ANNUAL REPORT
OF CYFROWY POLSAT S.A.
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

Place and date of publication: Warsaw, 17 March 2011

Content of the annual report:

Ladies and Gentlemen,

With great pleasure and satisfaction I am presenting this Annual Report of Cyfrowy Polsat S.A. for 2010.

Our company marked 2010 with consistent implementation of the strategy aimed at strengthening our leadership on the DTH satellite television market and development of integrated services.

Last year's landmark for our company was the announcement of the planned transaction to purchase 100% of Telewizja Polsat S.A. for PLN 3.75 billion. With this transaction, the Cyfrowy Polsat Group will become an undisputed leader in the media market, forming, together with Polsat Television, the largest media group in Poland. Activities of both companies complement each other naturally, so we will be able to gain significant competitive advantages. Our Group will become a stronger entity with diversified sales within subscription revenues, as well as television advertising.

Ongoing interest in television services resulted in an increase of our subscriber base of 234 thousand, which allowed us to close the year with the figure of 3.436 subscribers. As a result of our operating results we also strengthened our leading position on the DTH satellite television market and noticed an increase in our financial results.

In order to pursue our strategy of delivering sustainable development of business and increase the satisfaction of our subscribers we have enriched our programming offer, particularly with high-definition channels. The launch of the following channels: Animal Planet HD, TLC, AXN HD, Comedy Central, Orange Sport Info, Filmbox, Filmbox HD, FOX Life HD, FOX HD, Nat Geo Wild, and Nat Geo Wild HD, has significantly increased the number of our thematic channels. We were extremely pleased to see a growing interest in the VOD service - Home Video Rental, which we offered to our viewers in December 2009. Our library provides subscribers with access to the titles of some of the largest content providers - Disney, Sony, Monolith Films, and SPI.

We have significantly developed the business of our Cyfrowy Polsat Technology Sp. z o.o. factory introducing new models of digital set-top boxes, including those enabling receipt of high definition channels, in response to the market expectations and changes. Over two million cutting edge technology devices, including several hundred thousand HD set-top boxes have left our factory and this year we plan to introduce a new model of HD tuner. This solution, which is innovative on the Polish market, has allowed us to reduce the cost of set-top boxes, which in turn, has a positive impact on our profitability.

According to the strategy we announced during our IPO, we have worked on the development of our business in the telecommunications industry. On 1 February 2010 we offered, as the first supplier in Poland, broadband internet access in the mobile technology of HSPA+. On 1 June 2010 we introduced integrated services - namely the possibility of buying television, Internet and mobile telephony under one contract, one subscription fee and one invoice. In October, we increased the speed of our Internet offer from 21 Mb/s to 28.8 Mb/s, as a result of employing an innovative, multi-antenna MIMO technology. Today, we are the only operator of a satellite platform which in addition to television services offers its own telecommunications services.

I believe that the course we set for our development, clearly defined goals for the next few years and their consistent implementation, will not only strengthen our leading position on the pay DTH satellite television market, but together with further development of telecommunication services and the control and creation of content provided by Telewizja Polsat, we will be able to successfully offer new, attractive services and products. We expect that in the long term they will contribute to an increase in the number of users of our services, average revenue per subscriber and customer loyalty. Achieving these objectives in combination with discipline in financial management, which has always been our priority, will certainly have a positive impact on building shareholder value.

Yours sincerely

Dominik Libicki

President of the Management Board

Cyfrowy Polsat S.A.

MANAGEMENT BOARD'S REPORT ON ACTIVITIES OF CYFROWY POLSAT S.A. IN THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

This document is a free translation of the Polish original.
Terminology current in Anglo-Saxon countries has been used where practicable
for the purposes of this translation in order to aid understanding.
The binding Polish original should be referred to in matters of interpretation.

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Item 1. Introduction

We are a leading pay digital satellite platform operator in Poland. Our core business is providing individual customers with access to television and radio channels grouped into different paid programming packages. As at 31 December 2010 our subscriber base of pay packages reached 3,436,231, an increase of 233,912 or 7.3% compared to 31 December 2009.The launch of mobile services in September 2008 was the first step in the process of building a multi play operator offering DTH services, mobile services and internet access services launched commercially on 1 February 2010. From June 2010 we offer to our clients all three services in Multi-play offer. As at 31 December 2010 the number of mobile users totaled 95.870 (an increase of 66.545 as compared to December 2009) and Internet users totaled 25.615.

We sell our services on the entire territory of Poland.

Our revenue from services, goods and materials sold in 2010 increased by 16,3% to PLN 1,473,540 from PLN 1,267,458 in 2009. Our net profit amounted to PLN 884,166 compared to PLN 232,041 in the previous year (such a significant increase of net profit was a result of the transfer of the contribution in a kind to cover the share of the Company in an increased share capital of its wholly-owned subsidiary Cyfrowy Polsat Trade Marks Sp. z o.o.). If we exclude the effect of this transaction, our net profit increased by 43,691 (19%) compared to the year 2009.

Our offices are in Warsaw at 4a Łubinowa Street.

In Management Board's report on activities of the Company references to the Company apply to Cyfrowy Polsat S.A. Expressions such as "we", "us", "our" and similar apply generally to the Company; „DTH" relates to digital satellite platform services which we provide in Poland; "SD" relates to the television signal in the standard definition technology (Standard Definition); „HD" relates to the television signal in the high definition technology (High Definition); „DVR" relates to set-top boxes with hard disk used to record television channels (Digital Video Recorder); „Family Package", "Family HD Package", "Mini Package", "Mini HD Package" and "Mini Max Package" relate to our starting packages available within our DTH services; "Subscriber" relates to a person who signed an agreement for subscription to television services and who is obligated, under the terms of agreement, to make payments to access a package or packages of television channels or who has access to such packages after making required payments but without having signed such an agreement; „ARPU" relates to average net revenue per one user/agreement to whom we rendered services calculated as a sum of fees paid by our subscribers for our DTH services divided by the average number of subscribers/agreements to whom we rendered services in the reporting period; „ARPU Family Package" and „ARPU Mini Package" relate to average revenue per subscriber to the Family Package and Mini Package, respectively; „churn" relates to the churn rate, calculated as the ratio of the number of terminated contracts in the 12 months preceding the balance sheet date less the number of customers who have entered into a contract for the provision of satellite pay television services with us once again in a period of not more than 12 months, and the average number of contracts in that period; „churn Family Package" and „churn Mini Package" relates to churn rate calculated for the Family Package and Mini Package, respectively; „SAC" relates to the sum of cost of provision payable to distributors per each attracted customer; "VoD" relates to the services from the video on demand category; „MVNO" relates to mobile virtual network operator services; "Internet access services" relates to broadband internet access services; "HSPA+" relates to radio data transfer technology (High Speed Packet Access Plus) of increased speed of up to 21 Mb/s; "LTE" relates to data transmission technology in mobile networks Long Term Evolution, characterized by much higher data transfer speed, greater capacity and lower network latency; „Integrated services" relates to services of pay DTH services, mobile services and internet access services provided under one agreement and one subscription fee; "M.Punkt" relates to M.Punkt Holdings Ltd.; "mPunkt" relates to mPunkt Polska S.A.; "CPT" relates to Cyfrowy Polsat Technology Sp. z o.o.; "CPTM" relates to Cyfrowy Polsat Trade Marks Sp. z o.o.; "CP" relates to Cyfrowy Polsat S.A.; „Shares" relates to the shares of Cyfrowy Polsat S.A., which were introduced to public trading on the Warsaw Stock Exchange on 6 May 2008 and are marked with a code PLCFRPT00013; "PLN" or "zloty" refers to the lawful currency of Poland; "USD" or "dollars" refers to the lawful currency of the United States of America; and "EUR" or "euro" refers to the single currency of the participating Member States in the Third Stage of European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time.

Presentation of financial information

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

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

Industry and market data

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

- Informa Telecoms and Media, Eastern European TV, 14th Edition;
- Eurostat, for data relating to the Polish economy and GDP growth;
- Ofcom, Nielsen Audience Measurement, for data relating to viewing time figures for particular European countries;
- Office of Electronic Communications;
- Polish Central Statistical Office;
- Polish Chamber of Electronic Communication;
- Operators functioning on the Polish market and
- GFK Polonia, for data on brand name recognition.

We believe that these industry publications, surveys and forecasts are reliable but we have not independently verified them and cannot guarantee their accuracy or completeness.

Moreover, in numerous cases we have made statements in this Report regarding our industry and our position in the industry based on our own experience and our examination of market conditions. We cannot guarantee that any of these assumptions properly reflect our market position. Our internal surveys have not been verified by any independent sources.

Forward looking statements

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

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

We disclose important risk factors that could cause our actual results to differ materially from our expectations under Item 4 „Key Risk and Threat Factors", Item 6 „Operating and Financial Review", and elsewhere in this Report. These cautionary statements qualify all forward looking statements attributable to us or persons acting on our behalf. When we indicate that an event, condition or circumstance could or would have an adverse effect on us, we mean to include effects upon our business, financial situation and results of operations.

Item 2. Currency presentation and exchange rate information

The following tables set out - for the periods indicated - certain information regarding the average buying/selling rates as published by the National Bank of Poland ("NBP"), for the zloty, the ("effective NBP exchange rate"), expressed in zloty per dollar and zloty per euro. The exchange rates set out below may differ from the actual exchange rates used in the preparation of our financial statements and other financial information appearing in this Report. Our inclusion of the exchange rates is not meant to suggest that the zloty amounts actually represent such dollar or euro amounts or that such amounts could have been converted into dollars or euro at any particular rate.

	Year ended 31 December				
Year (zloty per dollar)	**2006**	**2007**	**2008**	**2009**	**2010**
Exchange rate at end of period	2.9105	2.4350	2.9618	2.8503	2.9641
Average exchange rate during period	3.1047	2.7686	2.4061	3.1181	3.0179
Highest exchange rate during period	3.3008	3.0400	3.1303	3.8978	3.4916
Lowest exchange rate during period	2,8628	2,4260	2,0220	2,7093	2,7449

Month (zloty per 1.00 dollar)	**Highest exchange rate during the month**	**Lowest exchange rate during the month**
September 2010	3.1285	2.9227
October 2010	2.8922	2.7697
November 2010	3.1308	2.7449
December 2010	3.0753	2.9641
January 2011	3.0268	2.8280
February 2011	2.9219	2.8230

Year (zloty per 1.00 euro)	Year ended 31 December				
	2006	2007	2008	2009	2010
Exchange rate at end of period	3.8312	3.5820	4.1724	4.1082	3.9603
Average exchange rate during period	3.8960	3.7843	3.5129	4.3282	3.9939
Highest exchange rate during period	4.1065	3.9385	4.1848	4.8999	4.1770
Lowest exchange rate during period	3.7565	3.5699	3.2026	3.9170	3.8356

Month (zloty per 1.00 euro)	Highest exchange rate during the month	Lowest exchange rate during the month
September 2010	3.9922	3.9279
October 2010	3.9944	3.8992
November 2010	4.0734	3.8964
December 2010	4.0415	3.9603
January 2011	3.9622	3.8403
February 2011	3.9916	3.8684

Item 3. Selected financial data

The following tables set forth our selected historical financial data for the 12 month periods ended 31 December 2010 and 31 December 2009. The historical financial data should be read in conjunction with Item 6. "Operating and Financial Review" and the financial statements for the fiscal year ended 31 December 2010 (including the notes thereto). We have derived the financial data presented in accordance with IFRS from the audited financial statements for the fiscal year ended 31 December 2010.

Selected financial data

- from the profit and loss statement and the cash flow for the periods of twelve months ended 31 December 2010 and 31 December 2009 have been converted into EURO at the rate of PLN 3.9946 per 1 euro, (being the average of exchange rates announced by the NBP at the end of each month of the reporting period i.e. from 1 January to 31 December 2010),

- from the balance sheet as at 31 December 2010 and 31 December 2009 have been converted into euro at the rate of PLN 3.9603 per 1 euro (average NBP exchange rate on 31 December 2010).

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

	For the twelve month period ended 31 December			
	2010		2009	
(in thousand)	PLN	EUR	PLN	EUR
Income statement				
Revenues from services, goods and materials sold	1 473 540	368 883	1 267 458	317 293
Cost of services, goods and materials sold	(785 477)	(196 635)	(696 622)	(174 391)
Cost of sales	(221 202)	(55 375)	(204 347)	(51 156)
General and administration cost	(89 739)	(22 465)	(78 586)	(19 673)
Other operating revenues	614 032	153 716	12 430	3 112
Other operating expenses	(42 763)	(10 705)	(22 998)	(5 757)
Operating profit	948 391	237 418	277 335	69 427
Pre-tax profit	949 194	237 619	286 307	71 674
Income tax	(65 028)	(16 279)	(54 266)	(13 585)
Net profit	884 166	221 340	232 041	58 089
Basic and diluted earnings per share (not in thousands)	3,30	0,82	0,86	0,22
Weighted average number of issued ordinary shares (not in thousands)	268 325 000		268 325 000	
Cash Flow Statement				
Cash flow from operating activities	210 244	52 632	184 578	46 207
Cash flow from investing activities	(74 316)	(18 604)	(59 443)	(14 881)
Cash flow from financing activities	(208 801)	(52 271)	(268 826)	(67 297)
Net change in cash and cash equivalents	(72 873)	(18 243)	(143 691)	(35 971)
Balance sheet				
Cash and cash equivalents	24 195	6 109	70 388	17 773
Assets	1 594 289	402 568	773 860	195 404
Non-current liabilities	72 770	18 375	31 439	7 939
Current liabilities	462 483	116 780	414 606	104 691
Equity	1 059 036	267 413	327 815	82 775
Share capital	10 733	2 710	10 733	2 710
Other financial data				
Depreciation and amortization	78 873	19 745	40 165	10 055
EBITDA[1]	1 027 264	257 163	317 500	79 482
EBITDA margin	69,7%	69,7%	25,1%	25,1%
Operating margin	64,4%	64,4%	21,9%	21,9%
Capital expenditures[2]	40 642	10 174	35 473	8 880

(1)We define EBITDA as operating profit plus amortization and depreciation, EBITDA is not a measure of profit from operational activity, the operating effectiveness or the liquidity. However EBITDA is a measure, used at managing activity, because it is indicator often applied by investors which enables them to compare the productivity excluding the amortization and depreciation, which value can be different depending on methods of accounting, as well as other operating and inoperable factors.

(2)Capital expenditure represents our investment in fixed assets and intangible assets. It does not include expenditure on purchase of set-top boxes leased to our subscribers which are reflected in the cash flow from operating activities.

Item 4. Key risk and threat factors

System failures could disrupt our operations and thereby have a material adverse effect on our business, financial condition, results of operations and prospects

Our satellite broadcasting center and our information systems, including our subscriber management system, reporting systems, sales service system, and customer relationship management system are vulnerable to results of natural disasters (such as earthquakes, floods, hurricanes, fires, severe storms and other phenomena), power loss, telecommunications failures, network software flaws, satellite or transponder failure, acts of terrorism, sabotage, riots, civil disturbances, strikes and other industrial action and other catastrophic events. We may experience failures or shutdowns relating to individual components of the satellite broadcasting center or even catastrophic failure of our entire satellite broadcasting center. Any failure of our satellite broadcasting center, including the Eutelsat Hotbird 8 satellite or any link in the delivery chain, whether from operational disruption, natural disaster or otherwise, or any breakdown of our subscriber management system, customer relationship management system, sales service system and reporting system, may result in serious disruption or even suspension of our operations for a prolonged period. The occurrence of any of these events may also increase the costs associated with our operations and may subject us to liability, any of which could materially and adversely affect our operations and thereby have a material adverse affect on our business, financial results, results of operations and prospects.

Our growth and satisfaction of our subscribers with our services depend on entering into new and extending current license agreements for access to key programming rights

The results of our operations depend on our ability to obtain attractive television programming. Currently, we provide our clients with attractive television programs distributed on the basis of license agreements concluded for specified periods of time with relevant broadcasters. Attractive television programming is one of the main factors that enable us to attract and retain our customers. We cannot guarantee that the license agreements currently in place, upon their expiration, will be renewed at all or on terms comparable to their current terms. In addition, there can be no guarantee that we will be able to introduce new attractive channels into our programming offer or retain channels currently included in our programming offer. There is also a risk of increasing costs of acquiring the key programming rights, as a result of growing competition on the market. Any inability to renew current license agreements on acceptable terms or negotiate new license agreements could have a material adverse effect on our business, financial condition, results of operations and prospects.

If we cannot successfully deploy new products and services or implementing them will be connected with high costs our business, financial condition, results of operations and prospects may be adversely affected

Our business is characterized by rapid technological change and the introduction of new products and services. If new or improved products, services or technology (such as broadband Internet in LTE technology) introduced by us fail to achieve sufficient market acceptance or experience technical difficulties, or possible high costs associated with implementing them, our revenue growth, margins and cash flows may be adversely affected.

Cyfrowy Polsat's LTE internet product heavily depends on performance of partner companies, mostly Mobyland. The partners are developing radio access network throughout the whole country. This is complex process, involving significant administrative overhead (radio license decision, commissioning), construction (BTS towers, cable access data network, power supply) and environmental (construction permits subject to neighbours' protests) issues. The total project requires approximately 900 towers to be erected by 2012, while so-far only some 413 are operational.

As a result, we may not recover the initial investment that we have made or may make to deploy these products and services. In addition, if our competitors offer the same or similar new products and services in the market more quickly or more effectively than we do, we may lose existing and potential customers to our competitors.

In addition, as we introduce new products and services to our customers and as the number of our customers and the number of services that we offer to our customers increases, the complexity of our product and service offerings will also increase. A failure to manage the growth and complexity of our new products and services could lead to disruptions in our business which could harm our reputation and result in a loss of subscribers. In addition, we cannot assure that we will not experience technical or logistical difficulties as we continue to develop these products and services. As a result, the occurrence of any of the above risks in the deployment of new products and services may materially adversely affect our business, financial condition, results of operations and prospects.

Our ability to provide our services is dependent upon the cooperation, facilities and equipment of certain third party providers, the failure of which could cause delays or interruptions in our service, damage our reputation and cause us to lose customers

Our success depends on our ability to provide high quality and reliable services, which is in part dependent upon the proper functioning of facilities and equipment owned and operated by third parties and is, therefore, beyond our control. For example, we currently lease four transponders which allow us to provide our services to our customers. As the MVNO and Internet provider, Cyfrowy Polsat is dependent on the infrastructure provided by the third parties. In addition, we use the Nagravision conditional access system to secure our system from unauthorized access through piracy or hacking by third parties.

If Cyfrowy Polsat's third party service providers fail to maintain their networks properly, fail to respond quickly to problems, or fail to prevent unauthorized access by third parties, Cyfrowy Polsat's customers may experience service interruptions, or unauthorized individuals may gain access to Cyfrowy Polsat's broadcasting content without pay. If interruptions adversely affect the perceived reliability of Cyfrowy Polsat's service, we may have difficulty attracting new customers and our brand, reputation and growth will be negatively impacted. If any of the above mentioned risks materialize, they may have a material adverse effect on our business, financial condition, results of operations or prospects.

We cannot guarantee that in the future the President of the Polish Competition and Consumer Protection Office (UOKiK) will not deem our practices to be limiting competition.

Cyfrowy Polsat must comply with Polish consumer protection regulations. Our operations are reviewed by competition protection authorities to ensure that it adheres to provisions prohibiting use of practices that violate collective interests of consumers (such as providing inaccurate information to customers, dishonest market practices and use of prohibited contract clauses and terms). The competition authorities (and other legal authorities), and even natural persons, may also bring a court action seeking a decision finding the provision of the form of agreement prohibited. If a clause or standard form has been declared prohibited by a final judgment of the Competition and Consumer Protection Court, such clause or standard term is entered into the Register of Prohibited Contract Clauses maintained by the President of Antimonopoly Office. Once a clause or standard term has been entered into such register the clause declared as prohibited cannot be applied by any entity operating in Poland. If the President of UOKiK deems our practices to be limiting competition the President of UOKiK may call us to cease their application. Moreover, the President of UOKiK may impose a cash fine on us amounting to up to 10% of our revenue (as set out in the corporate tax law) for the fiscal year prior to the year the fine is imposed. Such a fine, if imposed, may materially adversely affect our business, financial condition, results of operations and prospects.

Our success depends on attracting and retaining key personnel

The successful management and operation of Cyfrowy Polsat's business is reliant upon the contributions of its senior management team and other key personnel. There is a risk that we might lose our skilled personnel, or fail to attract properly trained staff in the face of intense competition for highly skilled personnel. Loss or failure to attract highly skilled personnel for key positions could have a material adverse effect on our business, financial condition, result of operations and prospects.

Advanced technology we employ in our business may fail or become obsolete

The software and technology that we use, in particular the compression, scrambling and subscriber management systems integral to our satellite broadcasting center, may not function as we expect. In addition, technology in the satellite television industry is in a rapid and continuing state of change, therefore we and our service suppliers may not be able to keep pace with technological developments or any urgent need to replace obsolete technology. In addition, delays in the delivery of components or other unforeseen problems in our broadcasting system that may occur could materially adversely affect our business, financial condition, results of operations and prospects.

Scrambling algorithm and access codes used in our business are vulnerable to security breaches

Cyfrowy Polsat currently uses conditional access system, based on common scrambling algorithm Digital Video Broadcasting developed by Nagravision, a leading global producer of such systems. The conditional access system provided by Nagravision facilitates the management of access codes to a subscriber's programs and the scrambled transmission of keys for the common scrambling algorithm. Nevertheless, unauthorized access to the keys may occasionally occur, and third parties may obtain unauthorized access to Cyfrowy Polsat's services. However, no conditional access system is able to guarantee operations without any security breaches whatsoever. Nagravision has agreed with Cyfrowy Polsat to remedy all security breaches within specified time limits or to pay damages, but Nagravision's liability under this agreement is capped. In addition, there can be no assurance that the DVB scrambling algorithm used by the entire pay television industry will not be compromised, which would allow unauthorized access to Cyfrowy Polsat's services without using access keys to the common scrambling algorithm and, consequently, require Cyfrowy Polsat to replace its set-top boxes to enable its customers to receive the services provided by Cyfrowy Polsat. The occurrence of any of these risks could have a material, adverse effect on Cyfrowy Polsat's business, financial condition, results of operations and prospects.

Currency fluctuations could adversely affect our financial condition and results of operations

Our business is exposed to fluctuations in currency exchange rates. Although almost all of our revenue is denominated in Polish zloty, we have significant costs (including costs of purchases of licenses for television programming and software, set-top boxes, other hardware equipment and costs of rental of capacity on transponders) that are denominated in currencies other than Polish zloty, mainly in US dollars and euro.

The exchange rate fluctuations are caused by events that are beyond our control. Adverse foreign currency fluctuations against zloty could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our ability to grow depends in part on our ability to maintain the operations of our sales network

We have organized a sales network throughout Poland. If demand for our services distributed through this network declines, our distribution network may become smaller. Increased competition with other pay television services providers may also lead to an increase in our distribution costs. Further, as we enter into agency agreements with our distributors, we may be forced to make payments to these distributors if we or they terminate these agreements even though they no longer work as our distributors.

Any growth in distribution costs, decrease in the size of our sales network, decrease in the effectiveness of our sales network or obligations to make payments to former distributors could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our subscriber churn may increase in the future

Our churn rate may increase in the future due to various factors such as increased competition, especially price competition, technical difficulties with the quality of our services or a decrease in the security level of our television signal. From time to time, we change our programming offer by adding individual channels or excluding individual channels and by introducing new pricing for our programming packages. Such changes may adversely affect our churn rate and decrease our revenues or decrease the profitability of our business. In order to counter a potential or actual increase of our churn rate, we may be required to incur additional costs, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

The risk of increasing average subscriber acquisition costs and declining average monthly revenue per subscriber in connection with the expansion of our business into new areas

Cyfrowy Polsat forecasts that due to the expansion of its business into new areas in the future, in particular mobile telephony and broadband internet, and growing penetration on the pay television services market, Cyfrowy Polsat average subscriber acquisition costs may increase. At the same time, Cyfrowy Polsat's blended ARPU may decrease particularly as a result of growing number of subscribers to the Mini Package, extended promotional periods, and changes to the structure of packages, and for other reasons. Any significant growth in the subscriber acquisition costs and any significant decrease in these revenues could have a material adverse effect on Cyfrowy Polsat's business, financial condition, results of operations and prospects.

Loss or failure to maintain our reputation and brand may adversely affect our business

Our brand name "Cyfrowy Polsat" is an important asset to our Company. Maintaining the reputation of, and value associated with, the Cyfrowy Polsat name is vital to the success of our business. However, there can be no assurance that we will be able to accomplish this objective. Our reputation may be harmed if we encounter difficulties in providing our services particularly such as HDTV, MVNO services, internet access services, video on demand services or in deploying new products such as DVR. The problems may result from technical faults, lack of necessary equipment or other factors. In addition, the quality of the MVNO services and the access to the broadband internet we offer depends on the services and quality of a third party's mobile network and owners of the infrastructure on which our services of the access to the broadband Internet are based, over which we have no influence or control. Low quality of services provided by the operator may substantially erode our reputation or value associated with the "Cyfrowy Polsat".

A decrease in the "Cyfrowy Polsat" brand's reputation could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our growth strategy through acquisitions exposes us to numerous risks.

Further growth will be largely determined by the planned acquisition of 100% shares of Telewizja Polsat S.A., that should be completed by the end of the first quarter 2011. If we cannot successfully integrate this acquisition on a timely and efficient basis, we may incur higher than expected costs and not realize all the anticipated benefits. This could lead to adverse accounting and financial consequences, such as the need to make large provisions or write-offs. These difficulties may adversely affect our business, financial condition and results of operations.

We may pursue acquisitions which, if consummated, may adversely affect our business

We periodically evaluate potential acquisitions of businesses or business combination transactions that we believe will present opportunities to realize synergies and strengthen our market position, among other perceived benefits. Any acquisition or business combination we may undertake in the future could require us to use significant financial resources (including cash) to make potentially dilutive issuances of our equity securities, to incur debt and liabilities.

If we experience any difficulties in integrating acquired operations into our business, we may incur higher than expected costs and not realize all the benefits of these acquisitions. In addition, our management may be distracted by such acquisitions and the integration of the acquired businesses. Thus, if we consummate any further acquisitions, there could be a material adverse effect on our business, financial condition, results of operations and prospects. In addition, our debt burden may increase if we borrow funds to finance any future acquisition costs, which could have a negative impact on our cash flows and our ability to finance our overall operations.

We may be exposed to risk of claims related to intellectual property right infringement

The success of our business depends to a large extent on the use of intellectual property rights. In particular, rights to advanced technological solutions, licenses for the software we use and the trademarks used by us. In our opinion we do not breach any third party's intellectual property rights. However, we cannot rule out the possibility that we have unintentionally breached or may breach such rights. As a result, we could be exposed to liability claims from third parties. To our knowledge, no such claims are currently pending against us. If it were alleged that we violated certain intellectual property rights apart from possible compensation claims, we might be required to obtain a paid license or acquire new solutions making it possible for us to engage in our business in a manner that does not breach third party rights. Any of these risks could create substantial costs and lead to a decrease in revenue and, consequently, materially adversely affect our business, financial condition, results of operations and prospects.

We are exposed to risk related to increasing competition on the market in which we operate

The core business of Cyfrowy Polsat is to provide the DTH satellite television services market which is characterized by continuously changing transmission technologies and other changes in the competitive environment. Cyfrowy Polsat faces increasing competition from other pay DTH satellite television services providers, namely Canal Plus Cyfrowy Sp. z o.o. operator of Cyfra +, ITI Neovision Sp.z.o.o. operator of “n” Platform and Telekomunikacja Polska SA operator of Neostrada TP, as they constantly seek to attract new subscribers to their product offerings. Viewers may also choose comparable content from other sources available via other transmission technologies, such as cable TV, IPTV and other alternative technologies that are not yet commercially available. Further, there is a threat coming from the digital terrestrial television technology that is the removal of limitations regarding granting licenses for broadcasting frequencies and, as a result, an increased number of terrestrial channels. Currently, there are seven analogue terrestrial channels and only four of them are available to over 90% households. However, digitization has been postponed due to lack of formal regulations; there is also no formal government plan for utilization of available digital frequencies. We expect that the frequencies will be allocated to: digital terrestrial television and the HD television, radio and DVB-H (the standard enabling broadcast of television channels to mobile telephones). Currently, it is too early to assess the potential influence of the competition from digital terrestrial television on Cyfrowy Polsat’s pay DTH digital satellite television business. We expect that in the next few years, the business of digital terrestrial television will be limited to current analogue terrestrial channels and its offer will extend after 2012 as a result of availability of new frequencies. The switch-off of analogue broadcast has been scheduled for July 31, 2013.

Moreover, joint ventures and strategic alliances between DTH satellite television services businesses, cable TV and telecommunications providers, as well as foreign competitors entering the Polish market, may result in the growth of competition in the market for the type of services Cyfrowy Polsat provides. A recent example being an announced alliance of “n” platform with TPSA, to deliver “n”-provided content via terrestrial broadband connection provided by TPSA. Such new competitors may have access to greater financial and marketing resources and, if successful, capture a large share of market on which it operates. We also cannot rule out the possibility that the development of terrestrial digital TV and the resulting possibility of appearance of a high-quality programming offer without the need to pay fees will cause a decline in the number of customers who use its pay DTH satellite television services.

Cyfrowy Polsat's failure to compete successfully in the television broadcasting market could have a material adverse effect on its business, financial condition, results of operations and prospects.

Our MVNO business is subject to significant legal regulation which could require us to incur unplanned costs, or limit our revenues

We are an MVNO provider in Poland and as a result we are subject to extensive administrational requirements regulating our business, e.g. setting maximum rates for telecommunication services by relevant regulatory authorities.

As providing mobile telephony services is a new business for us, we cannot assure you that we will be able to satisfy all of the different requirements resulting from provisions regulating the business and as a result we cannot rule out that in the case we cannot comply with all of these regulations, we may be forced to pay penalties for breaching these regulations. In particular, these penalties may include: (i) a fine of up to 3% of our revenues generated in the year preceding the year in which the fine is imposed and (ii) a prohibition on providing telecommunications services, which means that we would be deleted from the register of telecommunications businesses. The occurrence of any of these risks could have a material adverse effect on our business, financial condition, results of operations and prospects.

The National Broadcasting Council (“KRRiT”) may withdraw or refuse to renew our license

Our business as a supplier of the pay digital satellite television involves wireless distribution of television programs which do not require a frequency reservation. It is currently unclear under Polish law whether our business requires a license. Notwithstanding this uncertainty, we have obtained a license to distribute television programs via satellite.

Article 38 of the Radio and Television Act lists a number of circumstances under which a license may be withdrawn, including, for example, activities that grossly violate the terms of the license, conducting business that violates the Radio and Television Act or the terms of the license and a failure to remedy such a situation despite a request to do so. The Radio and

Television Act also specifies situations in which the license may be withdrawn for example, in cases involving a direct or indirect change of control over the licensed business.

Our compliance with the terms of the license granted by KRRiT on 22 October 2003 and amended by further decisions: No. DK - 346/2005 - 1/294, No. DK - 248/2006 - 2/294, No. DK - 295/2006, No. DK - 368/2007 - 3/294, No. DK - 395/2007 - 4/294, and No. DK - 398/2007 has never been questioned by the KRRiT. However, we cannot rule out that the KRRiT may decide that the scope of our license is insufficient or that our business exceeds the scope of the license. This is particularly true with television programs we broadcast that have not been listed in the license. The current market practice is that the license relates to the distribution of the channels itself without specifying particular channels. This practice is consistent with EU regulations, and in particular with the Council Directive of 3 October 1989 on the Coordination of Certain Provisions set forth by Law, Regulation or Administrative Action in Member States Concerning the Pursuit of Television Broadcasting Activities (89/552/EEC) (Official Journal of Law 89.298.23, as amended) and the European Convention on Transfrontier Television adopted in Strasbourg on 5 May 1989 (Journal of Law of 1995, No. 32, item 160, as amended). This practice is further supported by the fact that the distribution of television programs does not influence the content of those programs, and the obligation to hold a license for a program is imposed on the program broadcaster. Should the KRRiT change its position and interpret the regulations differently, penalties may be imposed, up to and including the withdrawal of our license.

