viewers on average (20.3% audience share) while KSW 22 on March 16 attracted on average 1 million viewers (16.5% audience share).

During off peak our docu-soap *Dlaczego ja?* was the most popular show, with an average audience of 0.6 million viewers (17.5% audience share).

It is also worth mentioning that our new programming, the show *Nasz Nowy Dom*, aired in autumn on Sundays at 5:30 p.m., gained an average audience of 0.8 million viewers (14.2% audience share).

Special events are also very popular with our audience. The year's hit in terms of audience share was the New Year's Concert *Sylwestrowa Moc Przebojów*, which gathered on average 1.8 million viewers (33.6% audience share). Furthermore, other special events that also gained high audience shares, included: *Kabaret Neo-Nówka* (on January 11 it had on average 1.7 million viewers, which translated into a 26% audience share); *Top of the Top Sopot Festiwal 2013* (2 days of the festival attracted an average of 1.2 million viewers, that is 27% audience share) and *Top Trendy Festiwal Sopot 2013* (3 days of the festival gained an average of 1.1 million viewers (22.8% audience share)).

During the movie slot, the leader was our Monday slot *Mega Hit* with an average of 1.3 million viewers (21.2% audience share) and the Tuesday slot *Mega Hit* with an average just below 1 million viewers (15.6% audience share). The biggest hit on our main channel was *Avatar* (aired on March 4), which attracted 2.5 million viewers (41.4% audience share). Another four movies gathered over 1.7 million viewers each: *Home Alone* (aired on December 25), *The Day After Tomorrow* (aired on February 18 and November 11) and *Ice Age 3: Dawn of the Dinosaurs* (aired on March 9).

When analyzing the fourth quarter it must be emphasized that in this period the transition to digital terrestrial television was already completed and, as a result, the average viewer gained access to a much wider choice of channels compared to the beginning of the year. A natural consequence in such cases is that part of the audience turns from the main channels to new ones. This issue should be taken into consideration when comparing the results for the fourth quarter and the whole year, for which part of the results concern the period before the completion of the transition to digital terrestrial television.

In the fourth quarter the largest audiences were gained by mostly the same programming indicated in the year analysis. In prime time during this period the premiere episodes of the music talent show *Must be the Music – Tylko Muzyka* gathered the largest audience of 1.4 million viewers on average (19.2% audience share). Over 1 million viewers saw the show *Top Chef* (16.6% audience share).

The most popular series was *Pierwsza Miłość* with an average of 1.1 million viewers (24.2% audience share). Also, the mini-series *Biblia*, mentioned in the annual analysis, gathered on average just below 1 million viewers.

In the fourth quarter the main edition of our news program *Wydarzenia* had 1.1 million viewers on average (20.8% audience share), which was a better result compared to the whole year.

In terms of special events, the highest audience share was recorded by the mentioned New Year's Concert *Sylwestrowa Moc Przebojów*. Moreover, high audience shares were recorded by the concert *Jasnogórskie Kolędowanie z Polsatem* aired on December 24 (1.1 million viewers and 27.5% audience share), standup comedy *Ryjek 2013* aired on December 14-15 (an average of 1.1 million viewers, 17.6% audience share) and *Miss Poland 2013* elections aired on December 8 (1.1 million viewers, 16.4% audience share).

During off peak our docu soap *Dlaczego ja?* was the most popular show, with an average audience of 0.6 million viewers (15.8% audience share).

The well prospering show *Nasz Nowy Dom* gained an average audience of 0.8 million viewers (14.2% audience share).

In the fourth quarter, as in the whole year, the movie slot with the highest audience share was the Monday slot *Mega Hit* with an average of 1.2 million viewers (19.6% audience share). The Saturday 8:00 p.m. slot was the second most widely viewed slot. After excluding the audience share of the series *Biblia*, aired during this slot, the recorded audience was on average 1 million viewers (16.6% audience share).

In terms of the Group's thematic channels (excluding TV4 and TV6, which were added to the Group in September), the highest audience share in 2013 was recorded by Polsat2, Polsat Sport and Polsat News. The thematic channels with the highest audience growth dynamics, as compared to 2012, were Polsat Biznes, Polsat Film and Polsat Play.

The last quarter of 2013, accounting for the newly included channels, TV4 recorded the highest audience share among thematic channels. Also TV6 noted a significant increase compared to the fourth quarter of 2012.

Advertising and sponsorship market share

According to Starlink media house estimates, expenditures on TV advertising and sponsoring in 2013 amounted to PLN 3.53 billion (not in thousands) and decreased year-on-year by 3.6%. Based on these, we estimate that our TV advertising market share in 2013 increased y-o-y to 24.1% from 23.2% share in the TV advertising expenditures in 2012. In the fourth quarter of 2013, the value of the market increased by 0.3% and amounted to PLN 1.099 billion (not in thousands), compared to PLN 1.096 billion (not in thousands) in the fourth quarter of 2012. Based on these estimations, our share increased from 22.7% in the fourth quarter of 2012 to 25.5% in the fourth quarter of 2013. In the fourth quarter of 2013, we generated 13.4% more GRPs compared to the same quarter of 2012. In total, in 2013 we generated 1.5% more GRPs as compared to the same period in the prior year.

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

The Group did not present forecasts for 2013.

Item 6.7.3 Review of the financial situation

The following review of results for the three-month period ended December 31, 2013 was prepared based on the interim condensed consolidated financial statements for the three- and twelve-month periods ended December 31, 2013 prepared in accordance with International Financial Reporting Standard no. 34 and internal analysis.

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

All financial data is expressed in thousands of PLN.

Given that in 2012 the results of the acquired companies, i.e. INFO-TV-FM Sp. z o.o., Redefine Sp. z o.o. Group, Netshare Sp. z o.o., Frazpc.pl Sp. z o.o. and Gery.pl Sp. z o.o. (further called "companies acquired in 2012") were consolidated since January 30, in case of INFO-TV-FM and since April 2 in case of the other companies, and the results of Polskie Media S.A. are consolidated since September 1, 2013, our results for the year 2013 and for the fourth quarter of 2013 are not fully comparable with the results for the corresponding periods of 2012. For comparability reasons, we exclude the effect of consolidation of the companies acquired in 2012 and Polskie Media S.A. in the following analysis of financial results for the year 2013 as compared to 2012, and we exclude the effect of consolidation of Polskie Media S.A. in the following analysis of the results of the fourth quarter of 2013 compared to the fourth quarter of 2012. In the following analysis we do not exclude the effect of sale of RS TV on August 30, 2013 as it does not have a significant impact on comparability of the results.

Comparison of financial results for the three month period ended December 31, 2013 with the results achieved in the corresponding period of 2012

Revenue

Our total revenue for service, products, goods and materials sales increased by PLN 49,823, or 6.6%, to PLN 800,439 for the three-month period ended December 31, 2013 from PLN 750,616 for the three-month period ended December 31, 2012. Excluding the effect of consolidation of Polskie Media, our total revenue increased by PLN 26,003, or 3.5%, to PLN 776,619 for the three-month period ended December 31, 2013. Revenue grew for the reasons set forth below.

Retail revenue

Retail revenue increased by PLN 19,067, or 4.3%, to PLN 466,417 for the three-month period ended December 31, 2013 from PLN 447,350 for the three-month period ended December 31, 2012. The consolidation of Polskie Media did not affect this revenue. This increase primarily resulted from (i) the increase in DTH subscription fee revenue and the increase in recognized revenue from internet television (such revenue did not occur in the corresponding period in 2012), and (ii) the increase in revenue from telecommunication services and settlements with mobile network operators.

Advertising and sponsorship revenue

Advertising and sponsorship revenue increased by PLN 37,446, or 15.0%, to PLN 287,246 for the three-month period ended December 31, 2013 from PLN 249,800 for the three-month period ended December 31, 2012. Excluding the effect of consolidation of Polskie Media, the revenue from advertising and sponsorship increased by PLN 9,821, or 3.9%, to PLN 259,621 for the three-month period ended December 31, 2013. The increase was primarily due to higher revenue from advertising and sponsoring realized by TV Polsat Group

Revenue from cable and satellite operator fees

Revenue from cable and satellite operator fees amounted to PLN 25,078 in the fourth quarter of 2013 and increased by PLN 2,098, which constitutes 9.1%, compared to PLN 22,980 in the fourth quarter of 2012. The increase was primarily due to the expansion of the distribution of channels of Telewizja Polsat. The consolidation of Polskie Media did not have impact on this revenue.

Sale of equipment

Revenue from the sale of equipment increased by 2,423, or 33.4%, to PLN 9,686 in the fourth quarter of 2013 from PLN 7,263 in the fourth quarter of 2012. The increase was primarily due to increased revenues from sales of laptops and tablets as a result of introducing hire-purchase. The consolidation of Polskie Media did not have impact on this revenue.

Other revenue

Other revenue decreased by PLN 11,211, or 48.3%, to PLN 12,012 for the three-month period ended December 31, 2013 from PLN 23,223 for the three-month period ended December 31, 2012. Excluding the effect of consolidation of Polskie Media, other revenue decreased by PLN 7,406, or 31.9%, to PLN 15,817 in the fourth quarter of 2013. The decrease was primarily due to lower revenue from broadcasting and signal transmission services as a result of the sale of RS TV.

Total operating costs

	For the three-month period ended December 31,		
	2013	2012	Change / %
Programming costs	104 913	85 730	22.4%
Cost of internal and external TV production and amortization of sport rights	119 061	101 953	16.8%
Distribution, marketing, customer relation management and retention costs	92 363	95 730	-3.5%
Depreciation, amortization, impairment and disposal	68 590	71 711	-4.4%
Salaries and employee - related costs	53 216	58 595	-9.2%
Broadcasting and signal transmission costs	38 809	40 407	-4.0%
Amortization of purchased film licenses	36 802	31 350	17.4%
Cost of settlements with mobile network operators and interconnection charges	26 175	11 272	132.2%
Cost of equipment sold	10 563	16 103	-34.4%
Cost of debt collection services and bad debt allowance and receivables written off	7 187	7 789	-7.7%
Other costs	33 988	41 879	-18.8%
Total operating costs	591 667	562 519	5.2%

Total operating costs increased by PLN 29,148, or 5.2%, to PLN 591,667 for the three-month period ended December 31, 2013 from PLN 562,519 for the three-month period ended December 31, 2012. Excluding the effect of consolidation of Polskie Media, our total operating costs increased by PLN 14,564, or 2.6%, to PLN 577,082 for the three-month period ended December 31, 2013. Costs increased for the reasons set forth below.

Programming costs

Programming costs increased by PLN 19,183, or 22.4%, to PLN 104,913 for the three-month period ended December 31, 2013 from PLN 85,730 for the three-month period ended December 31, 2012. Excluding the effect of consolidation of Polskie Media, programming costs increased by PLN 17,796, or 20.8%, to PLN 103,526 for the three-month period ended December 31, 2013. This increase is the net effect of a series of factors, the most significant being: (i) exchange rate fluctuations which led to a decrease in costs, (ii) other factors, including the increase in royalties paid by Telewizja Polsat to collective copyright management organizations in connection with agreements signed with those organizations, that resulted in a one-off decrease of these costs in 2012, (iii) increase in the DTH license costs related to channels introduced to newly created programming packages, aimed at building ARPU in the future.

Cost of internal and external TV production and amortization of sport rights

The cost of internal and external TV production and amortization of sport rights increased by PLN 17,108, or 16.8%, to PLN 119,061 in the fourth quarter of 2013 from PLN 101,953 in the fourth quarter of 2012. Excluding the effect of the consolidation of Polskie Media, these costs increased by PLN 14,505, or 14.2%, to PLN 116,458 in the three-month period ended December 31, 2013. The increase was primarily due to higher costs of own TV production realized for the main POLSAT channel related to broadcasts of new programming positions and higher costs of sports licenses.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs decreased by PLN 3,367, or 3.5%, to PLN 92,363 for the three-month period ended December 31, 2013 from PLN 95,730 for the three-month period ended December 31, 2012. Excluding the effect of consolidation of Polskie Media, these costs amounted to PLN 92,126 in the three-month period ended December 31, 2013 and decreased by PLN 3,604, or 3.8%, compared to the corresponding period of 2012. The decrease is primarily due to the decrease in distribution fees and lower marketing expenses.

Depreciation, amortization, impairment and disposal

Depreciation, amortization, impairment and disposal cost decreased by PLN 3,121, or 4.4%, to PLN 68,590 for the three-month period ended December 31, 2013 from PLN 71,711 for the three-month period ended December 31, 2012. Excluding the effect of consolidation of Polskie Media, these costs decreased by PLN 4,179, or 5.8%, to PLN 67,532 for the three-month period ended December 31, 2013. The increase in depreciation, amortization, impairment and disposal was the net effect of the dynamic increase in the number of set-top-boxes, modems, STB hard disks and routers leased to our subscribers (accounted for as fixed assets) and the decrease in value loss of set-top boxes.

Salaries and employee-related costs

Salaries and employee-related costs decreased by PLN 5,379, or 9.2%, to PLN 53,216 for the three-month period ended December 31, 2013 from PLN 58,595 for the three-month period ended December 31, 2012. Excluding the effect of consolidation of Polskie Media, these costs decreased by PLN 6,245, or 10.7%, to PLN 52,350 for the three-month period ended December 31, 2013, primarily as a result of bonuses awarded to TV Polsat Group's employees in the fourth quarter of 2012 for the 20th anniversary of TV Polsat.

Broadcasting and signal transmission costs

Broadcasting and signal transmission costs decreased by PLN 1,598, or 4.0%, to PLN 38,809 for the three-month period ended December 31, 2013 from PLN 40,407 for the three-month period ended December 31, 2012. Excluding the effect of consolidation of Polskie Media, broadcasting and signal transmission costs decreased by PLN 5,500, or 13.6%, to PLN 34,907 for the three-month period ended December 31, 2013, mainly due to lower costs of analogue terrestrial broadcasting as a result of the final switch-off of the analogue signal on the territory of Poland at the end of July 2013.

Amortization of purchased film licenses

The cost of amortization of purchased film licenses increased by PLN 5,452, or 17.4% to PLN 36,802 in the fourth quarter of 2013 from PLN 31,350 in the fourth quarter of 2012. Excluding the effect of consolidation of Polskie Media, costs of amortization of purchased film licenses remained at similar level compared to the corresponding period in 2012 (decrease by 1.7%).

Cost of settlements with mobile network operators and interconnection charges

Cost of settlements with mobile network operators and interconnection charges increased by PLN 14,903, or 132.2%, to PLN 26,175 for the fourth quarter of 2013 from PLN 11,272 for the fourth quarter of 2012. The increase resulted primarily from the growth of the base of Internet access subscribers and higher average use of data packages. The consolidation of Polskie Media had no effect on the cost of settlements with mobile network operators and interconnection charges.

Cost of equipment sold

Cost of equipment sold decreased by PLN 5,540, or 34.4%, to PLN 10,563 for the three-month period ended December 31, 2013 from PLN 16,103 for the three-month period ended December 31, 2012. This decrease was a net effect of several factors, out of which the most significant were: (i) lower costs of sale of equipment for reception of Mobile TV (TV Mobilna) in DVB-T standard, (ii) increased costs of sold laptops and tablets. The consolidation of Polskie Media had no impact on the cost of equipment sold.

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

Cost of debt collection services and bad debt allowance and receivables written off decreased by PLN 602, or 7.7%, to PLN 7,187 in the fourth quarter of 2013 from PLN 7,789 in the fourth quarter of 2012, as a result of lower bad debt allowance and the cost of receivables written off. The consolidation of Polskie Media did not have significant impact on these costs.

Other costs

Other costs decreased by PLN 7,891, or 18.8%, to PLN 33,988 for the three-month period ended December 31, 2013 from PLN 41,879 for the three-month period ended December 31, 2012. Excluding the consolidation of Polskie Media, other costs decreased by PLN 6,257, or 14.9%, to PLN 35,622 for the three-month period ended December 31, 2013. The decrease was primarily due to lower costs of SMART and SIM cards as well as lower IT services costs.

Other operating income / costs, net

Net other operating costs amounted to PLN -1,968 for the three-month period ended December 31, 2013 compared to PLN -12,649 for the three-month period ended December 31, 2012. The consolidation of Polskie Media had no impact on net other operating income and costs.

Gains and losses on investment activities, net

Gains and losses on investment activities decreased by PLN 913 to PLN 4,120 for the three-month period ended December 31, 2013 from PLN 5,033 for the three-month period ended December 31, 2012. Excluding the consolidation of Polskie Media, gains and losses on investment activities decreased by PLN 1,167 to PLN 3,866 for the three-month period ended December 31, 2013. The decrease was primarily an effect of a decrease in interest income in the fourth quarter of 2013.

Finance costs

Finance costs decreased by PLN 20,297, or 47.1%, to PLN 22,833 for the three-month period ended December 31, 2013 from PLN 43,130 for the three-month period ended December 31, 2012. The decrease was primarily an effect of (i) higher foreign exchange gains on valuation of Senior Notes recognized in the fourth quarter of 2013 as compared to the fourth quarter of 2012, and (ii) lower interest costs on Senior Facility Loan due to lower principal pursuant to the schedule and the pre-payment of PLN 200,000 made in August 2012 and two pre-payments in the total amount of PLN 200,000 made in 2013, as well as to lower interest rate (lower WIBOR and lower margin according to the margin reduction mechanism as well as the decrease in the net debt to EBITDA ratio). The consolidation of Polskie Media did not have an impact on finance costs.

Net profit

Net profit for the fourth quarter of 2013 increased by PLN 51,520, or 42.4%, to PLN 173,144 from PLN 121,624 in the fourth quarter of 2012. Excluding the effect of consolidation of Polskie Media, net profit increased by PLN 44,854 and amounted to PLN 166,478.

Other information

EBITDA & EBITDA margin

EBITDA increased by PLN 28,233, or 11.4%, to PLN 275,394 in the fourth quarter of 2013 from PLN 247,161 for the fourth quarter of 2012. EBITDA margin increased to 34.4% for the fourth quarter of 2013 from 32.9% for the fourth quarter of 2012. Excluding the consolidation of Polskie Media, EBITDA in the fourth quarter of 2013 increased by PLN 17,939, or 7.3%, to PLN 265,100 in the fourth quarter of 2013, while EBITDA margin amounted to 34.1%.

Employment

Average number of employees in Cyfrowy Polsat Group (excluding employees engaged in the production of reception equipment and television production) was 1.505 in the three-month period ended December 31, 2013, as compared to 1.452 in the corresponding period of 2012.

Comparison of financial results in 2013 with the result in 2012

Revenue

Our total revenue on services, products, goods and materials sales increased by PLN 132,544, or 4.8%, to PLN 2,910,759 in 2013 from PLN 2,778,215 in 2012. Excluding the effect of consolidation of companies acquired in 2012 and Polskie Media, our total revenue increased by PLN 102,937, or 3.7%, to PLN 2,868,628 in 2013 from PLN 2,765,691 in 2012. Revenue grew for the reasons set forth below.

Retail revenue

Retail revenue increased by PLN 96,896, or 5.6%, to PLN 1,831,694 in 2013 from PLN 1,734,798 in 2012. The consolidation of companies acquired in 2012 and Polskie Media did not have a significant impact on the retail revenue. This increase resulted primarily from (i) an increase in DTH subscription fee revenue and an increase in recognized revenue from internet television (such revenue did not occur in 2012), and (ii) the increase in revenue from telecommunication services and settlements with mobile network operators.

Advertising and sponsorship revenue

Advertising and sponsorship revenue increased by PLN 17,270, or 2.0%, to PLN 869,850 in 2013 from PLN 852,580 in 2012. Excluding the effect of consolidation of companies acquired in 2012 and Polskie Media, the advertising and sponsorship revenue decreased by PLN 25,270, or 3.0%, to PLN 812,325 in 2013 from PLN 837,595 in 2012. The decrease was primarily due to a decline in revenue from advertising realized by TV Polsat Group on the main channel POLSAT.

Revenue from cable and satellite operator fees

Revenue from cable and satellite operator fees increased by PLN 3,662, or 3.9%, to PLN 97,322 in 2013 from PLN 93,660 in 2012, as a result of an expansion of distribution of Telewizja Polsat channels. The consolidation of companies acquired in 2012 and Polskie Media did not significantly influence this revenue.

Sale of equipment

Revenue from the sale of equipment increased by PLN 22,936, or 122.2%, to PLN 41,706 in 2013 from PLN 18,770 in 2012. The increase was primarily due to increased sales of reception equipment for Mobile TV (TV Mobilna) in DVB-T standard as well as to increased revenues from sales of laptops and tablets as a result of introducing hire-purchase (lower revenues in the comparable period). The consolidation of companies acquired in 2012 and Polskie Media did not have impact on this revenue.

Other revenue

Other revenue decreased by PLN 8,220, or 10.5%, to PLN 70,187 in 2013 from PLN 78,407 in 2012, among other things due to the purchase and consolidation of Polskie Media, from whom we have recognized revenue from broadcasting and signal transmission services in the corresponding period. Excluding the effect of consolidation of companies acquired in 2012 and Polskie Media, other revenue increased by PLN 5,108, or 6.2%, to PLN 87,815 in 2013 from PLN 82,707 in 2012.

Total operating costs

	For the year ended		
	December 31,		
	2013	2012	Change / %
Programming costs	407 763	360 311	13.2%
Cost of internal and external TV production and amortization of sport rights	385 198	351 489	9.6%
Distribution, marketing, customer relation management and retention costs	331 960	312 723	6.2%
Depreciation, amortization, impairment and disposal	256 416	243 066	5.5%
Salaries and employee-related costs	178 626	178 373	0.1%
Broadcasting and signal transmission costs	153 285	149 731	2.4%
Amortization of purchased film licenses	134 042	112 107	19.6%
Cost of settlements with mobile network operators and interconnection charges	77 912	44 110	76.6%
Cost of equipment sold	63 914	36 152	76.8%
Cost of debt collection services and bad debt allowance and receivables written off	28 177	27 457	2.6%
Other costs	140 377	156 144	-10.1%
Total operating costs	2 157 670	1 971 663	9.4%

Total operating costs increased by PLN 186,007, or 9.4% to PLN 2,157,670 in 2013 from PLN 1,971,663 in 2012. Excluding the effect of consolidation of companies acquired in 2012 and Polskie Media, our total operating costs increased by PLN 196,984, or 10.1%, to PLN 2,137,908 in 2013 from PLN 1,940,924 in 2012. Costs grew for the reasons set forth below.

Programming costs

Programming costs increased by PLN 47,452, or 13.2%, to PLN 407,763 in 2013 from PLN 360,311 in 2012. Excluding the effect of consolidation of companies acquired in 2012 and Polskie Media, programming costs increased by PLN 71,034, or 19.6%, to PLN 433,973 in 2013 from PLN 362,939 in 2012. This increase is the net effect of a series of factors, the most significant being: (i) exchange rate fluctuations which led to a decrease in costs, (ii) other factors, including the increase in royalties paid by Telewizja Polsat to collective copyright management organizations in connection with agreements signed with those organizations in connection with agreements signed with those organizations, that resulted in a one-off decrease of these costs in 2012, (iii) increase in the DTH license costs related to channels introduced to newly created programming packages, aimed at building ARPU in the future.

Cost of internal and external TV production and amortization of sport rights

The cost of internal and external production and amortization of sport rights increased by PLN 33,709, or 9.6%, to PLN 385,198 in 2013 from PLN 351,489 in 2012. Excluding the effect of consolidation of companies acquired in 2012 and Polskie Media, the cost of internal and external production and amortization of sport rights increased by PLN 29,956, or 8.5%, to PLN 380,866 in 2013 from PLN 350,910 in 2012. The increase was primarily due to higher costs of own TV production realized for the main POLSAT channel related to broadcasts of new programming positions and higher costs of sports licenses.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs increased by PLN 19,237, or 6.2%, to PLN 331,960 in 2013 compared to PLN 312,723 in 2012. The increase was primarily due to higher costs of distribution of equipment for reception of Mobile TV (TV Mobilna) in DVB-T standard, that was continued in such a significant scale until the end of July 2013, as well as higher efficiency of retention programs that will have a positive impact on the future financial results. The consolidation of companies acquired in 2012 and Polskie Media did not have impact on these costs.

Depreciation, amortization, impairment and disposal

Depreciation, amortization, impairment and disposal cost increased by PLN 13,350, or 5.5%, to PLN 256,416 in 2013 from PLN 243,066 in 2012. Excluding the effect of consolidation of companies acquired in 2012 and Polskie Media, these costs increased by PLN 13,224, or 5.5%, to PLN 252,776 in 2013 from PLN 239,552 in 2012. The increase in depreciation, amortization, impairment and disposal was the net result of a dynamic increase in the number of set-top-boxes, modems, STB hard disks and routers leased to our subscribers (accounted for as fixed assets) and a decrease in value loss of set-top boxes.

Salaries and employee-related costs

Salaries and employee-related costs amounted to PLN 178,626 in 2013, and remained at a similar level as compared to 2012 (increase by 0.1%). Excluding the effect of consolidation of companies acquired in 2012 and Polskie Media, these costs amounted to PLN 173,519 in 2013 and remained at a similar level as compared to 2012 (increase by 0.6%).

Broadcasting and signal transmission costs

Broadcasting and signal transmission costs increased by PLN 3,554, or 2.4%, to PLN 153,285 in 2013 from PLN 149,731 in 2012. Excluding the effect of consolidation of companies acquired in 2012 and Polskie Media, broadcasting and signal transmission costs decreased by PLN 10,779, or 7.6%, to PLN 130,132 in 2013 compared to PLN 140,911 in 2012, primarily due to a decrease in the cost of analogue terrestrial broadcasting and increase in the cost of digital terrestrial broadcasting.

Amortization of purchased film licenses

The cost of amortization of purchased film licenses increased by PLN 21,935, or 19.6%, to PLN 134,042 in 2013 from PLN 112,107 in 2012. Excluding the effect of consolidation of companies acquired in 2012 and Polskie Media, the cost of amortization of purchased film licenses increased by PLN 15,677, or 14.2%, to PLN 126,207 in 2013 from PLN 110,530 in 2012. The increase is mainly due to higher costs of films emitted on the main channel POLSAT.

Cost of settlements with mobile network operators and interconnection charges

Cost of settlements with mobile network operators and interconnection charges increased by PLN 33,802, or 76.6%, to PLN 77,912 in 2013 from PLN 44,110 in 2012. The increase resulted primarily from a dynamic increase in the number of subscribers and a higher average use of data packages in terms of broadband internet access. The consolidation of companies acquired in 2012 and Polskie Media had no effect on the cost of settlements with mobile network operators and interconnection charges.

Cost of equipment sold

Cost of equipment sold increased by PLN 27,762, or 76.8%, to PLN 63,914 in 2013 from PLN 36,152 in 2012. This increase was mainly due to an increase in costs of sale of equipment for reception of Mobile TV (TV Mobilna) in DVB-T standard, laptops, tablets and set-top boxes, as a result of a significant increase in the volumes of sales of this equipment. The consolidation of companies acquired in 2012 and Polskie Media had no effect on the cost of equipment sold.

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

Cost of debt collection services and bad debt allowance and receivables written off increased by PLN 720, or 2.6%, to PLN 28,177 in 2013 from PLN 27,457 in 2012. The consolidation of companies acquired in 2012 and Polskie Media had no effect on this cost position.

Other costs

Other costs decreased by PLN 15,767, or 10.1%, to PLN 140,377 in 2013 from PLN 156,144 in 2012. Excluding the effect of consolidation of companies acquired in 2012 and Polskie Media, other costs decreased by PLN 4,354, or 3.0%, to PLN 139,743 in 2013 from PLN 144,097 in 2012.

Other operating income / costs, net

Net other operating income amounted to PLN 36,764 in 2013, while in 2012 we recognized net other operating income and costs equal to PLN - 17,373. Excluding the effect of consolidation of companies acquired in 2012 and Polskie Media, net other operating income and costs amounted to PLN 36,217 in 2013 compared to PLN -17,649 in 2012. The increase is primarily due to the recognition of one-off income from the sale of RS TV.

Gains and losses on investment activities, net

Gains and losses on investment activities increased by PLN 1,705, to PLN 16,058 in 2013 from PLN 14,353 in 2012. Excluding the effect of consolidation of companies acquired in 2012 and Polskie Media, gains and losses on investment activities decreased by PLN 1,809, and amounted to PLN 16,260 in 2013. The decrease was primarily the net effect of (i) a decrease in net interest income in 2013, and (ii) higher other foreign exchange gains recognized in 2013.

Finance costs

Finance costs increased by PLN 105,232, or 95.0%, to PLN 216,014 in 2013 from PLN 110,782 in 2012. The increase was a net effect of several factors including primarily foreign exchange losses on valuation of Senior Notes recognized in 2013 vs. gains recognized in 2012, compensated to a certain extent by a decline in lower interest costs on Senior Facility Loan due to lower principal pursuant to the schedule and the pre-payment of PLN 200,000 made in August 2012 and two pre-payments in the total amount of PLN 200,000 made in 2013, as well as to lower interest rate (lower WIBOR and lower margin according to the margin reduction mechanism as well as the decrease in the net debt to EBITDA ratio). The consolidation of companies acquired in 2012 and Polskie Media did not have an impact on finance costs, net.

Net profit

Net profit in 2013 decreased by PLN 72,853, or by 12.2%, to PLN 525,445 from PLN 598,298 in 2012.

