



**MANAGEMENT REPORT  
ON THE OPERATIONS OF  
THE MIDAS CAPITAL GROUP  
IN 2014**

Warsaw, 3 March 2015

## Table of contents

<b>1</b>	<b>ORGANISATION OF THE MIDAS CAPITAL GROUP .....</b>	<b>4</b>
1.1	STRUCTURE OF THE MIDAS GROUP .....	4
1.1.1	<i>Changes in the structure of the Midas Group .....</i>	<i>4</i>
1.1.2	<i>Entities subject to consolidation.....</i>	<i>5</i>
1.2	BRANCHES OF THE COMPANY.....	5
1.3	CHANGES IN THE PRINCIPLES OF MANAGING THE MIDAS GROUP .....	5
1.4	ORGANISATIONAL OR CAPITAL RELATIONS.....	5
1.5	DEPOSITS AND CAPITAL EXPENDITURES MADE WITHIN THE MIDAS GROUP.....	6
<b>2</b>	<b>OPERATIONS OF THE MIDAS GROUP.....</b>	<b>6</b>
2.1	PRINCIPAL PRODUCTS, GOODS AND SERVICES.....	6
2.2	KEY SALES AND SUPPLY MARKETS .....	10
2.3	IMPORTANT EVENTS, ACHIEVEMENTS AND FAILURES OF THE MIDAS GROUP AFFECTING ITS BUSINESS OPERATIONS .....	10
2.4	INFORMATION ON AGREEMENTS ENTERED INTO BY MIDAS GROUP COMPANIES.....	20
2.4.1	<i>Agreements which are significant for the operations of the Midas Group .....</i>	<i>20</i>
2.4.2	<i>Key transactions with related parties not concluded on an arm's length basis .....</i>	<i>25</i>
2.4.3	<i>Loan agreements concluded and terminated.....</i>	<i>25</i>
2.4.4	<i>Borrowings and sureties granted and sureties and guarantees received .....</i>	<i>25</i>
2.5	EMPLOYMENT INFORMATION.....	27
2.6	DEVELOPMENT OF THE MIDAS GROUP.....	27
2.6.1	<i>Description of the Midas Group's development direction policy.....</i>	<i>27</i>
2.6.2	<i>Midas Group's development prospects .....</i>	<i>30</i>
2.7	EVALUATION OF FEASIBILITY OF INVESTMENT PLANS.....	31
2.8	RISKS AND THREATS.....	31
2.8.1	<i>Risks related to the Midas Group's activities .....</i>	<i>31</i>
2.8.2	<i>Risks related to the Midas Group's environment .....</i>	<i>39</i>
<b>3</b>	<b>FINANCIAL POSITION AND ASSETS OF THE MIDAS GROUP.....</b>	<b>40</b>
3.1	PRINCIPLES FOR THE PREPARATION OF ANNUAL CONSOLIDATED FINANCIAL STATEMENTS .....	40
3.2	DESCRIPTION OF KEY ECONOMIC AND FINANCIAL FIGURES .....	41
3.3	FINANCIAL AND NON-FINANCIAL INDICATORS.....	42
3.4	DESCRIPTION OF THE STRUCTURE OF ASSETS AND LIABILITIES IN THE CONSOLIDATED BALANCE SHEET .....	42
3.5	SIGNIFICANT OFF-BALANCE SHEET ITEMS.....	43
3.6	CHANGES IN THE ISSUER'S INVESTMENT PORTFOLIO .....	43
3.7	DIFFERENCES BETWEEN ACTUAL FINANCIAL RESULTS AND ANY PREVIOUSLY PUBLISHED FORECASTS .....	44
3.8	USE OF PROCEEDS FROM THE ISSUE OF SERIES A BONDS.....	44
3.9	FINANCIAL INSTRUMENTS .....	44
3.9.1	<i>Employed financial instruments .....</i>	<i>44</i>
3.9.2	<i>Financial risk management objectives and methods .....</i>	<i>44</i>
3.10	CURRENT AND FORECAST FINANCIAL POSITION .....	44
3.11	EVENTS AND FACTORS LARGELY AFFECTING OPERATING AND FINANCIAL RESULTS .....	45
3.11.1	<i>Important events during the financial year .....</i>	<i>45</i>
3.11.2	<i>Extraordinary factors and events.....</i>	<i>45</i>
3.11.3	<i>Evaluation of events and factors affecting the results.....</i>	<i>45</i>
3.12	EVALUATION OF THE MANAGEMENT OF FINANCIAL RESOURCES .....	45
3.13	ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS .....	46
<b>4</b>	<b>STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES IN 2014 .....</b>	<b>46</b>

4.1	DESCRIPTION OF CORPORATE GOVERNANCE PRINCIPLES APPLICABLE TO THE ISSUER.....	46
4.2	DESCRIPTION OF THE SCOPE OF THE ISSUER'S DEPARTURES FROM APPLICABLE CORPORATE GOVERNANCE PRINCIPLES ....	46
4.3	DESCRIPTION OF THE PRINCIPAL CHARACTERISTICS OF INTERNAL AUDIT AND RISK MANAGEMENT SYSTEMS IN PLACE IN THE MIDAS GROUP IN REFERENCE TO THE PROCESS OF THE PREPARATION OF FINANCIAL STATEMENTS .....	48
4.4	SHARE CAPITAL.....	49
4.4.1	<i>Structure of the share capital</i> .....	49
4.4.2	<i>Large shareholders</i> .....	50
4.4.3	<i>Shareholders of the Company with special control rights, restrictions to voting rights and to transferability of the Company's shares</i> .....	50
4.4.4	<i>Direct shareholding and rights thereto held by persons managing and supervising the Issuer's business</i> .....	50
4.4.5	<i>Agreements which may affect proportions of shares held by the existing shareholders and bondholders</i> .....	51
4.4.6	<i>Employee stock plan</i> .....	52
4.4.7	<i>Acquisition of own shares</i> .....	52
4.5	PRINCIPLES OF AMENDING THE COMPANY'S STATUTE .....	52
4.6	PROCEDURES APPLICABLE TO GENERAL MEETINGS AND THEIR PRINCIPAL COMPETENCES AND DESCRIPTION OF SHAREHOLDERS' RIGHTS AND METHODS OF THEIR EXERCISE .....	52
4.7	DESCRIPTION OF RULES FOR APPOINTMENT AND DISMISSAL OF MANAGING PERSONS AND THEIR RIGHTS.....	56
4.7.1	<i>Supervisory Board</i> .....	56
4.7.2	<i>Management Board</i> .....	57
4.8	COMPOSITION, CHANGES AND OPERATING PROCEDURES APPLICABLE TO MANAGING, SUPERVISING AND ADMINISTRATION BODIES OF THE COMPANY.....	58
4.8.1	<i>Supervisory Board</i> .....	58
4.8.2	<i>Audit Committee</i> .....	60
4.8.3	<i>Remuneration Committee</i> .....	62
4.8.4	<i>Management Board</i> .....	62
4.9	REMUNERATIONS OF MANAGING AND SUPERVISING PERSONS.....	63
4.10	AGREEMENTS WITH MANAGING PERSONS PROVIDING FOR COMPENSATION IN THE EVENT OF THEIR RESIGNATION OR DISMISSAL WITHOUT CAUSE OR WHEN THEIR DISMISSAL OR TERMINATION RESULTS FROM A MERGER OF THE COMPANY FOLLOWING ACQUISITION.....	64
<b>5</b>	<b>OTHER INFORMATION .....</b>	<b>64</b>
5.1	PROCEEDINGS PENDING BEFORE A COURT, COMPETENT AUTHORITY FOR ARBITRATION PROCEEDINGS OR PUBLIC ADMINISTRATION AUTHORITY .....	64
5.2	SUBSEQUENT EVENTS .....	68
5.3	IMPORTANT ACHIEVEMENTS IN THE AREA OF RESEARCH AND DEVELOPMENT .....	71
5.4	ENVIRONMENTAL ISSUES .....	71
5.5	REGISTRY, COMMUNICATION AND ADDRESS DATA .....	72

# 1 Organisation of the Midas Capital Group

## 1.1 Structure of the Midas Group

The parent company in the Midas Capital Group (hereinafter, the “Group” or the “Midas Group”) is Midas Spółka Akcyjna (formerly known as Narodowy Fundusz Inwestycyjny Midas Spółka Akcyjna, hereinafter, the “Company” or the “Issuer”), established on 15 December 1994 pursuant to the Act on National Investment Funds and their Privatisation of 30 April 1993 (the “NIF Act”), which, until 31 December 2012, operated under the provisions of that act and the Commercial Companies Code (the “CCC”). As of 1 January 2013, in connection with the entry into force of the Act of 30 March 2012 Repealing the Act on National Investment Funds and their Privatisation and Amending Certain Acts, the Company operated pursuant to the CCC and other legislation. The Company is registered in the District Court in Warsaw, Division XII Commercial of the National Court Register, under KRS 000002570. The registered office of the Company is in Warsaw.

On 12 February 2013, an amendment of the Statute of the Company entered into force, adopted by the Ordinary General Meeting of Shareholders of the Company on 31 October 2012, under which, inter alia, the business name of the Company was changed to Midas Spółka Akcyjna, and the abbreviated name - to Midas S.A. The Management Report on the activities of the Company in 2014 covers the period in which the capital group came to include Aero2 Sp. z o.o., CenterNet S.A. and Mobyland Sp. z o.o. On 31 December 2014 the merger of Aero2 Sp. z o.o. and CenterNet S.A. was registered.

### 1.1.1 Changes in the structure of the Midas Group

In 2014, there were no major changes in the Midas Group’s structure. Described below are changes to the structure of the Midas Group made in 2014, which were of a formal nature and stemmed from the efforts of the Company’s Management Board to simplify the structure of the Midas Group.

On 21 February 2014, the merger of the Company and Conpidon Limited, in which the Company holds 100 per cent of the shares in the share capital, was registered. The decision to conduct the merger of the Company and Conpidon reflected the belief of the Management Board of the Company that the merger was the fastest and most effective way to streamline the structure of the Midas Group. The merger did not materially affect the financial performance or operations of the Midas Group. The long-term goal for the merger was for the Company to directly hold 100 per cent of the shares in the share capital of Aero2, which was in line with the strategy of the Midas Group. The merger of the Company with Conpidon was effected by way of: (i) transferring to the Company, as the sole shareholder of Conpidon, all of the assets of Conpidon, via universal succession, and (ii) dissolving Conpidon without liquidating it, in accordance with the provisions of the CCC, the Companies Law of Cyprus and the provisions of Directive 2005/56/EC of the European Parliament and of the Council. Following the merger, as of the date of the merger, the Company entered into any and all rights, obligations, assets and liabilities of Conpidon, thus becoming the legal successor of Conpidon. Upon completing the merger, as a result of a cross-border merger, the Company’s legal form, business name and registered office remained unchanged. The Company published information on the registration in Current Report No. 3/2014.

On 31 December 2014, the merger of Aero2 and CenterNet S.A. (“CenterNet”), in which the Company holds 100 per cent of the shares in the share capital, was registered. The decision to conduct the merger of Aero2 and CenterNet reflected the belief of the Management Board of the Company that the merger was the fastest and most effective way to streamline the structure of the Midas Group. The merger did not materially affect the financial performance or operations of the Midas Group. The merger of Aero2 with

CenterNet was effected by way of: (i) transferring all of the assets of CenterNet to Aero2 via universal succession, and (ii) dissolving the company CenterNet without liquidating it, in accordance with the provisions of the CCC. As a result of the Merger, the share capital of Aero2 was increased from PLN 11,050 thousand to PLN 11,100 thousand i.e. by PLN 50 thousand, by creating 1,000 new shares with a nominal value of PLN 50 each. The premium on the new shares in Aero2 in the amount of PLN 144,895 thousand was allocated to the supplementary capital of Aero2. As a result of the merger, the Company, as the sole shareholder of CenterNet, received 1,000 new shares in the share capital of Aero2 in exchange for 4,264,860 existing shares in the share capital of CenterNet.

### **1.1.2 Entities subject to consolidation**

The entities of the Midas Group subject to full consolidation for the purpose of preparing the consolidated financial statements of the Midas Group are: the Company, CenterNet, Mobyland and Aero2.

## **1.2 Branches of the Company**

The Company has no branches or establishments.

## **1.3 Changes in the principles of managing the Midas Group**

In 2014, there were no major changes in the Midas Group's management principles.

## **1.4 Organisational or capital relations**

The Midas Group is a capital group as defined in IAS 27 "Consolidated and Separate Financial Statements" in which the Company is the parent and its subsidiaries (as defined in IAS 27) are Mobyland, Aero2, Conpidon up to 21 February 2014, and CenterNet up to 31 December 2014.

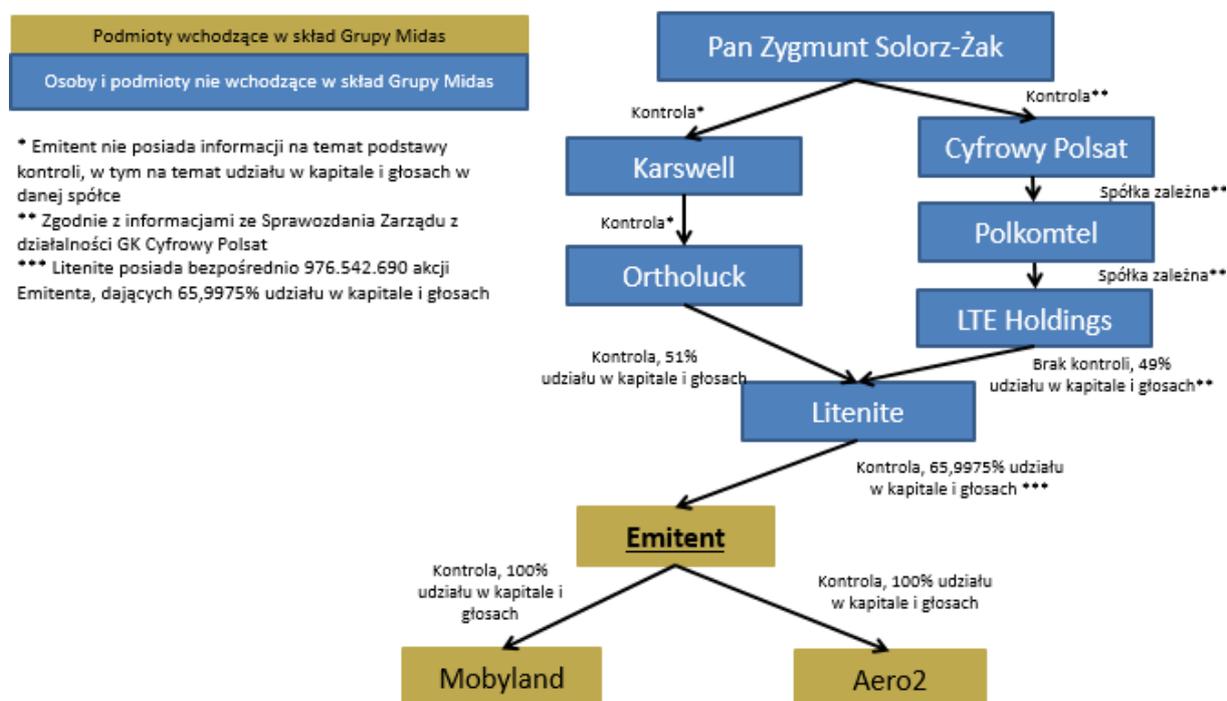
Midas Group companies are also a part of a capital group (the "ZSZ Group"), as defined in the Act on the Public Offering and the Conditions for Admitting Financial Instruments to Organised Trading and on Public Companies of 29 July 2005 (hereinafter, the "Act on the Public Offering"), in which the parent (person controlling the Midas Group) is the Deputy Chairman of the Supervisory Board, Mr Zygmunt Solorz-Żak. Mr Zygmunt Solorz-Żak controls the Midas Group indirectly through the following entities: Karswell Limited with its registered office in Nicosia, Cyprus ("Karswell"), Ortholuck Limited with its registered office in Nicosia, Cyprus (a subsidiary of Karswell, "Ortholuck"), Litenite Limited with its registered office in Nicosia, Cyprus (a subsidiary of Ortholuck, "Litenite"). To the best knowledge of the Company, as at the date hereof:

- 1) Mr Zygmunt Solorz-Żak holds shares in Karswell but the Company is not aware of what stake Mr Zygmunt Solorz-Żak holds in the capital of Karswell,
- 2) Ortholuck holds a 51 per cent stake in Litenite,
- 3) Mr Zygmunt Solorz-Żak, Karswell and Ortholuck do not directly hold any shares of the Company (information based on the notification made pursuant to Article 69 of the Act on the Public Offering received by the Company from Mr Zygmunt Solorz-Żak).

The Company does not possess any other information on how Mr Zygmunt Solorz-Żak exercises control over Karswell, Ortholuck and Litenite.

In addition, 49 per cent of Litenite's shares are held by LTE Holdings Limited with its registered office in Nicosia, Cyprus ("LTE Holdings"), which is a subsidiary of Polkomtel Sp. z o.o. ("Polkomtel"), which in turn is controlled by Cyfrowy Polsat S.A. ("Cyfrowy Polsat"), and is therefore indirectly controlled by Mr Zygmunt Solorz-Żak.

The diagram below shows information available to the Company (as at the date of publication of this report) on entities which are parents to the Company, other entities through which Mr Zygmunt Solorz-Żak holds shares in the parents of the Company, as well as information about the Midas Group. In particular, the diagram takes account of the merger of the companies Aero2 and CenterNet, which was registered in the National Court Register on 31 December 2014.



## 1.5 Deposits and capital expenditures made within the Midas Group

The investments carried out in 2014 were a key element of the Midas Group's business development in the telecommunications sector. The Midas Group did not make any capital expenditures in 2014. The Midas Group's 2014 capital expenditures primarily included investing into further expansion of the telecommunications infrastructure, carried out by Aero2. The primary component of these expenditures was investments in base stations and transmission centres. The above investments of Aero2 were largely carried out under Project 4100, described in the issue Prospectus approved by the Polish Financial Supervision Authority on 8 February 2012 (available on the Company's website at [http://www.midas-sa.pl/Relacje\\_inwestorskie/Gielda/Prospekt\\_emisyjny](http://www.midas-sa.pl/Relacje_inwestorskie/Gielda/Prospekt_emisyjny), hereinafter, the "Prospectus").

## 2 Operations of the Midas Group

### 2.1 Principal products, goods and services

The business activities carried out by the Midas Group are treated by the Management Board of the Company as one consistent operating segment including telecommunications activities set out below in more detail - providing telecommunications services, mainly by using the wholesale model. In 2014, revenue from telecommunications services provided by the Group accounted for 99 per cent of the overall sales revenue (98 per cent in 2013). Information about the Group's sales revenue was published in

Note 12.1 to the Consolidated financial statements of the Midas Capital Group for the year ended 31 December 2014.

### Telecommunications activity

The Group's core business in 2014 was the provision of wholesale wireless data transmission services by Aero2, CenterNet and Mobyland, and, after 31 December 2014, by Aero2 and Mobyland, and voice services for individual clients by CenterNet and, after 31 December 2014, by Aero2. The wholesale wireless data transmission services are delivered on the basis of: (i) the frequency ranges reserved for Aero2, CenterNet and Mobyland, and, after 31 December 2014, by Aero2 and Mobyland, and (ii) the telecommunications infrastructure held by Aero2. Another important factor is the shared use of Polkomtel's telecommunications infrastructure. It should also be noted that, due to the frequency reservation obtained in the 2600 MHz range, Aero2 is required to provide Free Internet Access (hereinafter "FIA").

### Wholesale wireless data transmission

In September 2010, CenterNet, in cooperation with Mobyland, launched the first commercial LTE 1800 network in Poland on a 1800 MHz band with a channel width of 19.8 MHz. CenterNet and Mobyland, each individually, hold a reservation for 9.8 MHz. Between their reserved bands there is a 0.2 MHz wide interval. Together, this gives a continuous duplex bandwidth of 19.8 MHz which consists of two reservation bands and an "interval" band the use of which is authorised by the President of the Office of Electronic Communications (the "President of the OEC") under individual radio licences. The LTE 1800 technology is significantly faster than other data transmission technologies currently available in Poland (such as UMTS, HSPA and HSPA+), enabling high-speed transfer of large portions of data to be made in an efficient and economically effective way with the best possible use of the frequency.

The telecommunications infrastructure for the LTE 1800 network is supplied by Aero2 and was launched at all locations that previously supported the CenterNet GSM 1800 and Mobyland GSM 1800 networks. As at the end of 2014, the number of base stations owned by the Group ensured LTE coverage for approximately 80 per cent of the population. As regards the above base stations of the Group, for some of them, some of the telecommunications infrastructure components comprising them are recognised under non-current assets of the Group (as own fixed assets or leasehold improvements), while the other stations operate on the basis of a model in which the Group uses them (not being their owner) under agreements authorising such use. As regards the location of the base stations, the standard solution is to use them on the basis of rental or lease agreements, including as a sub-tenant or sub-lessee.

Based on its own frequency in the 900 MHz band and its own infrastructure, Aero2 generates an Evolved HSPA (HSPA+) technology capacity for this band. Some of the network capacity is used for providing FIA in accordance with the obligations arising from the decision on a frequency reservation in the 2600 MHz band for Aero2, and information concerning this undertaking is presented in the section below. As at the end of 2014, the number of base stations owned by the Group ensured HSPA+ coverage for approximately 99 per cent of the population, including some stations incorporated in the Group's telecommunications network in association with Polkomtel, pursuant to the cooperation agreement pertaining to the mutual provision of services using telecommunications infrastructure.

Under the agreement concluded in December 2010, Mobyland buys HSPA+ capacities from Aero2 generated in the 900 MHz band. The solution applied (HSPA+) provides mobile high-speed Internet access allowing data download at speeds of up to 21 Mbps and data upload at speeds of up to 5.7 Mbps. Currently, in certain locations, data transfer speed is at 28.8 Mbps, with other locations at 21 Mbps. In locations where data transmission occurs at the speed of 28.8 Mbps, a state-of-the-art MIMO (Multiple

Input, Multiple Output) technology is used to provide users with a higher level of services and a better transfer quality.

Analyses are currently under way of the effectiveness of managing bandwidth in the 2570-2620 MHz range designated for the provision of telecommunications services in the broadband wireless networks of Aero2, based on the frequency reservation held since November 2009 (taking into account the change of September 2012). As at the day of publication of this report, Aero2 has not met the obligation described in part II item 2 of the reservation decision of 10 November 2009, subsequently amended by the decision of the President of the OEC of 4 September 2012. Given the fact that Aero2 has not met that obligation, the Company, after considering possible scenarios, took the decision to make an impairment write-down of the value of the frequency reservation in the 2570-2620 MHz range. The Management Board emphasises that the fact described has no influence on operating activities of Aero2 or the Midas Group, because as at today the above frequency is not being used to generate network capacity made available to the Group's key customers. That fact does not mean that the Company has waived or been deprived of its right to use that frequency. The Management Board also points out that, as at the day of publication of this report, the President of the OEC is conducting a tender for a frequency reservation for FDD-LTE in the 2600 MHz range. In the opinion of the Management Board of the Company, the planned tender conditions, through the absence of investment obligations imposed on frequencies similar to those currently held by Aero2 under the reservation for the TD-LTE 2600 band, and by their being offered in FDD rather than TDD technology, could lead to reduced interest in the services provided using the TD-LTE 2600 band. In light of the above, the Management Board is analysing how to effectively manage the TD-LTE 2600 band.

Within the scope of all of the above-described networks, the risk regarding significant suppliers should be noted, as set forth in section 2.8.1 hereof, as should the risk of findings concerning the harmful effects of wireless communications technology on human health, as described in section 2.8.2 hereof.

The offering of the Midas Group for wholesale data transmission using the LTE 1800 and HSPA+ 900 networks is addressed to retail operators, i.e. entities with large subscriber bases expressing an interest in providing subscribers with mobile broadband Internet access services. The Group, based on its frequencies, intends to generate capacity and sell it to the above retail operators. From the perspective of the Group, such a model seems to be very attractive because the Group thus avoids costly expenses associated with finding retail customers (advertising, subsidising receivers, etc.). In addition, a well defined portfolio of customers in the segment of large and stable retail operators permits the application of wholesale terms and conditions of sales, i.e. long-term orders for large data transfer volumes. As at the date of publication hereof, the Group's key customer for wholesale wireless data transfer is Polkomtel, and through its intermediacy, Cyfrowy Polsat.

#### Free Internet Access

Due to the obligation imposed on Aero2 by the decision of the President of the OEC on reservation of the frequency in the 2600 MHz band for Aero2, Aero2 provides Free Internet Access ("FIA") on the terms and conditions specified in the above decision and in its operating rules, as approved by the President of the OEC. Basically, the obligation of Aero2 is to dedicate for the purposes of FIA up to 20 per cent of the capacity of the networks operating on the reserved 900 MHz and 2570-2620 MHz range frequencies provided that a single session under such free access should not be longer than 60 minutes, and the free Internet downlink speed per user should be no more than 512 kbps. The group of people able to take advantage of FIA is not limited; it is necessary to apply for and obtain a SIM card from Aero2 and the deposit for the SIM card amounts to PLN 20.