Our television license has been granted for a definite period of time in accordance with market practice and is scheduled to expire in 2013. If there will be an obligation to obtain a license for television channel distribution after 2013, KRRiT may decide to extend it, or refuse to extend it.

Pursuant to Article 38, Section 1, Clauses 2 and 3 of the Radio and Television Act, a license will be withdrawn if the broadcaster grossly violates the terms set out in the Radio and Television Act, or in the license or if the activity that is subject to the license violates the Radio and Television Act or the license and if the license holder, despite a demand from the Chairman of the KRRiT, has failed to remedy the irregularity within the terms set out in the license or in the Radio and Television Act within a specified time limit.

If our license is withdrawn or not extended, this may force us to discontinue or suspend our DTH satellite television services for an indefinite time, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

A decline in consumer spending in Poland or change of customers preferential treatment of programming offer could significantly, adversely affect our business

All of our revenues are derived from customers in Poland. The level of our revenues depends on the amount of disposable income that existing and potential subscribers in Poland spend on entertainment, leisure and telecommunication needs. The recent financial turmoil affecting the global financial markets and banking system has resulted in a tightening of credit, a low level of liquidity and a widespread withdrawal of investment funding in Poland's neighbouring countries across Central and Eastern Europe, which had had an adverse impact on economic growth and caused many of these countries to fall into recession. Additionally, significant fluctuation of currency exchange rates and reduced availability of funding may, from time to time, adversely impact both retail customers and companies, decreasing their confidence levels in the economy and in their own financial health. If the Polish economic situation deteriorates, consumers will be likely to spend less on entertainment, leisure and telecommunication needs and in view of the existing numerous entertainment options on the market, consumers could also become less prepared to use their disposable income on our products and services. Any of these developments could adversely affect Cyfrowy Polsat's subscriber number, or the rate of new client acquisition, which could adversely affect Cyfrowy Polsat's business, financial condition and prospects.

Zygmunt Solorz-Żak, directly and indirectly through Polaris Finance, holds majority of votes in our general shareholders' meeting

Zygmunt Solorz-Żak has, directly and indirectly, (through Polaris Finance) more than 69,66% of the total votes at our General Shareholders' Meeting. As a result, Zygmunt Solorz-Żak and Polaris Finance will decide on a final content of resolutions adopted by the General Shareholders' Meeting.

Frequent changes in tax regulations may have an adverse effect on the Cyfrowy Polsat's results of operations and financial condition

The Polish tax system is characterized by low stability. Tax regulations are frequently amended, often to the detriment of the taxpayers. Tax laws may also need to be amended in order to implement new EU legislation. The frequent changes in regulations governing the taxation of business activities can be unfavourable to us and may consequently have a material adverse effect on our business, financial condition, results of operations and prospects. In practice, tax regulators applying the law rely not only on regulations but also on interpretations thereof made by higher authorities or courts. Such interpretations are also subject to change, or can be replaced by new acts, or remain in force but conflict with other regulations. The lack of consistency is further exacerbated by the lack of clarity of many regulations in the Polish tax system, and, to a limited extent, by the lack of clarity of judicial decisions. Taxes and other similar payments, such as customs duties and foreign currency payments, may be audited by tax authorities and, should any discrepancy be found, interest and penalties may be imposed. Tax returns submitted by our Group may be audited by tax authorities for five prior years and unfavourable tax rulings for some transactions with our subsidiaries and other changes in tax regulations may have an adverse effect on our results. The above factors may have a material adverse effect on our business, financial condition, results of operations and prospects.

Cyfrowy Polsat relies on intellectual property and proprietary rights, including in respect of content, which may not be adequately protected under current laws or which may be subject to unauthorized use

Cyfrowy Polsat's products are largely comprised of content in which it owns, or have license to, the intellectual property rights, delivered through a variety of media, including broadcast programming, interactive television services and pay TV. Cyfrowy Polsat relies on trademark, copyright and other intellectual property laws to establish and protect its rights over this content. However, we cannot be certain that its intellectual property rights will not be challenged, invalidated or circumvented or that it will successfully renew its intellectual property rights to its content. Even if applied, there can be no assurance that the highest levels of security and anti-piracy measures will prevent piracy. Third parties may be able to copy, infringe or otherwise profit from Cyfrowy Polsat's rights or content which it owns or license, without Cyfrowy Polsat's, or the right holders', authorization. These unauthorized activities may be more easily facilitated by the internet. In addition, the lack of internet-specific legislation relating to trademark and copyright protection creates an additional challenge for Cyfrowy Polsat in protecting its rights relating to its businesses and other digital technology rights. The unauthorized use of Cyfrowy Polsat's content may adversely affect its business by diminishing its reputation in the market, making its media content, including legitimate content, less attractive to advertisers which could, in turn, lead to decreased revenue from its legitimate products. Cyfrowy Polsat is primarily responsible for enforcing its intellectual property rights with respect to content, which could result in significant expenses and losses of indeterminate amounts of revenue.

Item 5. Presentation of our Company

Item 5.1. General information about our Company

We are a leading pay digital satellite platform operator in Poland. Our core business is providing individual customers with access to television and radio channels grouped into different paid programming packages. We purchase television channels from television broadcasters both in Poland and in other countries. As at 31 December 2010 our subscriber base of paid packages reached 3,436,231, an increase of 233,912 or 7.3% compared to 31 December 2009.

We provide our DTH subscribers with the access to over 80 Polish-language television channels, including sports, music/entertainment, news/information, children, education and film channels. We provide our customers with access to all major terrestrial channels in Poland, including Polsat, TVP 1, TVP 2 and TVN. Moreover, we offer 18 high definition channels, such as Polsat HD, Polsat Sport HD, Eurosport HD, Eurosport 2 HD, HBO HD, MTVN HD, Discovery HD Showcase, FilmBox HD, National Geographic Wild HD, National Geographic Channel HD, Fox Life HD, Fox HD, Animal Planet HD, AXN HD, Cinemax HD, HBO2 HD, HBO Comedy HD and Cinemax2 HD. In addition, we provide our customers with the access to over 500 free to air ("FTA") television and radio channels available via satellite in Poland. We also offer a service in the video on demand category - VoD Home Video Rental. VoD Home Video Rental is based on 15 satellite channels, where there are over 60 films available monthly in cycles. This service is available to all our subscribers, regardless of the type of set-top box.

In November 2007, our subsidiary Cyfrowy Polsat Technology launched the production of SD set-top boxes, which enables us to decrease the cost of acquisition of set-top boxes. We started selling manufactured by CPT set-top boxes in March 2008. In 2010 almost 80% of sold or leased set-top boxes were produced by CPT factory. In April 2010, CPT launched the production of HD set-top boxes, enlarging the offer of our own set-top boxes by a new model HD 5000. In 2011 CPT plans to introduce production of the second model of HD set-top box.

The launch of mobile services in September 2008 was the first step in the process of building a multi play operator and in February 2010 we launched Internet access service (see Item 5.4.1.Group strategy). From June 2010 we propose to our Clients Multi-play offer including all three services on one invoice. As at 31 December 2010 the number of mobile users totaled 95,870 (an increase of 66,545 as compared to 31 December 2009) and Internet service users totaled 25,615.

We believe, that our integrated offer will contribute to an increase of the general satisfaction of our customers and in consequence, lower the churn, and increase the subscriber base which will be converted into a growth of our revenues.

We sell our services through an effective sales network covering the entire territory of Poland. We distribute our products and services through two sales channels: retail sales channel and direct sales channel D2D ("door-to-door"). As at 31 December 2010 traditional sales channel included 1,139 Authorized Points of Sales, out of which 996 APS managed by 25 distributors of traditional network and 143 APS managed by our own distributor mPunkt. Direct sales channel includes our own structure employing 240 D2D sales agents and external structure managed by three distributors employing 43 D2D sales agents. We believe that our wide sales network will allow us to effectively sell our DTH services as well as the integrated services that we launched in June 2010.

Item 5.2. Information on organizational or capital connections with other entities

The following table presents our organizational and capital connections with other entities as at 31 December 2010:

	Company's registered office	Activities	Voting rights as 31 December (%)
Cyfrowy Polsat Technology Sp. z o.o.	Łubinowa 4a, Warszawa	set-top boxes' production	100%
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, Warszawa	management of fix assets and intellectual property	100%
Karpacka Telewizja Kablowa Sp. z o.o.	Chorzowska 3, Radom	no activity	85%
M.Punkt Holdings Ltd.	Themistokli Dervi 3, Nikosia (Cyprus)	owns mPunkt Polska S.A. and mTel sp. z o.o.	100%

In 2010 Cyfrowy Polsat became an owner of four new subsidiaries: Cyfrowy Polsat Trade Marks Sp. z o.o. - through establishing new company and acquiring 100% of its shares, M.Punkt Holdings Ltd. - through purchase of 100% of its shares (out of which 55% in 2010) and through this transaction Cyfrowy Polsat acquired mPunkt Polska S.A. and mTel Sp. z o.o. (see below).

M.Punkt Holdings Ltd.

On 4 May 2010 we completed the acquisition of 94% of shares of M.Punkt Holdings Ltd. seated in Nicosia, Cyprus. The transaction resulted in acquisition of related entities mPunkt Polska S.A. and mTel Sp. z o.o.

Transaction was completed in two stages – ownership of 45% shares of M.Punkt was transferred on 31 October 2009, and 49% shares were transferred on 4 May 2010 resulting in taking over 94% shares of M.Punkt. The total purchase price of 94% shares of M.Punkt was PLN 54.013. On 9 June 2010 we purchased the remaining 6% shares of M.Punkt for PLN 4.509, which increased our stake to 100%.

mPunkt Polska operates as a country-wide sales network of telecommunication services, mobile phones, accessories and maintenance services which are offered to individual customers.

On 30 July 2010 we decided to merge with M.Punkt Holdings Ltd. and approved cross-border merger plan.

The cross-border merger will allow to optimize costs and simplify the organizational structure of Cyfrowy Polsat Group which is required in order to realize its medium and long term strategy.

The cross-border merger plan, prepared in accordance with article 491 and further, in particular Articles 516^{1}-516^{18} of the Commercial Companies Code of 15 September 2000 (Cross-border mergers of joint-stock companies) and with Sections 201 I to X 201 of the Cyprus Companies Law, Cap 113, amended by Section II Law N.186(I)/2007. The cross-border merger will result in:

i. M.Punkt Holdings Ltd shall be terminated without liquidation, and

ii. Cyfrowy Polsat S.A. will take over, by the way of universal succession, the M.Punkt's assets and liabilities, including, in particular the ownership of share capital in mPunkt Polska S.A.

On 15 September 2010 Extraordinary Shareholders Meeting of Cyfrowy Polsat S.A. decided on the cross-border merger by transferring to Cyfrowy Polsat S.A. – sole shareholder of M.Punkt – all of the assets of M.Punkt and dissolving acquiree without going into liquidation.

Additionally Extraordinary Shareholder Meeting of the Company decided that the merger will be held in the manner set out in art. 515 § 1 CCC in connection with art. 516 CCC, without increasing acquiring company's share capital and without changing of the statute of the acquiring company and in accordance with rules provided in the common draft terms of a cross-border merger approved on 30 July 2010 by the management boards of the acquiring company and the acquiree published in the Monitor Sądowy i Gospodarczy (Court and Business Gazette) on 11 August 2010, No.155/2010, item 10111 ("Draft Terms").

By the date of this report, the cross-border merger has not been completed.

Cyfrowy Polsat Trade Marks Sp. z o.o.

On 8 December 2010 Cyfrowy Polsat S.A. established new subsidiary Cyfrowy Polsat Trade Marks Sp. z o.o. and acquired 100% of its shares. The share capital amounted to PLN 5,000 (not in thousands) and was fully covered by cash contribution.

On 20 December 2010, we concluded an agreement with CPTM, regarding the transfer of the contribution in a kind to cover the share of the Company in the increased share capital of its wholly-owned subsidiary.

The agreement provides the Company to transfer to CPTM a contribution in kind of an organized part of the enterprise of the Company, forming a branch under the name of Cyfrowy Polsat Spółka Akcyjna Oddział w Warszawie with its registered office in Warsaw, at ul. Chałubińskiego 8 (the "Branch"), in order to cover 1,230,880 newly issued shares of the nominal value of PLN 500 each (not in thousand), acquired by the Company in the increased share capital of CPTM. The value of transferred contribution amounts to PLN 615,440.

On 17 December 2010 the Extraordinary Shareholders Meeting adopted the resolution regarding the approval for the disposal of an organized part of the enterprise of the Company, forming the Branch.

The disposal of the Branch through its contribution as an in kind contribution in order to cover the Company's share in the increased share capital of CPTM is intended to reorganize the Company by segregating its core business of broadcasting radio and television programs, mobile phone services and internet provider business from non-core business of management of selected fixed assets and equipment, as well as intellectual property management.

Item 5.3. Changes to the principle rules of management of our Company

There were no changes to the principle rules of management of our Company in the year 2010.

Item 5.4. Strategy, market opportunities and comparative advantage of the Company

Item 5.4.1. Company strategy

Our primary goal is to (i) strengthen our leadership on the pay television market, (ii) achieve a significant position on the broadband internet access services market, and (iii) acquire the projected number of subscribers to the mobile services.

We intend to achieve the goal through:

1. **Increasing saturation of the pay satellite television services,** while maintaining the share of gross additions. With the current saturation level of pay television services in Poland at less than 72% and comparing our country to the most developed pay television countries, we believe that over the next few years over 1 million households will start using the pay television services, for a vast majority it will be the satellite pay television. Accordingly, it is our strategic goal to obtain the greatest number of subscribers possible, and thereby increase our customers base. In our opinion, an increase in the subscriber base is the most important factor affecting our growth and future position on the pay satellite television market.

2. **Building customer value.** Our Family Package ARPU increased from PLN 40,3 in 2009 to PLN 42,1 in 2010. We believe that ARPU growth in this period was largely due to introduction of flexible promotions and growing interest of our clients in HD channels and in VoD – Home Video Rental service. To maintain the ARPU growth we are planning the further expansion of our programming offer focusing primarily on acquiring new, high-quality channels, including HD channels and introducing video on demand services. We believe that ARPU in particular segments (Family and Mini) will show an upward trend, mainly as a result of (i) an increase in the number of subscribers to premium program packages, (ii) widening the choice of HD channels, (iii) the introduction of new services, and (iv) coming out of the basic periods by subscribers, which automatically, in terms of accounting, increase the subscriber ARPU.

3. **Building customer loyalty.** In order to minimize the churn rate, we introduced the retention programs, whose effectiveness is continuously monitored and which are being adapted to the current situation on the DTH market. In 2010, we noticed a positive trend of increasing percentage of clients in initial period of agreements in our subscribers base structure: 84% at 31 December 2010 compared to 56% at the end of 2009. It indicates a lower risk of churn – increasing part of the consumer base is bound by loyalty agreements. Such a positive trend is a result of our retention programs conducted by mail or by phone. We believe that the introduction of the retention programs and offering integrated services will help us to minimize the churn rate.

4. **Offering integrated services.** In our opinion, the integrated services market in Poland is underdeveloped outside urban areas and therefore will grow rapidly in the future. In addition, none of our competitors in the DTH market offers integrated services, so we are the only DTH operator to offer high quality internet access services in low-urbanized areas. As the only provider of pay satellite television we introduced telecommunications services to our offer (September 2008) and internet access services (February 2010). In June 2010 we introduced Multi-play offer, i.e. all three services provided by a single contract and one invoice. We believe that offering integrated services will be our competitive advantage, not only in the DTH market, but throughout the pay television market in the future, and an important element of our strategy.

5. **Maximizing penetration of our subscriber base with integrated services.** Our multi-play offer gives us a chance for a constant enlargement of our subscribers base, and thus for an increase in revenues. Thanks to multi-play offer we gain higher loyalty and satisfaction level of our customers. In the long-term, it is an efficient tool to keep the churn rate at a stable level.

6. **Using the "Cyfrowy Polsat" brand awareness and the current subscriber base to sell telecommunications services (telephone / internet) and integrated services.** We succeeded to build the most attractive and the most recognized brand among DTH operators (according to brand's image survey conducted by Gfk Polonia in May

2010) and we gained the biggest subscribers base on the Polish pay satellite TV market. We believe that such a strong position on DTH market will help us to expand the base of users of our telecommunications (mobile telephony and Internet) services as well as Multi-play offer.

7. **Building the "Cyfrowy Polsat" brand awareness as a provider of telecommunications and integrated services.** We managed to create a multimedia brand image (according to brand's image survey conducted by Gfk Polonia in May 2010), which is a clear result of introduction and successful promotion of our integrated services. The Multi-play offer is an excellent marketing tool, encouraging our customers to use all services in our offer.

8. **Multimedia content sale regardless of broadcast technology.** Currently, the satellite technology is a "winning" technology, however the technologies based on the Internet Protocol and broadband Internet will gain in importance. We want to follow the changes and develop different technologies of broadcasting our content.

Item 5.4.2. Market opportunities

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

Strength of the Polish Economy. Dynamic growth in our revenues is linked to the state of the Polish economy. Poland has one of the highest GDP growth rates of any European Union member state. The average annual GDP growth rate, according to Eurostat forecasts, between 1 January 2010 and 31 December 2010 in Poland was 3.5% according to Eurostat, while during the same period for all 27 members of the European Union it was 1.8%. Poland's GDP increased by 1.7% in 2009 and GDP for all 27 members of the European Union decreased by 4.2%. The latest world economic crisis did not affect Poland in a significant way, as the only European country Poland increased GDP in a very difficult year - 2009. The forecast of a GDP growth in Poland for 2011 is at the level of 3.9%. We believe that average consumer spending, including spending on pay television, internet access and mobile services will increase together with GDP growth, and so the sale of our services will also grow dynamically.

Penetration rate of pay television in Poland. According to our best knowledge, a large percentage of households in Poland have a television set, but do not use subscription television services. In 2010, subscription television services were provided to 10.9 million subscribers, out of which about 0.5 million use more than one pay-TV service. Assuming there are 14,5 million households in Poland, the market penetration rate amounts to less than 72% of all households. That is considerably lower as compared to the penetration rate of 90% in the most developed pay TV markets. We believe that the further growth of penetration rate of pay television services is possible, including services that we offer.

High Average Television Viewing Time. According to Nielsen Audience Measurement the average daily television viewing time in Poland was approximately 244 minutes in 2010 (which is longer by 4 min compared to 2009). Ofcom report indicates that this is more than the world average, that amounted to 207 minutes per day in 2009. In 2009, in terms of time spent in front of TV, Poland was first in Europe and second in the world, only Americans were ahead of us (according to Ofcom). We believe that the high average daily television viewing rates contribute to development of our business.

Saturation of integrated services for low-urbanized areas. Integrated services in Poland are provided by cable operators within their networks' coverage. In 2009, Telekomunikacja Polska S.A. began to provide integrated services, adding the pay television satellite services to its product portfolio, available to customers using an internet access service. Both cable operators, as well as TPSA, offer their services mainly in large and medium-sized cities, which results from the geographical coverage of their infrastructure and the quality of telecommunications infrastructure.

By introducing a range of integrated services we became the only provider offering integrated services to residents of suburbs, small towns and rural areas. For many of these households we will be the only, or the second, in addition to the mobile service providers, supplier of internet access. We believe that as a result of the low saturation of integrated services and poor quality of internet access services offered in low-urbanized areas, our offer will be attractive to our existing satellite pay television subscribers and potential customers of integrated services.

Item 5.4.3. Competitive advantage

We offer high-quality programming designed to appeal to the entire family. We provide our customers with a wide selection of television channels, including 5 general channels, 12 sports channels, including three HD channels, 30 film channels, 7 children channels, 5 news/information channels, 12 education channels, 3 music and 10 entertainment channels. We are also the only pay DTH operator in Poland that offers the three most widely viewed (according to AGB Nielsen) sports channels in Poland: Polsat Sport, Eurosport, and Polsat Sport Extra. Polsat Sport and Polsat Sport Extra, which are not offered by any other pay DTH satellite operators in Poland, have rights to popular sporting events including Formula 1 Grand Prix, ATP Masters Series tennis, Wimbledon, Volleyball World League, Volleyball World Championships and football matches of EURO 2012 eliminations.

We are constantly developing our offer of both new television channels and services from the video on demand category. We believe that our position as the largest pay television provider of DTH satellite broadcasting services in Poland and our strong relationships with licensors provide us with a competitive advantage in obtaining access to high-quality programming on favorable market terms. In addition, we do not depend on any license for any sporting events which, if we were to lose, would have an impact on maintaining or growing our customer base because we have developed our products and services based on a variety of programming content designed to appeal to the entire family.

We offer high-quality programming packages at competitive prices. We place particular emphasis on offering our customers high-quality programming packages at competitive prices. Our Family HD Package, which includes a wide selection of sports, music, entertainment, news, children and educational channels, is offered at a retail price of PLN 39.90 per month, which constitutes less than 2 % of average monthly salary in Poland. We believe that the competitive prices of our high-quality programming packages enhance the attractiveness of our products and services.

We have organized an effective DTH services sales network in Poland. We have organized an effective DTH satellite sales network to distribute our services throughout Poland. We have established our own central warehouse supported by a logistics system capable of releasing 15,000 pre-activated set-top boxes with access cards daily into the market and of storing 300,000 ready-to-use set-top boxes with access cards included. Our network is based on cooperation with 29 distributors, including mPunkt, who work with a network consisting of 1,139 retail points of sale, which covers the territory of Poland. At these retail points of sale, our customers can sign an agreement to purchase our services, purchase a set-top box or telephones and order the installation of a satellite dish. In addition, our retail points of sale provide customers with technical assistance, act as intermediaries in servicing set-top boxes and supply courtesy set-top boxes. We believe that our wide sales network will allow us to effectively sell our DTH services as well as the integrated services.

We have strong brand recognition and enjoy good reputation among our customers. We have developed a well-recognized brand in the market for pay DTH satellite broadcasting services in Poland. According to GFK Polonia, we had the highest brand recognition of the three pay DTH satellite operators in Poland in May 2010 (Source: "The Digital Platform Brand Name Recognition", GFK Polonia, Survey Based on a Representative Sample of 1400 people in Poland,). Our brand has been established through a successful, family-oriented marketing campaign based on establishing emotional ties between our brand and our customers. Other attributes of our brand include trust, care and friendly modernity. We concentrate on providing high-quality programming at competitive prices designed to appeal to the entire family. We provide channels that appeal to various age groups - including adults, as well as teenagers and children. Our goal is to constantly improve the quality of our customer service through our customer relationship management system ("CRM") and call center. In order to facilitate paying for and ordering our products and services we implemented a web-based customer service center ("ICOK"). In addition, we provide regular training seminars for our in-house staff and training courses for staff at the retail points of sale within our distribution network.

We provide integrated services. In September 2008 we started providing mobile services and from February 2010 we offer to our clients the mobile Internet service. In June 2010 we launched the integrated services offer. We believe that preferences of the Polish population will go into integrated services direction, which will strengthen our competitive advantage.

We built our own set-top boxes factory. As the only operator on the Polish market we produce our own set-top boxes. In November 2007, we launched own production of SD set-top boxes and in April 2010 we began to produce HD set-top boxes.

More than two million high technology equipment left our production line, out of which hundreds of thousands of HD set-top boxes. This year we plan to introduce production of the second model of HD tuner. The chosen solution, innovative on the Polish market, gives us a significant competitive advantage through influencing our technology and flexibility and above all lowering the costs of set-top boxes sold.

Strong financial position. We are the most profitable DTH platform in Poland. We have the biggest subscribers base, amounting to 3.4 million at the end of 2010. Thanks to the economies of scale, we generate high revenues with relatively low costs and capital expenditures. The current financial needs are met by the positive cash flows generated from the operational activities.

Experienced management team. We attracted highly qualified and experienced team to manage our Company. Our successful pathway is due to a visionary CEO and strategy implementation by a wide array of operational managers with significant industry experience in the fields of marketing & sales, customer service & retention, technology, controlling, and finance. Our CEO Dominik Libicki has led us already for 10 years and he has an extensive experience on the media market. In 2010 Mr. Libicki was listed between the 25 most efficient CEOs by the economic magazine Home & Market. In the last three years, we were awarded in the category of "Management Board Competencies" of the prestigious ranking conducted by Puls Biznesu "The Quoted Company of the Year".

Item 5.5. Digital pay satellite services

Item 5.5.1. Market overview

We operate on the Polish pay television market.

In 2010, 38.1 million citizens lived in around 14.5 million households in Poland. According to Informa report, 97% of all Polish households had a television set at the end of 2010. According to our estimates, in 2010 the pay television penetration rate in Poland was less than 72%, based on the adopted assumption that there are 14.5 million households, adjusted by approximately 0.5 million households using more than one pay TV service (according to Informa estimates).

The following table presents subscribers to pay television in Poland between 2006 and 2010 (in thousands at the end of a given year.)

	2006	2007	2008	2009	2010	CAGR[1] 2006-2010
DTH satellite households.........................	2,265	3,410	4,692	5,737	6,228[2,3]	29%
Percentage growth of the number of DTH satellite households ....……………………	57%	51%	38%	22%	8%	-
Cable TV[5] households	3,816	3,890	4,101	4,403	4,600	5%
Percentage growth of the number of cable TV households ....…………….	1%	2%	5%	7%	4%	-
IPTV[6] households .....………………………	5	44	80	130	150	-
Percentage growth of the number of IPTV household...…...	100%	>100%	82%	63%	13%	-
Pay TV households combined ….……	**6,086**	**7,344**	**8,873**	**10,270**	**10,978**	**16%**
Percentage growth of the number of pay TV households	17%	21%	21%	16%	6%	**-**
Number of new pay TV households ….....	887	1,258	1,529	1,397	708	-
Number of new DTH satellite households..	826	1,145	1,282	1,045	491	-
Share of new DTH satellite households to pay TV…	**93%**	**91%**	**84%**	**75%**	**69%**	-
Number of new net DTH satellite subscribers with Cyfrowy Polsat	617	794	659	475	234	-
Share of Cyfrowy Polsat in pay TV growth	**70%**	**63%**	**43%**	**34%**	**33%**	-
Share of Cyfrowy Polsat in DTH growth…………	**75%**	**69%**	**51%**	**45%**	**48%**	-

[1] Compound average growth rate
[2] From 2009, data contain the number of TPSA pay DTH customers (source: TPSA website)
[3] Data contains customers of Cyfra+, n, Cyfrowy Polsat and active customers of TnK
[4] From 2009, data contains the number of users of IPTV services porvided by TPSA and Telefonia Dialog SA (źródło: TPSA website and data for Telefonia Dialog – KGHM SA periodic reports)
[5] Cable TV – network for broadcasting and receiving radio-television signal through a cable infrastructure
[6] IPTV – Internet Protocol Television – technology allowing the broadcasting of television Signac through broadband networks based on IP protocol (ex. Internet or intranet)
Source: Informa Telecoms and Media, Eastern European TV, 14 th Edition, own estimates; own calculations on the basis of PIKE, GUS, data concerning cable operators was corrected on the basis of data published by operators

The growth in the number of pay DTH satellite television subscribers from 2006 to 2010 was much faster than the growth in the number of cable television subscribers. From 2006 to 2010, the compound annual growth rate ("CAGR") of pay DTH satellite television households was 29%, while the CAGR for cable television over the same period was 5%. The slow growth rate of cable television households was due to a high penetration rate of cable television in urban areas as well as to the reluctance of cable operators to make significant investments in cable infrastructure in other areas. Therefore, towns with up to 50,000 inhabitants, suburban and rural areas are the natural target markets for DTH satellite television because there are limited opportunities to develop cable television infrastructure in those locations and the local population has access to a limited number of Polish terrestrial channels only. In addition, the rapid growth in the number of pay DTH satellite television subscribers also reflects the fact that the digital satellite television providers' offer of television channels is much broader than the programming offer of those cable television providers who use the analog technology, which is limited to approximately 60 channels and unable to offer HD channels and video on demand services.

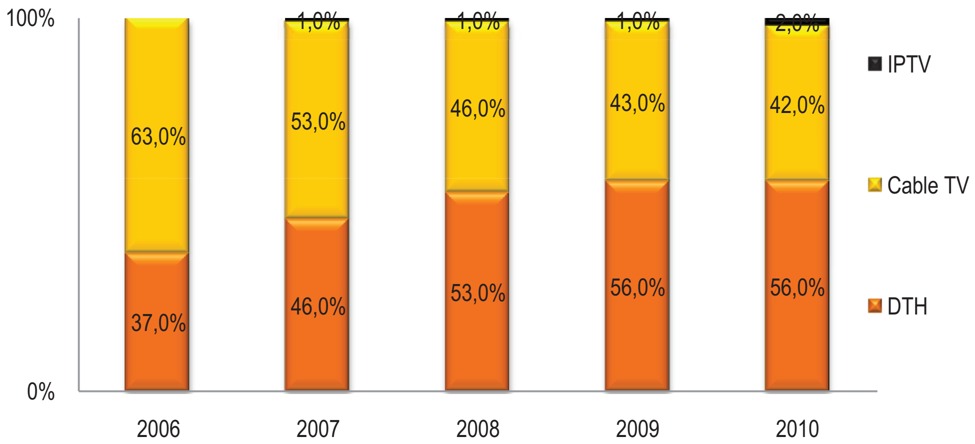
We estimate that at the end of 2010 our market share in the digital pay satellite television segment, based on the number of subscribers, was about 55%.

Item 5.5.2. Our direct competitors

We are the largest, in terms of the number of subscribers, pay digital satellite television platform providing DTH services in Poland and the Central and Eastern Europe region, and the fourth platform in Europe. Our main competitors are other pay digital DTH satellite television providers and, to a lesser extent, the cable television operators. We believe that in the future we will also compete with the digital terrestrial television. In our opinion, competition is based on price, programming offer, possibilities of offering integrated services (television, the phone and the Internet), customer satisfaction with services and the quality of the infrastructure.

Over the past few years, the satellite pay television market developed the fastest. This resulted mainly from lack of investment in infrastructure, and thus further development of cable television in Poland, as well as the lack of infrastructure to enable effective IPTV service offering.

The following chart shows the share of particular services in the pay television market in the years 2006-2010 based on the number of subscribers.



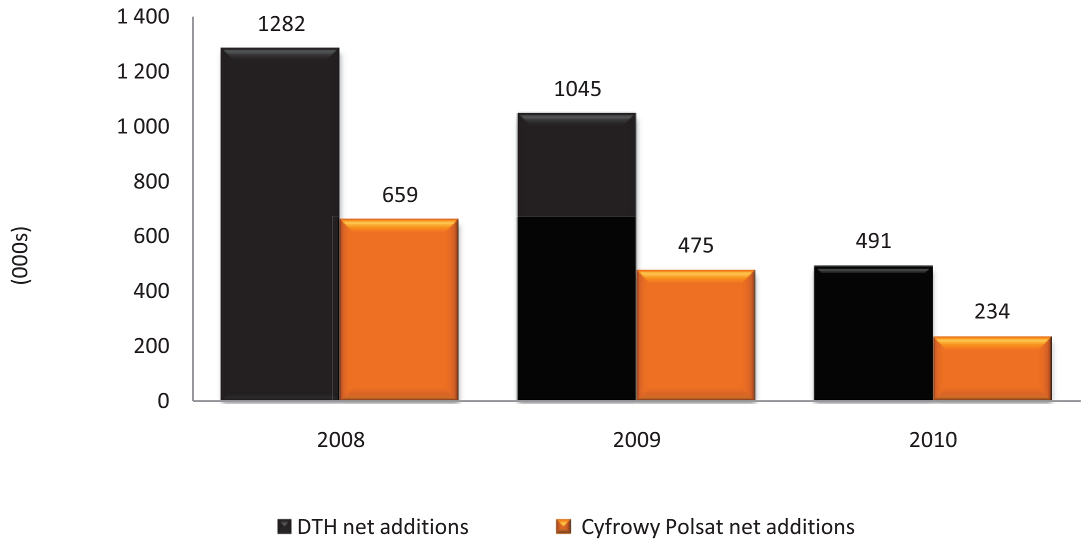
Source: Informa Telecoms and Media, Eastern European TV, 14 th Edition, own estimates; own calculations on the basis of Polish Chamber of Electronic Communication, Central Statistical Office, data concerning cable operators was corrected on the basis of data published by operators

We divide our competitors into four groups:

Pay digital satellite television operators

Currently, there are four operators of pay digital satellite television in Poland: Cyfrowy Polsat S.A operator of Cyfrowy Polsat, Canal+ Cyfrowy Sp. z o.o. operator of Cyfra +, ITI Neovision Sp. z o.o. operator of "n" platform and Telewizja na Kartę and Telekomunikacja Polska S.A., which started providing free DTH television signal in Q4 2008 whereas in October 2009 it implemented pay packages to their offer. We estimate that our share of pay DTH satellite television market, by number of subscriber, amounted to about 55% at 31 December 2010.