Other information

EBITDA & EBITDA margin

EBITDA amounted to PLN 1,046,269 in 2013 and remained at a relatively unchanged level as compared to PLN 1,032,245 in 2012. EBITDA margin declined to 35.9% in 2013 from 37.2% in 2012. Excluding the effect of consolidation of companies acquired in 2012 and Polskie Media, EBITDA declined by PLN 26,957, or 2.6%, to PLN 1,019,713 in 2013 from PLN 1,046,670 in 2012. Excluding the effect of consolidation of companies acquired in 2012 and Polskie Media, EBITDA margin decreased to 35.5% in 2013 from 37.8% in 2012.

Employment

Average number of employees in Cyfrowy Polsat Group (excluding employees engaged in the production of reception equipment and television production) was 1,472 in the twelve-month period ended December 31, 2013, as compared to 1,454 in the corresponding period in 2012.

Results by business segments

The Group operates in the following two segments:

1. retail business 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.

Retail business 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 postpaid services which generate revenues mainly from interconnection revenues, settlements with mobile network operators and subscription fees;
- providing access to broadband Internet which generates revenues mainly from traffic and subscription fees;
- 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
- production of set-top boxes.

Broadcasting and television production segment consists mainly of production, acquisition and broadcasting of information and entertainment programs as well as TV series and feature films broadcasted on television channel 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 disposal allowance. EBITDA is not an 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 2013:

The year ended 31 December 2013	Retail	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	1,914,597	996,162	-	2,910,759
Inter-segment revenues	26,110	98,149	(124,259)	-
Revenues	1,940,707	1,094,311	(124,259)	2,910,759
EBITDA (unaudited)	667,909	378,360	-	1,046,269
Depreciation, amortization, impairment and disposal	221,201	32,296	2,919	256,416
Profit/(loss) from operating activities	446,708	346,064	(2,919)	789,853
Acquisition of property, plant and equipment, reception equipment and other intangible assets	244,415*	39,910	-	284,325
Balance as at 31 December 2013				
Assets, including:	1,641,806	4,083,420**	(48,996)	5,676,230
Investments in jointly controlled entity	-	3,132	-	3,132

* This item also includes the acquisition of reception equipment for operating lease purposes.

** This item includes non-current assets located outside of Poland in the amount of PLN 46.8 million (not in thousand)

All material revenues are generated in Poland.

It should be noted that the year ended 31 December 2013 is not comparable to the year ended 31 December 2012 as INFO-TV-FM was acquired on 30 January 2012, IPLA platform was acquired on 2 April 2012 (allocated to the Retail segment), Polskie Media was acquired and RS TV was disposed on 30 August 2013 (both allocated to the Broadcasting and television production segment).

Management Board's report on activities of Cyfrowy Polsat S.A. Capital Group
in the financial year ended December 31, 2013
(all financial data presented in PLN thousand, unless otherwise stated)

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the year ended 31 December 2012:

The year ended 31 December 2012	Retail	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	1,787,309	990,906	-	2,778,215
Inter-segment revenues	16,390	98,957	(115,347)	-
Revenues	1,803,699	1,089,863	(115,347)	2,778,215
EBITDA (unaudited)	631,995	400,248	2	1,032,245
Depreciation, amortization, impairment and disposal	200,603	39,191	3,272	243,066
Profit/(loss) from operating activities	431,392	361,057	(3,270)	789,179
Acquisition of property, plant and equipment, reception equipment and other intangible assets	235,176*	25,579	-	260,755
Balance as at 31 December 2012				
Assets, including:	1,602,992	4,015,663**	(57,310)	5,561,345
Investments in jointly controlled entity	-	2,722	-	2,722

* This item also includes the acquisition of reception equipment for operating lease purposes.

** This item includes non-current assets located outside of Poland in the amount of PLN 54.5 million (not in thousands)

Reconciliation of EBITDA and net profit for the period:

	for the year ended	
	31 December 2013	31 December 2012
EBITDA (unaudited)	1,046,269	1,032,245
Depreciation, amortization, impairment and disposal	(256,416)	(243,066)
Profit from operating activities	789,853	789,179
Other foreign exchange rate differences, net	8,411	999
Interest income	10,450	18,006
Share of the profit of jointly controlled entity accounted for using the equity method	2,924	2,897
Interest costs	(194,630)	(223,143)
Foreign exchange differences on <i>Senior Notes</i>	(20,135)	112,143
Other	(4,052)	(4,434)
Gross profit for the period	592,821	695,647
Income tax	(67,376)	(97,349)
Net profit for the period	525,445	598,298

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

As at December 31, 2013 and December 31, 2012, our balance sheet amount was PLN 5,676,230 and PLN 5,561,345 respectively.

As at December 31, 2013 and December 31, 2012, our non-current assets were PLN 4,455,845 and PLN 4,476,148, respectively, and accounted for 78.5% and 80.5% of the total assets respectively.

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

The value of other property, plant and equipment decreased by PLN 25,255 or 9.1% to PLN 251,152 as at December 31, 2013 from PLN 276,407 as at December 31, 2012. The decrease was primarily due to depreciation charges for the period and the sale of property, plant and equipment of RS TV, which was partially netted by an increase in technical equipment and other expenditure on fixed assets, as well as the acquisition of Polskie Media S.A.

The value of goodwill amounted to PLN 2,602,804 as at December 31, 2013, and increased by PLN 34,771, or 1.4%, from PLN 155,748 as at December 31, 2012 as a result of the purchase of Polskie Media S.A.

As at December 31, 2013, the value of brands was PLN 890,800 and increased by PLN 43,000 compared to PLN 847,800 as at December 31, 2012. The increase was due to the purchase of Polskie Media S.A.

The value of other intangible assets increased by PLN 56,021, or 68.8%, to PLN 137,401 as at December 31, 2013 from PLN 81,380 as at December 31, 2012, primarily due to the acquisition of TV broadcasting licenses in connection with the purchase of Polskie Media, and advance payments for the purchase of broadcasting licenses for the main channel POLSAT and Polsat Sport News.

The value of non-current and current programming assets increased by PLN 13,272, or 5.5%, to PLN 252,912 as at December 31, 2013 from PLN 239,640 as at December 31, 2012. The increase was a net effect of the purchase of film licenses and sports rights and depreciation charges.

The value of investment property amounted to PLN 5,330 as at December 31, 2013 and decreased by PLN 3,027, or 36.2% as compared to PLN 8,357 as at December 31, 2012, mainly due to the sale of investment property in connection with the sale of RS TV.

Non-current and current deferred distribution fees increased by PLN 7,385, or by 8.0%, to PLN 99,606 as at December 31, 2013 from PLN 92,221 as at December 31, 2012.

The value of other non-current assets amounted to PLN 20,803 as at December 31, 2013 and decreased by PLN 88,839, or 81.0%, compared to PLN 109,642 as at December 31, 2012. This decrease resulted primarily from the recognition of the entire data package from Mobyland as short-term prepayments.

As at December 31, 2013 and December 31, 2012, our current assets were PLN 1,220,385 and PLN 1,085,197, respectively, and accounted for 21.5% and 19.5% of the total assets respectively.

The value of inventories was PLN 146,771 as at December 31, 2013 and decreased by PLN 15,203, or 9.4%, from PLN 161,974 as of December 31, 2012. The decrease was the net effect of several factors including primarily: (i) lower value of stock of DTH set-top-boxes and hard discs for set-top-boxes, (ii) decrease in the stock of reception equipment for digital terrestrial television, (iii) decrease in the stock of production materials of set-top-boxes, and (iv) increase in stock of set-top-boxes.

The value of trade and other receivables amounted to PLN 374,424 as at December 31, 2013 and remained at a relatively unchanged level compared to PLN 375,659 as at December 31, 2012.

The value of cash and cash equivalents increased by PLN 71,897, or 26.6%, to PLN 342,251 as at December 31, 2013, from PLN 270,354 as at December 31, 2012.

The value of other current assets increased by PLN 33,392, or 46.4%, to PLN 105,360 as at December 31, 2013 from PLN 71,968 as at December 31, 2012. This increase resulted primarily from the recognition of the entire data package from Mobyland as short-term prepayments.

Equity increased by PLN 532,810, or by 21.6%, to PLN 3,001,213 as at December 31, 2013 from PLN 2,468,403 as at December 31, 2012, primarily as a result of profit generated in 2013 in the amount of PLN 525,445.

Loans and borrowings (long and short term) decreased by PLN 381,728, or 44.0%, to PLN 485,883 as at December 31, 2013, from PLN 867,611 as at December 31, 2012. The change was due primarily to the two pre-payments ahead of schedule in the total amount of PLN 200,000 in 2013 and scheduled repayments of the Term Loan.

The Senior Notes liabilities (long and short-term) amounted to PLN 1,438,669 as at December 31, 2013 and increased by PLN 24,934, or by 1.8%, from PLN 1,413,735 as at December 31, 2012, primarily due to the increase in the euro exchange rate applied for the valuation of the Senior Notes.

Non-current and current deferred income increased by PLN 7,145, or 3.5% to PLN 213,564 as at December 31, 2013 from PLN 206,419 as at December 31, 2012, mainly due to advance payments for subscription fees.

The value of other non-current liabilities and provisions decreased by PLN 9,775, or by 55.3%, to PLN 7,915 as at December 31, 2013 from PLN 17,690 as at December 31, 2012. The decrease was primarily due to lower liabilities from valuation of hedging instruments.

The value of trade and other payables decreased by PLN 58,884, or 12.5%, to PLN 413,210 as at December 31, 2013 from PLN 472,094 as at December 31, 2012, mainly as a result of a decrease in trade payables as well as a decrease in accruals. The decrease was partially netted off primarily by an increase in payables relating to purchase of programming assets and tax and social security liabilities.

Item 6.8. Liquidity and capital resources

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

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

Our non-current liabilities amounted to PLN 1,700,186 as at December 31, 2013 as compared to PLN 2,026,162 as at December 31, 2012 (decrease by 16.1%). Our current liabilities amounted to PLN 974,831 as at December 31, 2013 as compared to PLN 1,066,780 as at December 31, 2012 (decrease by 8.6%).

Our total debt from long- and short-term loans and borrowings and notes as at December 31, 2013 was PLN 1,924,552 compared to PLN 2,281,345 as at December 31, 2012 (decrease by 15.6%).

Our cash and cash equivalents amounted to PLN 342,251 as at December 31, 2013 as compared to PLN 270,354 as at December 31, 2012.

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

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

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

Item 6.8.1. External sources of funding, financing and indebtedness

Bank Loans

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

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

We use interest rate swaps to hedge our exposure to volatility in the Term Loan interest payments. The IRS transactions concluded in 2011 were described in the Note no. 32 of the consolidated financial statements for the year ended December 31, 2011, and the transactions concluded in 2012 are described in the consolidated financial statements for the year ended December 31, 2012 (in the Note no. 30). In 2013 we did not conclude additional hedging transactions.

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

Summary of significant provisions of the agreements

Mandatory prepayments

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

Mandatory prepayments are also required in the following amounts:

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

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

Financial covenants

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

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

- restrictions relating to mergers, acquisitions, joint venture transactions,
- restrictions related to disposal of assets and substantial change of business,
- restrictions related to incurring additional financial indebtedness and share capital issue,

- restrictions relating to cash out transactions (inter alia dividend and other distribution payments, repayment of principal and interest of financial indebtedness, management/advisory fee payments, advance or similar kind of payment to related parties).

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

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

Senior Notes

On May 20, 2011, the Company and our solely owned subsidiary Cyfrowy Polsat Finance AB (publ) (the "Issuer"), the Bank of New York Mellon, London Branch (the "Trustee"), the Bank of New York Mellon Luxembourg S.A., and the Initial Guarantors entered into an indenture (the "Indenture") for the issuance by the Issuer of Senior Notes due 2018 (the "Notes") with aggregate principal amount of EUR 350 million (not in thousands). The closing of the sale of the Notes and the issue of the Notes occurred on May 20, 2011 (the "Issue Date"). The Notes were rated Ba2/BB by Moody's Investor Service Inc. and Standard & Poor's Rating Services, respectively.

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

For the purpose of hedging future cash flows regarding Senior Notes interest payments, denominated in euro, the Group concluded CIRS (cross-currency interest rate swap) transactions. The CIRS transactions concluded in 2011 were described in the Note no. 32 of the consolidated financial statements for the year ended December 31, 2011, and the transactions concluded in 2012 are described in the attached consolidated financial statements for the year ended December 31, 2012 (in the Note no. 30). In 2013 we did not conclude additional hedging transactions.

The Notes are senior obligations of the Issuer, ranking *pari passu* in right of payment to all existing and future senior indebtedness of the Issuer and are senior in right of payment to all existing and future indebtedness of the Issuer that is expressly subordinated to the Notes.

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

Optional redemption of the Notes

At any time prior to May 20, 2014, the Issuer may on any one or more occasions redeem up to 35% of the aggregate principal amount of the Notes at a redemption price of 107.125% of the principal amount plus accrued and unpaid interest, if any, to the redemption date with the net cash proceeds of one or more equity offerings, provided that: (1) at least 65% of the aggregate principal amount of the Notes remains outstanding after each such redemption; and (2) the redemption occurs within 90 days of the date of the closing of an equity offering.

At any time prior to May 20, 2014, the Issuer may at its own discretion redeem the Notes in whole at any time or in part from time to time, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the applicable

premium as of, plus accrued and unpaid interest to, the date of redemption (subject to the rights of the holders of the Notes on the relevant record date to receive the interest due on the relevant interest payment date).

On or after May 20, 2014, the Issuer may redeem all or a part of the Notes at the redemption price (expressed as percentages of principal amount) set out below plus accrued and unpaid interest on the Notes redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on May 20 of the years indicated below, subject to the rights of holders of Notes on the relevant record date to receive interest on the relevant interest payment date: (i) in 2014 the redemption price is 105.344%, (ii) in 2015 the redemption price is 103.563%, (iii) in 2016 the redemption price is 101.781%, and (iv) thereafter the redemption price is 100.000%. Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on the Notes (or portions thereof) called for redemption on the applicable redemption date.

Change of control

If a change of control (as defined in the Indenture) occurs, the Issuer must offer to repurchase all the Notes on the terms set forth in the Indenture. Under the offer resulting from the change of control, the Issuer will offer a payment in cash equal to 101% of the aggregate principal amount of Notes repurchased plus accrued and unpaid interest on the Notes repurchased to the date of purchase (subject to the rights of holders of Notes on the relevant record date to receive interest due on the relevant interest payment date).

The following table presents the summary of financial indebtedness of the Group as of December 31, 2013:

	December 31, 2013 in PLN million	Maturity
Senior facility ¹	486	2015
Revolving Facility ¹	0	2015
Eurobonds	1,439	2018
Leasing	0	2015
Cash and Cash equivalents	342	-
Net Debt	1.583	
12M EBITDA	1,046	
Net Debt / 12M EBITDA	1.51	

¹ Balance sheet value of debt

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

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

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

Item 6.8.2. Cash flows

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

	For the twelve months ended December 31,	
	2013	2012
Net cash flow from operating activities	802 659	781 367
Net cash flow from investing activities	(133 837)	(133 431)
Net cash flow used in financing activities	(596 464)	(653 347)
Net increase/(decrease) in cash and cash equivalents	72 358	(5 411)

Net cash flow from operating activities

Net cash from operating activities amounted to PLN 802,659 in 2013 resulting mainly from the generated net profit of PLN 525,445 adjusted by various elements including primarily: (i) depreciation, amortization, impairment and disposal, amortization of film licenses and sport rights, (ii) interest expense, (iii) income tax and a change in receivables and other assets, (iv) a net increase in set-top boxes provided under operating lease, and (v) a change in liabilities, provisions and deferred income. Net cash from operating activities amounted PLN 781,367 in 2012 resulting mainly from the generated net profit of PLN 598,298 adjusted by various elements including primarily: (i) depreciation, amortization, impairment and disposal, interest expense and income tax, (ii) amortization of film licenses and sport rights, (iii) payments for film licenses and sport broadcasting rights, (iv) a net increase in set-top boxes provided under operating lease, (v) net gains on foreign exchange, (vi) an increase in receivables and other assets, (vii) a change in liabilities, provisions and deferred income.

Net cash flow from investing activities

Net cash used in investing activities amounted to PLN 133,837 in 2013 and consisted primarily of the purchase of property, plant and equipment and acquisition of intangible assets, acquisition of shares in Polskie Media S.A. (net of cash acquired), as well as the sale of 100% shares in RS TV S.A. Net cash used in investing activities amounted to PLN 133,431 in 2012 and consisted primarily of the purchase of property, plant and equipment and acquisition of intangible assets, as well as acquisition of shares in subsidiaries (net of cash acquired).

Net cash flow used in financing activities

Net cash used in financing activities amounted to PLN 596,464 in 2013 and consisted primarily of two prepayments ahead of schedule in the total amount of PLN 200,000 as well as scheduled repayments of principal and interests on bank loan, and the repayment of a loan of Polskie Media, purchased in 2013. Net cash used in financing activities amounted to PLN 653,347 in 2012 and consisted primarily of voluntary prepayment and scheduled repayments of SFA and repayment of the loan assumed through the acquisition of Redefine Sp. z o.o. Group in the amount of PLN 453,324 and repayment of interests on loans, borrowings, Notes and finance lease as well as paid provisions in the total amount of PLN 195,934.

Item 6.8.3. Capital expenditures

We incurred capital expenditures of PLN 122,886 and PLN 91,177 in 2013 and 2012, respectively. Capital expenditures to revenue from sales ratio amounted 4.2% and 3.3% in 2013 and 2012, respectively. Capital expenditures in 2013 were related primarily to maintenance, modification and development of IT systems, construction and modernization works, purchase of IT equipment, technical equipment and payments to the National Broadcasting Council for broadcasting concessions of TV Polsat's main channel POLSAT and the channel Polsat Sport News.

Item 6.8.4. Contractual obligations

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

	Total	Less than 1 year	1 to 5 years	Over 5 years
Contractual liabilities				
Loans and borrowings	545 695	262 934	282 761	-
Senior Notes liabilities	1 916 914	103 420	1 813 494	-
Total contractual liabilities	2 462 609	366 354	2 096 255	-

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

Item 6.8.5. Off-Balance Sheet Arrangements

Contractual liabilities to purchase programming assets

As at 31 December 2013 the Group had outstanding contractual liabilities in relation to purchases of programming assets. The table below presents a maturity analysis for such commitments:

	31 December 2013	31 December 2012
within one year	190,320	157,273
between 1 to 5 years	80,520	69,541
Total	270,840	226,814

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

	31 December 2013	31 December 2012
within one year	18,191	15,913
Total	18,191	15,913

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of technical equipment was PLN 4,864 as at December 31, 2013 (PLN 4,082 as at December 31, 2012). Total amount of capital commitments resulting from agreements on property improvements was PLN 509 as at December 31, 2013 (PLN 5,878 as at December 31, 2012). Additionally the amount of deliveries and services committed to under agreements for the purchases of licenses and software as at December 31, 2013 was PLN 26,809 (PLN 405 as at December 31, 2012).

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

In 2013 the Parent Company did not grant loans.

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

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

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

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

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

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

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

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

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

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

On July 15, 2013, the following companies: Telewizja Polsat Sp. z o.o., Polsat Media Biuro Reklamy Sp. z o.o., Media-Biznes Sp. z o.o., Redefine Sp. z o.o., Netshare Sp. z o.o., Frazpc.pl Sp. z o.o., Gery.pl Sp. z o.o. and Poszkole.pl Sp. z o.o. (partners in Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp. k.) signed agreements with Citicorp Trustee Company Ltd. establishing ordinary and registered pledges on partner's share in Polsat Media Biuro Reklamy

Spółka z ograniczoną odpowiedzialnością Sp. k. (i.e. on all transferable rights and obligations arising from the participation as a partner in the limited partnership company), securing the repayment of the Term Loan, Revolving Facility and Senior Notes.

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

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

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

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

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

As at the date of this Report, there were no material proceedings pending at court, arbitration body or public authorities against the Company or consolidated subsidiaries.

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

Item 6.12. Information on market risks

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

- to limit fluctuations in profit/loss before tax,
- to increase the probability of meeting budget assumptions,
- to maintain 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 Group applies a consistent and step-by-step approach to market risk management. The primary technique for market risk management is the use in the Group of hedging strategies involving derivatives. Apart from this, natural hedging is also used to the extent available.

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

It is permitted to use the following types of instruments:

- Swaps,
- Forwards and futures,
- Options.

Currency risk

One of the main risks that the Group is exposed to is currency risk resulting from fluctuations in exchange rate of the Polish zloty against other currencies. Revenues generated by the Group are denominated primarily in the Polish zloty, while a portion of operating costs and capital expenditures are incurred in foreign currencies. The Group'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). Since 2011 the level of currency risk exposure has increased because of new financing denominated in EUR obtained to purchase Telewizja Polsat Sp. z o.o. After this purchase currency risk exposure is also associated to purchases of foreign programming licenses (USD).

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

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 2013							
	EUR	USD	CHF	GBP	SEK	NOK	AUD	CAD
Trade receivables	2,724	1,111	-	-	-	-	37	2
Cash and cash equivalents	16,009	1,333	180	38	121	1,026	-	-
Senior Notes	(346,901)	-	-	-	-	-	-	-
Trade payables	(3,468)	(11,726)	(87)	(1)	(130)	-	-	-
Gross balance sheet exposure	(331,636)	(9,282)	93	37	(9)	1,026	37	2
CIRS	12,469	-	-	-	-	-	-	-
Net exposure	(319,167)	(9,282)	93	37	(9)	1,026	37	2

	31 December 2012							
	EUR	USD	CHF	GBP	SEK	NOK	AUD	CAD
Trade receivables	3,236	1,515	-	-	-	-	44	16
Cash and cash equivalents	4,702	6,490	362	38	225	1,146	-	-
Senior Notes	(345,809)	-	-	-	-	-	-	-
Trade payables	(6,896)	(9,904)	(92)	(2)	-	-	-	-
Gross balance sheet exposure	(344,767)	(1,899)	270	36	225	1,146	44	16
CIRS	37,406	-	-	-	-	-	-	-
Net exposure	(307,361)	(1,899)	270	36	225	1,146	44	16

Management Board's report on activities of Cyfrowy Polsat S.A. Capital Group
in the financial year ended December 31, 2013
(all financial data presented in PLN thousand, unless otherwise stated)

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

(in PLN)	Average rate		Rates at the reporting date	
	2013	2012	31 December 2013	31 December 2012
1 EUR	4.1975	4.1850	4.1472	4.0882
1 USD	3.1608	3.2570	3.0120	3.0996
1 GBP	4.9432	5.1591	4.9828	5.0119
1 CHF	3.4101	3.4722	3.3816	3.3868
1 SEK	0.4854	0.4807	0.4694	0.4757
1 NOK	0.5385	0.5596	0.4953	0.5552
1 AUD	3.0600	3.3711	2.6864	3.2183
1 CAD	3.0691	3.2569	2.8297	3.1172

For the purposes of the exchange rate sensitivity analysis as at December 31, 2013 and December 31, 2012, exchange rate volatility in the +/- 5% range was assumed as probable. This analysis assumes that all other variables, in particular interest rates, remain constant. The sensitivity analysis below is performed on the same basis for 2012.

Management Board's report on activities of Cyfrowy Polsat S.A. Capital Group
in the financial year ended December 31, 2013
(all financial data presented in PLN thousand, unless otherwise stated)

	2013					2012				
	As at December 31, 2013		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehen sive income in PLN	As at December 31, 2012		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehen sive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	2,724	11,296	5%	565	-	3,236	13,228	5%	661	-
USD	1,111	3,346	5%	167	-	1,515	4,697	5%	235	-
GBP	-	2	5%	-	-	-	2	5%	-	-
AUD	37	100	5%	5	-	44	142	5%	7	-
CAD	2	7	5%	-	-	16	50	5%	3	-
Cash and cash equivalents										
EUR	16,009	66,392	5%	3,320	-	4,702	19,221	5%	961	-
USD	1,333	4,014	5%	201	-	6,490	20,115	5%	1,006	-
CHF	180	609	5%	30	-	362	1,225	5%	61	-
GBP	38	185	5%	9	-	38	189	5%	9	-
SEK	121	57	5%	3	-	225	107	5%	5	-
NOK	1,026	508	5%	25	-	1,146	636	5%	32	-
Senior Notes										
EUR	(346,901)	(1,438,669)	5%	(71,933)	-	(345,809)	(1,413,735)	5%	(70,687)	-
Trade payables										
EUR	(3,468)	(14,381)	5%	(719)	-	(6,896)	(28,193)	5%	(1,410)	-
USD	(11,726)	(35,319)	5%	(1,766)	-	(9,904)	(30,697)	5%	(1,535)	-
CHF	(87)	(295)	5%	(15)	-	(92)	(310)	5%	(16)	-
GBP	(1)	(4)	5%	-	-	(2)	(9)	5%	-	-
SEK	(130)	(61)	5%	(3)	-	-	-	5%	-	-
Change in operating profit				(70,111)	-				(70,668)	-
CIRS										
EUR	12,469	51,711	5%	589	1,973	37,406	152,923	5%	581	6,841
Income tax				13,209	(375)				13,317	(1,300)
Change in net profit				(56,313)	1,598				(56,770)	5,541

Management Board's report on activities of Cyfrowy Polsat S.A. Capital Group
in the financial year ended December 31, 2013
(all financial data presented in PLN thousand, unless otherwise stated)

	2013					2012				
	As at December 31, 2013		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehen sive income in PLN	As at December 31, 2012		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehen sive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	2,724	11,296	-5%	(565)	-	3,236	13,228	-5%	(661)	-
USD	1,111	3,346	-5%	(167)	-	1,515	4,697	-5%	(235)	-
GBP	-	2	-5%	-	-	-	2	-5%	-	-
AUD	37	100	-5%	(5)	-	44	142	-5%	(7)	-
CAD	2	7	-5%	-	-	16	50	-5%	(3)	-
Cash and cash equivalents										
EUR	16,009	66,392	-5%	(3,320)	-	4,702	19,221	-5%	(961)	-
USD	1,333	4,014	-5%	(201)	-	6,490	20,115	-5%	(1,006)	-
CHF	180	609	-5%	(30)	-	362	1,225	-5%	(61)	-
GBP	38	185	-5%	(9)	-	38	189	-5%	(9)	-
SEK	121	57	-5%	(3)	-	225	107	-5%	(5)	-
NOK	1,026	508	-5%	(25)	-	1,146	636	-5%	(32)	-
Senior Notes										
EUR	(346,901)	(1,438,669)	-5%	71,933	-	(345,809)	(1,413,735)	-5%	70,687	-
Trade payables										
EUR	(3,468)	(14,381)	-5%	719	-	(6,896)	(28,193)	-5%	1,410	-
USD	(11,726)	(35,319)	-5%	1,766	-	(9,904)	(30,697)	-5%	1,535	-
CHF	(87)	(295)	-5%	15	-	(92)	(310)	-5%	16	-
GBP	(1)	(4)	-5%	-	-	(2)	(9)	-5%	-	-
SEK	(130)	(61)	-5%	3	-	-	-	-5%	-	-
Change in operating profit				70,111	-				70,668	-
CIRS										
EUR	12,469	51,711	-5%	(589)	(1,971)	37,406	152,923	-5%	(581)	(6,819)
Income tax				(13,209)	374				(13,317)	1,296
Change in net profit				56,313	(1,597)				56,770	(5,523)

	2013		2012	
	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
Estimated change in exchange rate by 5 %				
EUR	(55,224)	1,598	(56,614)	5,541
USD	(1,132)	-	(238)	-
CHF	12	-	37	-
GBP	7	-	7	-
SEK	-	-	4	-
CAD	-	-	2	-
AUD	4	-	6	-
NOK	20	-	26	-
Estimated change in exchange rate by -5 %				
EUR	55,224	(1,597)	56,614	(5,523)
USD	1,132	-	238	-
CHF	(12)	-	(37)	-
GBP	(7)	-	(7)	-
SEK	-	-	(4)	-
CAD	-	-	(2)	-
AUD	(4)	-	(6)	-
NOK	(20)	-	(26)	-

Had Polish zloty weakened by 5% against the basket of currencies as at December 31, 2013 and December 31, 2012, the Group's net profit would have decreased by PLN 56,313 and decreased by PLN 56,770, respectively and other comprehensive income would have increased by PLN 1,598 in 2013 and increased by PLN 5,541 in 2012. Had the Polish zloty strengthened by 5%, the Group's net profit would have correspondingly increased by PLN 56,313 and increased by PLN 56,770. Other comprehensive income would have decreased by PLN 1,597 in 2013 and decreased by PLN 5,523 in 2012, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

Interest rate risk

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

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

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

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

	Carrying amount	
	31 December 2013	31 December 2012
Fixed rate instruments		
Financial assets	-	134
Financial liabilities	(1,451,983)	(1,431,654)
Variable rate instruments		
Financial assets	342,013	270,040
Financial liabilities	(517,085)	(923,348)
Net interest exposure	(175,072)	(653,308)

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

	Income statement		Other comprehensive income		Equity	
	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp
31 December 2013						
Variable rate instruments*	(1,751)	1,751	3,098	(3,098)	1,347	(1,347)
Cash flow sensitivity (net)	(1,751)	1,751	3,098	(3,098)	1,347	(1,347)
31 December 2012						
Variable rate instruments*	(6,533)	6,533	7,787	(7,787)	1,254	(1,254)
Cash flow sensitivity (net)	(6,533)	6,533	7,787	(7,787)	1,254	(1,254)

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

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.

Item 7. Transactions with related parties

We present information on material transaction we, or our subsidiary, concluded with a related party in the consolidated financial statements for the financial year ended December 31, 2013 in Note 42 *Transactions with related parties*.