#### Offering for individual customers

As a mobile operator, CenterNet, and, after 31 December 2014, Aero2, offers individual customers a wide range of telecommunications services such as domestic voice traffic, international roaming and SMS messaging and data transmission. As at the end of December 2014, Aero2 was serving a total of more than 28 thousand pre-paid users. In providing services, Aero2 uses domestic roaming provided by Polkomtel, and international roaming provided by iBasis Global. Information about the above roaming agreements is set forth in sections 22.2.2.2 and 22.10.15 of Section III of the Prospectus.

#### The wRodzinie Project

The offering based on the wRodzinie brand is targeted towards groups of older people and people with close relatives with whom they communicate on a day-to-day basis. As a part of its offering, the Group provides prepaid mobile telephone services including voice service, SMS messaging, data transmission and international calls. The range of services also includes distribution of mobile phones, including ergonomic models with large buttons, simple and legible displays, intended for elderly users. Sales of phones, starter kits and top-ups are carried out through the call centre and an online store, and top-ups are sold through Polish Post Office locations and the retail chains of Żabka, BluePay, Liberty Poland and the LEW Group with shops located throughout the country.

#### Aero FIA service

Aero FIA is a pre-paid data transmission service addressed to customers using FIA. As part of the service the Company offers data packages whose parameters are close to FIA, but without a 60-minute limit on sessions and without the need to verify using a CAPTCHA code. In order to utilise the Aero FIA offer, a user must have an FIA card. The offer solely concerns data transmission services, and the Company does not sell equipment under it. The target group comprises persons looking for the cheapest mobile Internet offer for whom price is a priority when choosing an offer.

#### The Group's radio network

According to the data of the OEC, as at 9 February 2015:

- a) Mobyland and Aero2 held 5149 radio licences issued by the President of the OEC for 1800 MHz LTE,
- b) Mobyland held 355 radio licences issued by the President of the OEC for 1800 MHz GSM,
- b) Aero2 held 125 radio licences issued by the President of the OEC for 1800 MHz GSM,
- d) Aero2 held 5097 radio licences issued by the President of the OEC for 900 MHz UMTS,
- e) Aero2 held 119 radio licences issued by the President of the OEC in the 2600 MHz LTE range.

Not all of the above radio licences are being used. The most important for the Group are the radio licences issued to Aero2 for 1800 MHz LTE. The above data do not account for additional test licences. Aero2 also holds radio band licences.

In 2014 CenterNet, Aero2 and Mobyland, and, after 31 December 2014, Aero2 and Mobyland, work together with respect to shared use of frequencies and the use of telecommunications infrastructure. CenterNet and Mobyland finished migrating the 1800 MHz GSM technology over to the 1800 MHz LTE technology in the 19.8 MHz band reserved for those companies. This was possible thanks to Poland's first-ever agreement on shared use of a frequency in the 1800 MHz band between CenterNet and Mobyland, and thanks to the cooperation with Aero2 with respect to using Aero2's technical

(telecommunications) infrastructure. Furthermore, Mobyland purchases from Aero2 wireless data transfer services in the Aero2 network, carried out in the 900 MHz band using the HSPA+ technology. The above cooperation between Aero2 and Mobyland relies on the agreements concluded in 2010, referred to in section 22.8.3 and 22.8.8 of the Prospectus. Aero2 also cooperates with Polkomtel with respect to broadcasting Aero2's radio signal and the associated transmission using Polkomtel's equipment, pursuant to a cooperation agreement pertaining to the provision of mutual services using telecommunications infrastructure.

## **2.2 Key sales and supply markets**

The Midas Group operates on the market of telecommunications services in Poland. Thanks to the frequency reservations held, the Midas Group is able to provide nationwide mobile telecommunications services, and in particular, wholesale model-based wireless data transmission services.

In 2014, the Midas Group's main customers for wholesale wireless data transmission services were Cyfrowy Polsat and Polkomtel. The share of Cyfrowy Polsat in the overall sales revenue was 23 per cent, while the share of Polkomtel was 73 per cent. The Management Board of the Company notes the customer risk described in section 2.8.1 hereof. Polkomtel, in accordance with information presented in section 1.4 above, is an entity controlled by Cyfrowy Polsat, and is thus indirectly controlled by Mr Zygmunt Solorz-Żak (a detailed description of the shareholding structure of Cyfrowy Polsat can be found at <http://www.cyfrowypolsat.pl/inwestor/akcjonariusze-cyfrowego-polsatu-oraz-transakcje/index.cp>).

In 2014, the primary sources of supply of telecommunications equipment in LTE technology for Aero2, and therefore for the Group, were Nokia Solutions and Networks Sp. z o.o. (formerly Nokia Siemens Networks Sp. z o.o.) and Ericsson Sp. z o.o. The stake of each of the above key suppliers (calculated on the basis of the value of orders placed) in 2014 represented approximately 50 per cent of the total value of orders placed. The Management Board of the Company notes the risk of significant suppliers, described in section 2.8.1 hereof. Neither Nokia Solutions nor Networks Sp. z o.o. and Ericsson Sp. z o.o. are formally related to the Midas Group.

## **2.3 Important events, achievements and failures of the Midas Group affecting its business operations**

On 21 February 2014, the District Court for the City of Warsaw in Warsaw, Division XII Commercial of the National Court Register, registered the merger of Midas with its registered office in Warsaw (as the Acquiring Company) with the subsidiary Conpidon with its registered office in Nicosia, Cyprus (as the Target Company). As a result of the merger, Midas entered into all the rights and obligations, assets and liabilities of Conpidon, which was dissolved without being liquidated. In view of the fact that all of the shares in the Target Company were held by the Acquiring Company, the merger was effected without increasing the share capital of the Acquiring Company. Upon completion of the cross-border merger Midas did not change its legal form, business name or registered office. The above merger did not materially affect the financial performance or operations of the Midas Group. In the opinion of the Management Board of the Company, the Merger was the fastest and most effective way to streamline the structure of the Midas Group.

On 27 March 2014, as a result of talks conducted by the Company and Mobyland with Cyfrowy Polsat and Polkomtel, the following understandings were concluded by Mobyland:

a) Understanding (“CP Understanding”) with Cyfrowy Polsat (hereinafter a “Party”, and jointly with Mobyland, also the “Parties”),

b) Understanding (“PLK Understanding”) with Polkomtel (hereinafter a “Party”, and jointly with Mobyland, also the “Parties”).

By virtue of the provisions of the CP Understanding, Cyfrowy Polsat became entitled to receive, directly from Mobyland or via Polkomtel, with which Cyfrowy Polsat concluded an appropriate agreement, a price per unit for 1 MB of PLN 0.00477 net, provided that by 30 March 2014 Cyfrowy Polsat or Polkomtel submits an order for data transmission services with a total volume of no less than 51 million GB, which will have a total value of PLN 249.1 million.

The value of the CP Understanding, understood as the value of an order for no less than 51 million GB, submitted directly or via Polkomtel, on the date of its submission exceeded 10 per cent of the equity of the Company, which qualified the CP Understanding as a significant agreement.

As a result of Cyfrowy Polsat carrying out the provisions of the CP Understanding described above, Mobyland:

a) released Cyfrowy Polsat from the obligation to pay a lump-sum final payment for Order 3, which is described in Current Report No. 41/2012,

b) lowered, to PLN 0.00477 per 1 MB, the price per unit for data transmission services arising from Order 3 submitted by Cyfrowy Polsat in 2012, the volume of which remaining to be used up, as at 31 December 2013, the Parties specified as 17.8 million GB (“Services to be Used Up”), which according to the provisions of the CP Understanding increased the volume of Services to be Used Up to 20.1 million GB.

On the date of concluding the CP Understanding, the understanding of 28 September 2012 ceased to be valid, on which the Company reported in Current Report No. 41/2012.

In turn, by virtue of the PLK Understanding, Polkomtel increased the total volume of the data transmission services ordered through the submission of Order 3 (“Order 3”) to the agreement to provide telecommunications services on wholesale conditions of 9 March 2012 (hereinafter the “PLK Agreement”; the Company reported on the signing of this agreement in Current Report No. 15/2012), with a total volume of 306 million GB and a period of validity of 36 months counting from 1 January 2014. In Order 3, the Parties included data transmission services not used up by Polkomtel, as at 31 December 2013, with a volume of about 8 million GB, covered by Order 2 submitted in 2012 (“Order 2”) to the PLK Agreement, as well as the order submitted by Cyfrowy Polsat, carried out via Polkomtel when performing the CP Understanding (Cyfrowy Polsat notified Mobyland that it had submitted an order to Polkomtel covering at least 51 million GB intended for Cyfrowy Polsat). The total value of Order 3 was PLN 1,442.3 million and at the time of its placing it exceeded 10 per cent of the Company’s equity, which qualified the PLK Understanding (independently, and also taking the CP Understanding into account) as a significant agreement. The average price per unit for 1 MB covered by Order 3 (including unused services covered by Order 2 also included in Order 3 as well as the order for Cyfrowy Polsat in performing the CP Understanding) is PLN 0.0046031, with this average price taking into account the rebates provided for in the PLK Agreement.

In accordance with the notification received by the Company, Polkomtel, in performing the provisions of the PLK Understanding, submitted Order 3 on 27 March 2014, and Mobyland accepted that order. The above provisions of the CP Understanding were therefore carried out with respect to the submission, by Cyfrowy Polsat via Polkomtel, of the order for data transmission services with a total volume of no less than 51 million GB.

As a result of Mobyland accepting Order 3, the total value of orders and agreements submitted and concluded on or after 14 November 2013 by entities from the Midas Capital Group in relation to Polkomtel reached PLN 1,495.5 million, thus exceeding 10 per cent of the Company's equity. The agreement with the highest value is Order 3 of 27 March 2014, described in this report, the value of which is PLN 1,442.3 million.

Order 3 (including the unused services covered by Order 2 which are also included in Order 3) will be paid by Polkomtel in the following manner:

- a) for January 2014 – in the amount of PLN 37,500,000.00 net – on the basis of an invoice issued within seven days of accepting Order 3,
  - b) for each month from February 2014 to December 2014 – in the amount of PLN 37,500,000.00 net,
  - c) for each month from January 2015 to December 2015 – in the amount of PLN 39,750,000.00 net,
  - d) for each month from January 2016 to December 2016 – in the amount of PLN 42,944,841.60 net,
- and to the remaining extent in accordance with the PLK Agreement.

In addition, Polkomtel will pay Mobyland the unsettled and utilised (by 31 December 2013) amount of Order 2, equal to PLN 24,966,448.00 net, of which PLN 4,938,706.33 net will be settled in accordance with Order 2 and the remaining amount on the basis of this Understanding, after the acceptance of Order 3.

Polkomtel will be entitled to additional rebates, after using up the data transmission services encompassed in Order 3, the sum total of which will not exceed 25 per cent of the value of orders submitted counting from the price per unit, which is in line with the terms and conditions of the PLK Agreement.

Neither the CP Understanding nor the PLK Understanding or Order 3 anticipate a new catalogue of contractual penalties not provided for in the CP Agreement or the PLK Agreement. The criterion for classifying the aforementioned understandings and orders as significant is 10 per cent of the Company's equity. The Company published information about the above issues in Current Report No. 4/2014.

The Management Board draws attention to the Understanding, signed after the balance sheet date, and to Order 4, submitted by Polkomtel and described in detail in section 5.2. In light of the new agreements, the above provisions on Order 3 and the above-described CP Understanding and PLK Understanding lose their validity, and the conditions described therein refer only to events in 2014. As from 1 January 2015, the provisions of the Understanding and Order 4 described in section 5.2 are in force.

On 31 March 2014, the Company and Sferia S.A. ("Sferia") concluded Annex No. 2 ("Annex No. 2") to the framework agreement of 21 December 2012 (hereinafter, the "Framework Agreement"; the Company reported on concluding the Framework Agreement in Current Report No. 55/2012), by virtue of which the deadline for concluding the Supply Agreement was again extended. In accordance with Annex No. 2, the new deadline for concluding the Supply Agreement expires on 31 December 2014. The justification for the aforementioned amendment cited in Annex No. 2 was failure by Sferia to obtain the radio permits required to use the radio equipment facilitating the provision of services at a level no worse than LTE in Poland, in numbers and locations justifying efficient economic commencement of the provision of services with the use of those permits and failure to obtain the right to utilise other frequencies necessary to that end. The other provisions of the Framework Agreement remain unchanged. At the same time the

Company notes that, as at the date of publication of this report, the proceedings associated with Sferia obtaining the aforementioned rights had concluded with radio licences being obtained. The Company published information about the above issues in Current Report No. 5/2014 and 25/2014.

On 7 April 2014, Aero2 submitted, and Polkomtel accepted, another order for RAN services (the “Order”) offered under the cooperation agreement concerning mutual provision of telecommunications infrastructure services of 30 March 2012 (on the conclusion of which the Company reported in Current Report No. 22/2012 of 30 March 2012). The RAN-type services covered by the Order will be provided on the terms described in the Agreement in each location for a period of five years counting from the date on which Polkomtel announces its readiness to provide the services in a given location, in accordance with the provisions of the Agreement. The value of the Order, calculated on the basis of a five-year period of providing the services under the Order, increased by the fee for the period of conducting tests in commercial traffic, was PLN 260.6 million and therefore exceeded 10 per cent of the Company’s equity. As a result of submitting and accepting the Order, the total value of orders and agreements submitted and concluded on or after 28 March 2014 by entities from the Midas Capital Group in relation to Polkomtel reached PLN 281 million, and therefore exceeded 10 per cent of the Company’s equity. The Company reported on this development in Current Report No. 6/2014.

On 8 May 2014, the SAC issued a judgement in the matter concerning the tender for frequency reservations in the 1800 MHz range, in which the SAC upheld the judgement of the PACW of 6 July 2012. The SAC’s judgement was issued as a result of dismissal of the cassation appeals submitted by the President of the OEC and subsidiaries of Midas: CenterNet and Mobyland. Detailed information about the above judgement is set forth in section 5 hereof. The Company reported on the above judgement in Current Reports No. 7/2014 and 8/2014.

On 29 May 2014, the SAC issued a judgement in the matter concerning frequency reservations in the 1800 MHz range, in which the SAC upheld the judgement of the PACW of 19 November 2012. The judgement of the SAC was issued as a result of dismissal of the cassation appeal submitted by T-Mobile Polska. Detailed information about the above judgement is set forth in section 5 hereof. The Company reported on the above judgement in Current Reports No. 9/2014 and 11/2014.

On 10 July 2014, the Company, together with its subsidiaries: Aero2, CenterNet and Mobyland (hereinafter referred to as the “Borrowers”), entered with Bank Polska Kasa Opieki S.A. (the “Bank” or “Bank Pekao”) into an agreement (the “Agreement” or the “Loan Agreement”) concerning investment loan for up to PLN 200 million (the “Loan”) for the purpose of expanding the LTE and HSPA+ telecommunications network. The above Agreement was concluded following negotiations simultaneously conducted by the Company with the Bank and with Bank Zachodni WBK S.A. (“BZWBK”) and Banco Santander S.A. (“Banco Santander”).

On 21 March 2014, the Company received a proposal from BZWBK and Banco Santander that contained the term sheet of the loan, which was to be backed by export credit agencies: EKN and Finnvera. The proposal was a modification of a proposal accepted by the Company on 5 November 2012, which it notified in its Current Report No. 49/2012 of 5 November 2012 (the proposal was defined therein as Term Sheet 1). The proposal of 21 March 2014 was the starting point for subsequent, more in-depth discussions aimed at negotiating, to the satisfaction of both parties, the terms and conditions on which the Company would obtain financing for the expansion of a commercial telecommunications network in

Poland carried out by the Company on the basis of framework agreements for the supply, integration and maintenance of access elements of the telecommunications network concluded with Ericsson and Nokia Siemens Networks (currently: Nokia Systems & Networks). The Company entered that stage in the negotiations aimed at determining the final terms of financing to be granted by the consortium of banks arranged by BZWBK/Banco Santander.

Furthermore, on 11 April 2014, the Company received a proposal with respect to financing the expansion of the LTE and HSPA+ telecommunications network also from Bank Pekao, and thus entered with the Bank into a negotiation stage aimed at determining the final terms of financing to be granted by the Bank.

Acting pursuant to Article 57 of the Act on the Public Offering [...], the Management Board of the Company decided to postpone sending information about the negotiations under way and, on 21 March 2014 and 11 April 2014, respectively, sent appropriate notifications to the Polish Financial Supervision Authority. In the Management Board's view, fulfilling the obligation to publish information on commencing the above stages of negotiations with the above two banks could have affected the legitimate interest of the Company. As at the date of postponement of the information, it was impossible to anticipate the outcome of the negotiations, let alone the final wording of the terms of the financing. Thus, immediate announcement that either of the proposals has been received could have affected the course or outcome of the negotiations, significantly weakened the Company's negotiation leverage and ultimately had a negative influence on the legitimate interest of the Company and, ultimately, of its Shareholders.

The interest, calculated on the basis of the 1M WIBOR rate increased by the Bank's margin, will also be repaid in monthly periods. In the case set forth in the Agreement and related to the accounting revenue of Midas Capital Group entities generated until the end of 2015, the Bank will be entitled to shorten the Repayment Period so that it ends on the third anniversary of executing the Agreement, unless the Borrowers provide a solution acceptable to the Bank, which will require the Borrowers to obtain external assistance that will ensure timely debt repayment. For granting the Loan and for its early repayment, the Bank is also entitled to commission, the amount of which has been determined at a market level. The Agreement also defines events ("Events of Default") that will cause the Bank's margin to be increased by the amount specified in the Agreement. The higher margin for the Bank will be in effect until an Event of Default has been remedied by the Borrowers. The list of Events of Default defined in the Agreement is a standard list commonly used in these types of agreements. The Borrowers are jointly and severally liable for any amounts payable to the Bank under the Agreement.

The Loan is secured by: (a) a registered pledge for up to PLN 300 million over the shares of CenterNet, Aero2 and Mobyland; (b) a registered pledge for up to PLN 300 million over a pool of assets and rights owned by the Borrowers and treated as a single economic unit, but in the case of Aero2 up to PLN 396.7 million; (c) an assignment of rights under the insurance policies concluded by Aero2 concerning assets securing the Loan; (d) an assignment of receivables under the agreements on wholesale data transfer services concluded by Mobyland with Cyfrowy Polsat S.A. and Polkomtel Sp. z o.o.; (e) subordination of the receivables of an entity outside the Borrower's group (save for Alior Bank SA, Plus Bank SA and holders of the Company's series A bonds) providing financing for the Borrowers, with respect to the Bank's receivables from the Borrowers under the Finance Documents; (f) conditional powers of attorney authorising the Bank to act on behalf of the Borrowers (save for the Company) before the Office of Electronic Communications; (g) powers of attorney for the Borrowers' bank accounts; (h) a declaration of submission to enforcement for up to PLN 300 million made by the Borrowers in favour of the Bank pursuant to Article 97 of the Banking Law of 29 August 1997; (i) a declaration by Mr Zygmunt Solorz-Żak on providing, within the scope of rights vested in shareholders of public companies, assistance throughout the term of the Agreement, which, in particular, involves making efforts to ensure that the Borrowers repay any and all of their obligations towards the Bank in a timely manner, remain in sound economic and

financial standing, and obtain additional financing sufficient to satisfy their obligations towards the Bank in the event of a delay in their repayment. On 26 August 2014, the Extraordinary General Meeting of the Company adopted a resolution in which it agreed to the establishing of a limited right in rem over the Company's assets. Approval from the General Meeting will allow the Management Board of the Company to successfully establish the registered pledge over the Company's assets referred to in pt. (b) above.

Furthermore, each potential prospective guarantor of the Loan agrees to issue a guarantee to the Bank for up to PLN 300 million, as well as other collaterals that may be agreed with the Bank (the obligation is in effect until 30 June 2022). In the Agreement, the Borrowers also agreed to open temporary bank accounts to which amounts due from the Borrowers will be made under agreements on wholesale data transfer services and insurance policies, as well as a DSRA account, in which a balance of no less than 10 per cent of the value of the Loan will be maintained throughout the term of the Loan. Subject to the terms and in the manner set forth in the Agreement, the Bank may block certain amounts in the above accounts and apply them towards satisfying due and payable obligations of the Borrowers under the Loan. The Company also agrees that, without the Bank's written approval (which approval will not be unreasonably denied by the Bank), it will not exercise its early redemption option with respect to the Company's series A bonds.

The Company has also agreed that, until the lapse of the Repayment Period, it will not disburse dividends or refund contributions or any other compensation or payments on its share capital, except in the event of a possible consolidation of the Company's shares, and that none of the Borrowers will acquire (directly or indirectly) any entity or enterprise, except as provided in the Agreement. The Company also restricts the Borrowers' ability to dispose of their assets and to encumber and divide the Borrowers' assets, save for any exceptions stipulated in the Agreement. The Agreement also contains provisions concerning General Obligations, both by the Borrowers and by the Bank, which do not vary considerably from provisions commonly used in these types of agreements.

The Agreement concluded does not provide for any contractual penalties. The Agreement is a significant agreement, as defined in the Regulation of the Minister of Finance on current and periodic information [...]. The Company assumed 10 per cent of the equity of the Company as the criterion for considering an agreement to be significant. The Company published information on the conclusion of the Agreement in Current Report No. 16/2014.

On 23 July 2014, the Company, acting on the basis of the provisions of the Bond Issue Conditions ("BIC"), announced that it was intending to make use of the right to which it was entitled to change the security ("Change of Security") for the series A bonds issued on 16 April 2013, which would involve deleting the following registered pledges from the register of pledges:

- (i) a pledge on 221,000 shares of Aero2 representing 100 per cent of the share capital of that company and giving entitlement to 100 per cent of the votes at the meeting of shareholders of that company, owned by the Issuer;
- (ii) a pledge on 4,264,860 shares of CenterNet representing 100 per cent of the share capital of that company and giving entitlement to 100 per cent of the votes at the meeting of shareholders of that company, owned by the Issuer;
- (iii) a pledge on 204,200 shares of Mobyland representing 100 per cent of the share capital of that company and giving entitlement to 100 per cent of the votes at the meeting of shareholders of that company, owned by the Issuer.

The decision concerning the intention to make use of the right to change security is the consequence of the agreement concluded by the Company on 10 July 2014 with Bank Pekao concerning investment loan for up to PLN 200 million (as described above). Under the provisions of the Agreement, one form of security for the Loan being granted is a registered pledge up to the amount of PLN 300 million on the shares of subsidiaries of the Issuer, i.e. Aero2, CenterNet and Mobyland. For that reason, in order to enable the aforementioned security for the Loan to be established, the Management Board of the Company decided to make use of the right to a Change of Security. The Management Board of the Company issues a reminder that after the effective deletion of the aforementioned registered pledges from the register of pledges, described in Current Report No. 5/2013, the provisions of the BIC concerning calculation of the Amount for Payment (defined in Current Report No. 5/2013) will come into force, after the Issuer makes use of the right to a Change of Security, and also that the value of the discount rate will be increased by 1.7 percentage points, on the basis of which the theoretical value of the Bonds (TVB) is calculated. Moreover, in accordance with the provisions of the BIC, the Issuer is entitled to re-secure the Bonds by establishing a New Registered Pledge, but as at the publication hereof the Management Board of the Company is not able to predict whether and within what period of time it will exercise that right. The Company reported on this development in Current Report No. 18/2014.

On 23 September 2014, the Provincial Administrative Court in Warsaw (the “PACW”) issued a non-binding judgement in the case concerning a repeated tender, with respect to the assessment of the bid submitted by Polska Telefonia Cyfrowa Sp. z o.o. (currently: T-Mobile Polska S.A., hereinafter “T-Mobile Polska”), for two frequency reservations in the 1800 MHz band. In the judgement, the PACW revoked the decision of the President of the OEC of 28 November 2012 and the decision of the President of the OEC of 8 November 2013, on the basis of which the President of the OEC refused to invalidate the Repeated Tender. The judgement of the PACW was issued after considering the appeals brought by T-Mobile Polska and Orange Polska S.A. with its registered office in Warsaw. Detailed information about the above judgement is set forth in section 5 hereof. The Company reported on the above judgement in Current Report No. 24/2014.

On 6 October 2014 the Management Board of Sferia notified the Company that Sferia had obtained the decision of the President of the OEC of 26 September 2014 concerning a change of radio frequency reservations in the 816-821 MHz range and the 857-862 MHz range (the “Decision”). Pursuant to the notification received, the Decision was issued by a duly authorised administrative body and was in line with its powers, is final, and authorises Sferia to commence commercial use of the frequencies granted to it in the 816-821 MHz and 857-862 MHz ranges as of 1 January 2015. The receipt of the reservation decision concerning frequencies in the 816-821 MHz range and the 857-862 MHz range was one of the conditions precedent concluded with Sferia in the Framework Agreement (defined in Current Report No. 25/2014). The Company reported on this development in Current Report No. 25/2014.

On 25 November 2015 the companies belonging to the Midas Capital Group together with Cyfrowy Polsat and Polkomtel entered into negotiations concerning new terms of cooperation regarding telecommunications services connected with data transmission. Cyfrowy Polsat and Polkomtel indicated that their intention was that the new terms of cooperation should start to apply from 1 January 2015 and, among other things, cover both data packages purchased by Polkomtel under previously concluded agreements and potentially new data packages which could be acquired in the future. The Company reported on this development in Current Report No. 27/2014. The results of the negotiations were the

Understanding and Polkomtel's submission of Order 4, announced after the balance sheet date. Detailed information on this subject is contained in section 5.2 hereof.