Our share in net additions on the pay satellite digital television, as measured by the number of subscribers acquired in 2010, was 48%, whereas our share in net additions in the last three years averaged 49%. From 2009, due to the increasing market saturation, one may notice a decrease in the number of new additions net for both the overall market for satellite television and in our case. The following chart shows the share in net additions on the satellite pay television market in the years 2008-2010, based on the number of subscribers.



Source: Calculation based on of data published by individual operators (Cyfrowy Polsat, Cyfra+, "n", TNK active users, from 2009 data contain the number of TPSA pay DTH customers)

From June 2010 we provide integrated services offer, consisting of satellite pay television services, Internet access services and mobile services. Offering integrated services is our important competitive advantage on the pay satellite television market in Poland. We also owe our strong position on the market to high level of brand recognition, competitive pricing, strong programming offering and focus on retention of subscriber base.

Cable television operators

We compete with cable television operators to a limited extent, due to the fact that they concentrate on clients residing in densely populated areas with developed infrastructure, or in locations where establishment of such infrastructure involves relatively low cost per subscriber, whereas we focus on clients residing in areas with no, or limited cable television infrastructure. Cable television operators concentrate on the growth of average ARPU through introduction of new services such as broadband internet, fixed telephony lines, or VOD service, and to a lesser extent, on the growth of the subscriber base. We believe we have an edge over cable television operators because we deliver our programming offer in digital quality providing higher quality of sound and vision than cable television operators who, in a large part, offer analogue quality of signal. Currently, cable television operators are able to offer about 60 channels only and are not able to offer over 500 FTA channels offered by the pay DTH digital satellite television providers. However, cable providers have an edge over the pay DTH digital satellite television providers in terms of offering integrated services and telecommunications services as they may use the cable television infrastructure to provide those services. Certain pay DTH digital satellite television operators in other European countries started providing broadband internet access services and fixed line telephony through entering into agreements with other companies, or through acquisitions of companies which provide such services. In the second quarter of 2010, we introduced integrated services, consisting of the pay satellite television services, internet access services and the telephone service. We believe that the possibility of offering integrated services in the future will let us effectively compete with operators of cable televisions.

There are about 630 operators of cable television which serve over 1,100 cable networks in Poland. At present, the largest operators on the Polish cable television market are: UPC Telewizja Kablowa Sp. z o.o., Telewizja Kablowa Vectra S.A., Multimedia Polska S.A. and Aster Sp. z o.o. (in December 2010 bought by UPC under the condition of getting approval from the Office of Competition and Consumer Protection), which serve over 60% of the cable television market in Poland.

Digital television through internet protocol (IPTV)

The competitive threat from IPTV providers results from development of digital television signal broadcast through internet protocol, which is currently developing at a relatively slow rate in Poland. Telekomunikacja Polska S.A. (TPSA) started providing IPTV to its clients with DSL in 2006. TPSA is the dominant provider offering fixed line telephony services and owning a developed infrastructure of subscriber loops, therefore the introduction of IPTV services by TPSA may have negative impact on the business of cable television operator in Poland. It should not, however affect the business of pay DTH digital satellite television providers because TPSA's plans regard launching IPTV services in the majority of urban areas. At present, it is difficult to assess when TPSA will be able to significantly develop the IPTV offer in rural and suburban areas and also in small and medium towns and the impact of the offer on the business of pay DTH digital satellite television providers. At the end of 2010, 115 thousand subscribers used IPTV services offered by TPSA, additionally 35 thousand customers used IPTV services offered by Telefonia Dialog (according to the data published by the operators).

Digital Terrestrial Television (DTT)

The main threat coming from the digital terrestrial television technology is the removal of limitations regarding granting licenses for broadcasting frequencies and, as a result, an increased number of terrestrial channels. Currently, there are seven analogue terrestrial channels and only four of them are available to over 90% households. However, digitization has been postponed due to lack of formal regulations; there is also no formal government plan for utilization of available digital frequencies. We expect that the frequencies will be allocated to: digital terrestrial television and the HD television, radio and DVB-H (the standard enabling broadcast of television channels to mobile telephones). Currently, it is too early to assess the potential influence of the competition from digital terrestrial television on our pay DTH digital satellite television business.

We expect that in the next few years, the business of digital terrestrial television will be limited to current analogue terrestrial channels and its offer will extend after 2012 as a result of availability of new frequencies. The switch-off of analogue broadcast has been scheduled for 31 July 2013.

Item 5.5.3. Programming offer

We enable receipt of a wide programming offer to our customers. The programming offer is one of the factors decisive on acquiring and retaining subscribers. We acquire all our pay television channels from reputable broadcasters including Telewizja Polsat S.A., TVN S.A., TVP S.A., Discovery Communications Europe, Turner Broadcasting System Europe Limited, The Walt Disney Company Ltd., HBO Polska Sp. z o.o., Cinemax Polska Sp. z o.o., Eurosport S.A., MTV Networks Polska VOF, Viasat World Limited, Fox International Channels and AXN Europe Limited. In order to extend our subscriber base we focus on offering a wide selection of diversified television channels that appeal to the whole family. As a result, our offer's popularity does not depend on particular programming content e.g. single rights to popular sporting events. Our license agreements with television channel providers are mainly settled on the per subscriber basis, or on the lump sum or revenue share basis.

We provide our customers with access to over 80 Polish language television channels, including sports, music, entertainment, news/information, education, film and channels for kids. We offer to our clients main terrestrial channels available in Poland: Polsat, TVP 1, TVP 2 and TVN. We also offer 12 sports channels such as: Eurosport HD, Eurosport 2 HD and Polsat Sport HD, 30 film channels including HBO, Cinemax, AXN and FilmBox, including 9 HD channels (AXN HD, Fox HD, FilmBox HD, Fox Life HD, HBO HD, HBO2 HD, HBO Comedy HD, Cinemax HD and Cinemax2 HD), 7 children channels including Disney Channel, Nickelodeon, and Cartoon Network, 5 news/information channels including channels such as TVN 24, Polsat News and TVP Info, 12 education channels including 4 HD channels: Discovery HD Showcase, National Geographic Wild HD, Animal Planet HD, National Geographic HD and 3 music channels including MTVN HD and 10 entertainment channels. We are also the only pay DTH satellite operator in Poland that offers three most watched (according to AGB Nielsen) sports channels: Polsat Sport, Eurosport, and Polsat Sport Extra. Polsat Sport and Polsat Sport Extra, which are not offered by other pay DTH satellite operators in Poland, have rights to popular sporting events. In addition, we provide our subscribers with access to over 500 FTA television and radio channels available via satellite in Poland including BBC World, NBC, Bloomberg, Super RTL, ZDF, Rai News 24, Rai Due, Fashion TV, France 24. We also have nine leading radio channels in Poland including RMF, Radio Zet and three channels of the Polish Radio. Moreover, we offer video on demand services VOD – Home Video Rental, based on 15 satellite channels, where 60 movies are available per month on a rotation basis. This service is available to all our subscribers irrespective of set-top box type.

In October 2010 we launched new promotional programming packages as well as we changed principles of the sale. Currently each promotional package contains HD channels, and subscriber is gaining the flexibility in shaping his/her programming offer.

Currently, for our new clients we offer 2 initial packages: Family HD Package and Mini HD Package, 3 additional promotional packages, also including HD channels - Extra HD Package, Sport HD Package and monthly access to VOD catalogue. We also offer Premium Package, that provides access to the widest range of channels and to VOD catalogue.

Programming packages on our promotional offer

Based Packages	Number of encrypted channels	Gross price with a contract for an undefined period of time (PLN)	Gross price with a contract for a defined period of time (PLN)
Family HD Package	**44**	**49.90**	**39.90**
Mini HD Package	**15**	**19.90**	**14.90**
Family HD Package + 1 additional package		67.90	59.90
Family HD Package + 2 additional packages		86.80	79.90
Family HD Package+ 3 additional packages		102.70	89.90
Premium Package (no flexibility)		142.90	99.90

To our subscribers, we also offer additional services including a choice of additional packages:

HBO HD Package (PLN 25)

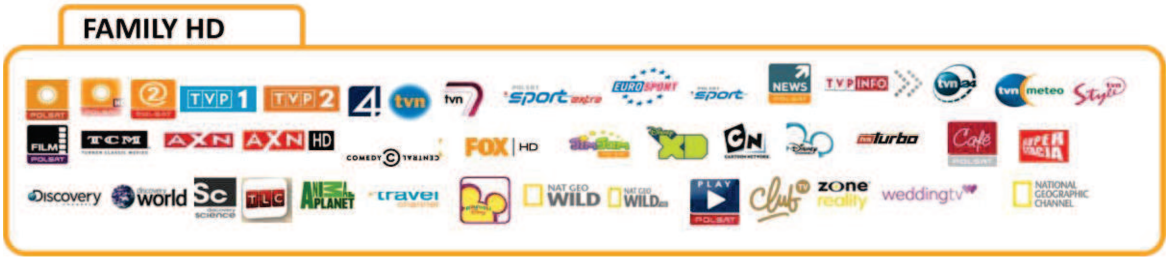
Cinemax HD Package (PLN 15)

HBO Cinemax HD (PLN 35)

Entertainment Package (PLN 21).

Family HD Package

The following diagram presents television channels available in Family HD Package.



Mini HD Package

The following diagram presents television channels available in Mini HD Package.

Thematic packages for Family HD Package subscribers

Subscribers of Family HD Package can buy thematic packages according to their programming preferences. We offer seven thematic packages, including additional packages (Extra HD Package, Sport HD Package and monthly access to VOD – Home Video Rental catalogue) and additional services (HBO HD Package, Cinemax HD Package, HBO Cinemax HD Package, Entertainment Package). The following diagram presents television channels that we offer in the thematic packages:

ENTERTAINMENT

blue HUSTLER daring!TV

Premium Package

Premium Package gives the client the access to the widest range of channels and includes all channels available in Family HD Package and in 3 thematic packages (Extra HD, Sport HD, HBO Cinemax HD).

Free to Air Channels

In addition to our paid programming packages, our customers have access to all free to air television and radio channels available via satellite in Poland, including BBC World, NBC, Bloomberg, Super RTL, ZDF, Rai News 24, Rai Due, Fashion TV, France 24 and leading Polish radio channels such as Radio Zet and three channels of Polskie Radio.

After the initial subscription term under the agreement expires, our customers can use the set-top box to view all FTA channels without being charged any subscription fees. A customer who purchased a set-top box and effectively terminated their agreement with us is able to use the set-top box to view all FTA channels. However, customers who defaulted under an agreement with us are not able to use the set-top box to view FTA channels because we block such access.

VoD Home Video Rental

We offer a service in the video on demand category - VoD Home Video Rental. Single gross charges for individual films are as follows: PLN 11 for access to the "New" category, PLN 8 for access to the "Hit" category, and PLN 5 for access to the "Catalogue" category. The selected film is available for 24 hours. In addition, it is possible to purchase monthly access to the films of the "Catalogue" category for a price of PLN 20. This service is available to all our subscribers, regardless of the type of set-top box, which they use to receive our programming offer.

VoD Home Video Rental is based on 15 satellite channels, where there are about 60 films available monthly in cycles. We dedicated the entire satellite transponder to support the service. The VoD Home Video Rental features about 320 films. Usually, each day, our subscribers can choose from 15 proposals. Every week we present a new interesting offer, and we will make about 30 new productions available a month.

Currently, this service is carried out under a contract with Walt Disney Company Ltd, Sony (CPT Holdings Inc.), Monolith Films Sp. z o.o., Kino Świat Sp. z o.o. and Kino Polska TV Sp. z o.o for the content produced by SPI Sp. z o.o.

Item 5.5.4. Development of programming offer

Introduction of new channels, improvement in the attractiveness of our existing programming packages and development of new technological solutions have constituted the important factors contributing to our growth. We plan to continue to develop our programming offer (while maintaining effective cost management) by incorporating new television channels and creating new programming packages. In 2010 and till the date of this Report, we enriched our programming offer with following channels in 2010:

February: Comedy Central, Nat Geo Wild and Nat Geo Wild HD

March: FilmBox and FilmBox HD

April: FOX Life HD, Orange sport info

June: Discovery Travel&Living and Animal Planet HD

July: AXN HD

November: FOX HD

January 2011: Disney Playhouse, FOX

February 2011: National Geographic, Comedy Central Family

March 2011: National Geographic HD, HBO2 HD, HBO Comedy HD, Cinemax 2 HD

Item 5.5.5. Set-top boxes

To receive our pay television service, customers must install a digital satellite receiver, consisting of an antenna with a converter and a set-top box with a remote control and a subscriber card. Our offer includes both simple SD set-top boxes as well as most technologically advanced HD set-top boxes with a hard drive and recording capability. In order to receive HD channels customers have to buy/rent one of our HD set-top boxes: HD5000 (produced by our subsidiary CPT), Echostar DSB-7200HD and HD Echostar HDS-400E. To use the recording functionality customers need to rent or purchase a set-top box with a hard drive: HD DVR Sagemcom ESI-88, or HD Echostar HDS-400E. Since the beginning of our activity we have worked with selected suppliers of set-top boxes. In 2007 our subsidiary CPT started the production of SD set-top boxes in its own factory and in 2010 CPT produced the first model of HD set-top box, nevertheless we continue to cooperate with Samsung Electronics Poland Sp. z o.o., Echostar International Corporation SL and Sagem Communications Warsaw Sp. z o.o. within the purchase of set-top boxes with hard drive or recording option. Already in 2010 we limited purchases from external suppliers only to DVR set-top boxes.

In 2010 we offered the following set-top boxes produced by CPT: M100, Mini, Family and HD5000, that together accounted for almost 80% of contracts we concluded for the provision of satellite pay television services. Moreover, we offered set-top boxes purchased from third parties: Echostar 717, Echostar 717A, Echostar DSB-7100HD, Echostar DSB-7200HD, Echostar HDS-400E, Echostar DVR-7400HD, Samsung DSB-S305G, Samsung DSB-H370G and Sagem ESI 88.

Our subscribers can either buy or rent a set-top box from us. The price of the purchased set-top box depends on the package of pay television programs purchased by the subscriber - the more expensive a package the lower the price and the higher set-top box subsidy we allow. The clients may also rent a HD set-top box choosing one of two options: with or without monthly fee. In the option without the monthly fee, the client has to pay at the beginning of the agreement a fee (in books the fee is amortized over the period of agreement) of PLN 1 to PLN 149 for HD set-top box and PLN 99 for a set-top box with recording function (for 29 months Premium Package contract). In the second option, the client pays monthly fee of PLN 5 for HD or HD PVR and initial fee of PLN 49 for HD set-top box or from PLN 1 to PLN 49 for set-top box with memory card.

In the traditional sales network we deliver equipment comprising a set-top box, a card and an antenna with a converter, we do not undertake the installation of digital satellite receivers. However, installation services are provided by our D2D sales network established in 2010.

Item 5.5.6. Sales Seasonality

Historically, the acquisition of new customers was highest in the fourth quarter and in years 2005-2010 amounted to approximately 47-68% additions achieved throughout the year. We believe that this seasonality of sales of DTH services is due to the Christmas time (a set-top box with satellite pay television services is a Christmas gift), the winter period and inclement weather. We cannot be sure that the seasonality of sales of DTH services will continue in the future.

The following table shows our net acquisition of new subscribers on a quarterly basis for the periods indicated:

	2010	2009	2008	2007	2006	2005
January – March	37,436	75,063	118,902	195,868	74,437	41,300
Percentage share	16%	16%	18%	25%	12%	16%
April – June	23,791	42,050	100,436	92,195	62,643	24,232
Percentage share	10%	9%	15%	11%	10%	9%
July – September	14,390	72,644	114,858	133,905	66,855	42,360
Percentage share	6%	15%	17%	17%	11%	16%
October - December	158,295	285,569	324,469	372,712	412,985	155,646
Percentage share	68%	60%	50%	47%	67%	59%
Total net subscribers	233,912 100%	475,326 100%	658,665 100%	794,680 100%	616,920 100%	263,538 100%

Item 5.6. Internet Service

Item 5.6.1. Market environment

Data on the telecommunication services (including Internet) market is usually available in the second half of the following year, therefore the latest data available is from 2009.

Poland has one of the largest populations of internet users aged seven and older in Central and Eastern Europe with 17.9 million users. The country exhibited strong growth in Internet connections in 2009, with year on year growth in excess of 32% and almost 7.3m connections. At the same time, number of households with fixed broadband lines increased by 5.2m or 13.6% vs. 2008 according to the UKE. This equates to a penetration rate of c. 39% of Polish households. For the overall internet market, Eurostat estimates that in 2009, approximately 59% of Poland's households with at least one person aged 16-74, had a computer and internet connection. The total value of the Polish internet market is estimated at PLN 4.1bn (not in thousands) as at the end of 2009. We estimate, that in 2010 internet access market penetration rate accounted for 44% of households. Access via mobile networks is much less developed, with an estimated 3 million mobile internet broadband modems as at the end of 2010, that indicates penetration rate of 8% of population.

The Polish internet market is serviced by several large telecoms operators as well as smaller internet service providers. The tables below present market share of all Internet providers (fixed and mobile):

Market share of Internet providers in Poland (cable)

Provider	2009 market share
TPG (TP SA & Orange)	41.4%
Netia	9.9%
UPC	7.5%
Multimedia	5.5%
Vectra	3.2%
Dialog	2.7%
Aster	2.6%
Others (Home LAN, other CTV, etc..)	27.2%
Total	100.0%

Source: Operators' public filings.

Market share of Internet providers in Poland (mobile)

Provider	2009 market share
Era - Blueconnect	36.5%
Plus - iPlus	23.6%
Orange - Orange Free	20.4%
Play	19.4%
Mobile broadband - MVNO (Aster, Vectra, Multimedia)	0.1%
Total	100.0%

Source: Operators' public filings.

Item 5.6.2. Competition

Cyfrowy Polsat's internet service offers significant advantages over its competitors (cable and mobile operators). We offer maximum speed of up to 28.8 Mb/s that can be matched only in a few areas by some mobile operators, and that is three times faster than typical internet access services currently available on the Polish market. In 2009 most fixed broadband connections offered a speed of 2Mb/s (66% of fixed connections), with only 4% of fixed network connections having speed of 10 Mb/s or more.

Fast connection allows Cyfrowy Polsat's customers to make full use of the internet's most advanced and data-hungry multimedia services (movies, online games, radio, video messaging). Finally, unlike mobile operators, Cyfrowy Polsat does not limit the speed of data transmission once the package has been used up.

Furthermore, the low penetration of internet access services in less urbanized areas, lower-quality internet services access provided by mobile operators and the lack of appropriate infrastructure from cable operators should enable Cyfrowy Polsat to build an integrated services customer base at a satisfactory pace. Cable operators and TPSA tend to be restricted to large and medium-sized cities. For customers elsewhere, radio signal generally offers the only possible access to the internet.

Most such customers currently use mobile providers' internet services based on UMTS or even GPRS, since they are the only available option, though the quality of service tends to be quite poor. By using the latest HSPA+ MIMO technology, Cyfrowy Polsat can offer far higher speeds of up to 28.8 Mb/s. With demand for internet access growing steadily, the demand for such quality services can only increase. For many households in small towns or villages, Cyfrowy Polsat Internet will effectively be the only option, and its multi-play offer will be an attractive proposition.

In 2011, Cyfrowy Polsat, as the first in Poland and the fourth in Europe, plans to introduce commercial Internet access based on LTE (Long Term Evolution) technology, that is considered to be the future of mobile broadband internet and the follower of commonly used UMTS standard. The LTE mobile connection can offer a maximum speed of up to 150 Mb/s. That will give the Company even stronger advantage over the competitors.

Item 5.6.3. Our offer

Currently, Internet service is available for customers in around 11,000 towns. The offer can be purchased in Authorized Points of Sale within the network coverage. Our offer "Internet for Everyone" includes four kinds of subscription varying by amount of data transfer to be used in a month. The basic option gives access to 200 MB for PLN 1 monthly subscription fee. Other options are additional packages of 2 GB, 12 GB or 30 GB, with monthly fee of PLN 29, PLN 49 or PLN 69. Once a package is used up, the subscriber can still profit from Internet access with unchanged parameters – both during the day and at night – on attractive terms, either paying for each MB or buing additional package.

Item 5.6.4. Modems

Cyfrowy Polsat's modems are the most advanced available on the market today. Depending on the period of contract and additional package, subscribers can buy modems from 1 PLN. For example, when signing 29 months contract for 30 GB Package, customer may choose from four modems for 1 PLN or a set of Huawei E182E or E182E MIMO modem with Huawei D100 or D105 router for PLN 2. Installation is easy, requiring neither technical knowledge nor help from third parties.

Item 5.7. Mobile telephony services

Item 5.7.1 Market environment

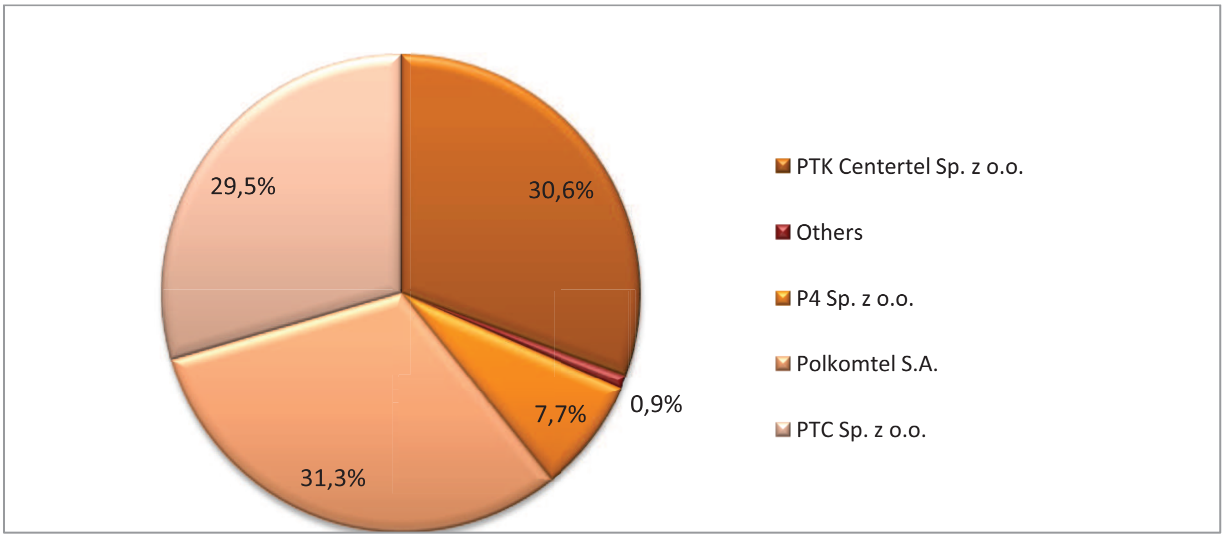
Data on the telecommunication services market is usually available in the second half of the following year, therefore, the latest data available is from 2009.

A report of the Office of Electronic Communications (UKE) concludes that the Polish mobile telephony market is a mature market. At the end of 2009 penetration rate amounted to 117.4%, and the market value in 2009 was equal to approximately PLN 18.7bn (not in thousands). Revenues from mobile phone operations accounted for over 44% of total telecommunications revenues in Poland in 2009. According to the report prepared by UKE, the nominal number of mobile telephony users was 45m at the end of 2009. At the end of 2010 the number of active SIM cards in Poland reached 47,152.2 thousand implying a penetration rate of 123.42% (data published by Central Statistical Office).

The market was split between 18 operators. Of these, six were Mobile Network Operators (MNOs) and 12 were Mobile Virtual Network Operators (MVNOs). It should be noted that MVNOs make up a very small proportion of the Polish mobile telephony market. In the MVNO business model existing mobile operators, such as Polkomtel, provide a licensed frequency allocation along with the necessary infrastructure to run the network to the MVNO.

The mobile telephony market in Poland is highly polarized - three main traditional operators (Polkomtel SA, Polska Telefonia Cyfrowa Sp. z o.o. and PTK Centertel Sp. z o.o.) controlled over 90% of the market in 2009 (according to UKE). However, despite the domination of the large players, a relatively new infrastructural operator P4 managed to acquire 5.2 million mobile subscribers as at the end of September 2010 (source: operator's public fillings).

The following graph presents the providers' market share in 2009 according to the number of subscribers



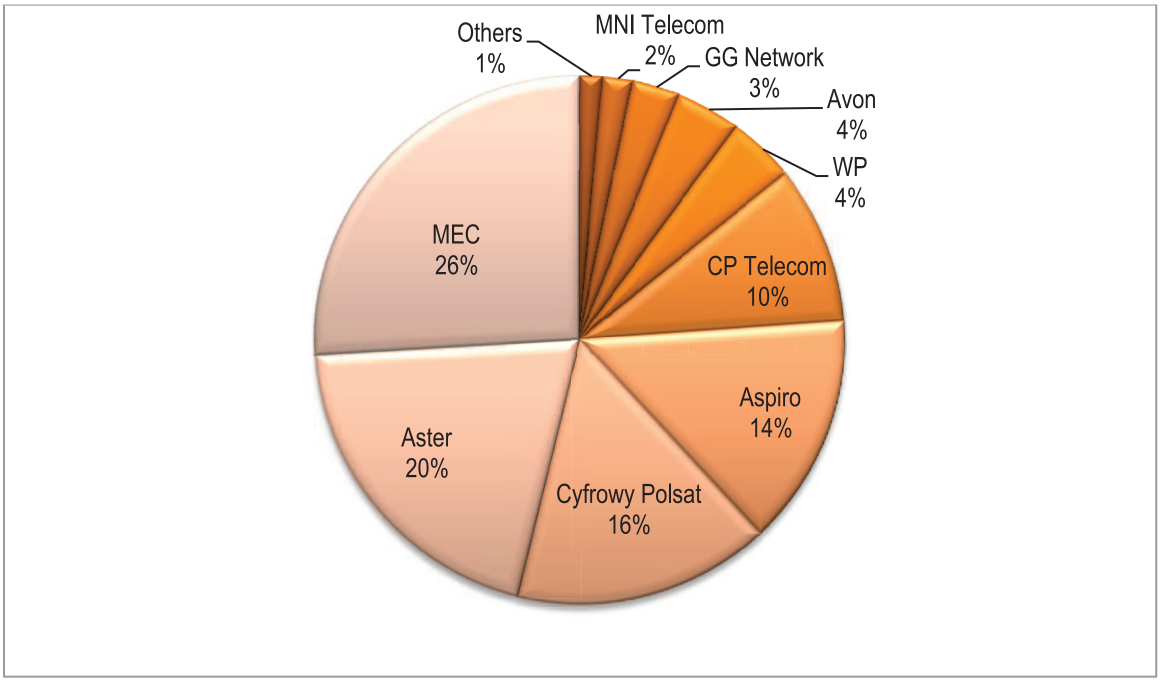
Source: "The report on the telecommunications market in Poland in 2009"- The Electronic Communication Office

In terms of revenues – more than 99% of total revenues of mobile telephony market went in 2009 to four dominant providers.

Item 5.7.2 Competition

The mobile telephony market in Poland is highly polarized. Three established traditional operators, controlling over 91% of the market in terms of the number of active SIM cards (according to „Report on telecommunications market in Poland in 2009"): Polkomtel S.A., Polska Telefonia Cyfrowa Sp. z o. o. and PTK Centertel Sp z o.o. dominate the market. However, there remains an opportunity for new entrants to gain a sizeable market share, as evidenced by a relatively new infrastructure operator, P4, whose market share at the end of 2009 was 7.7%, that was 3.45 million active customers (according to P4's statement). What is more, also the alternative operators seek opportunities to acquire a significant number of subscribers in the MVNO business model. However, MVNO market share in terms of number of SIM cards is still marginal and amounted to 0,4% in 2009.

The following graph presents the MVNO providers' market share in 2009 according to the number of subscribers



Source: "The report on the telecommunications market in Poland in 2009"- The Electronic Communication Office (UKE)

Most of the virtual operators provide their mobile telephony service in pre-paid system, only a few (including Cyfrowy Polsat) launched a post-paid offer. We believe that being able to offer a suite of services, including pay satellite TV, internet access and mobile phone via our Mobile Virtual Network constitutes our competitive advantage both on telecommunications and DTH market.

Item 5.7.3. Our offer

We provide mobile telephony service in a post-paid offer. We propose our telephony service as part of our Multi-play offer. Our telephony service added to television package provides customers with 30 free minutes for calls to all mobile and fixed networks or with 90 free minutes to use within Cyfrowy Polsat network.

Customers can choose from two additional packages:

- 120 Minutes Package for PLN 29 monthly fee,
- 240 Minutes Package for PLN 49 monthly fee.

After exceeding the amount of minutes in the package, the customer pays PLN 0.1 for one minute of call within Cyfrowy Polsat network and PLN 0.29 for one minute to other Polish network. There are also other services available:

- SMS (PLN 0.15)
- MMS (PLN 0.30)
- Data transfer (PLN 0.12 per 100 kB).

Item 5.8. Multi-play offer

Since June 2010, Cyfrowy Polsat has been offering Multi-play offer. This service enables customers to purchase all three services - television, Internet and mobile telephony services - under one contract, one subscription and one invoice. Telecommunication services are included in the fee for DTH service.

Currently, for the TV service fee, subscribers get up to 4 GB free included in Internet service, the package is available throughout the full period of agreement. Subscriber may get altogether up to 116 GB of fast Internet connection for free when choosing 29 months contract. Within the Telephone service, subscribers get 30 free minutes for calls. At the same time, subscribers may use all the bonuses available in the current TV offer. After exceeding data or minutes included in the package, subscribers may buy any additional attractive packages available in our telecommunications offer.

The price of a modem in Multi-play offer depends on the period of agreement (15 or 29 months) and on the kind of additional package chosen from Cyfrowy Polsat offer. For example, in case of 29 months agreement with 30 GB package, subscriber can choose from four modems for PLN 1 each or a set of modem (Huawei E182E or Huawei E182E MIMO) with router (Huawei D100 or D150) for PLN 2. Subscriber can upgrade the package at any moment during the agreement period.

We target our Multi-play offer to both new customers and our subscribers, who at any time during the contract may extend their TV package for access to one or both telecommunication services. Multi-play offer is available in our Authorized Points of Sale and in mPunkt network. A package with Internet and Telephone service can be purchased in 514 points of sale within the coverage of Internet network and the package with telephony service is available in whole sales network.

For Cyfrowy Polsat, integrated services offer is an excellent marketing tool, helping us to gain a competitive advantage on the pay satellite TV market in Poland. The Multi-play offer is a chance for us to expand our subscribers base, and thus to increase our revenues. Multi-play offer is also a brilliant encouragement for our customers to use the full range of our services. Moreover, thanks to integrated services we increase our customers' satisfaction and in the same time their loyalty. In the long-term the Multi-play offer enables us to increase the average revenue per subscriber and to lower the churn rate.

5.9. Marketing and sales, customer service and maintenance

Item 5.9.1. Marketing

We primarily use television, radio and press advertising to promote our services. We advertise our offer on our website, www.cyfrowypolsat.pl, and we distribute advertising materials in our points of sales. In addition, we use various forms of local marketing, executed in cooperation with our regional distributors. We communicate with our clients using a Channel for Subscribers, mailing and telemarketing.

Item 5.9.2. Sales

In order to support all channels of distribution described below we have created our own central warehouse and logistics system. The central warehouse with a total area of approximately 9.500 m2 stores all the products offered to our customers. This area allows the storage of hundreds of thousands of set-top boxes, telephones, modems, and a number of different kinds of materials necessary to ensure smooth operation in the field of logistics and sales. These include, inter alia, advertising materials, packaging, accessories and semi-finished products, which, at the final stage, turn into high-quality product for our customers. Their number largely depends on the characteristics and dimensions of the product, but the current space fully satisfies our needs.