Item 8. Key risk and threat factors

Risks Related to Our Business and Sector in which we operate

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

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

Lower advertising spending in Poland may have a material negative effect on our revenue and the growth prospects of our TV production and broadcasting segment. Falling GDP growth in Poland usually results in a reduction in 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 reduce the demand for advertising services in our country. A drop in our advertising revenue may result in the necessity to adjust incurred costs to lower revenue, and thereby have an adverse effect on the quality of our programmes or may force us to limit the number of programmes broadcast by us, both our own productions and those 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 reduce our attractiveness to potential advertisers and sponsors.

We are exposed to foreign exchange risk

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

In addition, our 7.125% Senior Notes are denominated in the euro, which substantially increases our exposure to the risk of fluctuations in foreign exchange rates as any movements in the euro exchange rate against the Polish zloty may increase the zloty-denominated amounts required to service principal and interest payments under the Senior Notes.

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

We operate on markets where a commercial success primarily depends on customer satisfaction and acceptance of programmes, and viewers' reactions are often difficult to predict. We strive to acquire and retain pay TV subscribers by providing them with access to a broad range of channels, including sports, music, entertainment, news, children's, educational and film channels, all main terrestrial television channels available in Poland, as well as HD and free-to-air TV and radio channels. Whether subscribers are satisfied with our programming is vital for our ability to acquire and retain customers, as well as to generate and increase subscriber revenue. In the TV broadcasting and production segment we also generate revenue from the production and sale of television programmes to third parties operating in Poland and, to a lesser extent, abroad. The price which we are able to receive from potential buyers of our own productions is directly linked to the audience for those programmes, as third-party buyers, interested in generating advertising revenue, look for programmes with the highest viewer numbers.

Our ability to generate advertising revenue in our broadcasting and TV production segment, which constitutes one of our two business segments along with the retail business segment, almost entirely depends on viewers' demand for our

programmes. The audience share achieved by programmes we broadcast directly affects both the attractiveness of our television channels to existing and potential advertisers and the rates we are able to charge for advertising time.

Demand for TV programmes and programming preferences change frequently, irrespective of the media carrying them. We might not be able to attract or retain subscribers to our pay TV services if we are not able to effectively predict demand for programmes or changes in audience tastes, or if our competitors prove better at such predictions. This may bring about an increase in subscriber churn rate, and with respect to the TV production and broadcasting segment, result in decreasing audiences for our programmes and subsequent difficulties in acquiring advertisers.

To some extent, the profitability of our operations depends on our ability to produce or obtain broadcasting rights to the most attractive programmes, while maintaining cost efficiency. While the cost of in-house production of television content is usually higher than the cost of purchasing third-party programmes (in 2013, the costs of the TV production and broadcasting segment stood at PLN 296.0 million (not in thousands) for in-house production and PLN 220.1 million (not in thousands) for purchased programmes), we believe that a larger number of Polish programmes broadcast on our channels will increase viewer demand and consequently increase the demand from advertisers. However, there can be no assurance that capital expenditure we have incurred or will incur in the future on Polish programme 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 programmes or we are unable to profitably produce programmes or acquire broadcasting rights, it may have a material adverse effect on our operations business performance, financial standing and growth prospects.

We are exposed to competition from entities offering alternative forms of entertainment and leisure

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

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

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

The operating results of our TV production and broadcasting segment depend on the importance of television as an advertising medium

In 2013, nearly 80% 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 mediums, 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 potential changes in the regulatory regime will not favour other advertising mediums or other broadcasters. The growing competitive pressure among advertising mediums, 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 standing, performance, and cash flows.

Our potential advertising revenue depends on several factors, including the demand for and the sale price 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 drop, reducing demand for our advertising time and negatively affecting our advertising revenue. The diminishing appeal of TV as a whole, and our own channels in particular, attributable both to higher interest in other forms of entertainment and to the declining importance of television as an advertising medium, may have an adverse effect on our business performance, financial standing and growth prospects.

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

At present, nc+, a platform created in late 2012 following the merger of Cyfra+ and the n platform, is our main competitor on the satellite TV market. Apart from other DTH providers, we also compete with broadcasters using other technologies, such as terrestrial, cable and Internet television. Furthermore, we expect growing competition from joint ventures and strategic alliances between providers of cable and satellite TV and telecom operators. It is also probable that we will have to face foreign competitors entering the Polish market.

As a result of the process of digitization of terrestrial television in Poland, finalized in July 2013, there are 24 television channels available via terrestrial distribution. According to Nielsen Audience Measurement, the audience share in 2013 of all DTT channels in the 16-49 years of age group was 64.8% compared to 66.4% in 2012. The total audience share of the four leading channels (POLSAT, TVN, TVP1 and TVP2) was 45.9% in 2013 compared to 53.3% in 2012. The audience share of the remaining DTT channels amounted to a total of 18.9% in 2013 compared to 13.0% in 2012, thus indicating a progressing fragmentation of the market at the expense of leading channels, POLSAT included, which may adversely affect our operations and financial standing. Our main competitors on the TV advertising markets are other broadcasters, such as TVN – a leading commercial player in Poland, and TVP – the public broadcaster, financed partly from public funds, which provides a public service. Because TVP is the public broadcaster, it cannot interrupt individual programmes and movies with commercial breaks. Any changes to this limitation 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 in obtaining licences for terrestrial and satellite broadcasting in Poland. Such participants may include major broadcasters with greater resources and more recognisable brands. This is especially true in the case of companies from other EU countries, which may find the Polish TV market attractive for various reasons, including i.a. its current regulatory environment (which allows TV stations to broadcast more advertising during programmes and films than in other countries), as well as the increasing extent of other permissible advertising activities. And finally, continued growth of cable television, satellite television and digital terrestrial television providers may lead to further fragmentation of the market and dispersion of the audiences structure, which may make advertisers reluctant to buy air-time on our channels. Losing subscribers and advertisers to our competitors may have a material adverse effect on our business performance, financial standing and growth prospects.

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

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

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

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

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

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

The provision of our products and services may be disrupted or interrupted if any of our partners is unable to, or refuses to, perform their contracted services or provide access to infrastructure, equipment or components in a timely manner, on acceptable terms or at all.

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

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

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

We may not be able to adjust to the changing technologies applied on markets, in which we operate

The technologies used in broadcasting and delivering pay TV, broadband Internet and mobile telephony services develop extremely quickly, which is why there can be no assurance that we will be able to sufficiently modify our services to keep up with these changes. The compression, signal encoding and subscriber management systems vital to the correct functioning of our satellite centre, the set-top boxes manufactured at our plant, as well as other software and technologies used by us and our suppliers, must be constantly updated and replaced to match the latest technological developments. Our inability to replace obsolete technological solutions as needed may have an adverse effect on our pay TV services, which may in turn cause an outflow of subscribers to competitors who have brought their technologies up to date.

Technological progress compels us to modify our content distribution and TV programming methods to keep pace with the changing market. New technologies – including new video formats, IPTV, Internet streaming and downloading services, video on demand (VoD), mobile television, set-top boxes with recording functions, as well as other devices and technologies – introduce new media and entertainment options and change the way subscribers receive content. This allows them to enjoy television outside their homes or at a later time, without commercials and according to a custom schedule. Such technologies are growing in popularity and are becoming easier to use, yet the resulting fragmentation of TV viewers may cause a general decline in TV advertising revenues. Failure on our part to adapt our products and services to the changing lifestyles and preferences of our customers, or to make sufficient use of new technologies in our broadcasting activities, may have a material adverse effect on our business performance, financial standing and growth prospects.

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

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

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

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

We may lose or be unable to maintain the good name of the Cyfrowy Polsat and Telewizja Polsat brands

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

The value of goodwill and brand value in the retail, TV production and broadcasting segments may decrease

Following the acquisition of mPunkt Sp. z o.o., Telewizja Polsat, Info-TV-FM Sp. z o.o., and companies which create the IPLA service (Redefine, Netshare Sp. z o.o., Frazpc.pl Sp. z o.o. and Gery.pl Sp. z o.o.), we have carried considerable amounts of goodwill and 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 use in impairment testing may have a material adverse effect on our business performance, financial standing and growth prospects.

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

Our business performance, as well as effective implementation of our strategy, depend on the experience of our management staff and the commitment of our key employees. Whether we are successful in the future will depend partly on our ability to retain the Management Board members who have made considerable contributions to the development of our company, as well as to acquire and retain qualified employees who will ensure effective operation of our two business segments. In the television, mobile telephony and Internet sectors, both in Poland and worldwide, there is strong competition

for highly qualified employees. Therefore, no assurance can be given that in the future we will be able to acquire or retain Management Board members or qualified employees. Loss of our key managers or the inability to acquire, properly train, motivate and retain key employees, or any delays in this respect, may have a material adverse effect on our business performance, financial standing and growth prospects.

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

The analogue to digital switchover in Poland has resulted in a substantial rise in the number of competitive TV providers. It is also probable that the current limits on awarding licences for DTT frequency bands will be lifted. This would be likely to bring about a growth in the number of digital channels available on the Polish TV market, leading to a corresponding loss of our audience share. Following the process of digitization of terrestrial television, finalized in July 2013, the number of terrestrial FTA TV channels has risen considerably, and their programming is becoming increasingly more attractive, which may reduce the demand for our pay TV services (DTH, DVB-T), decrease our audience share and cause an outflow of our existing subscribers. This may have a material adverse effect on our business performance, financial standing and growth prospects.

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

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

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

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

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

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

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

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

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

A large proportion of our products make use of proprietary or licensed content, delivered through broadcasts, interactive TV services, and pay TV. We establish and protect our property rights on distributed content relying on trademarks, copyrights, and other intellectual property rights, but no assurance can be given that these rights will not be challenged, revoked or disregarded. Even if our intellectual property rights remain in full effect, no assurance can be given that our protection and anti-piracy measures will successfully prevent unauthorised access to our services and theft of our programming content. Furthermore, our proprietary content and the content we use under licences may be accessed, copied or otherwise used by unauthorised persons. The risk of piracy is particularly harmful to our TV production and broadcasting segment and our fee-based distribution of content. Media piracy is a problem well known in many geographies, including Poland. Technological advancements and digital conversion of multimedia content are powerful incentives for pirating, as they enable the production and distribution of high-quality unauthorised copies, recorded on various data carriers, of pay-per-view programmes delivered via set-top box, licence-free or free-to-air transmissions on television or the Internet. This is made worse by problems in the execution of regulations governing copyright and trade-mark infringements on the Internet, which compromises the protection of our intellectual property rights in that medium. Unauthorised use of our intellectual property may adversely affect our operations, harming our reputation and undermining our trading partners' confidence in our ability to properly protect our proprietary and licensed content, which in turn may have a material adverse effect on our business performance, financial standing and growth prospects.

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

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

The KRRiT regulations also pertain to both segments of our business, although they have a more direct effect on our TV production and broadcasting segment. As a TV broadcaster operating in Poland, we have to meet a number of legal and administrative requirements related to such matters as broadcasting time, programme content, and advertisements. Furthermore, KRRiT undertakes regular checks to ensure that our operations conform to the terms of our broadcasting licences, provisions of the Polish Act on Television and Radio Broadcasting, and its own internal guidelines. There can be no assurance that we will be able to satisfy the multiple regulatory requirements imposed on our TV production and broadcasting business under the relevant licences, provisions of the Act on Television and Radio Broadcasting and other regulations, particularly those pertaining to programme content. 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 may render our DTH services less attractive, leading to a fall in subscriber numbers.

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

Any non-compliance on our part with the legal requirements or other rules issued by regulatory bodies may have a material adverse effect on our business performance, financial standing and growth prospects.

Our broadcasting licences may be revoked or may not be renewed

We depend on broadcasting licences issued by the National Broadcasting Council (KRRiT) to operate our businesses. These licences may be revoked or may not be renewed. With respect to our retail business segment, the distribution of TV programmes by DTH operators requires only registration by the Chairman of the National Broadcasting Council and does not require a distribution licence. As at the date of this Report, we hold four terrestrial broadcasting licences and more than ten satellite broadcasting licences. All TV broadcasting licences issued by the National Broadcasting Council have fixed terms. Our terrestrial TV broadcasting licences and satellite broadcasting licences will expire at various times between 2015 and 2029.

To maintain our TV broadcasting licences, we must comply with the applicable laws and the terms and conditions of the licences. Failure to comply with the applicable laws or breach of the terms and conditions of a broadcasting licence, especially with respect to the period within which we must commence broadcasting of a channel, could lead to the licence being revoked or a fine being imposed on us. Our broadcasting licences may also be revoked if we are found to be conducting activities in violation of the applicable laws or the terms and conditions of our broadcasting licences, or we fail to remedy such violation within the applicable grace period. In addition to revocation, there is also a risk that our broadcasting licences issued by KRRiT will not be renewed.

If any of our broadcasting licences are revoked or not renewed, we may be forced to temporarily or permanently discontinue those of our operations that are subject to such licences, which may have a material adverse effect on our business performance, financial standing and growth prospects.

In the event of a breach of its terms, our current frequency allocation may be revoked, may not be extended at all, or may not be extended on acceptable conditions

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

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

If the Group's frequency allocation is not extended, is revoked or extended on unfavourable conditions, the Group may be forced to suspend the provision of some services temporarily or permanently, may be unable to offer services based on a particular technology or may have to incur substantial expenditure, all of which may have a material adverse effect on our performance, financial standing and growth prospects.

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

Our operations are frequently reviewed by UOKiK to ensure that we comply with the laws prohibiting practices that limit competition or violate the collective interests of consumers, including providing inaccurate information to customers, dishonest market practices or use of prohibited contract clauses. In addition to the President of UOKiK, natural persons can also bring court actions against us to determine whether our standard subscriber contracts contain any prohibited clauses. If a court finds any of our practices or contract terms to be misleading or in conflict with Polish competition and consumer protection laws, we may be subject to fines and our reputation could be harmed. Moreover, if UOKiK finds that certain standard provisions used in our subscriber contracts are prohibited, these provisions will be entered into the Register of Prohibited Clauses, supervised by the President of UOKiK, and it will be necessary to cease using them, and hence change our standard subscriber contract.

If the President of UOKiK determines that any of our practices had the effect of limiting competition or violating consumer rights, we could be required to discontinue the unlawful practice. In addition, the President of UOKiK could impose on us a cash fine of up to 10% of our revenue for the financial year prior to the year the fine is imposed. Moreover, if we, even unintentionally, fail to provide the President of UOKiK with the required information or provide misleading information, a fine of up to EUR 50,000,000 (not in thousands) may be imposed on us. The imposition of the fines referred to above may harm our reputation, which in turn may have a material adverse effect on our business performance, financial standing and growth prospects.

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

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

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

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

Given that Polish tax laws are frequently amended, which in practice makes them retroactive, inconsistent, and lack uniform interpretation, and considering relatively long limitation periods applying to tax liabilities, the risk of misapplication of tax laws in Poland may be greater than in the legal systems of more developed markets. Accordingly, there is a risk that we may fail to bring certain areas of our activity in compliance with the frequently amended tax laws and the ever-changing practice of their application. Therefore, no assurance can be given that there will be no disputes with tax authorities, and, consequently, that tax authorities will not question the correctness of Group companies' tax settlements on non-statute-barred tax liabilities, and will not determine the existence of tax arrears of such Group companies. Any unfavourable decisions, interpretations or rulings by tax authorities may have a material adverse effect on our business performance, financial standing and growth prospects.

Tax authorities may question the accuracy of intra-Group and related-party settlements under applicable transfer pricing regulations

In the course of their business, 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 provision of services and sale of goods. When entering into and performing related-party transactions, Group companies take steps to ensure that their terms and conditions are consistent with the applicable transfer pricing regulations. Nonetheless, the possibility cannot be excluded that Group companies may be subject to inspection or other verification procedures on the part of tax and treasury authorities in this respect. Due to the nature and variety of transactions with related parties, the complexity and ambiguity of the legal regulations concerning the methods of verification of applied prices, dynamic changes in market conditions affecting the calculation of prices applicable to such transactions, as well as difficulties in identifying comparable transactions, there is a risk that tax authorities may question the methodology adopted to determine market conditions, and consequently may question, on the basis of regulations on transfer prices, settlements between Group companies and related parties. This may have a material adverse effect on our business performance, financial standing and growth prospects.

Polish tax authorities may make a assessment, that differs from that of Cyfrowy Polsat Group, regarding tax effects of restructuring activities of Cyfrowy Polsat Group

The current structure of Cyfrowy Polsat Capital Group is the result of consolidation and restructuring activities as well as other transactions regarding assets of significant value realized in recent years between companies belonging to the Group. These activities affected tax settlements not only of companies involved in consolidation and restructuring activities, and other transactions regarding assets of significant value, but also partners and shareholders of those companies.

Despite the monitoring of risks in various areas of business, both in relation to already finalized and planned restructuring activities, it cannot be excluded that Polish tax authorities will adopt a different assessment of the tax effects of particular events and restructuring activities, both already finalized and planned, in particular in terms of the possibility, method and moment of recognition of revenue and tax deductible revenue by involved parties or that they may challenge the validity of financial terms of such operations. This may have a material adverse effect on our business performance, financial standing and growth prospects.

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

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

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

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

Polsat Group companies are subject to legal regulations (including tax legislation) in force in the countries in which they operate

Given the international character of the Cyfrowy Polsat Group, its companies are governed by legal regulations (including tax legislation) in force in the countries in which they operate. Therefore, in view of such dissimilar legal frameworks, there is a risk that the Group will interpret local legal regulations (including tax legislation) in a way which is divergent from their construction by the country's tax authorities. Furthermore, the diversity of legal regulations by which individual companies of the Polsat Group are bound may give rise to internal problems within the Group, including with respect to the law governing

legal relations between the Group's entities. Yet 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 are present.

What is more, the legal regulations (including tax legislation) in countries where the Polsat 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 Polsat Group conducts its business, and consequently that the tax authorities will not question the correctness of Group companies' tax settlements on non-statute-barred tax liabilities, and will not determine the existence of tax arrears of such Group companies, which may have an adverse effect on our business performance, financial standing and growth prospects.

Risks Related to the 7.125% Senior Notes ("Notes") and Senior Facilities Agreement

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

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

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

We use large financial leverage. In the past, debt servicing and other cash requirements were financed with cash flows from operating activities and revolving credit facilities. Our debt servicing liabilities rose significantly on acquisition of Telewizja Polsat and completion of related financial transactions.

Our ability to service or repay debt hinges on our future operating results and our capacity to generate sufficient cash flows to pay these and other liabilities, which in turn heavily depend on the general economic climate, financing terms, market competition, acts of law and secondary legislation, and a number of other factors which are often beyond our control. If our future operating cash flows and other capital resources prove insufficient to repay our liabilities as they fall due or cover our liquidity requirements, we may be forced to (i) restrict or postpone certain business and capital expenditure projects; (ii) divest; (iii) incur more debt or raise new capital; or (iv) restructure or refinance our debts, including Senior Notes, in part or in full, at or prior to their maturity dates. The terms and conditions of Senior Notes and the Credit Agreement limit our ability to take the above measures. Therefore, we cannot guarantee that they will be taken on commercially reasonable terms, or at all, if need arises.

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

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

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

We are expose to interest rate risk

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

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

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

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

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

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

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

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

Covenant restrictions under the Indenture governing the Notes and our Senior Facilities Agreement impose significant operating and financial restrictions on us and may limit our ability to operate our business and consequently to make

payments on the Notes. A failure to comply with those covenants, whether or not within our control, could result in an event of default that could materially and adversely affect our financial condition and results of operations.

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

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

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

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

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

The restrictions contained in the Senior Facilities Agreement and the Indenture for the Notes could affect our ability to operate our business and may limit our ability to react to market conditions or take advantage of potential business opportunities as they arise. For example, such restrictions could adversely affect our ability to finance our operations, make

strategic acquisitions, investments or alliances, restructure our organization or finance our capital needs. Additionally, our ability to comply with these covenants and restrictions may be affected by events beyond our control. These include prevailing economic, financial and industry conditions. If we breach any of these covenants or restrictions, we could be in default under the Senior Facilities Agreement, the Indenture and our other indebtedness.

In the event of a default under any of our debt instruments that was not cured or waived, the holders of the defaulted debt could terminate their commitments thereunder and cause all amounts outstanding with respect to such indebtedness to be due and payable immediately, which in turn could result in cross-defaults under our other debt instruments, including the Notes. Our ability to make principal or interest payments when due on our indebtedness, including the Notes and our Senior Facilities Agreement, and to fund our ongoing operations, will depend on our future performance and our ability to generate cash, which to a certain extent is subject to general economic, financial, competitive, legislative, legal, regulatory and other factors, as well as other factors discussed in this chapter, many of which are beyond our control. Any such actions could force us into bankruptcy or liquidation, and we may not be able to repay our obligations under the Notes in such an event.

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

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

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

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

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

The measure of insolvency for purposes of fraudulent conveyance laws varies depending on the law applied. Generally, however, a Guarantor would be considered insolvent if it could not pay its debts as they become due, it has no access to

new credit and/or if its liabilities exceed its assets. If a court decided any Guarantee was a fraudulent conveyance and voided the Guarantee, or held it unenforceable for any other reason, the holders would cease to have any claim in respect of the Guarantor and would be a creditor solely of the Issuer and the remaining Guarantors.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As a result, until the aggregate of the undrawn committed and funded senior secured debt (other than debt under the Notes and any additional notes) has fallen below 25% of the aggregate amount of the undrawn committed and funded senior secured debt, lenders under the Senior Facilities Agreement, together with the counterparties to certain secured hedging

arrangements, will have effective control of all decisions with respect to the Collateral. It is possible that disputes may occur between the holders of the Notes and lenders under the Senior Facilities Agreement as to the appropriate manner of pursuing enforcement remedies with respect to the Collateral (as well as with respect to the filing of claims necessary to enforce such Collateral). In such an event, the holders of the Notes will be bound by any decisions of the instructing group, which may result in enforcement actions against the Collateral that are not approved by the holders of the Notes or that may be adverse to such holders. The effective control of the lenders under the Senior Facilities Agreement and hedge counterparties may delay enforcement against the Collateral.

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

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

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

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

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

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

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

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

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

The holders' ability to transfer the Notes may be limited

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

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

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

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

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

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

Item 9. Information on shares and shareholders

Item 9.1. Cyfrowy Polsat shares

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

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

Series	Number of shares	Type	Number of votes at General Meeting	Face value /PLN (not in thousands)
A	2,500,000	Preference shares (2 voting rights)	5,000,000	100,000.00
B	2,500,000	Preference shares (2 voting rights)	5,000,000	100,000.00
C	7,500,000	Preference shares (2 voting rights)	15,000,000	300,000.00
D	166,917,501	Preference shares (2 voting rights)	333,835,002	6,676,700.04
D	8,082,499	Ordinary bearer shares	8,082,499	323,299.96
E	75,000,000	Ordinary bearer shares	75,000,000	3,000,000.00
F	5,825,000	Ordinary bearer shares	5,825,000	233,000.00
H	80,027,836	Ordinary bearer shares	80,027,836	3,201,113.44
Total	348,352,836		527,770,337	13,934,113.44
including:	179,417,501	Registered	358,835,002	7,176,700.04
	168,935,335	Floating	168,935,335	6,757,413.40

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

Basic data on the Cyfrowy Polsat shares in trading

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

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

International Securities Identification Number (ISIN)	PLCFRPT00013
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Cyfrowy Polsat's identification codes

WSE	CPS
Reuters	CYFWF.PK
Bloomberg	CPS:PW

Item 9.2. Shareholders structure

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

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

¹ Pola Investments Ltd. is controlled by family foundation (trust) TiVi Foundation

² Sensor Overseas Ltd. is controlled by Mr. Heronim Ruta.

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

The abovementioned package includes:

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

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

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

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

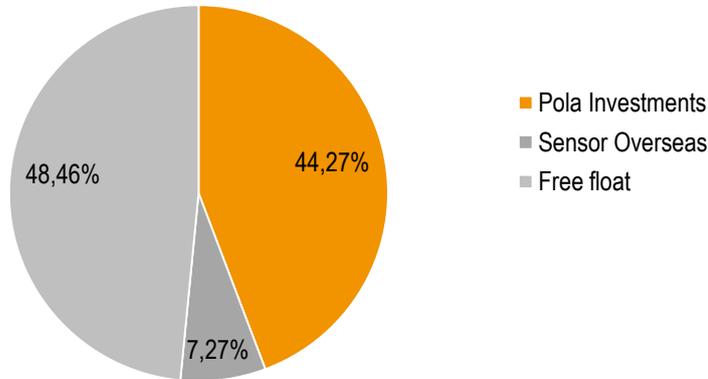
According to the abovementioned agreements, the shares in Metelem shall be transferred to Cyfrowy Polsat through the transfer of shares by current shareholders of Metelem as an in-kind contribution for new shares issued by the Company.

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

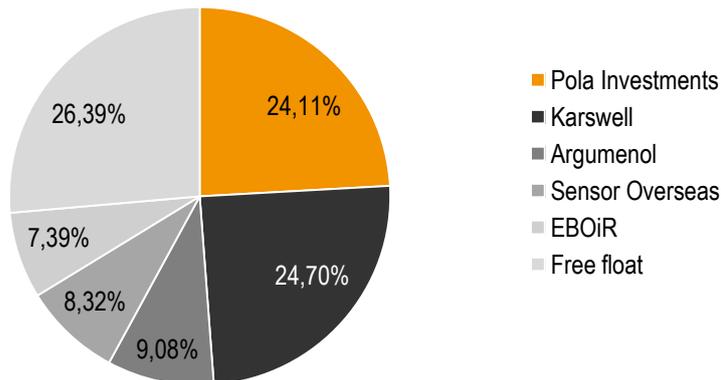
New shares will constitute 45.53% of the total, increased share capital of the Company and 35.56% of votes in the Company.