On 25 November 2014, the Management Board of the Company announced that, after carrying out initial analyses, including with the participation of Polkomtel, the Midas Group did not take part in the auction announced by the President of the OEC for a reservation of frequencies in the 800 MHz and 2.6 GHz ranges (the "Auction"). In the Management Board's assessment, the right to frequencies in the 800 MHz range can be obtained in a manner other than through direct participation in the Auction. The Management Board of the Company therefore continues to maintain its position expressed in QSr 3/2014, that in order to build long-term goodwill of the Company and remain competitive on the market for wholesale access to broadband telecommunications services, mainly by providing the Midas Group's customers with complementary coverage in Poland with broadband Internet access services, the Midas Group's strategy needs to be updated to include the need for the Midas Group to become involved in Project 800 (understood as an investment in infrastructure used in providing broadband mobile Internet access using frequencies in the 800 MHz range and obtaining the right to use frequencies in the 800 MHz range). According to the Company, the Midas Group's involvement in implementing Project 800 is eminently possible without taking part in the Auction. Detailed work is currently being carried out to update the Midas Group's strategy, in particular with respect to the model for implementing the strategy. At this point the Management Board draws attention to an event after the balance sheet date described in detail in section 5.2, the signing of agreements with Sferia.

On 25 November 2014, in order to establish collateral for the Loan as described in the Loan Agreement, the Company and its subsidiaries Aero 2, CenterNet and Mobyland concluded the following package of agreements with Bank Pekao: 1) a registered pledge agreements on shares in CenterNet and shares in Aero2 and Mobyland, concluded by the Company with Bank Pekao, pursuant to which the Company establishes for the benefit of the Bank a registered pledge on all shares belonging to the Company and on shares in the above subsidiaries of Midas (the "Registered Pledge Agreement on Shares"), 2) a registered pledge agreements on sets of rights and assets concluded separately by each of the Borrowers with Bank Pekao, pursuant to which each of the Borrowers establishes for the benefit of the Bank a registered pledge on sets of rights and assets constituting an economic whole belonging to a given Borrower (the "Registered Pledge Agreement on Sets"), 3) an agreement on the assignment of rights from policies concluded by Aero2 with Bank Pekao, pursuant to which Aero2 transferred to the Bank on the date of the conclusion of the agreement its receivables resulting from insurance agreements within the scope of policies concerning assets constituting the subject of the security for the Loan (the "Policy Rights Assignment Agreement"), 4) an agreement on the assignment of rights from commercial agreements concluded between Mobyland and Bank Pekao, pursuant to which, on the date of the signing of the agreement, Mobyland transferred to the Bank its receivables resulting from agreements for the wholesale of data transmission services concluded by Mobyland with Cyfrowy Polsat and Polkomtel (the "Commercial Agreements Rights Assignment Agreement"), 5) an agreement concerning conditional powers of attorney of the OEC concluded by each of the Borrowers (except for the Company) with the Bank, pursuant to which each of the Borrowers (except for the Company) granted a power of attorney authorising the Bank to appear in the name of a given Borrower before the Office of Electronic Communications (the "Powers of Attorney Agreements"). The aforementioned agreements do not incorporate any provisions on contractual penalties or conditions precedent or subsequent. The Company assumed the criterion of 10 per cent of equity as the criterion for considering the agreements referred to in items 1)-4) above as significant. Apart from the issues described below, the clauses of the agreements concerned do not differ from those commonly used in agreements of such type. Terms and conditions of

those agreements were described in detail in Current Report No. 28/2014. On 27 November 2014 the Bank (as defined in Current Report No. 29/2014) was provided with the set of agreements concluded on 25 November 2014 concerning the establishment of collateral for the Loan Agreement (described in Current Report No. 28/2014) as well as powers of attorney for accounts granted on 25 November 2014 to Bank Pekao authorising Bank Pekao to manage and make dispositions with regard to bank accounts that are open and maintained for a given Borrower. Moreover, each Borrower (as defined in Current Report No. 28/2014) filed a declaration with Bank Pekao (signed on 25 November 2014) on voluntary submission to enforcement up to the amount of PLN 300 million pursuant to Article 97 of the Banking Law of 29 August 1997. In connection with the above, with respect to providing the Bank with the aforementioned duly executed Security Documents (defined in Current Report No. 16/2014), there has been partial fulfilment of the condition precedent under the Agreement, described in Current Report No. 16/2014 as: “(c) providing the Bank with the Finance Documents as defined in the Agreement, i.e. in particular: duly executed documents on establishing collateral for the Loan (the “Security Documents”), proof of payment and filing with competent courts of motions to register collateral for the Loan, proof of delivery of any notices under the Security Documents, excerpts from the register of pledges and the register of fiscal pledges confirming that no registered pledges (other than as defined in the Agreement) or fiscal pledges have been established over the Company’s assets or the assets and shares of the other Borrowers”. The Company reported on this development in Current Report No. 29/2014.

On 3 December 2014, the District Court for the City of Warsaw, Division XI Commercial - Pledge Registers (the “Court”) issued a decision to the companies Aero2 and CenterNet on the entry in the pledge register of: 1) a pledge on a set of moveable goods and rights constituting part of the business of Aero2, disclosed as at 30 September 2014 in the books of account of the Company at a book value of PLN 435.4 million, and constituting collateral on a liability up to the amount of PLN 396.7 million, 2) a pledge on a set of moveable goods and rights constituting part of the business of CenterNet, disclosed as at 30 September 2014 in the books of account of the Company at a book value of PLN 141.2 million and constituting collateral on a liability up to the amount of PLN 300.0 million. The subject of the Pledge was acknowledged to be assets of a significant value, as their book value exceeds 10 per cent of the Company’s equity. There are no connections between the Company and persons managing or supervising the Company on the one hand, and the Bank and the persons managing the Bank on the other. The Company reported on this development in Current Report No. 31/2014.

On 8 December the Bank (as defined in Current Report No. 30/2014) was provided with relevant copies, marked as received by the relevant register court, of completed and paid-for motions for the entry in the pledge register of registered pledges on shares and ownership interests in subsidiaries of Midas, and on collections of assets and rights constituting a whole (described in Current Report No. 28/2014). In connection with the provision of the above documents, with respect to providing the Bank with proof that motions for registration of the security over the Loan have been duly paid for and submitted, there has been partial fulfilment of the condition precedent under the Agreement, described in Current Report No. 16/2014 as: “(c) providing the Bank with the Finance Documents as defined in the Agreement, i.e. in particular: duly executed documents on establishing collateral for the Loan (the “Security Documents”), proof of payment and filing with competent courts of motions to register collateral for the Loan, proof of delivery of any notices under the Security Documents, excerpts from the register of pledges and the register of fiscal pledges confirming that no registered pledges (other than as defined in the Agreement) or fiscal pledges have been established over the Company’s assets or the assets and shares of the other Borrowers”. The Company reported on this development in Current Report No. 30/2014.

On 9 December 2014, the Supervisory Board of the Company, acting in accordance with the Statute of the Company, appointed the following Members of the Management Board for a new, two-year term of office beginning on 16 December 2014: Mr Krzysztof Adaszewski, entrusting him with the function of President of the Management Board of the Company, and Mr Piotr Janik entrusting him with the function of Vice-President of the Management Board of the Company. At the same time, the Supervisory Board, acting in accordance with the Statute of the Company, adopted a resolution pursuant to which, as of 10 December 2014, Mr Wiesław Waldendziak was co-opted to the Supervisory Board and entrusted with the role of Member of the Supervisory Board of the Company. In accordance with the Rules of Procedure of the Supervisory Board of the Company, the co-opted member of the Supervisory Board will be presented for approval at the next General Meeting. The Company reported on this development in Current Report No. 32/2014.

On 5 December 2014, the District Court for the City of Warsaw in Warsaw, Division XI Commercial - Pledge Registers (the "Court") issued a decision on the entry into the pledge register of a pledge established for the benefit of Bank Pekao on 221,000 shares in Aero2 of a nominal value of PLN 50 each, constituting 100 per cent of the shares in the share capital of Aero2, disclosed as at 30 September 2014 in the books of account of the Company with a book value of PLN 548,444 thousand and constituting security of liabilities up to the amount of PLN 300 million, and on 8 December 2014 the Court issued a decision on the entry into the pledge register of a pledge established for the benefit of the Bank on 4,264,860 shares in CenterNet of a nominal value of PLN 17.30 each, constituting 100 per cent of the share capital of CenterNet, disclosed as at 30 September 2014 in the books of account of the Company with a book value of PLN 238,989 thousand and constituting security of liabilities up to the amount of PLN 300 million. The Company reported on this development in Current Report No. 33/2014.

On 9 December 2014, the Court issued a decision on the entry into the pledge register of a pledge established for the benefit of Bank Pekao on 204,200 shares in Mobyland of a nominal value of PLN 500 each, constituting 100 per cent of the shares in the share capital of Mobyland, disclosed as at 30 September 2014 in the books of account of the Company with a book value of PLN 178,770 thousand and constituting security of liabilities up to the amount of PLN 300 million. The subject of the pledge was acknowledged to be assets of a significant value, as their book value exceeds 10 per cent of the Company's equity. Furthermore, also on 15 December 2014, the Company received the Court's decision to enter in the pledge register, on 9 December 2014, the pledge, established in favour of the Bank, on a collection of moveable goods and rights constituting part of the business of Mobyland, disclosed as at 30 September 2014 in the Company's books of account at a book value of PLN 102.1 million, and constituting collateral on a liability stemming from the above loan for up to PLN 300.0 million. The Company reported on this development in Current Report No. 34/2014.

On 17 December 2014, as a result of Polkomtel accepting further orders placed by Aero2 for services provided by Polkomtel for Aero2, including RAN- and SITE-type services, the total value of orders and agreements submitted and concluded since 8 April 2014 inclusive by entities from the Midas Capital Group in relation to Polkomtel reached PLN 294 million, and therefore exceeded 10 per cent of the Company's equity. The highest-value order was placed on 16 December 2014 and concerned RAN-type services. Its value, calculated on the basis of a 5-year period of providing the services covered by that order, was PLN 76 million. The RAN-type services covered by the order will be provided on the terms described in the Agreement in each location for a period of five years counting from the date on which Polkomtel announces its readiness to provide the services in a given location, in accordance with the

provisions of the Agreement (defined in Current Report No. 35/2014). The Order does not regulate the issue of compensation and contractual penalties – the general terms and conditions of the Agreement will apply in this respect. Other terms and conditions of the Order do not differ from those commonly applied to transactions of this kind. The Company reported on this development in Current Report No. 35/2014. The above order was submitted as part of implementing a cooperation agreement concerning mutual provision of telecommunications infrastructure services (the “Agreement”), concluded by Aero2 on 30 March 2012 with Polkomtel, which the Company reported in Current Report No. 22/2012 of 30 March 2012.

On 23 December 2014, Aero2 and Sferia concluded an understanding by virtue of which the deadline for concluding the Supply Agreement as described in Current Report No. 55/2012 was again extended. The new deadline for concluding the Supply Agreement therefore expires on 31 March 2015. The change in question is due to a failure by Sferia to obtain, as on the day of concluding the understanding, the radio permits required to use the radio equipment facilitating the provision of services at a level no worse than LTE in Poland, in numbers and locations justifying efficient economic commencement of the provision of services with the use of those permits, and failure to obtain the right to utilise other frequencies necessary to that end. The Company reported on this development in Current Report No. 36/2014. It is important to note that the Supply Agreement was signed on 3 March 2015 (a post-balance sheet date event) and is described in detail in section 5.2 hereof.

On 23 December 2014, Bank Pekao confirmed the correctness of all of the remaining documents provided, as described in Current Report No. 16/2014. As a result of providing the aforementioned documents, all Conditions Precedent were met (defined in Current Report No. 16/2014). The Company reported on this development in Current Report No. 37/2014.

## **2.4 Information on agreements entered into by Midas Group companies**

This section lists agreements entered into in the normal course of business of the Company and other Midas Group companies.

For agreements which are significant for the operations of the Midas Group companies entered into with third parties, a full description of their respective terms and conditions or references to current reports dedicated thereto are provided.

### **2.4.1 Agreements which are significant for the operations of the Midas Group**

#### **Agreements entered into by the Company**

##### Conclusion of Annex No. 2 to the framework agreement with Sferia S.A.

On 31 March 2014, the Company and Sferia concluded Annex No. 2 (“Annex No. 2”) to the framework agreement of 21 December 2012 (hereinafter, the “Framework Agreement”; the Company reported on concluding the Framework Agreement in Current Report No. 55/2012), by virtue of which the deadline for concluding the Supply Agreement was again extended. In accordance with Annex No. 2, the new deadline for concluding the Supply Agreement expires on 31 December 2014. The justification for the aforementioned amendment cited in Annex No. 2 was failure by Sferia to obtain the radio permits

required to use the radio equipment facilitating the provision of services at a level no worse than LTE in Poland, in numbers and locations justifying efficient economic commencement of the provision of services with the use of those permits and failure to obtain the right to utilise other frequencies necessary to that end. The other provisions of the Framework Agreement remain unchanged. At the same time the Company notes that the proceedings associated with Sferia obtaining the aforementioned rights are on-going and that, as at the date of publishing this interim report, have not yet seen binding and final outcomes. At the same time the Company notes that, as at the date of publication of this report, the proceedings associated with Sferia obtaining the aforementioned rights had concluded with radio licences being obtained. The Company published information about the above issues in Current Report No. 5/2014 and 25/2014.

#### Conclusion of a loan agreement with Bank Polska Kasa Opieki S.A. to finance the expansion of the LTE and HSPA+ telecommunications network.

On 10 July 2014, the Company, together with its subsidiaries: Aero2, CenterNet and Mobyland, concluded an agreement with Bank Pekao concerning investment loan for up to PLN 200 million for the purpose of expanding the LTE and HSPA+ telecommunications network (the "Agreement"). That Agreement and details on the circumstances in which it was concluded are described in section 2.3 hereof. The Company published information on the conclusion of the Agreement in Current Report No. 16/2014.

#### Concluding a package of significant agreements in connection with establishing security for a loan agreement with Bank Polska Kasa Opieki S.A.

On 25 November 2014, in order to establish collateral for the Loan as described in the Agreement, the Company and its subsidiaries Aero 2, CenterNet and Mobyland concluded the following package of agreements with Bank Pekao: 1) registered pledge agreements on shares in CenterNet and shares in Aero2 and Mobyland, concluded by the Company with Bank Pekao, pursuant to which the Company establishes for the benefit of the Bank a registered pledge on all shares belonging to the Company and on shares in the above subsidiaries of Midas; 2) registered pledge agreements on sets of rights and assets concluded separately by each of the Borrowers with Bank Pekao, pursuant to which each of the Borrowers establishes for the benefit of the Bank a registered pledge on sets of assets and rights constituting an economic whole belonging to a given Borrower; 3) an agreement on the assignment of rights from policies concluded by Aero2 with the Bank, pursuant to which Aero2 transferred to the Bank on the date of the conclusion of the agreement its receivables resulting from insurance agreements within the scope of policies concerning assets constituting the subject of the security for the Credit; 4) an agreement on the assignment of rights from commercial agreements concluded between Mobyland and the Bank, pursuant to which, on the date of the signing of the agreement, Mobyland transferred to the Bank its receivables resulting from agreements for the wholesale of data transmission services concluded by Mobyland with Cyfrowy Polsat and Polkomtel; 5) agreements concerning conditional powers of attorney of the OEC concluded by each of the Borrowers (except for the Company) with Bank Pekao, pursuant to which each of the Borrowers (except for the Company) granted a power of attorney authorising Bank Pekao to appear in the name of a given Borrower before the Office of Electronic Communications. The aforementioned agreements do not incorporate any provisions on contractual penalties or conditions precedent or subsequent. The Company assumed the criterion of 10 per cent of equity as the criterion for considering the agreements referred to in items 1)-4) above as significant. The terms and conditions of those agreements are described in section 2.3 hereof and in Current Report No. 28/2014.

#### **Agreements entered into by subsidiaries of the Issuer with entities from outside the Midas Group**

Mobyland's conclusion of clearing agreement with Cyfrowy Polsat and Polkomtel as well as Polkomtel's submission of Order 3 for data transmission services, also including an order submitted through its agency by Cyfrowy Polsat.

On 27 March 2014, as a result of talks conducted by the Company and Mobyland with Cyfrowy Polsat and Polkomtel, the following understandings were concluded by Mobyland:

- a) Understanding ("CP Understanding") with Cyfrowy Polsat (hereinafter a "Party", and jointly with Mobyland, also the "Parties"),
- b) Understanding ("PLK Understanding") with Polkomtel (hereinafter a "Party", and jointly with Mobyland, also the "Parties").

Signing of the above understandings was preceded by the crucial stage of negotiations, which lasted since 21 March 2014 until the date of concluding the understandings, and was aimed at agreeing final terms and conditions and concluding appropriate understandings concerning continued performance by Mobyland of data transmission services to the aforementioned entities on the basis of the agreements concluded thus far, including the placement of further orders. Acting pursuant to Article 57 of the Act on the Public Offering [...], the Management Board of the Company decided to postpone sending information about this fact and, on 21 March 2014, sent an appropriate notification to the Polish Financial Supervision Authority. Fulfilling the obligation to publish information on entering the crucial stage of the negotiations could, in the Management Board's assessment, infringe the legitimate interest of the Company on account of the final wording, impossible to anticipate on the day of postponing the notification, i.e. 21 March 2014, of the terms of understandings concerning the provision of data transmission services, and therefore specifying whether possible agreements would meet the criteria of a significant agreement. This could affect the development or outcome of these negotiations, and could ultimately affect the legitimate interest of the Company and, indirectly, of its shareholders.

By virtue of the provisions of the CP Understanding, Cyfrowy Polsat became entitled to receive, directly from Mobyland or via Polkomtel, with which Cyfrowy Polsat concluded an appropriate agreement, a price per unit for 1 MB of PLN 0.00477 net, provided that by 30 March 2014 Cyfrowy Polsat or Polkomtel submits an order for data transmission services with a total volume of no less than 51 million GB, which will have a total value of PLN 249.1 million.

The value of the CP Understanding, understood as the value of an order for no less than 51 million GB, submitted directly or via Polkomtel, on the date of its submission exceeded 10 per cent of the equity of the Company, which qualified the CP Understanding as a significant agreement.

As a result of Cyfrowy Polsat carrying out the provisions of the CP Understanding described above, Mobyland:

- a) released Cyfrowy Polsat from the obligation to pay a lump-sum final payment for Order 3, which is described in Current Report No. 41/2012,
- b) lowered, to PLN 0.00477 per 1 MB, the price per unit for data transmission services arising from Order 3 submitted by Cyfrowy Polsat in 2012, the volume of which remaining to be used up, as at 31 December 2013, the Parties specified as 17.8 million GB ("Services to be Used Up"), which according to the provisions of the CP Understanding increased the volume of Services to be Used Up to 20.1 million GB.

On the date of concluding the CP Understanding, the understanding of 28 September 2012 ceased to be valid, on which the Company reported in Current Report No. 41/2012.

In turn, by virtue of the PLK Understanding, Polkomtel increased the total volume of the data transmission services ordered through the submission of Order 3 ("Order 3") to the agreement to provide telecommunications services on wholesale conditions of 9 March 2012 (hereinafter the "PLK Agreement"; the Company reported on the signing of this agreement in Current Report No. 15/2012), with a total volume of 306 million GB and a period of validity of 36 months counting from 1 January 2014. In Order 3, the Parties included data transmission services not used up by Polkomtel, as at 31 December 2013, with a volume of about 8 million GB, covered by Order 2 submitted in 2012 ("Order 2") to the PLK Agreement, as well as the order submitted by Cyfrowy Polsat, carried out via Polkomtel when performing the CP Understanding (Cyfrowy Polsat notified Mobyland that it had submitted an order to Polkomtel covering at least 51 million GB intended for Cyfrowy Polsat). The total value of Order 3 was PLN 1,442.3 million and at the time of its placing it exceeded 10 per cent of the Company's equity, which

qualified the PLK Understanding (independently, and also taking the CP Understanding into account) as a significant agreement. The average price per unit for 1 MB covered by Order 3 (including unused services covered by Order 2 also included in Order 3 as well as the order for Cyfrowy Polsat in performing the CP Understanding) is PLN 0.0046031, with this average price taking into account the rebates provided for in the PLK Agreement.

In accordance with the notification received by the Company, Polkomtel, in performing the provisions of the PLK Understanding, submitted Order 3 on 27 March 2014, and Mobyland accepted that order. The above provisions of the CP Understanding were therefore carried out with respect to the submission, by Cyfrowy Polsat via Polkomtel, of the order for data transmission services with a total volume of no less than 51 million GB.

As a result of Mobyland accepting Order 3, the total value of orders and agreements submitted and concluded on or after 14 November 2013 by entities from the Midas Capital Group in relation to Polkomtel reached PLN 1,495.5 million, thus exceeding 10 per cent of the Company's equity. The agreement with the highest value is Order 3 of 27 March 2014, described in this report, the value of which is PLN 1,442.3 million.

Order 3 (including the unused services covered by Order 2 which are also included in Order 3) will be paid by Polkomtel in the following manner:

- a) for January 2014 – in the amount of PLN 37,500,000.00 net – on the basis of an invoice issued within seven days of accepting Order 3,
  - b) for each month from February 2014 to December 2014 – in the amount of PLN 37,500,000.00 net,
  - c) for each month from January 2015 to December 2015 – in the amount of PLN 39,750,000.00 net,
  - d) for each month from January 2016 to December 2016 – in the amount of PLN 42,944,841.60 net,
- and to the remaining extent in accordance with the PLK Agreement.

In addition, Polkomtel will pay Mobyland the unsettled and utilised (by 31 December 2013) amount of Order 2, equal to PLN 24,966,448.00 net, of which PLN 4,938,706.33 net will be settled in accordance with Order 2 and the remaining amount on the basis of this Understanding, after the acceptance of Order 3.

Polkomtel will be entitled to additional rebates, after using up the data transmission services encompassed in Order 3, the sum total of which will not exceed 25 per cent of the value of orders submitted counting from the price per unit, which is in line with the terms and conditions of the PLK Agreement.

Neither the CP Understanding nor the PLK Understanding or Order 3 anticipate a new catalogue of contractual penalties not provided for in the CP Agreement or the PLK Agreement. The criterion for classifying the aforementioned understandings and orders as significant is 10 per cent of the Company's equity. The Company published information about the above issues in Current Report No. 4/2014.

The Management Board draws attention to the Understanding, signed after the balance sheet date, and to Order 4, submitted by Polkomtel and described in detail in section 5.2. In light of the new agreements, the above provisions on Order 3 and the above-described CP Understanding and PLK Understanding lose their validity, and the conditions described therein refer only to events in 2014. As from 1 January 2015, the provisions of the Understanding and Order 4 described in section 5.2 are in force.

Submission of a further order by Aero2 Sp. z o.o., under a cooperation agreement with Polkomtel, whose value exceeds 10 per cent of the equity of Midas S.A.

On 7 April 2014, Aero2 submitted, and Polkomtel accepted, another order for RAN services (the "Order") offered under the cooperation agreement concerning mutual provision of telecommunications infrastructure services of 30 March 2012 (on the conclusion of which the Company reported in Current Report No. 22/2012 of 30 March 2012). The RAN-type services covered by the Order will be provided on the terms described in the Agreement in each location for a period of five years counting from the date on which Polkomtel announces its readiness to provide the services in a given location, in accordance with the provisions of the Agreement. The value of the Order, calculated on the basis of a five-year period of

providing the services under the Order, increased by the fee for the period of conducting tests in commercial traffic, was PLN 260.6 million and therefore exceeded 10 per cent of the Company's equity. As a result of submitting and accepting the Order, the total value of orders and agreements submitted and concluded on or after 28 March 2014 by entities from the Midas Capital Group in relation to Polkomtel reached PLN 281 million, and therefore exceeded 10 per cent of the Company's equity. The Company reported on this development in Current Report No. 6/2014.

Conclusion of a loan agreement with Bank Polska Kasa Opieki S.A. to finance the expansion of the LTE and HSPA+ telecommunications network.

On 10 July 2014, the Company, together with the following of its subsidiaries: Aero2, CenterNet and Mobyland, concluded an agreement with Bank Pekao concerning investment loan for up to PLN 200 million for the purpose of expanding the LTE and HSPA telecommunications network (the "Agreement"). That Agreement and details on the circumstances in which it was concluded are described in section 2.3 hereof. The Company published information on the conclusion of the Agreement in Current Report No. 16/2014.

Concluding a package of significant agreements in connection with establishing security for a loan agreement with Bank Polska Kasa Opieki S.A.

