



CAPITAL GROUP

4FUN MEDIA S.A.

**CONSOLIDATED ANNUAL REPORT
AS AT AND FOR THE FINANCIAL YEAR ENDED
ON 31 DECEMBER 2016**

TO THE GENERAL MEETING OF SHAREHOLDERS Capital Group 4fun Media SA



Ladies and Gentlemen,

I have the privilege and pleasure to present you the Consolidated Annual Report on the activity of the Capital Group 4fun Media S.A. in the financial year 2016.

During the 12 months of year 2016, the Group I'm heading has obtained record-high sales revenues, of PLN 38 155 thousand, which was 54% more than in 2015. Such good result was possible both owing to the strengthening of our position in the market of musical channels and the resulting higher sales of TV commercials, and to the success in terms of sales diversification, which has been carried out in several segments.

The good sales results confirmed the strategy adopted by the Management Board of 4fun Media S.A. is right. The Management Board decided that in difficult times for traditional television, our company should boldly move into new areas of business, reaching the viewer base through the unique advertising offer of B2B and B2C services, and the digital signage market. Living in a hybrid society, we cannot lock our organization within the tight confines of a single sector, but instead, based on the resources and competences we have in house, we seek for new ways to develop. Our strategy assumes to treat television as a medium which naturally permeates the sphere of advertising, forming a hybrid which combines the world of entertainment and show business, and the consumption of television has taken on a new form, which activates the viewers united under the common 4FUN brand. This new approach is best symbolized by the name of our advertising agency which I have established - an agency acting within the Capital Group 4fun Media S.A. - - Bridge2Fun, a bridge which unites business with entertainment.

The activity of this advertising agency was the most dynamic segment of revenues generated by the Capital Group 4fun Media S.A. in 2016, with growth exceeding 400% in comparison to year 2015. The confirmation of the stability and the growing scale of the agency's business is a contract concluded with an important client of the telecommunication sector, covering communication strategy and creative services for the individual advertising campaigns of brands and products, as well as the company's communication platform. Both the whole year 2016 and the first months of 2017 have proved that the Bridge2Fun advertising agency is able to effectively increase its sales and diversify revenue sources. This has resulted in new contracts and several very recognizable media campaigns, executed for customers from the sectors of food and new media. Our agency takes part in tenders for the largest advertising budgets in Poland, which gives us an effective chance for further development of client portfolio.

An important event in the business of 4fun Media S.A. in 2016 was the EUTELSAT TV AWARDS 2016 prize for the Best Music Channel. This prestigious award has been given for almost 20 years to the best themed channels in the world. The international jury appreciated our innovative formula of 4FUN.TV, the technical and content-related quality of produced shows and the social nature of the channel, which sets new development standards for traditional television channels. In the final round of EUTELSAT TV AWARDS 2016 we have won with international competitors, including from France and Great Britain. In 2016, there were a total of 120 nominated channels in nine thematic categories.

The award granted by one of the world's largest satellite operators proves that the efforts of the Management Board of 4fun Media S.A., whose goal was to change the business model of traditional television towards the hybrid approach, utilizing all channels for contact with the viewer in order to deliver content and to integrate the world of modern entertainment, social media and advertising services for the clients, have been widely noticed and appreciated.

Looking at the perspectives for development of the Capital Group 4fun Media S.A. in 2017 I am convinced that, based on the currently held assets and the stable financial situation of the Group, we can look into the future with optimism. In the current year, the realistic perspective assumes that we would maintain our strong position in the market of musical channels, while other business segments should achieve further, significant growth. The efficiency of the Group's business should also improve, which should result in gradual increase of profitability indices.

I encourage you to become familiar with the details of the Consolidated Annual Report, documenting the operations of the Capital Group 4fun Media S.A. in the year 2016. The report presents the financial results and achievements of the Group on the consolidated level during the 12 months of the past year.

Sincerely,

Rafał Baran,

President of the Management Board of 4fun Media SA

I. INTRODUCTION

The Capital Group 4fun Media S.A. is a company operating in the television and digital media market, especially in the segment of themed television channels, and through its subsidiaries, also in the advertising market which includes segments going beyond the traditional television advertising (outdoor advertising, advertising agency). 4fun Media S.A. is the broadcaster of the First Social Music Television in Poland, which comprises three channels, broadcast since June 2015 under the joint umbrella brand 4FUN. The music channels: 4FUN.TV, 4FUN GOLD HITS and 4FUN DANCE form an interactive TV platform which distributes video content via television, mobile phones, IPTV platforms, the Internet and via the dedicated application 4FUN APP, which offers the viewers the opportunity to directly influence program content. As the result of rebranding of the 4fun Media S.A. channels, the music profile of the channel has been refreshed.