DTH digital satellite television product and service sales network

We sell our products and services using two distribution channels – traditional sales channel and direct sales channel. We organized a pay DTH digital satellite television product and service sales network covering the territory of the whole Poland. Traditional sales channel consists of 25 distributors cooperating with a network of 996 retail points of sale offering the pay satellite television services and mPunkt distributor managing 140 points of sale. The second channel is direct sales network

D2D ("door-to-door"), including our own structure employing 240 sales agents and external structure including three distributors employing together 43 sales agents.

The distributors are independent businesses entering into agreements directly with the retail points of sales, which provide all our services on that basis. Clients are able to sign agreements for our services, purchase a set-top box and request professional satellite dish installation service. The points provide technical assistance, mediate in set-top boxes and phones servicing and provide replacement devices for the period of repair.

Our retail points of sale are furnished with branded light boxes and illuminated placards, as well as other signs that serve as advertisements and identify the outlets as selling our DTH satellite television services. We supply our retail points of sale with marketing materials, such as posters, pamphlets and leaflets in order to increase client awareness of our services. We also organize training seminars for employees at these retail points of sale on techniques of attracting new subscribers and promoting information about our programming offer. In addition, to motivate staff at retail points of sale to increase sales of our programming packages, we organize periodic incentive programs for sales representatives that include additional bonuses for individual performance. Once a certain number of new customers, or the target for the sale of a certain programming package, has been exceeded, we pay a bonus which allows us to remain competitive in light of the changing market conditions.

Distributors and retail points of sale also sell and advertise our products and services through portable sales stands in malls and at public events. As these portable sales stands are strategically located and supplied with promotional materials such as pamphlets and leaflets, they also perform a marketing function.

Direct sales channel D2D ("door-to-door") enables us to target precisely selected group of customers, to establish direct communication with customers and to expand our sales network.

Sales of Internet services

Our Internet offer is now available to residents of around 11,000 towns. Customer may purchase the offer from around 514 authorized point of sale located within the network coverage.

Sales of MVNO services

The post paid offer is available in about 1.139 selected Authorized Points of Sales of Cyfrowy Polsat. Electronic top ups are available in about 61,810 retail points.

Call Center

In the advertisements of our products and services placed in various media, we provide our call center number to enable potential customers to find out information about our services, place orders, or ask for directions to the nearest retail point of sale.

Internet

Thanks to our website, we have access to a growing number of clients who use this medium. Our website at www.cyfrowypolsat.pl enables a detailed look at our offer, ordering a reception set with programming packages of choice, or post-paid tariffs, or finding the nearest point of sales. Our current clients may purchase additional programming packages and top up their mobile phone account via this distribution channel.

Item 5.9.3. Customer Service

We seek to consistently improve customer service quality using the latest technology. Our strengths with respect to our customer service are our experienced management staff and highly flexible approach supported by a quick decision-making process.

We use an advanced customer relationship management IT system developed by our specialists based on an integrated platform handling telephone, fax, e-mail, SMS and TTS together with IVR (interactive voice response) and CTI (platform integrating telephone functionality with CRM) as well as standard mail communication. The customer relationship management system makes it possible to comprehensively document through Nice platform (voice recording system) and handle all requests placed by customers.

We furbished our CRM system with new functionalities, among others: electronic archive where we process paper documents in an electronic form which helps to save time and improve security of the data we store and an integrated system of communication with subscribers including our website, Internet Customer Service Center, text messages sent to the television screen and TTS communications. In addition, we implemented a modern customer retention program and payment monitoring system.

Call Center

We currently operate our call center with over 500 operator stands as well as 100 back office personnel to handle written requests (including faxes and emails). We are planning to add 100 operator stands in mid-2011. Our call center serves our clients 24 hours a day, 7 days a week. Specialized departments and sections in customer services are fully dedicated to our subscribers and are responsible for comprehensive and professional customer service including placing orders, signing contracts, registering complaints, explaining payments, and providing all the information and support to customers throughout the duration of the contract.

Internet Customer Service Center (ICOK)

Our Customer Service Center is an advanced IT tool which enables our customers to have secure and free access to back office resources and to on-line technical support through the internet. By accessing our website at www.cyfrowypolsat.pl, our customers can check their payment balances, print payment orders, or order bank transfers, review a history of changes to their agreements, check the specifications of their set-top boxes, print the relevant user manual, restore signal transmission, restore the factory PIN settings of their set-top box, move funds between packages, revise personal data to make payment online and to send questions using contact forms. Through ICOK, customers can also follow their purchases from VOD Home Video Rental or order a VIP package.

Our clients of the Mobile Telephony and the internet access service, have a possibility to do the following via ICOK: access to data of their current phone, or internet service, check the record of issued bills and preview invoices, as well as online payments. In addition, customers can also top up their telephone number or another number active in the Cyfrowy Polsat's network, activate and deactivate certain services, check available units for use within the active services/packages, see a detailed list of rendered services, get information about addresses of Authorized Points of Sale and service points for telephones and modems from the offer of Cyfrowy Polsat and send a contact form.

Subscribers retention

We give a high importance to retention of our subscribers. We constantly develop retention and loyalty programs. We try to get the widest possible knowledge about the needs of our subscribers to be able to present them personalized offers and give them individual treatment. Retention programs are run in the reactive and proactive forms. In the first case, the process starts after the customer has given us a notice. We contact such customer immediately and collect detailed information on the reasons of resignation, then we present a new attractive offer in order to encourage the subscriber to stay with our service. In case of proactive retention, we begin the process before the end of the initial period of subscription agreement. Using a variety of communication channels, we communicate to our subscribers our attractive offers for extending contracts. For the customers prolonging their contracts we propose attractive rates and a possibility of extension for 12 months. To encourage subscribers to stay with us, we offer for example an exchange of set-top box or an upgrade of programming package. Moreover, we introduced automatic-renewal policy, based on which contracts are prolonged automatically for another 12 months after the initial period.

In addition, our integrated services offer supports the retention of subscribers. Customers can extend the package of services by adding mobile telephony or Internet service to the TV package already bought at any time of the agreement. Also, at any moment, subscriber can upgrade the TV package or buy additional telecommunication packages.

Item 5.10. Technology and infrastructure

Item 5.10.1. Technology and infrastructure – DTH

Conditional access system

Access to television channels offered in our pay programming packages is secured with a conditional access system purchased from Nagravision. This system is used to control access to particular, paid programming packages. Our client, signing a contract for the services we provide, receives a set-top box together with a card (credit card size), which is an integral part of our digital satellite receiver set and allows the client to receive the pay programming offer.

We take all available steps to identify unauthorized access to our service. In the event of unauthorized access to our services, which threatens our business, and thereby, our revenues, according to the contract Nagravision exchanges the conditional access system together with the cards provided to our subscribers and, if necessary, set-top boxes, which are not able to handle the new system. In 2011 we plan to introduce a new version of Nagravision conditional access system.

Satellite

We have signed long-term contracts (valid for another 6 years) with Eutelsat SA to rent capacity on HotBird 8 and 9 satellites. The contracts involve two transponders dedicated to SD, two transponders dedicated to HD (one of them also supports our VOD service). Thanks to the acquisition of Telewizja Polsat we will gain a possibility to use an additional transponder. Cyfrowy Polsat is one of Eutelsat key customers and as such is in good position to negotiate agreements and to get access to further transponders if necessary in the future. According to the agreements signed with Eutelsat, in the event of failure of a satellite, we have a right to use replacement capacity.

Broadcasting center

Our broadcasting center is located in Warsaw, and enables us to up link television channels to the transponders we use on the HotBird 8 and 9 satellites. Some of our television channels are up linked by broadcasters of these channels or by third parties.

Cyfrowy Polsat's broadcast centre is one of the largest in Poland and one of the most modern in Europe. Built in 2006, it began broadcasting in early 2007. It is equipped with the latest integrated video, audio and information systems and ready to broadcast television channels – including high definition (HD). The centre broadcasts programs from different sources, provides digital stream transmission to the satellite, and monitors signal parameters. The broadcast process is fully controlled by a specialized signal monitoring system. Good signal quality and operational reliability are ensured by our qualified personnel and specialized companies.

Services for television and radio broadcasters

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

Item 5.10.2. Technology and infrastructure – Internet service

Cyfrowy Polsat offers broadband internet services using the latest technology HSPA + network operated in Poland by Mobyland on 900 MHz frequencies. HSPA + technology, also called evolved HSPA (High Speed Packet Access), is a combination of used in mobile telephony networks 3G HSDPA (High Speed Download Packet Access) and HSUPA (High Speed Upload Packet Access). Maximum speed of transfer in HSPA+ technology reaches 21 Mb/s for downloading and 5.76 Mb/s for data transfer. Currently the standard speed in mobile networks is 7.2 Mb/s and 1.9 Mb/s respectively. The parameters we offer are three times higher and allow users to make full use of the Internet – listening to radio, watching videos, transferring large files and making video-calls. From October 2010 we increased the data transfer speed to 28.8 Mb/s thanks to latest MIMO technology (Multiple Input, Multiple Output), that provides users with even better service and better quality of transfer. MIMO technology, based on the use of multiple transmitting and receiving antennas in base station and terminal, enables simultaneous transfer of several different data streams and thus a higher speed (up to 28.8 Mb/s), better transfer quality and optimal use of frequencies. This allows to profit from all the options of the Internet (using browser, downloading and sending files, watching movies, broadcasting on-line HD videos and 3D graphics.

On December 15, 2010 the Company signed an agreement with Mobyland, that grants the Company access to a wireless data transfer service based on 1800MHz and 900MHz bands in LTE and HSPA+ technology respectively. The contract is valid from January 2011 for indefinite period of time.

The area covered by the range of a single base station is several times larger at 900 MHz frequency than in the commonly used for the standard 2100 MHz frequency (e.g. 3G networks of Era, Orange, Plus and Play). As a result, the development of Mobyland’s coverage is quicker, more economical particularly in less urbanized areas: the suburbs, smaller cities and rural areas where cable infrastructure shortages are particularly acute. Cyfrowy Polsat’s service will be available not only in big cities but also in suburban areas and rural areas, whose residents could not benefit from the broadband network access so far. The network coverage will be gradually expanded and an increasingly larger group of Cyfrowy Polsat’s customers will be able to use the Internet access service it offers. Currently the network used by Cyfrowy Polsat covers c. 40% of its subscriber base and c. 48% of Poland’s population.

Item 5.10.3. Technology and infrastructure - MVNO

We built our MVNO services on the full MVNO operator model. It means having our own telecommunication infrastructure (except for the radio network). Such a business model allows us to have control over client offerings as we have our own billing system and, as a result, we can benefit from interconnect relations resulting in additional interconnect revenues.

The MVNO services are based on GSM, UMTS technology, as provided by the radio interface of our partner MNO, and include voice, SMS, MMS, and GPRS/Edge/UMTS/HSPA data. Also, international roaming has been made available to our MVNO subscribers.

Item 5.11. Development prospects

Item 5.11.1. DTH service development prospects

We believe that due to the relatively low penetration of pay television in Poland (less than 72%) as compared to Western European countries (the average for the five most developed markets for pay television is at the level of above 90%) the market is characterized by significant growth potential. Cable TV market is characterized by high penetration rate and the cable infrastructure is limited to urban areas. Therefore, DTH operators have the potential to use full growth potential of pay TV market. In our opinion, the availability of pay digital satellite television signal throughout whole Poland, use of latest technologies (including HD quality) and the increasing number of channels in the programming offer compared to cable television providers should contribute to the fact that customers will more often choose digital satellite television when deciding on the form of pay television. We believe that thanks to the high-quality, competitively priced programming offer, as well as offering of integrated services, we will be able to exploit this trend in the future and we will continue to grow our subscriber base, much faster than our competitors in the market of satellite pay television (our share in net additions amounted to 48% in 2010).

There are four operators on the Polish satellite digital pay television market. On the more developed Western European markets, where consolidation processes are finished, most of the countries have only one digital satellite platform. We believe that the Polish DTH market will follow the trends observed in other European countries and will consolidate, and as the largest player in this market we will be the consolidator.

Item 5.11.2. Telecommunication and Internet access services development prospects

By international standards, Poland ranks relatively low in Mobile and Fixed broadband penetration, underlining the prospects of the market. By 2015, the market is expected to have grown to 9.5m households (CAGR 25.9%), outgrowing fixed broadband in the process. A key driver is the flexibility of mobile solutions and the low infrastructure cost, which is of particular importance in rural areas where Cyfrowy Polsat has its areas of strength.

We plan to use the growth potential of the market and offer innovative solutions for Internet access in increasingly wider area of Poland. From the first half of 2011, as the first supplier in Poland and the fourth in Europe, Cyfrowy Polsat will offer its customers the Internet in LTE technology regarded as the future of wireless broadband Internet access and a successor of widely used UMTS standard.

Cyfrowy Polsat will provide the service in the world's first LTE network on 1800 MHz frequencies, launched in September 2010 by Mobyland Sp. z o.o. in cooperation with CenterNet S.A. The agreement with Mobyland was signed in December 2010. The LTE network is significantly faster than other networks operating in Poland – allows downloading speeds of up to 150 Mb/s and eventually up to 326 Mb/s and sending speeds up to 50 Mb/s and eventually up to 86 Mb/s. Compared to HSPA+ or UMTS it is characterized by much lower delays and allows to handle much more users.

LTE is now available on 413 base stations. At each station both HSPA+ MIMO (900 MHz) and LTE (1800 MHz) devices are installed.

Due to its technical characteristics and quality parameters, Cyfrowy Polsat mobile Internet LTE can eventually replace fixed-line Internet and satisfy increasingly demanding customers while enabling them to profit from growing capabilities of the Internet. At the same time, mobility, that becomes increasingly important to customers, works to the advantage of Cyfrowy Polsat Internet service. The potential of the latest technology mobile Internet is based on capacity, speed and low latency. Differences are easily noticed. To compare – download of full-length HD movie from UMTS network takes around 2 hours while from HSPA+ network less than 1 hour, and from LTE network it would only take a few minutes. All this enables LTE Internet service customers to use interactive and multimedia applications requiring high bandwidth and transmission in real time, as online games, video communication and high-definition television through Internet.

Cyfrowy Polsat will offer Speed 1000 modem – an USB modem produced especially for us by IP Wireless. This is the world's first device operating on 1800 MHz frequency. The modem is meant to act on 20 MHz channel and provide speeds of up to 100 Mb/s for downloading and 50 Mb/s when sending files. At the beginning the modem will run on 10 MHz channel at speed of 73 Mb/s and 25 Mb/s respectively. The update of software to support 20 MHz channel will be available via Internet at no extra costs. The Speed 100 modem will be sold with two kinds of external magnetic antennas to choose from. The use of antenna will improve the strength and coverage of the signal and thus the speed.

SIM Cards for Cyfrowy Polsat LTE/HSPA+ Internet were developed and manufactured by Oberthur Technologies – one of the world's largest suppliers of such solutions. Oberthur Technologies supplied us before with SIM cards for mobile telephony and previous Internet service. On 1 December 2010, we launched the inscription for promotion allowing customers to check the new Internet. The first 10,000 customers will get the service free of charge for half a year. Each month they will get a free package of 100 GB (50 GB to use between 8.00 am and 00.00 and 50 GB for the remaining hours).

Item 5.12. Sales markets and dependence on the supplier and client markets

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

Item 6. Presentation of operating and financial results

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

Our revenues from sale of services, goods, products and materials consist of:

DTH subscription fees

Subscription fees consist of monthly subscription fees paid by our DTH subscribers for the programming packages, activation fee and fees for extra services such as VoD Home Video Rental. The total amount of subscription fees we collect depends on the number of subscribers and the amount of monthly subscription fees paid for our packages, which in turn depends on the number and type of packages, the amount of activation fees, paid upfront by our subscribers and the number of subscribers from which the activation fees are accounted and the number of rented movies. In 2010 subscription fees accounted for 94.6% of our revenues from sale of services, goods, products and materials in as compared to 93.9% in 2009.

Sales of equipment

Revenues from the sale of equipment consist of revenues from sale of set-top boxes, Internet modems and handsets purchased by our subscribers when they enter into programming services agreements with us and in 2009 from the sale of such equipment to subscribers under lease agreements which provide for the transfer of ownership to such equipment on the last day of the agreement signed by them. The sale price of set-top boxes, Internet modems and handsets depends on the model of the set-top boxes, modem, or handset, tariff plan purchased by subscriber and length of the initial period of agreement. Revenues from sale of equipment accounted for 1.9% of our revenues from sale of services, goods, products and materials in 2010 as compared to 3.7% in 2009.

Revenue from subscription fees from telecommunication services, interconnection revenues and settlements with mobile network operators

Revenue from subscription fees from telecommunication services, interconnection revenues and settlements with mobile network operators include subscription fees and payments for generated traffic paid by users of mobile services and interconnection fees within our mobile services and payments from subscription fees and carried out transfer of data. This category of revenues depends on the number of users of our mobile services, rates for traffic generated, interconnection rates and generated traffic. Revenues from subscription fees, interconnection revenues and settlements with mobile telephony operators amounted to 1.3% of our revenues from sale of services, goods, products and materials in 2010 compared to 0.4% in 2009.

Other revenues from sale

Other revenues from sale accounted for 2.2% of our revenues from sale of services, goods, products and materials in 2010 and 2,0% in 2009. In the twelve month period ended 31 December 2010 other revenues from sale of services, goods, products and materials consisted of:

(i) revenues from lease of premises and facilities and investment assets;
(ii) marketing and advertising services;
(iii) other revenues from MVNO;
(iv) revenues from lease of satellite equipment;
(v) revenue from transmission services;
(vi) revenues from guarantee service and other revenues.

Item 6.2. Sources of other revenues from operating activities
Other operating revenue in 2010 consisted of:

(i) revenues from sale of the organized part of the enterprise transferred as a contribution in a kind to our subsidiary CPTM Sp. z o.o. (PLN 608,434);

(ii) received compensations, mainly: cautions for set-top boxes and compensations for damaged or lost equipment (by both customers and distributors); and

(iii) other operating revenue.

Item 6.3. Sources of costs of operating activities
Costs of operating activities consist of:

Depreciation and amortization

Depreciation and amortization costs primarily consisted of depreciation and amortization of set-top boxes leased to our subscribers, plant and equipment and intangible assets as well as telecommunication infrastructure related to our MVNO services. Depreciation and amortization costs in 2010 accounted for 7% of our costs of operating activities and other operating costs compared to 4% in 2009.

Programming costs

Programming costs constitute the sum of:

(i) monthly license fees due to television broadcasters;

The majority of our agreements with licensors provide that license fees are calculated as the product of the monthly agreed rate per subscriber and the number of subscribers reported to a given broadcaster who paid for the package containing the broadcaster's channel. Some license agreements contain a so-called guaranteed minimum provision, where we are required to pay a fixed license fee irrespective of the number of subscribers using the licensor's programming, and once this level is exceeded, the license fee is calculated as the product of the rate per one subscriber and the number of subscribers who paid for a package of programming services containing that licensor's channel. The number of our subscribers has exceeded the thresholds specified in all those license agreements. In some cases, we are required to pay a flat-rate programming license fee. We have managed to enter into a number of license agreements under which the monthly per-subscriber rate of license fees declines as the number of subscribers increases. In case of selected premium packages and HD channels programming cost are calculated based on revenue share agreements. Programming costs are denominated mainly in euro and US dollars and, as a result, this cost category also depends on EUR/PLN and USD/PLN exchange rates. In order to minimize the influence of foreign exchange rates fluctuation on Groups' net financial results we purchased call options, as well as in some of new agreements with suppliers of TV channels, the payments are denominated in Polish currency.

(ii) royalties payable to organizations for collective management of copyrights and Polish Film Institute.

In 2010 programming costs accounted for 34% of our costs of operating activities and other operating costs, compared to 35% in 2009.

Signal transmission services costs

Signal transmission services costs consist of:

(i) payments for the lease of satellite transponder capacity;

(ii) payments for the use of the Nagravision conditional access system (from December 2005 calculated as the product of the monthly unit rate per active access card and the number of active access cards); and

(iii) other signal transmission costs.

Signal transmission services costs are denominated mainly in euro and, as a result, this cost category also depends on EUR/PLN exchange rate.

Signal transmission service costs accounted for 7% of our costs of operating activities and other operating costs in 2010 compared to 8% in 2009.

Costs of equipment sold

We currently offer digital satellite reception equipment, handsets and modems at prices which are lower than the purchase prices. The purpose of subsidizing set-top boxes, handsets and modems is to increase the price attractiveness and, in turn, affordability of our programming packages to make them available to a wide group of prospective customers of pay DTH satellite television services and internet access services as well as holding the subscriber base. Despite generating loss on sale of digital satellite reception equipment, handsets and modems, we believe that these subsidies continue to be essential to maintain the growth of our subscriber base and the significant growth in subscription fees.

To reduce our costs of purchasing satellite television receiving equipment, our subsidiary CPT Sp. z o.o. launched the production of SD set-top boxes in November 2007 and in April 2010 the production of HD set-top boxes. A decrease in the cost of acquisition of set-top boxes will enable us to offer our subscribers a lower purchase price for set-top boxes, which we expect would positively affect subscriber growth.

Costs of equipment sold are denominated mainly in American dollars and, as a result, this cost category also depends on USD/PLN exchange rate at the purchase date.

Costs of satellite television receiving equipment sold accounted for 5% of our costs of operating activities and other operating costs in 2010 as compared to 10% in 2009.

Distribution, marketing and customer relation management cost

Distribution, marketing and customer relation management cost consist of:

(i) distribution and logistics costs;

Distribution and logistics costs consist of:

(a) Commissions due to distributors consisting of amounts due both to distributors and retail points of sale when they conclude sale or retention agreements with our customers for paid satellite televisions services, mobile telephony and Internet access services. The costs of commissions for a specific agreement with a subscriber are amortized throughout the initial term of the sale or retention agreement. The cost of commissions due to distributors that do not apply to specific subscription agreements are debited in full on our income statement as they are incurred. Total commissions due to distributors and to the customer call center in a given period constitute our subscriber acquisition cost (“SAC”) for such period.

(b) Costs of logistics, including costs of transport and warehousing;

(c) Costs associated with services of our regional agents and fitters.

(ii) marketing expenses;

Marketing expenses consist of expenses for television and radio commercials, press and website advertising, promotional activities and materials, as well as other expenses incurred to increase sales and brand recognition. These expenses are not directly related to changes in the number of subscribers.

(iii) customer relation management and retention cost;

Customer relation management and retention cost consist of mailing costs, call center costs, bad debt recovery fees and other customer relation management costs;

(a) Mailing costs (correspondence with customers) comprise of expenses related to mailing invoices and information related, among other things, to changes in programming offers, customer retention offers, prices or regulations sent to subscribers. The present mailing strategy assumes clear profiled correspondence with respect to provided services for individual groups of customers, what should positively affect mailing cost per subscriber. In addition, we regularly mail selected subscriber groups, for example welcome packages sent to new customers to encourage them to subscribe to additional programming offers or monthly invoices sent to subscribers of the mobile services;

(b) Call center costs include, among other things, payments to third parties for call center services related to customer care and customer retention as well as sale of pay DTH satellite television broadcasting services.

Distribution and marketing costs accounted for 26% of our costs of operating activities and other operating costs in both 2010 and 2009.

Salaries and employee-related expenses

Salaries and employee-related expenses consist of salaries paid to employees under employment contracts or project-specific contracts, remuneration of the Supervisory Board members, social security premiums, pension premium payments and other employee benefits. Most of our personnel have employment contracts. Project-specific contracts are used for certain positions in sales and logistics to enable us to respond to the short-term need for seasonal employees in times of increased sales. Salaries and employee-related expenses accounted for 7% of our costs of operating activities and other operating costs both in 2009 and 2010.

Other operating costs

Key items of other operating costs in twelve month period ended 31 December 2010 include:

(i) infrastructure rental and network maintenance;

(ii) cost of SMART and SIM cards handed over;

(iii) IT services;

(iv) legal, advisory and consulting costs;

(v) property maintenance costs;

(vi) guarantee services costs;

(vii) taxes and other charges;

(viii) costs of settlements with mobile network operators and interconnection charges;

(ix) costs of trademarks;

(x) other.

Other operating costs accounted for 10% of our costs of operating activities and other operating costs in 2010 as compared to 7% in 2009.

Item 6.4. Sources of other operating costs

Other operating costs include:

(i) bad debt provision and the cost of receivables written off;

(ii) fixed assets and stock provision impairment;

(iii) other.

Item 6.5. Factors and occurrences that impacted our business and results in 2010

Macroeconomic environment

In 2010 economic growth in Poland accelerated compared to the year 2009 when the economic slowdown had led our customers to choose cheaper packages. In 2010 we observed a change in the subscriber base with increased share of higher packages. The customers willingly chose HD set-top boxes and decided on additional charges to use a second set-top box. These factors had a positive effect on our revenues.

Exchange rates fluctuations

Our functional and reporting currency is zloty. Our revenues are expressed in zloty, 38% of our operating expenses is denominated in currencies other than zloty, mainly US dollars and euro.

In 2010 Zloty strengthened towards the US dollar by 3% and towards the euro by 8% that had a positive effect on the operational costs as compared to 2009.

We are unable to mould the future foreign exchange rates fluctuations and how future foreign exchange rate fluctuation will impact, either positively – in case of appreciation of Zloty, or negatively – in case of depreciation of Zloty, our operating costs.

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

On 10 August 2010 we purchased call options of EUR 12,000 and USD 18,000. These options provide possible monthly acquisitions of EUR 1,000 and USD 1,500 during next 12 months by 1 August 2011, and are exercisable at 4.0310 EUR/PLN and 3.0790 USD/PLN rates.

On 4 November 2010 we purchased call options of USD 18,000. These options provide possible monthly acquisitions of USD 1,500 during next 12 months by 1 November 2011, and are exercisable at 2.8000 USD/PLN rate.

All instruments described above were purchased in order to limit the impact of foreign exchange rates fluctuations on our net profit. The Company did not adopt hedge accounting in respect to these options.

Increase of competence in our Authorized Points of Sale

As pay television market was getting closer to its saturation point in 2009, we made a decision on intensifying actions in the area of customer relation management and retention. In 2010, realizing our strategic objectives, we completed the purchase of telecommunication services distribution network managed by M.Punkt, and made a decision on increasing competence, including customer relation management services, of our Authorized Points of Sale.

Promotions launched in the fourth quarter of 2009

Due to the fact that highest sales fall in the fourth quarter of the year in the fourth quarter of 2009 we prepared special promotions for potential subscribers. During the promotional period , the newly acquired subscribers were purchasing our services with three to six month promotional period without subscription fees from the agreement conclusion date for an initial subscription contract base period of 13 to 29 months. Additionally, signing an agreement for Family Package and Super Film Package in the Christmas promotions, customer received an additional set-top box in the lease mode for PLN 0 with already paid Mini Max Package for 13 or 29 months (initial contract period of the main contract).

Competition

Our market is very dynamic and competitive. There are four main players on the DTH market in Poland: Canal + Cyfrowy, the operator of Cyfra+ platform, ITI Neovision the operator of "n" platform, TPSA providing DTH services and Cyfrowy Polsat S.A., operator of the Cyfrowy Polsat platform. Recently we observed intensified consolidation activity, i.e.: signed in October 2010 co-operation agreement between TVN SA and TP SA assuming cross selling of products within combined client base. Increased competition on the market influenced our special offers to newly acquired subscribers. Historically almost 50% of our new signed contracts were observed in the fourth quarter of the year. Preparing for the season of increased sales in the fourth quarter of 2010 we launched attractive promotional offers. In October 2010 we introduced new programming packages as well as we changed principles of the sale. Now each package contains HD channels, and subscriber gained the full flexibility in shaping his programming offer. Within Christmas promotion we offered new subscribers the use of our services without the need of making subscription fee payments for a period from three to six months from the date of agreement conclusion, and we proposed attractive pricing for equipment. Additionally, signing an agreement, subscriber could get a second SD set-top box for PLN 0 or HD set-top box for PLN 49 and depending on the package on the first set-top box subscriber could have a free access to Mini HD or Mini Extra HD Package for up to 6 months or free access to new Basic HD Package (Mini Package + Polsat HD channel) for even 24 months. Longer promotion periods caused a slight decrease in the ARPU in the initial period of subscription contract concluded with customers in this promotion. Thanks to our attractive offer, our share in net additions on the DTH market amounted to 48% in 2010.

Rising share of leased television receiving equipment

Due to increased share of leased set-top boxes in the new contracts signed, our cost of digital satellite reception equipment sold is respectively lower, but the capital expenditure for purchase of set-top boxes and the value of set-top boxes on our balance sheet grows resulting also in higher depreciation charge. Further lease of set-top boxes will result in a growth of expenditure for purchase of set-top boxes and depreciation charge.

Introduction of loyalty programs

In order to prevent the growth of our churn rate we introduced loyalty programs for our subscribers. Although it resulted in an increase in customer retention management costs and generated additional costs of sale (as some of our loyalty programs offer an exchange of set-top box which we subsidize), we believe that the proactive approach to subscribers in the longer run is more cost effective than an increase in churn.

Extension of our services

Following our strategy to provide integrated service, in early 2010 we launched broadband Internet access service and since June 2010 we included all of our three services in Multi-play offer. During the year we acquired over 25,000 users of our Internet service. We believe that Multi-play offer gives us a chance to build our subscription base, customer loyalty and revenues all at the same time. It is also a great marketing tool, helping it differentiate and build its competitive advantage in the satellite pay television market.

Item 6.6. Review of operating and financial situation

Item 6.6.1. Operating results

The following table presents the operating results in 12 month ended 31 December 2010 and 31 December 2009:

	12 months ended		
	31 December 2010	31 December 2009	Percentage difference
Number of subscribers at end of period, of which:	**3 436 231**	**3 202 319**	**7.3%**
Number of subscribers to Family Package on end of period	2 720 154	2 609 567	4.2%
Number of subscribers to Mini Package on end of period	716 077	592 752	20.8%
Average number of subscribers[1], of which:	**3 263 905**	**2 869 676**	**13.7%**
Average number of subscribers to Family Package	2 606 082	2 340 351	11.4%
Average number of subscribers to Mini Package	657 823	529 325	24.3%
Net churn rate[2], of which:	**10.3%**	**8.2%**	**2.1 pp**
Net churn[2] rate of Family Package	11.8%	9.4%	2.4 pp
Net churn[2] rate of Mini Package	4.6%	2.9%	1.7 pp
Average revenue per user (ARPU)[3] (PLN), of which:	**35.9**	**34.6**	**3.8%**
Average revenue per user (ARPU) [3] of Family Package (PLN),	42.1	40.3	4.5%
Average revenue per user (ARPU) [3] of Mini Package (PLN),	11.1	9.2	20.7%
Subscriber average cost (SAC)[4] (PLN)	**129.0**	**132.0**	**-2.3%**

1) Calculated as the sum of the average number of subscribers in each month divided by the number of months in the period. Average number of subscribers per month is calculated according to the following formula: (subscribers at the end of the month + subscribers at the beginning of the month)/2;
2) Calculated as the ratio of the number of terminated contracts in the 12 months preceding the balance sheet date less the number of customers who have entered into a contract for the provision of satellite pay television services with us once again in a period of not more than 12 months, and the average number of contracts in that period;
3) Revenues from subscription fees for the period divided by the average number of subscribers to whom we rendered services in such period and the number of months in the period;
4) Calculated by dividing commissions payable to distributors by the number of subscription agreements concluded in the given period.

As at 31 December 2010 we had 3,436,231 subscribers, 7.3% more than as at 31 December 2009, when we had 3,202,319 subscribers. Number of our Family Package subscribers increased by 4.2% to 2,720,154 and constituted 79% of our entire subscriber base and the number of our Mini Package subscribers increased by 20.8% to 716,077 subscribers and constituted 21% of our entire subscriber base. Increase in our subscriber base can be attributable to large number of new contracts signed during the period.