On 25 November 2014, in order to establish collateral for the Loan as described in the Agreement, the Company and its subsidiaries Aero 2, CenterNet and Mobyland concluded the following package of agreements with Bank Pekao: 1) registered pledge agreements on shares in CenterNet and shares in Aero2 and Mobyland, concluded by the Company with Bank Pekao, pursuant to which the Company establishes for the benefit of the Bank a registered pledge on all shares belonging to the Company and on shares in the above subsidiaries of Midas; 2) registered pledge agreements on sets of rights and assets concluded separately by each of the Borrowers with Bank Pekao, pursuant to which each of the Borrowers establishes for the benefit of Bank Pekao a registered pledge on sets of assets and rights constituting an economic whole belonging to a given Borrower; 3) an agreement on the assignment of rights from policies concluded by Aero2 with the Bank, pursuant to which Aero2 transferred to the Bank on the date of the conclusion of the agreement its receivables resulting from insurance agreements within the scope of policies concerning assets constituting the subject of the security for the Loan; 4) an agreement on the assignment of rights from commercial agreements concluded between Mobyland and the Bank, pursuant to which, on the date of the signing of the agreement, Mobyland transferred to the Bank its receivables resulting from agreements for the wholesale of data transmission services concluded by Mobyland with Cyfrowy Polsat and Polkomtel; 5) agreements concerning conditional powers of attorney of the OEC concluded by each of the Borrowers (except for the Company) with the Bank, pursuant to which each of the Borrowers (except for the Company) granted a power of attorney authorising the Bank to appear in the name of a given Borrower before the Office of Electronic Communications. The aforementioned agreements do not incorporate any provisions on contractual penalties or conditions precedent or subsequent. The Company assumed the criterion of 10 per cent of equity as the criterion for considering the agreements referred to in items 1)-4) above as significant. The terms and conditions of those agreements are described in section 2.3 hereof and in Current Report No. 28/2014.

Submission by Aero2 Sp. z o.o. of further orders for the services provided by Polkomtel, whose total value exceeds 10 per cent of the equity of Midas S.A.

On 17 December 2014, as a result of Polkomtel accepting further orders placed by Aero2 for services provided by Polkomtel for Aero2, including RAN- and SITE-type services, the total value of orders and agreements submitted and concluded since 8 April 2014 inclusive by entities from the Midas Capital Group in relation to Polkomtel reached PLN 294 million, and therefore exceeded 10 per cent of the Company's equity. The highest-value order was placed on 16 December 2014 and concerned RAN-type services. Its value, calculated on the basis of a 5-year period of providing the services covered by that order, was PLN 76 million. The RAN-type services covered by the order will be provided on the terms described in the Agreement in each location for a period of five years counting from the date on which Polkomtel announces its readiness to provide the services in a given location, in accordance with the provisions of the Agreement (defined in Current Report No. 35/2014). The Order does not regulate the issue of compensation and contractual penalties – the general terms and conditions of the Agreement will apply in this respect. Other terms and conditions of the Order do not differ from those commonly applied to transactions of this kind. The above order was submitted as part of implementing a cooperation agreement concerning mutual provision of telecommunications infrastructure services (the "Agreement"), concluded by Aero2 on 30 March 2012 with Polkomtel, which the Company reported in Current Report No. 22/2012 of 30 March 2012. The Company reported on this development in Current Report No. 35/2014.

#### Conclusion of an understanding to the framework agreement with Sferia S.A.

On 23 December 2014, Aero2 and Sferia concluded an understanding by virtue of which the deadline for concluding the Supply Agreement as described in Current Report No. 55/2012 was again extended. The new deadline for concluding the Supply Agreement therefore expires on 31 March 2015. The change in question is due to a failure by Sferia to obtain, as on the day of concluding the understanding, the radio permits required to use the radio equipment facilitating the provision of services at a level no worse than LTE in Poland, in numbers and locations justifying efficient economic commencement of the provision of services with the use of those permits, and failure to obtain the right to utilise other frequencies necessary to that end. The Company reported on this development in Current Report No. 36/2014.

### **2.4.2 Key transactions with related parties not concluded on an arm's length basis**

Midas Group did not enter into any essential transactions with related parties contracted not on an arm's length basis.

### **2.4.3 Loan agreements concluded and terminated**

#### Loan with Bank Polska Kasa Opieki S.A.

On 10 July 2014 the Company and its subsidiaries signed a loan agreement with Bank Pekao (described in section 2.3) concerning investment loan up to PLN 200 million. Interest on the loan is calculated on the basis of the 1M WIBOR rate plus the bank's margin. Repayment of the loan will be made in a maximum of 48 monthly instalments beginning on 31 August 2015. As at the date of publication of this report, the Company had drawn down part of the loan, in the amount of PLN 23.44 million.

### **2.4.4 Borrowings and sureties granted and sureties and guarantees received**

#### Borrowings granted to subsidiaries

During the 12-month period ended 31 December 2014, the Company granted borrowings with a total value of PLN 149,000 thousand of which:

- to Aero2, short-term loans in the amount of PLN 15,000 thousand and long-term loans in the amount of PLN 99,000 thousand,
- to Mobyland, short-term loans in the amount of PLN 35,000 thousand.

Details of the borrowings granted are presented in the table below:

Company	Amount of borrowing	Date borrowing granted	Date borrowing repaid	Interest rate and other conditions of the borrowing
Mobyland	30,000	2014-01-15	31.12.2015	WIBOR 1M plus margin, interest accrued in arrears – WIBOR 1M from the second business day preceding the commencement of the interest period, assuming that the year has 365 days
Aero2	20,000	2014-01-08	31.03.2018	cost of debt to Alior (WIBOR 1M plus margin)
Aero2	15,000	2014-06-12	31.03.2018	cost of debt to Alior (WIBOR 1M plus margin)
Aero2	10,000	2014-03-25	31.12.2015	WIBOR 1M plus margin, interest accrued in arrears – WIBOR 1M from the second business day preceding the commencement of the interest period, assuming that the year has 365 days
Aero2	10,000	2014-04-04	31.03.2018	cost of debt to Alior (WIBOR 1M plus margin)
Aero2	10,000	2014-05-20	31.03.2018	cost of debt to Alior (WIBOR 1M plus margin)
Aero2	10,000	2014-07-11	31.03.2018	cost of debt to Alior (WIBOR 1M plus margin)
Aero2	10,000	2014-10-31	31.03.2018	cost of debt to Alior (WIBOR 1M plus margin)
Aero2	10,000	2014-12-01	31.03.2018	cost of debt to Alior (WIBOR 1M plus margin)
Aero2	9,000	2014-12-29	31.03.2018	cost of debt to Alior (WIBOR 1M plus margin)
Aero2	5,000	2014-09-12	31.12.2015	WIBOR 1M plus margin, interest accrued in arrears – WIBOR 1M from the second business day preceding the commencement of the interest period, assuming that the year has 365 days
Mobyland	5,000	2014-09-25	31.12.2015	WIBOR 1M plus margin, interest accrued in arrears – WIBOR 1M from the second business day preceding the commencement of the interest period, assuming that the year has 365 days
Aero2	5,000	2014-12-22	31.03.2018	cost of debt to Alior (WIBOR 1M plus margin)

All of the above borrowings are secured by an own in blanco promissory note.

The borrowings were granted for the purpose of financing the expansion and maintenance of the telecommunications network of the Midas Group, conducted as part of the normal operations of the Midas Group.

#### Sureties obtained from subsidiaries and affiliates

In 2014 the Company did not obtain sureties from subsidiaries and affiliates.

## **2.5 Employment information**

The following table shows the number of employees (converted to full-time employees or FTE) employed in the Midas Group under employment contracts and those cooperating with the Midas Group based on civil law contracts by employees of each Midas Group company as at 31 December 2013 and 31 December 2014.

<b>Employing Midas Group company</b>	<b>31 December 2013</b>	<b>31 December 2014</b>
Midas	4.17	3.27
CenterNet	8.2	8.38
Mobyland	0.4	2.18
Aero2	61.93	64.97
<b>Total</b>	<b>74.7</b>	<b>78.8</b>

## **2.6 Development of the Midas Group**

### **2.6.1 Description of the Midas Group's development direction policy**

The main business purpose of the Company, as stated in its strategy updated in 2011, is to be the most modern broadband Internet access operator in Poland based on LTE/HSPA+ technologies, with its own technical telecommunications infrastructure which in combination with a unique market position held by the Midas Group among others thanks to an effective combination of 1800 MHz frequencies, will contribute to real opportunities in terms of further development and strengthening of the Midas Group's market position, and will thus create value for the shareholders of the Company.

The Midas Group has frequency resources including 900 MHz, 1800 MHz and 2600 MHz frequencies together with a telecommunications infrastructure allowing it to provide services based on the HSPA+ and LTE technologies. In the opinion of the Company's Management Board, commencement by the competing providers to offer LTE-based services is an important external factor for the growth of the business of the Midas Group.

In implementing its strategy, the Midas Group was the first operator in Poland to provide telecommunications services based on the LTE/HSPA+ technologies, which today allows for radio data transfer at maximum download speeds of up to 150 Mbps and maximum upload speeds of up to 50 Mbps. The aptness of investing in the development of advanced technologies is confirmed by the growth of Internet services visible on other markets, as shown by operators introducing offers of large and unlimited data packages. As a result of these developments, Internet access using LTE technology is rapidly becoming more popular, and end users can use mobile Internet with the freedom formerly only available via landline access.

The strategy adopted by the Company, presented in Current Report No. 60/2011 and elsewhere, is being implemented through:

- 1) Acquisitions of telecommunications assets holding frequencies or new concessions for frequencies necessary to pursue the strategy.

- 2) The construction of a nationwide telecommunications network based on the HSPA+ and LTE technologies. Ultimately, the Midas Group plans to use approximately 4800 LTE-technology base stations, of which approximately 4600 will support the HSPA+ technology as well.
- 3) Wholesale sale of high quality telecommunications services, in particular Internet access, to retail operators with their own large customer bases.
- 4) Implementation of a cost-effective business model through:
  - a. outsourcing services to the best providers of services in terms of the price-to-quality ratio,
  - b. maintenance agreements with infrastructure suppliers generating the lowest expenses,
  - c. use of synergies within the Midas Group and the ZSZ Group,
  - d. building a flat and flexible goal-oriented organisational structure.

The Midas Group has a modern telecommunications network including, among other things (as at the end of December 2014): (i) approximately 720 “proprietary” base stations used by the Midas Group and operating in the HSPA+ technology (in the frequency band owned by Aero2) and approximately 720 base stations operating in the LTE technology (in the frequency band owned by Aero2 and Mobyland), as well as (ii) approximately 4180 base stations operating in the HSPA+ technology (in the frequency band owned by Aero2) and approximately 3430 base stations operating in the LTE technology (in the frequency band owned by Aero2 and Mobyland) incorporated into the telecommunications network used by the Midas Group in cooperation with Polkomtel.

Due to the expansion of the telecommunications network being under way, the Management Board of the Company assessed the status of Phase II of the expansion of the telecommunications network, which is one of the stages of Project 4100, described in the Prospectus approved by the Polish Financial Supervision Authority on 8 February 2012. Project 4100 envisions adding approximately 4100 LTE base stations to the telecommunications network of the Midas Group (also approximately 3900 HSPA+ base stations), of which approximately 3400 LTE base stations would be added as part of Phase II of the network expansion (approximately 3200 HSPA+ base stations). As at 30 June 2014, Phase II of the network expansion was completed with respect to approximately 3200 LTE base stations, and approximately 3220 HSPA+ base stations, which ensured achieving the following target population coverages for the entire Midas Group: 66 per cent for LTE and 99 per cent of Poland’s population for HSPA+, and allowed for optimal fulfilment of the assumptions for Phase II of the network expansion. For these reasons, the Management Board of the Company decided to conclude Phase II of the network expansion and to move over the base stations not completed during that phase (i.e. approximately 200 LTE base stations) for completion in Phase III of the network expansion, provided that their implementation in that phase is commercially justified. As at the date of publication of this report, Phase III of the network expansion is currently under way, where current assumptions do not take account of the effect of the Company’s involvement in “Project 800”. In the event of the Company’s permanent involvement in “Project 800”, the assumptions for Phase III will be adapted to the method of implementing the Midas Capital Group’s strategy.

The Management Board of the Company also announces that, referring to previously published information on the level of financing required to implement Phase III of the expansion of the telecommunications network (up to PLN 364 million), the amount of PLN 200 million resulting from the

investment loan obtained from Bank Pekao is currently sufficient for that purpose. Such a reduction in the amount of financing stems from lower-than-estimated prices of telecommunications equipment and reallocating some expenditures from CAPEX to OPEX, with no significant change to the number of base stations commissioned as part of Phase III.

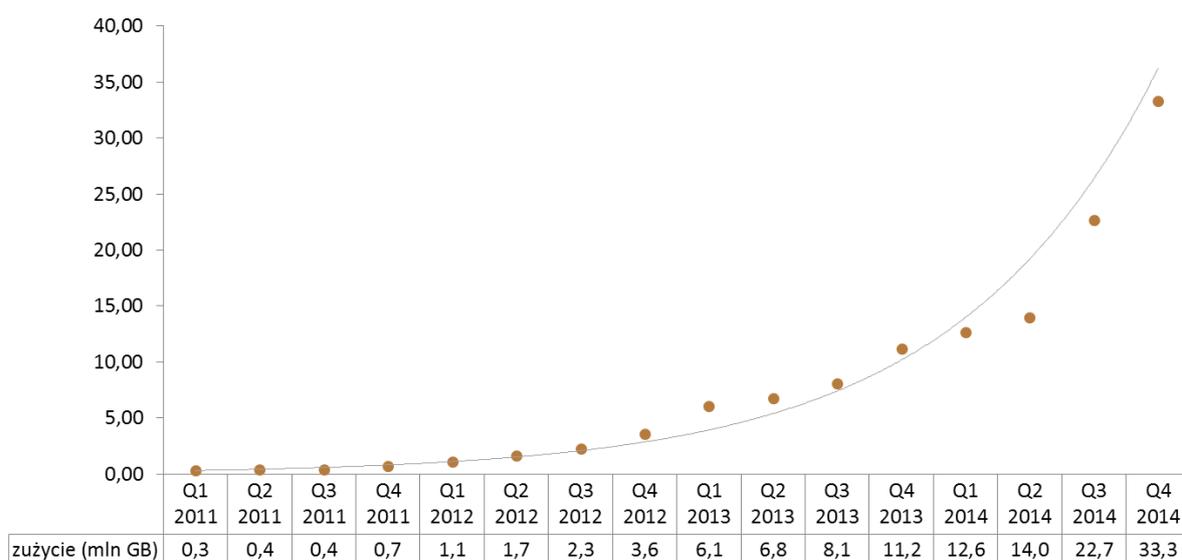
At the same time, the Management Board announces that, given the implementation of “Project 800”, in updating its strategy the Midas Group will increase the number of locations and base stations comprising the telecommunications network it currently uses, and this will have a significant effect on the Company’s performance and cash flow level, particularly over the medium term, through increasing the Company’s operating expenses and capital expenditures in connection with developing the LTE 800 network and obtaining the right to the 800 MHz frequency.

In the Company’s assessment, as at the date of publication of this report, the Understanding, the accepted Order 4 (a post-balance sheet date event) and the financing obtained permit the Company to finance involvement in “Project 800”.

The final cost of “Project 800” will depend on the quantity of bandwidth available in the 800 MHz range and on the possible investments resulting from that availability.

Thanks to such cooperation with Polkomtel regarding shared use of the telecommunications infrastructure, there is a possibility for further expansion of the telecommunications network carried out at lower expenses of such expansion compared to the independent expansion of this network, and it is also relatively faster. As at the date of publication of this report, the telecommunications network of the Midas Group provided HSPA+ coverage for approximately 99 per cent of the population and LTE coverage for approximately 80 per cent of the population. The growth in population coverage using LTE technology is the result of a further stage in the expansion and optimisation of the network, and the current data on coverage are presented in accordance with binding market practice.

The Management Board of the Company also draws attention to the following graph (in million GB) summarising the trend. The Management Board of the Company has a favourable opinion of the rate of growth in data usage. In December alone, usage exceeded 12 million GB.



## 2.6.2 Midas Group's development prospects

According to the Management Board of the Company, the following factors could affect the results of the Midas Group:

- 1) A reduction in the rate resulting from the submission of Order 4

The Company estimates that this factor may have an adverse effect on the rate of growth of revenues from sales. A reduction in the rate may, however, lead to increased data usage among Group customers.

- 2) "Project 800"

Taking account of the implementation of "Project 800", in updating its strategy the Midas Group will increase the number of locations and base stations comprising the telecommunications network it currently uses, and this will have a significant effect on the Company's performance and cash flow level, particularly over the medium term, through increasing the Company's operating expenses and capital expenditures in connection with developing the LTE 800 network and obtaining the right to the 800 MHz frequency. The final cost of "Project 800" will depend on the quantity of bandwidth available and on the possible investments resulting from that availability.

- 3) The rate of growth of LTE data transfer services provided by entities competing against the Midas Group, on the basis of frequency reservations in the 1800 MHz range granted in the first half of 2013.

The Company estimates that this factor may have a detrimental effect on the rate of growth of revenues from sales.

- 4) Decisions of the President of the OEC concerning the tender for two frequency reservations in the 1710-1730 MHz range and the 1805-1825 MHz range, resulting from the judgement of the SAC of 8 May 2014 (described in detail in section 5.1 below).

The Company notes that in line with the description of these proceedings set forth in section 5 hereof, it is currently unable to predict the direction or scope of further actions in this case that may be undertaken in the future by the President of the OEC. The Management Board of the Company also wishes to note the resolutions, which are final and favourable for the Midas Group, concerning frequency reservations in the 1710-1730 MHz and 1805-1825 MHz ranges for Aero2 and Mobyland (also set forth in section 5 hereof). The Company expects that, in the event that rulings unfavourable for the Group are included in any future decisions issued by the President of the OEC, this may indirectly have an adverse effect on the financial results and operating activities of the Group.

- 5) The increasing popularity of LTE and the corresponding increased usage of data transmission services ordered by wholesale customers of the Group.

The Company estimates that such growth will also affect the value of revenues from sales.

The Company wishes here to emphasise that the occurrence of the factors described in items 3) to 5) above is largely not dependent on the Company, and therefore the Company has no certainty as to whether they will occur in the next quarter.

## **2.7 Evaluation of feasibility of investment plans**

In accordance with its strategy, the Company intends to invest any obtained funds in telecommunications and IT projects, and in the further development of the Midas Group in particular. Therefore, significant negative cash flows might be expected in the medium term in association with the costs of the projects carried out by the Midas Group. As described in detail in section 2.6.1 of this report, those investments concern the expansion of the Midas Group's telecommunications network and are financed out of funds from bank loans, bond issues and own cash flows from operations. As at 31 December 2014, the Group had cash resources in the amount of PLN 53,450 thousand, as well an unused line of credit in Alior Bank in the amount of PLN 5 million (as at the date of publication of this report, PLN 5 million), and an unused credit line with Bank Pekao in the amount of PLN 177 million (as at the date of publication of this report, PLN 177 million) which will be designated for the implementation of the above investments. As at the date hereof, the Management Board does not see any real threat to the feasibility of investment plans, but it draws attention to the risks associated with financing, as described in section 2.8 hereof.

At the same time, the Management Board draws attention to the understanding signed after the balance sheet date with the company Polkomtel and to the order for data transmission services placed by Polkomtel. In the Company's assessment, as at the date of publication of this current report, the Understanding, the accepted Order 4 and the financing obtained permit the Company to finance its investment plans.

## **2.8 Risks and threats**

### **2.8.1 Risks related to the Midas Group's activities**

#### Risk associated with the Midas Group's strategy

Midas Group pursues its operating strategy in the telecommunications industry. Given the high level of competition in that industry and the high degree of innovation among technologies offered, there is a risk that this strategy may need to be modified. For this reason, the Midas Group cannot guarantee that its strategic initiatives, and in particular the one concerning further expansion of the telecommunications infrastructure by Aero2, will bring positive results in the time frame anticipated, or that, if they do not, there will be no negative impact on the operating activities of the Group or its financial position or results achieved. The Management Board draws attention to the risk of its involvement in "Project 800" not achieving success in the case where it does not obtain rights to enough frequency resources in the 800 MHz band.

#### Financing risk

Due to its strategy being tightly connected with the telecommunications industry, Midas Group already incurs and will incur in the future significant investment expenditures relating to the continuation of its operations in that industry, in particular, for further expansion of the telecommunications infrastructure by Aero2. In view of the above, the Midas Group procured additional financing in the form of bank loan granted pursuant to the loan agreement concluded on 10 July 2014 with Bank Pekao. The above loan, the investment loan from Alior Bank (granted under the agreement of 28 February 2013) and the financing based on the series A bonds issued by the Company on 16 April 2013 (the "Bonds") were all granted on certain terms. The Company is unable to guarantee that these terms will not change during the period in

which the financing is made available or that Midas Group companies will not breach the material terms of the financing, which could increase the debt service cost or render the obligations under the above loan agreements or the Bonds immediately enforceable.

If the Midas Group is required to repay its existing debt early and it is unable to obtain refinancing, the Midas Group would have to significantly modify its strategy financing plans. The Company also cannot guarantee that, should it be necessary to obtain refinancing, such refinancing will be available on acceptable market conditions, or that it will be made available at all. In the event that, in the scenario described above, obtaining financing in the amounts required is not possible, it will not be practicable to pursue the Midas Group's investment model for the purpose of expansion and maintenance of its telecommunications network, which may materially affect the standing and growth prospects of the Midas Group. Information about the current status of the expansion of the Group's telecommunications network is set forth in section 2.6.1 hereof.

#### Competition risk

In the telecommunications services segment, the Midas Group's main competitors are operators of mobile and landline telephone networks. Those operators may compete against the services currently offered by the Group or planned in the future, through pricing, scope and quality of services, as well as value-added services. It also cannot be ruled out that new mobile and landline network operators may appear and also compete against the Group.

It is also necessary to consider cooperation among the Group's competitors: T-Mobile Polska and Orange Polska, with respect to optimising and upgrading the telecommunications infrastructure as well as the mutual use of frequency resources assigned separately to each of those entities by the President of the OEC, which could result in the allocation of some frequencies for mobile broadband Internet services and commencement of the development of an appropriate network. There is a risk that achievement of the anticipated effects of the cooperation by these entities will allow them to more effectively compete with the Group or the Group's customers, also in terms of providing telecommunications services using the LTE and HSPA+ technologies, which will adversely affect the competitive position of the Group's customers.

Furthermore, it should be noted that entities other than Group companies (i.e. P4 Sp. z o.o. ("P4") and T-Mobile Polska) obtained new frequency reservations in the 1800 MHz range in the first half of 2013, which created additional ways of competing with the Group. Entities other than Group companies may also obtain new frequency reservations in the 800 MHz band and the 2600 MHz band if such frequencies are distributed by the President of the OEC in an auction. There is also the risk that the frequency reservations obtained by these entities will have a positive impact on their ability to compete with partners of the Group, the companies Cyfrowy Polsat and Polkomtel, which will weaken the competitive standing of the Group's customers.

Such circumstances may have a material adverse effect on the operating activities and financial performance of the Group.

#### Technological risk

The telecommunications sector is an area of rapid technological changes. In designing and building its networks and IT systems, the Group employs the latest technological solutions, including the HSPA+ and

LTE technologies. However, it cannot be predicted what effect technological changes in the field of mobile telephony, wireless transmission, voice over Internet protocol or telephony using cable television may have on the operations of the Group. Even if the Group manages to adapt its operations to such technological changes, there is no guarantee that new market players will not appear which, using such technological changes, may be more competitive than the Group, or that existing market players will not make better use of the opportunities offered by modern technology.

In addition, the following also exist: the risk of delays in constructing the radio (transmission-reception) network, and the risk of a lack of continuity of service in the networks used by Aero2 and Mobyland in providing services (disruptions in network operation caused, for example, by equipment malfunction or human error). One should also note the risk of poorer performance of the telecommunications network in the border strip along the eastern border of Poland, which is set forth below.

Such circumstances may have a material adverse effect on the operating activities and financial performance of the Group.

#### Risk of departure of key management personnel and difficulty in recruiting new well-qualified management personnel

The operations of the Group are dependent on the quality of the work of its employees and management. The Management Board of the Issuer cannot guarantee that potential departures of some of its managers or inability to find personnel having appropriate managerial and operational knowledge and experience will not have a negative impact on the operating activities, financial position and performance of the Group. Such circumstances may arise, in particular, as a result of a departure caused by a conflict of interests.

Changes in the composition of managerial staff may disrupt the operations of the Group or have a significant negative impact on the operating activities and financial results of the Group.

#### Risk of large suppliers

The Group's operations are based on cooperation with suppliers of infrastructure and goods, including for the expansion and maintenance of the telecommunications networks: the LTE network in the 1800 MHz range, the HSPA+ network in the 900 MHz range and the TD-LTE network in the 2600 MHz range. Termination of the cooperation with significant suppliers, non-performance or improper performance of the suppliers' obligations to the Group, including a resulting lack of adequate infrastructure and, ultimately, the lack of network capacity (including adequate network capacity in a given location), might result in inability or limited ability of Aero2 or Mobyland to provide telecommunications operator services and non-compliance with the requirements associated with the frequency reservations, and therefore might have a material adverse effect on the Group's operating activities and financial results.

The above risk applies in particular to Aero2's cooperation with Polkomtel (the risk is set forth below), and (to a lesser extent) with other entities providing Aero2 with a significant number of locations required for the base stations of the Group's telecommunications network and other important elements of the telecommunications infrastructure.