The primary channel, 4FUN.TV, presents the most up to date hits, from the tops of world hit lists. The channel is proposing its viewers new hosts and VJs, as well as activities targeted at young viewers, conscious of what is happening in the musical market in the recent months.

4FUN.TV is linked with the second screen application 4FUN APP which has over 300 thousand users. The channel is present at all digital platforms and in the largest cable networks, which guarantees it the largest coverage possible in the cable and satellite market, and means also the possibility of reaching with its TV signal almost 60% of all households in Poland. 4FUN.TV is additionally broadcast via three local terrestrial platforms and is one of the most popular musical and entertainment channels in the Polish market.

The second channel in the 4fun Media S.A. portfolio is 4FUN GOLD HITS. This channel broadcasts the largest OLDIES hits, dedicated for fans of music from the 1980s, 1990s and music created after year 2000, as well as younger greatest hits. The rich archive of music clips, arranged into the right playlists, allows the channel to offer its viewers, also the older ones, an opportunity that is unique in the Polish market - a sentimental journey into their musical past. The channel's technical coverage amounts currently to 55% of households in Poland.

The third channel in the 4fun Media S.A. portfolio is 4FUN DANCE. Its music profile corresponds to the new, distinctive market trend of promoting dance music. The DANCE music time slot is filled with carefully selected clips and special party music playlists, supporting evening dance activities and ensuring good fun. The current technical coverage of 4FUN DANCE is similar to the level of 4FUN GOLD HITS.

An important area of business for the Capital Group 4fun Media S.A. is the provision of distribution and consulting services, offered to broadcasters of themed channels (mostly foreign ones) present in the Polish TV market.

In line with the strategic diversification of its business, the Capital Group 4fun Media S.A. is systematically developing its operations also outside the television market. This applies to the advertising market, going beyond the market of traditional TV commercials, including outdoor advertising segment and activity of the intra-group advertising agency.

The outdoor advertising business is conducted via Screen Network S.A., the subsidiary which is the leader of the *Digital Signage* market in Poland. *Digital Signage* is a dynamically developing sub-segment of direct advertising, based on digital screens placed in urban spaces, managed under a single, integrated IT system. These screens offer a more attractive form of visual communication than the traditional outdoor media. Presentation quality does not

depend on the weather conditions and allows to broadcast commercials of numerous clients on a single screen, managed online in real time.

The consulting and marketing communication activity of the Capital Group 4fun Media S.A., conducted in the advertising market, is managed by the Bridge2Fun advertising agency. This is the first hybrid agency in the Polish market, combining competences from the area of music television, entertainment and show business, as well as personal competences of its representatives.

Thus, as at 31 December 2016, the Capital Group 4fun Media S.A. consisted of the following entities:

- 1) 4fun Media S.A., conducting business in the following areas:
 - broadcasting TV channels of musical character: 4FUN.TV, 4FUN HITS and 4FUN DANCE,
 - technological innovations integrating TV and the Internet (mobile application 4FUN APP),
 - multimedia Internet platform,
 - special actions, dedicated for B2B clients.
- 2) Screen Network S.A. which operates in the area of:
 - conducting advertising campaigns on digital media placed in the public space.
- 3) Program Sp. z o.o., which conducts business in the following areas:
 - distribution and sales support for broadcasters of TV channels,
 - marketing activities and consulting services.
- 4) Bridge2FUN Sp. z o.o. (indirectly, as subsidiary of Program Sp. z o.o.) dedicated to conduct the business of advertising agency. This is the first hybrid advertising agency in the Polish market, which specializes in bringing together the world of business with the world of entertainment, music market and social media.

III. CORE INFORMATION

3.1. Discussion of the core economic and financial indicators, disclosed in the consolidated financial statements for 2016, compared to the previous year.