The churn rate for 12 month period ended 31 December 2010 increased to 10.3% in comparison to 8.2% in 12 month period ended 31 December 2009. The Family Package churn rate increased to 11.8% in 2010 from 9.4% in the period of 12 months ended 31 December 2009, and the Mini Package churn rate increased to 4,6% in 2010 from 2.9% in the period of 12 months ended 31 December 2009. The increase in both Family Package and Mini Packages churn rate mainly results from a change in terms and conditions (change in terms and conditions allows termination of a contract) and more aggressive competition on the pay television market, resulting in more attractive promotional offers than in the previous years.

In the future, following the further growth of telecommunication and integrated services and adjusting to market practices of other operators of integrated services, we consider the possibility to report revenue per RGUs (Revenue Generating Unit), including not only DTH subscribers but also users of the telecommunication services and revenues generated by them.

Monthly ARPU increased in 2010 by 3.8% to PLN 35.9 from 34.6% in 2009. Monthly ARPU increased mainly as a result of introduction of flexible offer, change in the structure of packages towards higher packages, a material group of customers getting out of initial period of subscription contract acquired in earlier periods, additional payments from DTH subscribers using our promotional second set-top box for PLN 9.90, an increase in subscription fees for the group of subscribers who did not choose to keep their subscription agreement after the change in terms and condition and introduction of VoD Home Video Rental. Family Package ARPU increased in 2010 by 4.5% to PLN 42.1 from PLN 40,3 in 2009. Mini Package ARPU increased by 20.7% to PLN 11.1 from PLN 9.2 in 2009 mainly as a result of an increase in the number of subscribers beyond the initial period of subscription agreement and an increase in the number of subscribers choosing Mini Max Package in the Mini Package subscribers base.

Our average subscriber acquisition cost decreased by 2.3% to PLN 129.0 in the twelve month period ended 31 December 2010 from PLN 132 in the corresponding period of 2009. Average subscriber acquisition cost decreased mainly due to a decrease in threshold commissions, largely offset by a substantial increase in the costs of after-sale commissions (depending on the programming package chosen finally by a subscriber after promotional free of charge period).

Item 6.6.2. Presentation of differences between achieved financial results and published forecasts

The company did not present forecasts for 2010.

Item 6.6.3 Review of the financial situation

The following review of results for the fiscal year ended on 31 December 2010 was prepared based on financial statements for the fiscal year ended on 31 December 2010 prepared in accordance with International Accounting Standards approved for use in the European Union as at 1 January 2010.

All financial data is expressed in thousands.

Comparison of financial situation as of 31 December 2010 and 2009

As at 31 December 2010 our balance sheet amount was PLN 1,594,289. Fixed assets amounted to PLN 1,161,981 and current assets to PLN 432,308. Our equity amounted to PLN 1,059,036, our non-current liabilities amounted to PLN 72,770 and current liabilities to PLN 462,483.

The value of digital satellite receiving equipment increased by PLN 158,204 to PLN 291,208 as at 31 December 2010 from PLN 133,004 as at 31 December 2009. This change results from the considerable increase in the number of leased set-top boxes due to a change in our customer preference and shift from purchased to leased set-top boxes.

The value of other fixed assets amounted to PLN 131,994 as at 31 December 2010 and remained at the similar level as compared to 31 December 2009.

The value of intangible assets increased by PLN 7,044 or 52% to PLN 20,479 as at 31 December 2010 from PLN 13,435 as at 31 December 2009. The change results mainly from the investments in the main logistic-stock system and other systems.

The balance of long-term receivables from related parties in 2009 related to receivables from Cyfrowy Polsat Technology Sp. z o.o. concerning the financial lease of laser and set-top boxes production line. As at 31 December 2010, the balance was PLN 0 as the lease agreements were ceased to Cyfrowy Polsat Trade Marks Sp. z o.o. As at 31 December 2009 long-term receivables amounted to PLN 4,887.

The value of investment property amounted to PLN 6,931 as at 31 December 2010 and remained at almost the same level compared to 31 December 2009. The investment property balance included land and properties for rent.

The value of shares in subsidiaries increased by PLN 673,967 and at 31 December 2010 amounted to PLN 675,471. The increase resulted from the transfer of the contribution in a kind of an organized part of the enterprise to cover the share of the Company in an increased share capital of established in 2010 wholly-owned subsidiary CPTM Sp. z o.o. and from the completion of purchase transaction of M.Punkt.

The value of other long-term assets decreased by PLN 18,587 or 34% to PLN 35,898 as at 31 December 2010 from PLN 54,485 as at 31 December 2009. This change results mainly from the completion of acquisition of M.Punkt which is liable for a decrease in other long-term assets by PLN 24,801, the decrease was partially offset by an increase of PLN 6,214 in commissions due to distributors that are amortized troughout the initial term of the agreement.

The value of inventories increased by PLN 24,332, or 21 % to PLN 140,165 as at 31 December 2010 from PLN 115,833 as at 31 December 2009. This was mainly a result of an increase in the value of set-top boxes and hard disks (by PLN 29,091), telephones and modems (by PLN 6,164) and other inventories (by PLN 3,257), that was partially offset by a decrease in the value of antennas and converters (by PLN 4,994) and a decrease in the value of prepayments for inventory (by PLN 7,657).

The value of short-term borrowings to related parties increased by PLN 3,972 and as at 31 December 2010 amounted to PLN 5,446. The increase was a result of a loan granted to our subsidiary M.Punkt Holdings in the amount of PLN 5,248, offset by repayment of the loan (together with interests) granted to Cyfrowy Polsat Technology.

The value of trade and other receivables increased by PLN 45,617 (34%) to PLN 178,588 as at 31 December 2010 from PLN 132,971 as at 31 December 2009. The increase resulted mainly from an increase in trade receivables from third parties by PLN 57,411, being an effect of an increase in receivables resulting from linear accounting of subscription revenues. The increase was partially offset by a decrease in deferred tax receivables by PLN 9,706 and a decrease in trade receivables from related parties by PLN 2,234.

The value of other current assets increased by PLN 18,565, or 32% to PLN 77,154 as at 31 December 2010 from PLN 58,589 as at 31 December 2009. This was mainly a result of an increase in distributors commissions deferred in time by PLN 8,680 and a purchase of call options.

The value of cash and cash equivalents decreased by PLN 46,193 (66%) to PLN 24,195 as at 31 December 2010 from PLN 70,388 as at 31 December 2009, mainly as a result of dividend payment for 2009 in the amount of PLN 152,945, repayment of loans and borrowings with accrued interests of PLN 49,093, payment for shares of M.Punkt Holdings Ltd. (PLN 33,966) and payments for purchases of fixed assets in the amount of PLN 40,642, what was partially offset by cash flow from operating activities in 2010.

As at 31 December 2010, the balance of restricted cash equaled PLN 0. The value of restricted cash as at 31 December 2009 amounted to PLN 26,738 and included cash transferred to escrow account that was used for the purchase of shares of M.Punkt Holdings Ltd.

As at 31 December 2010 the Company did not have liabilities from loans or borrowings. As at 31 December 2009 the balance of short term loan liabilities amounted to PLN 47,370 (out of which PLN 47,277 of credit capital) and related to the loan denominated in Polish zloty, that was repaid in full on 6 September 2010.

The value of trade and other payables increased by PLN 67,271 or by 32% to PLN 280,411 at 31 December 2010 from PLN 213,140 as at 31 December 2009, mainly as a result of an increase in trade and other payables to related parties by PLN 16,991 (mainly related to purchases of set-top boxes from CPT Sp. z o.o. – PLN 14,414 and liabilities to Telewizja Polsat S.A. – PLN 6,760) and an increase in trade payables to third parties by PLN 42,470.

Deferred income increased by PLN 31,350 or 23% to PLN 166,412 as at 31 December 2010 from PLN 135,062 as at 31 December 2009 as a result of increase in subscription fees paid in advance by our subscribers.

The equity increased by PLN 731,221 to PLN 1,059,036 as at 31 December 2010 from PLN 327,815 as at 31 December 2009, as a result of the profit gained in the 12 months of 2010 in the amount of PLN 884,166, that was partially offset by the dividend paid for 2009 in the amount of PLN 152,945. The significant increase in the net profit in 2010 resulted mainly from other operational profit recognized following the contribution in a kind of an organized part of the enterprise to the subsidiary CPTM Sp. z o.o. – PLN 608,434.

Comparison of financial results in 2010 with the result in 2009

Revenues from services, goods, products and materials sold

	Year ended		
	31 December 2010	**31 December 2009**	**Change %**
Revenues from subscription fees (Mini and MiniMax Package)	87 393	58 146	50%
Revenues from subscription fees (other Packages)	1 306 119	1 131 672	15%
Revenues from sales of equipment	28 278	46 403	-39%
Revenues from telecommunications subscription fees, interconnection revenues and settlements with mobile telephony operators	19 529	5 550	252%
Other revenues from sales	32 221	25 687	25%
Total	**1 473 540**	**1 267 458**	**16%**

Our revenues from services, goods, products and materials sold increased by PLN 16% to PLN 1,473,540 in 2010 from PLN 1,267,458 in 2009. The increase mainly resulted from:

(i) a 17% increase in revenue from satellite TV subscription fees to PLN 1,393,512 from PLN 1,189,818 mainly due to a 13,7% increase in the average number of subscribers and a 3.8% increase in monthly blended ARPU; the revenue from Mini and MiniMax Packages subscription fees increased by 50%, and the revenue from other packages subscription fees increased by 15%;

(ii) an increase in revenues from telecommunications subscription fees, interconnection revenues and settlements with mobile telephony operators by PLN 13,979 to PLN 19,529 in 2010 from PLN 5,550 in the previous period, mainly due to the revenues from Internet services, an increase in the number of users of MVNO post-paid services and higher revenues from settlements with mobile telephony operators;

(iii) an increase in other revenues from sale by PLN 6,534 (25%) to PLN 32,221 from PLN 25,687, mainly due to higher revenues from lease of receiving equipment and higher revenues from sales of marketing and advertising services.

These increases were partially offset by:

(i) a 39% decrease in the revenues from sales of equipment to PLN 28,278 from PLN 46,403 mainly as a result of a decrease in the number of sold set-top boxes due to an increase in the proportion of leased set-top boxes in the new contracts for DTH services as compared to the corresponding period of 2009 and a decrease in the weighted average price of set-top box sold coming as an effect of promotional offers for set-top boxes; the decrease of revenues from sales of equipment was also a result of lower revenues from sales of antennas. The decreases mentioned were partially offset by the revenues from the sale of disks, modems and other Internet accessories;

Cost of operating activities

	year ended		
	31 December 2010	31 December 2009	Change %
Depreciation and amortization	78 873	40 165	96%
Programming costs	392 035	354 395	11%
Signal transmission services costs	79 855	82 570	-3%
Costs of equipment sold	56 151	97 850	-43%
Distribution, marketing, customer relation management and retention costs	297 530	262 347	13%
Salaries and employee-related expenses	76 616	69 862	10%
Other costs	115 358	72 366	59%
Total operating costs	**1 096 418**	**979 555**	**12%**

Our costs of operating activities increased by 12% to PLN 1,096,418 in 2010 from PLN 979,555 in 2009. The increase resulted primarily from:

(i) a 11% increase in the programming license fees to PLN 392,035 from PLN 354,395, mainly due to an increase in the average number of subscribers, which is a base for calculation of DTH license fee, an increase in costs related to VoD Home Video Rental licenses, and an increase in payments to organizations of collective managing of copyrights. The increases mentioned were offset by a decrease of costs related to the favorable EUR/PLN and USD/PLN exchange rate

(ii) a 96% increase in depreciation and amortization to PLN 78,873 from PLN 40,165 resulting from an increase in depreciation costs of set-top boxes leased to our subscribers (so the set-top boxes recognized as fixed assets) due to the higher share of leased set-top boxes in our newly concluded contracts and depreciation of newly accepted into use vehicles, modernization of buildings, computers and other equipment;

(iii) a 13% increase in distribution, marketing and customer relation management costs and retention cost to PLN 297,530 from PLN 262,347 mainly, as a result of (a) an increase in customer relation management and retention costs due to an increase in subscriber base and the introduction of retention programs (b) an increase in marketing costs resulting from advertising campaign of Multi-play offer and Internet service and the start-up costs of the new TV guide “TV2Tygodnik”; the increases were partially offset by a decrease in distribution and logistics costs due to lower costs of distributors’ commissions;

(iv) a 59% increase in the other operating costs to PLN 115,358 from PLN 72,366 mainly as a result of an increase in costs related to internet services, an increase in costs of cards provided together with set-top boxes and handsets, an increase in property maintenance costs and warranty services costs, offset partially by a decrease in IT services costs and other costs;

(v) a 10% increase in salaries and employee related costs to PLN 76,616 from PLN 69,862 due to increased average headcount.

These increases were partially offset mainly by a 43% decrease in the cost of equipment sold to PLN 56,151 from PLN 97,850 mainly as a result of a decrease in the number of set-top boxes sold, resulting mainly from increased proportion of leased set-top boxes which are depreciated rather than expensed in total, as well as a decrease in the average purchase price of set-top boxes attributable to production of set-top boxes by CPT, our subsidiary. The decrease was partially offset by recognized costs of sale of hard drives, modems, Internet sets, routers and external Internet antennas.

Other operating revenues

Our other operating revenues increased by PLN 601,602 to PLN 614,032 in 2010 from PLN 12,430 in 2009. The increase resulted mainly from the gain recognized following the contribution in a kind of an organized part of the enterprise to established in 2010 subsidiary CPTM Sp. z o.o. in the amount of PLN 608,434. The increase was partially offset by a decrease in compensations.

Other operating costs

Our other operating costs increased by 86% to PLN 42,763 in 2010 from PLN 22,998 in 2009 as a result of an increase in bad debt provision and the cost of receivables written off, resulting from the increase in subscribers base and the development of telecommunication services, as well as an increase in provisions for tangibles and inventories.

Operating profit

Our operating profit increased by 671,056 to PLN 948,391 in 2010 from PLN 277,335 in 2009. Such a significant increase resulted mainly from other operational profit recognized following the contribution in a kind of an organized part of the enterprise to established in 2010 subsidiary CPTM Sp. z o.o. in the amount of PLN 608,434. Operational profit was also positively affected by an increase in our revenues from services, goods, products and materials sold by PLN 206,082, partially offset by an increase in operating costs by PLN 116,863. Excluding the effect of the transaction with CPTM Sp. z o.o., the operating profit amounted to PLN 339,957.

Financial income

Our financial income decreased by 62% to PLN 5,785 in 2010 from PLN 15,237 in 2009.

Financial income comprised mainly a dividend from our subsidiary Cyfrowy Polsat Technology Sp. z o.o. in the amount of PLN 4,000 and interests gained, The decrease in financial income in 2010 compared to 2009 resulted mainly from lower interests on deposits by PLN 4,751 and to the fact, that in 2009 we recognise PLN 7,540 on realization of forward contracts (no such item in 2010). The decrease was partially offset by the dividend mentioned above.

Financial expenses

Our financial expenses decreased by 20% to PLN 4,982 in 2010 from PLN 6,265 in 2009.

Financial expenses comprised net foreign exchange losses of PLN 1,969, interest expenses on bank loans of PLN 1,723 and costs of valuation and realization of foreign exchange call options of PLN 922.

Gross profit

Our gross profit increased by PLN 662,887 to PLN 949,194 in 2010 compared to PLN 286,307 in 2009, as a result of an increase in operating profit by PLN by 671,056 (see above) partially offset by a decrease in financial profit by PLN 8,169.

Income tax

Income tax was PLN 65,028 in 2010. The effective tax rate was 6.9% as a result of the profit recognized following the contribution in a kind of an organized part of the enterprise to established in 2010 subsidiary CPTM Sp. z o.o. in the amount of PLN 608,434, that was excluded from tax calculation. Excluding the profit from the above transaction, the effective tax rate equaled 19.1%.

Net profit

Our net profit increased by PLN 652,125 to PLN 884,166 in 2010 compared to PLN 232,041 in 2009 as a result of an increase in the gross profit, offset by an increase in income tax by PLN 10,762.

Other information

EBITDA

EBITDA increased to PLN 1,027,264 in 2010 from PLN 317,500 in 2009 mainly as a result of the other operating profit recognized following the contribution in a kind of an organized part of the enterprise to established in 2010 subsidiary CPTM Sp. z o.o. in the amount of PLN 608,434. EBITDA was also positively affected by an increase in our revenues from services, goods, products and materials sold by PLN 206,082, partially offset by an increase in operating costs (excluding amortization and depreciation) by PLN 78,155. Excluding the effect of the transaction with CPTM, EBITDA equaled PLN 418,830 and EBITDA margin – 28%.

Capital expenditure

Capital expenditures amounted to PLN 40,642 in 2010 when compared to PLN 35,473 in 2009, mainly due to expenditure on fixed assets and intangible assets, concerning mainly the investment in Call Center in Torun, the new central logistic and warehousing system and improvements in other systems, as well as purchases of new vehicles, machines, computers and other equipment.

Employment

Average number of employees amounted to 548 in 2010 when compared to 461 in 2009. The increase in the average number of employees resulted mainly from our organic growth and launch of the Internet access services.

Liquidity and capital reserves

The table below presents cash flow for the period of twelve months ended on 31 December 2010 and 2009.

	Twelve month period ended on	
	31 December 2010	**31 December 2009**
Cash flow from operating activities	210 244	184 578
Cash flow from investing activities	(74 316)	(59 443)
Cash flow from financial activities	(208 801)	(268 826)
Net changes in cash and cash equivalents	(72 873)	(143 691)

Cash flow from operating activities

Cash flow from operating activities increased by PLN 25,666 to PLN 210,244 in 2010 from PLN 184,578 in 2009. The increase is a net effect of the several significant factors: higher net profit generated in 2010, higher depreciation costs, higher change in the balance of trade liabilities, deferred income and provisions, lower income tax paid, higher increase in receiving equipment in operational lease, higher increase in receivables and other assets, as well as higher increase in inventories.

Cash flow from investing activities

Cash flow used in investing activities increased by PLN 14,873 to PLN 74,316 in 2010 from PLN 59,443 in 2009, mainly as a result of loans granted and an increase in expenditures on purchase of tangible and intangible assets, as well as the completion of purchase of M.Punkt.

Cash flow from financial activities

Cash flow used in financial activities in 2010 amounted to PLN 208,801 compared to PLN 268,826 in of 2009 and comprised mainly the dividend paid for 2009 in the amount of PLN 152,945, repayment of bank debt with accrued interest on bank debt and leasing payments of PLN 49,330 and purchase of call options for PLN 7,320.

Cash and cash equivalents as at 31 December 2010 amounted to PLN 24,195 compared to PLN 97,126 as at 31 December 2009. The balance as at 31 December 2009 included the balance of restricted cash of PLN 26,738, concerning the cash transferred to escrow account that was used for the purchase of shares in mPunkt Holdings Ltd. We keep our cash in a form of bank deposits in zloty, euro and US dollars in Invest Bank S.A. and Bank Pekao S.A.

Item 6.7. Future liquidity and capital resources

Our non-current liabilities amounted to PLN 72,770 as at 31 December 2010 as compared to PLN 31,439 as at 31 December 2009.

Our total debt from long- and short-term loans and borrowings as at 31 December 2010 was PLN 0.

As at 31 December 2010 our cash balance amounted to PLN 24,195.

In the first quarter of 2011, we plan to take a loan to finance the purchase of 100% of Telewizja Polsat shares. At the end of December 2010, we signed a term sheet with a consortium of banks, that will organize, secure and provide the Company with a loan to finance the transaction. The loan will be used together with issuance of warrants convertible to shares of the value of PLN 1.15bn (not in thousands). According to the term sheet, the consortium of banks, including Citibank, N.A, London Branch/Bank Handlowy w Warszawie S.A., Crédit Agricole CIB and The Royal Bank of Scotland plc, will provide a long-term loan of up to PLN 1.4bn (not in thousands), a bridge loan of up to 1.4bn (not in thousands) and a revolving credit facility of PLN 200 million (not in thousands). The final amount and terms of financing will be specified in the loan agreement or loan agreements, of which the conclusion is scheduled by the end of March 2011.

Notwithstanding this transaction, we believe that our cash balances and cash generated from our current operations will be sufficient to fund the future cash needs for our operational activity and for development of our services.

Item 6.8. Information on incurred and noticed credit and loan agreements

On 29 November 2010, we concluded an annex to the credit agreement with Bank Polska Kasa Opieki S.A. dated 29 October 2009, regarding the increase of the overdraft facility from PLN 100,000 to PLN 139,000. Before, on 23 April 2010 we signed another annex increasing the overdraft facility from PLN 50,000 to PLN 100,000. Interest rate on the overdraft facility is the sum of the reference rate WIBOR O/N and bank margin. Collateral for the overdraft facility is an execution statement of up to PLN 208,500. The agreement expires on 30 April 2011. As at 31 December 2010, we did not have loan on the above-described overdraft facility.

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

On 31 December 2010 we signed and Annex 3 to the Loan Agreement dated February 5, 2008 with our subsidiary, Cyfrowy Polsat Technology Sp. Ltd., to finance the activities of this company. Under this annex the maturity date of repayment of the remaining PLN 51 was extended to 31 December 2011, the interest rate remained unchanged and is WIBOR 6M calculated on the last day before the date of maturity of interest plus a margin of 2%. Collateral for the loan is a borrower's incomplete blank promissory note with bill of exchange declaration the borrower's promissory note imperfect self-declaration, together with bills of exchange. The loan was fully repaid on 5 January 2011.

On 23 June 2010 we signed a loan agreement with our subsidiary M.Punkt Holdings Ltd. Based on this agreement, during the 12 months of 2010 we granted a loan of PLN 5,248. The interest rate was agreed as WIBOR 6M plus the margin of 2%. It was determined that the loan will be repaid until 31 December 2010. A borrower’s incomplete blank promissory note with a bill of exchange declaration is the collateral for the loan. An annex from 31 December 2010 to this agreement postponed the maturity date to 31 December 2011.

In 2010 Cyfrowy Polsat S.A. granted a loan of PLN 3,536 to a third party. By the end of 2010 the loan was fully repaid.

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

On 25 August 2010 we granted to our subsidiary mPunkt a pledge of up to PLN 13,000 as the collateral for the overdraft facility from BRE Bank of up to PLN 12,000.

Item 6.11. Off balance liabilities

Contractual liabilities related to purchase of non-current assets

Cyfrowy Polsat entered into agreements for manufacturing and purchase of technical equipment. Amount of unbilled purchases of goods and services resulting from the agreements totaled PLN 12,403 as at 31 December 2010. We also entered into several agreements on refurbishment of property. Amount of unbilled purchases of goods and services regarding refurbishment totaled PLN 75 as at 31 December 2010. In addition, the Company entered into agreements for purchase of licences and software – as at 31 December 2010 the value of unbilled deliveries and services under the agreements amounted to PLN 173.

Item 6.12. Information on material proceedings at the court, arbitration body or public authorities against the Company

Public administration proceedings

<u>Proceedings before the President of Office of Competition and Consumer Protection (UOKiK) regarding an application of practices breaching collective interests of consumers.</u>

Cyfrowy Polsat S.A. received on 13 August 2009 a notification of initiation of proceedings with regard to application of practices breaching collective interest of consumers as set out by the provisions of article 24 clause 2 point 1 of the Law of 16 February 2007 on competition and consumer protection by Cyfrowy Polsat, relating to statements in the service provision rules, whose content, in the view of the President of the Office of Competition and Consumer Protection, may be tantamount to the content of provisions entered into the registry of templates that have been deemed forbidden. Cyfrowy Polsat had been in the course of works, in cooperation with UOKiK and the Office of Electronic Communications, to change the rules. The amended rules entered into force on 1 November 2009.

Cyfrowy Polsat received decision No. 11/2009 dated 31 December 2009 stating that the President of UOKiK recognizes the statements in the service provision rules (which were in force until 1 November 2009) as practice breaching the collective interests of consumers. Simultaneously, the President of UOKiK stated that these provisions were ceased in the amended rules.

The President of UOKiK ordered, once the decision becomes legally binding, its publication on the www.cyfrowypolsat.pl website and in a daily nationwide newspaper. Moreover, pursuant to article 106 clause 1 point 4 of the Law of 16 February 2007 on competition and consumer protection the President imposed a cash fine of PLN 994 payable to the state budget, due to the breach of the interdiction set out in article 24 clause 1 and 2 point 1 of the Law of 16 February 2007 on competition and consumer protection within the scope described in the decision, which constitutes 0.09% of Cyfrowy Polsat's revenue in 2008.

We submitted appeal against the decision to the Competition and Consumer Protection Court. The President of UOKiK applied for a dismissal of the appeal. Until the date of this report the Competition and Consumer Protection Court did not referred to any of applications submitted by both parties to proceedings.

Other litigations

<u>Action brought by SkyMedia Sp. z o.o.</u>

A lawsuit filed by SkyMedia Sp. z o.o. with registered office in Katowice for compensation and indemnity claims. On 2 April

2010 the District Court for Warszawa Praga in Warsaw X Entrepreneurs‟ Division give judgment on base of which the Company is obliged to the payment for SkyMedia Sp. z o.o of the amount of the PLN 545 with statutory interest calculated since 28 August 2007 and the PLN 30, as the return of court costs.

Both sides submitted appeal against the decision. On 22 September 2010 the Court of Appeal in Warsaw upheld the verdict of the District Court for Warszawa Praga in Warsaw from 2 April 2010. The verdict of the Court of Appeal is valid and upholds payment obligation of the adjudged amount to SkyMedia Sp. z o.o. The Company plans to appeal against the decision to the Supreme Court.

Item 6.13. Major investments

In 2010 we did not invest in securities, financial instruments (excluding transactions hedging our open currency position), intangible assets, or real estate.

M.Punkt Holdings Ltd.

In June 2010 we completed the purchase of 100% shares in M.Punkt Holdings Ltd. The transaction also resulted in the takeover of control over subsidiaries of M.Punkt Holdings: mPunkt Polska S.A. and mTel Sp. z o.o. The transaction was realized in three stages – 45% shares we bought in 2009 for PLN 24,801, in May 2010 we bought another 49% shares for PLN 29,212, and in June 2010 we bought the remaining 6% for PLN 4,509. mPunkt operates as a country-wide sales network of telecommunication services, mobile phones, accessories and maintenance services which are offered to individual customers.

Telewizja Polsat S.A.

In November 2010, we signed an investment agreement considering an acquisition of 100% shares of Telewizja Polsat for PLN 3.75 million. The transaction will be financed partially in cash (PLN 2.6 mln) and the remaining PLN 1.15 mln through issuance of subscription warrants for Telewizja Polsat shareholders. The transaction is expected to be completed in the first quarter of 2011.

In the first quarter of 2011, we plan to take a loan to finance the purchase of Telewizja Polsat. At the end of December 2010, we signed a term sheet with a consortium of banks, that will organize, secure and provide the Company with a loan to finance the transaction. The loan will be used together with issuance of warrants convertible to shares of the value of PLN 1.15 million. According to the term sheet, the consortium of banks, including Citibank, N.A, London Branch/Bank Handlowy w Warszawie S.A., Crédit Agricole CIB and The Royal Bank of Scotland plc, will provide a long-term loan of up to PLN 1.4 million, a bridge loan of up to 1.4 million and a revolving credit facility of PLN 200,000. The final amount and terms of financing will be specified in the loan agreement or loan agreements, of which the conclusion is scheduled by the end of March 2011.

We believe that as a result of the acquisition of Telewizja Polsat S.A., we will strengthen our competitive advantages and we will become the undisputed media market leader in Poland. The investment in Telewizja Polsat creates superior growth prospects, with diversification of products and revenue streams. In addition it will be a proof of our ability to adapt to the changing market conditions and it will deliver short term synergies and medium to long term strategic benefits.

Cyfrowy Polsat Trade Marks Sp. z o.o.

On 20 December 2010, the Company concluded an agreement, regarding the transfer of the contribution in a kind to cover the share of the Company in an increased share capital of its wholly-owned subsidiary Cyfrowy Polsat Trade Marks Sp. z o.o.

The agreement provides the Company to transfer to CPTM a contribution in kind of an organized part of the enterprise of the Company, forming a branch under the name of Cyfrowy Polsat Spółka Akcyjna Oddział w Warszawie with its registered office in Warsaw, at Chałubińskiego 8, in order to cover 1,230,880 newly issued shares of the nominal value of PLN 500 each (not in thousand), acquired by the Company in the increased share capital of CPTM. The value of transferred contribution amounted to PLN 615,440.

On 17 December 2010 the Extraordinary General Shareholders Meeting adopted the resolution no 11, regarding the approval for the disposal of an organized part of the enterprise of the Company, forming the Branch.

The disposal of the Branch through its contribution as an in kind contribution in order to cover the Company's share in the increased share capital of CPTM was intended to reorganize the Company by segregating its core business of broadcasting radio and television programs, mobile phone services and internet provider business from non-core business of management of selected fixed assets and equipment, as well as intellectual property management.

Item 6.14. Trend information

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

- Further development of pay television market, including cable and DTH;

- Fluctuations in exchange rates of zloty against the euro and the USD. We are exposed to fluctuations in the exchange rates of Zloty to both Euro and USD. A large proportion of our cost of operating activities is denominated in these currencies. In the last year zloty appreciated against Euro and USD. Weakening of PLN against these currencies might have an adverse influence on our financial results.

- The inflationary trend in Poland is currently increasing, but until recently had been stable. December 2010 inflation was 3.1% year to year. Although in 2010 inflationary trend slowed down, analysts forecast significant increase of prices in 2011. We do not believe that the current inflationary trends will have a material impact on our business in the future.

We cannot predict future trends of development of the market, currency exchange rates and inflation.

Item 6.15. Information on market risks

All our business is conducted in Poland. However, due to the nature of our business we are exposed to fluctuations in exchange rates and interest rates, as a result of the fact that the amounts due to third parties are often expressed in dollars or euro, and our revenues are expressed primarily in the Polish Zloty.

Currency risk

One of the main risks that the Company is exposed to is currency risk resulting from fluctuations in exchange rate of the Polish zloty against other currencies. Revenues generated by the Company are denominated primarily in the Polish zloty, while, a significant portion of operating costs and capital expenditures are incurred in foreign currencies. The Company’s currency risk is associated mainly to royalties to TV and radio broadcasters (USD and EUR), transponder capacity leases (EUR), fees for conditional access system (EUR) and purchases of reception equipment and accessories for reception equipment (USD and EUR).

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

In order to keep to an acceptable level its currency risk related to royalties to TV and radio broadcasters, costs of conditional access system and costs of reception equipment purchases the Company purchased a number of foreign exchange call options.

On 10 August 2010 the Company purchased foreign exchange call options for a total value of EUR 12,000 and USD 18,000. The options provide that the Company is entitled to purchase EUR 1,000 and USD 1,500 on a monthly basis within 12 months until 1 August 2011 inclusively (strike prices are respectively 4.0310 PLN per 1 euro and 3.0790 PLN per 1 dollar). The total premium for purchased options was equal to PLN 4,540. On 4 November 2010 the Company purchased foreign exchange call options for a total value of USD 18,000. The options provide that the Company is entitled to purchase USD 1,500 on a monthly basis within 12 months until 1 November 2011 inclusively (strike price is 2.8000 PLN per 1 dollar). The total premium for purchased options was equal to PLN 2,780. The foreign exchange call options were purchased in order to limit the impact of foreign exchange rates fluctuations on net profit of the Company. The Company did not apply hedge accounting in respect to these options. As at 31 December 2010 the fair value of unrealized foreign exchange call options amounted to PLN 5,604 and was presented in 'Other current assets'. Between 10 August and 31 December 2010 the Company recognized financial expenses resulting from valuation and realization of options in income statement totaling PLN 922.

The Company did not have any assets held for trading denominated in foreign currencies.

The Company does not apply hedge accounting.

Sensitivity analysis

For the purposes of the exchange rate sensitivity analysis as at 31 December 2010 and 31 December 2009 exchange rate volatility in the +/- 5% range was assumed as probable. This analysis assumes that all other variables, in particular interest rates, remain constant. The sensitivity analysis below is performed on the same basis for 2009.