#### Customer risk

The Group provides wholesale services of selling broadband mobile Internet access. There is a risk that the customers of these services provided by the Group (currently, these are Polkomtel and through it also Cyfrowy Polsat) will not place any further orders or that the orders will be lower than required to carry out the Group's business plans. This is significant since the Group continues to incur fixed costs in connection with maintaining the capacity to provide such services, which costs represent a considerable portion of the Group's total expenses. The foregoing could have a material adverse effect on the operating activities and financial performance of the Group, particularly if the Group fails to secure other key customers.

There is also the risk that key customers will aim at leveraging their position (of key customers) in the Group to negotiate a future reduction in prices for purchased capacities or to amend the terms and conditions of settlements against the Group's expectations. This scenario may also be related to the possible securing by Polkomtel of new frequency reservations. If the Group is not able to sell capacities on the market to other customers, the outcome of such negotiations could adversely affect the operating activities and financial performance of the Group.

#### Risk of loss of frequency reservations

Aero2 and Mobyland each individually hold frequency reservations in the 1800 MHz band, whereas Aero2 holds frequency reservations in the 2600 MHz band and the 900 MHz band. A loss by Aero2 or Mobyland of their frequency reservations will prevent Aero2 or Mobyland from providing telecommunications operator services, including in particular from delivering LTE technology-based services requiring the use of both 1800 MHz frequencies owned by Aero2 and Mobyland or HSPA+ technology-based services requiring the use of frequencies owned by Aero2, which will ultimately adversely affect the operating activities and financial performance of the Group.

Possible loss of frequency reservations by Aero2 or Mobyland may be caused in particular by a repeal or amendment of the decision of the President of the OEC on frequency reservation for Midas Group companies following a reopening of the administrative proceedings for granting frequency reservations concluded by the issuance of the decision of the President of the OEC of 30 November 2007 reserving frequencies for CenterNet and Mobyland - due to possible invalidation of the tender for frequencies reserved for CenterNet and Mobyland.

The potential loss of frequency reservations by Aero2 (in the 2600 MHz range) may result in particular from: (i) court and administrative proceedings related to the decision under which the frequencies were reserved for Aero2, or (ii) court and administrative proceedings related to the existence of prerequisites for ascertaining a breach by Aero2 of its obligations specified in such decisions. In such cases, the provisions of the Telecommunications Law give the President of the OEC the possibility of imposed financial penalties on an entity enjoying a frequency right.

If, following the loss by Mobyland or by Aero2 of a frequency reservation (1800 MHz), a new decision is issued in relation to such frequency reservations, there is the risk that one or both such frequencies may be reserved for an entity or entities other than the Group company or companies that previously held that frequency reservation.

In the event of loss of a frequency reservation, there is also a risk that Group companies will not receive compensation (reimbursement of outlays incurred and benefits lost) from the State Treasury. Moreover, any compensation received from the State Treasury may not cover all of the outlays incurred or benefits lost. A possible action against the State Treasury may be a long-term and complex one.

Risk of maintaining the changes in rates for terminating connections in mobile networks (MTR) and introducing other changes to the rules of cooperation with other mobile telephony network operators (MNO)

On 31 December 2012, Aero2, CenterNet and Mobyland filed an appeal with the Regional Court in Warsaw (Division XVII for Competition and Consumer Protection) against the SMP decision issued by the President of the OEC on 14 December 2012, requesting that their enforcement be suspended.

In a judgement of 19 January 2015, XVII AmT 69/13, the Court of the Office of Competition and Consumer Protection dismissed an appeal by CenterNet. The Company filed an appeal against that judgement, which has not yet been heard.

In a judgement of 5 February 2015, XVII AmT 73/13, the OCCP Court partially ruled in favour of an appeal by Mobyland and overturned the decision of the President within the scope of the schedule established for adjusting rates to the completion of connections. Within the remaining scope, Mobyland's appeal was dismissed. The Company is waiting for service of the judgement together with its justification.

There is also the risk of changes to other terms of cooperation between Aero2, CenterNet and Mobyland with other mobile network operators (MNO) established by an administrative decision, in particular, further reductions of MTR rates and changes to the rates for terminating text messaging services. The above changes may be due to changes in the positions of the competent bodies on the national level (President of the OEC - in the form of issuing a position or a new SMP decision) or European level. The changes may also be caused by an amendment, dismissal or invalidation of such rules as a result of a court or court and administrative or administrative proceedings, or by an administrative decision or reopening proceedings previously concluded with the issuance of such a decision.

The above changes may occur as a result of changes in setting the criteria for calculating market standing on the domestic telecommunications services market of Aero2 and Mobyland belonging to the Midas Group due to the fact that both the Midas Group and Polkomtel are controlled by Mr Zygmunt Solorz-Żak, and they will require separate proceedings with respect to each company and with respect to each network combination agreement concluded by each of the companies with other telecommunications operators, including incumbent operators. Such proceedings will be concluded with decisions of the President of the OEC subject to review in appropriate court proceedings or court administrative proceedings. The above circumstances may also concern Aero2 and Mobyland, as well as their suppliers which are MNOs.

Such circumstances may have a negative impact on the operating activities and financial performance of the Group.

Risk associated with the shareholding structure

The Company is controlled by the Deputy Chairman of the Issuer's Supervisory Board, Mr Zygmunt Solorz-Żak. A change in the shareholding structure may occur, for example, as a result of a disposal of the Company's shares in an entity indirectly holding the Company's shares through, as the case may be, a company controlled by Mr Zygmunt Solorz-Żak or by Mr Zygmunt Solorz-Żak or as a result of the Company's shares not being subscribed in the event of possible future issues of the Company's shares. In the future, the following scenarios are possible with respect to the shareholding structure:

- 1) the Issuer continues to be controlled by Deputy Chairman of the Supervisory Board, Mr Zygmunt Solorz-Żak, in which case he retains his current controlling influence on the Issuer's business, including key decisions adopted by the General Meeting (the "GM") of the Issuer,
- 2) the majority block of shares in the Company is held by an entity other than an entity controlled by Mr Zygmunt Solorz-Żak,
- 3) no entity is controlling the Issuer.

The above situations will affect the decisions made by the Issuer's GM, including decisions on: appointing and recalling Supervisory Board members, amending the Statute and increasing the Issuer's share capital, and other important matters that fall within the scope of the powers of the Issuer's GM.

There is also no guarantee that the above-described potential change in the shareholding structure would not affect the business relationship between the Midas Group and the important business partners of the Midas Group, i.e. Cyfrowy Polsat and Polkomtel. Any changes in these relationships that are unfavourable for the Midas Group may have a material adverse effect on the operating activities and financial performance of the Midas Group.

Moreover, given that the Company and its main customers are controlled by Mr Zygmunt Solorz-Żak, it cannot be ruled out that in the future the ownership structure of the companies controlled by Mr Zygmunt Solorz-Żak may be simplified.

#### Risk in connection with a failure to implement the business model

The Group is implementing a business model based on cooperation with two groups of entities:

1. The Group, under which the infrastructural operator (Aero2) develops the telecommunications infrastructure and generates the HSPA+ capacity (900 MHz) and the TD-LTE capacity (2600 MHz), and Mobyland, on the basis of Aero2's resources, generates LTE capacity (1800 MHz) and sells the HSPA+/LTE capacity wholesale to entities having large customer bases,
2. entities having large customer bases engaged in retail selling.

This model entails the following risks:

1. the risk that Aero2 will not complete the construction of its infrastructure on time;
2. the risk that sales to end customers by the entities referred to in item 2) above will not reach an appropriate level, resulting in few wholesale orders.

The fulfilment of either of the above risks could have a significant negative impact on the operating activities and financial results of the Midas Group.

#### Risk of a return of the subsidy from the PAED (Polish Agency for Enterprise Development)

Aero2 obtained a subsidy from the PAED in the amount of PLN 31,833 thousand for the construction design of a telecommunications network in Podkarpackie Province. The subsidy involved a series of conditions set forth in the subsidy agreement. Moreover, obligations were imposed on Aero2 in relation to obtaining the subsidy. Breaching one or more of those conditions or obligations could result in having to return part or all of the subsidy obtained, together with interest due as stipulated for tax obligations. Such circumstances may have a material adverse effect on the financial results of the Group.

#### Risk of poor performance of the telecommunications network in the border zone along the eastern border of Poland

The Group's telecommunications network is built nationwide on the basis of Aero2's infrastructure. It is the result of the demand for optimal coverage with the Group's services of the highest possible number of end users for services of entities using wholesale telecommunications services delivered by the Group, as well as of the obligation to provide territorial or population coverage for the 900 MHz frequency held by Aero2 and for the 1800 MHz frequency held by Aero2 and Mobyland.

In continuing the development of the telecommunications infrastructure along Poland's eastern border, Aero2 discovered that for about 25 base stations of the Group for 900 MHz frequencies used by Aero2, there is an interference of the radio signal transmitted by devices in Aero2 base stations with radio signals of foreign operators from Ukraine. Such a phenomenon leads to a substantive deterioration in those Aero2 base stations of the performance parameters of the services delivered in each sector of those base stations.

The OEC was notified by Aero2 about the situation because the issue of cross-border interferences requires arrangements and decisions from regulatory authorities of the countries involved. On 19 November 2014 the OEC signed an understanding with the Ukrainian National Centre for Radio Frequencies concerning the coordination of the use of frequencies in the 880-890 MHz range by radio communications systems near the border between Poland and Ukraine. At present, this issue has not yet been finally resolved by those authorities.

According to the Issuer, the lack of a resolution of the above issues will result in the Group's exposure to the risk for the 900 MHz frequency range that, as at the date of publication of this report, about 80-90 base stations, and in the future an unknown number, depending on the scale of expansion of the telecommunications infrastructure of the Group in this region of Poland of base stations in the above border strip, will face problems with effective delivery of the telecommunications services for the population physically located within the coverage of those base stations.

It will have an adverse impact on the quality of services provided by the Group to its customers in the area, and may thus have a negative effect on the financial results of the Group as well.

#### Risk concerning technical issues related to building the Group's network based on a unified structure with Polkomtel's network

In the Issuer's opinion, as a result of the target model of operating cooperation under the agreement with Polkomtel of 30 March 2012 concerning shared use of the telecommunications infrastructure of Polkomtel and Aero2, as well as the current expansion of the Group's telecommunications infrastructure, it will be necessary to undertake efforts to ensure that the telecommunications networks used and built by both operators are optimised in terms of their location throughout Poland.

In view of the above, the Issuer believes that there may be a situation in which part of the infrastructure belonging to the Group will be replaced by Polkomtel's infrastructure because of its better technical parameters and better territorial and population coverage which can be achieved with individual base stations of Polkomtel operating in the 900 MHz and 1800 MHz frequencies which are at the disposal of the Group, compared to the individual base stations of the Group.

Taking account of the dynamic changes in conditions on the telecommunications services market, including the factors related to the possible assignment by the President of the OEC of frequencies in the 800 MHz and 2600 MHz ranges, the Group continually analyses possible scenarios for the growth of the mobile data transfer market. That analysis also covers potential network coverage. Given that, in working on the direction in the Group's development, modifications are also possible with regard to the number and distribution of base stations comprising the telecommunications network used by the Group.

The aforementioned circumstances may have an adverse effect on the operating activities and financial performance of the Group.

Risks associated with the cooperation with Polkomtel for the further development of the Group's telecommunications network

The Group's intention is to use, in expanding its telecommunications network, the cooperation with Polkomtel in order to reduce the cost of such expansion works and shorten the time required for their completion. As on the date hereof, the cooperation between Aero2 and Polkomtel in this respect is based on the agreement of 30 March 2012. In situations specified in that agreement, Polkomtel may terminate the agreement in whole or in part. Under the circumstances described above, the existing cooperation between the Group and Polkomtel for the development of the telecommunications network will be terminated.

In the event of termination of such cooperation, expansion of the Group's telecommunications network, if it is carried out at all to the extent currently planned, may be significantly delayed and involve much higher expenses for the Group. In addition, in such a case, the telecommunications network of the Group will be deprived of the Group's base stations commissioned in cooperation with Polkomtel. This will have an adverse effect on the operating activities and financial performance of the Group.

Even if the cooperation between Polkomtel and Aero2 concerning expansion of the network is not terminated, there is no guarantee that the extent of such cooperation will be sufficient to achieve the objectives of the Group in this regard. Also in such a case, the expansion of the Group's telecommunications network, if it is carried out at all to the extent currently planned, may be significantly delayed and involve much higher expenses for the Group. This may have a material adverse effect on the operating activities and financial performance of the Group.

Furthermore, the Issuer points out that the agreement of 30 March 2012 is concluded for a fixed term. After the lapse of that term, the agreement may be extended for a further fixed term, or for an indefinite term. The Issuer cannot guarantee that, in such a situation, the conditions of the agreement or the rates for use of Polkomtel infrastructure will not change and that they will continue to be advantageous for the Group.

Risk related to high debt

The Issuer notes that in the event of a Bond issue and also through the conclusion of a loan agreement with Alior Bank S.A. and obtaining investment loan from Bank Pekao in the amount of PLN 200 million as set forth in section 2.3 hereof, the level of interest debt increased significantly. In addition, in the case where further debt financing is obtained, where such financing, in the Company's opinion, is granted under conditions more beneficial or making it possible to implement the Midas Group's strategy in a more flexible way, the level of interest debt will also increase. Therefore, there will be a marked growth in the risk of insolvency of the Company towards its creditors, particularly banks or bondholders. There is, after all, a possibility that Midas Group companies may be unable to service such a high debt or fulfil certain other covenants. As a result, there is a risk that in the future the debt may be declared immediately due and payable, which may prevent its repayment, including redemption of the Bonds on their maturity date. Therefore, creditors, including bondholders, may not recover, either in whole or in part, the funds invested, even upon instituting the procedure of satisfying claims from the Issuer's assets, in particular, the collaterals established (if any) or may not obtain the expected rate of return on the investment.

## **2.8.2 Risks related to the Midas Group's environment**

### Risks associated with the macroeconomic situation

The Midas Group's financial position is dependent on the economic situation in Poland and worldwide. Financial results generated by the Midas Group are influenced by the GDP growth rate, inflation, interest rates, unemployment, fiscal and monetary policies and capital expenditures of companies. Those factors significantly affect the output of companies and demand for services. There is a risk that an economic slowdown in Poland or worldwide or the introduction of state economic policy instruments might have a negative impact on the market position of the Group and its financial results.

### Risks associated with a changing legal environment (including tax)

Some risk to the Company's operations may come from changes in laws or different interpretations of the law. Possible changes, in particular, in provisions relating, among others, to business activities, telecommunications, environmental protection, intellectual property, labour law, social security law and commercial law, may lead to negative consequences for the Midas Group's operations. New regulations may entail interpretation issues, inconsistent court rulings, adverse interpretations adopted by public authorities, the lack of cohesion between judicial decisions of Polish courts and EU laws, etc. The risk is particularly high in the area of tax laws, due to the large impact of regulations and their interpretations on the Midas Group's financial position.

A similarly important source of risk are possible changes to telecommunications laws due to the fact that Aero2 and Mobyland all operate in this industry. For example, changes may occur making wireless data transmission based on technologies used by the Midas Group less attractive in relation to other data transfer technologies or resulting in limitations in terms of availability of multimedia content (including content shared in violation of intellectual property rights) on the Internet, which may lower demand for data transfer and cause a drop in sales of the Midas Group's services. It should also be noted that the Midas Group's position may be indirectly affected by such changes to telecommunications laws that directly impact the position of other entities operating on the telecommunications market, primarily those which, for the Midas Group entities, are suppliers or recipients of their services, in particular, in the area of wholesale wireless data transfer.

Such circumstances may have a significant negative impact on the operating activities and financial results of the Midas Group.

### Risk associated with changes in foreign exchange rates

The Group also incurs expenses in foreign currencies, but their share in the Group's overall expenses for the first half of 2014 was not significant. However, a higher share of expenses denominated in foreign currencies in the overall expenses incurred by the Group could be expected in subsequent periods because expenses associated with the expansion of the Group's telecommunications infrastructure may be denominated in EUR or in any other foreign currency. In the case of supplies and services provided by Ericsson and Nokia Solutions and Networks, in accordance with the provisions of the relevant agreements, their prices are denominated in euros (EUR) or US dollars (USD) and will be converted to zlotys (PLN) at the exchange rate effective on the date or for the period set forth in those agreements.

Therefore, the Group is exposed to an exchange rate risk which may generate higher expenses of purchasing external services and goods, caused by adverse changes in currency exchange rates. Such circumstances may have a material adverse effect on the operating activities and financial performance of the Group.

### Risk of adverse findings as to the impact of the wireless communication technology on human health

There are studies indicating the alleged adverse impact on human health of electromagnetic waves emitted by devices used in the wireless communication technology that is applied among others by the Group. The Issuer is unable to predict what determinations as to this alleged link will be made in the future. Nonetheless, there is a risk that findings confirming such risk may cause at least a reduction in usage of the services of the Group or of the Group's customers, challenges for the business activity carried out by the Group, or increased expenses of such activity. The above-mentioned circumstances may have a significant negative impact on the operating activities and financial results of the Group.

### Risk associated with frequency resources used in wireless communication

Frequency resources used in wireless communication under the technologies applied by Group companies and their current or future competitors are scarce. Therefore, obtaining reservations of such frequencies by the Group's competitors may weaken the Group's competitive position and make catching up at least difficult, which may eventually have an adverse effect on the operating activities and financial performance of the Group. In that respect, it will be important to focus on elements such as: the scope of frequencies obtained, the time frame and type of telecommunications services offered in connection with a reservation decision obtained, and on whether the frequencies are concentrated in the hands of one entity or whether they are used jointly or their ranges combined through cooperation among the entities to which a reservation is granted. The Management Board of the Company draws attention to the anticipated distribution by the President of the OEC of frequencies in the 800 MHz and 2600 MHz bands.

Information about the risk involved for the Group in making the above frequency reservations is also set out in section 2.8.1 above.

## **3 Financial position and assets of the Midas Group**

### ***3.1 Principles for the preparation of annual consolidated financial statements***

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (the "IFRS") and the IFRS as adopted by the EU (the "EU IFRS"). As at the date of approval of these statements for publication, taking into account the EU process of implementing the IFRS standards and the business conducted by the Group, in the context of the accounting principles applied by the Group, the IFRS accounting principles differ from EU IFRS. The Company has made use of the opportunity arising when applying the International Financial Reporting Standards as adopted by the EU, of applying IFRIC 21, only from annual periods beginning from 1 January 2015, and amendments to IFRS 2 and IFRS 3 which are part of the Amendments resulting from a review of IFRS 2010-2012 from annual periods beginning from 1 January 2016.

The EU IFRS comprise standards and interpretations accepted by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC").

The consolidated financial statements were prepared in accordance with the historical cost principle, except for items evaluated in the financial statements at fair value - the early bond repurchase option.

The Management Report on the operations of the Midas Capital Group in financial year 2013 has been prepared in accordance with the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognising as equivalent information required by the law of a non-member state (as amended).

### **3.2 Description of key economic and financial figures**

#### Statement of financial position

In 2014, there were no major changes in the value of the investment portfolio.

The balance of receivables at the end of 2014 was PLN 189,297 thousand as compared to PLN 122,059 thousand at the end of the previous year. The change is mainly due to an increase in trade receivables of the Group from the company Polkomtel and to an increase in unregulated receivables from the company Sferia from the agreement for the shared use of the telecommunications network.

Cash amounted to PLN 53,450 thousand at the end of 2014 as against PLN 100,247 thousand at the end of 2013. The increase results mainly from the investments made by the Group for expanding its telecommunications network.

The equity on the balance sheet date was PLN 442,269 thousand and, compared to the end of 2013, it went down by PLN 320,857 thousand, of which PLN 320,857 constituted a decrease resulting from the net loss for 2014 (key factors affecting the net profit are described below).

The liabilities amounted to PLN 952,351 thousand as at 31 December 2014 and increased by PLN 232,708 thousand compared to the end of 2013. That increase results mainly from third party financing obtained (bond issue and investment loan) for the expansion of the Group's telecommunications network.

#### Statement of comprehensive income

In 2014, the Midas Group recognised sales revenue in the amount of PLN 430,536 thousand as compared to PLN 229,992 thousand for the previous year, which represented an increase of PLN 200,544 thousand.

This growth was mainly due to the increasing amount of data transmission services ordered by wholesale customers of the Group resulting from such factors as the growing popularity of LTE technology, and to the consistently expanding coverage of the telecommunications network utilised by the Group. The Management Board of the Company points out that revenue in the fourth quarter of 2014 increased by approximately 55.48 per cent compared to the revenue achieved in the third quarter of 2014.

In 2014, financial income totalled PLN 9,505 thousand compared with PLN 5,825 thousand in 2013. The change results primarily from a revaluation of the embedded derivative.

Operating expenses (including other operating expenses) in 2014 were PLN 718,382 thousand, in comparison with PLN 446,243 thousand in the previous year. The increase results from the successive expansion of the number of base stations, and as this number grows, so do the costs of maintaining and operating the Group's telecommunications network. The Group also made a write-down concerning the frequency reservation in the 2570-2620 MHz range, as a consequence of which the consolidated net result of the Group by charged with the amount of PLN 126.4 million, and the consolidated net result with the amount of PLN 104.9 million. The most significant items under operating expenses in 2014 were: PLN 126,028 thousand in amortisation and depreciation, PLN 401,093 thousand in costs related to the telecommunications network, PLN 131,475 thousand for other operating costs (together with the write-down described above), PLN 26,715 thousand in taxes and fees, and PLN 8,544 thousand in wages and salaries.

The total loss for 2014 equalled PLN 320,857 thousand as compared with a loss of PLN 206,550 thousand generated in the previous year. The main factors shaping the difference in the performance in the current and previous year were a higher level of operating expenses (as described above) and the write-down made.

### Statement of cash flows

In 2014 net cash flows from operating activities amounted to PLN -37,434 thousand as against PLN -214,929 thousand in the previous year.

In 2014, net cash flows from investment activities amounted to PLN -121,131 thousand, compared to PLN -84,407 thousand in the previous year. The main factor affecting cash flows in 2014 was the acquisition of property, plant and equipment as part of the expansion of the Group's telecommunications network.

In 2014, net cash flows from financing activities amounted to PLN 111,768 thousand compared to PLN 233,694 thousand in the previous year. The main factor affecting the amount of cash flows from financing activities in 2014 was the use of investment loan (from Alior Bank S.A. and Pekao S.A.).

### **3.3 Financial and non-financial indicators**

	2014	2013
<b>liquidity - liquidity ratio I</b>		
$\frac{\text{total current assets}}{\text{current liabilities}}$	0.73	0.84
<b>liquidity - liquidity ratio III</b>		
$\frac{\text{cash}}{\text{current liabilities}}$	0.15	0.42
<b>liabilities repayment period</b>	2014	2013
$\frac{\text{trade liabilities} \times 365 \text{ days}}{\text{value of goods and materials sold} + \text{cost of products sold}}$	79 days	105 days
<b>debt to assets ratio (%)</b>		
$\frac{(\text{total equity and liabilities} - \text{equity}) \times 100}{\text{total assets}}$	68.3%	48.5%

### **3.4 Description of the structure of assets and liabilities in the consolidated balance sheet**

Compared to 2013, the balance sheet total increased by PLN 88,149 thousand (a fall of 6 per cent) in 2014. As at 31 December 2014 the assets consist of: property, plant and equipment with a value of PLN 467,734 thousand (which represent 33.54 per cent of assets), intangible assets with a value of PLN 577,082 thousand (which represent 41.38 per cent of assets). The growth in the value of the property,

plant and equipment was 15.94 per cent compared to the previous year, and the decrease in intangible assets compared to the previous year was 25.94 per cent.

The Midas Group's current assets increased by PLN 63,517 thousand (a 32.07 per cent increase) compared to 2013. Current assets constitute 18.76 per cent of total assets. Other assets of the Midas Group represent 6.32 per cent of total assets.

The balance of receivables at the end of 2014 was PLN 189,297 thousand, in comparison with PLN 122,059 thousand (growth of 55.09 per cent) in the previous year. The change is mainly due to the increase in trade receivables. Receivables represent 13.57 per cent of the total assets.

Cash amounted to PLN 53,450 thousand at the end of 2014 as compared to PLN 100,247 thousand (a drop of 46.68 per cent) in 2013. Cash represents 3.83 per cent of the total assets.

The equity on the balance sheet date was PLN 442,269 thousand and, compared to the end of 2013, it went down by PLN 320,857 thousand. At the end of 2014, the equity equalled 31.71 per cent of total liabilities.

Liabilities amounted to PLN 952,351 thousand as at 31 December 2014 and increased by PLN 232,708 thousand in comparison with the end of 2013 (an increase of 32.34 per cent). That increase results mainly from third party financing obtained (counted during the period of the bond discount and investment loan drawn down) for the expansion of the Group's telecommunications network. At the end of 2014, liabilities represent 68.29 per cent of the total liabilities.

### ***3.5 Significant off-balance sheet items***

As at 31 December 2014, the only significant off-balance sheet item was contingent debts of the Midas Group in the aggregate amount of PLN 289 thousand. A detailed description of the contingent debts of the Midas Group was included in Note 30 to the Consolidated financial statements of the Midas S.A. Capital Group.

### ***3.6 Changes in the Issuer's investment portfolio***

In 2014, there were no major changes in the Company's investment portfolio.

On 21 February 2014 (a post-balance sheet date event), the merger of Conpidon and the Company was registered, and the Company thereby became the legal successor of Conpidon. The Company published information on the registration in Current Report No. 3/2014.