Sales revenues, profitability and net financial result

(in PLN thousand)	01.01.2016	01.01.2015	01.01.2014	Change 2016/2015 in %	Change 2015/2014 in %
	31.12.2016	31.12.2015	31.12.2014		
Sales revenues	38 155	24 793	21 632	54%	15%
Operating profit	1 535	3 253	-8 196	-53%	140%
EBITDA	5 251	5 777	-4 600	-9%	226%
Net profit attributed to 4fun Media S.A.	1 346	2 785	-6 397	-52%	144%

Primary sources of revenues of the Capital Group 4fun Media SA

(in PLN thousand)	01.01.2016	01.01.2015	01.01.2014	Change 2016/2015 in %	Change 2015/2014 in %
	31.12 2016	31.12 2015	31.12 2014		
Advertising	21 720	19 656	18 383	11%	7%
Interactive services	79	210	555	-62%	-62%
Distribution services	798	800	1 085	0%	-26%
Activities of advertising agencies	4 065	801	0	407%	0%
Outdoor advertising	8 829	2 735	0	223%	0%
Other	2 664	591	1 609	351%	-63%
Net revenues on the sales of services	38 155	24 793	21 632	54%	15%

The revenues of the Capital Group 4fun Media S.A. rose in 2016 by 54%, under growing diversification of sales sources. PLN 16 435 thousand (43% of total revenues) came from outside the TV advertising market.

During the 12 months of 2016, the Capital Group 4fun Media S.A. achieved an increase of revenues by PLN 13 362 thousand, or by 54% compared to the same period of 2016. Such dynamic growth of sales was made possible by the two-digit increase in the sales of TV commercials and significant diversification of sales, effected in several business segments.

Television advertising remains the main source of revenues for the Capital Group 4fun Media S.A., as it accounts for almost 57% of total sales of the Capital Group in 2016. Despite the growing competition in the market of music television, with 25 channels broadcasting music or music & entertainment shows, 4fun Media S.A. maintains its position as one of the ratings leaders, with a two-digit dynamics of TV commercial sales (increase by 11%). The growth of TV advertising revenues of the Capital Group was made possible by the stable viewing figures of the main channel 4FUN TV - which is one of the three most popular music channels in Poland - and the improving viewing figures of the other channels broadcast by the Company: 4FUN GOLD HITS and 4FUN DANCE. This has been made possible thanks to the additional investments made by 4fun Media S.A. to produce new formats and graphic design, and consequent increase of coverage. An important element, influencing the viewing figures of the 4FUN GOLD HITS and 4FUN DANCE channels was the fact that since October 2015 both are included in the Cyfrowy Polsat satellite TV offer. The TV channels owned by 4fun Media S.A. are the only Polish music channels broadcasting in the DOLBY DIGITAL PLUS standard, which significantly improves reception quality.

The second business segment which exerted a significant influence on the revenues of 4fun Media S.A. in 2016 was the sale of outdoor advertising in the Digital Signage area, conducted by the subsidiary Screen Network S.A. During the reported period, its value amounted to a total of PLN 8 829 thousand, which accounted for 23% of total revenues of the whole Capital Group. The Company currently controls the largest network of digital screens in Poland, placed in urban spaces and managed under a single, integrated IT system. Currently the company is completing the process of allocation of large format LED CITY screens to top locations in the largest Polish cities. Plans for the subsequent quarters include further development of the network, including acquisition of new locations for the placement of large-format screens.

The third largest and the most dynamic source of revenues for the Capital Group 4fun Media S.A. is the business of advertising agency run by the Bridge2Fun company. The sales of advertising services in 2016 amounted to PLN 4 065 thousand, which accounted for nearly 11% of Group revenues, with annual dynamics at over 400%. Beginnings of the agency date to Q4 of 2015, when it acquired its first client from the telecommunication sector, and commenced the production of noticeable and recognizable TV and outdoor campaigns. Both the whole year 2016 and the first months of 2017 have proved that the Bridge2Fun advertising agency is able to effectively increase its sales and diversify revenue sources. This has resulted in new contracts and several very recognizable media campaigns, executed for customers from the sectors of food and new media. Our agency takes part in tenders for the largest advertising budgets in Poland, which gives us an effective chance for further development of client portfolio.

A growing source of revenues for the Capital Group 4fun Media S.A. are the sales of the so-called special actions, that is, promotional drives organized for the clients during on-air time outside the commercial breaks. During the 12 months of 2016, sale of this offer gave the Company revenues of PLN 2 664 thousand, which accounted for circa 7% of sales for the past year. These special drives use the coverage of the TV channels owned by 4fun Media S.A., focusing on the use of such actions as *product placement*, *branded content*, *mass events* etc. It should be expected that the resulting revenues, earned in the subsequent quarters, shall demonstrate further upward trend.