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

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



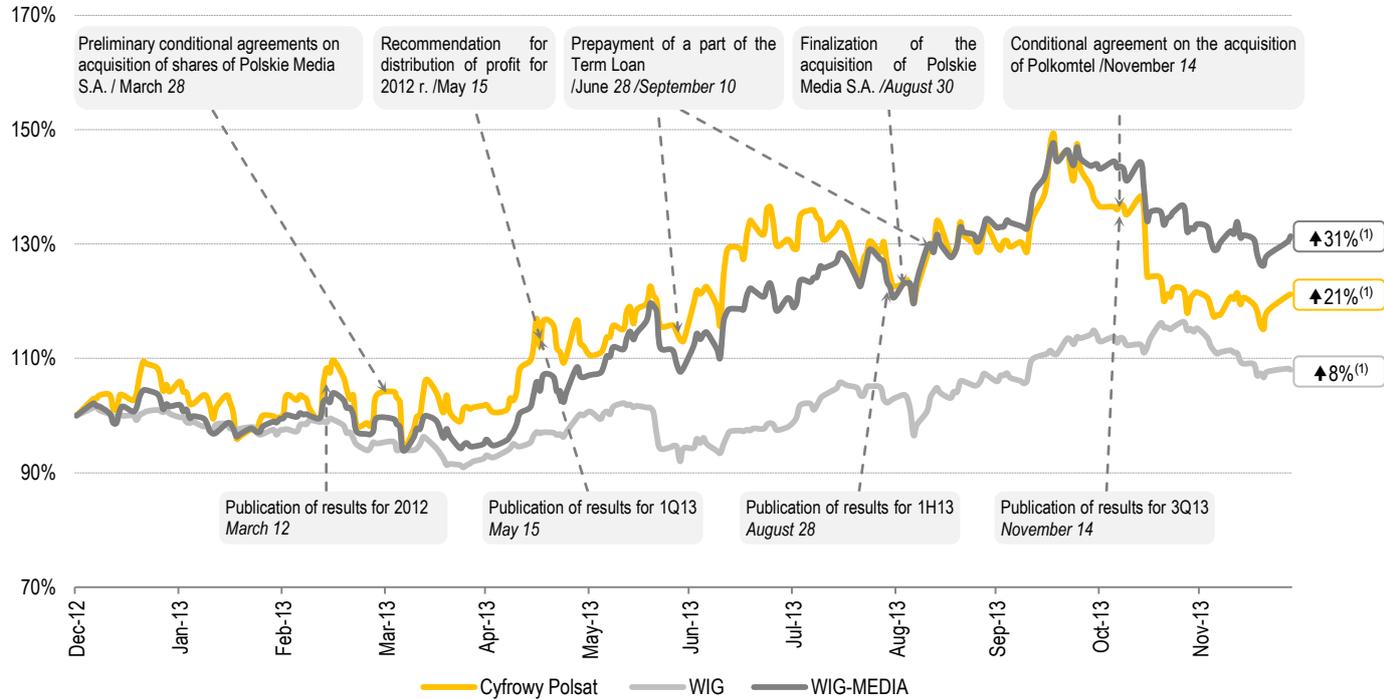
Estimated shareholders' stakes in the share capital of the Company after the conclusion of the transaction



Item 9.4. Shares quotes

Performance of Cyfrowy Polsat shares in 2013

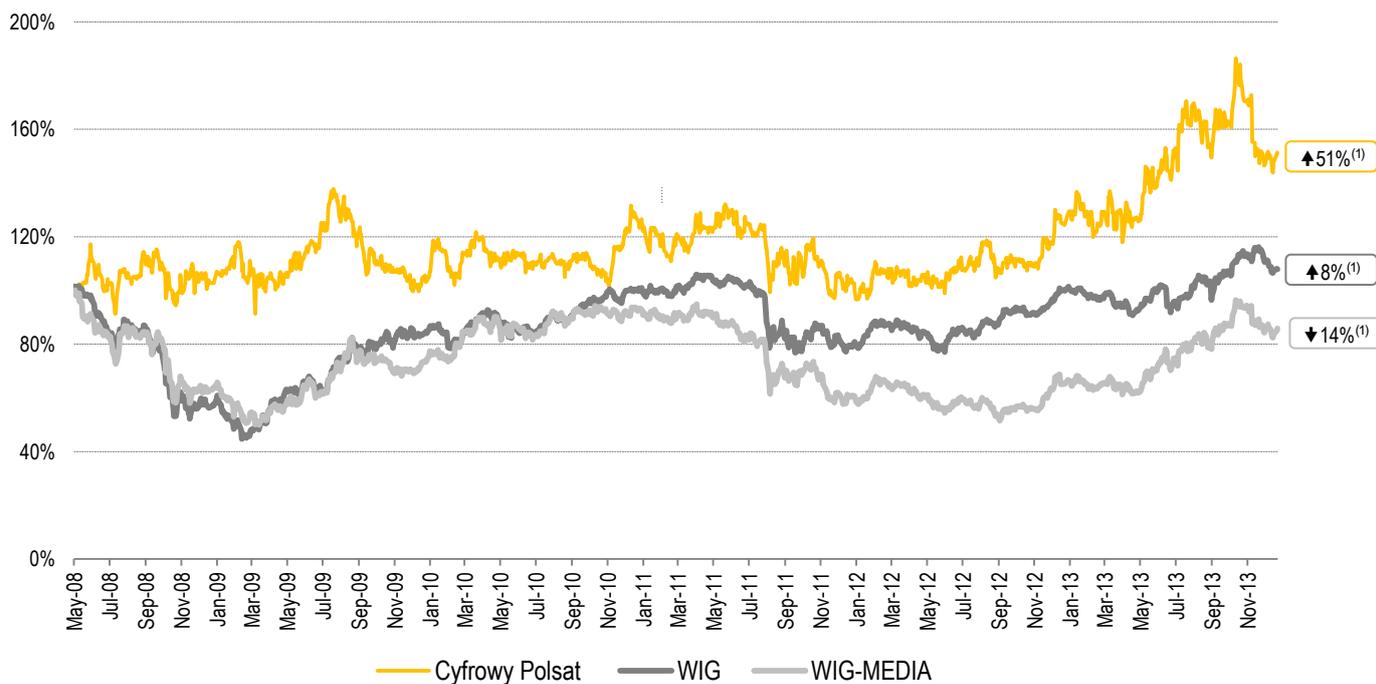
(indexed; 100 = closing price on December 28, 2012)



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

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

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



⁽¹⁾ change: Dec. 30, 2013 vs. May 6, 2008

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



⁽¹⁾ share price on October 17, 2013

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

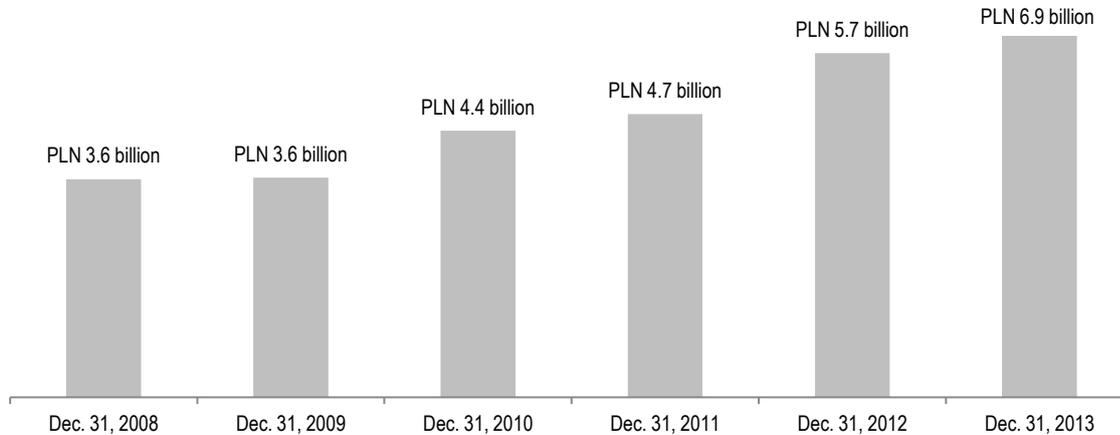
⁽³⁾ On April 20, 2011, the Company issued 80,027,836 ordinary bearer H Series shares with a nominal value of four grosz (PLN 0.04) each. These shares were registered on May 30, 2011 in the National Depository for Securities under ISIN code PLCFRPT00013, and were admitted to trading on the main market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

Cyfrowy Polsat shares on the stock exchange in 2013

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

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

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



Item 9.5. Recommendations

Brokers covering the Company:

Local

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

International

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

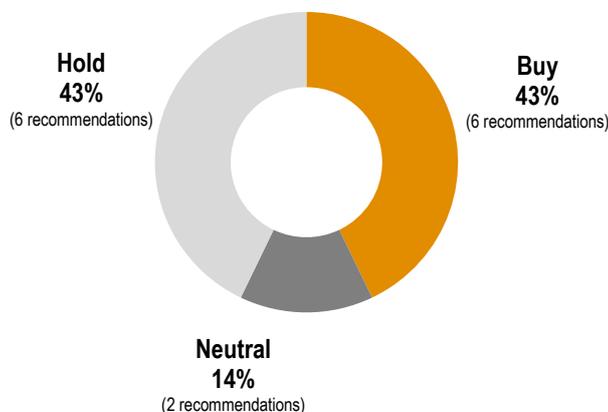
Recommendations for the shares of Cyfrowy Polsat published in 2013

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

Recommendations issued in 2014 after the balance date

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

Recommendations structure as at February 13, 2014



Target price at February 13, 2014 (PLN)

minimum	19.60
maximum	25.50
median	22.27

Close dialogue with the capital market

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

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

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

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

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

Item 10. Dividend policy

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

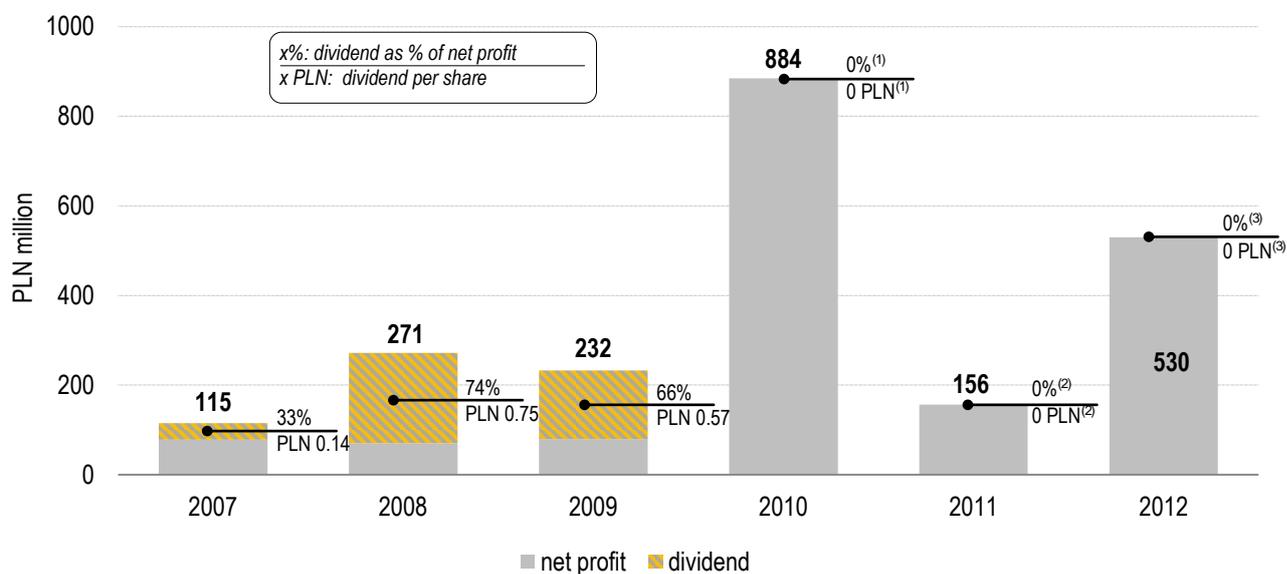
When preparing the recommendation for the distribution of the Company's profit and the dividend payment, the Management Board will also take into consideration: the amount of standalone net profit achieved by the Company, the financial condition of the Company's capital group, existing obligations (including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

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

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

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

The history of profit sharing (in million PLN)



⁽¹⁾ net profit allocated entirely to reserve capital according to the resolution of the General Meeting on May 19, 2011 adopted based on the recommendation of the Management Board, justified by the need of future service of the debt incurred by the Company to purchase 100% shares of Telewizja Polsat.

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

⁽³⁾ net profit distributed in total to reserve capital according to the resolution of the General Meeting on June 11, 2013

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

Shares held by members of the Management Board

The following table presents information relating shares held directly and indirectly by particular members of the Management Board as at the day of the publication of this Report, ie. February 27, 2014:

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

Shares held by members of the Supervisory Board

The following table present information relating to shares held directly and indirectly by particular members of the Supervisory Board as at day of the publication of this Report, i.e. February 27, 2014:

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

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

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

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

Information regarding remuneration of members of the Management Board and the Supervisory Board for the financial year ended December 31, 2013 is included in Note 45 (Members of the Management Board) and Note 46 (Members of the Supervisory Board) of consolidated Financial Statements.

Item 13. Management contracts with members of the management board setting out severance packages payout as a result of their resignation or dismissal from the position without a material cause

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

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

- in the case of expiry of the contract or the lack of its extension (failure to be reappointed by the entitled body of Cyfrowy Polsat as member of the Management Board of Cyfrowy Polsat for a subsequent term or lack of a new, subsequent management contract) due to reasons caused by Cyfrowy Polsat – in the net amount of PLN 330,000 (not in thousands) (three hundred thirty thousand), paid by Cyfrowy Polsat on the date of the expiry of the contract or its discontinuation;
- in the case of the termination of the contract by Cyfrowy Polsat – in the net amount of PLN 330,000 (not in thousands), paid by Cyfrowy Polsat on the last day of the notice period.

The management contract with **Dariusz Działkowski** sets out the notice period at four months. In addition the non-competition agreement concluded with Dariusz Działkowski sets out a monthly payment of PLN 40,000 (not in thousands) over the number of months specified in non-competition agreement.

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

- in the case of expiry of the contract or the lack of its extension (failure to be reappointed by the entitled body of Cyfrowy Polsat as member of the Management Board of Cyfrowy Polsat for a subsequent term or lack of a new, subsequent management contract) due to reasons caused by Cyfrowy Polsat – in the net amount of PLN 240,000 (not in thousands) (two hundred forty thousand), paid by Cyfrowy Polsat on the date of the expiry of the contract or its discontinuation;
- in the case of the termination of the contract by Cyfrowy Polsat – in the net amount of PLN 240,000 (not in thousands), paid by Cyfrowy Polsat on the last day of the notice period.

The management contract with **Tomasz Szeląg** sets out the notice period at four months. In addition the non-competition agreement concluded with Tomasz Szeląg sets out a monthly payment of PLN 40,000 (not in thousands) over the number of months specified in non-competition agreement.

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

- in the case of expiry of the contract or the lack of its extension (failure to be reappointed by the entitled body of Cyfrowy Polsat as member of the Management Board of Cyfrowy Polsat for a subsequent term or lack of a new, subsequent management contract) due to reasons caused by Cyfrowy Polsat – in the net amount of PLN 240,000 (not in thousands) (two hundred forty thousand), paid by Cyfrowy Polsat on the date of the expiry of the contract or its discontinuation;
- in the case of the termination of the contract by Cyfrowy Polsat – in the net amount of PLN 240,000 (not in thousands), paid by Cyfrowy Polsat on the last day of the notice period.

The management contract with **Aneta Jaskólska** sets out the notice period at four months. In addition the non-competition agreement concluded with Aneta Jaskólska sets out a monthly payment of PLN 40,000 (not in thousands) over the number of months specified in non-competition agreement.

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

- in the case of expiry of the contract or the lack of its extension (failure to be reappointed by the entitled body of Cyfrowy Polsat as member of the Management Board of Cyfrowy Polsat for a subsequent term or lack of a new, subsequent management contract) due to reasons caused by Cyfrowy Polsat – in the net amount of PLN 240,000 (not in thousands) (two hundred forty thousand), paid by Cyfrowy Polsat on the date of the expiry of the contract or its discontinuation;
- in the case of the termination of the contract by Cyfrowy Polsat – in the net amount of PLN 240,000 (not in thousands), paid by Cyfrowy Polsat on the last day of the notice period.

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

On November 14, 2013, the Company entered into an agreement with PricewaterhouseCoopers Sp. z o.o., with registered office in Warsaw at 14 Al. Armii Ludowej, for the performance of an audit of standalone financial statements for the financial year ended December 31, 2013 of Cyfrowy Polsat S.A. and the consolidated financial statements of Cyfrowy Polsat Group for the financial year ended December 31, 2013.

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

	for year ended	
	December 31, 2013	December 31, 2012
Remuneration for audit of the financial statements for the year and other certifying services, including the review of financial statements	1,018	970
Other services	412	-
Total	1,430	970

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

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

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

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

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

We make every possible effort to employ the corporate governance principles, set out in the above document, trying to execute all the recommendations regarding best practices of WSE Listed Companies and all recommendations directed to the management boards, supervisory boards and shareholders in all areas of our business.

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

However, the Company has not implemented changes in the organization of the General Meeting so as to comply with principles – included until the end of 2012 in Part I, since January 2013 transferred to the principles laid down in Parts IV and II – regarding direct transmission and providing two-way communication as well as publication of audio or video recording of the General Meeting on the Company website. Thus the Company has violated the principle set out in Part IV section 10 and in Part II section 1 point 9a on the occasion of the Ordinary General Meeting of the Company held on June 11, 2013. At the moment, the Management Board does not plan to make changes to the organization of the General Meeting. Ensuring the smooth running and the validity of the resolutions adopted by the General Meeting, as well as cost optimization are the priorities of the Management Board. Considering the small spread of the practice of conducting General Meetings using electronic means of communication and incomplete readiness of the market, and thus an increased risk of organizational and technical disturbances, the Management Board decided to postpone the consideration of the implementation of the rules in question. Concerning the recommendations stated in Part I, we need to comment on three issues.

Recommendation I.12. we have waived the recommendation I.12 enabling shareholders to exercise their right to vote in person or through a plenipotentiary from a location other than the General Meeting using electronic means of communication given the legal questions concerning this issue. Ensuring the smooth running and the validity of the resolutions adopted by the General Meeting are the priorities of the Management Board and at present the Management Board does not plan to make changes to the organization of the General Meeting.

Recommendation I.5. The Company does not comply with the recommendation in relation to setting policy of remuneration of members of managing and supervising bodies. The rules of remuneration of the members of managing and supervising bodies were not developed based on provisions of directives of the European Commission and thus, not all the recommendations are applied. In accordance with article 24 d) of the Company's Articles of Association, the remuneration of the members of the Supervisory Board requires a resolution of the General Meeting, except for the members of the Supervisory Board delegated to temporarily perform functions of a members of the Management Board, pursuant to article 19 2d) of the Articles of Association, when the decision is taken by the Supervisory Board. The remuneration relates to the scope of tasks and responsibilities related to the function performed, reflects the size of the Company and keeps a healthy relation to its financial results. The remuneration of the Management Board members is set by the Supervisory Board and reflects the duties and responsibilities appointed to them.

Recommendation I.9 "Warsaw Stock Exchange recommends public companies and their shareholders to ensure the balanced participation of men and women in performing management and supervision functions in the enterprises, thus enhancing creativity and innovations in their businesses". In Cyfrowy Polsat, members of the Supervisory Board and the Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

¹ Pola Investments Ltd. is controlled by family foundation (trust) TiVi Foundation

² Sensor Overseas Ltd. is controlled by Mr. Heronim Ruta.

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

The abovementioned package includes:

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

Item 15.5. Presentation of holders of securities with special controlling rights

Current shareholders do not have any other rights in the General Meeting of Shareholders than those resulting from holding our shares. As at December 31, 2013 the shares of the A through D series are shares preferential as to the voting rights in the way that:

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

The holders of shares with special controlling rights are: Pola Investments Ltd. (152,504,876 shares giving 305,009,752 voting rights on General Meeting), Sensor Overseas Ltd. (25,041,375 shares giving 50,082,750 voting rights on General Meeting) and Koma Fundusz Inwestycyjny Zamknięty (1,871,250 shares giving 3,742,500 voting rights on General Meeting). Based on the abovementioned Proxy from Sensor Overseas Ltd., Pola Investments Ltd. holds and is entitled to exercise voting rights from 173,296,251 privileged registered shares, representing 346,592,502 votes at General Meeting.

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

Item 15.6. Specification of limitations in exercising voting rights

There are no limitations to exercise of the voting rights.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 majority of votes.

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

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

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

The Management Board

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

Composition of the Management Board

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

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

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

Dariusz Działkowski has been a Member of the Management Board responsible for technology since August 2007. From November 2001 Mr. Działkowski was the Technical Director of Cyfrowy Polsat S.A. He is also a Member of Management Boards of INFO-TV-FM Sp. z o.o., Redefine Sp. z o.o., Netshare Sp. z o.o., Gery.pl Sp. z o.o. and Frazpc.pl Sp. z o.o. Since 2010 he is a Member of the 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 got his previous professional experience with Canal+ and Ericsson where he held the positions of Technical Director and Services Sales Department Manager respectively. He is one of the founders of Centrum Telemarketingowe Sp. z o.o. Mr. Działkowski graduated from the Faculty of Electronics at the Warsaw University of Technology at the radio and television specialization and has an MBA degree from the University of Maryland.

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

Chamber of Legal Advisers in Warsaw, receiving the title of a solicitor. She also graduated from Copyright, Publishing and Press Law Faculty at the Department of Management and Social Communication of Jagiellonian University.

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

Bylaws of the Management Board

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

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

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

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

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

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

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

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

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

The Supervisory Board

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

The Composition of the Supervisory Board

The following persons were Members of the Supervisory Board:

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

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

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

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

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

Board of Media-Biznes Sp. z o.o. He was appointed member of the Supervisory Board of Polkomtel Sp. z o.o. in 2011, and Vice-president of the Supervisory Board of Polkomtel Sp. z o.o. in 2014.

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

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

Description of operations of the Supervisory Board

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

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

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

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

- a. assessment of the financial statements both as to their compliance with books and documents and also the factual state, assessment of the interim and annual reports of the Management Board, or Management Board's motions regarding allocation of profit or covering debts and presenting written reports with results of the audits before the General Shareholders Meeting,
- b. once a year, prepare and present a concise evaluation of the situation of the Company to the General Meeting, considering the evaluation of the internal control system and the management system of risks that are important for the Company,
- c. appointment of members of the Management Board,
- d. delegation of members of the Supervisory Board to temporary performance of duties of members of the Management Board who are unable to perform their duties,
- e. suspending particular or all members of the Management Board for material reasons,
- f. approval of the Bylaws of the Management Board,

- g. determination of remuneration of the members of the Management Board,
- h. appointment of a certified auditor to examine financial statements of the Company.
- i. granting consent for disbursement of a down payment toward the anticipated dividend.

Moreover, the competencies of the Supervisory Board include:

- a. creation and presentation of an evaluation of the Management Board's performance before the General Shareholders' Meeting,
- b. analysis and issuing of an opinion on matters that may be the subject of a resolution of the General Meeting,
- c. approval of one-year and long-term programs for the Company developed by the Management Board,
- d. determination of the remuneration level of the Supervisory Board delegated to temporary performance of duties of a member of the Management Board,
- e. granting consent for participation in other companies,
- f. granting consent for appointing, dismissing and suspending members of authorities of the subsidiaries,
- g. granting consent for entering into a material agreement with a related entity,
- h. granting consent for performance of activities resulting in the Company incurring a liability, with the exception of:
 - activities projected or set out in the annual program for the Company approved by the Supervisory Board, or
 - activities resulting in incurring a liability of the value up to PLN 10,000,000 (ten million zlotys, not in thousands), including guarantees or issuing or guaranteeing bills of exchange done in the scope of daily business, in particular the business of pay digital television, Internet service or the business of MVNO.
- i. issuing, upon the Management Board's request, opinion on all issues material for the Company.

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

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

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

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

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

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

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

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

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

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

Committees of the Supervisory Board

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

The Audit Committee, as at December 31, 2013 comprised the following members of the Supervisory Board:

- Heronim Ruta
- Robert Gwiazdowski, an independent member of the Supervisory Board,
- Leszek Rekxa, an independent member of the Supervisory Board.

The composition of the Audit Committee meets the requirements of Article 86, Paragraph 4 of the Act of 7 May 2009 on auditors and their self-government, entities authorized to audit the financial statements and the public supervision, according to which, the Audit Committee should include at least three members, including at least one member of the Audit Committee who must satisfy the condition of independence and be qualified in the field of accounting or auditing.

The Remuneration Committee, as at December 31, 2013, comprised the following members of the Supervisory Board:

- Zygmunt Solorz – Żak,
- Heronim Ruta.

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

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

Management Board's report on activities of Cyfrowy Polsat S.A. Capital Group
in the financial year ended December 31, 2013
(all financial data presented in PLN thousand, unless otherwise stated)

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

Dominik Libicki
President of the
Management Board

Tomasz Szelaĝ
Member of the
Management Board

Dariusz Działkowski
Member of the
Management Board

Aneta Jaskólska
Member of the
Management Board

Warsaw, February 26, 2014

Management Board's representations

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

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

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

Warsaw, 26 February 2014



Independent auditor's report

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

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Cyfrowy Polsat Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

PricewaterhouseCoopers Sp. z o.o.
26 February 2014
Warsaw, Poland

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CYFROWY POLSAT S.A. GROUP

**Consolidated Financial Statements
for the year ended 31 December 2013**

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

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APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

On 26 February 2014, the Management Board of Cyfrowy Polsat S.A. approved the consolidated financial statements of the 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 2013 to 31 December 2013 showing a net profit for the period of: PLN 525,445

Consolidated Statement of Comprehensive Income for the period

from 1 January 2013 to 31 December 2013 showing a total comprehensive income for the period of: PLN 532,808

Consolidated Balance Sheet as at

31 December 2013 showing total assets and total equity and liabilities of: PLN 5,676,230

Consolidated Cash Flow Statement for the period

from 1 January 2013 to 31 December 2013 showing a net increase in cash and cash equivalents amounting to: PLN 72,358

Consolidated Statement of Changes in Equity for the period

from 1 January 2013 to 31 December 2013 showing an increase in equity of: PLN 532,808

Notes to the Consolidated Financial Statements

The consolidated financial statements have been prepared in thousands of Polish zloty ('PLN') except where otherwise indicated.

Dominik Libicki
President of the
Management Board

Tomasz Szelaĝ
Member of the
Management Board

Dariusz Działkowski
Member of the
Management Board

Aneta Jaskólska
Member of the
Management Board

Warsaw, 26 February 2014

Consolidated Income Statement

	Note	for the year ended	
		31 December 2013	31 December 2012
Continuing operations			
Revenue	9	2,910,759	2,778,215
Operating costs	10	(2,157,670)	(1,971,663)
Other operating income/(cost), net		36,764	(17,373)
Profit from operating activities		789,853	789,179
Gain/loss on investment activities, net	11	16,058	14,353
Finance costs	12	(216,014)	(110,782)
Share of the profit of jointly controlled entity accounted for using the equity method		2,924	2,897
Gross profit for the period		592,821	695,647
Income tax	13	(67,376)	(97,349)
Net profit for the period		525,445	598,298
Net profit attributable to equity holders of the Parent		525,445	598,298
Basic and diluted earnings per share (in PLN)	15	1.51	1.72

Consolidated Statement of Comprehensive Income

	Note	for the year ended	
		31 December 2013	31 December 2012
Net profit for the period		525,445	598,298
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Valuation of hedging instruments	29	14,404	(31,345)
Income tax relating to hedge valuation	29	(2,737)	5,956
Currency translation adjustment		(4,304)	(549)
Items that may be reclassified subsequently to profit or loss		7,363	(25,938)
Other comprehensive income, net of tax		7,363	(25,938)
Total comprehensive income for the period		532,808	572,360
Total comprehensive income attributable to equity holders of the Parent		532,808	572,360

Consolidated Balance Sheet - Assets

	Note	31 December 2013	31 December 2012
Reception equipment	16	407,579	420,060
Other property, plant and equipment	16	251,152	276,407
Goodwill	17	2,602,804	2,568,033
Brands	18	890,800	847,800
Other intangible assets	20	137,401	81,380
Non-current programming assets	21	71,571	97,988
Investment property		5,330	8,357
Non-current deferred distribution fees	22	29,551	35,125
Other non-current assets	23	20,803	109,642
Deferred tax assets	13	38,854	31,356
Total non-current assets		4,455,845	4,476,148
Current programming assets	21	181,341	141,652
Inventories	24	146,771	161,974
Trade and other receivables	25	374,424	375,659
Income tax receivable		183	6,494
Current deferred distribution fees	22	70,055	57,096
Other current assets	26	105,360	71,968
Cash and cash equivalents	27	342,251	270,354
Total current assets		1,220,385	1,085,197
Total assets		5,676,230	5,561,345

Consolidated Balance Sheet - Equity and Liabilities

	Note	31 December 2013	31 December 2012
Share capital	28	13,934	13,934
Share premium	28	1,295,103	1,295,103
Other reserves	28	(8,964)	(16,327)
Retained earnings		1,701,138	1,175,693
Equity attributable to equity holders of the Parent		3,001,211	2,468,403
Non-controlling interests		2	-
Total equity		3,001,213	2,468,403
Loans and borrowings	30	239,889	592,003
Senior Notes payable	31	1,340,010	1,316,479
Finance lease liabilities	32	227	551
Deferred tax liabilities	13	108,066	94,258
Deferred income	36	4,079	5,181
Other non-current liabilities and provisions	33	7,915	17,690
Total non-current liabilities		1,700,186	2,026,162
Loans and borrowings	30	245,994	275,608
Senior Notes payable	31	98,659	97,256
Finance lease liabilities	32	236	233
Trade and other payables	34	413,210	472,094
Income tax liability		4,520	7,092
Deposits for equipment	35	2,727	13,259
Deferred income	36	209,485	201,238
Total current liabilities		974,831	1,066,780
Total liabilities		2,675,017	3,092,942
Total equity and liabilities		5,676,230	5,561,345

Consolidated Cash Flow Statement

	for the year ended		
	Note	31 December 2013	31 December 2012
Net profit		525,445	598,298
Adjustments for:		334,290	244,920
Depreciation, amortization, impairment and disposal	10	256,416	243,066
Payments for film licenses and sports rights		(222,456)	(177,868)
Amortization of film licenses and sports rights		220,371	194,521
Gain on sale of property, plant and equipment and intangible assets		(35,765)	(111)
Cost of programming rights sold		6,407	9,244
Interest expense		183,811	205,185
Change in inventories		14,839	16,173
Change in receivables and other assets		60,908	(106,816)
Change in liabilities, provisions and deferred income		(104,939)	67,872
Change in internal production and advance payments		6,477	2,093
Valuation of hedging instruments		14,404	(31,345)
Share of the profit of jointly controlled entity accounted for using the equity method		(2,924)	(2,897)
Foreign exchange losses/(gains), net		16,294	(111,076)
Income tax	13	67,376	97,349
Net additions of reception equipment provided under operating lease		(158,859)	(164,008)
Other adjustments		11,930	3,538
Cash from operating activities		859,735	843,218
Income tax paid		(67,486)	(78,733)
Interest received from operating activities		10,410	16,882
Net cash from operating activities		802,659	781,367
Acquisition of property, plant and equipment		(60,845)	(54,937)
Acquisition of intangible assets		(62,041)	(36,240)
Acquisition of subsidiaries, net of cash acquired	37	(64,266)	(45,711)
Disposal of a subsidiary		48,736	-
Proceeds from sale of property, plant and equipment		2,064	751
Loans granted		-	(1,100)
Repayment of loans granted		-	1,100
Dividends received		2,515	2,706
Net cash used in investing activities		(133,837)	(133,431)

Cyfrowy Polsat S.A. Group
 Consolidated Financial Statements for the year ended 31 December 2013
 (all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

Repayment of loans and borrowings	30	(431,117)	(453,324)
Finance lease – principal repayments		(330)	(335)
Payment of interest on loans, borrowings, bonds, Cash Pool, finance lease and commissions*		(165,017)	(199,617)
Other net financing outflows		-	(71)
Net cash used in financing activities		(596,464)	(653,347)
Net increase/(decrease) in cash and cash equivalents		72,358	(5,411)
Cash and cash equivalents at the beginning of the period		270,354	277,534
Effect of exchange rate fluctuations on cash and cash equivalents		(461)	(1,769)
Cash and cash equivalents at the end of the period		342,251	270,354

* Includes impact of hedging instruments

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

	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 2013	13,934	1,295,103	(16,327)	1,175,693	2,468,403	-	2,468,403
Acquisition of controlling share ownership in a subsidiary	-	-	-	-	-	2	2
Total comprehensive income	-	-	7,363	525,445	532,808	-	532,808
<i>Hedge valuation reserve (Note 29)</i>	-	-	11,667	-	11,667	-	11,667
<i>Currency translation adjustment</i>	-	-	(4,304)	-	(4,304)	-	(4,304)
<i>Net profit for the period</i>	-	-	-	525,445	525,445	-	525,445
Balance as at 31 December 2013	13,934	1,295,103	(8,964)	1,701,138	3,001,211	2	3,001,213

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

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

	Share capital	Share premium	Other reserves	Retained earnings*	Total equity
Balance as at 1 January 2012	13,934	1,295,103	9,611	577,395	1,896,043
Total comprehensive income	-	-	(25,938)	598,298	572,360
<i>Hedge valuation reserve</i>	-	-	(25,389)	-	(25,389)
<i>Currency translation adjustment</i>	-	-	(549)	-	(549)
<i>Net profit for the period</i>	-	-	-	598,298	598,298
Balance as at 31 December 2012	13,934	1,295,103	(16,327)	1,175,693	2,468,403

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

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 the Internet access service provider and a Mobile Virtual Network Operator ('MVNO').