The above changes in the Company's investment portfolio were made in an attempt to simplify the Company's group structure and have no material effect on the financial performance of the Company and of the Midas Group.

On 31 December 2014, the merger of Aero2 and CenterNet, in which the Company holds 100 per cent of the shares in the share capital, was registered. The decision to conduct the merger of Aero2 and CenterNet reflected the belief of the Management Board of the Company that the merger was the fastest and most effective way to streamline the structure of the Midas Group. The merger did not materially affect the financial performance or operations of the Midas Group. The merger of Aero2 with CenterNet was effected by way of: (i) transferring all of the assets of CenterNet to Aero2 via universal succession, and (ii) dissolving the company CenterNet without liquidating it, in accordance with the provisions of the CCC. As a result of the Merger, the share capital of Aero2 was increased from PLN 11,050 thousand to PLN 11,100 thousand, i.e. by PLN 50 thousand, by creating 1,000 new shares with a nominal value of

PLN 50 each. The premium on the new shares in Aero2 in the amount of PLN 144,895 thousand was allocated to the supplementary capital of Aero2. As a result of the Merger, the Company, as the sole shareholder of CenterNet, received 1,000 new shares in the share capital of Aero2 in exchange for 4,264,860 existing shares in the share capital of CenterNet.

### ***3.7 Differences between actual financial results and any previously published forecasts***

The Management Board of the Company did not publish any forecasts for 2014.

### ***3.8 Use of proceeds from the issue of series A bonds***

Following the issue of series A bonds in 2013, the Issuer raised PLN 200,099,528.44. Until the date of this report, the Issuer used the proceeds from the issue of series A bonds as follows:

- a) The amount of PLN 185.7 million was allocated to cover Group liabilities from benefits provided by Polkomtel, under an agreement of 30 March 2012 on mutual use of the telecommunications infrastructure of Polkomtel and Aero2 for RAN- and SITE-type services.
- b) The amount of PLN 14.4 million was allocated to cover Group liabilities from access to data transfer services implemented in the Polkomtel network.

### ***3.9 Financial instruments***

#### ***3.9.1 Employed financial instruments***

The main financial instruments used by the Company include bonds, loans, borrowings, cash and short-term deposits. Such financial instruments are aimed at sourcing funding for the Midas Group's operations.

The Company does not use financial derivatives in its operating activities. As described in Note 18 to the consolidated financial statements of the Company, at the moment of initial disclosure of a liability from a bond identified an embedded derivative (an option for early redemption) in accordance with the definition in IAS 39 and applied to its disclosure in the financial statements.

#### ***3.9.2 Financial risk management objectives and methods***

Financial risk is associated with unexpected changes in cash flows arising, among others, from operating activities of the Midas Group. Key risks of the Company's financial instruments include interest rate risk, price risk, liquidity risk, currency risk and credit risk. Policies for managing each of the above financial risks are presented in Note 34 to the 2014 Financial statements of the Midas Capital Group.

### ***3.10 Current and forecast financial position***

The Management Board of the Company considers the Group's current financial position to be good. In addition, in connection with the signing in 2014 of a loan agreement with Bank Pekao (described in detail in section 2.3 hereof), the Management Board of the Company believes that its financial position will not significantly deteriorate in the future. The Management Board of the Company also draws attention to the signing of a further order for data transmission services with the Cyfrowy Polsat Group (a post-balance sheet date event) which, given the scale thereof, together with financing available, provides the Midas Group with the possibility of financing its planned investments and securing its liquidity condition.

Regardless of the foregoing, the Company's Management Board emphasises the financing risk and risk related to high debt, as set forth in section 2.8.1 hereof.

### ***3.11 Events and factors largely affecting operating and financial results***

#### **3.11.1 Important events during the financial year**

In 2014, events with a significant impact on the Group's performance were:

- The conclusion of the PLK Understanding and CP Understanding and the submission by Polkomtel of Order 3 and Order 4
- The signing of an investment loan agreement with Bank Pekao and the release of the loan,
- Aero2's submission of orders under the cooperation agreement within the scope of mutual services using the telecommunications infrastructure with Polkomtel.
- A change in the value of the discount rate on the Series A bonds
- The impairment write-down on the value of the 2600 MHz frequency
- The submission of further orders as part of the construction of the network

The above events are described in detail in section 2.3 hereof.

#### **3.11.2 Extraordinary factors and events**

According to the Management Board of the Company, in 2014, apart from the factors described in section 3.11.1 above, there were no extraordinary factors or events having a significant impact on the result attained.

#### **3.11.3 Evaluation of events and factors affecting the results**

In the opinion of the Management Board of the Company, the above factors and events contributed to the implementation of the strategy of the Company and the Midas Group. In particular, the acceptance of Order 3 and the start-up of loan from Alior Bank and Bank Pekao allowed the Company to continue to implement its strategy, among other things, by expanding its telecommunications network as part of Project 4100, which allowed it to gain a competitive advantage and made the Midas Group more effective in providing wholesale wireless data transfer services. Furthermore, the safe and relatively attractive investment of cash surpluses in bank deposits significantly influenced the level of financial income for the Company. The Management Board of the Company points out that, to the extent that progress is made on expanding the Midas Group's telecommunications network, changes may occur in the relationship between the Company's financial expenses (a decrease) and the Company's financial expenses, resulting from such factors as loans drawn down and bonds issued (an increase).

### ***3.12 Evaluation of the management of financial resources***

The credit lines at Bank Pekao and Alior Bank, as well as proceeds from accepted orders from Polkomtel and Cyfrowy Polsat permitted the Midas Group in 2014 to have available funds to guarantee that all current and planned expenses related to the activities and investments of the Company and the Midas Group are properly settled. The balance of available cash made it possible to flexibly settle its ongoing liabilities. The Midas Group's liquidity management was focused on a detailed analysis of the turnover of receivables, an ageing analysis of the Group's liabilities, and constant monitoring of bank accounts, as well as on obtaining debt capital. Furthermore, the Management Board of the Company safely and relatively attractively invested cash surpluses in bank deposits. In view of the foregoing, the Management Board of the Company has not identified any threats to financial resource management.

### **3.13 Entity authorised to audit financial statements**

The entity authorised to audit and review financial statements of the Company and of the Midas Group, in accordance with the resolution of the Supervisory Board of 28 May 2014, is the company Ernst & Young Audyt Polska sp. z o.o. sp. k. with its registered office in Warsaw (“E&Y”). E&Y is entered in the list of entities authorised to audit financial statements, kept by the National Council of Statutory Auditors under number 130. The Company reported on the appointment of the entity authorised to audit and review the financial statements of the Company and the Midas Group in Current Report No. 10/2014.

The financial statements of the Company and the consolidated financial statements of the Midas Group for 2014 were audited by E&Y under an agreement entered into on 28 July 2014 for the period of the review/audit together with the auditor's opinion and report.

Detailed information is found below on the fees (in PLN ‘000) for the entity authorised to audit financial statements in 2014 (as well as in 2013):

	<b>2014</b>	<b>2013</b>
Compulsory audit of the consolidated financial statements	285	215
Other evidencing services, including the audit of the financial statements	25	25
Tax advisory services	-	-
Other services	43	10
<b>Total</b>	<b>353</b>	<b>250</b>

## **4 Statement of compliance with corporate governance principles in 2014**

### **4.1 Description of corporate governance principles applicable to the Issuer**

In 2014, the Issuer was subject to the principles of corporate governance contained in the document “Best Practices of WSE Listed Companies” attached to Resolution No. 19/1307/2012 of the Supervisory Board of the WSE of 21 November 2012. This document contains the rules of corporate governance the Issuer volunteered to apply.

The Best Practices of WSE Listed Companies are available on the website dedicated to corporate governance at- [www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl).

### **4.2 Description of the scope of the Issuer's departures from applicable corporate governance principles**

In 2014, the Issuer applied the principles of corporate governance contained in the “Best Practices of WSE Listed Companies” with the following exceptions:

#### Section I “Recommendations for Best Practice for Listed Companies”:

- principle 5) “A company should have a remuneration policy and rules of defining the policy. (...)”.

On 12 December 2013, the Extraordinary General Meeting of the Company adopted a resolution on awarding remuneration to members of the Company’s Supervisory Board for their service. On this basis, members of the Company’s Supervisory Board receive remuneration for participating in each meeting of the Supervisory Board, but do not receive a monthly remuneration. On the other hand, under the resolution of the Company’s Supervisory Board, Management Board members appointed for a new term

on 14 December 2014 are entitled to a monthly remuneration. In view of the foregoing, the Company does not declare that it applies the principle stated in section I.5 of the Best Practices of WSE Listed Companies.

- principle 9) “The WSE recommends to public companies and their shareholders that they ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies’ economic business.”

Appointments and dismissals of members of the Supervisory Board, and indirectly also members of the Management Board, are at the sole discretion of the General Meeting of the Company. The Management Board of the Company does not have control over what candidatures to the Supervisory Board are submitted by the shareholders of the Company entitled to participate in the General Meeting or what candidatures to the Management Board are proposed by members of the Supervisory Board. In view of the foregoing, the Company does not declare that it applies the principle stated in section I.9 of the Best Practices of WSE Listed Companies.

- principle 12) “A company should enable its shareholders to exercise the voting right during a General Meeting either in person or through a plenipotentiary, outside the venue of the General Meeting, using electronic communication means.”, and

- principle 10) from section IV “Best Practices of Shareholders”: “A company should enable its shareholders to participate in a General Meeting of Shareholders using electronic communication means through: 1) real-life broadcast of General Meetings, 2) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting.”

Under the Statute, the Company may allow participation in the General Meeting of Shareholders using electronic means of communication on the terms set out in the Rules of Procedure of the General Meeting of Shareholders. The Rules of Procedure of the General Meeting state that the Company may enable shareholders to participate in a General Meeting of Shareholders using electronic means of communication through: 1) real-time broadcast of General Meetings, 2) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting, and 3) exercising voting rights personally or by proxy during the General Meeting. In the assessment of the Management Board of the Company, the above principle is not applied due to the risk of a technical and legal nature entailed by the possibility of shareholders authorised to take part in the General Meeting being improperly identified, as well as the risk of an infringement of security and the flow of electronic communications, as well as resolutions adopted being contested. In particular, in the Management Board of the Company’s opinion, there exists a real risk of technical disruptions occurring which could significantly hinder or prevent continuous bilateral communication with shareholders located in a place other than the location of the meeting. Nevertheless, the Management Board of the Company does not rule out the possibility of applying the above principle in the future, in particular when the conditions causing the potential technical and legal problems discussed above have ceased. In view of the above, the Company will consider the application of this principle, taking into account any technical and legal aspects associated with enabling shareholders to participate in the General Meeting in such manner.

## Section II “Best Practice for Management Boards of Listed Companies”:

Principle 1. A company should operate a corporate website and publish on it, in addition to information required by legal regulations:

- principle 1.7) “(...) shareholders’ questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions.”

There are no detailed records kept in the Company as to the course of the General Meeting, including all statements and questions. Participants of the General Meeting, pursuant to the provisions of the Commercial Companies Code, have the right to make statements in writing which are attached to minutes. However, the Company will consider applying this principle, taking into account the technical and organisational considerations involved in recording a General Meeting.

- principle 3) “Before a company executes a significant agreement with a related entity, its Management Board shall request the approval of the transaction/agreement by the Supervisory Board. (...)”

and

- principle 9) from section III “Best Practice for Supervisory Board Members”: “Execution by the company of an agreement/transaction with a related entity which meets the conditions of section II.3 requires the approval of the Supervisory Board.”

Pursuant to the Statute, in addition to the matters specified in the Act, in other provisions of the Statute or in resolutions of the General Meeting, powers and duties of the Supervisory Board include, but are not limited to:

1) granting consent to the Company to conclude a material agreement with an affiliated entity (the above obligation does not apply to routine transactions concluded on market terms in the ordinary course of business conducted by the Company with a subsidiary in which the Company holds a majority shareholding) or a parent; an affiliated entity is defined as in the Regulation of the Minister of Finance issued on the basis of Article 60 par. 2 of the Act on the Public Offering and the Conditions for Admitting Financial Instruments to Organised Trading and on Public Companies of 29 July 2005; further, it is accepted that granting borrowings or other types of debt financing towards the above entities falls within the limits of the ordinary business of the Company;

2) granting consent to the Company to draw down liabilities where the value of a single transaction or of the total number of transactions concluded in a given financial year with a single entity exceeds 20 per cent of the Company’s net assets, determined on the basis of the most recent separate financial statements published in an interim report.

The Management Board of the Company declares the application of such principle to the extent resulting from the above provisions of the Statute.

#### ***4.3 Description of the principal characteristics of internal audit and risk management systems in place in the Midas Group in reference to the process of the preparation of financial statements***

The Management Board of the Company is responsible for the system of internal control and supervision over the preparation of financial statements in the parent, while in the subsidiaries, the Management Boards of the same are responsible for this. Interim reports are prepared and published in accordance with the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognising as equivalent information required by the law of a non-member state. The Company’s Supervisory Board and the Supervisory Boards of the subsidiaries also assess the financial statements of the Company and the subsidiaries, respectively, in terms of their compliance with records and documents, as well as with the factual status. The results of such

assessment of the Company's financial statements are included by the Supervisory Board of the Company in its annual report.

The basic systems of internal control in relation to the process of preparing the financial statements of the Group are:

- 1) internal division of responsibilities in the preparation of financial statements;
- 2) ongoing internal supervision over accounting duties;
- 3) preparation and internal distribution (the Management Board, the Supervisory Board) of interim financial reports containing balance sheets, profit and loss accounts, cash flow statements of the Company's subsidiaries and consolidated accounts for the entire Midas S.A. Capital Group;
- 4) internal procedures and regulations relating, among other things, to concluding significant transactions and obligations (in accordance with the Statute and rules of procedure of the Company's management and supervisory bodies);
- 5) internal review and approval of financial statements prior to their publication;
- 6) periodic review and audit of financial statements by an auditor

Reviews are carried out by the auditor for semi-annual financial statements, whereas annual separate and consolidated reports are subject to audits.

Within the Company's Supervisory Board, there is an Audit Committee composed of: Mr Andrzej Abramczuk, Mr Mirosław Mikołajczyk and Mr Andrzej Chajec. In the Company's opinion, Mr Mirosław Mikołajczyk and Mr Andrzej Chajec meet the criteria set out in Article 86 par. 4 of the Act of 7 May 2009 on auditors and their self-government, entities authorised to audit financial statements and public supervision, i.e. they satisfy independence conditions specified in the Act, and are qualified in the field of accounting as corporations where they acted or act as members of the management board, prepared financial statements, and pursuant to the Accounting Act, the obligations of such individuals as members of the management board included ensuring the preparation of such statements and approving the same. The composition of the Audit Committee is also, in the opinion of the Company, consistent with the provisions of Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive directors (...), referred to in Best Practices of WSE Listed Companies. Specific tasks of the Audit Committee are described in section 4.8.2 hereof.

## **4.4 Share capital**

### **4.4.1 Structure of the share capital**

As at 31 December 2014 and as at the date hereof, the Company's share capital amounts to PLN 147,966,675 and is divided into 1,479,666,750 ordinary bearer shares with a nominal value of PLN 0.10 each, of which:

- 1) 11,837,334 are series A shares,
- 2) 47,349,336 are series B shares,
- 3) 236,746,680 are series C shares,
- 4) 1,183,733,400 are series D shares.

Each ordinary share carries the right to one vote at the General Meeting of Shareholders of the Company. All shares issued have been paid in full and registered with the National Court Register.

#### 4.4.2 Large shareholders

The table below shows the structure of shareholders of the Company which, as at 31 December 2014, hold either directly or indirectly through subsidiaries at least 5 per cent of the total number of votes at the General Meeting of Shareholders of the Company. This structure remains valid as at the date of submitting this annual report, i.e. as at 3 March 2015. The following list has been drawn up on the basis of notifications received by the Company from the shareholders pursuant to Article 69 of the Act on the Public Offering and pursuant to Article 160 of the Act on Trading in Financial Instruments of 29 July 2005 (hereinafter, the “Act on Trading”).

Name of shareholder of the Company	Number of shares and votes	Percentage of share capital and of total number of votes
Zygmunt Solorz-Żak (*)	976,542,690	65.9975
ING Otwarty Fundusz Emerytalny (**)	80,000,000	5.4066
Other shareholders	423,124,060	28.5959
<b>TOTAL</b>	<b>1,479,666,750</b>	<b>100.00</b>

(\*) Mr Zygmunt Solorz-Żak, acting as Deputy Chairman of the Company’s Supervisory Board, controls the Company through: (i) Karswell Limited, with its registered office in Nicosia, Cyprus, (ii) Ortholuck Limited, with its registered office in Nicosia, Cyprus, and (iii) Litenite Limited, with its registered office in Nicosia, Cyprus, within the scope of 976,542,690 shares in the Company held by Litenite.

(\*\*) in accordance with information provided by the Company in Current Report No. 40/2013 of 12 December 2013.

#### 4.4.3 Shareholders of the Company with special control rights, restrictions to voting rights and to transferability of the Company's shares

There are no securities carrying any special control rights over the Company and there is no preference as to the voting rights attached to shares of the Company or shareholders of the Company. As at the date of publication of this report, there are no restrictions on exercising voting rights or on transferring the ownership right to the Company’s securities.

#### 4.4.4 Direct shareholding and rights thereto held by persons managing and supervising the Issuer's business

The following table summarises direct shareholding in the Company by managing and supervising persons as at the end of the reporting period, i.e. as at 31 December 2014. In the period from 31 December 2014 until the date of publishing this report, i.e. 3 March 2015, there have been no changes in the number of shares in the Company held by the managing and supervising persons in the Company.

Name and surname	Position	Number of shares in the Company held as at 31 December 2014	Nominal value of shares held in the Company (PLN)
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Wojciech Pytel	Chairman of the Supervisory Board	the none	N/A
Zygmunt Solorz-Żak (*)	Deputy Chairman of the Supervisory Board	the none	N/A
Andrzej Abramczuk	Secretary of the Supervisory Board	the none	N/A
Andrzej Chajec (**)	Member of the Supervisory Board	the none	N/A
Krzysztof Majkowski	Member of the Supervisory Board	60,000	6,000
Mirosław Mikołajczyk	Member of the Supervisory Board	the none	N/A
Wiesław Walendziak	Member of the Supervisory Board	the none	N/A
Krzysztof Adaszewski	President of the Management Board	the none	N/A
Piotr Janik	Vice-President of the Management Board	the none	N/A

(\*) Mr Zygmunt Solorz-Żak holds indirectly, through entities directly or indirectly controlled, 976,542,690 shares in the Company having a nominal value equal to PLN 97,654,269.00. Information on this subject is contained in section 4.4.2 hereof.

(\*\*) A person closely-related to Mr Andrzej Chajec, as defined in Article 160 par. 2 pt. 1 of the Act on Trading, holds 250 shares in the Company (of a nominal value of PLN 25).

During 2014, the Company obtained a total of 1 notices prepared under Article 160 of the Act on Trading.

In January 2014 the Company received a notification from Mr Zygmunt Solorz-Żak, Deputy Chairman of the Supervisory Board of the Company (the “Obligated Person”) under the procedure of Article 160 par. 1 of the Act on Trading in Financial Instruments concerning the disposal by the Company, which is indirectly controlled by the Obligated Person, of 5,000 ordinary shares in the Company (the “Shares”) on 8 April 2013. In accordance with that notification, the Shares were sold as part of an ordinary trading session transaction on the regulated market run by Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange). The price per Share as indicated in the notification was PLN 0.74. The Management Board of the Company would like here to reiterate that information on the above transaction concerning the sale of own shares of the Company was published in Current Report No. 9/2013 of 8 April 2013..

#### **4.4.5 Agreements which may affect proportions of shares held by the existing shareholders and bondholders**

Under the agreement entered into in December 2011 between Ortholuck holding 100 per cent of the shares in Litenite, and LTE Holdings, a subsidiary of Polkomtel, LTE Holdings acquired from Ortholuck 49 per cent of shares in Litenite (Current Report No. 6/2012 of 7 February 2012). The remaining 51 per cent stake in Litenite held by Ortholuck was encumbered by a pledge in favour of Polkomtel and the laws of Cyprus govern and apply to such pledge (the “Polkomtel Pledge”). In a case where certain events take place, including, for example, violations of the obligations between Ortholuck and LTE Holdings under the respective agreement between such entities on which the Company has no further information or a possible bankruptcy of Litenite or its subsidiaries, then Polkomtel, under the Polkomtel Pledge, will be entitled, among other things, to exercise corporate and property rights on pledged shares in Litenite, including voting rights, and will obtain the right to sell such shares. In addition, under the Polkomtel

Pledge, Ortholuck will be obliged not to dispose of or encumber the pledged shares in Litenite, except for encumbering them with another pledge, on certain terms and conditions, as collateral for financing obtained by Litenite or its subsidiaries. Such other pledge will take precedence over the Polkomtel Pledge. In addition, LTE Holdings was contractually reserved an option to purchase from Ortholuck, at market price, the remaining 51 per cent stake in Litenite (the “Call Option”).

If there are circumstances permitting Polkomtel to exercise its rights under the Polkomtel Pledge, as referred to above, and Polkomtel actually exercises the same, it will take over control of the Company. However, if there are circumstances enabling the Call Option to be exercised and LTE Holdings actually exercises it, Polkomtel will also take control over the Company. However, as long as control over Polkomtel is exercised by Mr Zygmunt Solorz-Żak, there will be no changes in the control of the Company. However, in the event that Mr Zygmunt Solorz-Żak loses control of Polkomtel (when Polkomtel exercises control of the Company), he will lose control of the Company.

Moreover, Ortholuck was contractually reserved a return option to purchase from LTE Holdings the 49 per cent stake in Litenite, previously sold by Ortholuck (the “Return Option”). The Return Option will be exercisable under circumstances stipulated in the respective agreement and involving a debt ratio provided that there are also no grounds to exercise the Call Option. The Return Option will expire and will not be exercisable in the event that LTE Holdings exercises the Call Option or Polkomtel exercises its above rights under the Polkomtel Pledge. If there are circumstances permitting the exercising of the Return Option and Ortholuck actually exercises the same, it will hold, jointly with the shares currently held, 100 per cent of the shares in Litenite and the control of the Company will not change.

At the same time, the Management Board points out that Polkomtel is a subsidiary of Cyfrowy Polsat, which is controlled by Mr Zygmunt Solorz-Żak.

To the best knowledge of the Company, there are no other arrangements under which the control of the Company might potentially change in the future.

#### **4.4.6 Employee stock plan**

The Company does not operate any employee stock plan.

#### **4.4.7 Acquisition of own shares**

The Company did not acquire its own shares in 2014 and, at the date of publication of this report, did not hold any own shares.

### ***4.5 Principles of amending the Company's Statute***

Pursuant to the CCC, the Company's Statute is amended by a resolution of the General Meeting and an entry in the National Court Register. Pursuant to applicable provisions of the Company's Statute, resolutions of the General Meeting on amendments to the Company's Statute (including the issue of new shares) are adopted by a majority of 3/4 (three quarters) of the votes. Furthermore, resolutions on amending the Statute of the Company, increasing shareholder benefits or restricting rights accorded personally to individual shareholders require the consent of all concerned shareholders.

### ***4.6 Procedures applicable to general meetings and their principal competences and description of shareholders' rights and methods of their exercise***

Pursuant to Article 399 of the CCC, the General Meeting is convened by the Management Board. The Supervisory Board has the right to convene the Ordinary General Meeting (the “OGM”) if the Management Board fails to do so within the period specified in the CCC or in the Statute (pursuant to Article 23 par. 4 of the Statute - within two weeks of the date when a respective request is made by the

Supervisory Board) and the Extraordinary General Meeting (the “EGM”) if the Supervisory Board considers it advisable.

Shareholders representing at least a half of the share capital or at least a half of the total votes in the company may convene the Extraordinary General Meeting. Shareholders appoint the chairman of such meeting. In addition, pursuant to Article 400 of the CCC, the Issuer's shareholder or shareholders, representing at least one-twentieth of the share capital may request that the Extraordinary General Meeting be convened and that specific issues be placed on the agenda of the next General Meeting. Such a request must be submitted in writing or electronically to the Management Board.

Pursuant to Article 24 of the Statute and Article 401 of the CCC, the Supervisory Board or a shareholder or shareholders representing at least 1/20 of the share capital may request that specific issues be placed on the agenda of the next General Meeting. Such request should be submitted to the Management Board no later than twenty-one (21) days before the date scheduled for the General Meeting. The request should include a justification or a draft resolution concerning the proposed item on the agenda. The request may be submitted in writing (sent to the address of the Company) or as an electronic document saved in PDF format sent to the email address of the Company at: wz@midas-sa.pl. The Management Board is obliged to immediately, but no later than eighteen (18) days before the date scheduled for the General Meeting, announce changes to the agenda, introduced at the request of the shareholders.

A shareholder or shareholders representing at least 1/20 (one-twentieth) of the share capital may, before the date of the General Meeting, submit to the Company in writing (sent to the address of the Company) or as an electronic document saved in PDF format sent to the email address of the Company: wz@midas-sa.pl, draft resolutions relating to matters to be placed on the agenda. The Company immediately publishes draft resolutions on its website. A shareholder or shareholders submitting draft resolutions must present a certificate issued by an appropriate body acknowledging the right to participate in the OGM and identifying the latter as shareholders of the Company.