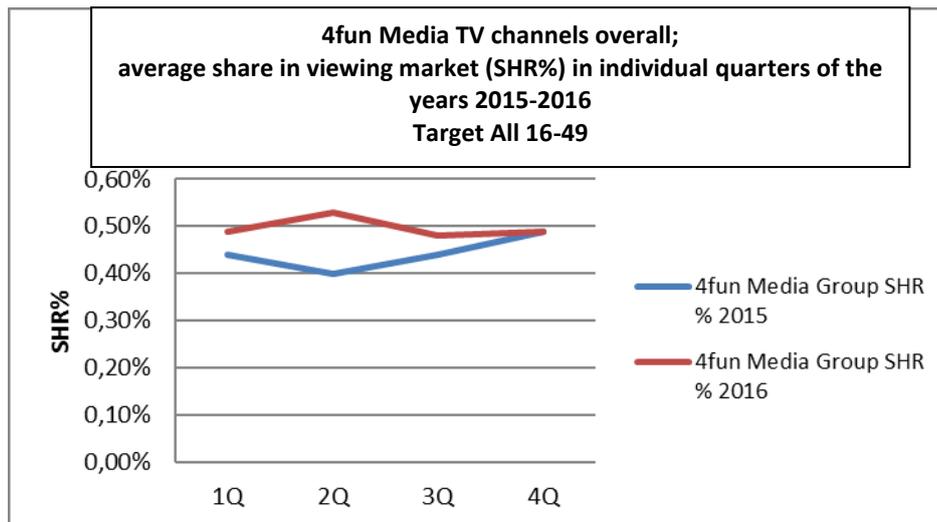
When commenting the diversified structure of sales segments of the Capital Group 4fun Media S.A. , it is worth noting that a stable element of revenues is our business focused on providing distribution and consulting services for broadcasters of themed channels (primarily foreign ones), present in the Polish market. Sales of services of that type amounted to PLN 800 thousand in 2016, maintaining its dynamics of 2015.

Development perspectives for the Capital Group 4fun Media SA in the year 2017

In the opinion of the Management Board of 4fun Media S.A., year 2017 shall see further diversification of the Company revenues and a systematic increase of sales generated from sources other than the traditional TV advertising, in particular in the area of sales of outdoor advertising, activity of the advertising agency and the special drives. Moreover, the Management Board of 4fun Media estimates that the cost optimization, carried out in 2016, shall result in visible savings in the current year, which should improve the profitability indices.

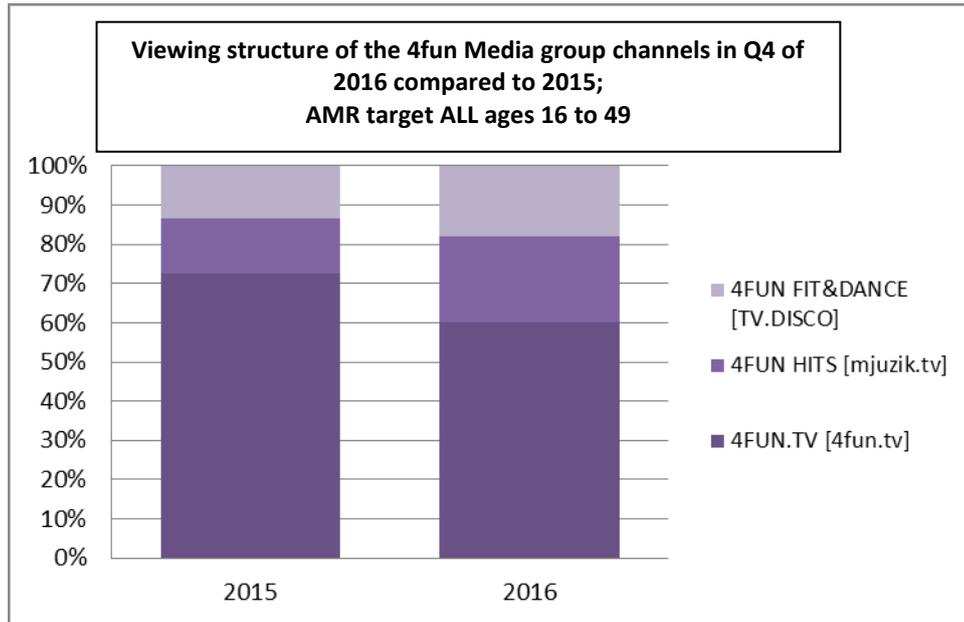
Higher viewing figures for 4fun Media SA channels