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

The consolidated financial statements comprise the Parent and its subsidiaries (together with the Parent referred to as 'the Group' and individually as 'Group entities'), and the Group's interest in jointly controlled entity. The Group operates in two segments: (1) retail business which relates to the provision of services to the general public, including digital television transmission signal, Internet access services, mobile TV services, online TV services, mobile services, production of set-top boxes; and (2) broadcasting and television production which consist mainly of production, acquisition and broadcasting of information and entertainment programs as well as TV series and feature films broadcasted on television channel in Poland.

2. Composition of the Management Board of the Company

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

3. Composition of the Supervisory Board of the Company

- Zygmunt Solorz-Żak	President of the Supervisory Board,
- Robert Gwiazdowski	Member of the Supervisory Board,
- Andrzej Papis	Member of the Supervisory Board,
- Leszek Reksa	Member of the Supervisory Board,
- Heronim Ruta	Member of the Supervisory Board.

4. Basis of preparation of the consolidated financial statements

Statement of compliance

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

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

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

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

Standards published but not yet effective:

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

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

5. Group structure

These consolidated financial statements for 2013 include the following entities:

	Entity's registered office	Activity	Share in voting rights (%)	
			31 December 2013	31 December 2012
Parent Company				
Cyfrowy Polsat S.A.	Łubinowa 4a, Warsaw	radio, TV and telecommunication activities	n/a	n/a
Subsidiaries accounted for using full method:				
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, Warsaw	non-current assets and intellectual property rights management	100%	100%
Cyfrowy Polsat Finance AB	Stureplan 4C, 4 TR 114 35 Stockholm, Sweden	financial transactions	100%	100%
Telewizja Polsat Sp. z o.o.*	Ostrobramska 77, Warsaw	television broadcasting and production	100%	100%
RS TV S.A.	Chorzowska 15, Radom	terrestrial transmission	-	100%
Polsat Media Biuro Reklamy Sp. z o.o. Sp. k. (former Polsat Media Sp. z o.o.)	Ostrobramska 77, Warsaw	advertising activities	100%	100%
Media-Biznes Sp. z o.o.	Ostrobramska 77, Warsaw	television activities	100%	100%
Polsat Futbol Ltd.**	Office 1D 238-246 King Street London W6 0RF UK	television activities	100%	100%
Nord License AS	Vollsvseien 13B Lysaker Norway	trade of programming licences	100%	100%
Polsat License Ltd.	Poststrasse 9 6300 Zug Switzerland	trade of programming licences	100%	100%

* the merger of Telewizja Polsat Sp. z o.o. with Polskie Media S.A. (as the acquired company) was registered as at 31 December 2013

** Polsat Futbol Ltd. was dissolved on 21 January 2014

			Share in voting rights (%)	
Entity's registered office			31 December 2013	31 December 2012
Activity				
Subsidiaries accounted for using full method (cont.)				
Telewizja Polsat Holdings Sp. z o.o.	Ostrobramska 77, Warsaw	broadcasting and TV production	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o.	Ostrobramska 77, Warsaw	media	100%	-
PL 2014 Sp. z o.o.	Al. Stanów Zjednoczonych 53, Warsaw	other sport relating activities	60%	-
Polsat Brands (einfache Gesellschaft)	Poststrasse 9 6300 Zug Switzerland	intellectual property rights management	100%	-
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, Warsaw	radio and TV activities	100%	100%
CPSPV1 Sp. z o.o.	Łubinowa 4a, Warsaw	technical services	99%	-
CPSPV2 Sp. z o.o.	Łubinowa 4a, Warsaw	technical services	99%	-
Redefine Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warsaw	web portals activities	100%	100%
Poszkole.pl Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warsaw	web portals activities	100%	100%
Gery.pl Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warsaw	web portals activities	100%	100%
Frazpc.pl Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warsaw	web portals activities	100%	100%
Netshare Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warsaw	Electronic media (Internet) advertising broker	100%	100%

Investments accounted for under the equity method:

			Share in voting rights (%)	
Entity's registered office			31 December 2013	31 December 2012
Activity				
Polsat JimJam Ltd.	105-109 Salusbury Road London NW6 6RG UK	television activities	50%	50%
Polski Operator Telewizyjny Sp. z o.o.*	Huculska 6, Warsaw	radio communications and radio diffusion	50%	50%

* the company has suspended operations

Additionally, the following entities were included in these consolidated financial statements:

	Entity's registered office	Activity	Share in voting rights (%)	
			31 December 2013	31 December 2012
Karpacka Telewizja Kablowa Sp. z o.o.*	Chorzowska 3, Radom	dormant	85%	85%

* Investment accounted for at cost less any accumulated impairment losses

6. Accounting and consolidation policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements by all entities within the Group.

a) Basis of measurement

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

b) Going concern

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

c) Functional and presentation currency

These consolidated financial statements are presented in the Polish zloty, rounded to the nearest thousand. The functional currency of the Company and all its subsidiaries is the Polish zloty. From 1 January 2012 Nord Licence AS (one of the subsidiaries) has changed its functional currency from USD to PLN due to significant decrease in volume of USD-nominated transactions.

d) Use of estimates and judgments

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about critical estimates and judgments in applying accounting policies is included in note 49.

e) Comparative financial information

Comparative financial information or financial information included in previously published financial statements have been updated, if necessary, so that they reflect the presentation 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 2013 may not be comparable to the year ended 31 December 2012 as INFO-TV-FM Sp. z o.o. was acquired on 30 January 2012, ipla platform was acquired on 2 April 2012, Polskie Media S.A. was acquired and RS TV S.A. was disposed on 30 August 2013.

f) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Parent. Control exists when the Company has the power to govern, either directly or indirectly, the financial and operating policies of an entity so as to obtain benefits from its activities. Potential voting rights that are exercisable at the reporting date are considered in assessing control.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The financial statements of subsidiaries are prepared for the same period as the financial statements of the Company and using the accounting policies that are consistent with those of the Company for like transactions and events.

(ii) Jointly controlled entity

Jointly controlled entity is any entity where the Group usually has 50% of the voting rights. Investment in a jointly controlled entity is accounted for under the equity method and are initially recognized at cost. The Group's investment in jointly controlled entity includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of an jointly controlled entity's profit or loss after the acquisition date is recognized in its profit and loss with a corresponding increase or decrease to the carrying amount of the investment. Adjustments to the carrying amount of an investment in a jointly controlled entity are also made for changes in the Group's proportionate interest in the jointly controlled entity arising from changes in the investee's other comprehensive income. The Group's share of those changes is recognized in its other comprehensive income.

When the Group's share of losses of jointly controlled entity equals or exceeds its interest in that entity, including any unsecured loans, the Group discontinues recognizing its share of further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. Unrealised gains on transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the assets transferred.

(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 jointly controlled entities 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.

g) Foreign currency transactions

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the Polish zloty at exchange rates in effect one day prior to the recording of these transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Polish zloty at the average exchange rate quoted by the National Bank of Poland ("NBP") for that date. The foreign currency exchange differences arising on translation of transactions denominated in foreign currencies and from the reporting date retranslation of monetary assets and liabilities denominated in foreign currencies are recognized in profit and loss. Non-monetary assets and liabilities in a foreign currency that are measured in terms of historical cost are translated using the average NBP exchange rate in effect at the date of the initial recognition. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated at the average NBP foreign exchange rate in effect at the date the fair value was determined.

h) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other liabilities.

Non-derivative financial instruments, other than investments recognized at fair value through profit and loss, are recognized initially at fair value plus any directly attributable transaction costs (with certain exceptions as described below).

A financial instrument is recognized when the Group becomes a party to the contractual obligations of the instrument. The Group derecognises a financial asset when contractual rights to the cash flows from the financial assets expire, or it transfers the financial asset to another party in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Standardised transactions for sale or purchase of financial assets are recognized at the transaction date i.e. on the date the Group assumes an obligation to acquire or sell the asset. Financial liabilities are derecognized when the Group's obligations specified in the contract expire or are discharged or cancelled.

Principles for recognition of gains and losses on investment activities and costs are presented in note 6v.

Loans and receivables and other financial liabilities

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

Cash and cash equivalents comprise cash on hand and call deposits. The cash and cash equivalents balance presented in the consolidated cash flow statement comprises the above mentioned elements of cash and cash equivalents.

(ii) Derivative financial instruments

Hedge accounting

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

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

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

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

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

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

Other derivatives not designated for hedge accounting

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

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

- Where the Group intends to hold a derivative instrument considered an economic hedge (for which hedge accounting is not applied) for a period exceeding 12 months after the reporting date, such derivative instrument is classified as non-current (or divided into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivatives 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.

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) 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.

(iii) Depreciation

Depreciation expense is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The following are estimated useful lives of respective group of property, plant and equipment:

Reception equipment	3 or 5	years
Buildings and structures	2 - 61	years
Technical equipment and machinery	2 - 58	years
Vehicles	2 - 16	years
Other	2 - 26	years

Depreciation methods, useful lives and residual values of material assets are reviewed at each financial year-end and adjusted if appropriate.

(iv) Leased assets

Assets used under lease, tenancy, rental or similar contracts which meet finance lease criteria, are classified as non-current assets and 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 set-top boxes 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.

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) 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.

(iii) 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,
- Concessions: period resulting from an administrative decision,
- Other: 2 – 7 years.

I) Programming assets

Programming assets comprise acquired formats, licences and copyrights for broadcasting feature films, series, news and shows, capitalised costs of commissioned external productions ordered by the Group, capitalised 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.

Capitalised costs of productions include costs of programs ordered by the Group, including productions made based on licences purchased from third parties. Capitalised costs of productions are measured individually for each program at their respective production or acquisition costs, not to exceed their recoverable amounts.

Sports rights are recognized at cost at broadcast date. The rights to broadcast seasonal sports events are capitalised at cost and recognized as programming assets on the first day of the season.

Advance payments for acquired programming assets, prior to licence begin date, are recognized as prepayments for programming assets.

Signed and binding contracts for purchase of programming, which do not meet recognition criteria for programming assets are not recognized in the balance sheet and are instead disclosed as contractual commitments in the amount of the outstanding contract liability at the reporting date.

Programming assets are classified as non-current or current based on the estimate timing of the broadcast. A programming asset is recognized as current when the expected broadcast falls within 1 year from the reporting date. Sport rights and prepayments for sport rights are classified as current or non-current based on dates of related sport events.

(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. Amortization method and rates applied depend on the category of programming assets and the number of broadcasts permitted:

- 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 standardised 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	
1	100%			
2	80%	20%		
3	60%	20%	20%	

		TV series		
Number of depreciable runs	Rate per run			
	I	II	III	
1	100%			
2	80%	20%		

- Feature films and series broadcasted on thematic channels are mainly amortized in four or five runs using the rates of 25% and 20%, respectively.
- Sport rights – 100% of the cost is recognized in profit or loss on the first broadcast or, where seasonal rights or rights for multiple seasons or competitions are acquired, such rights are principally amortized on a straight-line basis over the seasons or competitions.
- Commissioned external productions intended for only one run are fully amortized on their first broadcast.
- News programming is fully amortized at its first broadcast.
- General entertainment shows are fully amortized at their first broadcast.

(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. The cost of inventories is based on the first-in first-out principle, and 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, which under the business model applied by the Group are sold below cost, the loss on the sale is recorded when the set-top box is transferred to the customer.

The Group creates an allowance for slow-moving or obsolete inventories.

n) Prepayments

Prepayments are recognized in the nominal value upon payments made. The costs are recognized in the income statement based on the actual usage of data transmission and contractual fees.

o) Impairment of assets

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis at each reporting date. The remaining financial assets are assessed for impairment collectively in groups that share similar credit risk characteristics.

Receivables are reduced by an allowance based on the likelihood of future debt collection. The allowance is charged to the cost of debt collection services and bad debt allowance and receivables written off. An allowance for receivables from individuals is estimated based on the historical pattern for overdue receivables collection.

All impairment losses are recognized in profit or loss.

Impairment losses are reversed if a subsequent increase in the recoverable amount of a financial asset can be objectively attributed to an event occurring after the impairment losses were recognized.

(ii) Non-financial assets

The carrying amounts of non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated by the Group. The recoverable amount of intangible assets which are not yet available for use as well as of goodwill and brands with indefinite useful life is estimated at each reporting date.

An impairment loss is recognized when the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. A cash-generating unit represents the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of thereof. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of a cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units), and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In the case of assets that do not generate independent cash inflows, the value in use is estimated for the smallest identifiable cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recorded in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

p) Employee benefits

(i) Defined contribution plan

All Group entities that act as employers have an obligation, under applicable legislation, to collect and remit contributions to the state pension fund. According to IAS 19 *Employee Benefits* such benefits represent state plans that are classified as defined contribution plans. Therefore, the Group's obligations for a given period are estimated as the amount of contributions to be remitted for that period.

(ii) Defined benefit plan – retirement benefits

The Group entities have an obligation, under applicable legislation, to pay retirement benefits calculated in accordance with the relevant provisions of the Polish labour code. The minimum retirement benefit is as per the labour code provisions at the moment of payment.

The calculation is carried out using the Projected Unit Credit Method. Employee 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 or profit sharing plans, if the Group has a present legal or constructive obligation to make such payments as a result of past services provided by the employees and the obligation can be estimated reliably.

q) Provisions

A provision is recognized if, as a result of past event, the Group has a present obligation, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Certain disclosures may not be included in these consolidated financial statements as they relate to sensitive information.

(i) Warranties

A provision for warranties is recognized when the underlying products or goods are sold. The amount of the provision is based on historical warranty data and a weighting of all possible outflows against their associated probabilities.

(ii) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of fulfilling the contract. Before a provision is established, the Group recognises any impairment loss on the assets dedicated to that contract.

r) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group or a present obligation that arises from past events, but its amount cannot be estimated reliably or it is not probable that there will be an outflow of resources embodying economic benefits.

The Group does not recognize a contingent liability, except for contingent liability assumed in a business combination.

Unless the possibility of any outflow in settlement is remote, the Group discloses for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:

- an estimate of its financial effect;
- an indication of the uncertainties relating to the amount or timing of any outflow; and
- the possibility of any reimbursement.

s) Revenue

Revenue is measured at the fair value of the consideration received or receivable, representing the gross inflow of economic benefit from Group's operating activities, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists that recovery of the consideration is probable, the associated costs can be estimated reliably and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then such discounts are recognized as a reduction of revenue when it is recognized.

The Group's main sources of revenue are recognized as follows:

- (a) Retail revenue, including subscription and activation fees for DTH, mobile TV, Near Video on Demand (nVoD), MVNO and the Internet access, interconnection revenue, settlements with mobile network operators and revenue from the rental of reception equipment, are recognized as these services are provided. Retail revenue also include contractual penalties related to terminated agreements in the amount expected to recover which are recognized when the contract is terminated.

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 utilised or forfeited.

Revenue from the rental of reception equipment is recognized on a straight-line basis over the minimum base period of the subscription contract.

- (b) 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.
- (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) 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.
- (e) Other revenue is recognized, net of any discount given, when the relevant goods or service are provided. Other revenue includes: sales of broadcasting services, sales of audiotext and sms services, sales of programming licences, sales of sub-licences and broadcasting rights related to films and programs, rental revenue, production and technical services as well as sales of merchandise and material.

When the Group sells goods (reception equipment, set-top boxes, CAM) and services in one bundled transaction, the total consideration from the arrangement is allocated to each element of such multiple-element arrangements based on residual method in such a way that the amount recognised for items already received cannot be higher than cash already received.

t) Distribution fees

Commissions payable to distributors for registering new subscribers and for retention of existing subscribers are recognized over the minimum base period of the subscription agreement.

Commissions for distributors which will be settled within 12 months of the reporting date are classified as other current assets, while the commissions, which will be settled more than 12-months after the reporting date, are classified as non-current assets.

u) Barter revenue and cost

Barter revenue is recognized when the services are rendered or goods delivered. Programming licences, products and services received are expensed or capitalised when received or used. The Group recognises barter transactions at the estimated fair value of the programming licences, products or services received. When products or services are received before related advertising is broadcast, a liability is recognized by the Group. Conversely, when advertising is broadcast before products or services are received, a receivable is recognized by the Group.

v) Gains and losses on investment activities and finance costs

Gains and losses on investment activities include interest income on funds invested, interest expenses (other than interest expenses on borrowings), dividends income, results on the disposal of available-for-sale financial instruments, fair value gains/losses on financial instruments 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 Senior Notes), foreign exchange gains/losses on *Senior Notes* due in 2018, bank and other charges on borrowings as well as guarantee fees resulting from the indebtedness. Borrowing costs are recognized in profit or loss using the effective interest method.

w) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

x) Income tax

Income tax expense/benefit comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet approach, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are measured based on the expected manner of recovery or settlement of the carrying amounts of assets and liabilities, respectively, using tax rates that are enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. 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 realised. When not recognized deferred tax asset becomes recoverable, it is recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are offset by the Group companies.

y) Earnings per share

The Group presents basic and diluted earnings per share for its ordinary and preference shares. Basic earnings per share are calculated by dividing the period's profit or loss from continuing operations attributable to ordinary and preference shareholders of the Company by the weighted average number of ordinary and preference shares outstanding during the period. Diluted earnings per share are calculated by dividing the period's profit or loss from the continuing operations attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares, adjusted by the effects of all dilutive potential ordinary and preference shares.

z) Segment reporting

An operating segment is a component of the Group that is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

The Group presents operating segments according to its internal management accounting principles applied in the preparation of periodical management reports which are regularly analysed by the Management Board of Cyfrowy Polsat S.A. These reports are analyzed on regular basis by management which was identified as the chief operating decision maker.

aa) Cash flows statement

Cash and cash equivalents in the cash flow statement are equal to cash and cash equivalents presented in the consolidated balance sheet.

Purchases of set-top boxes to be provided to customers under operating lease contracts are classified in the cash flows statement within operating activities. The purchases and disposals of these set-top boxes are classified in the cash flows statement within operating activities and presented as "Net disposals/(additions) in reception equipment provided under operating lease".

Acquisition of items of property, plant and equipment or intangible assets are presented in their net amount (net of related value added tax).

Payments for film licences and sport rights are presented on a net basis (net of related value added tax) within operating activities. Expenditures on the acquisition of programming assets also include the amount of withholding tax paid to the relevant tax authorities.

7. Determination of fair values

A number of accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. The methods for determining fair values are described below. When applicable further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Derivatives

The fair value of derivatives is calculated based on their quoted closing bid price at the balance sheet date or, in the lack thereof, other inputs that are observable for the asset or liability, either directly (i. e. as prices) or indirectly (i. e. derived from prices). In the second case, the fair value of derivatives is estimated as the present value of future cash flows, discounted using the market interest rate at the reporting date. Information on the structure of Polish and eurozone interest rates and Polish zloty exchange rate are used in order to estimate future cash flows and market interest rate.

(ii) Non-derivative financial assets

The fair value of non-derivative financial asset for disclosure purposes is estimated as the present value of future cash flows discounted using the market rate of interest rate as at the balance sheet date.

(iii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on liabilities' quoted closing bid price at the balance sheet date or, in the lack thereof, estimated on the present value of future principal and interest cash flows, discounted using the market interest rate at the reporting date. Market interest rate is estimated as interbank interest rate for a given currency zone (WIBOR, EURIBOR) plus a margin regarding the Group's credit risk. A market interest rate for a finance lease contract is estimated based on interest rates for similar lease contracts.

8. Approval of the Consolidated Financial Statements

These consolidated financial statements were approved for publication by the Management Board of Cyfrowy Polsat S.A. on 26 February 2014.

9. Revenue

	for the year ended	
	31 December 2013	31 December 2012
Retail revenue	1,831,694	1,734,798
Advertising and sponsorship revenue	869,850	852,580
Revenue from cable and satellite operator fees	97,322	93,660
Sale of equipment	41,706	18,770
Other revenue	70,187	78,407
Total	2,910,759	2,778,215

Retail revenue consists of pay-TV, Internet access and MVNO subscription fees, interconnection revenues and settlements with mobile network operators, revenue from rental of reception equipment and contractual penalties related to terminated agreements.

10. Operating costs

	for the year ended		
	Note	31 December 2013	31 December 2012
Programming costs		407,763	360,311
Distribution, marketing, customer relation management and retention costs		331,960	312,723
Cost of internal and external TV production and amortization of sport rights		385,198	351,489
Depreciation, amortization, impairment and disposal		256,416	243,066
Salaries and employee-related costs	a	178,626	178,373
Broadcasting and signal transmission costs		153,285	149,731
Amortization of purchased film licenses		134,042	112,107
Cost of equipment sold		63,914	36,152
Cost of settlements with mobile network operators and interconnection charges		77,912	44,110
Cost of debt collection services and bad debt allowance and receivables written off		28,177	27,457
Other costs		140,377	156,144
Total		2,157,670	1,971,663

Depreciation, amortisation, impairment and disposal comprise depreciation and impairment of property, plant and equipment, amortisation and impairment of intangible assets and net book value of disposed property, plant, equipment and intangible assets (excluding amortization of programming assets).

a) Salaries and employee-related costs

	for the year ended	
	31 December 2013	31 December 2012
Salaries	152,948	151,880
Social security contributions	20,105	19,667
Other employee-related costs	5,573	6,826
Total	178,626	178,373

Average headcount of non-production employees

	for the year ended	
	31 December 2013	31 December 2012
Number of employees – employment contracts	1,472	1,454

11. Gain/loss on investment activities, net

	for the year ended	
	31 December 2013	31 December 2012
Interest income	10,450	18,006
Other interest	(2,754)	(5,084)
Other foreign exchange gains	8,411	999
Other investment income	517	796
Other finance costs	(566)	(364)
Total	16,058	14,353

12. Finance costs

	for the year ended	
	31 December 2013	31 December 2012
Interest expense on loans and borrowings	64,578	109,760
Realization of hedging instruments (IRS)	10,092	1,107
Interest expense on issued bonds	109,057	108,926
Impact of hedging instruments valuation on interest expense on issued bonds	478	1,694
Realization of hedging instruments (CIRS)	7,671	(3,428)
Foreign exchange differences on issued bonds	20,135	(112,143)
Guarantee fees, bank and other charges	4,003	4,866
Total	216,014	110,782

13. Income tax

(i) Income tax expense

	for the year ended	
	31 December 2013	31 December 2012
Current tax expense	63,387	61,099
Change in deferred tax	285	35,980
Correction of income tax returns of previous years	3,704	270
Income tax expense in the income statement	67,376	97,349

	for the year ended	
	31 December 2013	31 December 2012
Change in deferred income tax		
Tax losses carried forward	5,304	7,307
Receivables and other assets	6,298	22,223
Liabilities	(14,100)	23,642
Hedge valuation	(91)	(322)
Deferred distribution fees	1,403	(412)
Other property, plant and equipment and intangible assets	(815)	(19,284)
Programming assets	2,286	2,826
Change in deferred tax recognized in income statement – total	285	35,980

(ii) Income tax recognized in the statement of other comprehensive income

	for the year ended	
	31 December 2013	31 December 2012
Change in deferred income tax on hedge valuation	2,737	(5,955)
Change in deferred income tax recognized on currency translation adjustment – foreign operations	(1,010)	(155)
Income tax expense recognized in other comprehensive income - total	1,727	(6,110)

(iii) Effective tax rate reconciliation

	for the year ended	
	31 December 2013	31 December 2012
Gross profit	592,821	695,647
Income tax at applicable statutory tax rate of 19%	112,636	132,173
Tax amortization of intangible assets	(19,806)	(29,165)
Effect of tax rates in foreign jurisdictions (*)	(1,045)	107
Gain on disposal of subsidiary	(7,163)	-
Technology tax relief	(4,520)	-
Deferred tax unrecognized in previous periods	(10,802)	(3,462)
Other non-taxable revenue and non-tax deductible costs, net, at 19% tax	(1,924)	(2,304)
Tax expense for the year	67,376	97,349
Effective tax rate	11.4%	14.0%

(*) The Group's entities measure current and deferred income tax applying tax rates enacted in countries in which they are domiciled:

- 9.56% for entities domiciled in Switzerland,
- 19% for entities domiciled in the Republic of Poland,
- 26% in 2012 and 22% in 2013 for entities domiciled in Sweden
- 26% in the period of January – March 2012 and 24% in the period of April – December 2013 for entities domiciled in the United Kingdom,
- 28% for entities domiciled in Norway.

(iv) Deferred tax assets

	31 December 2013	31 December 2012
Tax losses carried forward	16,042	19,779
Liabilities	63,353	50,036
Hedge valuation	2,298	5,035
Tangible assets	21,965	21,052
Programming assets	1,496	981
Receivables and other assets	15,571	26,558
Total deferred tax assets	120,725	123,441
Set off of deferred tax assets and liabilities	(81,871)	(92,085)
Deferred tax assets in the balance sheet	38,854	31,356

(v) Tax loss

	31 December 2013	31 December 2012
2013 tax loss carried forward	6,889	-
2012 tax loss carried forward	31,027	31,027
2011 tax loss carried forward	58,484	122,240
2010 tax loss carried forward	47,692	52,978
2009 tax loss carried forward	20,057	37,830
2008 tax loss carried forward	-	15,999
Tax losses carried forward – total	164,149	260,074

(vi) Tax losses recognized

	31 December 2013	31 December 2012
2013 tax loss carried forward	5,328	-
2012 tax loss carried forward	21,312	11,553
2011 tax loss carried forward	36,522	91,631
2010 tax loss carried forward	8,454	-
2009 tax loss carried forward	13,656	-
Tax losses carried forward – total	85,272	103,184

As at 31 December 2013 the Group recognized deferred tax asset on tax losses to the extent that it was probable that they would be utilised 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 utilised in the subsequent five fiscal years. However, no more than 50% of a tax loss for any given year can be utilised in a single subsequent fiscal year.

(vii) Deferred tax liabilities

	31 December 2013	31 December 2012
Receivables and other assets	63,029	67,761
Hedge valuation	-	91
Liabilities	392	3,517
Deferred distribution fees	18,925	17,522
Tangible and intangible assets	99,748	91,906
Programming assets	7,843	5,546
Total deferred tax liabilities	189,937	186,343
Set off of deferred tax assets and liabilities	(81,871)	(92,085)
Deferred tax liabilities in the balance sheet	108,066	94,258

14. EBITDA (unaudited)

EBITDA (earnings before interest, taxes, depreciation, amortization, impairment and disposal) presents the Group's key measure of earnings performance. The level of EBITDA measures the Group's ability to generate cash from recurring operations. The Group defines EBITDA as operating profit adjusted by depreciation, amortization, impairment and disposal. EBITDA is not an IFRS EU measure, and as such can be calculated differently by other entities.

	for the year ended	
	31 December 2013	31 December 2012
Net profit for the period	525,445	598,298
Income tax	67,376	97,349
Gain/loss on investment activities, net	(16,058)	(14,353)
Finance costs	216,014	110,782
Share of the profit of jointly controlled entity accounted for using the equity method	(2,924)	(2,897)
Depreciation, amortization, impairment and disposal*	256,416	243,066
EBITDA (unaudited)	1,046,269	1,032,245

* Depreciation, amortisation, impairment and disposal comprise depreciation and impairment of property, plant and equipment, amortisation and impairment of intangible assets and net book value of disposed property, plant, equipment and intangible assets (excluding amortization of programming assets)

15. Basic and diluted earnings per share

At the reporting date, the Company did not have any financial instruments that could have a dilutive effect, therefore the diluted earnings per share are equal to basic earnings per share.

	for the year ended	
	31 December 2013	31 December 2012
Net profit	525,445	598,298
Weighted average number of ordinary and preference shares in the period	348,352,836	348,352,836
Earnings per share in PLN (not in thousands)	1.51	1.72

16. Property, plant and equipment

	Reception equipment	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Tangible assets under construction	Other property, plant and equipment
Cost as at 1 January 2013	717,309	8,209	97,823	238,329	41,204	28,029	34,116	447,710
Additions	161,724	166	5,480	27,858	1,241	3,505	7,703	45,953
Acquisition of subsidiary	-	-	146	1,622	150	52	-	1,970
Transfer from assets under construction	-	-	8,862	20,177	439	1,383	(30,861)	-
Disposals	(55,973)	-	(497)	(29,222)	(2,046)	(3,972)	(2,799)	(38,536)
Disposal of a subsidiary	-	(1,509)	(8,401)	(13,753)	(601)	(274)	(305)	(24,843)
Transfer from investment property	-	-	2,548	-	-	-	-	2,548
Cost as at 31 December 2013	823,060	6,866	105,961	245,011	40,387	28,723	7,854	434,802
Accumulated impairment losses as at 1 January 2013	(27,984)	-	(19)	(2,079)	-	(318)	482	(1,934)
Recognition	(2,567)	-	-	-	-	-	(482)	(482)
Reversal	-	-	19	2,078	-	220	-	2,317
Utilisation	13,030	-	-	1	-	-	-	1
Accumulated impairment losses as at 31 December 2013	(17,521)	-	-	-	-	(98)	-	(98)
Accumulated depreciation as at 1 January 2013	269,265	-	22,640	117,211	12,326	17,192	-	169,369
Additions	168,772	-	6,131	40,210	5,709	4,486	-	56,536
Additions (depreciation in the value of produced equipment)	-	-	35	2,068	5	111	-	2,219
Disposals	(40,077)	-	(187)	(28,140)	(1,835)	(3,771)	-	(33,933)
Disposal of a subsidiary	-	-	(3,320)	(6,967)	(385)	(267)	-	(10,939)
Transfer from investment property	-	-	300	-	-	-	-	300
Accumulated depreciation as at 31 December 2013	397,960	-	25,599	124,382	15,820	17,751	-	183,552
Carrying amount as at 1 January 2013	420,060	8,209	75,164	119,039	28,878	10,519	34,598	276,407
Carrying amount as at 31 December 2013	407,579	6,866	80,362	120,629	24,567	10,874	7,854	251,152

The Group recognized an impairment loss on items of property, plant and equipment whose carrying amounts exceeded their recoverable amounts. The impairment increase for reception equipment relates to the equipment that is under vindication. The impairment provision is recognized in 'depreciation, amortization, impairment and disposal'.