	2010				**2009**			
	As at 31 December 2010		**Estimated change in exchange rate in %**	**Estimated change in profit in PLN (in thousand)**	**As at 31 December 2009**		**Estimated change in exchange rate in %**	**Estimated change in profit in PLN (in thousand)**
	in currency (in thousand)	**in PLN (in thousand)**			**in currency (in thousand)**	**in PLN (in thousand)**		
Trade receivables								
EUR	2,123	8,407	5%	420	1,035	4,253	5%	213
USD	28	83	5%	4	43	122	5%	6
Cash and cash equivalents								
EUR	1,451	5,745	5%	287	680	2,795	5%	140
USD	101	300	5%	15	334	953	5%	48
Trade payables								
EUR	(7,210)	(28,555)	5%	(1,428)	(3,738)	(15,358)	5%	(768)
USD	(4,416)	(13,089)	5%	(654)	(15,066)	(42,943)	5%	(2,147)
Change in operating profit				(1,356)				(2,508)
Foreign exchange call options								
EUR	7,000	27,722	5%	923	-	-	5%	-
USD	27,000	80,031	5%	3,040	-	-	5%	-
Income tax				495				(477)
Change in net profit				2,112				(2,031)

	2010				2009			
	As at 31 December 2010		Estimated change in exchange rate in %	Estimated change in profit in PLN (in thousand)	As at 31 December 2009		Estimated change in exchange rate in %	Estimated change in profit in PLN (in thousand)
	in currency (in thousand)	in PLN (in thousand)			in currency (in thousand)	in PLN (in thousand)		
Trade receivables								
EUR	2,123	8,407	-5%	(420)	1,035	4,253	-5%	(213)
USD	28	83	-5%	(4)	43	122	-5%	(6)
Cash and cash equivalents								
EUR	1,451	5,745	-5%	(287)	680	2,795	-5%	(140)
USD	101	300	-5%	(15)	334	953	-5%	(48)
Trade payables								
EUR	(7,210)	(28,555)	-5%	1,428	(3,738)	(15,358)	-5%	768
USD	(4,416)	(13,089)	-5%	654	(15,066)	(42,943)	-5%	2,147
Change in operating profit				1,356				2,508
Foreign exchange call options								
EUR	7,000	27,722	-5%	(421)	-	-	-5%	-
USD	27,000	80,031	-5%	(2,344)	-	-	-5%	-
Income tax				(268)				477
Change in net profit				(1,141)				2,031

Had the exchange rate of euro and American dollar against the Polish zloty as at 31 December 2010 and 31 December 2009 been higher by 5%, the Company's net profit would have correspondingly increased by PLN 2,112 thousand and decreased by PLN 2,013 thousand. Had the exchange rate of the Polish zloty against euro and American dollar been higher by 5% the Company's net profit would have correspondingly decreased by PLN 1,141 thousand and increased by PLN 2,031 thousand, assuming that all other variables remain constant. Estimated future revenue and cost denominated in foreign currency is not taken into consideration.

Interest rate risk

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

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

Liquidity risk

The Company's objective in liquidity management is to ensure that it always has sufficient funds to meet its liabilities when due. Any surplus cash is invested into bank deposits.

The Company prepares, on an ongoing basis, analyses and forecasts of its cash requirements based on projected cash flows.

The following are the contractual maturities of the Company's financial liabilities.

	31 December 2010						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	more than 5 years
Finance lease liabilities	1,110	1,110	113	113	226	658	-
Trade and other payables to third parties	148,561	148,561	148,561	-	-	-	-
Trade and other payables to related parties	24,946	24,946	24,946	-	-	-	-
	174,617	**174,617**	**173,620**	**113**	**226**	**658**	**-**

	31 December 2009						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	more than 5 years
Loans	47,370	48,257	32,337	15,920	-	-	-
Finance lease liabilities	1,385	1,385	117	117	234	703	214
Trade and other payables to third parties	107,693	107,693	107,693	-	-	-	-
Trade and other payables to related parties	7,955	7,955	7,955	-	-	-	-
	164,403	**165,290**	**148,102**	**16,037**	**234**	**703**	**214**

Item 7. Dividend policy

Our Ordinary Annual Shareholders' Meeting, held on 4 July 2008, approved a resolution on the dividend policy, stating that it is our intention to pay a dividend of 33% to 66% of the net profit for the year. The dividend payment which will depend on the achieved profits, financial situation, existing liabilities (including restrictions as stipulated in the loan agreements), possibility of disposition of capital reserves, assessment performed by the Management Board and the Supervisory Board of our development perspectives in a specific market situation, as well as the need of cash resources in pursuit of our superior target, which is further growth, especially through the acquisitions and new projects.

Our Ordinary Annual Shareholders' Meeting approved a resolution on dividend for 2009 of PLN 0.57 (not in thousands) per share which accounted for 66% of our profits. The dividend was paid in two tranches on 11 August 2010 in the amount of PLN 101,963 and on 17 November 2010 in the amount of PLN 50,982.

Following the acquisition of Telewizja Polsat, the Management Board does not exclude amending the dividend policy in order to decrease the indebtedness level that will be significantly increased as a result of financing the underlying transaction.

Item 8. Management contracts with members of the management board setting out severance packages payout as a result of their resignation or dismissal from the position without a material cause

Cyfrowy Polsat S.A concluded a management contract with **Dominik Libicki** who is the President of the Management Board setting out that his notice period is six months. In addition the non-competition agreement concluded with **Dominik Libicki** sets out a monthly payment of PLN 55 over the number of months specified in non-competition agreement. Dominik Libicki will be entitled to a severance package equivalent of six month monthly salaries (as in the moth prior to termination), as a result of expiry of the contract or lack of its extension due to reasons caused by the Company, or termination of the contract by the Company, or its cancellation by Dominik Libicki as a result of default in his remuneration payment for three months.

The management contract with **Dariusz Działkowski** sets out the notice period at four months. In addition the non-competition agreement concluded with Dariusz Działkowski sets out a monthly payment of PLN 40 over the number of months specified in non-competition agreement.

The management contract with **Tomasz Szeląg** sets out the notice period at four months. In addition the non-competition agreement concluded with Tomasz Szeląg sets out a monthly payment of PLN 40 over the number of months specified in non-competition agreement.

The management contract with **Aneta Jaskólska** sets out the notice period at four months. In addition the non-competition agreement concluded with Aneta Jaskólska sets out a monthly payment of PLN 40 over the number of months specified in non-competition agreement..

The management contract with **Andrzej Matuszyński** set out the notice period at four months. In addition the non-competition agreement concluded with Mr. Matuszyński set out a monthly payment of PLN 40 over the number of months specified in non-competition agreement. The contract also set out a severance package for Andrzej Matuszyński totaling PLN 240 if the management contract expires, or due to lack of extension of the management contract for reasons caused by the Company, or for a contract noticed by the Company, or its dissolution by Andrzej Matuszyński due to default in his salary payment for three months. As a result of resignation of Andrzej Matuszyński from the position of the member of the Management Board this agreement was terminated in January 2010.

Item 9. Remuneration of the Members of the Management Board and the Members of the Supervisory Board

Information regarding remuneration of members of the Management Board and the Supervisory Board for the financial year ended 31 December 2010 is included in Note 40 (Members of the Management Board) and Note 41 (Members of the Supervisory Board) of Financial Statements.

Item 9.1. Stock option plan

On 4 December 2007, the Extraordinary General Shareholders' Meeting of Cyfrowy Polsat S.A. adopted a resolution on the introduction of a management incentive plan. Under the plan, managers would be granted options for the Company shares. The persons entitled to acquire the shares will be holders of subscription warrants who acquired the warrants in line with the incentive plan rules and on the basis of resolution of the Extraordinary General Shareholders Meeting on issue of subscription warrants. Holders of the subscription warrants should exercise their right to receive shares issued pursuant to the resolution on the conditional share capital increase within six months following the day on which the General Shareholders' Meeting approves the financial statements of the Company for the year 2011. Notwithstanding the foregoing, for individual series of shares, the following dates are the first day of the period for filing statements on subscription of relevant shares:

(i) Series G1 shares – the date on which the 2008 financial statements are approved by the General Shareholders' Meeting,

(ii) Series G2 shares – the date on which the 2009 financial statements are approved by the General Shareholders' Meeting,

(iii) Series G3 shares – the date on which the 2010 financial statements are approved by the General Shareholders' Meeting,

(iv) Series G4 shares – the date on which the 2011 financial statements are approved by the General Shareholders' Meeting.

As at the date of approval of our consolidated financial statements, the incentive plan had not been accepted.

According to the abovementioned resolution described above, should not all shares of a given series be distributed, in line with the goal of the resolution, the Supervisory Board may transfer the remaining undistributed shares to other series, effectively increasing the number of shares in that series. On no account may the overall number of shares issued on the grounds of the resolution be changed.

Item 9.2. Stock option control system

Due to the fact that we have not yet implemented the stock based incentive program we have not yet introduced the stock control system.

Item 10. Shares of Cyfrowy Polsat held by members of the Management Board and the Supervisory Board

Shares held by members of the Management Board

The following table presents information relating shares held directly and indirectly by particular members of the Management Board as at the day of the publication of this Report, ie. 17 March 2011:

	No. of shares	**Nominal value of shares (not in thousands)**
Dominik Libicki	1,497	59.88
Dariusz Działkowski	-	-
Aneta Jaskólska		
Tomasz Szeląg	-	-
Total	**1,497**	**59.88**

Shares held by members of the Supervisory Board

The following table presents information about shares held directly and indirectly by particular members of the Supervisory Board as at the day of the publication of this Report:

	No. of shares	**Nominal value of shares (not in thousands)**
Zygmunt Solorz-Żak[1].........................	159.375.000	6,375,000
Robert Gwiazdowski........................	-	-
Andrzej Papis..................................	-	-
Leszek Reksa..................................	-	-
Heronim Ruta[2]..................................	26,253,750	1,050,150
Total..	**185,628,750**	**7,425,150**

[1]Zygmunt Solorz-Żak owns indirectly 148,771,250 shares of Cyfrowy Polsat S.A. (55.44% of the share capital and 64.92% of votes) through Polaris Finance B.V and directly 10.603.750 shares of Cyfrowy Polsat S.A. (3.95% of the share capital and 4.74% of votes).
[2]Heronim Ruta owns indirectly 26,253,750 shares of Cyfrowy Polsat S.A. (9.78% of the share capital and 11.46% of votes) through Polaris Finance B.V. Heronim Ruta does not own directly any shares of Cyfrowy Polsat S.A.

Item 11. Transactions with related parties

We present information on material transaction we, or our subsidiary, concluded with a related party in the consolidated financial statements for the financial year ended 31 December 2010 in Note 42 *Transactions with related parties*.

Item 12. Material agreements

Agreement with Telewizja Polsat S.A.

On 17 February 2010 Cyfrowy Polsat concluded in a written form a license agreement, that prolongs the oral agreement, for distribution of Polsat Film. It also concluded in a written form a license agreement, that prolongs the oral agreement, to distribute Polsat News, Polsat Play and Polsat Cafe and an annex to the license agreements dated 1 January 2006 for distribution of Polsat Sport Extra.

Polsat Cafe is available to the subscribers of all packages offered by the Company, while Polsat Film, Polsat News and Polsat Play are distributed to the Mini Max and Family Package subscribers and Polsat Sport Extra is distributed to Family Package subscribers.

The Company will pay a monthly license fee, expressed in US dollars, for distribution of Polsat Sport Extra and Polsat Film and in Polish Zloty for distribution of Polsat News, Polsat Play and Polsat Cafe.

Total value of signed annexes depends on the number of Family Packages subscribers and PLN/US dollar exchange rate. The Company estimated that the total value of these agreements and annex, over the agreements will not be lower than PLN 179,600 based on the PLN/US dollar exchange rate of PLN 2.9007 per 1 US dollar, exchange rate published by the National Bank of Poland on 17 February 2010.

All conditions of the described agreements are being concluded substantially on arm's length basis.

Agreement with Nagravision S.A.

On 31 March 2010 Cyfrowy Polsat S.A. signed an annex 4 to the agreement dated 2 November 2004 entered with Nagravision S.A. in respect to rent, license and installation of the Nagravision conditional access system and the sales of Nagravision smartcard.

For the rent, license, and technical support for the conditional access system, the Company will pay Nagravision S.A. a monthly, fixed fee, expressed in euro, based on the defined number of subscribers as set forth in the agreement. In addition, the Company will pay Nagravision a fee, expressed in euro, for the purchase of smartcards, per each purchased smartcard.

The value of the signed annex depends on the number of subscribers based on whom the monthly fee is paid for the rent, license and technical support of the conditional access system, the number of smartcards purchased, and the EUR/PLN exchange rate. The Company estimated that the value of the annex, for the duration of the contract until 31 December 2020, will be approximately PLN 356,000, assuming the EUR/PLN exchange rate at 3.8622, the exchange rate published by the National Bank of Polish on 31 March 2010, the estimated number of subscribers based on whom the fee is calculated, and the estimated number of smartcards that the Company will purchase during the contract duration.

All conditions of the agreement are being concluded substantially on arm's length basis.

Agreement concerning the purchase of Telewizja Polsat S.A.

On 15 November 2010 we signed an investment agreement considering the acquisition of the shares of Telewizja Polsat S. A. seated in Warsaw ("TV Polsat"). The agreement was concluded between the Company and Zygmunt Solorz-Żak, Heronim Ruta, Karswell Limited and Sensor Overseas Limited (jointly "Sellers").

Pursuant to the Agreement the Company undertook to buy and the sellers undertook to sell jointly 2,369,467 shares of TV Polsat with the share value of PLN 100 (not in thousands) each, constituting 100% of the share capital of the company and 100% votes at the shareholders meeting of TV Polsat for the total price of PLN 3,750,000.

Mr. Zygmunt Solorz-Żak undertook to sell 418,530 shares for the price of PLN 662,379.98, Mr. Heronim Ruta undertook to sell 73,858 shares for the price of PLN 116,890.22, Karswell Limited - 1,595,517 shares for the price of PLN 2,525,120.09, and Sensor Overseas Limited undertook to sell 281,562 shares for the price of PLN 445,609.71.

The title to the shares will be transferred after meeting the conditions specified below. The Agreement stipulates that 69.33% of the price for the shares, i.e. PLN 2,600,000, will be paid in the form of transfer to the Sellers' accounts on the date of transfer of the title to the shares and the remainder of the price, i.e. PLN 1,150,000 through setting off the Company's receivables on account of payment for the shares taken up by the Sellers in pursuance of the rights under subscription warrants to be issued by the Company pursuant to the Company's Shareholder Meeting resolution against the sellers' receivables on account of payment of the remainder of the price for the shares.

Pursuant to the draft subscription warrant take-up agreement, the issue price of the Company's shares taken up for the subscription warrants is to amount to PLN 14.37 per share (not in thousands).

Messrs. Zygmunt Solorz-Żak and Heronim Ruta are the members of the Company's Supervisory Board. TV Polsat and the Company (through Polaris Finance B.V.) are entities controlled by Mr. Zygmunt Solorz-Żak. The sole shareholder of Karswell Limited is Mr. Zygmunt Solorz-Żak, and the sole shareholder of Sensor Overseas Limited is Mr. Heronim Ruta. Polaris Finance B.V. holds 175,025,000 shares of the Company, constituting 65.23% of the share capital and 341,967,501 of votes at the Company's shareholder meeting, constituting 76.38% of the total number of votes.

The Agreement was concluded subject to the following conditions precedent: (i) the Sellers and the investor perform their obligations arising out of the agreement, (ii) the obligations pertaining to the stabilization period envisaged in the agreement are performed, (iii) the Sellers and the Company conclude subscription agreements pertaining to take-up of subscription warrants authorizing the holders to take up shares in the Company's share capital, (iv) the Company concludes loan agreements for partial financing of the acquisition of the shares in the total amount not lower than PLN 2,600,000 and prior Supervisory Board consent is obtained to establish the collateral envisaged in such agreements, (v) the Sellers receive the TV Polsat Supervisory Board's consent to sell the shares, (vi) the owners of the shares do not exercise their priority right to acquire the shares, (vii) the resolution on increasing the Company's share capital is adopted and registered and the resolution on issuing subscription warrants is adopted.

On 17 December 2010, the Extraordinary General Shareholders' Meeting of the Company adopted a resolution on the conditional increase in the share capital of the Company and the issuance of subscription warrants carrying the right to subscribe for shares in the Company's share capital. The Company's share capital was conditionally increased by up to PLN 3,201.11 by way of issuing no more than 80,027,836 ordinary bearer Series H shares with the nominal value of PLN 0.04 each (not in thousands). The issue price of the Company's shares taken up for the subscription warrants is to amount to PLN 14.37 per share (not in thousands). Series H shares will be issued to holders of registered Series H subscription warrants.

The Extraordinary General Shareholders' Meeting of the Company adopted also a resolution that the preemptive rights of the existing shareholders of the Company shall be excluded with respect to the new Series H shares. The adoption of the above mentioned resolutions constitutes a fulfillment of one of the conditions precedent set forth in the investment agreement.

On 5 January 2011 Cyfrowy Polsat received a decision of the District Court for the Capital City of Warsaw in Warsaw, XIII Business Division for the National Court Register dated December 28, 2010, which formed a basis for a conditional increase of the Company's share capital. The Company's share capital was conditionally increased by up to PLN 3,201.11. As a result of the registration, the nominal value of the Company's conditional share capital is up to PLN 3,420.15. The registration of conditional share capital increase constitutes a fulfillment of one of the conditions precedent set forth in the investment agreement

On 28 December 2010, we signed annex no. 1 to the investment agreement. The annex was executed between the Company, Zygmunt Solorz-Żak, Heronim Ruta, Karswell Limited and Sensor Overseas Limited, with the participation of Mat Fundusz Inwestycyjny Zamknięty and Koma Fundusz Inwestycyjny Zamknięty.

Pursuant to the annex, Mr. Zygmunt Solorz-Żak undertook to transfer to Mat Fundusz Inwestycyjny Zamknięty, and Mr. Heronim Ruta undertook to transfer to Koma Fundusz Inwestycyjny Zamknięty, their respective rights and the liabilities under the investment agreement, except for the provisions of the investment agreement governing, without limitation: the representations and warranties made by Zygmunt Solorz-Żak and Heronim Ruta on the day of concluding the investment agreement, some undertakings of these shareholders and certain provisions relating to the liability of the parties to the investment agreement ("Assignment and takeover of liabilities").

The Assignment and takeover of liabilities shall be contingent on the transfer of title to the shares held by Zygmunt Solorz-Żak to Mat Fundusz Inwestycyjny Zamknięty and to those held by Heronim Ruta to Koma Fundusz Inwestycyjny Zamknięty no later than by 22 June 2011.

The parties to the annex also resolved that in connection with the Assignment and taking over of liabilities, they decided to make a conditional amendment to the investment agreement such that Mat Fundusz Inwestycyjny Zamknięty and Koma Fundusz Inwestycyjny Zamknięty become parties to the investment agreement alongside the shareholders once the condition to effect the Assignment and taking over liabilities is fullfilled.

Furthermore, the parties to the annex introduced conditional amendments to the investment agreement resulting from the accession of Mat Fundusz Inwestycyjny Zamknięty and Koma Fundusz Inwestycyjny Zamknięty to the investment agreement as parties thereto. The amendments to the investment agreement concern, among other things, the introduction of the guarantee liability of Zygmunt Solorz-Żak for the fulfillment by Mat Fundusz Inwestycyjny Zamknięty and by the Karswell Limited of all their obligations under the investment agreement and the guarantee liability of Heronim Ruta for the fulfillment by Koma Fundusz Inwestycyjny Zamknięty and the Sensor Overseas Limited of all their obligations under the investment agreement. Furthermore, the parties agreed that Zygmunt Solorz-Żak and Heronim Ruta will remain responsible for the representations and warranties made in the investment agreement regarding the financial and legal status of Telewizja Polsat S.A. and its subsidiaries, and they will be obliged to confirm these representations and warranties on the date of the transfer of title to shares in Telewizja Polsat S.A. The parties also resolved to introduce the possibility of the sale of Telewizja Polsat S.A. shares by the Sellers at various dates, but in any event no later than 30 June 2011.

On 29 December 2010 the condition precedent contained in annex no. 1 to the investment agreement was fulfilled. The Management Board of the Company received notice in writing from Zygmunt Solorz-Żak and Heronim Ruta confirming the transfer of the Telewizja Polsat S.A. shares held by them to Mat Fundusz Inwestycyjny Zamknięty and Koma Fundusz

Inwestycyjny Zamknięty respectively. As a result of the foregoing, the annex came into force. In connection with the annex coming into force, so did the conditional provisions of the investment agreement which were introduced by the parties with the annex.

Agreement with Mobyland Sp. z o.o.

On 15 December 2010 the Company and Mobyland Sp. z o.o. signed a co-operation agreement in respect to data transfer services provided by Mobyland to the Company.

According to the agreement Mobyland will provide an access to the wireless data transfer service, based on 1800MHz and 900MHz bands in LTE and HSPA+ technology, respectively. The agreement was concluded for indefinite period and its value will be defined based on separate orders placed by the Company, regarding the purchase of data transfer service, expressed as a number of GB.

At the agreement date, the Company placed an order no. 1, regarding purchase of 12 million GB of data transfer service with the guaranteed utilization period by 31 December 2013 and price of PLN 0.00903 (not in thousands) per MB. The payment will be made in 12 equal monthly installments, starting from January 2011. The above mentioned order fulfils the operational requirements for the assumed period in respect to data transfer services provided to the current and new Company's clients.

Next orders will be placed in later periods, and its value will depend both on geographical coverage of Mobyland network and capacity of data transfer service required.

The above agreement enables the Company to offer integrated service, including Internet access service, which is part of the Company’s business strategy.

Agreement with Cyfrowy Polsat Trade Marks Sp. z o.o.

On 20 December 2010, the Company concluded an agreement, regarding the transfer of the contribution in a kind to cover the share of the Company in an increased share capital of its wholly-owned subsidiary Cyfrowy Polsat Trade Marks Sp. z o.o.

The agreement provides the Company to transfer to CPTM a contribution in kind of an organized part of the enterprise of the Company, forming a branch under the name of Cyfrowy Polsat Spółka Akcyjna Oddział w Warszawie with its registered office in Warsaw, at Chałubińskiego 8, in order to cover 1,230,880 newly issued shares of the nominal value of PLN 500 each (not in thousand), acquired by the Company in the increased share capital of CPTM. The value of transferred contribution amounts to PLN 615,440.

On 17 December 2010 the Extraordinary Shareholders Meeting adopted the resolution no 11, regarding the approval for the disposal of an organized part of the enterprise of the Company, forming the Branch.

The disposal of the Branch through its contribution as an in kind contribution in order to cover the Company's share in the increased share capital of CPTM is intended to reorganize the Company by segregating its core business of broadcasting radio and television programs, mobile phone services and internet provider business from non-core business of management of selected fixed assets and equipment, as well as intellectual property management.

Insurance agreements

In 2010 Cyfrowy Polsat S.A signed following insurances agreements with PZU S.A.: third party liability insurance, insuring assets against all risks, insuring the electronic equipment against all risks, insuring assets in domestic transport (cargo) and insuring assets in international transport (cargo)

Moreover in 2009 Cyfrowy Polsat S.A. signed motor insurance agreements with Ergo Hestia S.A.

Moreover, in 2010 Cyfrowy Polsat S.A. signed agreements of third-party insurance for directors and members of Management Board with AIG Europe S.A. branch in Poland. Apart from that, the agreement concluded in 2008 of third-party insurance of public securities offering, for 6 year with AIG Europe S.A. branch in Poland was still in force.

Item 13. Agreements with an entity certified to execute an audit of the financial statements

On 31 December 2010 the Company entered into an agreement with KPMG Audyt Sp. z o.o. s.k., with registered office in Warsaw at 51 Chlodna Street, for performance of the audit of the standalone financial statements of Cyfrowy Polsat S.A. and the consolidated financial statements of Cyfrowy Polsat Group for the fiscal year ended 31 December 2010.

The following summary presents a list of services provided by KPMG Audyt Sp. z o.o. s.k. (in 2009 KPMG Audyt Sp. z o.o.) and remuneration for the services in the period of 12 months ended on 31 December 2010 and 31 December 2009.

	for year ended	
	31 December 2010	**31 December 2009**
Fee for audit and review of financial statements	503	504
Remuneration for other certifying services, including the review of financial statements	215	226
Total	**718**	**730**

KPMG Audyt
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This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting Cyfrowy Polsat S.A.

We have audited the accompanying separate financial statements of Cyfrowy Polsat S.A., seated in Warsaw, ul. Łubinowa 4a ("the Company"), which comprise the balance sheet as at 31 December 2010, the income statement and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and notes to the financial statements, comprising of a summary of significant accounting policies and other explanatory information.

Management's and Supervisory Board's Responsibility for the Financial Statements

Management of the Company is responsible for the accuracy of the accounting records and the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by European Union, and with other applicable regulations and preparation of the Report on the Company's activities. Management of the Company is also responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2009, No. 152, item 1223 with amendments) ("the Accounting Act"), Management of the Company and members of the Supervisory Board are required to ensure that the separate financial statements and the Report on the Company's activities are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our responsibility, based on our audit, is to express an opinion on these financial statements and whether the financial statements are derived from properly maintained accounting records. We conducted our audit in accordance with section 7 of the Accounting Act, national standards on auditing issued by Polish National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements and the accounting records from which they are derived are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying separate financial statements of Cyfrowy Polsat S.A. have been prepared and present fairly, in all material respects, the unconsolidated balance sheet of the Company as at 31 December 2010 and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, are in compliance with the respective regulations and the provisions of the Company's articles of association that apply to the Company's separate financial statements and have been prepared from accounting records, that, in all material respects, have been properly maintained.

Other Matters

As required under the Accounting Act, we also report that the Report on the Company's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259) and the information is consistent with the separate financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną
odpowiedzialnością sp.k. registration number 3546
ul. Chłodna 51, 00-867 Warsaw

Signed on the Polish original

....

Certified Auditor No. 90106
Krzysztof Kuśmierski

Signed on the Polish original

....

Certified Auditor No. 9645
Limited Liability Partner with power of attorney
Marek Strugała

16 March 2011
Warsaw

Management Board's representations

Pursuant to the requirements of the *Regulation of the of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognised as equivalent,* the Management Board of Cyfrowy Polsat S.A. represented by:

Dominik Libicki, President of the Management Board,
Dariusz Działkowski, Member of the Management Board,
Aneta Jaskólska, Member of the Management Board,
Tomasz Szeląg, Member of the Management Board

hereby represents that:

- to the best of its knowledge the annual financial statements and the comparative information were prepared in accordance with the currently effective accounting principles, and they truly and fairly present the financial position of the Company as well as its financial performance and the Management Board’s report on activities contains a true image of the Company’s development, achievements and standing, including description of basic risks and threats;

- the entity authorised to audit the financial statements, which has audited the annual financial statements, was selected in accordance with the regulations of law. That entity as well as the registered auditor who has carried out the audit fulfilled the conditions for expressing an unbiased and independent opinion about the consolidated financial statements pursuant to relevant provisions of the national law and industry norms.

Warsaw, 16 March 2011

CYFROWY POLSAT S.A.

Financial Statements
for the year ended 31 December 2010

Prepared in accordance
with International Financial Reporting Standards
as adopted by the European Union

This document is a free translation of the Polish original.

Terminology current in Anglo-Saxon countries has been used where practicable

for the purposes of this translation in order to aid understanding.

The binding Polish original should be referred to in matters of interpretation.

APPROVAL OF THE FINANCIAL STATEMENTS

On 16 March 2011, the Management Board of Cyfrowy Polsat S.A. approved the financial statements of Cyfrowy Polsat S.A. prepared in accordance with International Financial Reporting Standards as adopted by the European Union which include:

1. Income Statement for the period

from 1 January 2010 to 31 December 2010	showing a net profit of:	PLN 884,166 thousand

2. Statement of Comprehensive Income for the period

from 1 January 2010 to 31 December 2010	showing a total comprehensive income of:	PLN 884,166 thousand

3. Balance Sheet as at

31 December 2010	showing total assets and total equity and liabilities of:	PLN 1,594,289 thousand

4. Cash Flow Statement for the period

from 1 January 2010 to 31 December 2010	showing a net decrease in cash and cash equivalents amounting to:	PLN 72,873 thousand

5. Statement of Changes in Equity for the period

from 1 January 2010 to 31 December 2010	showing an increase in equity of:	PLN 731,221 thousand

6. Accompanying notes

These financial statements have been prepared in PLN thousand unless otherwise indicated.

Dominik Libicki President of the Management Board	Tomasz Szeląg Member of the Management Board	Dariusz Działkowski Member of the Management Board	Aneta Jaskólska Member of the Management Board

Dorota Wołczyńska
Chief Accountant

Warsaw, 16 March 2011

(all amounts in PLN thousand, except where otherwise stated)

Income Statement

	Note	for the year ended 31 December 2010	for the year ended 31 December 2009
Revenue	**8**	1,473,540	1,267,458
Cost of services, goods and materials sold	**9**	(785,477)	(696,622)
Selling expenses	**9**	(221,202)	(204,347)
General and administrative expenses	**9**	(89,739)	(78,586)
Other operating income	**10**	614,032	12,430
Other operating costs	**11**	(42,763)	(22,998)
Profit from operating activities		**948,391**	**277,335**
Finance income	**12**	5,785	15,237
Finance costs	**13**	(4,982)	(6,265)
Gross profit for the year		**949,194**	**286,307**
Income tax	**14**	(65,028)	(54,266)
Net profit for the year		**884,166**	**232,041**
Basic and diluted earnings per share	**16**	**3.30**	**0.86**

Statement of Comprehensive Income

	for the year ended 31 December 2010	for the year ended 31 December 2009
Net profit for the year	**884,166**	**232,041**
Other comprehensive income	-	-
Income tax relating to components of other comprehensive income	-	-
Other comprehensive income, net of tax	**-**	**-**
Total comprehensive income for the year	**884,166**	**232,041**

The accompanying notes are an integral part of these financial statements

(all amounts in PLN thousand, except where otherwise stated)

Balance Sheet - Assets

	Note	31 December 2010	31 December 2009
Reception equipment	**17**	291,208	133,004
Other property, plant and equipment	**17**	131,994	132,344
Intangible assets	**18**	20,479	13,435
Long term receivables granted to related parties	**19**	-	4,887
Investment property	**20**	6,931	6,946
Shares in subsidiaries	**21**	675,471	1,504
Other non-current assets	**22**	35,898	54,485
Total non-current assets		**1,161,981**	**346,605**
Inventories	**23**	140,165	115,833
Short-term loans granted to related parties	**24**	5,446	1,474
Income tax receivables		6,760	21,262
Trade and other receivables	**25**	178,588	132,971
Other current assets	**26**	77,154	58,589
Cash and cash equivalents	**27**	24,195	70,388
Restricted cash	**28**	-	26,738
Total current assets		**432,308**	**427,255**
Total assets		**1,594,289**	**773,860**

(all amounts in PLN thousand, except where otherwise stated)

Balance Sheet – Equity and Liabilities

	Note	31 December 2010	31 December 2009
Share capital	**29**	10,733	10,733
Reserve capital	**29**	153,093	73,997
Other reserves	**29**	10,174	10,174
Retained earnings		885,036	232,911
Total equity		**1,059,036**	**327,815**
Finance lease liabilities	**31**	884	1,151
Deferred tax liabilities	**14**	69,986	29,178
Other non-current liabilities and provisions		1,900	1,110
Total non-current liabilities		**72,770**	**31,439**
Loans and borrowings	**30**	-	47,370
Finance lease liabilities	**31**	226	234
Trade and other payables	**32**	280,411	213,140
Deposits for equipment	**33**	15,434	18,800
Deferred income	**34**	166,412	135,062
Total current liabilities		**462,483**	**414,606**
Total liabilities		**535,253**	**446,045**
Total equity and liabilities		**1,594,289**	**773,860**

(all amounts in PLN thousand, except where otherwise stated)

Cash Flows Statement

	Note	for the year ended 31 December 2010	for the year ended 31 December 2009
Net profit for the year		**884,166**	**232,041**
Adjustments for:		**(665,365)**	**(4,352)**
Depreciation and amortisation	**9**	78,873	40,165
Loss/(profit) on investing activity		122	(55)
Interest expense/(income)		191	(2,780)
Change in inventories		(24,332)	(26,795)
Change in receivables and other assets		(64,224)	5,499
Change in liabilities, provisions, accruals and deferred income		94,328	33,915
Foreign exchange losses		58	14,112
Income tax	**14**	65,028	54,266
Net increase in set-top boxes provided under operating lease		(203,408)	(123,544)
Dividends received		(4,000)	-
Transfer of a contribution in a kind to a subsidiary	**21b**	(608,434)	-
Other adjustments		433	865
Cash flows from operations before income taxes and interest		**218,801**	**227,689**
Income tax paid		(9,718)	(49,023)
Interest received from operating activities		1,161	5,912
Net cash from operating activities		**210,244**	**184,578**
Acquisition of intangible assets		(15,012)	(9,981)
Acquisition of property, plant and equipment		(25,630)	(25,492)
Loans granted		(8,784)	-
Loans repaid		3,636	-
Interest on loans repaid		1,389	-
Acquisition of financial assets		(392)	(53,396)
Proceeds from sale of financial assets		-	53,726
Acquisition of M.Punkt Holdings Ltd.		(33,966)	(24,801)
Proceeds from sale of property, plant and equipment		92	42
Dividends paid		4,000	-
Payment of interest on finance lease liabilities by a subsidiary		351	459
Net cash used in investing activities		**(74,316)**	**(59,443)**
Repayment of loans and borrowings		(47,277)	(63,035)
Payment of interest on loans and borrowings		(1,816)	(4,212)
Finance lease – principal repayments		(237)	(237)
Dividends paid		(152,945)	(201,244)
Purchases of foreign exchange call options		(7,320)	-
Proceeds from realization of foreign exchange call options		794	-
Other net financing outflows		-	(98)
Net cash used in financing activities		**(208,801)**	**(268,826)**
Net increase/(decrease) in cash and cash equivalents		**(72,873)**	**(143,691)**
Cash and cash equivalents at the beginning of the year		**97,126**	**240,979**
Effect of exchange rate fluctuations on cash and cash equivalents		**(58)**	**(162)**
Cash and cash equivalents at the end of the year*		**24,195**	**97,126**

*The amount as at 31 December 2009 includes PLN 26,738 thousand of restricted cash (see note 28).