A request to convene the EGM and place certain issues on the agenda, presented by authorised persons, may be rejected only for legitimate reasons and justified in detail. If a motion concerns placing the election of members of the Supervisory Board in accordance with Article 385 par. 3 of the CCC on the agenda, it cannot be rejected under any circumstances. A General Meeting of Shareholders convened upon the motion of authorised entities, or a General Meeting of Shareholders whose agenda contains specific matters placed thereon as a result of such a motion, may be cancelled only with the consent of those who brought the motion. In other cases, the General Meeting may be cancelled if holding the meeting is subject to extraordinary obstacles or is obviously pointless.

Such cancellation and possible postponement of the General Meeting take place the same way as when convening the Meeting, reducing as much as possible any negative consequences of the changes for the Company and the shareholders. The cancellation and postponement of the General Meeting should be made immediately after the conditions justifying such cancellation or postponement emerge, but no later than seven days before the date of the General Meeting. If the cancellation or postponement of the General Meeting cannot be made within the time limit referred to in the preceding sentence, the General Meeting should be held unless the circumstances show that it is impossible or excessively difficult, then such cancellation or postponement can be made at any time before the date of the General Meeting. The cancellation or postponement of the General Meeting is made by a notice published on the Company's website together with a statement of reasons and in compliance with any other requirements of the applicable laws. The power to cancel the General Meeting will be vested only in the body or person that has convened the General Meeting.

The General Meeting meets as an ordinary or extraordinary meeting. The Ordinary General Meeting is convened each year no later than on the last day of June.

Pursuant to Article 402<sup>1</sup> of the CCC, a general meeting of a public company is convened by a notice posted on the company's website and as prescribed for the distribution of current information in accordance with the provisions of the Act on the Public Offering. The notice should be made at least twenty-six days before the date of the general meeting.

Pursuant to Article 402<sup>2</sup> of the CCC, every notice on a general meeting of a public company should include at least:

- 1) the date, time and place of the general meeting together with a detailed agenda,
- 2) a precise description of the procedures for participating in the general meeting and exercising voting rights, and in particular information on:
  - a. shareholders' rights to request that specific issues be placed on the agenda of the general meeting,
  - b. shareholders' rights to submit draft resolutions on matters brought to the agenda of the general meeting or matters to be placed on the agenda before the date of the general meeting,
  - c. shareholders' rights to submit draft resolutions on matters placed on the agenda during the general meeting,
  - d. procedures for exercising voting rights by proxy, including, in particular, forms used for proxy voting purposes and procedures for notifying the company electronically of the appointment of that proxy,
  - e. options and procedures for participation in the general meeting using electronic communication means,
  - f. procedures for taking the floor during the general meeting using electronic communication means,
  - g. procedures for exercising voting rights by correspondence or using electronic communication means,
- 3) the registration date for participation in the general meeting, as referred to in Article 406<sup>1</sup> of the CCC,
- 4) information that the right to participate in the general meeting is vested only in persons who are shareholders of the company on the record date for participation in the general meeting,
- 5) indication where and how a person entitled to participate in the general meeting can obtain the full text of the documentation to be presented to the general meeting and draft resolutions or, if no resolutions are scheduled to be adopted, comments of the management board or the supervisory board of the company, relating to matters brought to the agenda of the general meeting or matters to be placed on the agenda before the date of the general meeting,
- 6) reference to the website where respective information on the general meeting is published.

A public company operates its own website and publishes the following information since the date of convening the general meeting:

- 1) notice on convening a general meeting,
- 2) information on the aggregate number of shares in the company and the number of votes from such shares as at the date of notice, and if shares are of different categories - also information about individual categories of shares and respective numbers of votes from shares of each category,
- 3) documentation to be presented to the general meeting,
- 4) draft resolutions or, if no resolutions are scheduled to be adopted, comments of the management board or the supervisory board of the company, relating to matters brought to the agenda of the general meeting or matters to be placed on the agenda before the date of the general meeting,
- 5) forms permitting to exercise voting rights by proxy or by correspondence, if they are not sent directly to all the shareholders.

If the forms referred to in item 5) above cannot, for technical reasons, be made available on the website, the public company indicates on this site how and where to get the forms. In such a case, the public company sends the forms free of charge to each shareholder at his/her/its request. The forms should contain the proposed wording of the resolutions of the general meeting and should make it possible:

- 1) to identify the shareholder casting the vote and his/her/its proxy if the shareholder exercises voting rights by proxy,
- 2) to cast the vote as defined in Article 4 par. 1 pt. 9) of the CCC,
- 3) to lodge an objection by the shareholders voting against the resolution,
- 4) to place instructions on how to vote in respect of each of the resolutions over which the proxy is supposed to vote.

The General Meeting may also adopt resolutions without being formally convened, if the entire share capital is represented and none of those present object either to the holding of the General Meeting or to the placement of particular matters on the agenda. The General Meeting can only adopt resolutions on items on the agenda.

Written draft resolutions under the agenda provided for in the notice on the Meeting are prepared by the Management Board and published on the Company's website. Draft resolutions to be presented to the General Meeting together with relevant documents, and the opinion of the Supervisory Board in a case when the Management Board requested such opinion, should be made available by the Management Board on the Company's website from the date of convening the General Meeting and in the registered office of the Company to all the shareholders, so that the shareholders have an opportunity to read and evaluate them. Draft resolutions prepared by shareholders should be promptly published on the Company's website, stating the date they were received and details of the shareholder who prepared each draft resolution.

Resolutions of the General Meeting are adopted by an absolute majority of votes, and in cases where provisions of the Act require a qualified majority, by a majority required by the CCC.

All shareholders are entitled to attend the General Meeting in person or by proxy. Unless provisions of the CCC stipulate otherwise, the General Meeting may pass resolutions regardless of the number of shareholders present and the amount of share capital represented.

In particular, shareholders of the Company can use email to inform the Company about granting or cancelling a power of attorney for participation in the General Meeting of Shareholders in electronic form. Every proxy granted should be notified to the Company using electronic communication means while exercising best efforts to allow effective verification of the validity of such proxy. Together with the electronic proxy notice, the shareholder shall send the following in PDF format: scan of the proxy, scan of ID, passport or another document permitting identification of the shareholder as the principal and the proxy established, email address and telephone number of the shareholder and the proxy provided that the proxy is not released from the obligation to submit, when drawing up the list of persons entitled to participate in the General Meeting, any documents for his/her identification. Rules applicable to identifying shareholders apply mutatis mutandis to notices served on the company on revocation of the proxy.

The agenda of the General Meeting is determined by the party convening the General Meeting. A shareholder or shareholders representing at least one twentieth of the share capital can request specific items to be placed on the agenda of the next General Meeting. Such request must be submitted in writing or electronically to the Management Board.

Pursuant to Article 420 par. 1 of the CCC, votes are public at the General Meeting. Secret ballot voting is pursued during elections and for votes on recalling members of the Issuer's governing bodies or liquidators, with respect to actions being brought against them, as well as in personal matters. Besides, such secret ballot voting should be administered at the request of at least one of the shareholders present or represented on the General Meeting.

Pursuant to Article 29 par. 1 of the Statute, the General Meeting is opened by the Chairman or Deputy Chairman of the Supervisory Board, and then from among the persons entitled to attend the General Meeting the Chairman of the General Meeting is elected. In the absence of those persons, the General Meeting is opened by the President of the Management Board or any person designated by the Management Board.

A resolution on abandoning a matter included in the agenda of the General Meeting may only be adopted for valid reasons. Detailed reasons should be given when filing a request in that respect. Removal from the agenda or abandonment of a matter placed on the agenda at the request of the shareholders requires a resolution of the General Meeting, upon prior consent from all present shareholders who made such request, supported by 75 per cent of the votes at the General Meeting.

## ***4.7 Description of rules for appointment and dismissal of managing persons and their rights***

### **4.7.1 Supervisory Board**

The Supervisory Board consists of five to seven members. Members of the Supervisory Board are appointed for a joint three-year term of office. The mandate of each member of the Supervisory Board appointed or co-opted before the expiry of the term of the Supervisory Board expires together with the expiry of such term.

Members of the Supervisory Board are appointed and recalled by the General Meeting. As replacement for a resigning or deceased member, before the expiry of the mandate, the Supervisory Board may co-opt a member of the Supervisory Board. Only the members of the Supervisory Board elected or approved by

the General Meeting vote on resolutions on co-opting a member of the Supervisory Board. Co-opted members of the Supervisory Board are presented for approval at the next General Meeting.

In addition to the matters specified in applicable laws, in other provisions of the Statute or in resolutions of the General Meeting, the powers and duties of the Supervisory Board include:

- a) evaluation of the financial statements for the previous financial year;
- b) evaluating the report of the Management Board on the operations of the Company;
- c) submitting to the General Meeting a written report on the results of the activities referred to in pts. (a) and (b);
- d) assessing motions of the Management Board on distributing profits or covering losses;
- e) entering into contracts with members of the Management Board and specifying the principles of their remuneration, as well as appointing, suspending or dismissing individual members of or the entire Management Board;
- f) entrusting members of the Supervisory Board with duties of the Management Board in the event that the entire Management Board is dismissed or when the Management Board is otherwise not able to work;
- g) granting consent to the Company to purchase or sell real estate, rights of perpetual usufruct or share in real estate;
- h) granting consent to the Company to conclude a material agreement with an affiliated entity (the above obligation does not apply to routine transactions concluded on market terms in the ordinary course of business conducted by the Company with a subsidiary in which the Company holds a majority shareholding) or a parent company; an affiliated entity is defined as in the Regulation of the Minister of Finance issued on the basis of Article 60 par. 2 of the Act on the Public Offering and the Conditions for Admitting Financial Instruments to Organised Trading and on Public Companies of 29 July 2005; further, it is accepted that granting borrowings or other types of debt financing towards the above entities falls within the limits of the ordinary business of the Company;
- i) granting consent to the Company to draw down liabilities where the value of a single transaction or of the total number of transactions concluded in a given financial year with a single entity exceeds 20 per cent of the Company's net assets, determined on the basis of the most recent separate financial statements published in an interim report;
- j) submitting a concise evaluation of the situation of the Company to the Ordinary General Meeting of Shareholders, including an evaluation of the internal control system and risk management system of the Company;
- k) appointing a certified auditor to audit the financial statements of the Company.

Rights to make decisions on issues or redemption of shares are reserved for the General Meeting of the Company.

#### **4.7.2 Management Board**

The Management Board consists of one to three members, including the President of the Management Board, appointed for a joint two-year term. The Supervisory Board determines, within the above limits,

the number of members of the Management Board and appoints the President and other members of the Management Board. The Supervisory Board or the General Meeting may dismiss the entire Management Board or its individual members, including the President of the Management Board, before the expiry of their term.

The Management Board exercises all its powers within the scope of managing the Company, except for powers reserved by law and the Statute for other bodies of the Company. Operating procedures for the Management Board, as well as duties that can be assigned to its individual members, may be defined in detail in the Rules of Procedure of the Management Board, adopted by the Management Board.

Resolutions of the Management Board require activities going beyond the ordinary management duties and, in particular:

- 1) defining strategies and key operating objectives of the Company as well as financial, pay and personnel policies of the Company,
- 2) approval of the Company's financial statements,
- 3) drafting business plans and financial plans for the Company,
- 4) adopting the Rules of Procedure of the Management Board,
- 5) entering into agreements on joint business with third parties (consortium agreements),
- 6) carrying out legal transactions whose value is higher than 15 per cent of the Company's net assets as at the date of the balance sheet for the last financial year,
- 7) subscribing for shares or holdings in another company,
- 8) convening the General Meeting and setting its agenda,
- 9) granting sureties or guarantees, assuming debts, establishing mortgages or pledges,
- 10) purchasing or disposing of real estate or shares therein.

#### ***4.8 Composition, changes and operating procedures applicable to managing, supervising and administration bodies of the Company***

##### **4.8.1 Supervisory Board**

As at 31 December 2014, the composition of the Supervisory Board of the Company was as follows:

- 1) Wojciech Pytel – Chairman of the Supervisory Board
- 2) Zygmunt Solorz-Żak – Deputy Chairman of the Supervisory Board
- 3) Andrzej Abramczuk – Secretary of the Supervisory Board
- 4) Andrzej Chajec – Member of the Supervisory Board
- 5) Krzysztof Majkowski – Member of the Supervisory Board
- 6) Mirosław Mikołajczyk – Member of the Supervisory Board
- 7) Wiesław Walendziak - Member of the Supervisory Board

In 2014, the following decisions were taken concerning the composition of the Supervisory Board:

- a) on 16 July 2014, Mr Jerzy Żurek tendered his resignation as Member of the Supervisory Board of the Company. The resignation was tendered without a reason being stated. The Company reported on that event in Current Report No. 17/2014.
- b) on 9 December 2014, acting in accordance with the Statute of the Company, the Supervisory Board of the Company adopted a resolution pursuant to which, on 10 December 2014, Mr Wiesław Waldendziak was co-opted to the Supervisory Board. The Company reported on that event in Current Report No. 32/2014.

The operating procedures for the Supervisory Board are governed by the provisions of the CCC, the provisions of the Statute, in particular Articles 16-22 and the Rules of Procedure of the Supervisory Board. The provisions of Articles 381-392 of the CCC apply accordingly to all matters not settled in the Statute.

Each member of the Supervisory Board is obliged to provide the Company with his/her statement on the number of shares held in the Company, their percentage share in the share capital and the resulting number of votes, within 4 days of being appointed to the Supervisory Board, and also each time of being requested to do so by the Company's Management Board. Within 4 days after acquiring or disposing of shares in the Company, a member of the Supervisory Board is obliged to notify the Company of such. The relevant letter should contain information on the number of shares in the Company acquired or disposed of, their percentage share in the share capital, and the number of votes resulting from those shares, as well as the number of currently held shares and number of votes. The above provision shall apply mutatis mutandis to the acquisition and disposal of shares in the Company's parents or subsidiaries as well as to transactions with such entities insofar as they are relevant to the financial position of the member of the Supervisory Board. Members of the Supervisory Board should refrain from taking any action which could lead to a conflict of interests with the Company. Members of the Supervisory Board are obliged to immediately inform the Chairman of the Supervisory Board about a conflict of interests and are required to abstain from voting on these matters. A member of the Supervisory Board cannot resign from performing this function during the term if it could prevent effective work of the Supervisory Board and, in particular, if this could prevent timely adoption of any significant resolution.

Pursuant to Article 17 par. 1 of the Statute and section 4 of the Rules of Procedure of the Supervisory Board, the Supervisory Board elects from among its members the Chairman and Deputy Chairman of the Supervisory Board. The Chairman of the Supervisory Board manages its work, convenes meetings of the Board and presides over them, represents the Supervisory Board in dealings with the Management Board and in external relations. In the absence of the Chairman of the Supervisory Board at the meeting of the Supervisory Board or in the event of his/her inability to perform his/her functions in the period between meetings (prolonged illness, departure) the Chairman of the Supervisory Board is replaced by the Deputy Chairman, and in the absence of the Deputy Chairman or his/her inability to perform his/her functions, by another member of the Supervisory Board elected by members of the Supervisory Board. Pursuant to Article 18 par. 1 of the Statute, the Supervisory Board meets at least once every quarter.

Subject to the provisions of Articles 19.2 and 19.3 of the Statute, the Supervisory Board makes decisions by an absolute majority of the votes cast if at least half of its members attend the meeting, and all its members have been invited to the meeting as stipulated in the Statute. The Supervisory Board may adopt valid resolutions also in cases when despite the failure to serve notice on individual members, they are present at the meeting of the Supervisory Board and agree to participate in the meeting.

Members of the Supervisory Board may participate in adopting resolutions of the Supervisory Board by voting in writing through any other member of the Supervisory Board. A written vote cannot relate to

matters introduced onto the agenda during a meeting of the Supervisory Board. The Supervisory Board may adopt resolutions in writing (by circulation) and also by means of direct remote communication. In particular, members of the Supervisory Board may vote on resolutions by sending fax messages or via email. Resolutions taken this way are valid provided that all the members of the Supervisory Board are previously notified about the content of the resolution as stipulated in Article 19.1 of the Statute. Passing resolutions as specified in Article 19.2 and 19 par. 3 of the Statute cannot apply to the election of the Chairman and Deputy Chairman of the Supervisory Board, to the appointment of a member of the Management Board and to the dismissal and suspension of such persons.

The Supervisory Board performs its duties collectively, although it may delegate its members to carry out particular supervisory actions individually.

After the date for a meeting is determined, the Chairman of the Supervisory Board informs the Management Board about the meeting, requests the same to submit any required papers and documents and notifies about the obligatory presence of specialist employees or other persons in order to discuss issues which are the subject of the agenda. The Chairman of the Supervisory Board may authorise a member of the Supervisory Board to exercise the above powers and, in the case when working teams of the Supervisory Board are established, their chairmen are also authorised to the extent of activities of such a team to impose on the Management Board an obligation to prepare materials for the meeting and ensure the presence of specialist employees or other persons whose presence is necessary due to the scope of issues to be discussed during the meeting of the Supervisory Board. In the event that a resolution on delegating members of the Supervisory Board to perform specific supervisory activities is adopted, the delegated member of the Supervisory Board may, to the extent of his/her assignment, request access to files and documents regardless of expected topics of the next meeting of the Supervisory Board, and may also require the presentation of individual documents to the Supervisory Board, if they are associated with the planned agenda of the next meeting.

The Supervisory Board may establish permanent and ad hoc working teams from among its members. A resolution establishing any such team defines competences and its operating procedures, and can also authorise individual team members to perform control activities within the scope of the team's responsibilities. Working teams of the Supervisory Board, as well as members of the Supervisory Board delegated to perform specific supervisory activities, notify the Supervisory Board about the results of their work at the meeting of the Supervisory Board, but cannot issue any recommendations or opinions for the Management Board.

Members of the Supervisory Board carry out their duties in person, although the Supervisory Board may adopt a resolution commissioning the preparation of an expert opinion or analysis in connection with the performance of supervisory duties to persons from outside the Supervisory Board. Terms and conditions for the execution of such orders in accordance with any resolution adopted in that respect are agreed by the Chairman of the Supervisory Board or another member of the Supervisory Board indicated in the resolution, who informs the Management Board about the need to enter into a mandate contract or a contract for specific work on behalf of the Company to the extent respectively agreed.

#### **4.8.2 Audit Committee**

There is an Audit Committee established in the Company unless the General Meeting delegates its responsibilities to the Supervisory Board consisting of five members, and in addition, the Supervisory Board may appoint other committees, including a nomination and remuneration committee.

Under the Rules of Procedure of the Supervisory Board, the following permanent committees may work within the Supervisory Board: the Audit Committee and the Remuneration Committee which submit

annual reports on their activities to the Supervisory Board. Those reports are made available to shareholders of the Company. The Committees are appointed by the Supervisory Board from among its members. The committees are made up of 3 to 5 members. The work of each Committee is managed by its chairman. All members of the Supervisory Board may participate in meetings of the Committee.

The Audit Committee includes at least two independent members (non-members of the Supervisory Board) and at least one member who has qualifications and experience in the field of accounting or finance. The Audit Committee's task is to advise the Supervisory Board on the proper implementation of the principles of budgetary and financial reporting, as well as on internal control at the Company and cooperation with the Company's certified auditors. In particular, the Audit Committee is responsible for:

- a) monitoring the work of the Company's certified auditors and presenting to the Supervisory Board recommendations on the choice and remuneration of the Company's certified auditors,
- b) discussing with the Company's certified auditors, before the commencement of the annual audit of the financial statements, the nature and scope of the audit, and monitoring the coordination of work between the Company's certified auditors,
- c) reviewing interim and annual financial statements of the Company (separate and consolidated), with a particular focus on: (i) any changes to accounting standards, principles and practices, (ii) major areas of judgement, (iii) significant post-audit adjustments, (iv) going concern statements, (v) compliance with applicable accounting regulations,
- d) discussing any problems or reservations that might result from the audit of the financial statements,
- e) analysing letters to the Management Board prepared by the certified auditors of the Company, and the independence and objectivity of their audit and the responses of the Management Board,
- f) issuing opinions on yearly and long-term financial plans,
- g) giving opinions on the dividend policy, profit distribution and securities issues,
- h) reviewing the management accounting system,
- i) reviewing the internal control system, including control mechanisms in the area of finance, operations, compliance, risk and management assessment,
- j) analysing reports by the Company's internal auditors and the main reservations of other internal analysts, and responding to the Management Board with regard to those reservations, together with assessing the degree of independence of the internal auditors and issuing opinions on the Management Board's plans for hiring or dismissing persons in charge of organisational units responsible for internal audit,
- k) annually reviewing the internal audit programme, coordinating the work of internal and external auditors and examining conditions of the internal auditors' work,
- l) cooperating with organisational units of the Company responsible for auditing and control, and periodically evaluating their work,
- m) considering all other issues related to auditing at the Company, which the Audit Committee or Supervisory Board draw attention to,

- n) informing the Supervisory Board about any material issues in respect of the activities of the Audit Committee.

The composition of the Audit Committee as at the date hereof was as follows:

- Mr Andrzej Abramczuk
- Mr Mirosław Mikołajczyk
- Mr Andrzej Chajec

#### **4.8.3 Remuneration Committee**

The Remuneration Committee is responsible for helping achieve the strategic goals of the Company by presenting the Supervisory Board with opinions and motions on structuring management, including on organisational solutions, the remuneration system, and the choice of staff having qualifications appropriate to building the success of the Company. The Committee's responsibilities include in particular: (a) initiating reviews of and giving opinions on systemic solutions for appointment of members of the Management Board, (b) reviewing the Company's management system solutions proposed by the Management Board and designed to ensure efficiency, consistency and safety and security of the Company's management, (c) periodically reviewing and recommending rules for accepting incentive schemes for members of the Management Board and senior executives, in accordance with the interests of the Company, (d) periodically reviewing the system of remuneration of members of the Management Board and executives reporting directly to members of the Management Board, including manager's contracts and incentive schemes, (e) presenting opinions to the Supervisory Board on justifications for performance-based remuneration in the context of the assessment of the degree of implementation of specific tasks and objectives of the Company, (f) assessing the human resources management system in the Company.

The composition of the Remuneration Committee as at the date hereof was as follows:

- Mr Andrzej Chajec
- Mr Krzysztof Majkowski
- Mr Wiesław Walendziak

#### **4.8.4 Management Board**

As at 31 December 2014, the composition of the Management Board was as follows:

- 1) Krzysztof Adaszewski – President of the Management Board
- 2) Piotr Janik - Vice-President of the Management Board

On 9 December 2014 the Supervisory Board of the Company, acting in accordance with Article 12.2 of the Statute of the Company, appointed the following Members of the Management Board for a new, two-year term of office beginning on 16 December 2014:

- Mr Krzysztof Adaszewski (President of the Management Board in the previous term), entrusting him with the role of President of the Management Board
- Mr Piotr Janik, entrusting him with the role of Vice-President of the Management Board.

The Company published information on this event in Current Report No. 32/2014.

The operating procedures for the Management Board are governed by the provisions of the CCC, the provisions of the Statute, in particular Articles 12-15 of the Statute, and the Rules of Procedure of the Management Board. The provisions of Articles 368-380 of the CCC apply accordingly to all matters not settled in the Statute.

Subject to the following sentence, in order to make declarations of will and sign on behalf of the Company, two members of the Management Board acting jointly or one member of the Management Board acting jointly with a registered holder of a commercial power of attorney are required. In the case of a single-member Management Board, the sole member may act individually in making declarations of will and signing on behalf of the Company. The following, among others, require the consent of the Supervisory Board:

- a) conclusion by the Company of a material agreement with an affiliated entity (the above obligation does not apply to routine transactions concluded on market terms in the ordinary course of business conducted by the Company with a subsidiary in which the Company holds a majority shareholding) or a parent company; an affiliated entity is defined as in the Regulation of the Minister of Finance issued on the basis of Article 60 par. 2 of the Act on the Public Offering and the Conditions for Admitting Financial Instruments to Organised Trading and on Public Companies of 29 July 2005; further, it is accepted that granting borrowings or other types of debt financing towards the above entities falls within the limits of the ordinary business of the Company;
- b) granting consent to the Company to draw down liabilities where the value of a single transaction or of the total number of transactions concluded in a given financial year with a single entity exceeds 20 per cent of the Company's net assets, determined on the basis of the most recent separate financial statements published in an interim report.

In agreements between the Company and members of the Management Board, and in disputes with them, the Company is represented by the Supervisory Board. By way of a resolution, the Supervisory Board may authorise one or more members of the Supervisory Board to perform such legal duties.

Members of the Management Board acquiring shares in the Company or its subsidiaries or parents should treat them as long-term investments.

#### ***4.9 Remunerations of managing and supervising persons***

The table below shows the value of salaries, bonuses or benefits from their functions in 2014, separately for each of the Issuer's managing and supervising persons.