Cyfrowy Polsat S.A. Group

Notes to the consolidated financial statements for the year ended 31 December 2013

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

	Reception equipment	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Tangible assets under construction	Other property, plant and equipment
Cost								
Cost as at 1 January 2012	564,724	8,209	88,655	218,209	42,393	25,788	9,525	392,779
Additions	169,541	-	8,811	28,384	680	3,661	34,050	75,586
Acquisition of subsidiary	-	-	130	2,721	-	2	-	2,853
Transfer from assets under construction	28	-	616	8,074	65	432	(9,215)	(28)
Disposals	(16,984)	-	(389)	(19,059)	(1,934)	(1,854)	(244)	(23,480)
Cost as at 31 December 2012	717,309	8,209	97,823	238,329	41,204	28,029	34,116	447,710
Accumulated impairment losses as at 1 January 2012								
	(11,684)	-	(62)	(1,109)	-	(231)	482	(920)
Recognition	(17,840)	-	-	(1,287)	-	(206)	-	(1,493)
Reversal	565	-	43	317	-	119	-	479
Utilisation	975	-	-	-	-	-	-	-
Accumulated impairment losses as at 31 December 2012	(27,984)	-	(19)	(2,079)	-	(318)	482	(1,934)
Accumulated depreciation as at 1 January 2012								
	144,430	-	16,943	90,609	6,842	14,188	-	128,582
Additions	135,203	-	5,947	43,867	7,051	4,591	-	61,456
Additions (depreciation in the value of produced equipment)	-	-	15	763	2	51	-	831
Disposals	(10,368)	-	(265)	(18,028)	(1,569)	(1,638)	-	(21,500)
Accumulated depreciation as at 31 December 2012	269,265	-	22,640	117,211	12,326	17,192	-	169,369
Carrying amount								
As at 1 January 2012	408,610	8,209	71,650	126,491	35,551	11,369	10,007	263,277
As at 31 December 2012	420,060	8,209	75,164	119,039	28,878	10,519	34,598	276,407

The Group recognized an impairment loss on items of property, plant and equipment whose carrying amounts exceeded their recoverable amounts. The impairment increase for reception equipment relates to the equipment that is under vindication. The impairment provision is recognized in 'depreciation, amortization, impairment and disposal'.

17. Goodwill

	2013	2012
Balance as at 1 January	2,568,033	2,412,285
Acquisition of 100% shares of INFO-TV-FM Sp. z o.o.	-	10,704
Acquisition of 100% shares of entities comprising IPLA platform	-	145,044
Acquisition of 100% shares of Polskie Media S.A. (see note 37)	34,771	-
Balance as at 31 December	2,602,804	2,568,033

The goodwill relating to the acquisition of Telewizja Polsat S.A. (currently Telewizja Polsat Sp. z o.o.) and Polskie Media S.A. is allocated to "Broadcasting and television production" cash-generating unit.

The goodwill relating to the acquisition of M.Punkt Holdings Ltd., INFO-TV-FM Sp. z o.o. and entities comprising IPLA platform (including Redefine Sp. z o.o.) is allocated to "Retail" cash-generating unit.

Impairment tests performed on goodwill balances as at 31 December 2013 did not indicate impairment (see note 19 for impairment test assumptions).

18. Brands

	2013	2012
Balance as at 1 January	847,800	840,000
Acquisition of subsidiary – accounting for Ipla brand	-	7,800
Acquisition of subsidiary – accounting for TV4 brand (see note 37)	33,656	-
Acquisition of subsidiary – accounting for TV6 brand (see note 37)	9,344	-
Balance as at 31 December	890,800	847,800

	31 December 2013	31 December 2012
Polsat	840,000	840,000
TV4 brand	33,656	-
TV6 brand	9,344	-
Ipla	7,800	7,800
Total	890,800	847,800

Polsat

The value of the Polsat brand is recognized following the acquisition of Telewizja Polsat S.A. (currently Telewizja Polsat Sp. z o.o.) The carrying amount of the brand was allocated to "Broadcasting and television production" cash-generating unit for the impairment testing purposes (see note 19).

The Polsat brand is not amortized as it is considered to have an indefinite useful life. Impairment test performed on Polsat brand balance as at 31 December 2013 did not indicate impairment (see note 19 for impairment test assumptions).

IPLA

In the consolidated financial statements, as a result of acquisition of entities comprising IPLA platform, the Group has recognized in 2012 among others goodwill and IPLA brand. Value of IPLA brand as at 31 December 2013 amounted to PLN 7,800. The carrying amount of the brand was allocated to "Retail" cash-generating unit for the impairment testing purposes (see note 19).

The Management believes that IPLA brand has positive impact on acquisition of new customers as well as increase of ARPU among current customers of Cyfrowy Polsat. In addition, the Management believes that there is no foreseeable limit on the period over which an asset is expected to generate cash inflows for the entity as well as at the balance sheet date there are no plans to cease using or significantly modify IPLA brand. As a result, the Management concluded that the useful life of the IPLA brand was indefinite what means, that an asset is not being amortized and is tested for impairment once a year. The value assigned to the brand relate to the name "ipla" and the ipla logotype 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 "ipla" brand and assess whether there are indicators of possible impairment or the need to discontinue recognition .

Impairment test performed on Ipla brand balance as at 31 December 2013 did not indicate impairment (see note 19 for impairment test assumptions).

TV4 and TV6

In the consolidated financial statements, as a result of acquisition of Polskie Media S.A., the Group has recognized in 2013 among others goodwill and TV4 and TV6 brands. Value of TV4 and TV6 brands as at 31 December 2013 amounted to PLN 43,000 thousand. The carrying amount of the brand was allocated to "Broadcasting and television production" cash-generating unit for the impairment testing purposes (see note 19).

The fair value of the brands was estimated on the basis of relief from royalty method and profit split analysis. The relief from royalty method is based on the assumption that the benefits of owning a brand are equivalent to the hypothetical costs the owner of the brand would have to incur, should the brand be licensed from another entity based on market rates. The profit split analysis is based on the assumption that there is a possibility of determining or separating intangible assets from other assets controlled by a company and subsequently allocating a specific part of operating profit to such separated intangible assets.

The TV4 and TV6 brands were valued based on the forecasted revenues, forecasted operating profits and the royalty fee rate which was estimated based on the license agreements concluded by the companies with comparable business profile. The discount rate which reflects the time value of money and the risks associated with anticipated future cash flows was established at 13.7%.

The Management believes that TV4 and TV6 brands have positive impact on the revenues from advertising and sponsorship. In addition, the Management believes that there is no foreseeable limit on the period over which an asset is expected to generate cash inflows for the entity as well as at the balance sheet date there are no plans to cease using or significantly modify TV4 and TV6 brands. As a result, the Management concluded that the useful life of the TV4 and TV6 brands was indefinite what means, that an asset is not being amortized and is tested for impairment once a year. The value assigned to the brand relate to the name "TV4" and "TV6" and the 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 TV4 and TV6 brands and assess whether there are indicators of possible impairment.

19. Goodwill and intangible assets with indefinite useful life

The Group recognized goodwill and brands with indefinite useful life in the consolidated financial statements. Their carrying amounts were allocated to the following cash-generating units which also represent the Group's operating segments:

- "Retail" cash-generating unit:
 - Goodwill recognized on the acquisition of M.Punkt Holdings Ltd.
 - Goodwill recognized on the acquisition of INFO-TV-FM Sp. z o.o.
 - Goodwill and brand recognized on the acquisition of entities comprising Ipla platform
- "Broadcasting and television production" cash-generating unit
 - Goodwill and brand recognized on the acquisition of Telewizja Polsat S.A. (currently Telewizja Polsat Sp. z o.o.)
 - Goodwill and brand recognized on the acquisition of Polskie Media S.A.

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 above 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.

	2013	2012
"Retail" cash-generating unit	215,570	215,570
Goodwill recognized on the acquisition of M.Punkt Holdings Ltd.	52,022	52,022
Goodwill recognized on the acquisition of Info-TV-FM	10,704	10,704
Goodwill recognized on the acquisition of entities comprising Ipla platform	145,044	145,044
Ipla brand	7,800	7,800
"Broadcasting and television production" cash-generating unit	3,278,034	3,200,263
Goodwill recognized on the acquisition of Telewizja Polsat S.A.	2,360,263	2,360,263
Goodwill recognized on the acquisition of Polskie Media S.A.	34,771	-
Polsat brand	840,000	840,000
TV4 brand	33,656	-
TV6 brand	9,344	-

The recoverable amounts of all the cash generating units has 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 2018. Cash flow projections after 5-year forecast period are estimated using the terminal growth. Terminal growth rate does not exceed the long-term average growth rate for the country in which the Group operates.

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 “Retail” cash-generating unit were as follows:

- discount rate
- terminal growth rate used for estimating the cash flows beyond the period of financial plans.

Discount rate – the discount rate reflects the estimate made by the management of the risks specific to each cash-generating unit, taking into account the time value of money and risks specific to the asset. The discount rate was estimated on the basis of weighted average cost of capital method (WACC) and considered Group’s and its operating segments’ business environment. WACC considers both debt and equity. Cost of equity is based on the return on investment excepted by the Group’s investors while cost of debt is based on the interest bearing debt instruments. Operating segment- specific risk is considered by the estimation of beta. Beta is estimated annually and is based on the market data.

Terminal growth rate – growth rates are based on widely available published market data such as IMF publications.

The key financial assumptions used for value-in-use calculations in 2013 and 2012 are as follows:

	Broadcasting and television production		Retail	
	2013	2012	2013	2012
Terminal growth	3%	3%	3%	3%
Discount rate before tax	11.1%	10.2%	8.6%	8.8%

The impairment tests for goodwill and brands allocated to “Broadcasting and television production” and “Retail” cash-generating units did not indicate impairment as at 31 December 2013.

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 “Retail” cash-generating units as at 31 December 2013 are reasonable and are based on our experience and market forecasts that are published by the industry experts. Management believes that any reasonably possible change in the key assumptions on which the above mentioned cash-generating units’ recoverable amounts are based would not cause the impairment charge to be recognized.

20. Other intangible assets

	31 December 2013	31 December 2012
Software and licenses	50,275	37,258
Concessions for broadcasting television programs	25,435	11,013
Other	16,981	17,221
Other intangible assets under development	44,710	15,888
Total	137,401	81,380

Concessions for broadcasting television programs were recognized in the balance sheets following the acquisition of Telewizja Polsat S.A. and Polskie Media S.A. based on the Group's acquisition accounting. The carrying amount of the concessions was allocated to "Broadcasting and television production" cash-generating unit.

	Software and licenses	Concessions for broadcasting television programs	Other	Other intangible assets under development	Total
Cost					
Cost as at 1 January 2013	106,762	16,636	23,908	15,888	163,194
Additions	29,248	721	1,239	38,381	69,589
Acquisition of subsidiary	8	18,700	-	-	18,708
Transfer from intangible assets under development	8,036	-	1,501	(9,537)	-
Disposals	(5,788)	-	-	(22)	(5,810)
Disposal of a subsidiary	(92)	-	-	-	(92)
Cost as at 31 December 2013	138,174	36,057	26,648	44,710	245,589
Impairment losses as at 1 January 2013					
Disposals	-	-	(18)	-	(18)
Impairment losses as at 31 December 2013	-	-	-	-	-
Accumulated amortization as at 1 January 2013					
Additions	23,294	4,999	1,197	-	29,490
Additions (amortization included in the value of produced equipment)	-	-	1,801	-	1,801
Disposals	(4,830)	-	-	-	(4,830)
Disposal of a subsidiary	(69)	-	-	-	(69)
Accumulated amortization as at 31 December 2013	87,899	10,622	9,667	-	108,188
Carrying amounts					
As at 1 January 2013	37,258	11,013	17,221	15,888	81,380
As at 31 December 2013	50,275	25,435	16,981	44,710	137,401

	Software and licenses	Concessions for broadcasting television programs	Other	Other intangible assets under development	Total
Cost					
Cost as at 1 January 2012	73,945	16,636	4,155	12,695	107,431
Additions	23,221	-	1,741	13,546	38,508
Acquisition of subsidiary	1,046	-	12,414	4,516	17,976
Transfer from intangible assets under development	8,676	-	5,598	(14,274)	-
Disposals	(126)	-	-	(595)	(721)
Cost as at 31 December 2012	106,762	16,636	23,908	15,888	163,194
Impairment losses as at 1 January 2012	-	-	(18)	-	(18)
Impairment losses as at 31 December 2012	-	-	(18)	-	(18)
Accumulated amortization					
as at 1 January 2012	48,185	2,305	2,729	-	53,219
Additions	21,416	3,318	3,326	-	28,060
Additions (amortization included in the value of produced equipment)	1	-	614	-	615
Disposals	(98)	-	-	-	(98)
Accumulated amortization as at 31 December 2012	69,504	5,623	6,669	-	81,796
Carrying amounts					
As at 1 January 2012	25,760	14,331	1,408	12,695	54,194
As at 31 December 2012	37,258	11,013	17,221	15,888	81,380

21. Programming assets

	31 December 2013	31 December 2012
Acquired film licenses	153,532	140,647
Capitalised cost of external production and sports rights	19,839	27,024
Co-productions	1,265	1,264
Prepayments	78,276	70,705
Total	252,912	239,640
<i>Current programming assets</i>	<i>181,341</i>	<i>141,652</i>
<i>Non-current programming assets</i>	<i>71,571</i>	<i>97,988</i>

Change in programming assets	2013	2012
Net carrying amount as at 1 January	239,640	268,570
Increase*:	246,628	177,197
<i>Acquisition of Polskie Media S.A.</i>	11,422	-
<i>Acquisition of entities comprising IPLA platform</i>	-	330
<i>Acquisition of film licenses</i>	146,621	97,623
<i>Capitalized costs of sports rights</i>	88,585	79,244
Change in impairment losses:	2,855	5,247
<i>Film licenses</i>	1,206	8,596
<i>Capitalized cost of external production and sports rights</i>	1,649	(3,349)
Change in internal production*	(8,126)	1,256
Amortization of film licenses	(135,435)	(120,948)
Amortization of capitalized cost of sports rights	(86,142)	(82,414)
Disposals:	(6,407)	(9,244)
<i>Sale of film licenses</i>	(6,407)	(9,244)
Currency translation adjustment	-	-
Other	(101)	(24)
Net carrying amount as at 31 December	252,912	239,640

* includes change in prepayments

In 2013 impairment losses were recognized on programming assets, to the extent carrying amounts of these assets exceeded their expected discounted recoverable amounts.

Commitments related to acquisition of programming assets by the Group are presented in note 44.

22. Deferred distribution fees

	31 December 2013	31 December 2012
Deferred distribution fees	99,606	92,221
<i>Of which: Current</i>	70,055	57,096
<i>Non-current</i>	29,551	35,125

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 2012, the balance of distribution fees relating to agreements whose basic period as at the date of signing was more than 12 months amounted to PLN 99,091 (as at 31 December 2012: 91,958 PLN).

23. Other non-current assets

	31 December 2013	31 December 2012
Deferred costs	2,828	101,324
Non-current trade receivables	9,106	-
Shares	2,231	2,231
Investment in jointly-controlled entity	3,132	2,722
Deposits paid	3,378	3,055
Other non-current receivables	128	310
Total	20,803	109,642

As at 31 December 2013 and 31 December 2012 85% shares in KTK Sp. z o.o. were included in "Shares".

In 2012 deferred costs related mainly to settlements with Mobyland for the data transmission service (see note 42). In 2013 all settlements with Mobyland for the data transmission service are presented in other current assets.

Investment in jointly-controlled entity

The Group accounted for the following investments in a jointly-controlled entity using the equity method:

As at 31 December 2013:

Entity	Carrying amount	Country	Assets	Liabilities	Revenues	Profit / loss for the period	Share in voting rights
Polsat JimJam Ltd.	3,132	UK	10,506	4,235	13,215	5,848	50%
Total	3,132		10,506	4,235	13,215	5,848	

As at 31 December 2012:

Entity	Carrying amount	Country	Assets	Liabilities	Revenues	Profit / loss for the period	Share in voting rights
Polsat JimJam Ltd.	2,772	UK	9,520	4,222	12,612	5,794	50%
Total	2,772		9,520	4,222	12,612	5,794	

In 2012 and 2013, the Group has received from Polsat JimJam a dividend in the amount of EUR 650 (equivalent of PLN 2,706) and EUR 600 (equivalent of PLN 2,515) respectively.

24. Inventories

Types of inventories	31 December 2013	31 December 2012
Set-top boxes and disc drives – merchandise	13,082	45,862
Set-top boxes and disc drives – finished goods	61,690	32,805
Digital Video Broadcasting – Terrestrial units – merchandise	4,558	3,034
Digital Video Broadcasting – Terrestrial units – finished goods	5,054	17,485
SMART and SIM cards	9,215	4,454
Modems and tablets	25,048	20,432
Antennas and converters	2,830	3,479
Other inventories	29,796	42,766
Total gross book value	151,273	170,317
Write-down of inventories	(4,502)	(8,343)
Total net book value	146,771	161,974

Other inventories comprise primarily of raw materials used in the production of set-top boxes.

Write-downs of inventories	31 December 2013	31 December 2012
Opening balance	8,343	4,571
Increase	4,137	6,272
Utilisation	(3,275)	(1,915)
Decrease	(4,703)	(585)
Closing balance	4,502	8,343

25. Trade and other receivables

	31 December 2013	31 December 2012
Trade receivables from related parties	12,273	14,349
Trade receivables from third parties	347,125	320,381
Tax and social security receivables	13,538	36,884
Other receivables	1,488	4,045
Total	374,424	375,659

Trade receivables from third parties include primarily receivables from individual customers, media houses and distributors.

Trade receivables by currency

Currency	31 December 2013	31 December 2012
PLN	344,647	316,611
EUR	11,296	13,228
USD	3,346	4,697
GBP	2	2
AUD	100	142
CAD	7	50
Total	359,398	334,730

Movements in the allowance for impairment of accounts receivable

	31 December 2013	31 December 2012
Opening balance	43,429	91,629
Increase	14,341	24,441
Reversal	(4,944)	(9,980)
Utilisation	(18,888)	(62,661)
Closing balance	33,938	43,429

26. Other current assets

	31 December 2013	31 December 2012
Financial instruments IRS/CIRS (see note 29)	-	478
Other deferred income	2,164	2,088
Other deferred costs	103,196	69,402
Total	105,360	71,968

Other deferred costs comprise primarily deferred costs related to the agreement with Mobyland Sp. z o.o. (see note 42).

27. Cash and cash equivalents

	31 December 2013	31 December 2012
Cash on hand	238	314
Current accounts	103,748	151,272
Deposits	238,265	118,768
Total	342,251	270,354

Currency	31 December 2013	31 December 2012
PLN	270,486	228,861
EUR	66,392	19,221
USD	4,014	20,115
CHF	609	1,225
GBP	185	189
SEK	57	107
NOK	508	636
Total	342,251	270,354

As the Group cooperates with well-established Polish and international banks, the risks relating to deposited cash are considerably limited.

28. Equity

(i) Share capital

Presented below is the structure of the Company's share capital as at 31 December 2013 and as at 31 December 2012:

Share series	Number of shares	Nominal value of shares	Type
Series A	2,500,000	100	preference shares (2 voting rights)
Series B	2,500,000	100	preference shares (2 voting rights)
Series C	7,500,000	300	preference shares (2 voting rights)
Series D	166,917,501	6,677	preference shares (2 voting rights)
Series D	8,082,499	323	ordinary bearer shares
Series E	75,000,000	3,000	ordinary bearer shares
Series F	5,825,000	233	ordinary bearer shares
Series H	80,027,836	3,201	ordinary bearer shares
Total	348,352,836	13,934	

The shareholders' structure as at 31 December 2013 and as at 31 December 2012 was as follows:

	31 December 2013 and 31 December 2012				
	Number of shares	Nominal value of shares	% of share capital held	Number of votes	% of voting rights
Pola Investments Ltd. ¹	154,204,296	6,168	44.27%	306,709,172	58.11%
Sensor Overseas Ltd. ²	25,341,272	1,014	7.27%	50,382,647	9.55%
Other	168,807,268	6,752	48.46%	170,678,518	32.34%
Total	348,352,836	13,934	100%	527,770,337	100%

¹ Pola Investments Ltd. is controlled by the family foundation (trust) TiVi Foundation

² Sensor Overseas Ltd. is controlled by Mr. Heronim Ruta

The Company received from Mr. Zygmunt Solorz-Żak and from the family foundation (trust) TiVi Foundation the information, that Mr. Zygmunt Solorz-Żak made the transfer of ownership of shares in Pola Investments Ltd. to the family foundation (trust) TiVi Foundation seated in Vaduz, Lichtenstein ("TiVi Foundation"), based on the agreement dated 13 February 2013.

The shares held by Pola Investments and included in the proxy given to Pola Investments by Sensor Overseas Ltd. seated in Nicosia, Cyprus (the company controlled by Mr. Heronim Ruta), represent jointly more than 50% of votes at the general meeting of the Company.

(ii) Share premium

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

(iii) Other reserves

Other reserves include hedge valuation effect.

29. Hedge valuation reserve

Hedging instruments

In 2013 the Group did not conclude any IRS (interest rate swap) or CIRS (cross-currency interest rate swap) transactions.

Impact of hedging instruments valuation on assets and liabilities as at 31 December 2013

	IRS	CIRS	Total
Liabilities			
Long-term	(139)	-	(139)
Short-term	(7,902)	(4,054)	(11,956)
Total	(8,041)	(4,054)	(12,095)

Impact of hedging instruments valuation on assets and liabilities as at 31 December 2012

	IRS	CIRS	Total
Assets			
Current	-	478	478
Liabilities			
Long-term	(6,073)	(3,083)	(9,156)
Short-term	(9,248)	(8,095)	(17,343)
Total	(15,321)	(10,700)	(26,021)

Impact of hedging instruments valuation on other reserves / other comprehensive income

	for the year ended	
	31 December 2013	31 December 2012
Balance as at 1 January	(20,631)	4,758
Valuation of cash flow hedges	13,926	(33,040)
Amount transferred to income statement	478	1,695
Deferred tax	(2,737)	5,956
Change for the period	11,667	(25,389)
Balance as at 31 December	(8,964)	(20,631)

In the year ended 31 December 2013 the hedge was valued at PLN 13,926 (positive), with PLN 478 recognized in the profit and loss account in correspondence with finance costs. Since the hedge was determined to be effective, PLN 14,404 was recognized within the hedge valuation reserve. The total effect of the hedge valuation on the hedge valuation reserve amounts to PLN 11,667 (positive), including deferred tax.

In 2012 the hedge was valued at PLN 33,040 (negative), including PLN 1,695 recognized in the profit and loss account in correspondence with finance costs. Since the hedge was determined to be effective, the remaining loss in the amount of PLN 31,345 was recognized within the hedge valuation reserve. The total effect of the hedge valuation on the hedge valuation reserve in 2012 amounts to PLN 25,389, representing the amount of the valuation, net of related deferred tax.

30. Loans and borrowings

Loans and borrowings	31 December 2013	31 December 2012
Short-term liabilities	245,994	275,608
Long-term liabilities	239,889	592,003
Total	485,883	867,611

Change in loans and borrowings liabilities

	for the year ended	
	31 December 2013	31 December 2012
Loans and borrowings as at 1 January	867,611	1,205,185
Loans and borrowings assumed through acquisition of entities	24,854	96,818
Repayment of capital	(431,117)	(453,324)
Repayment of interest and commissions	(40,043)	(90,828)
Interest accrued	64,578	109,760
Loans and borrowings as at 31 December	485,883	867,611

The Group has made two prepayments of a principal of the Term Facility Loan: on 28 June 2013 the Company has pre-paid a principal in the amount of PLN 100,000 and on 10 September 2013 has pre-paid a principal in the amount of PLN 100,000. On 29 August 2012 the Group has partly pre-paid a principal of its Term Facility Loan in the amount of PLN 200,000. The repayment was executed using the cash generated from operations.

Conclusion of a Senior Facilities Agreement and Bridge Facility Agreement

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

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

Mandatory prepayments

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

Mandatory prepayments are also required in the following amounts:

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

In addition, voluntary High Yield Notes (i.e. Senior Notes) repayment is allowable only if accompanied by a repayment of term and revolving facilities.

Financial covenants

The loan agreement imposed on the Group the obligation to maintain financial ratios at a certain level. The Debt Service Cover shall be at least 1.5 for a given Period. The Interest Cover shall be at least 3.5 for a given Period. The Total leverage shall not exceed 3.0 for a given Period. Financial covenants shall be tested on each quarter date and shall be reported on by an auditor on annual basis. Financial covenants were maintained in years 2011-2013.

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

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

Additionally, the Group *inter alia* has the following obligations:

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

Agreement with Bank Pekao S.A.

On 7 May 2009 the Group signed an agreement with Bank Pekao S.A. defining rights and obligations of the parties should the Group order the bank to issue a guarantee or a letter of credit. Bank's total commitment regarding the issued guarantees and letters of credit may not exceed PLN 20,000. As at 31 December 2013 the bank issued guarantees in the total amount of PLN 4.333 and EUR 1.143.

31. Senior Notes

	31 December 2013	31 December 2012
Short-term liabilities	98,659	97,256
Long-term liabilities	1,340,010	1,316,479
Total	1,438,669	1,413,735

Change in *Senior Notes* payable

	for the year ended	
	31 December 2013	31 December 2012
Senior Notes payable as at 1 January	1,413,735	1,522,577
Unrealized foreign exchange (gains)/losses	20,135	(112,143)
Repayment of interest and commission	(104,258)	(105,625)
Interest accrued	109,057	108,926
Senior Notes payable as at 31 December	1,438,669	1,413,735

Conclusion of an Indenture

On 20 May 2011 the Company, the Company's subsidiary Cyfrowy Polsat Finance AB (the "Issuer"), the Bank of New York Mellon, London Branch, the Bank of New York Mellon Luxembourg S.A., and the Initial Guarantors (the Company, CPT, CPTM) entered into an indenture (the "Indenture") for the issuance of senior notes due in 2018 with aggregate principal amount of EUR 350 million (not in thousands) (PLN 1,372,245) (the "Notes").

The interest on the *Senior Notes* will accrue at the fixed rate of 7.125% per annum payable semiannually in arrears on 20 May and 20 November, commencing on 20 November 2011. The *Senior Notes* shall be redeemed on 20 May 2018 by way of a pecuniary payment equal to the face value of the *Senior Notes*.

At any date prior to 20 May 2014, the Issuer may on any one or more occasions redeem up to 35% of the aggregate principal amount of the Notes at a redemption price of 107.125% of the principal amount plus accrued and unpaid interest, if any, to the redemption date with the net cash proceeds of one or more equity offerings. At any date prior to 20 May 2014, the Issuer may at its own discretion redeem the Notes in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the applicable premium as at the redemption date and plus accrued and unpaid interest.

On or after May 20, 2014, the Issuer may redeem all or a part of the Notes at the redemption price (expressed as percentages of principal amount) set out below plus accrued and unpaid interest on the Notes redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on May 20 of the years indicated below, subject to the rights of holders of Notes on the relevant record date to receive interest on the relevant interest payment date: (i) in 2014 the redemption price is 105.344%, (ii) in 2015 the redemption price is 103.563%, (iii) in 2016 the redemption price is 101.781%, and (iv) thereafter the redemption price is 100.000%. Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on the Notes (or portions thereof) called for redemption on the applicable redemption date.

32. Group as a lessor and as a lessee

a) Group as a lessor

Operating lease

The Group entered into contracts with third parties, which are classified as operating leases based on their economic substance. The contracts relate to the rental of reception equipment. Assets connected with such contracts are presented as part of property, plant and equipment.

Lease contracts for set-top boxes are concluded for a base contractual period ranging from 12 to 36 months. After each base period, the contracts are converted into contracts with either indefinite or definite terms, unless terminated by the subscribers.

Future minimum lease payments with respect to operating lease are as follows:

	31 December 2013	31 December 2012
less than 1 year	7,924	13,763
between 1 and 5 years	1,935	6,677
Total	9,859	20,440

b) Group as a lessee

Operating leases

The Group entered into agreements, which are classified as operating lease contracts based on their economic substance. Assets leased under these contracts are not recorded in the financial statements. The contracts comprise leases of premises, lease of satellite transponders capacity, vehicles and other equipment.