The cumulative average annual share in rating figures [SHR%] for the group of channels broadcast by 4FUN MEDIA S.A. in 2016 amounted to 0.50% which was 11% more compared to the monthly average in 2015, when it reached on the average 0.45%. At the end of 2016 the share in rating figures (SHR) of channels owned by 4fun Media S.A. reached 0.49%. It is worth stressing that, through its rebranding activities, program changes adapting the TV content to viewers' expectations and the introduction of 4FUN HITS and 4FUN DANCE into the offer of Polsat Cyfrowy, the company 4fun Media S.A. throughout the whole 2016 has been achieving increases in viewing figures compared to 2015. This applies both to the leading channel 4FUN.TV which maintained its viewing figures from 2015, and to two smaller-scale channels. The increase of SHR at the end of the year covered by this report reached 20% for 4FUN HITS, and in the case of 4FUN DANCE, the ratings were the same as a year earlier. During the three preceding quarters, the viewing figures for the two smaller channels maintained a high growth dynamics, compared to similar periods of 2015.



**4fun Media TV channels overall;
 average share in viewing market (SHR%) in individual quarters of the years 2015-2016**

The growing viewing figures of 4FUN HITS and 4FUN DANCE led to change of rating structure of the 4fun Media S.A. TV channels. At the end of 2016 the share of these channels amounted to circa 40% of all the viewing figures for TV channels in the 4fun Media S.A. portfolio, while in the same period of the previous year it amounted to circa 30%.



**Viewing structure of the 4fun Media group channels in Q4 of 2016 compared to 2015;
 AMR target ALL ages 16 to 49**

Information on the holding of stocks and shares of the Issuer and its related entities - statement of total number and nominal value of all stocks (shares) of the Issuer and stocks and shares in the Issuer's related entities, held by persons who manage and supervise the Issuer (separately for each person).

The holding of shares of 4fun Media S.A. as at 31 December 2015 by its managers and supervisors was as follows:

Members of the Issuer's Management Board

	31.12.2016
Rafał Baran	50 000
Aneta Parafiniuk	15 874

Members of the Issuer's Supervisory Board

	31.12.2016
Dariusz Stokowski	0
Alexander Overweter	0
Jakub Bartkiewicz	0
Ross Newens	0
Marek Tarnowski	0

Issued share capital

All the shares issued by the holding company are ordinary shares, with no preferences regarding profit distribution. All the issued shares were paid in full.

	31.12.2016	31.12.2015
Share capital issued and paid		
Number of shares	4 119 374	4 063 500
Nominal value of 1 share	1.00	1.00
Nominal value of all share	4 119 374.00	4 063 500.00

Structure of the Issuer's share capital broken down per share series

	31.12.2016	31.12.2015
Number of shares issued:		
Shares of A series	1 956 500	1 956 500
Shares of B series	470 000	470 000
Shares of C series	837 000	837 000
Shares of D series	800 000	800 000
Shares of E series	55 874	0
TOTAL	4 119 374.00	4 063 500.00

Series	Type of shares	Type of preference	Type of limited rights to shares	Number of shares	Nominal value of 1 share	Value of series
A	bearer	none	none	1 956 500	1,00	1 956 500.00
B	bearer	none	none	470 000	1,00	470 000.00
C	bearer	none	none	837 000	1,00	837 000.00
D	bearer	none	none	800 000	1,00	800 000.00
E	bearer	none	none	55 874	1,00	55 874.00
				4 119 374		4 119 374.00

Ownership structure of share capital

31.12.2016

	Number of shares held	Nominal value of 1 share	Nominal value	Share in the Company's share capital
Nova Group (Cyprus) Ltd	2 211 499	1.00	2 211 499	53.69%
Other Shareholders	1 907 875	1.00	1 907 875	46.31%
TOTAL	4 119 374		4 119 374	100%

During the period from January 1st to December 31st 2016 no changes have occurred in the shareholding structure of 4fun Media S.A.