(all amounts in PLN thousand, except where otherwise stated)

Statement of Changes in Equity

	Note	Share capital	Reserve capital	Other reserves	Retained earnings	**Total equity**
Balance as at 1 January 2010		10,733	73,997	10,174	232,911	**327,815**
Dividend declared and paid	**29**	-	-	-	(152,945)	**(152,945)**
Appropriation of 2009 profit – transfer to reserve capital	**29**	-	79,096	-	(79,096)	**-**
Total comprehensive income		-	-	-	884,166	**884,166**
Balance as at 31 December 2010		**10,733**	**153,093**	**10,174**	**885,036**	**1,059,036**

	Share capital	Reserve capital	Other reserves	Retained earnings	**Total equity**
Balance as at 1 January 2009	10,733	3,964	10,174	272,147	**297,018**
Dividend declared and paid	-	-	-	(201,244)	**(201,244)**
Appropriation of 2008 profit – transfer to reserve capital	-	70,033	-	(70,033)	**-**
Total comprehensive income	-	-	-	232,041	**232,041**
Balance as at 31 December 2009	**10,733**	**73,997**	**10,174**	**232,911**	**327,815**

Notes to the financial statements

1. The Company

Cyfrowy Polsat S.A. ("the Company", "Cyfrowy Polsat") was incorporated in Poland as a joint stock company. The Company's registered office is located at 4a Łubinowa Street in Warsaw. The Company's shares are traded on the Warsaw Stock Exchange.

The Company operates in Poland as a provider of a paid digital satellite platform under the name of "Cyfrowy Polsat" and also as a Mobile Virtual Network Operator and Internet access services provider.

The Company was incorporated under the Notary Deed dated 30 October 1996.

The principal activities of the Company include:
- television and radio operations;
- telecommunication services;
- property management.

2. Composition of the Management Board of the Company

- Dominik Libicki	President of the Management Board,
- Dariusz Działkowski	Member of the Management Board,
- Aneta Jaskólska	Member of the Management Board (from 13 July 2010),
- Andrzej Matuszyński	Member of the Management Board (until 6 January 2010),
- Tomasz Szeląg	Member of the Management Board.

3. Composition of the Supervisory Board of the Company

- Zygmunt Solorz-Żak	President of the Supervisory Board),
- Robert Gwiazdowski	Member of the Supervisory Board,
- Andrzej Papis	Member of the Supervisory Board,
- Leszek Reksa	Member of the Supervisory Board,
- Heronim Ruta	Member of the Supervisory Board.

4. Basis of preparation of the financial statements

Statement of compliance

The financial statements for the year ended 31 December 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU IFRS"), which were in effect as at 1 January 2010.

During 2010 the following amendments to Standards became effective:

(i) amendments to revised IFRS 1 *Additional Exemptions for First-time Adopters*
Amendments to IFRS 1 introduce additional exemptions for entities adopting International Financial Reporting Standards for the first time. The changes have no impact on these financial statements.

(ii) amendments to IFRS 2 *Share-based Payments*
The amendments specify the scope of transactions treated as share-based payments. They have no impact on these financial statements.

(iii) revised IFRS 3 *Business Combinations*
Revised IFRS 3 gives a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. Moreover, all acquisition-related costs are expensed. The changes have no impact on these financial statements.

(iv) Improvements to International Financial Reporting Standards, including:
- amendments to IFRS 8 Operating Segments – the amendments limit segment reporting requirements concerning assets. An entity shall report a measure of total assets for each reportable segment if such amounts are regularly provided to the chief operating decision maker.
- amendments to IAS 7 Statement of Cash Flows
On the basis of the amendments, only expenditures that result in a recognized asset in the statement of financial position are eligible for classification as investing activities.
All amendments have no significant impact on these financial statements.

(v) revised IAS 27 *Consolidated and Separate Financial Statements*
Revised IAS 27 describes how to present subsidiaries in consolidated financial statements and investments in subsidiaries, jointly controlled entities and associates. Changes require the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will not result in goodwill or gains and losses. The changes have no impact on these financial statements.

(vi) amendments to IAS 39 *Financial Instruments: Recognition and Measurement*: *Eligible Hedged Items*
The amendments specify the scope of instruments which can be treated as eligible items. They have no impact on these financial statements.

(vii) IFRIC 17 *Distributions of Non-cash Assets to Owners, amendments to IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations* and amendment to IAS 10 *Events After The Reporting Period*
IFRIC 17 describes the accounting treatment of distribution of non-cash assets to owners whereas IFRS 5 introduces the definition of assets held for distribution to owners. Amendment to IAS 10 specifies how to present dividend declared after the balance sheet date but before publication of financial statements. The changes have no impact on these financial statements.

5. Issued International Financial Reporting Standards and Interpretations whose application is not mandatory

The International Financial Reporting Standards as adopted by the European Union ("EU IFRS") include all International Accounting Standards, International Financial Reporting Standards and related Interpretations, save for the standards and interpretations which have not yet been adopted by the European Union or which have already been endorsed by EU but are not yet effective.

In preparing these financial statements, the Company did not early adopt the new Standards which have already been published and adopted by the European Union and which should be applied for annual periods beginning after 1 January 2010 (presented below).

New International Financial Reporting Standards adopted by the EU which become effective after the balance sheet date and were not adopted by the Company

(i) amendments to IFRS 1 *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* and IFRS 7 *Financial Instruments: Disclosures* are effective for the annual periods beginning after 30 June 2010
The amendments specify the starting date from which previous changes in IFRS 1 and 7 concerning limited exemptions for entities adopting International Financial Reporting Standards for the first time are to be adopted. The changes have no impact on these financial statements.

(ii) revised IAS 24 *Related Party Disclosures* and amendment to IFRS 8 *Operating Segments* are effective for the annual periods beginning after 31 December 2010
Amendment to IFRS 8 specifies when an entity shall consider a government, its agencies and similar bodies and entities under control of the government as a single customer. Revised IAS 24 explains how to report transactions with related entities. The changes have no impact on these financial statements.

(iii) amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* are effective for the annual periods beginning after 31 December 2010
The amendments clarify how to account for prepayments of a minimum funding requirement. The changes have no impact on these financial statements.

(iv) IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* is effective for the annual periods beginning after 30 June 2010.
Interpretation explains how to account for extinguishing financial liabilities with equity instruments. The changes have no impact on these financial statements.

(v) Improvements to 2010 International Financial Reporting Standards revise six standards and one interpretation. The revisions relate to scope, presentation, recognition and measurement as well as changes of terminology and editorial changes. Majority of the changes will be effective for annual periods beginning on 1 January 2011, however some of the changes are effective for the annual periods beginning on or after 1 July 2010. The changes have no impact on these financial statements.

New International Financial Reporting Standards and Interpretations yet to be adopted by the EU

- IFRS 9 *Financial Instruments*;
- amendments to IFRS 7 *Financial Instruments: Disclosures* – Disclosures – Transfer of financial assets;
- amendments to IAS 12 *Income tax – Recovery of underlying assets;*
- amendments to IFRS 1 *First-time adoption of International Financial Reporting Standards* – Hyperinflation and removal of fixed dates for first-time adopters

6. Accounting policies

The accounting policies set out below have been applied by the Company consistently to all periods presented in the financial statements.

a) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for derivative financial instruments and financial assets classified as available-for-sale, which are stated at fair value.

b) Going concern

The 2010 financial statements have been prepared assuming that the Company will continue as a going concern in the foreseeable future, not shorter than 12 months from 31 December 2010.

c) Functional and presentation currency

These financial statements are presented in the Polish zloty, rounded to the nearest thousand. The functional currency of the Company is the Polish zloty.

d) Use of estimates and judgments

The preparation of financial statements in conformity with EU IFRS requires the Management Board to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and costs. Estimates and underlying assumptions are based on historical data and other factors considered as reliable under the circumstances and their results provide grounds for an assessment of the carrying amounts of assets and liabilities which cannot be based directly on any other sources. Actual results may differ from those estimated.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Information about critical estimates and judgements in applying accounting policies is included in note 44.

e) Comparative financial information

Comparative financial information or financial information included in previously published financial statements are restated, if necessary so that they reflect the presentation changes introduced in the current period. None of the introduced changes affected the previously reported amounts of net profit, EBITDA or equity.

f) Foreign currency translations

Transactions in foreign currencies are translated to the Polish zloty at exchange rates in effect one day prior to the recording of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Polish zloty at the average exchange rate quoted by the National Bank of Poland ("NBP) for that date. The foreign currency exchange differences arising on translation of transactions denominated in foreign currencies and from the reporting date retranslation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Non-monetary assets and liabilities in a foreign currency that are measured in terms of historical cost are translated using the average NBP exchange rate in effect at the date of the valuation. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated at the average NBP foreign exchange rate in effect at the date the fair value was determined.

g) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments, other than investments recognised at fair value through profit and loss, are recognised initially at fair value plus any directly attributable transaction costs (with certain exceptions as described below).

A financial instrument is recognised when the Company becomes a party to the contractual obligations of the instrument. The Company derecognises a financial asset when contractual rights to the cash flows from the financial assets expire or it transfers the financial asset to another party in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Standardised transactions for sale or purchase of financial assets are recognised at the transaction date i.e. on the date the Company assumes an obligation to acquire or sell the asset. Financial liabilities are derecognised when the Company's obligations specified in the contract expire (or are discharged or cancelled).

Cash and cash equivalents comprise cash on hand and call deposits. The cash and cash equivalents balance presented in the cash flows statement comprises the above mentioned elements of cash and cash equivalents.

Principles for recognition of finance income and costs are presented in note 6 (w).

Loans and receivables and other financial liabilities

Loans and receivables which are not derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Other non-derivative financial liabilities are measured at amortised cost using the effective interest method.

Available-for-sale financial assets

Investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, such as e.g. bonds, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is reclassified to profit or loss. For interest-bearing investments, interest thereon, calculated using the effective interest method, is recognised in the profit or loss.

(ii) Derivative financial instruments

Trading instruments

Derivative trading financial instruments are recognised initially at fair value, attributable transaction costs are recognised in the profit or loss as incurred. Subsequent to initial recognition, the Company measures derivative financial instruments at fair value and changes therein are recognised in profit or loss.

Hedging instruments

For accounting purposes, hedging consists in designating one or more instruments so that the change in their fair value offsets the effects of the change in fair value of hedged items or cash flows arising from hedged items.

The following hedging instruments are distinguished:
- instruments offsetting the change in the fair value of hedged item – such instruments limit the risk of change in the fair value of assets and liabilities,
- instruments offsetting the change in the cash flows generated by hedged items – such instruments limit the risks concerning cash flows.

Hedging transactions are concluded based on the hedging strategy. When entering into hedging transaction, the Company documents the relationship between hedged items and hedging instruments as well as the objective and strategy of each particular transaction. The documentation includes a hedging instrument, a hedged item, risk hedged and the assessment procedures of effectiveness of hedging instruments regarding offsetting fair value or cash flows arising from the hedged items. The Company expects that hedging instruments are highly effective. Effectiveness is tested on an on-going basis (whether the results of the actual hedge effectiveness fall within a range of 80-125%).

Hedging instruments are recognized when the Company concludes an agreement. Purchased instruments are initially recognized at fair value or, in case of financial liabilities, at sale price.

The Company ceases to account derivatives for hedging instruments as the instruments expire, are sold, terminated or settled or as the Company changes the instrument's designation.

As at the balance sheet date the hedging instruments are valued at fair value. Instruments of positive fair value are financial assets and the ones of negative fair value are accounted for financial liabilities. Estimated fair value reflects the amount recoverable or payable upon closing out the outstanding position. Valuation is conducted at least once a quarter.

Recognition of the changes in fair value of hedging instruments results from the hedged item:
- instruments offsetting the change in the fair value of hedged item – the ineffective portion of gain or loss on the hedging instrument is recognized as financial income or loss in the period when incurred; the effective portion of gain or loss on the hedging instrument adjusts the value of hedged item, this portion is recognized in income statement proportionally to recognition of changes in the fair value of hedged item in income statement;

- instruments offsetting the change in the cash flows generated by hedged items – the effective portion of gain or loss on the hedging instrument is recognized directly in equity; the ineffective portion is recognized as financial income or financial cost; if hedged future payable or transaction results in recognition asset or liability in the balance sheet, changes in their value formerly recognized in equity adjust the initial value of the asset or liability; changes in the value of hedging instrument are recognized in income statement when related assets or liabilities impact profit and loss; if hedge expires, changes formerly recognized in equity are directly recognized in income statement.

h) Share capital

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

Preference shares capital

Preference shares capital is classified as equity, if it is non-redeemable or redeemable only at the Company's option and any dividends are discretionary. Dividends thereon are recognised as distributions within equity.

Costs attributable to issue and public offering of shares

Costs attributable to a new issue of shares are recognised in equity while costs attributable to a public offering of existing shares are recognised directly in finance costs. These costs relating to both new issue and sale of existing shares are recognised on a pro-rata basis in equity and finance costs.

Reserve capital

In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital. Reserve is excluded from distribution, however, it can be utilised to cover accumulated losses.

Other reserves

Statutory reserve funds include the difference between the fair value of the shares assumed by the Members of the Management Board and their respective issue price.

i) Property, plant and equipment

i) Property, plant and equipment owned by the Company

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes purchase price of the asset and other expenditures that is directly attributable to the acquisition and bringing the asset to a working condition for its intended use, including initial delivery as well as handling and storage costs. The cost of purchased assets is reduced by the amounts of vendor discounts, rebates and other similar reductions received. The cost of self-constructed assets and assets under construction includes all costs incurred for their construction, installation, adoption, and improvement as well as borrowing costs incurred untill the date they are accepted for use (or until the reporting date for an asset not yet accepted for use). The above cost may also include, if necessary, the estimated cost of dismantling and removing the asset and restoring the site. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

Subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company and the amount of the cost can be measured reliably. Other property, plant and equipment related costs are recognised in profit and loss as incurred.

(iii) Depreciation

Items of property, plant and equipment as well as their major components are depreciated on a straight-line basis over their estimated useful lives. Depreciation is based on the cost of an asset less its residual value. Land is not depreciated.

The estimated useful lives of property, plant and equipment, by significant class of asset, are as follows:

Buildings	60	years
Reception equipment	5	years
Other technical equipment and machinery	3-15	years
Vehicles	5	years
Furniture and equipment	3-10	years

Depreciation methods, useful lives and residual values of material assets are reviewed at each financial year-end and adjusted if appropriate.

(iv) Leased assets

Assets used under lease, tenancy, rental or similar contracts which meet finance lease criteria, are classified as non-current assets and measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Set-top boxes that are provided to customers under operating lease agreements are recognised within property, plant and equipment. Set-top boxes that are provided to customers under finance lease agreements are not recognised on the Company's balance sheet.

Assets subject to the lease are depreciated in a manner that is consistent with the policies applied to similar Company-owned assets. Depreciation is based on the principles of IAS 16 *Property, plant and equipment*. Where it is not reasonably certain that the lessee will obtain ownership of the asset before the lease term ends, the asset is depreciated over its useful life or the lease term, if shorter.

Carrying amounts of set-top boxes and other items of property, plant and equipment may be reduced by impairment losses whenever there is uncertainty as to those assets' revenue generating potential or their future use in the Company's operations.

j) Intangible assets

(i) Internally developed software

The Company capitalises costs of IT software internally generated, including employee-related expenses, directly resulting from generation and preparing asset to be capable of operating, if the Company is able to measure reliably the expenditure attributable to such development and when it can reliably establish the commencement as well as the completion date of the software development activities.

(ii) Other intangible assets

Other intangible assets that are acquired by the Company are measured at cost less accumulated amortisation and impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure on existing intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the profit or loss as incurred.

(iv) Amortisation

Intangible assets with a finite useful lives are amortised on a straight-line basis over their respective estimated useful lives. Goodwill and intangible assets with indefinite useful lives are not amortised but instead are subject to impairment testing at least annually. Amortisation of other intangible assets begins when the asset is available for use with the estimated useful life of 2 years.

k) Investment property

Investment property is property held either to earn rental income or for capital appreciation or both. Investment property is measured at historical cost.

Whenever there has been change in the use of a property, such that it becomes owner occupied, it is transferred to property, plant and equipment and its carrying amount on the transfer date becomes its deemed costs for the purpose of future recognition.

Buildings classified as investment property are depreciated over a period of 60 years. Land classified as investment property is not depreciated.

l) Shares

Shares in subsidiaries are measured at cost less impairment losses.

m) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and other costs incurred in making them available for use or sale.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In the case of set-top boxes, which under the business model applied by the Company are sold below cost, the loss on the sale is recorded when the set-top box is transferred to the customer.

The Company creates an allowance for slow-moving or obsolete inventories.

n) Impairment of assets

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Any impairment losses in respect of available-for-sale financial assets are calculated by reference to their current fair values.

Individually significant financial assets are tested for impairment on an individual basis at each reporting date. The remaining financial assets are assessed for impairment collectively in groups that share similar credit risk characteristics.

Receivables are reduced by an allowance based on the likelihood of future debt collection. The allowance is charged to other operating costs. An allowance for receivables from individuals is estimated based on the historical pattern for overdue receivables' collection.

All impairment losses are recognized in profit or loss. Impairment losses are reversed if a subsequent increase in the recoverable amount of a financial asset can be objectively attributed to an event occurring after the impairment losses were recognised.

(ii) Non-financial assets

The carrying amounts of non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated by the Company. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised when the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. A cash-generating unit represents the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of thereof. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of a cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In the case of assets that do not generate independent cash inflows, the value in use is estimated for the smallest identifiable cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

o) Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, assets (or components of a disposal group) are measured in accordance with the Company's accounting policies. Thereafter, at the date the assets (or a disposal group) are first classified as held for sale, they are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on disposal is allocated to goodwill and then to remaining assets and liabilities on a pro rata basis except that no loss is allocated to inventories, financial assets, deferred tax assets and investment properties, which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised through profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

ó) Restricted cash

Restricted cash comprises cash deposited on the Company's bank accounts which according to signed agreements may only be disbursed for strictly defined purposes or cash deposited in escrow bank accounts. Restricted cash is presented either within current or non-current assets depending on the terms of agreements with respect to the length of the restriction periods.

p) Employee benefits

(i) Defined contribution plan

The Company has an obligation, under applicable legislation, to collect and remit the contributions to the state pension fund. Under IAS 19 *Employee Benefits* such benefits represent state plans that are classified as defined contribution plans. Therefore, the Company's obligations for a given period are estimated as the amount of contributions to be remitted for that period.

(ii) Defined benefit plan – retirement benefits

The Company has an obligation, under applicable legislation, to pay retirement benefits calculated in accordance with the relevant provisions of the Polish labour code. The minimum retirement benefit is as per the labour code provisions at the moment of payment.

The calculation is carried out using the Projected Unit Credit Method. Employee rotation is estimated based on historical experience and expected future employment levels.

Changes in the amount of the retirement benefits provision are recognised in profit or loss.

(iii) Termination benefits

Termination benefits are recognised as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of voluntary redundancies can be reliably estimated.

(iv) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are recognised as an expense as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term bonus or profit sharing plans, if the Company has a legal or constructive obligation to make such payments as a result of past services provided by the employees and the obligation can be estimated reliably.

(v) Share-based payments

Whenever shares are issued to employees unconditionally and at an issue price lower than their fair value, the excess of the fair value over the issue price is recorded as personnel expense with a corresponding increase in equity on the date the offer to purchase the shares is accepted by employees.

q) Provisions

A provision is recognised if, as a result of past event, the Company has a present obligation and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Warranties

A provision for warranties is recognised when the underlying products or goods are sold. The amount of the provision is based on historical warranty data and a weighting of all possible outflows against their associated probabilities.

(ii) Onerous contracts

A provision for an onerous contract is recognised when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be derived from it. The provision is measured at the lower of the expected net cost of continuing with the contract and the expected cost of terminating the contract. Before a provision is established, the Company recognises any impairment loss of the assets associated with that contract.

r) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company or a present obligation that arises from past events but its amount cannot be estimated reliably or it is not probable that there will be an outflow of resources embodying economic benefits. The Company does not recognise a contingent liability, except for contingent liability assumed in a business combination. A contingent liability is disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Unless the possibility of any outflow in settlement is remote, the Company discloses for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:
- an estimate of its financial effect;
- an indication of the uncertainties relating to the amount or timing of any outflow and
- the possibility of any reimbursement.

s) Deposits

Deposits received from subscribers and distributors, regardless of the minimum term of their agreements, are presented as current liabilities due to the possibility of early termination of these agreements by customers.

t) Revenue

(i) Multiple-element arrangements

The Company enters into multiple-element arrangements which comprise the sales of goods (reception equipment, set-top boxes, CAM) and services. Revenues are allocated to components of such multiple-element arrangements based on their relative fair values.

(ii) Rendering of services

Revenue from the rendering of services is recognised in profit or loss of the period in which the services are rendered.

(a) Subscription fees

Subscription fee revenue is recognised on a straight-line basis over the minimum base period of each subscription contract.

(b) Activation fees

Activation fees, with respect to both rental and sales of reception equipment, are recognised on a straight-line basis over the minimum base period of the subscription contract. Activation fees are combined with subscription fees in the income statement.

(c) Revenue from VOD services

Revenue from VOD services is recognized once the program was broadcasted. VOD revenues are combined with subscription revenues in the income statement.

(d) Rental of set-top boxes

Revenue from the rental of set-top boxes is recognised on a straight-line basis over the minimum base period of the subscription contract, other than for finance lease agreements, that are recognised as a sale with deferred payment date.

(e) Signal broadcast services

Revenue from signal broadcast services is recognised as the services are rendered.

(f) Subscription fees and interconnection revenue (MVNO)

Revenues from mobile telephone subscription fees from post-paid services and interconnection revenues are recognised in profit or loss in the reporting periods in which the service is rendered.

(g) Revenue from prepaid services

Revenues from prepaid mobile telephone services are recognised in profit or loss once the prepaid credit is utilised or forfeited.

(h) Revenue from settlements with mobile network operators

Revenues from settlements with mobile network operators are recognised in the reporting period in which the service was rendered.

(i) Revenue from the rental of real estate
Revenue from the rental of investment property is recognised in the income statement on a straight-line basis over the period of the contract. Special promotional offers made as an incentive to conclude a lease contract, are recognised together with the related revenues from the rental of investment property.

(j) Internet access services
Internet access services revenues are recognized in profit and loss account accordingly to periods of rendering services or periods when the unutilized credit is forfeited.

(iii) Sale of reception equipment, electronic equipment and other goods

Revenue from the sale of reception equipment, electronic equipment and other goods is measured at the fair value of the consideration received or receivable, net of discounts, rebates and returns.

Revenue from the sale of goods is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the customer.

u) Distribution fees

Commissions payable to distributors for registering new subscribers and for retention of existing subscribers are recognised over the minimum base period of the subscription agreement. Turnover commissions for concluding a certain number of subscription contracts are recognised in profit or loss as due.

Commissions for distributors which will be settled within 12 months of the reporting date are classified as other current assets, while the commissions, which will be settled more than 12 months after the reporting date, are classified as other non-current assets.

w) Finance income and costs

Finance income includes interest income on funds invested, dividends income, gains on the disposal of available-for-sale financial instruments, fair value gains on financial instruments at fair value through profit or loss, net foreign currency gains and gains on realised forward exchange contracts and call options. Interest income is recognised as it accrues in profit or loss using the effective interest method. Dividends income is recognised in profit or loss on the date that the Company's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends from preference shares classified as liabilities, net foreign exchange losses, fair value losses on financial instruments at fair value through profit or loss, impairment losses recongised on financial assets and losses on realised forward exchange contracts and call options. Borrowing costs are recognised in profit or loss using the effective interest method.

x) Lease payments

Payments under an operating lease are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments due to financial lease agreements are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

y) Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet approach, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are measured based on the expected manner of recovery or settlement of the carrying amounts of assets and liabilities, respectively, using tax rates that are enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. An amount of deferred tax assets is reduced to the extent that it is no longer probable that the related tax benefit will be partly or wholly realised. Deferred tax asset reductions are adjusted to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are offset by the Company.

z) Earnings per share

The Company presents basic and diluted earnings per share for its ordinary shares. Basic earnings per share are calculated by dividing the period's profit or loss the continuing operations attributable to ordinary shareholders for the period by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are calculated by dividing the period's profit or loss from the continuing operations attributable to ordinary shareholders by the weighted average number of ordinary shares adjusted by the effects of all dilutive potential ordinary shares.

ź) Segment reporting

An operating segment is a component of the Company that is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components.

The Company presents operating segments according to its internal management accounting principles applied in the preparation of periodical management reports which are regularly analysed by the Management Board. The activities of the Company are grouped using an industry branch criterion, i.e. based on distinguishable components of the business engaged in providing products or services in a specific economic environment.

Due to the launch of Internet access services and introduction of the integrated offer in the second quarter of 2010 the Management Board of Cyfrowy Polsat S.A. verified its approach to the analysis of operating segments. All services rendered to individual clients are analysed by the Management Board as one cohesive branch operating segment – retail services.

The segment's revenue comprises particularly:
- subscription fees related to rendered services,
- activation fees,
- interconnection revenues and settlements with mobile network operators,
- revenue from sale of equipment.

In the opinion of the Management Board of Cyfrowy Polsat S.A. one operating segment fully reflects the character and results of the economic activities of the Company and the economic environments where the Company is operating.

The Company operates exclusively in Poland and substantially all of its assets and clients are located in Poland. As a result, the Company does not analyse geographical segments.

ż) Cash flows statement

Cash and cash equivalents in the cash flow statement are equal to cash and cash equivalents presented in the balance sheet.

Purchases of set-top boxes to be provided to customers under operating lease contracts are classified in the cash flows statement within operating activities. The purchases, disposals and impairment write-downs of these set-top boxes are classified in the cash flows statement within operating activities and presented as “Net increase in set-top boxes provided under operating lease”.

Acquisition of items of property, plant and equipment or intangible assets are presented in their net amount (net of related value added tax).

Changes in impairment allowances for property, plant and equipment, excluding allowances for set-top boxes, are presented as “Other adjustments” within cash flows from operating activities.

Costs attributable to the public offering of shares are presented as “Other adjustments” within cash flows from operating activities. Cash outflows related to these expenses are classified as “Other net financing outflows” within cash flows from financing activities.

7. Determination of fair values

A number of accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. The methods for determining fair values are described below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment and investment property

The fair value of property (including investment property), plant and equipment recognised as a result of business combination is based on market values. The market value of property is the estimated amount for which it could be exchanged on the date of valuation between knowledgeable and willing parties in an arm’s length transaction, after proper marketing, wherein the parties each acted in a conscious and prudent manner. The fair value of other tangible assets is based on market approach using quoted market for similar items.

(ii) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the acquisition of the patents and trademarks. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the usage and eventually sale of the assets.

(all amounts in PLN thousand, except where otherwise stated)

(iii) Inventories

The fair value of inventories acquired in a business combination is based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the investories.

(iv) Equity and debt securities

The fair value of financial assets valued at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(v) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows discounted using the market rate of interest as at the reporting date.

(vi) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is based on the present value of future principal and interest cash flows, discounted using the market rate of interest as at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(vii) Derivatives

The fair value of forward exchange contracts is estimated by discounting the difference between the amount based on contractual forward exchange rate and the amount based on the current forward exchange rate calculated using the market rates of interest and current spot exchange rate.

8. Revenue

	for the year ended	
	31 December 2010	**31 December 2009**
DTH subscription fees (Mini and MiniMax Package)	87,393	58,146
DTH subscription fees (other packages)	1,306,119	1,131,672
Sale of reception equipment and mobile phones	28,278	46,403
Subscription fees, interconnection revenues and settlements with mobile network operators	19,529	5,550
Other revenue	32,221	25,687
Total	**1,473,540**	**1,267,458**

Other revenue consists of revenue from marketing and advertising services, revenue from lease of property (including investment property) and appliances, other MVNO revenue, revenue from rental of reception equipment, revenue from signal broadcast services, revenue from servicing and installation and other.