The table below presents a maturity analysis for such commitments:

	31 December 2013	31 December 2012
within one year	166,926	153,848
between 1 to 5 years	536,426	258,764
more than 5 years	146,880	113,498
Total	850,232	526,110

The table below presents future minimum payments relating to operating lease agreements to related parties:

	31 December 2013	31 December 2012
within one year	17,876	13,548
between 1 to 5 years	67,719	4,191
more than 5 years	75,963	1,612
Total	161,558	19,351

In 2013 the Group incurred costs related to operating lease agreements amounting to PLN 167,602 and in 2012 PLN 173,674.

Finance leases

The total carrying amount of equipment used under finance lease contracts amounted to PLN 680 as at 31 December 2012 and PLN 1,131 as at 31 December 2011.

The lease term is 10 years with respect to conditional access equipment and 5 years with respect to vehicles and other equipment.

Future minimum lease payments under finance leases are as follows:

	31 December 2013	31 December 2012
less than 1 year	236	233
between 1 and 5 years	227	551
Total	463	784

The present value of minimum lease payments amounted to PLN 463 as at 31 December 2013 and PLN 784 as at 31 December 2012.

33. Other non-current liabilities and provisions

	31 December 2013	31 December 2012
Financial instruments (IRS/CIRS) liabilities	139	9,156
Provisions	1,017	4,118
Other	6,759	4,416
Total	7,915	17,690

34. Trade and other payables

	31 December 2013	31 December 2012
Trade payables to related parties	4,462	27,995
Trade payables to third parties	105,576	140,998
Taxation and social security payables	37,038	30,065
Payables relating to purchase of programming rights to related parties	85	3
Payables relating to purchase of programming rights to third parties	41,292	31,011
Payables relating to purchases of tangible and intangible assets	20,482	20,229
Accruals	136,024	155,426
Short-term provisions	42,536	35,384
Financial instruments (IRS/CIRS) liabilities	11,956	17,343
Other	13,759	13,640
Total	413,210	472,094

Accruals

	31 December 2013	31 December 2012
Salaries	26,387	29,163
Royalties for copyright management organisations	3,768	4,501
License fees	42,968	60,746
Distribution costs	11,539	13,527
Other	51,362	47,489
Total	136,024	155,426

Short-term and long-term provisions

	2013	2012
Opening balance as at 1 January	39,502	98,759
Acquisition of subsidiary	6,043	-
Increases	2,867	13,934
Reversal	(2,542)	(40,177)
Utilisation	(6)	(33,014)
Disposal of a subsidiary	(2,311)	-
Closing balance as at 31 December	43,553	39,502
<i>Of which:</i>		
<i>Short-term</i>	42,536	35,384
<i>Long-term</i>	1,017	4,118

Provisions comprise *inter alia* of provision for license fees, litigation and disputes, warranty provision and onerous contracts.

Trade payables and payables relating to purchases of programming rights and non-current assets by currency

Currency	31 December 2013	31 December 2012
PLN	121,837	161,027
EUR	14,381	28,193
USD	35,319	30,697
CHF	295	310
SEK	61	-
GBP	4	9
Total	171,897	220,236

Accruals by currency

Currency	31 December 2013	31 December 2012
PLN	107,674	126,187
EUR	19,041	26,311
USD	9,248	2,899
SEK	61	29
Total	136,024	155,426

35. Deposits for equipment

	31 December 2013	31 December 2012
Subscribers	2,727	4,326
Distributors	-	8,915
Other	-	18
Total	2,727	13,259

Deposits received comprise amounts paid by subscribers under agreements for rental of set-top boxes. As at 31 December 2013 deposits paid by distributors for digital satellite reception equipment and mobile phones are presented in Other non-current liabilities and provisions. As at 31 December 2012 part of deposits paid by distributors for digital satellite reception equipment and mobile phones were presented as current.

Deposits are returned to customers or offset against receivables from subscribers upon contract termination.

36. Deferred income

	31 December 2013	31 December 2012
Deferred income	213,564	206,419
Of which: <i>Short-term</i>	209,485	201,238
<i>Long-term</i>	4,079	5,181

Deferred income comprises mainly subscription fees paid in advance and rental fees for set-top boxes. Deferred income also include prepaid advertising broadcasts.

37. Acquisition of a subsidiary

Acquisition of Polskie Media S.A.

On 30 August 2013, following the fulfillment of the conditions precedent included in the preliminary and conditional agreements for the purchase of shares in Polskie Media S.A. ("Polskie Media") concluded on 28 March 2013 between Telewizja Polsat Sp. z o.o. ("Telewizja Polsat"), subsidiary of Cyfrowy Polsat, and Karswell Limited and Sensor Overseas Limited, Telewizja Polsat has finalized the purchase of shares in Polskie Media comprising 100% of the share capital for the total amount of PLN 72,589. The consideration comprised the price for shares and adjustments related to enterprise value.

The sellers are related parties for Cyfrowy Polsat Group.

Polskie Media is a broadcaster of two channels distributed both in terrestrial and cable-satellite: TV4 and TV6. The acquisition of Polskie Media opens the possibility to increase advertising revenue based on the increasing reach as well as the synergies in the following areas: access and use of the programming content, technical, advertising, marketing and cross-promotions as well as back-office resources.

The Group uses the purchase accounting method for entities acquired under common control.

a) Consideration transferred

	31 December 2013
Cash consideration	72,589
Total	72,589

b) Reconciliation of transactional cash flow

Cash transferred on acquisition	(72,589)
Cash and cash equivalents received	8,784
Cash outflow in the period of 12 months ended 31 December 2013	(63,805)

c) Fair value of net assets as at the acquisition date

Fair values of assets and liabilities acquired as at 30 August 2013:

	value as at the acquisition date (30 August 2013)
Net assets:	
Property, plant and equipment	1,970
TV4 brand (see note 18)	33,656
TV6 brand (see note 18)	9,344
Intangible assets	18,708
Programming assets	11,422
Inventory	5
Trade and other receivables	4,259
Other current assets	34
Cash and cash equivalents	8,784
Deferred tax liability	(3,293)
Loans and borrowings	(24,574)
Trade and other payables	(22,497)
Value of total net assets	37,818

d) Fair value of goodwill

	fair value as at the acquisition date (30 August 2013)
Purchase price of 100% shares	72,589
Fair value of net assets acquired	(37,818)
Goodwill	34,771

The goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations.

The revenue and net loss included in the consolidated income statement for the reporting period since 30 August 2013 contributed by Polskie Media S.A. amounted to PLN 31,189 and PLN 9,236, respectively. Had they been acquired on 1 January 2013 the revenue and loss included in the consolidated income statement would have amounted to PLN 2,945,181 and PLN 528,923, respectively.

38. Financial instruments

Overview

Cyfrowy Polsat S.A. Group has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risk:
 - (i) currency risk,
 - (ii) interest rate risk.

The Group's risk management policies are designed to reduce the impact of any adverse conditions on the Group's results.

The Management Board has overall responsibility for the oversight and management of the risks that the Group is subjected to in its activities. Therefore, the Management Board has established an overall risk management framework as well as specific risk management policies with respect to market, credit and liquidity risks.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are also included throughout these consolidated financial statements.

Bank loans, bonds, cash, foreign exchange call options, interest rate swaps, cross-currency interest rate swaps and short-term bank deposits are the main financial instruments used by the Group, with the intention of securing the financing for the Group's activities. The Group also holds other financial instruments such as trade receivables and payables, payables relating to purchase of programming rights and payables relating to purchases of tangible and intangible assets which arise in the course of its business activities.

Financial assets	Carrying amount	
	31 December 2013	31 December 2012
Loans and receivables, including:	712,243	609,129
Loans granted to third parties	124	228
Trade and other receivables from related parties	12,910	16,370
Trade and other receivables from third parties	356,958	322,177
Cash and cash equivalents	342,251	270,354
Hedging derivative instruments	-	478
Cross-currency interest rate swaps	-	478

Financial liabilities	Carrying amount	
	31 December 2013	31 December 2012
Other financial liabilities measured at amortized cost, including:	2,256,181	2,689,049
Finance lease liabilities	463	784
Loans and borrowings	485,883	867,611
Senior Notes	1,438,669	1,413,735
Trade and other payables to third parties and deposits	190,586	223,001
Trade and other payables to related parties	4,556	28,492
Accruals	136,024	155,426
Hedging derivative instruments	12,095	26,499
Interest rate swaps	8,041	15,321
Cross-currency interest rate swaps	4,054	11,178

Credit risk

Credit risk is defined as the risk that counterparties of the Group will not be able to meet their contractual obligations. Exposure to credit risk is related to three main areas:

- the creditworthiness of the customers with whom physical sale transactions are undertaken,
- the creditworthiness of the financial institutions (banks/brokers) with whom, or through whom, hedging or other derivative transactions are undertaken,
- the creditworthiness of the entities in which investments are made, or whose securities are purchased.

The Group's exposure to credit risk is associated primarily with trade receivables. The Parent's customer base includes a large number of individual subscribers who are dispersed geographically over the entire country, and who are required to prepay their subscription fees. Receivables from subscribers are continuously monitored and recovery actions are taken, including blocking of the signal transferred to subscribers or termination of services to a MVNO client and Internet customer. Telewizja Polsat and their 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.

The Group pursues a credit policy under which credit risk exposure is constantly monitored.

Due to diversification of risk in terms both of the nature of individual entities as well as of their geographical location as well as to cooperation with highly-rated financial institutions, and 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 2013	31 December 2012
Loans granted to third parties	124	228
Trade and other receivables from third parties	356,958	322,177
Trade and other receivables from related parties	12,910	16,370
CIRS	-	478
Cash and cash equivalents	342,251	270,354
Total	712,243	609,607

The concentration of credit risk for trade and other receivables is presented in the tables below:

	Carrying amount	
	31 December 2013	31 December 2012
Receivables from subscribers	174,346	154,875
Receivables from media companies	139,423	127,195
Receivables from satellite and cable operators	15,482	13,065
Receivables from distributors	2,636	5,548
Receivables from related parties	12,910	16,370
Receivables and loans granted to third parties	25,195	21,722
Total	369,992	338,775

	Carrying amount	
	31 December 2013	31 December 2012
Company A	29,527	30,809
Company B	23,475	17,663
Company C	21,334	17,057
Company D	14,104	13,572
Company E	9,088	9,508
Other	272,464	250,166
Total	369,992	338,775

Note: for each year 5 largest debtors are presented, not necessarily the same entities in both periods.

The ageing of trade and other receivables at the reporting date was:

	31 December 2013			31 December 2012		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	330,766	3,648	327,118	215,653	5,125	210,528
Past due 0-30 days	18,859	1,083	17,776	64,890	1,829	63,061
Past due 31-60 days	6,134	1,245	4,889	36,811	1,565	35,246
Past due more than 60 days	48,171	27,962	20,209	64,850	34,910	29,940
Total	403,930	33,938	369,992	382,204	43,429	338,775

Credit quality of such not overdue receivables that are not impaired is very good.

Trade and other receivables with recognized impairment include not past due and past due trade and other receivables where partial recoverability is estimated. Usually impairment is recognized for trade and other receivables past due for more than 60 days or for trade and other receivables for which impairment indicator exists.

Liquidity risk

The Group's objective in liquidity management is to ensure that it always has sufficient funds to meet its liabilities when due. Any surplus cash is invested mainly into bank deposits.

The Group prepares, on an ongoing basis, analyses and forecasts of its cash requirements based on projected cash flows.

The following are the contractual maturities of the Group's financial liabilities.

	31 December 2013						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	Over 5 years
Loans and borrowings	485,883	545,695	94,040	168,894	282,761	-	-
Senior Notes	1,438,669	1,916,914	51,710	51,710	103,421	1,710,073	-
Finance lease liabilities	463	463	118	118	227	-	-
Trade and other payables to third parties and deposits	190,586	190,586	190,586	-	-	-	-
Trade and other payables to related parties	4,556	4,556	4,556	-	-	-	-
Accruals	136,024	136,024	136,024	-	-	-	-
IRS*	8,041	8,844	5,069	2,948	827	-	-
CIRS	4,054						
– inflows		(51,710)	(51,710)	-	-	-	-
– outflows		56,225	56,225	-	-	-	-
	2,268,276	2,807,597	486,618	223,670	387,236	1,710,073	-

*Pursuant to the agreements settlements shall be on a net basis

	31 December 2012						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	Over 5 years
Loans and borrowings	867,611	1,027,081	121,033	175,404	343,519	387,125	-
Senior Notes	1,413,735	1,991,592	50,975	50,975	101,949	305,848	1,481,845
Finance lease liabilities	784	784	117	116	303	248	-
Trade and other payables to third parties and deposits	223,001	223,001	222,783	218	-	-	-
Trade and other payables to related parties	28,492	28,492	28,492	-	-	-	-
Accruals	155,426	155,426	155,426	-	-	-	-
IRS*	15,321	8,356	2,830	2,659	2,711	156	-
CIRS	11,178						
– inflows		(127,437)	(25,487)	(50,975)	(50,975)	-	-
– outflows		142,639	28,800	57,614	56,225	-	-
	2,715,548	3,449,934	584,969	236,011	453,732	693,377	1,481,845

*Pursuant to the agreements settlements shall be on a net basis

As at 31 December 2013 the Group has unused revolving facility line of credit up to the amount of 200,000 PLN with a final maturity date on 31 December 2015. As at December 2012 the amount of unused revolving facility amounted to PLN 200,000.

Market risk

The 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 Company applies a consistent and step-by-step approach to market risk management. The primary technique for market risk management is the use in the Group of hedging strategies involving derivatives. Apart from this, natural hedging is also used to the extent available.

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

It is permitted to use the following types of instruments:

- Swaps,
- Forwards and futures,
- Options.

Currency risk

One of the main risks that the Group is exposed to is currency risk resulting from fluctuations in exchange rate of the Polish zloty against other currencies. Revenues generated by the Group are denominated primarily in the Polish zloty, while a portion of operating costs and capital expenditures are incurred in foreign currencies. The Group'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). Since 2011 the level of currency risk exposure has increased because of new financing denominated in EUR obtained

to purchase Telewizja Polsat Sp. z o.o. After this purchase currency risk exposure is also associated to purchases of foreign programming licences.

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 2013							
	EUR	USD	CHF	GBP	SEK	NOK	AUD	CAD
Trade receivables	2,724	1,111	-	-	-	-	37	2
Cash and cash equivalents	16,009	1,333	180	38	121	1,026	-	-
Senior Notes	(346,901)	-	-	-	-	-	-	-
Trade payables	(3,468)	(11,726)	(87)	(1)	(130)	-	-	-
Gross balance sheet exposure	(331,636)	(9,282)	93	37	(9)	1,026	37	2
CIRS	12,469	-	-	-	-	-	-	-
Net exposure	(319,167)	(9,282)	93	37	(9)	1,026	37	2

	31 December 2012							
	EUR	USD	CHF	GBP	SEK	NOK	AUD	CAD
Trade receivables	3,236	1,515	-	-	-	-	44	16
Cash and cash equivalents	4,702	6,490	362	38	225	1,146	-	-
Senior Notes	(345,809)	-	-	-	-	-	-	-
Trade payables	(6,896)	(9,904)	(92)	(2)	-	-	-	-
Gross balance sheet exposure	(344,767)	(1,899)	270	36	225	1,146	44	16
CIRS	37,406	-	-	-	-	-	-	-
Net exposure	(307,361)	(1,899)	270	36	225	1,146	44	16

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

(in PLN)	Average rate		Rates at the reporting date	
	2013	2012	31 December 2013	31 December 2012
1 EUR	4.1975	4.1850	4.1472	4.0882
1 USD	3.1608	3.2570	3.0120	3.0996
1 GBP	4.9432	5.1591	4.9828	5.0119
1 CHF	3.4101	3.4722	3.3816	3.3868
1 SEK	0.4854	0.4807	0.4694	0.4757
1 NOK	0.5385	0.5596	0.4953	0.5552
1 AUD	3.0600	3.3711	2.6864	3.2183
1 CAD	3.0691	3.2569	2.8297	3.1172

For the purposes of the exchange rate sensitivity analysis as at 31 December 2013 and 31 December 2012, exchange rate volatility in the +/- 5% range was assumed as probable. This analysis assumes that all other variables, in particular interest rates, remain constant. The sensitivity analysis below is performed on the same basis for 2012.

	2013					2012				
	As at 31 December 2013		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at 31 December 2012		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	2,724	11,296	5%	565	-	3,236	13,228	5%	661	-
USD	1,111	3,346	5%	167	-	1,515	4,697	5%	235	-
GBP	-	2	5%	-	-	-	2	5%	-	-
AUD	37	100	5%	5	-	44	142	5%	7	-
CAD	2	7	5%	-	-	16	50	5%	3	-
Cash and cash equivalents										
EUR	16,009	66,392	5%	3,320	-	4,702	19,221	5%	961	-
USD	1,333	4,014	5%	201	-	6,490	20,115	5%	1,006	-
CHF	180	609	5%	30	-	362	1,225	5%	61	-
GBP	38	185	5%	9	-	38	189	5%	9	-
SEK	121	57	5%	3	-	225	107	5%	5	-
NOK	1,026	508	5%	25	-	1,146	636	5%	32	-
Senior Notes										
EUR	(346,901)	(1,438,669)	5%	(71,933)	-	(345,809)	(1,413,735)	5%	(70,687)	-
Trade payables										
EUR	(3,468)	(14,381)	5%	(719)	-	(6,896)	(28,193)	5%	(1,410)	-
USD	(11,726)	(35,319)	5%	(1,766)	-	(9,904)	(30,697)	5%	(1,535)	-
CHF	(87)	(295)	5%	(15)	-	(92)	(310)	5%	(16)	-
GBP	(1)	(4)	5%	-	-	(2)	(9)	5%	-	-
SEK	(130)	(61)	5%	(3)	-	-	-	5%	-	-

Cyfrowy Polsat S.A. Group

Notes to the consolidated financial statements for the year ended 31 December 2013

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

Change in operating profit																			
				(70,111)					-					(70,668)					-
CIRS																			
	EUR	12,469	51,711	5%	589	1,973	37,406	152,923	5%	581	6,841								
Income tax					13,209	(375)					13,317	(1,300)							
Change in net profit																			
				(56,313)					1,598					(56,770)					5,541

	2013					2012				
	As at 31 December 2013		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at 31 December 2012		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	2,724	11,296	-5%	(565)	-	3,236	13,228	-5%	(661)	-
USD	1,111	3,346	-5%	(167)	-	1,515	4,697	-5%	(235)	-
GBP	-	2	-5%	-	-	-	2	-5%	-	-
AUD	37	100	-5%	(5)	-	44	142	-5%	(7)	-
CAD	2	7	-5%	-	-	16	50	-5%	(3)	-
Cash and cash equivalents										
EUR	16,009	66,392	-5%	(3,320)	-	4,702	19,221	-5%	(961)	-
USD	1,333	4,014	-5%	(201)	-	6,490	20,115	-5%	(1,006)	-
CHF	180	609	-5%	(30)	-	362	1,225	-5%	(61)	-
GBP	38	185	-5%	(9)	-	38	189	-5%	(9)	-
SEK	121	57	-5%	(3)	-	225	107	-5%	(5)	-
NOK	1,026	508	-5%	(25)	-	1,146	636	-5%	(32)	-
Senior Notes										
EUR	(346,901)	(1,438,669)	-5%	71,933	-	(345,809)	(1,413,735)	-5%	70,687	-
Trade payables										
EUR	(3,468)	(14,381)	-5%	719	-	(6,896)	(28,193)	-5%	1,410	-
USD	(11,726)	(35,319)	-5%	1,766	-	(9,904)	(30,697)	-5%	1,535	-
CHF	(87)	(295)	-5%	15	-	(92)	(310)	-5%	16	-
GBP	(1)	(4)	-5%	-	-	(2)	(9)	-5%	-	-
SEK	(130)	(61)	-5%	3	-	-	-	-5%	-	-
Change in operating profit				70,111	-				70,668	-

Cyfrowy Polsat S.A. Group

Notes to the consolidated financial statements for the year ended 31 December 2013

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

CIRS											
	EUR	12,469	51,711	-5%	(589)	(1,971)	37,406	152,923	-5%	(581)	(6,819)
Income tax					(13,209)	374				(13,317)	1,296
Change in net profit					56,313	(1,597)				56,770	(5,523)

	2013		2012	
	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
Estimated change in exchange rate by 5 %				
EUR	(55,224)	1,598	(56,614)	5,541
USD	(1,132)	-	(238)	-
CHF	12	-	37	-
GBP	7	-	7	-
SEK	-	-	4	-
CAD	-	-	2	-
AUD	4	-	6	-
NOK	20	-	26	-
Estimated change in exchange rate by -5 %				
EUR	55,224	(1,597)	56,614	(5,523)
USD	1,132	-	238	-
CHF	(12)	-	(37)	-
GBP	(7)	-	(7)	-
SEK	-	-	(4)	-
CAD	-	-	(2)	-
AUD	(4)	-	(6)	-
NOK	(20)	-	(26)	-

Had Polish zloty weakened 5% against the basket of currencies as at 31 December 2013 and 31 December 2012, the Group's net profit would have decreased by PLN 56,313 and decreased by PLN 56,770, respectively and other comprehensive income would have increased by PLN 1,598 in 2013 and increased by PLN 5,541 in 2012. Had the Polish zloty strengthened 5%, the Group's net profit would have correspondingly increased by PLN 56,313 and increased by PLN 56,770. Other comprehensive income would have decreased by PLN 1,597 in 2013 and decreased by PLN 5,523 in 2012, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

Interest rate risk

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

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

In order to reduce interest rate risk exposure resulting from interest payments on floating rate senior facility, the Group stipulated interest rate swaps (see note 29).

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

	Carrying amount	
	31 December 2013	31 December 2012
Fixed rate instruments		
Financial assets	-	134
Financial liabilities*	(1,451,983)	(1,431,654)
Variable rate instruments		
Financial assets	342,013	270,040
Financial liabilities*	(517,085)	(923,348)
Net interest exposure	(175,072)	(653,308)

*nominal debt

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

	Income statement		Other comprehensive income		Equity	
	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp
31 December 2013						
Variable rate instruments*	(1,751)	1,751	3,098	(3,098)	1,347	(1,347)
Cash flow sensitivity (net)	(1,751)	1,751	3,098	(3,098)	1,347	(1,347)
31 December 2012						
Variable rate instruments*	(6,533)	6,533	7,787	(7,787)	1,254	(1,254)
Cash flow sensitivity (net)	(6,533)	6,533	7,787	(7,787)	1,254	(1,254)

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

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

Fair value vs. carrying amount

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

Presented below are fair values and carrying amounts of financial assets and liabilities.

	Category according to IAS 39	Level of the fair value hierarchy	31 December 2013		31 December 2012	
			Fair value	Carrying amount	Fair value	Carrying amount
Loans granted to third parties	A	2	124	124	228	228
Trade and other receivables	A	2	369,868	369,868	338,547	338,547
Interest rate swaps	B	2	(8,041)	(8,041)	(15,321)	(15,321)
Cross-currency interest rate swaps	B	2	(4,054)	(4,054)	(10,700)	(10,700)
Cash and cash equivalents	A	2	342,251	342,251	270,354	270,354
Loans and borrowings	C	2	(516,472)	(485,883)	(936,191)	(867,611)
Senior notes	C	1	(1,553,126)	(1,438,669)	(1,565,014)	(1,413,735)
Finance lease liabilities	C	2	(442)	(463)	(727)	(784)
Accruals	C	2	(136,024)	(136,024)	(155,426)	(155,426)
Trade and other payables and deposits	C	2	(195,142)	(195,142)	(251,493)	(251,493)
Total			(1,701,058)	(1,556,033)	(2,325,743)	(2,105,941)
Unrecognized gain/(loss)				(145,025)		(219,802)

A – loans and receivables

B – hedges

C – other liabilities

It is assumed that the fair value of cash and cash equivalents is equal to their nominal value, therefore no evaluation methods were used in order to calculate their fair value.

When determining the fair value of finance lease liabilities, forecasted cash flows from the reporting date to December 2015 (assumed date of lease agreements termination) were analyzed. The discount rate for each month 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. Evaluation methods used to calculate fair values of loans granted to related and non-related parties are based on observable market data – WIBOR interest rates.

As at 31 December 2013 loans and borrowings comprised senior facility. When determining the fair value of senior facility, forecasted cash flows from the reporting date to 31 December 2015 (assumed date of repayment of the loan) were analyzed. The discount rate for each payment was calculated as a sum of implied WIBOR interest rate and a margin regarding the Group's credit risk.

The fair value of interest rate swaps and cross-currency interest rate swaps is assumed in accordance to the valuation of the Bank, with which the Group concluded agreements.

The fair value of bonds was calculated as their closing bid price as at the balance sheet date as quoted by Reuters multiplied by the EUR/PLN exchange rate as at the balance sheet date.

As at 31 December 2013, the Group held the following financial instruments carried at fair value on the statement of financial position.

Liabilities measured at fair value

	31 December 2013	Level 1	Level 2	Level3
Interest rate swaps			(8,041)	
Cross-currency interest rate swaps			(4,054)	
Total		-	(12,095)	-

As at 31 December 2012, the Group held the following financial instruments measured at fair value:

Assets measured at fair value

	31 December 2012	Level 1	Level 2	Level3
Cross-currency interest rate swaps			478	
Total		-	478	-

Liabilities measured at fair value

	31 December 2012	Level 1	Level 2	Level3
Interest rate swaps			(15,321)	
Cross-currency interest rate swaps			(11,178)	
Total		-	(26,499)	-

Items of income, costs, profit and losses recognized in profit or loss generated by loans and Senior Notes (including hedging transactions)

**For the period from 1 January 2013
to 31 December 2013**

	Loans and borrowings	Senior Notes	Hedging instruments	Total
Interest expense on loans and borrowings	(64,578)	-	(10,092)	(74,670)
Interest expense on Senior Notes	-	(109,057)	(8,149)	(117,206)
Foreign exchange rate differences	-	(20,135)	-	(20,135)
Total finance costs	(64,578)	(129,192)	(18,241)	(212,011)
Total gross profit/(loss)	(64,578)	(129,192)	(18,241)	(212,011)
Hedge valuation reserve	-	-	14,404	14,404

**For the period from 1 January 2012
to 31 December 2012**

	Loans and borrowings	Senior Notes	Hedging instruments	Total
Interest expense on loans and borrowings	(109,760)	-	(1,107)	(110,867)
Interest expense on Senior Notes	-	(108,926)	1,734	(107,192)
Foreign exchange rate differences	-	112,143	-	112,143
Total finance costs	(109,760)	3,217	627	(105,916)
Total gross profit/(loss)	(109,760)	3,217	627	(105,916)
Hedge valuation reserve	-	-	(31,345)	(31,345)

Hedge accounting and derivatives

Cash Flow Hedge of interest rate risk of interest payments

At 31 December 2013, the 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 designed as hedging instrument, including the periods in which cash flows occur due to cash flow hedges, periods they will affect the financial results and their fair value in PLN of hedging instruments as at 31 December 2013.

	31 December 2013	31 December 2012
Type of instrument	Interest rate swap	Interest rate swap
Exposure	Floating rate interest payments in PLN	Floating rate interest payments in PLN
Hedged risk	Interest rate risk	Interest rate risk
Notional value of hedging instrument	978,008	1,111,008
Fair value of hedging instruments	(8,041)	(15,321)
Hedge accounting approach	Cash Flow Hedge	Cash Flow Hedge
Expected period the hedge item affect income statement	Until 31 March 2015 (termination date)	Until 31 March 2015 (termination date)

Change in fair value of cash flow hedges is presented below (pre tax):

	For the period from 1 January 2013 to 31 December 2013	For the period from 1 January 2012 to 31 December 2012
Opening Balance	(15,321)	(6,687)
Effective part of gains or losses on the hedging instrument	(2,812)	(9,741)
Amounts recognized in equity transferred to the profit and loss statement, of which:	10,092	1,107
- adjustment of interest costs	10,092	1,107
- adjustment due to inefficiency of the hedge relationships	-	-
Closing Balance	(8,041)	(15,321)

Cash Flow Hedge of foreign exchange risk of interest payments

At 31 December 2013, the Group held a number of cross-currency interest rate swaps, designated as hedges of interest payments on senior facility denominated in euro. The cross-currency interest rate swaps are being used to hedge the foreign exchange risk of the Group's financing denominated in euro.

The terms of the cross-currency interest rate swaps have been negotiated to match the terms of the financing in euro. There were no highly probable transactions for which hedge accounting has been claimed that have not occurred and no significant element of hedge ineffectiveness requiring recognition in the income statement.

Table below presents the basic parameters of CIRS designed as hedging instrument, including the periods in which cash flows occur due to cash flow hedges, periods they will affect the financial results and their fair value in PLN of hedging instruments as at 31 December 2013.

	31 December 2013	31 December 2012
Type of instrument	Cross-currency interest rate swap	Cross-currency interest rate swap
Exposure	interest payments in euro	interest payments in euro
Hedged risk	Foreign exchange risk	Foreign exchange risk
Notional value of hedging instrument (EUR)	350,000	700,000
Fair value of hedging instruments	(4,054)	(10,700)
Hedge accounting approach	Cash Flow Hedge	Cash Flow Hedge
Expected period the hedge item affect income statement	Until 20 May 2014 (termination date)	Until 20 May 2014 (termination date)

Change in fair value of cash flow hedges is presented below (pre tax):

	2013	2012
Opening Balance	(10,700)	13,706
Effective part of gains or losses on the hedging instrument	(1,503)	(22,672)
Amounts recognized in equity transferred to the profit and loss statement, of which:	8,149	(1,734)
- adjustment of interest costs	8,149	(1,734)
- adjustment due to inefficiency of the hedge relationships	-	-
Closing Balance	(4,054)	(10,700)

39. 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.

