



## Independent auditor's report

### To the General Shareholders' Meeting and the Supervisory Board of Cyfrowy Polsat S.A.

#### Report on the audit of the financial statements

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##### Our opinion

In our opinion, the financial statements present fairly, in all material respects the consolidated financial position of Cyfrowy Polsat S.A. (the 'Company') as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ('IFRS').

##### What we have audited

The Company's financial statements comprise:

- the balance sheet as at December 31, 2017;
- the income statement and the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

##### Independence

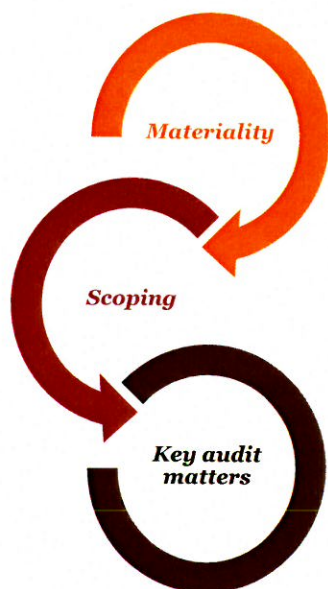
We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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## Our audit approach

### Overview



- The overall materiality for the engagement was amounting to PLN 12.6 million, i.e. 2.5% of EBITDA.
- We have audited the Company's financial statements for the year ended December 31, 2017.
- Recognizing sales revenue;
- Impairment of non-current assets;
- Claims, disputes and contingent liabilities;
- Assessment of new IFRS standards impact.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

#### Overall materiality

PLN 12.6 million (PLN 13.5 million for 2016 audit)

#### How we determined it

2.5% of EBITDA. EBITDA is an alternative performance measure and was defined by the Company in note 13 of the financial statements. The Management Board is responsible for defining and setting the related measure - EBITDA calculation method may vary from other entities' calculation of such measure.



### ***Rationale for the materiality benchmark applied***

We adopted the EBITDA as a basis for determining the overall materiality, as we believe that this ratio is commonly used to assess the activity of the Company for users of financial statements and generally accepted indicator of reference, especially for the entities with a significant external borrowing costs as well as depreciation and amortisation. The overall materiality was assumed at 2.5%, as based on our professional judgement it is in line with the acceptable quantitative thresholds for determining materiality levels.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above PLN 630 thousand as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### ***Key audit matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit referred to the matter
<p><b><i>Recognizing sales revenue</i></b></p> <p>The Company disclosed information related to revenues on sales of services, finished goods, goods for resale and materials in Note 8 to the financial statements.</p> <p>In the financial year ended 31 December 2017, the Company earned revenue:</p> <ul style="list-style-type: none"> <li>from retail sales to individual and business customers (mainly in respect of subscription fees on programme packages of paid digital TV and subscription fees for telecommunication services provided to contract customers, and leasing of TV receiver sets);</li> <li>from wholesale (advertising and sponsoring, signal transmission and broadcasting services);</li> <li>from sales of equipment.</li> </ul> <p>This was the matter we focused on due to the fact that applying appropriate financial reporting standards relating to recognizing and presenting revenue is a complex matter and requires Management Board estimates and accounting judgements, and is based on the use of computer data processing (in particular billing data).</p>	<p>Our audit procedures covered in particular:</p> <ul style="list-style-type: none"> <li>understanding and assessing the internal control environment relating to the recognition, measurement and presentation of particular revenue streams;</li> <li>assessing compliance of the accounting policies relating to recognizing revenues with the respective financial reporting standards, in particular those related to material accounting estimates and judgments;</li> <li>testing IT General Controls and selected IT systems, including billing systems, used in the process of recognizing revenues by the Company to confirm their accuracy and completeness in the audited period;</li> <li>assessing the Company's Management Board's assumptions and estimates related to recognizing revenues, mainly in respect of multi-component contracts and discounts granted;</li> <li>in order to confirm the amounts of revenue recognized, testing material contracts concluded by the Company, on a selected sample, by reconciling amounts of revenue recognized to contract terms for particular revenue streams;</li> <li>testing internal controls, on a selected sample, in terms of the recognition and verification of billing revenue, to confirm the existence and correctness of measurement of revenues using IT systems;</li> </ul>



- substantive testing, on a selected sample, consisting, among other things, of reconciling sales invoices issued, respective contracts with customers, billing tariffs applied (quotations) and payments received.

As a result of the audit procedures performed, we have not detected material misstatements which would require adjusting in the financial statements.

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### ***Impairment of non-current assets***

In Note 16 to the financial statements the Company presented disclosures relating to the impairment tests performed, including the results of the tests, their sensitivity analysis and a description of the assumptions made.

The balance of goodwill recognized as at December 31, 2017 in the financial statements amounted to PLN 197.0 million and the investment in subsidiaries and associates amounted to PLN 12,125.5 million. In accordance with IFRS, the Management Board of the Company performs goodwill impairment tests at least as at the end of each financial year and tests investment in subsidiaries and associates for impairment in case of identification of any impairment indicators.

The impairment testing is related to the need to adopt several assumptions and making judgements by the Management Board of the Company, which – among other things – relate to the adopted Company's strategy, financial plans and cash flow forecasts for the consecutive years, including after the period covered by detailed forecasts, and macroeconomic and market assumptions. Taking into consideration the materiality of the particular financial statement item and the sensitivity of the results of the said test with reference to the adopted assumptions, this matter was subject to our analyses.