Name and surname	Position	Gross value of remuneration (PLN '000)
Krzysztof Adaszewski	President of the Management Board <sup>1</sup>	1,647.4
Maciej Kotlicki	Vice-President of the Management Board <sup>2</sup>	346.9
Piotr Janik	Vice-President of the Management Board <sup>3</sup>	195.8
Wojciech Pytel	Chairman of the Supervisory Board	40
Zygmunt Solorz-Żak	Deputy Chairman of the Supervisory Board	20
Andrzej Abramczuk	Secretary of the Supervisory Board <sup>4</sup>	32
Andrzej Chajec	Member of the Supervisory Board	20
Krzysztof Majkowski	Member of the Supervisory Board	18
Mirosław Mikołajczyk	Member of the Supervisory Board	20
Jerzy Żurek	Member of the Supervisory Board <sup>5</sup>	8
Wiesław Walendziak	Member of the Supervisory Board <sup>6</sup>	2

<sup>(1)</sup> the value of remuneration takes account of remuneration in the amount of PLN 323.6 thousand from employment agreements in the companies Aero2 and Mobyland and PLN 1,230.0 thousand of bonuses paid in 2014

<sup>(2)</sup> acting as Vice-President of the Management Board up to 15 December 2014

<sup>(3)</sup> acting as Vice-President of the Management Board from 16 December 2014; the value of remuneration takes account of remuneration in the amount of PLN 182.3 thousand from employment agreements in the companies Aero2 and Mobyland for the period during which he acted as Vice-President of the Management Board, and PLN 180.0 thousand of bonuses paid in 2014

<sup>(4)</sup> the value of remuneration takes account of remuneration in the amount of PLN 12.0 thousand from civil law agreements in the companies Aero2 and Mobyland

<sup>(5)</sup> acting as a member of the Supervisory Board during the reporting period up to 16 July 2014

<sup>(6)</sup> acting as a member of the Supervisory Board during the reporting period as from 10 December 2014

Apart from the above remuneration for serving on bodies of the Company shown in the table, in 2014 none of the managing or supervising persons received:

- remuneration, awards or benefits, including under incentive or bonus schemes based on the capital of the Issuer, including schemes based on preferred bonds, convertible bonds, subscription warrants (in cash, in kind or in any other form whatsoever),
- remuneration or awards received for functions on the authorities of subordinated entities.

#### ***4.10 Agreements with managing persons providing for compensation in the event of their resignation or dismissal without cause or when their dismissal or termination results from a merger of the Company following acquisition***

In 2014, no agreements with managing persons providing for compensation in the event of their resignation or dismissal without cause or when their dismissal or termination results from a merger of the Company following acquisition were effective.

## **5 Other information**

### ***5.1 Proceedings pending before a court, competent authority for arbitration proceedings or public administration authority***

In 2014, no material proceedings were pending directly with respect to the Company or any of the subsidiaries of the Midas Group before any court, a court of arbitration or a public administration body,

the value of which, whether individually or combined, would represent at least 10 per cent of the Company's equity.

Such proceedings were indirectly conducted with respect to the subsidiaries of the Midas Group and they are described in more detail below. In the proceedings below, Aero2, CenterNet and from 31 December 2014 Aero2 as a legal successor and Mobyland (depending on the proceedings) act as an interested party, as these proceedings are largely directed against the administrative decisions issued by the President of the OEC. However, indirectly, handing down a binding resolution in each of these proceedings may result in the President of the OEC ruling to sustain, change or repeal the previous resolutions that directly concern frequency reservations for CenterNet and Mobyland or frequency reservations granted to Aero2.

In this report, the most significant information has been included, which provides a complete picture of the current factual status of pending proceedings, but which does not reflect the detailed chronology of events which took place during those proceedings. To become acquainted with the detailed chronology of events concerning a specific proceeding, an analysis should be made of the information contained in this report in relation to information disclosed in previous periodic reports of the Company, available on the Company's website at: [http://midas-sa.pl/Relacje\\_inwestorskie/Raporty\\_gieldowe/Raporty\\_okresowe](http://midas-sa.pl/Relacje_inwestorskie/Raporty_gieldowe/Raporty_okresowe)).

#### Proceedings concerning frequency reservations for CenterNet and Mobyland

In the proceedings pending before the Provincial Administrative Court in Warsaw (the "PACW") on the basis of a complaint of Polkomtel against the decisions of the President of the OEC of 30 November 2007, under which the President of the OEC made a reservation of frequencies for CenterNet and Mobyland and refused such reservations to PTC (currently T-Mobile Polska S.A., "T-Mobile") and Polkomtel ("Reservation Decision 1") and the decision of 23 April 2009, upholding Reservation Decision 1 after re-examining the case ("Reservation Decision 2"), on 19 November 2012 the PACW issued a judgement under which, on the merits of the case, it dismissed the complaint brought by T-Mobile and cancelled the proceeding initiated by the complaint of Polkomtel (in connection with the withdrawal of the complaint by a procedural submission made before the hearing).

In the grounds of the ruling dismissing T-Mobile's complaint, the PACW emphasised in particular that the primary argument of that complaint concerning a breach of substantive law due to a failure to examine in the reservation proceedings the prerequisites referred to in Article 114 par. 3 of the Telecommunications Law is unjustified, as the prerequisites set forth in the above regulation are subject to examination by the President of the OEC at the stage of earlier, separate tender proceedings, and thus there is no need to re-establish them in the reservation proceedings. The PACW found the other points of the above complaint, referring to procedural irregularities, to be groundless or irrelevant to the direction of the resolution adopted by the President of the OEC (Current Report No. 53/2012).

T-Mobile filed a cassation appeal against that judgement by the PACW. On 29 May 2014, the SAC issued a final judgement pursuant to which, following the dismissal of the cassation appeal filed by T-Mobile, the SAC upheld the judgement of the PACW of 19 November 2012. The SAC did not share the objection of T-Mobile's cassation appeal concerning the invalidity of the proceedings, based on the assertion that T-Mobile's attorney had been incorrectly notified about the hearing before the PACW. In the SAC's assessment, in order to challenge the manner of serving process letters, a party must first file a complaint with Poczta Polska (the Polish Post Office). Only conducting such proceedings made it possible to effectively overturn the supposition of a correct delivery, and, as the SAC pointed out, T-Mobile did not make such a complaint. The SAC also referred to the objections of T-Mobile concerning a breach of

Article 114 par. 3 of the Telecommunications Law, holding – like the PACW – that they were unjustified. In the SAC's assessment, the frequency reservation was made correctly by the President of the OEC in 2007. The SAC also pointed out that the SAC's judgement of 8 May 2014 concerning a tender for a frequency reservation was not relevant in deciding this case (the judgement is described hereinbelow).

The Management Board of the Issuer feels that the SAC judgement of 29 May 2014, almost seven years after granting frequency reservations to CenterNet and Mobyland, has finally and lawfully put an end to the dispute concerning the aforementioned reservations and confirmed the correctness of the reservation proceedings conducted by the President of the OEC in 2007. In the opinion of the Issuer's Management Board, CenterNet and Mobyland can therefore continue to make full use of the frequencies granted to them until 2022, and can therefore still carry out the objectives adopted in the operations of the Midas Capital Group.

#### Proceedings related to the tender concerning frequencies subject to reservation for CenterNet and Mobyland

In the matter concerning a repeal of the decision of the President of the OEC of 13 June 2011 No. DZC-WAP-5174-9/07(321) and of 23 August 2011 No. DZC-WAP-5174-9/07(352) invalidating - in the scope concerning the evaluation of T-Mobile's bid - the tender concerning two reservations of frequencies in the 1710-1730 MHz and 1805-1825 MHz ranges, issued in the tender concerning reservation of the frequencies granted to CenterNet and Mobyland (Current Report No. 33/2012), on 8 May 2014, the SAC issued a judgement concerning the tender for two frequency reservations, in the 1710-1730 MHz range and the 1805-1825 MHz range (the "Tender"), under which the SAC upheld the PACW's judgement of 6 July 2012. The SAC judgement was issued following the dismissal of the cassation appeals filed by the President of the OEC and the Issuer's subsidiaries: CenterNet and Mobyland. The SAC stated that the dispute in the matter centred on assessing recommendations for further action for the President of the OEC, following from the judgement of the PACW of 21 July 2009, repealing both decisions of the President of the OEC refusing to declare the invalidity of the tender concerning frequency reservations and from the judgement of the SAC of 3 February 2011 approving the judgement of the PACW. The SAC found that the above judgements of the PACW and SAC indicated that the President of the OEC should have invalidated the Tender in its entirety. In its judgement of 21 July 2009, the PACW found that a serious breach of the applicable laws occurred during the tender proceedings, as a result of which a party to the proceedings was deprived of the right to participate in stage two of the Tender, i.e. the criterion for gross breach of the applicable laws referred to in Article 118d of the Telecommunications Law (the "TL") was fulfilled, which would justify invalidating the Tender. On the other hand, the SAC, in its judgement of 3 February 2011, found that the PACW judgement indicated that the President of the OEC should have issued the opposite decision to the existing decision. In its judgement of 8 May 2014, the SAC found, taking into account the scope of the proceedings conducted by the President of the OEC and the motions to invalidate the Tender, that the opposite decision would be to invalidate the Tender in its entirety. The SAC also noted that the President of the OEC, having concerns regarding the recommendations contained in the above judgements of the PACW and the SAC, could have requested an interpretation, pursuant to Article 158 of the Act on Proceedings Before Administrative Courts, which he failed to do. Referring to Article 118d par. 1 of the TL, in the wording applicable to the matter at hand, the SAC also found that the provision was worded unambiguously and could not have led to the conclusion that the Tender could be partially invalidated. In the assessment of the SAC, this provision does not permit such a possibility. But even if it were possible, partial invalidation could not take place with reference to one of the entities taking part in the Tender (as was the case in 2011). Any partial invalidation of the Tender

might at best refer to the subject, not the participants. Lastly, the SAC noted that in the court and administrative proceedings, there can be no acceptance for arguments of equitability related to, among other things, the expenses of conducting another Tender, as the deciding factor in this respect is the wording of the applicable provision of the law, its interpretation and application.

As a result of the decisions of the President of the OEC of 13 June 2011 and 23 August 2011, the President of the OEC conducted another Tender with respect to assessing the bid placed by T-Mobile Polska and determined the revised result of the Tender in the form of a new list assessing each bid, taking into account the bid placed by T-Mobile. The bids placed by CenterNet were placed on the list under items 1 and 2, and the bid placed by Mobyland - under item 3. On 27 October 2011, CenterNet filed a motion to obtain frequency reservations on the basis of the bid featured as item 2 on the evaluation list, and Mobyland submitted a request on the same date to obtain a reservation on the basis of the sole bid it had placed. In connection with the above motions concerning reservations submitted by CenterNet and Mobyland, proceedings concerning the reservation motions are pending before the President of the OEC. After the President of the OEC announced the revised results of the Tender, Orange Polska and T-Mobile submitted motions to invalidate the Tender. In its decision of 28 November 2012, the President of the OEC refused to invalidate the Tender. The above decision was upheld by the decision of the President of the OEC of 8 November 2013. Subsidiaries of the Issuer did not file a complaint against the decision of the President of the OEC of 8 November 2013. Orange Polska and T-Mobile filed complaints against the above decision with the PACW, which overturned the decision of the President of the OEC in a judgement of 23 September 2014. Subsidiaries of the Issuer submitted cassation appeals against that judgement. The date of examining the cassation appeals is unknown.

The Management Board of the Issuer believes that the SAC judgement of 8 May 2014 and the PACW judgement of 23 September 2014 will have no influence on CenterNet and Mobyland's ability to continue their existing operations. This means that these companies can still make full use of the frequencies granted to them, and can therefore still carry out the objectives adopted in the operations of the Midas Capital Group. Furthermore, the Management Board maintains its position expressed in Current Report No. 8/2014 that it is presently impossible to predict the direction or scope of further action in the matter that may be undertaken by the President of the OEC and other participants of the proceedings. The Management Board of the Issuer also notes that on 29 May 2014, the SAC upheld the judgement of the PACW of 19 November 2012, as noted hereinabove. That judgement concerned dismissal on substantive grounds of T-Mobile's complaint against the decision of the President of the OEC concerning frequency reservations in the 1710-1730 MHz and 1805-1825 MHz ranges issued for CenterNet and Mobyland. The SAC judgement of 29 May 2014 is binding, and means that those frequency reservations are final. The decisions may only be repealed upon reopening the proceedings. At this point, the Issuer's Management Board does not see any legal grounds on which this scenario could be fulfilled.

#### Proceedings to invalidate the tender concerning frequency reservations for Aero2 in the 2570-2620 MHz range.

On 21 May 2009, the President of the OEC announced a tender for a frequency reservation in the 2570-2620 MHz range, for the entire area of Poland, designated for the provision of telecommunications

services in broadband wireless mobile networks, until 31 December 2024 (“Tender 2.6”). In response to the tender announcement, Milmex Systemy Komputerowe sp. z o.o. (“Milmex”) and Aero2 submitted their bids. Because of a number of formal deficiencies, the bid submitted by Milmex was not admitted to the substantive evaluation stage. In effect, the bid submitted by Aero2 was judged as the best.

After the results were announced, Milmex filed a motion for invalidation of Tender 2.6. In its decision of 28 December 2010, No. DZC-WAP-5176-9/09(112), the President of the OEC refused to invalidate Tender 2.6. The above decision was upheld by a decision of the President of the OEC of 20 November 2012, No. DZC-WAP-5176-9/09(237).

Milmex filed a complaint against that decision to the PACW. In its judgement of 27 June 2013 (case file No. VI SA/Wa 464/13), the PACW dismissed the complaint. Milmex filed a cassation appeal against that judgement with the SAC. The date for hearing the case has not yet been determined.

### Other proceedings

In the decisions of the SMP issued by the President of the OEC on 14 December 2012, the SMP obliged Aero2, CenterNet and Mobyland to apply fees for call termination in public mobile telecommunications networks (respectively) of Aero2, CenterNet and Mobyland, in the amount of: (i) in the period from 1 January to 30 June 2013: PLN 0.0826/min (ii) after 30 June 2013: PLN 0.0429/min, i.e. in a lower amount for these periods and earlier aligned to (symmetrical with) the rates of other providers than is indicated in earlier decisions of the President of the OEC. On 31 December 2012, all of the above companies filed appeals to the Regional Court in Warsaw (Division XVII Competition and Consumer Protection) against the above SMP decision together with motions to suspend their immediate enforceability.

In a judgement of 19 January 2015, XVII AmT 69/13, the Court of the Office of Competition and Consumer Protection dismissed an appeal by CenterNet. The Company filed an appeal against that judgement, which has not yet been heard.

In a judgement of 5 February 2015, XVII AmT 73/13, the OCCP Court partially ruled in favour of an appeal by Mobyland and overturned the decision of the President within the scope of the schedule established for adjusting rates to the completion of connections. Within the remaining scope, Mobyland’s appeal was dismissed. The Company is waiting for service of the judgement together with its justification.

In the case of the appeal of Aero2 the date of the hearing before the OCCP Court has been set for 6 May 2015.

## **5.2 Subsequent events**

### Conclusion of cooperation agreements with Sferia

On 3 March 2015, the companies Aero2 and Mobyland concluded an infrastructure supply agreement with Sferia (the “Supply Agreement”) and a wholesale telecommunications network access agreement (the “Wholesale Agreement”).

Under the Supply Agreement, Aero2 will make a telecommunications network available to Sferia for the purpose of Sferia providing services based on the 800 MHz band in LTE technology. The Agreement was concluded for a period of at least six months. In the case where cooperation is not extended, Sferia will be obliged to buy back devices and to return Aero2’s outlays incurred in constructing the telecommunications network in the 800 MHz band. Under the Wholesale Agreement, Mobyland is authorised to acquire, for its own benefit or that of its customers, telecommunications services created by

Sferia in LTE technology in the 800 MHz band. The remuneration resulting from the conclusion of the above agreements is in the form of a lump sum, whose total value (together with other settlements with Sferia for the last 12 months) does not exceed the threshold of 10 per cent of the Company's equity.

In the first phase of implementation of the LTE800 network, about 1200 stations will be started up, while taking account of the optimal reach of the LTE800 network, a total of more than 5000 stations may be constructed and started up. The deadline for the start-up of the LTE800 network will depend, however, on a number of conditions, including the technical conditions for the construction of the network. The Company reported on this development in Current Report No. 5/2015.

The conclusion by Mobyland of clearing agreement with Polkomtel as well as Polkomtel's submission of Order 4 for data transmission services

On 3 March 2015, Mobyland signed an understanding (the "Understanding") with Polkomtel (a "Party", and jointly with Mobyland the "Parties") and accepted the order submitted by Polkomtel for data transmission services ("Order 4").

The Understanding concluded establishes new conditions of cooperation between Mobyland and Polkomtel:

- The new rate for data transmission services will be PLN 2.40 net for 1 GB.
- The new rate will apply to both newly ordered data packages and to packages which have not been used but were partially paid for under the previous order described in Current Report No. 4/2014.
- The new conditions of cooperation enter into force on 1 January 2015, and the order placed for data transmission services will be in effect for 4 years.
- In the case where Mobyland starts up services on further of its own frequencies or on those to which it obtains a right of use, Mobyland will increase the scope of data transmission services provided to Polkomtel.

On the date of concluding the Understanding, the understanding of 27 March 2014 which the Company reported on in Current Report No. 4/2014 ceases to be valid.

At the same time, Mobyland accepted Order 4 placed by Polkomtel, under which Polkomtel undertook to purchase 1,571.68 million GB at a unit price of PLN 2.40 net for 1 GB. The total value of the order is PLN 3,772.04 million (three billion seven hundred seventy-two million and forty thousand zlotys), of which PLN 144.56 million resulting from a surplus pre-paid by Polkomtel and actual use under the previous order will be calculated as an advanced payment against Order 4.

Order 4 will be paid by Polkomtel in the following manner:

- a) PLN 119.25 million net - for the first quarter of 2015, in 3 equal monthly instalments
- b) PLN 132.00 million net - for the second quarter of 2015, in 3 equal monthly instalments
- c) PLN 245.00 million net - for the third quarter of 2015, in 3 equal monthly instalments
- d) PLN 354.00 million net - for the fourth quarter of 2015, in 3 equal monthly instalments
- e) PLN 989.31 million net - for 2016, in 12 equal monthly instalments
- f) PLN 880.00 million net - for 2017, in 12 equal monthly instalments
- g) PLN 907.92 million net - for 2018, in 12 equal monthly instalments

On the date of publication of this current report, Order 4 for 1,571.68 million GB with a value of PLN 3,772.04 million exceeds 10 per cent of the equity of the Company, which qualifies Order 4 as a significant agreement. As a result of Mobyland accepting Order 4, the total value of orders and agreements submitted

and concluded since 17 December 2014 inclusive by entities from the Midas Capital Group in relation to Polkomtel and other entities from the Cyfrowy Polsat Capital Group amounts to PLN 3,772.23 million.

In the Company's assessment, as at the date of publication of this current report, the Understanding, the accepted Order 4 and the financing obtained permit the Company to finance involvement in "Project 800".

The final cost of "Project 800" will depend on the quantity of bandwidth available in the 800 MHz range and on the possible investments resulting from that availability.

At the same time, the Management Board announces that, given the implementation of "Project 800", in updating its strategy the Midas Group will increase the number of locations and base stations comprising the telecommunications network it currently uses, and this will have a significant effect on the Company's performance and cash flow level, particularly over the medium term, through increasing the Company's operating expenses and capital expenditures in connection with developing the LTE 800 network and obtaining the right to the 800 MHz frequency. The Company reported on this development in Current Report No. 4/2015.

#### Meeting the last condition precedent under the framework agreement with Sferia

On 26 February 2015 the Supervisory Board of the Company consented to the conclusion of a Supply Agreement, and thereby fulfilled the final condition precedent contained in the Framework Agreement described in Current Report No. 55/2012. At the same time, the Supervisory Board of the Company consented to the conclusion of a Wholesale Agreement. The Company reported on those events in Current Report No. 3/2015. The agreements in question were concluded on 3 March 2015. Details of the agreements concluded are described above.

#### Decision by Aero2 to write down the value of the frequency reservation in the 2570-2620 MHz range

On 12 February 2014 the Management Board of Aero2 made a decision to write down the value of the frequency reservation in the 2570-2620 MHz range granted by the President of the OEC to Aero2 in the reservation decision of 10 November 2009 and the amended decision of the President of the OEC of 4 September 2012. The write-down of the carrying amount of non-current assets was made in the consolidated financial statements of the Group for 2014 and will therefore encumber the consolidated operating results of the Group for the fourth quarter of 2014. As a consequence of the write-down (as a result of which the value of the aforementioned assets will be zero zlotys), the consolidated operating result of the Group for 2014 will be encumbered by PLN 126.4 million, and the consolidated net result of the Group by PLN 104.9 million. The write-down is regarded as a one-off, non-cash event. The Management Board of the Company stresses that the event has no influence on operating activities, because as at today the frequency in the 2570-2620 MHz range is not being used to generate network capacity being made available to the Group's key customers. The Management Board of the Company also stresses that the event described is not identical to a waiver of the right to the frequency described by Aero2 or a withdrawal of that company's right to it. The write-down concerns the book value, in the consolidated financial statements of the Group, of Aero2's frequency reservation in the 2570-2620 MHz range, and is being made mainly in connection with the failure to meet the obligation described in part II item 2 of the reservation decision of 10 November 2009, subsequently amended by the decision of the President of the OEC of 4 September 2012, and as a result of a periodic assessment of the current possibilities of using the frequency reservation.

#### Termination of agreements with Sferia

On 2 January 2015, the companies Aero2 and Sferia terminated the following agreements by mutual consent:

- a cooperation agreement concluded on 8 January 2010 pertaining to the construction of a telecommunications network
- an agreement of 30 November 2011 on terms and conditions for the mutual use of telecommunications infrastructure or telecommunications network components.

The termination of the agreements will not have a significant effect on the operating activities of the Midas Capital Group. The Midas Group will continue to cooperate with Sferia under the agreements described above.

### ***5.3 Important achievements in the area of research and development***

In 2014, the Midas Group did not conduct any research and development activities.

### ***5.4 Environmental issues***

The Group complies with all the obligations in the area of the protection of the natural environment. To the extent to which the Group entities create their own radio network infrastructure, there are issues of compliance of the devices of the base stations in the radio telecommunications networks with the requirements of applicable laws on the environment protection, especially in terms of not exceeding the limit values of electromagnetic fields associated with the operation of such stations. Pursuant to the provisions of the Act of 3 October 2008 on the provision of information about the environment and its protection, public participation in environmental protection and environmental impact assessments and secondary regulations thereto, in particular the Regulation of the Council of Ministers of 9 November 2010 on projects likely to have significant effects on the environment, the implementation of the projects for the construction of devices in the base stations, depending on the capacity of the installed devices, may constitute a project significantly affecting the environment. In addition, the construction of these devices may be subject to certain environmental protection conditions in the Natura 2000 area. The foregoing may require assessment of the environmental impact during the preparation for the construction of such devices, and when obtaining building permits, decisions on approval of the construction project, decisions to permit the use of, or change in the use of a building or a part thereof. Such environmental impact assessments are carried out when preparing reports on the project impact on the environment and when applying for decisions on the environmental conditions for the project.

The provisions of the above regulation stipulate that not all installations of base stations emitting electromagnetic fields with frequencies ranging from 0.03 MHz to 300000 MHz are classified as projects likely to always have a significant environmental impact. The classification of the base station as a project that could always significantly affect the environment depends on the proximity of places accessible to the public to antennas of the base stations and equivalent isotropic radiated power of such antennas. Construction of the stations which are not classified as projects likely to always significantly affect the environment and not located within the Natura 2000 area is subject to the environmental impact assessment only if competent authorities issue a decision requiring such assessment.

Technologies currently used, in the opinion of the Issuer, allow for expansion of the infrastructure of the radio telecommunications network in accordance with the applicable environmental protection standards, including in compliance with the threshold values of electromagnetic fields associated with the operation of base stations.

The Issuer believes that other environmental issues do not have a material impact on the Group's operations and its financial position and do not have a material impact on the Group's use of its property, plant and equipment.

### **5.5 Registry, communication and address data**

Registered name of the Issuer:	Midas Spółka Akcyjna The Issuer may use the abbreviated name Midas S.A.
Place of registration:	The Issuer is registered in the Commercial Register of the National Court Register kept by the District Court for the City of Warsaw in Warsaw, Division XII Commercial of the National Court Register.
Registration No.:	National Court Register 0000025704
Date established:	The Issuer was established on 15 December 1994 by the State Treasury represented by the Minister of Ownership Transformations (currently, the Minister of the State Treasury) as a sole shareholder company of the State Treasury.
Duration:	Unlimited
Registered office:	Warsaw
Legal form:	spółka akcyjna
Regulations applicable to the Issuer's operations:	The Issuer operates pursuant to and in accordance with the laws of Poland, in particular the provisions of the Commercial Companies Code as well as on the basis of its Statute.
Country of the registered office:	Republic of Poland
Address:	ul. Lwowska 19, 00-660 Warsaw
Telephone number:	+48 22 249 83 10
Fax number:	+48 22 249 83 13
Email address:	<a href="mailto:biuro@midasnf.pl">biuro@midasnf.pl</a>
Website:	<a href="http://www.midasnf.pl">http://www.midasnf.pl</a>

SIGNATURES OF MEMBERS OF THE MANAGEMENT BOARD:

\_\_\_\_\_  
Krzysztof Adaszewski

President of the Management  
Board

\_\_\_\_\_  
Piotr Janik

Vice-President of the  
Management Board

Warsaw, 3 March 2015