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 2013	31 December 2012
Loans and borrowings	485,883	867,611
Senior Notes	1,438,669	1,413,735
Cash and cash equivalents	(342,251)	(270,354)
Net debt	1,582,301	2,010,992
Equity	3,001,213	2,468,403
Equity and net debt	4,583,514	4,479,395
Leverage ratio	0.35	0.45

40. Operating segments

The Group operates in the following two segments:

1. retail business 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.

Retail business 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 postpaid services which generate revenues mainly from interconnection revenues, settlements with mobile network operators and subscription fees;
- providing access to broadband Internet which generates revenues mainly from traffic and subscription fees;
- 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
- production of set-top boxes.

Broadcasting and television production segment consists mainly of production, acquisition and broadcasting of information and entertainment programs as well as TV series and feature films broadcasted on television channel 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 and impairment allowance. 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 2013:

The year ended 31 December 2013	Retail	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	1,914,597	996,162	-	2,910,759
Inter-segment revenues	26,110	98,149	(124,259)	-
Revenues	1,940,707	1,094,311	(124,259)	2,910,759
EBITDA (unaudited)	667,909	378,360	-	1,046,269
Depreciation, amortization, impairment and disposal	221,201	32,296	2,919	256,416
Profit/(loss) from operating activities	446,708	346,064	(2,919)	789,853
Acquisition of property, plant and equipment, reception equipment and other intangible assets	244,415*	39,910	-	284,325
Balance as at 31 December 2013				
Assets, including:	1,641,806	4,083,420**	(48,996)	5,676,230
Investments in jointly controlled entity	-	3,132	-	3,132

*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 46.8 million (not in thousands)

All material revenues are generated in Poland.

It should be noted that the year ended 31 December 2013 is not comparable to the year ended 31 December 2012 as INFO-TV-FM was acquired on 30 January 2012, ipla platform was acquired on 2 April 2012 (allocated to the Retail segment), Polskie Media was acquired and RS TV was disposed on 30 August 2013 (both allocated to the Broadcasting and television production segment).

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the year ended 31 December 2012:

The year ended 31 December 2012	Retail	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	1,787,309	990,906	-	2,778,215
Inter-segment revenues	16,390	98,957	(115,347)	-
Revenues	1,803,699	1,089,863	(115,347)	2,778,215
EBITDA (unaudited)	631,995	400,248	2	1,032,245
Depreciation, amortization, impairment and disposal	200,603	39,191	3,272	243,066
Profit/(loss) from operating activities	431,392	361,057	(3,270)	789,179
Acquisition of property, plant and equipment, reception equipment and other intangible assets	235,176*	25,579	-	260,755
Balance as at 31 December 2012				
Assets, including:	1,602,992	4,015,663**	(57,310)	5,561,345
Investments in jointly controlled entity	-	2,722	-	2,722

*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 54.5 million (not in thousands)

The accounting policies applied to both operating segments are described in note 6.

Reconciliation of EBITDA and Net profit for the period:

	for the year ended	
	31 December 2013	31 December 2012
EBITDA (unaudited)	1,046,269	1,032,245
Depreciation, amortization, impairment and disposal	(256,416)	(243,066)
Profit from operating activities	789,853	789,179
Other foreign exchange rate differences, net (note 11)	8,411	999
Interest income (note 11)	10,450	18,006
Share of the profit of jointly controlled entity accounted for using the equity method	2,924	2,897
Interest costs (note 11 and 12)	(194,630)	(223,143)
Foreign exchange differences on <i>Senior Notes</i> (note 12)	(20,135)	112,143
Other	(4,052)	(4,434)
Gross profit for the period	592,821	695,647
Income tax	(67,376)	(97,349)
Net profit for the period	525,445	598,298

41. Barter transactions

The Group is a party to barter transactions. The table below presents revenues and costs of barter transactions executed on an arm's-length basis. Revenue comprise revenue from services, products, goods and materials sold, costs comprise selling expenses.

	for the year ended	
	31 December 2013	31 December 2012
Revenues from barter transactions	27,393	28,444
Cost of barter transactions	21,886	22,841
	31 December 2013	31 December 2012
Barter receivables	4,427	3,838
Barter payables	624	1,304

42. Transactions with related parties

Receivables

	31 December 2013	31 December 2012
Jointly controlled entities	753	487
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	12,157	15,883
Total*	12,910	16,370

*Amounts presented above do not include deposits paid (31.12.2013 – PLN 2,558, 31.12.2012 – PLN 2,561)

Liabilities

	31 December 2013	31 December 2012
Jointly controlled entities	567	1,045
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	3,989	27,447
Total	4,556	28,492

Receivables due from related parties and liabilities due to related parties are unsecured and have not been pledged as security.

Other assets

	31 December 2013	31 December 2012
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	98,640	160,173
Total	98,640	160,173

Other current assets comprise mainly of deferred costs (short- and long-term) related to the agreement with Mobyland Sp. z o.o.

On 28 September 2012 the Company signed a memorandum of understanding to the data transfer services agreement dated 15 December 2010 and placed an order for the purchase of 31 million GB. According to the agreement, Mobyland provides the access to wireless data transfer services, based on 1800 MHz and 900 MHz bands in LTE and HSPA+ technologies.

Revenues

	for the year ended	
	31 December 2013	31 December 2012
Jointly controlled entities	453	592
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	38,464	35,934
Total	38,917	36,526

The most significant transactions include licence fees on programming assets, transponder rental fees, sale of interconnect services and revenues from audiotext services.

Expenses and purchases of programming assets

	for the year ended	
	31 December 2013	31 December 2012
Jointly controlled entities	5,026	5,612
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	229,708	170,320
Total	234,734	175,932

Most significant transactions include expenses for programming assets, data transfer services, advertising services, property rental, telecommunication services with respect to the Group's customer call center, IT services, license fees for broadcasting Polsat Jim Jam and rental of filming and lighting equipment.

Gain on investment activities, net

	for the year ended	
	31 December 2013	31 December 2012
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	89	84
Total	89	84

Finance costs

	for the year ended	
	31 December 2013	31 December 2012
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	-	87
Total	-	87

In 2013 the Group concluded two significant transactions with the related parties:

- acquisition of Polskie Media S.A. (see note 37)
- conditional investment agreement concerning the acquisition of Metelem Holding Company Limited (see note 47).

43. Litigations

Management believes that the provisions as at 31 December 2013 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

44. Other disclosures

Security relating to loans and borrowings

Establishment of security for loan facilities

In addition to the establishment of collateral agreements described in note 45 to the consolidated financial statements for the year 2012, the Group entered into a series of agreements establishing collateral under the SFA. Detailed information in respect to the agreements is presented in the Management Report in note 6.10.

Commitments to purchase programming assets

As at 31 December 2013 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 2013	31 December 2012
within one year	190,320	157,273
between 1 to 5 years	80,520	69,541
Total	270,840	226,814

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

	31 December 2013	31 December 2012
within one year	18,191	15,913
Total	18,191	15,913

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of technical equipment was PLN 4,864 as at 31 December 2013 (PLN 4,082 as at 31 December 2012). Total amount of capital commitments resulting from agreements on property improvements was PLN 509 as at 31 December 2013 (PLN 5,878 as at 31 December 2012). Additionally the amount of deliveries and services committed to under agreements for the purchases of licences and software as at 31 December 2013 was PLN 26,809 (PLN 405 as at 31 December 2012).

45. Remuneration of the Management Board

The table below presents the Management Board's remuneration.

Name	Function	2013	2012
Dominik Libicki	President of the Management Board	1,089	1,080
Dariusz Działkowski	Member of the Management Board	660	660
Tomasz Szeląg	Member of the Management Board	684	660
Aneta Jaskólska	Member of the Management Board	666	660
Total		3,099	3,060

The amounts of bonuses and other remuneration payable to each member of the Management Board for 2013 and 2012 are presented below:

Name	Function	2013	2012
Dominik Libicki	President of the Management Board	3,000	3,200
Dariusz Działkowski	Member of the Management Board	400	700
Tomasz Szelaĝ	Member of the Management Board	1,500	1,800
Aneta Jaskólska	Member of the Management Board	1,000	900
Total		5,900	6,600

46. Remuneration of the Supervisory Board

The Supervisory Board members receive remuneration based on the resolution of the Extraordinary General Shareholders' Meeting of Cyfrowy Polsat S.A. dated 5 September 2007.

Presented below total remuneration payable to the Supervisory Board members in 2013 and 2012:

Name	Function	2013	2012
Zygmunt Solorz-Żak	President of the Supervisory Board	180	180
Heronim Ruta	Member of the Supervisory Board	120	120
Andrzej Papis	Member of the Supervisory Board	120	120
Robert Gwiazdowski	Independent Member of the Supervisory Board	120	120
Leszek Reksa	Independent Member of the Supervisory Board	120	120
Total		660	660

47. Important events during reported period

Investment agreement

On 14 November 2013 the Company concluded a conditional investment agreement concerning the transfer of shares in Metelem Holding Company Limited („Metelem”) as in-kind contribution for the shares to be issued by Company (the "Agreement") with three shareholders of Metelem, i.e. Argumenol Investment Company Limited seated in Nicosia, Cyprus, Karswell Limited seated in Nicosia, Cyprus and Sensor Overseas Limited seated in Nicosia, Cyprus, whose shares represent approximately 83.77% of shares in Metelem (the "Vendors").

The fourth shareholder of Metelem, the European Bank for Reconstruction and Development ("EBRD") holds shares representing approximately 16.23% of shares in Metelem. EBRD (the "Vendor") concluded the conditional investment agreement on 19 December 2013.

Metelem holds indirectly 100% of the share capital of Polkomtel Sp. z o.o., the operator of the mobile network "Plus".

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

The obligation of the Company to issue shares to the Vendors and the Vendors' obligation to transfer the title to the shares in Metelem to the Company is subject to the following conditions precedent:

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

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

Disposal of a subsidiary

On 28 March 2013 the conditional agreement for disposal of RS TV S.A ('RS TV') was concluded between the Group and EmiTel Sp. z o.o.

The agreement was concluded subject to the following precedent conditions:

- a) receiving consents from banks which are parties to the loan agreement (SFA)
- b) release of all security (on shares and assets of the company) related to the loan agreement and bond issue
- c) court registration of the division of the RS TV.

On 30 August 2013, following fulfillment of precedent conditions, the disposal of RS TV was finalized. The agreed final selling price amounts to PLN 51,873. The gain on the disposal of the company is presented in Other operating income/(cost), net.

48. Subsequent events

On 16 January 2014 the Extraordinary General Meeting of Cyfrowy Polsat adopted resolution concerning conditional increase in the share capital by the amount not exceeding PLN 11,648. The increase of the Company's share capital shall be effected by way of the issue of up to 291,193,180 series I ordinary bearer shares. All series I shares will be earmarked for acquisition by shareholders of Metelem.

On 24 January 2014 the Extraordinary General Meeting of Cyfrowy Polsat adopted resolution concerning the issuance of 291,193,180 registered subscription warrants. The warrants entitle their holders to acquire ordinary bearer shares and will be offered to the vendors of shares in Metelem. The Extraordinary General Meeting of Cyfrowy Polsat decided that the existing

shareholders are deprived of all the preemptive rights vis-à-vis all of the new issue ordinary bearer shares which may be issued by the Company under the conditional increase of the Company's share capital adopted on 16 January 2014.

49. Judgments, financial estimates and assumptions

The preparation of consolidated 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 including delivery of digital pay television services. 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.

As a part of its business activities the Group has concluded agreements with Eutelsat for the rental of transponder capacity as well as an agreement with NagraVision for the lease of conditional access system (including SMART cards). These agreements were classified as operating leases as Eutelsat and NagraVision hold substantially all the risks and rewards incidental to the ownership of the transponders and the conditional access system. For more information see note 32.

- *Depreciation rates of property, plant and equipment and intangible assets with definite useful lives*

Depreciation rates are based on the expected economic useful lives of property, plant and equipment (including reception equipment provided to customers under lease agreements) and intangible assets. The expected economic useful lives are reviewed on an annual basis based on the experience of the entity.

The economic useful lives of the set-top boxes rented to customers under operating lease agreements are estimated for 5 years, modems and routers 3 years. For information on the useful lives of property, plant and equipment, programming assets and other intangible assets with definite useful lives see notes 6j and 6k. For information on the depreciation charge for the period by the category of property, plant and equipment and intangible assets with definite useful lives see notes 16 and 20.

- *Economic useful lives and amortization method of programming assets*

Economic useful life of programming assets is based on the shorter of the expected consumption of future economic benefits embodied in an asset and the license period. Amortisation method of programming assets reflects how these economical benefits are consumed. The estimation of the useful life and the amortization method requires assessment of the timing during which the Group is expecting to obtain the income from the acquired programming assets and the percentage

apportionment of this income in the given period. For more information about the amortization method and amortization charge for the period by programming assets category see notes 6l and 21.

- *Indefinite useful life of Polsat brand*

As at the reporting date, the Group has reviewed whether relevant factors continue to indicate indefinite useful life of Polsat brand recognised in 2011 on the acquisition of Telewizja Polsat S.A.

The Group has reviewed the following factors which are essential for estimating the economic useful life of the Polsat brand:

- 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 brand is expected to generate net cash inflows for the Group and thus the indefinite useful life was assumed. Furthermore, the Polsat brand is widely recognized by media and is highly appreciated in numerous rankings, for example "Rzeczpospolita" journal's rankings or BAV Consulting's rankings. Numerous awards for employees, individuals associated with the brand as well as high Power Ratio index also indicate a strong position of the brand.

- *Fair value of assets and liabilities of Polskie Media*

The Group identified assets and liabilities and estimated their fair value under the purchase price allocation process relating to the acquisition of Polskie Media. For more information see note 37.

- *Fair value of IPLA brand*

The Group identified Ipla brand in the balance sheet under the purchase price allocation process relating to the acquisition of entities comprising Ipla platform. The fair value of the brand was estimated on the basis of relief from royalty method. The method is based on the assumption that the benefits of owning a brand are equivalent to the hypothetical costs the owner of the brand would have to incur, should the brand be licensed from another entity based on market rates. Fair value estimation of the Ipla brand was based on the following key assumptions:

- market level royalty fee rates
- forecasted level of revenues from sale of products and/or services under the Ipla brand
- growth rate for estimating the cash flows beyond the financial planning period
- discount rate reflecting the risks associated with the brand

For more information on fair value of Ipla brand and the assumptions and estimates used see note 18.

The IPLA brand was allocated to the "Retail" segment for the purposes of impairment testing.

- *Indefinite useful life of IPLA brand*

The Management believes that there is no foreseeable limit on the period over which an asset is expected to generate cash inflows for the entity as well as at the balance sheet date there are no plans to cease using or significantly modify IPLA brand. As a result, the Management concluded that the useful life of the IPLA brand was indefinite what means, that an asset is not being amortized and is tested for impairment once a year. The value assigned to the brand relate to the name "Ipla" and the Ipla logotype 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 "Ipla" brand and assess whether there are indicators of possible impairment.

- *Fair value of TV4 and TV6 brands*

The Group identified TV4 and TV6 brands in the balance sheet under the purchase price allocation process relating to the acquisition of Polskie Media. The fair value of the brands was estimated on the basis of relief from royalty method. The method is based on the assumption that the benefits of owning a brands are equivalent to the hypothetical costs the owner of the brands would have to incur, should the brands be licensed from another entity based on market rates. Fair value estimation of the TV4 and TV6 brands were based on the following key assumptions:

- market level royalty fee rates
- forecasted level of revenues from sale of products and/or services under the Ipla brand
- growth rate for estimating the cash flows beyond the financial planning period
- discount rate reflecting the risks associated with the brand

For more information on fair value of TV4 and TV6 brands and the assumptions and estimates used see note 18.

The TV4 and TV6 brands were allocated to the "Broadcasting and television production" segment for the purposes of impairment testing.

- *Indefinite useful life of TV4 and TV6 brands*

The Management believes that there is no foreseeable limit on the period over which an asset is expected to generate cash inflows for the entity as well as at the balance sheet date there are no plans to cease using or significantly modify TV4 and TV6 brands. As a result, the Management concluded that the useful life of the TV4 and TV6 brands was indefinite what means, that an asset is not being amortized and is tested for impairment once a year. The value assigned to the brand relate to the name "TV4" and "TV6" and the 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 TV4 and TV6 brands and assess whether there are indicators of possible impairment.

- *The impairment of goodwill and intangible assets with indefinite useful lives*

The Group performed impairment test of a goodwill and of the intangible assets with indefinite useful lives (Polsat brand, TV4 and TV6 brands and Ipla brand). The impairment test was based on the value-in-use calculations of the cash-generating unit to which the goodwill and brands have been allocated on the initial recognition. Goodwill and brands with indefinite useful lives have been allocated to the following cash-generating units, which also represent the Group's business segments:

- "Retail" - goodwill recognized on the acquisition of M.Punkt Holdings, goodwill recognized on the acquisition of INFO-TV-FM and the goodwill and IPLA brand recognized on the acquisition of entities comprising the IPLA platform;
- "Broadcasting and television production" - goodwill and Polsat brand recognized on the acquisition of TV Polsat and goodwill and TV4 and TV6 brands recognized on the acquisition of Polskie Media.

The value-in-use calculations included estimation of discounted cash flows for the given cash-generating unit and the relevant discount rate. The value of goodwill and brands tested at each cash-generating unit, the key assumptions used in the value-in-used calculations for each cash-generating unit, impairment test results and sensitivity analysis of reasonably possible changes in the key assumptions are presented in note 19.

- *The 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. No such indicators were found and thus no impairment tests were performed.

- *Revenues from contractual penalties*

The Group recognizes the revenues from contractual penalties in the amount probable to recover. The estimated recoverability of contractual penalties from the customers outstanding as at the balance sheet date is 20%.

- *Impairment of receivables*

Judgment is required in evaluating the likelihood of collection of customer debt after revenue has been recognized. This evaluation requires estimates to be made including the level of bad debt allowance made for amounts with uncertain recovery profiles. Allowances are based on the probability of receivables collection, and on more detailed reviews of individually significant balances. Depending on the type of the customer and the source of the receivable, the assessment of the probability of receivable collection is done either based on the analysis of individual balances or based on the statistical probability of recoverability for each receivable's ageing profile. Recoverability rates are defined based on the analysis of the historical recoverability and the customers' behavior as well as other factors that, according to the Management Board, might influence the recoverability of the receivables. For more information see notes 6h, 25 and 38.

- *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 2013 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.

- *Deferred tax*

The key assumption in relation to deferred tax accounting is the assessment of the expected timing and manner of realization or settlement of the carrying amounts of assets and liabilities held at the reporting date. In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deductible temporary differences can be utilized. For further details refer to note 6x and 13.

- *Fair value of financial instruments*

Fair value of financial instruments for which there is no active market is estimated using appropriate techniques of measurements. The techniques are chosen based on the professional judgment. For more information about the method of establishing the fair value of financial instruments and key assumption made see note 6h.

CYFROWY POLSAT S.A. GROUP

**Interim Condensed Consolidated Financial Statements
for the 3 and 12 Months Ended 31 December 2013**

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

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Interim Consolidated Income Statement

	Note	for 3 months ended		for 12 months ended	
		31 December 2013 unaudited	31 December 2012 unaudited	31 December 2013	31 December 2012
Revenue	5	800,439	750,616	2,910,759	2,778,215
Operating costs	6	(591,667)	(562,519)	(2,157,670)	(1,971,663)
Other operating income/(cost), net		(1,969)	(12,648)	36,764	(17,373)
Profit from operating activities		206,803	175,449	789,853	789,179
Gain/loss on investment activities, net		4,120	5,033	16,058	14,353
Finance costs		(22,833)	(43,130)	(216,014)	(110,782)
Share of the profit of jointly controlled entity accounted for using the equity method		595	853	2,924	2,897
Gross profit for the period		188,685	138,205	592,821	695,647
Income tax		(15,541)	(16,581)	(67,376)	(97,349)
Net profit for the period		173,144	121,624	525,445	598,298
Net profit attributable to equity holders of the Parent		173,144	121,624	525,445	598,298
Basic and diluted earnings per share (in PLN)		0.50	0.35	1.51	1.72

Interim Consolidated Statement of Comprehensive Income

	for 3 months ended		for 12 months ended	
	31 December 2013 unaudited	31 December 2012 unaudited	31 December 2013	31 December 2012
Net profit for the period	173,144	121,624	525,445	598,298
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Valuation of hedging instruments	3,075	(9,367)	14,404	(31,345)
Income tax relating to hedge valuation	(584)	1,780	(2,737)	5,956
Currency translation adjustment	-	(549)	(4,304)	(549)
Items that may be reclassified subsequently to profit or loss	2,491	(8,136)	7,363	(25,938)
Other comprehensive income, net of tax	2,491	(8,136)	7,363	(25,938)
Total comprehensive income for the period	175,635	113,488	532,808	572,360
Total comprehensive income attributable to equity holders of the Parent	175,635	113,488	532,808	572,360

Interim Consolidated Balance Sheet – Assets

	31 December 2013	31 December 2012
Reception equipment	407,579	420,060
Other property, plant and equipment	251,152	276,407
Goodwill	2,602,804	2,568,033
Brands	890,800	847,800
Other intangible assets	137,401	81,380
Non-current programming assets	71,571	97,988
Investment property	5,330	8,357
Non-current deferred distribution fees	29,551	35,125
Other non-current assets	20,803	109,642
Deferred tax assets	38,854	31,356
Total non-current assets	4,455,845	4,476,148
Current programming assets	181,341	141,652
Inventories	146,771	161,974
Trade and other receivables	374,424	375,659
Income tax receivable	183	6,494
Current deferred distribution fees	70,055	57,096
Other current assets	105,360	71,968
Cash and cash equivalents	342,251	270,354
Total current assets	1,220,385	1,085,197
Total assets	5,676,230	5,561,345

Interim Consolidated Balance Sheet – Equity and Liabilities

	31 December 2013	31 December 2012
Share capital	13,934	13,934
Share premium	1,295,103	1,295,103
Other reserves	(8,964)	(16,327)
Retained earnings	1,701,138	1,175,693
Equity attributable to equity holders of the Parent	3,001,211	2,468,403
Non-controlling interests	2	-
Total equity	3,001,213	2,468,403
Loans and borrowings	239,889	592,003
<i>Senior Notes</i> payable	1,340,010	1,316,479
Finance lease liabilities	227	551
Deferred tax liabilities	108,066	94,258
Deferred income	4,079	5,181
Other non-current liabilities and provisions	7,915	17,690
Total non-current liabilities	1,700,186	2,026,162
Loans and borrowings	245,994	275,608
<i>Senior Notes</i> payable	98,659	97,256
Finance lease liabilities	236	233
Trade and other payables	413,210	472,094
Income tax liability	4,520	7,092
Deposits for equipment	2,727	13,259
Deferred income	209,485	201,238
Total current liabilities	974,831	1,066,780
Total liabilities	2,675,017	3,092,942
Total equity and liabilities	5,676,230	5,561,345

Interim Consolidated Cash Flow Statement

	for the year ended	
	31 December 2013	31 December 2012
Net profit	525,445	598,298
Adjustments for:	334,290	244,920
Depreciation, amortization, impairment and disposal	256,416	243,066
Payments for film licenses and sports rights	(222,456)	(177,868)
Amortization of film licenses and sports rights	220,371	194,521
Gain on sale of property, plant and equipment and intangible assets	(35,765)	(111)
Cost of programming rights sold	6,407	9,244
Interest expense	183,811	205,185
Change in inventories	14,839	16,173
Change in receivables and other assets	60,908	(106,816)
Change in liabilities, provisions and deferred income	(104,939)	67,872
Change in internal production and advance payments	6,477	2,093
Valuation of hedging instruments	14,404	(31,345)
Share of the profit of jointly controlled entity accounted for using the equity method	(2,924)	(2,897)
Foreign exchange losses/(gains), net	16,294	(111,076)
Income tax	67,376	97,349
Net additions of reception equipment provided under operating lease	(158,859)	(164,008)
Other adjustments	11,930	3,538
Cash from operating activities	859,735	843,218
Income tax paid	(67,486)	(78,733)
Interest received from operating activities	10,410	16,882
Net cash from operating activities	802,659	781,367
Acquisition of property, plant and equipment	(60,845)	(54,937)
Acquisition of intangible assets	(62,041)	(36,240)
Acquisition of subsidiaries, net of cash acquired	(64,266)	(45,711)
Disposal of a subsidiary	48,736	-
Proceeds from sale of property, plant and equipment	2,064	751
Loans granted	-	(1,100)
Repayment of loans granted	-	1,100
Dividends received	2,515	2,706
Net cash used in investing activities	(133,837)	(133,431)
Repayment of loans and borrowings	(431,117)	(453,324)
Finance lease – principal repayments	(330)	(335)
Payment of interest on loans, borrowings, bonds, Cash Pool, finance lease and commissions*	(165,017)	(199,617)
Other net financing outflows	-	(71)
Net cash used in financing activities	(596,464)	(653,347)

Cyfrowy Polsat S.A. Group
Interim condensed consolidated financial statements for 3 and 12 months ended 31 December 2013
(all amounts are in PLN thousand, except where otherwise stated)

Net increase/(decrease) in cash and cash equivalents	72,358	(5,411)
Cash and cash equivalents at the beginning of the period	270,354	277,534
Effect of exchange rate fluctuations on cash and cash equivalents	(461)	(1,769)
Cash and cash equivalents at the end of the period	342,251	270,354

* Includes impact of hedging instruments

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

	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 2013	13,934	1,295,103	(16,327)	1,175,693	2,468,403	-	2,468,403
Acquisition of controlling share ownership in a subsidiary	-	-	-	-	-	2	2
Total comprehensive income	-	-	7,363	525,445	532,808	-	532,808
<i>Hedge valuation reserve</i>	-	-	11,667	-	11,667	-	11,667
<i>Currency translation adjustment</i>	-	-	(4,304)	-	(4,304)	-	(4,304)
<i>Net profit for the period</i>	-	-	-	525,445	525,445	-	525,445
Balance as at 31 December 2013	13,934	1,295,103	(8,964)	1,701,138	3,001,211	2	3,001,213

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

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

	Share capital	Share premium	Other reserves	Retained earnings*	Total equity
Balance as at 1 January 2012	13,934	1,295,103	9,611	577,395	1,896,043
Total comprehensive income	-	-	(25,938)	598,298	572,360
<i>Hedge valuation reserve</i>	-	-	(25,389)	-	(25,389)
<i>Currency translation adjustment</i>	-	-	(549)	-	(549)
<i>Net profit for the period</i>	-	-	-	598,298	598,298
Balance as at 31 December 2012	13,934	1,295,103	(16,327)	1,175,693	2,468,403

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

Notes to the Interim Condensed Consolidated Financial Statements for 3 and 12 months ended 31 December 2013

1. Activity of the Parent

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 the Internet access service provider and a Mobile Virtual Network Operator.

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

The consolidated financial statements comprise the Parent and its subsidiaries (together with the Parent referred to as "the Group" and individually as "Group entities"), and the Group's interest in jointly controlled entity. The Group operates in two segments: (1) retail business which relates to the provision of services to the general public, including digital television transmission signal, Internet access services, mobile TV services, online TV services, mobile services, production of set-top boxes; (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 Parent

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

3. Composition of the Supervisory Board of the Parent

- Zygmunt Solorz-Żak	President of the Supervisory Board,
- Robert Gwiazdowski	Member of the Supervisory Board,
- Andrzej Papis	Member of the Supervisory Board,
- Leszek Rekša	Member of the Supervisory Board,
- Heronim Ruta	Member of the Supervisory Board.

4. Basis of preparation of the interim condensed consolidated financial statements

Statement of compliance

These interim condensed consolidated financial statements for 3 and 12 months ended 31 December 2013 have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting*. These interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The Group applied the same accounting policies in the preparation of the financial data for 3 and 12 months ended 31 December 2013 and the consolidated financial statements for the year 2012, 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 2013.

The most recent published annual consolidated financial statements were prepared and audited for the year ended 31 December 2013. Annual consolidated financial statements fully disclose accounting policies approved by the Group.

5. Revenue

	for 3 months ended		for 12 months ended	
	31 December 2013 unaudited	31 December 2012 unaudited	31 December 2013	31 December 2012
Retail revenue	466,417	447,350	1,831,694	1,734,798
Advertising and sponsorship revenue	287,246	249,800	869,850	852,580
Revenue from cable and satellite operator fees	25,078	22,980	97,322	93,660
Sale of equipment	9,686	7,263	41,706	18,770
Other revenue	12,012	23,223	70,187	78,407
Total	800,439	750,616	2,910,759	2,778,215

6. Operating costs

	for 3 months ended		for 12 months ended	
	31 December 2013 unaudited	31 December 2012 unaudited	31 December 2013	31 December 2012
Programming costs	104,913	85,730	407,763	360,311
Distribution, marketing, customer relation management and retention costs	92,363	95,730	331,960	312,723
Cost of internal and external TV production and amortization of sport rights	119,061	101,953	385,198	351,489
Depreciation, amortization, impairment and disposal	68,590	71,711	256,416	243,066
Salaries and employee-related costs	53,216	58,595	178,626	178,373
Broadcasting and signal transmission costs	38,809	40,407	153,285	149,731
Amortization of purchased film licenses	36,802	31,350	134,042	112,107
Cost of equipment sold	10,563	16,103	63,914	36,152
Cost of settlements with mobile network operators and interconnection charges	26,175	11,272	77,912	44,110
Cost of debt collection services and bad debt allowance and receivables written off	7,187	7,789	28,177	27,457
Other costs	33,988	41,879	140,377	156,144
Total	591,667	562,519	2,157,670	1,971,663