Our audit procedures covered in particular:

- understanding and assessing the identification process of asset impairment and correctness of their grouping into cash generating units and determining the level on which goodwill impairment testing is performed, in compliance with the applicable financial reporting standards;
- checking the arithmetical correctness and methodological consistency of valuation models (using internal PwC valuation professionals) prepared by the Management Board of the Company based on discounted cash flows;
- a critical assessment of the assumptions and estimates adopted by the Management Board of the Company used to determine the recoverable value of fixed assets, including, among other:
  - a five-year projection period in respect of future cash flows and the respective assumed revenue level, operating margin and expenditures necessary to keep business operations unchanged;
  - the discount rate used (based on weighted average cost of capital);
  - marginal growth rate after the forecast period;
- assessment of the assumptions adopted in the sensitivity analysis performed by the Management Board on the valuation results that may have impact on the result of the test;
- assessment of the correctness and completeness of disclosures in respect of impairment tests in the consolidated financial statements.

Based on the procedures performed we concluded that the assumptions adopted by the Management Board are rational and supported by the documentation obtained. We have not identified any material adjustments to the financial statements. We assessed goodwill impairment testing disclosures and communicated our comments related to their level of detail. We have not identified



deficiencies having material impact on the financial statements.

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### **Claims, disputes and contingent liabilities**

The Company presented the disclosures related to contingent liabilities and disputes in Note 40, 44 and 45 to the financial statements.

In its business operations the Company is party to court and administrative proceedings, including proceedings before regulatory and tax authorities. Provisions for probable claims are set up based on Management Board estimates as to their probable outcomes, which base on the available information on the legal status of the proceedings.

Our audit procedures focused on this area due to the fact that the assessment as to whether there is a need to set up a provision and in what amount as well as the scope of disclosures of contingent liabilities relating to particular matters is related to the intrinsic risk of uncertainty and the need for the Management Board to adopt professional judgements and assumptions.

Our audit procedures covered in particular:

- understanding and assessing the internal control environment relating to the identification, recognition and measurement of provisions for disputes, potential claims and litigation, and contingent liabilities;
- analysis of responses obtained from the Company's legal advisors who conduct the court cases, tax and administrative proceedings, in which their status and possible expected manner of proceeding were described;
- discussions with the Group's legal advisors of selected (material) disputes, and existing and potential disputes and claims as well as consultations with PwC specialists related to ongoing tax proceedings;
- assessment of the Company's Management Board's assumptions and estimates related to the recognized provisions for disputes and disclosures of contingent liabilities in the financial statements;
- analysis of minutes of meetings of the decision making bodies (i.e. the Management Boards, Supervisory Boards and General Shareholders' Meetings) of the Company.

In the light of the evidence obtained, we concluded that the judgements and estimates made by the Management Board in respect of the disputes and related provisions are justified. As a result of procedures performed, we have not identified any material adjustments to the financial statements. We assessed claims, disputes and contingent liabilities disclosures and communicated our comments related to their level of detail. We have not identified deficiencies having material impact on the financial statements.

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### **Assessment of new IFRS standards impact**

In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the financial statements should disclose information required to assess the potential impact of new accounting standards that have been published, but are not in force, yet. European Securities and Markets Authority (ESMA), whose member is the Polish Financial Supervision Authority (*Komisja*

Our audit procedures covered in particular:

- understanding and assessing the process of identification and assessment of impact of new IFRS on the financial statements;
- critical assessment of the key assumptions and judgements made by the Company's Management;



*Nadzoru Finansowego*) expects that such disclosures would include both qualitative and detailed quantitative information explaining the impact of the first time adoption of the standards to enable users of the financial statements to understand the impact which the implementation of new standards will have on the financial situation of the Company.

The Company presented disclosures related to the assessment of the new standards IFRS 9 *Financial instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leasing* in note 4 to the financial statements, which presents quantitative and qualitative information enabling users to understand the expected impact of the new standards and areas where the management made significant judgements and estimates related to the implementation of the new standards.

These disclosures were subject to our analysis due to the significant impact of new IFRS (in particular IFRS 15) on the financial statements and the requirement of making significant judgements and estimates by the Company's Management, following the additional requirements related to these disclosures imposed on the public interest entities by the financial oversight bodies.

- critical assessment of the completeness of analysis performed by the Company's Management;
- detailed testing, on sample basis, of - among other - the declared impact of the new IFRS on the financial statements;
- verification of accuracy and completeness of disclosures in relation to the requirements of the standards and expectations of the financial oversight bodies.

Our audit procedures did not identify any material adjustments of provisional impact of implementing new standards on equity as of January 1, 2018 disclosed in the financial statements. We assessed impact of implementation of new standards disclosures and communicated our comments related to their level of detail. We have not identified deficiencies having material impact on the financial statements.

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## Other information

Management is responsible for the other information. The other information comprises the Report of the Management Board on the activities of Cyfrowy Polsat S.A. in the financial year ended December 31, 2017 (the 'Report on the Company's operations').

Our opinion on the financial statements does not cover the Report on the Company's operations and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Report on the Company's operations and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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## Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.





In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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The Key Registered Auditor responsible for the audit resulting in this independent auditor's report is Paweł Wesołowski.

A handwritten signature in blue ink, appearing to read "P. Wesołowski", written over the printed name.

Paweł Wesołowski  
Key Registered Auditor  
No. 12150

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March 21, 2018