(all amounts in PLN thousand, except where otherwise stated)

9. Operating costs

	Note	for the year ended	
		31 December 2010	31 December 2009
Depreciation and amortisation		78,873	40,165
Programming licences costs		392,035	354,395
Signal broadcast costs	a	79,855	82,570
Cost of equipment sold		56,151	97,850
Distribution, marketing, customer relation management and retention costs	b	297,530	262,347
Salaries and employee-related costs	c	76,616	69,862
Other operating costs	d	115,358	72,366
Total costs by kind		**1,096,418**	**979,555**

	for the year ended	
	31 December 2010	31 December 2009
Cost of services, goods and materials sold	785,477	696,622
Selling expenses	221,202	204,347
General and administrative expenses	89,739	78,586
Total costs by function	**1,096,418**	**979,555**

a) Signal broadcast costs

	for the year ended	
	31 December 2010	31 December 2009
Transponders rental	52,157	47,986
Conditional Access System rental	22,699	30,051
Other	4,999	4,533
Total	**79,855**	**82,570**

b) Distribution, marketing, customer relation management and retention costs

	for the year ended	
	31 December 2010	31 December 2009
Distribution and logistics costs	109,626	123,595
Marketing costs	86,571	57,468
Customer relation management costs	101,333	81,284
Total	**297,530**	**262,347**

(all amounts in PLN thousand, except where otherwise stated)

c) Salaries and employee-related costs

	for the year ended	
	31 December 2010	**31 December 2009**
Salaries	66,442	61,102
Social security contributions	7,499	6,643
Other employee-related costs	2,675	2,117
Total	**76,616**	**69,862**

Average headcount

	for the year ended	
	31 December 2010	**31 December 2009**
Number of employees – employment contracts	548	461

d) Other operating costs

	for the year ended	
	31 December 2010	**31 December 2009**
Cost of SMART and SIM cards handed over	25,954	21,657
IT services	12,438	16,429
Legal, advisory and consulting costs	7,923	7,230
Property maintenance costs	9,215	5,963
Taxes and other charges	2,542	1,638
Costs of settlements with mobile network operators and interconnection charges (MVNO)	6,309	2,882
Costs of infrastructure rental and network maintenance	32,239	1,322
Costs of guarantee services	7,668	3,021
Costs of using trade marks (see note 21b)	937	-
Other	10,133	12,224
Total	**115,358**	**72,366**

10. Other operating income

	for the year ended	
	31 December 2010	**31 December 2009**
Contractual damages for replacement of encryption cards and set-top boxes (SWAP)	-	7,794
Other damages	1,994	2,983
Reversal of fixed aasets and stock impairment provision	-	349
Disposal of an organized part of enterprise transferred as a contribution in a kind to CPTM SP. z o.o. as per its fair value (see note 21b)	608,434	-
Other	3,604	1,304
Total	**614,032**	**12,430**

(all amounts in PLN thousand, except where otherwise stated)

11. Other operating costs

	for the year ended	
	31 December 2010	31 December 2009
Bad debt provision and cost of receivables written off	35,961	19,512
Fixed assets and inventory impairment write-downs	3,299	819
Other	3,503	2,667
Total	**42,763**	**22,998**

12. Finance income

	for the year ended	
	31 December 2010	31 December 2009
Received dividends	4,000	-
Interest on bank accounts and deposits	1,161	5,912
Interest on production line leasing	409	498
Interest on loans	215	476
Foreign currency exchange differences on forward exchange contracts	-	7,540
Other	-	811
Total	**5,785**	**15,237**

13. Finance costs

	for the year ended	
	31 December 2010	31 December 2009
Foreign exchange rate differences, net	1,969	1,969
Interest on loans and borrowings	1,723	3,911
Valuation of foreign exchange call options	580	-
Realisation of foreign exchange call options	342	-
Other interest	253	195
Other	115	190
Total	**4,982**	**6,265**

(all amounts in PLN thousand, except where otherwise stated)

14. Income tax

(i) Income tax expense

	for the year ended	
	31 December 2010	31 December 2009
Current tax expense	24,424	54,048
Deferred tax expense	40,808	17,095
Correction of income tax returns for previous years	(204)	(16,877)
Income tax expense – total	**65,028**	**54,266**

	for the year ended	
Deferred tax expense	**31 December 2010**	**31 December 2009**
Receivables and other assets	4,996	(2,867)
Liabilities	139	(13,118)
Deferred distribution fees	2,830	15,330
Tangible and intangible assets	32,843	17,750
Change in deferred income tax – total	**40,808**	**17,095**

(ii) Effective tax rate reconciliation

	for the year ended	
	31 December 2010	31 December 2009
Gross profit for the year	949,194	286,307
Income tax at applicable statutory tax rate in Poland of 19%	180,347	54,398
Profit from valuation of an organised part of enterprise transferred as a contribution in a kind to subsidiary Cyfrowy Polsat Trade Marks Sp. z o.o. (see note 21b)	(115,602)	-
Dividend received from subsidiary Cyfrowy Polsat Technology Sp. z o.o.	(760)	-
Non-tax deductible, stock-taking differences at 19% tax rate	229	167
Correction of income tax returns of previous years	(204)	(1,277)
Other non-taxable revenue and non-tax deductible costs, net at 19% tax rate	1,018	978
Tax expense for the year	**65,028**	**54,266**
Effective tax rate	**6.9%**	**19.0%**

(all amounts in PLN thousand, except where otherwise stated)

(iii) Deferred tax assets

	31 December 2010	31 December 2009
Liabilities	22,670	22,930
Tangible assets	905	270
Receivables and other assets	22,552	15,627
Total deferred tax assets	**46,127**	**38,827**
Set off of deferred tax assets and liabilities	(46,127)	(38,827)
Deferred tax assets in the balance sheet	**-**	**-**

(iv) Deferred tax liabilities

	31 December 2010	31 December 2009
Receivables and other assets	46,711	34,790
Liabilities	13	134
Deferred distribution fees	19,118	16,288
Tangible assets	50,271	16,793
Total deferred tax liabilities	**116,113**	**68,005**
Set off of deferred tax assets and liabilities	(46,127)	(38,827)
Deferred tax liabilities in the balance sheet	**69,986**	**29,178**

15. EBITDA

EBITDA (earnings before interest, taxes, depreciation and amortisation) presents the Company's key measure of earnings performance. The level of EBITDA measures the Company's ability to generate cash from recurring operations. The Company defines EBITDA as operating profit adjusted by depreciation and amortisation. EBITDA is not an EU IFRS measure, and as such can be calculated differently by other entities.

	for the year ended	
	31 December 2010	31 December 2009
Profit from operating activities	948,391	277,335
Depreciation and amortization	78,873	40,165
EBITDA	**1,027,264**	**317,500**

16. Basic and diluted earnings per share

Basic earnings per share ratio is calculated by dividing the net profit for the period attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

At the reporting date, the Company did not have any financial instruments that could have a dilutive effect, therefore the Company does not present diluted earnings per share. As a result, basic earnings per share equal diluted earnings per share.

	for the year ended	
	31 December 2010	**31 December 2009**
Net profit for the year (in PLN thousand)	884,166	232,041
Weighted average number of ordinary shares ine the period	268,325,000	268,325,000
Earnings per share in PLN	**3.30**	**0.86**

(all amounts in PLN thousand, except where otherwise stated)

17. Property, plant and equipment

	Land	Buildings, premises and civil engineering structures	Technical equipment and machinery	Reception equipment	Vehicles	Other tangible assets	Total	Tangible assets under construction	Prepay-ments for assets under construction
Cost									
Cost as at 1 January 2010	**5,992**	**63,732**	**91,778**	**232,467**	**6,551**	**14,692**	**415,212**	**4,620**	**77**
Additions	-	4,359	11,058	206,517	1,778	2,119	**225,831**	6,001	21
Transfers from/to investment property	13	(16)	-	-	-	-	**(3)**	-	-
Transfer from tangible assets under construction	-	2,768	922	-	-	113	**3,803**	(3,803)	-
Disposals	-	(362)	(4,341)	(81,849)	(388)	(318)	**(87,258)**	-	(77)
Transfer of a contribution in a kind to subsidiary	-	-	(1,375)	-	-	(937)	**(2,312)**	-	-
Cost as at 31 December 2010	**6,005**	**70,481**	**98,042**	**357,135**	**7,941**	**15,669**	**555,273**	**6,818**	**21**
Impairment losses as at 1 January 2010	**-**	**(8)**	**(1,075)**	**(1,050)**	**-**	**(56)**	**(2,189)**	**-**	**-**
Additions	-	-	-	(2,657)	-	-	**(2,657)**	-	-
Disposals	-	-	76	-	-	26	**102**	-	-
Impairment losses as at 31 December 2010	**-**	**(8)**	**(999)**	**(3,707)**	**-**	**(30)**	**(4,744)**	**-**	**-**
Accumulated depreciation									
Accumulated depreciation as at 1 January 2010	**-**	**7,033**	**38,173**	**98,413**	**2,198**	**6,555**	**152,372**	**-**	**-**
Additions	-	3,806	15,410	45,043	1,378	3,427	**69,064**	-	-
Disposals	-	-	(4,324)	(81,236)	(173)	(298)	**(86,031)**	-	-
Transfer of a contribution in a kind to subsidiary	-	-	(765)	-	-	(474)	**(1,239)**		
Accumulated depreciation as at 31 December 2010	**-**	**10,839**	**48,494**	**62,220**	**3,403**	**9,210**	**134,166**	**-**	**-**
Carrying amount									
As at 1 January 2010	**5,992**	**56,691**	**52,530**	**133,004**	**4,353**	**8,081**	**260,651**	**4,620**	**77**
As at 31 December 2010	**6,005**	**59,634**	**48,549**	**291,208**	**4,538**	**6,429**	**416,363**	**6,818**	**21**

The Company recognised an impairment loss on items of property, plant and equipment whose carrying amounts exceeded their recoverable amounts. The impairment provision is recognised in other operating costs.

(all amounts in PLN thousand, except where otherwise stated)

	Land	Buildings, premises and civil engineering structures	Technical equipment and machinery	Reception equipment	Vehicles	Other tangible assets	Total	Tangible assets under construction	Prepay-ments for assets under construction
Cost									
Cost as at 1 January 2009	**3,752**	**34,759**	**81,427**	**144,444**	**4,356**	**11,353**	**280,091**	**15,605**	**30**
Additions	-	15,983	14,162	124,610	2,503	3,456	**160,714**	4,290	1,332
Transfers from investment property	2,240	13,467	-	-	-	-	**15,707**	-	-
Disposals	-	(477)	(3,811)	(36,587)	(308)	(117)	**(41,300)**	(15,275)	(1,285)
Cost as at 31 December 2009	**5,992**	**63,732**	**91,778**	**232,467**	**6,551**	**14,692**	**415,212**	**4,620**	**77**
Impairment losses as at 1 January 2009	**-**	**-**	**(958)**	**(23,131)**	**-**	**-**	**(24,089)**	**-**	**-**
Additions	-	(8)	(152)	(854)	-	(56)	**(1,070)**	-	-
Disposals	-	-	35	-	-	-	**35**	-	-
Utilisation	-	-	-	22,935	-	-	**22,935**	-	-
Impairment losses as at 31 December 2009	**-**	**(8)**	**(1,075)**	**(1,050)**	**-**	**(56)**	**(2,189)**	**-**	**-**
Accumulated depreciation									
Accumulated depreciation as at 1 January 2009	**-**	**3,567**	**27,939**	**100,528**	**1,382**	**3,792**	**137,208**	**-**	**-**
Additions	-	3,073	13,429	11,325	1,066	2,870	**31,763**	-	-
Transfers from investment property	-	560	-	-	-	-	**560**	-	-
Disposals	-	(167)	(3,195)	(13,440)	(250)	(107)	**(17,159)**	-	-
Accumulated depreciation as at 31 December 2009	**-**	**7,033**	**38,173**	**98,413**	**2,198**	**6,555**	**152,372**	**-**	**-**
Carrying amount									
As at 1 January 2009	**3,752**	**31,192**	**52,530**	**20,785**	**2,974**	**7,561**	**118,794**	**15,605**	**30**
As at 31 December 2009	**5,992**	**56,691**	**52,530**	**133,004**	**4,353**	**8,081**	**260,651**	**4,620**	**77**

The Company recognised an impairment loss on items of property, plant and equipment whose carrying amounts exceeded their recoverable amounts. The impairment provision is recognised in other operating costs..

(all amounts in PLN thousand, except where otherwise stated)

18. Intangible assets

	Software and licences	Other	Under development	Total
Cost				
Cost as at 1 January 2010	**34,756**	**259**	**4,709**	**39,724**
Additions	9,798	33	6,920	16,751
Transfers from intangible assets under development	3,441	-	(3,441)	-
Disposals	(2,525)	(35)	-	(2,560)
Cost as at 31 December 2010	**45,470**	**257**	**8,188**	**53,915**
Impairment losses as at 1 January 2010	**-**	**(18)**	**-**	**(18)**
Additions	-	-	-	-
Disposals	-	-	-	-
Impairment losses as at 31 December 2010	**-**	**(18)**	**-**	**(18)**
Accumulated amortisation				
Accumulated amortisation as at 1 January 2010	**26,195**	**76**	**-**	**26,271**
Additions	9,592	109	-	9,701
Disposals	(2,525)	(29)	-	(2,554)
Accumulated amortisation as at 31 December 2010	**33,262**	**156**	**-**	**33,418**
Carrying amounts				
As at 1 January 2010	**8,561**	**165**	**4,709**	**13,435**
As at 31 December 2010	**12,208**	**83**	**8,188**	**20,479**

(all amounts in PLN thousand, except where otherwise stated)

	Software and licences	Other	Under development	Total
Cost				
Cost as at 1 January 2009	**28,418**	**-**	**868**	**29,286**
Additions	6,422	259	4,061	10,742
Disposals	(84)	-	(220)	(304)
Cost as at 31 December 2009	**34,756**	**259**	**4,709**	**39,724**
Impairment losses as at 1 January 2009	**-**	**-**	**-**	**-**
Additions	-	(18)	-	(18)
Disposals	-	-	-	-
Impairment losses as at 31 December 2009	**-**	**(18)**	**-**	**(18)**
Accumulated amortisation				
Accumulated amortisation as at 1 January 2009	**18,099**	**-**	**-**	**18,099**
Additions	8,180	76	-	8,256
Disposals	(84)	-	-	(84)
Accumulated amortisation as at 31 December 2009	**26,195**	**76**	**-**	**26,271**
Carrying amounts				
As at 1 January 2009	**10,319**	**-**	**868**	**11,187**
As at 31 December 2009	**8,561**	**165**	**4,709**	**13,435**

19. Long term receivables from related parties

As at 31 December 2009 long term receivables from related parties consisted of laser and set-top boxes' production line finance lease receivables from Cyfrowy Polsat Technology Sp. z o.o. (detailed description in note 31). As at 31 December 2010 the Company did not recognize long term receivables, as Cyfrowy Polsat Trade Marks Sp. z o.o. entered into the rights and liabilities of a lessor (see note 21b). As at 31 December 2009 long term receivables amounted to PLN 4,887 thousand.

(all amounts in PLN thousand, except where otherwise stated)

20. Investment property

Cost	
Cost as at 1 January 2010	**7,197**
Additions, including:	90
- Buildings	90
- Land	-
Transfers from/to property, plant and equipment, including:	3
- Buildings	16
- Land	(13)
Cost as at 31 December 2010	**7,290**
Accumulated depreciation	
Accumulated depreciation as at 1 January 2010	**251**
Additions	108
Transfers to property, plant and equipment	-
Accumulated depreciation as at 31 December 2010	**359**
Carrying amounts	
As at 1 January 2010	**6,946**
As at 31 December 2010	**6,931**

Cost	
Cost as at 1 January 2009	**22,511**
Additions, including:	393
- Buildings	393
- Land	-
Transfers to property, plant and equipment, including:	15,707
- Buildings	13,467
- Land	2,240
Cost as at 31 December 2009	**7,197**
Accumulated depreciation	
Accumulated depreciation as at 1 January 2009	**665**
Additions	146
Transfers to property, plant and equipment	(560)
Accumulated depreciation as at 31 December 2009	**251**
Carrying amounts	
As at 1 January 2009	**21,846**
As at 31 December 2009	**6,946**

The value of investment property is based on historical cost. Praga Business Park Sp. z o.o. acquired the assets constituting investment property in September 2006. Cyfrowy Polsat S.A. management considers the fair value of the investment property at the balance sheet date to be substantially consistent with its purchase price.

(all amounts in PLN thousand, except where otherwise stated)

Investment property of the Company comprises land and buildings held for rent.

Revenues from the rental of investment property amounted to PLN 641 thousand in the 12 months of 2010. The related costs amounted to PLN 381 thousand. In 2009 revenues and costs amounted to PLN 865 thousand and PLN 419 thousand, respectively.

21. Shares in subsidiaries

Shares in subsidiaries as at 31 December 2010

	Company's registered office	Activity	Voting rights percentage	Cost	Impairment	Carrying amount
Cyfrowy Polsat Technology Sp. z o.o.	ul. Łubinowa 4a, Warszawa	set-top boxes' production	100%	50	-	50
Cyfrowy Polsat Trade Marks Sp. z o.o.	ul. Łubinowa 4a, Warszawa	non-current assets and intellectual property rights management	100%	615,445	-	615,445
Karpacka Telewizja Kablowa Sp. z o.o.	ul. Chorzowska 3, Radom	no activity	85%	2,231	777	1,454
M.Punkt Holdings Ltd.	ul. Themistokli Dervi 3, Nicosia (Cyprus)	owner of mPunkt Polska S.A. i mTel Sp. z o.o. (see point a)	100%	58,522	-	58,522
			Total	**676,248**	**777**	**675,471**

(all amounts in PLN thousand, except where otherwise stated)

Changes in book values of subsidiaries

	2010	2009
Purchase price		
As at 1 January	**2,281**	**2,281**
Increase	673,967	-
Decrease	-	-
As at 31 December	**676,248**	**2,281**
Impairment provision		
As at 1 January	**777**	**946**
Increase	-	-
Decrease	-	(169)
As at 31 December	**777**	**777**
Carrying amounts		
As at 1 January	**1,504**	**1,335**
As at 31 December	**675,471**	**1,504**

In 2010 Cyfrowy Polsat S.A. established new subsidiary Cyfrowy Polsat Trade Marks Sp. z o.o. and is owner of 100% of shares in the new company (see point b). Furthermore, the Company purchased 100% of shares in M.Punkt Holdings (see point a).

a) Investment in M.Punkt Holdings Ltd.

Purchase of shares in M.Punkt Holdings Ltd.

On 4 May 2010 the Company completed the acquisition of 94% shares in M.Punkt Holdings Ltd. ("M.Punkt Holdings"). The transaction also resulted in the takeover of control over subsidiaries of M.Punkt Holdings: mPunkt Polska S.A. ("mPunkt") and mTel Sp. z o.o. ("mTel").

The transaction was realized in two stages – ownership of 45% shares of M.Punkt Holdings was transferred on 31 October 2009 and remaining 49% shares were transferred on 4 May 2010. The total purchase price for 94% shares of M.Punkt Holdings amounted to PLN 54,013 thousand.

mPunkt operates as a country-wide sales network of telecommunication services, mobile phones, accessories and maintenance services which are offered to individual customers. mTel renders agency services under the agreement with mPunkt.

Purchase of non-controlling interest in M.Punkt Holdings Ltd.

On 9 June 2010 the Company acquired remaining 6% shares of M.Punkt Holdings for PLN 4,509 thousand and increased Its stake to 100%.

(all amounts in PLN thousand, except where otherwise stated)

The table below presents the preliminary value of the investment:

	31 December 2010
Acquisition of 94% shares	54,013
Acquisition of 6% shares – purchase of non-controlling interest	4,509
Shares in M.Punkt Holdings	**58,522**

Until 31 December 2010 the entire transaction price was paid by Cyfrowy Polsat S.A.

Merger with M.Punkt Holdings Ltd.

On 30 July 2010 the Management Board of Cyfrowy Polsat S.A. resolved to merge with M.Punkt Holdings Ltd. („Acquiree") seated in Nicosia, Cyprus, in which Cyfrowy Polsat S.A. holds 100% of share capital and approved cross-border merger plan. On 15 September 2010 the Extraordinary General Shareholders' Meeting resolved to execute the cross-border merger and authorized the Management Board to exercise all necessary activities related to conducting procedure of the cross-border merger.

The cross-border merger will allow to optimize costs and simplify the organizational structure of Cyfrowy Polsat Group which is required in order to realize its medium and long term strategy.

The cross-border merger will take place in accordance with article 491 and further, in particular Articles 516^1-516^{18} of the Commercial Companies Code of 15 September 2000 (Cross-border mergers of joint-stock companies) and with Sections 201 I to 201 X of the Cyprus Companies Law, Cap 113, amended by Section II Law N.186(I)/2007. The cross-border merger will result in:

i. M.Punkt Holdings shall be terminated without liquidation and
ii. Cyfrowy Polsat S.A. will take over, by the way of universal succession, the Acquiree's assets and liabilities, including, in particular, the ownership of share capital in mPunkt.

Until the date of approval of the financial statements merger did not come into effect.

b) Cyfrowy Polsat Trade Marks Sp. z o.o.

Establishing subsidiary

On 8 December 2010 Cyfrowy Polsat S.A. established its wholly-owned subsidiary Cyfrowy Polsat Trade Marks Sp. z o.o. („CPTM"). Share capital was equal to PLN 5 thousand and was covered by cash.

Transfer of a contribution in a kind to subsidiary

On 20 December 2010 Cyfrowy Polsat S.A. transferred an organised part of the enterprise (forming a branch under the name of Cyfrowy Polsat Spółka Akcyjna Oddział w Waszawie) as a contribution in a kind to CPTM to cover the share of the

(all amounts in PLN thousand, except where otherwise stated)

Company in an increased share capital in CPTM. After the increase by PLN 615,440 thousand CPTM share capital amounts to PLN 615,445 thousand. Details of the transaction are presented in the table below:

	Carrying amount	Fair value
Tangible fixed assets	1,073	1,506
„Cyfrowy Polsat" trademark	-*	606,001
Trade agreements	-**	2,000
Lease receivables***	4,919	4,919
Other receivables	629	629
Cash and cash equivalents	387	387
Liabilities	(2)	(2)
Total	**7,006**	**615,440**

* Internally generated Cyfrowy Polsat" trademark was not recognized in balance sweet of Cyfrowy Polsat S.A.

**Fair value of trade agreements concluded by Cyfrowy Polsat S.A., which were taken over by CPTM, were not recognised in financial statements of the Company.

***CPTM entered into rights and liabilities on the grounds of set-tob boxes' production line and laser (both used by Cyfrowy Polsat Technology Sp. z o.o. in the production process) lease agreements.

Since transferred balance sheet positions were transferred as per their fair value, which was larger than their carrying value, the Company recognized revenue of PLN 608,434 thousand, which was presented in other operating revenue (see note 10). The following table presents reconciliation of revenue resulting from the valuation to fair value.

Carrying amount of transferred contribution	7,006
Fair value of the transferred contribution	615,440
Valuation to fair value	**608,434**

22. Other non-current assets

	31 December 2010	31 December 2009
Deferred distribution fees	35,898	29,684
45% shares in M.Punkt Holdings Ltd.	-	24,801
Total	**35,898**	**54,485**

Deferred distribution fees include commissions for distributors for contracts effectively concluded with subscribers. These costs are expensed by the Company to profit or loss over the minimum base period of the subscription contracts.

(all amounts in PLN thousand, except where otherwise stated)

23. Inventories

Types of inventories	31 December 2010	31 December 2009
Set-top boxes	96,740	81,446
Removable STB hard disk drives	13,797	-
SMART and SIM cards	10,239	11,021
Telephones and modems	9,010	2,846
Antennas and converters	3,287	8,281
Other inventories	7,743	4,486
Prepayments for inventories	2,745	10,402
Total gross book value	**143,561**	**118,482**
Write-down of inventories	(3,396)	(2,649)
Total net book value	**140,165**	**115,833**

As at 31 December 2009 prepayments comprised mainly items to non-related entities for set-top boxes and respective cards. As at 31 December 2010 prepayments comprised mainly prepayments to Cyfrowy Polsat Technology Sp. z o.o. for set-top boxes.

Write-down of inventories	31 December 2010	31 December 2009
Opening balance	**2,649**	**2,997**
Increase	747	1,564
Decrease	-	(1,912)
Closing balance	**3,396**	**2,649**

There are no restrictions on the Company's rights to dispose its inventories.

24. Short term loans granted to related parties

	31 December 2010	31 December 2009
Cyfrowy Polsat Technology Sp. z o.o.	51	1,474
M.Punkt Holdings Ltd.	5,395	-
Total	**5,446**	**1,474**

(all amounts in PLN thousand, except where otherwise stated)

Movements in short term loans

	2010	2009
Carrying amount as at 1 January	**1,474**	**11,348**
Loans granted	5,248	-
Interest accrued	156	476
Principal repayments	(100)	-
Interest repayments	(1,332)	-
Settlement	-	(10,350)
Carrying amount as at 31 December	**5,446**	**1,474**

25. Trade and other receivables

	31 December 2010	31 December 2009
Trade receivables from related parties (see note 42)	4,435	6,669
Trade receivables from third parties	139,004	81,593
Tax and social security receivables	33,723	43,429
Other receivables	1,426	1,280
Total	**178,588**	**132,971**

Trade receivables from third parties include primarily receivables from individual customers, receivables from distributors and others.

Trade receivables, by currency

Currency	31 December 2010	31 December 2009
PLN	134,949	83,887
EUR	8,407	4,253
USD	83	122
Total	**143,439**	**88,262**

Movements in the allowance for impairment of accounts receivable

	31 December 2010	31 December 2009
Opening balance	**76,768**	**60,802**
Increase	34,973	19,199
Reversal	(91)	(314)
Utilisation	(146)	(2,919)
Closing balance	**111,504**	**76,768**

(all amounts in PLN thousand, except where otherwise stated)

26. Other current assets

	31 December 2010	31 December 2009
Deferred distribution fees	64,722	56,042
Foreign exchange call options	5,604	-
Other deferred costs	3,497	1,642
Other deferred income	3,331	905
Total	**77,154**	**58,589**

Deferred distribution fees comprise commissions for distributors for contracts effectively concluded with subscribers. These costs are expensed over the minimum base period of the subscription contracts.

27. Cash and cash equivalents

	31 December 2010	31 December 2009
Cash in hand	40	42
Current accounts	1,493	1,382
Deposits	22,662	68,964
Total	**24,195**	**70,388**

Currency	31 December 2010	31 December 2009
PLN	18,150	66,640
EUR	5,745	2,795
USD	300	953
Total	**24,195**	**70,388**

As the Company cooperates with well-established Polish and international banks, the risks relating to deposited cash are considerably limited.

On the grounds of an agreement for an overdraft facility signed with Bank Pekao S.A. the Company may utilize a credit line up to PLN 139,000 thousand. The interest rate for loan was agreed as WIBOR O/N plus a margin of 1,25%. A statement on submitting to enforcement of up to PLN 208,500 thousand is the collateral for the loan. As at 31 December 2010 the Company did not utilise the credit line.

28. Restricted cash

Restricted cash in the amount of PLN 26,738 thousand as at 31 December 2009 related to funds deposited on an escrow bank account. The funds were to be used to acquire a majority stake in M.Punkt Holdings Ltd. (see note 21a). As at 31 December 2010 the Company did not have restricted cash.

(all amounts in PLN thousand, except where otherwise stated)

29. Equity

(i) Share capital

Share capital of Cyfrowy Polsat S.A. at 31 December 2010 amounted to PLN 10,733 thousand divided into 268,325,000 shares with a nominal value of PLN 0.04 each.

All shares were fully paid. Share capital remained at the same level in the periods under consideration.

On 8 March 2010 Extraordinary General Meeting of Cyfrowy Polsat S.A. resolved to change the Company's statute in the following manner: 8,082,499 registered series D shares privileged as to the voting rights (2 votes per share) belonging to Polaris Finance B.V. were transformed into ordinary bearer shares. It was additionally resolved that these shares shall be the subject of application for admission to trading on a regulated market maintained by the Warsaw Stock Exchange and shall be subject to dematerialization. On 31 May 2010 shares were admitted to trade on the Stock Exchange.

After the above mentioned change, the share structure is as follows:

Share series	Number of shares	Nominal value of shares	Type
Series A	2,500,000	100	preference shares (2 voting rights)
Series B	2,500,000	100	preference shares (2 voting rights)
Series C	7,500,000	300	preference shares (2 voting rights)
Series D	166,917,501	6,677	preference shares (2 voting rights)
Series D	8,082,499	323	ordinary bearer shares
Series E	75,000,000	3,000	ordinary bearer shares
Series F	5,825,000	233	ordinary bearer shares
Total	**268,325,000**	**10,733**	

In Poland, each new issue of shares is given a consecutive serial number. As at 31 December 2010, Series A, B, C and 166,917,501 shares of D were preference shares (2 voting rights per share), while Series E, F and 8,082,499 shares of D were not preference shares.

On 13 April 2010 The Management Board of Cyfrowy Polsat S.A. was advised of the sale of 7,918,750 dematerialised registered shares of Cyfrowy Polsat S.A. by Polaris Finance B.V.

(all amounts in PLN thousand, except where otherwise stated)

The shareholders' structure as at 31 December 2010:

	31 December 2010				
	Number of shares	Nominal value of shares	% of share capital held	Number of votes	% of voting rights
Polaris Finance B.V.[1]	175,025,000	7,001	65.23%	341,967,501	76.38%
Zygmunt Solorz-Żak	10,603,750	424	3.95%	21,207,500	4.74%
Other	82,696,250	3,308	30.82%	84,567,500	18.88%
Total	**268,325,000**	**10,733**	**100%**	**447,742,501**	**100%**

[1]Zygmunt Solorz-Żak indirectly holds 148,771,250 shares in the Company (respectively, 55.45% ownership interest and 64.92% of votes), while Heronim Ruta indirectly holds 26,253,750 shares in the Company (respectively, 9.78% ownership interest and 11.46% of votes) through Polaris Finance B.V. Heronim Ruta does not hold any shares directly.

(ii) Reserve capital

In accordance with the provisions of art. 396 of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital. Reserve capital is excluded from distribution.

On 24 June 2010 the Annual General Meeting of Cyfrowy Polsat S.A. transferred part of net income for the financial year 2009 of PLN 79,096 thousand to reserve capital.

(iii) Other reserves

Other reserves in the amount of PLN 10,174 thousand include the difference between the fair value of shares assumed by the members of the Management Board and their issue price.

(iv) Retained earnings

The net profit for the year is presented within retained earnings.

(v) Dividends paid

On 24 June 2010 a resolution regarding the distribution of profits for the fiscal year 2009 was adopted. The Annual General Meeting of Cyfrowy Polsat S.A. resolved to pay dividend in the amount of PLN 152,945 thousand (PLN 0.57 per share).

The dividend was paid as follows: on 11 August 2010 the amount of PLN 101,963 thousand and on 17 November 2010 the amount of PLN 50,982 thousand.

(all amounts in PLN thousand, except where otherwise stated)

30. Loans and borrowings

As at 31 December 2010 the Company did not recognise borrowings and loans.

As at 31 December 2009 the Company recognized borrowings and loans denominated in Polish zlotys, which amounted to PLN 47,370 thousand. Principal was equal to PLN 47,277 thousand. The total liability was repaid on 6 September 2010.

31. Company as a lessor and as a lessee

a) Company as a lessor

Operating lease

The Company entered into a significant number of contracts with third parties, which are classified as operating leases based on their economic substance. The contracts relate to the rental of reception equipment. Assets connected with such contracts are presented as part of property, plant and equipment.

Lease contracts for set-top boxes are concluded for a base contractual period ranging from 12 to 36 months. After each base period, the contracts are converted into contracts with either indefinite or definite terms, unless terminated by the subscribers.

The Company rents office and warehouse space to Cyfrowy Polsat Technology Sp. z o.o., in 2009, additionally, office space and equipment to third parties.

Future minimum lease payments with respect to operating lease are as follows:

	31 December 2010	31 December 2009
less than 1 year	6,039	12,719
between 1 and 5 years	11,351	48,694
more than 5 years	225	849
Total	**17,615**	**62,262**

Finance lease

The Company leased set-top boxes' production line and a laser to a subsidiary. On 20 December 2010 Cyfrowy Polsat Trade Marks Sp. z o.o. entered into rights and liabilities of lessor in case of set-top boxes' production and laser lease agreements.

The Company did not recognize assets being subject of these agreements.

(all amounts in PLN thousand, except where otherwise stated)

Future minimum lease payments under finance leases are as follows:

	31 December 2010	31 December 2009
less than 1 year	-	1.612
between 1 and 5 years	-	5.680
Total	**-**	**7.292**

The present value of minimum lease payments amounted to PLN 6,671 thousand as at 31 December 2009.

b) Company as a lessee

Operating leases

The Company entered into a significant number of agreements, which are classified as operating lease contracts based on their economic substance. Assets leased under these contracts are not recorded in the financial statements. The contracts comprise rental of transponder capacity, rental of office space and rental of equipment.

Future minimum lease payments under operating leases are as follows:

	31 December 2010	31 December 2009
less than 1 year	87,936	97,001
between 1 and 5 years	350,528	383,655
more than 5 years	154,953	274,576
Total	**593,417**	**755,232**

In 2010 the Company incurred costs related to operating lease agreements amounting to PLN 89,243 thousand and in 2009 the costs of the Company amounted to PLN 83,535 thousand.

Finance leases

The total carrying amount of equipment used under finance lease contracts amounted to PLN 1,384 thousand as at 31 December 2010 and PLN 1,670 thousand as at 31 December 2009. The lease term is 10 years.

Future minimum lease payments under finance leases are as follows:

	31 December 2010	31 December 2009
less than 1 year	226	234
between 1 and 5 years	884	937
more than 5 years	-	214
Total	**1,110**	**1,385**

The present value of minimum lease payments amounted to PLN 970 thousand as at 31 December 2010 and PLN 1,243 thousand as at 31 December 2009.

(all amounts in PLN thousand, except where otherwise stated)

32. Trade and other payables

	31 December 2010	31 December 2009
Trade payables to related parties (see note 42)	24,946	7,955
Trade payables to third parties	122,529	80,059
Taxation and social security payables	7,673	7,052
Payables relating to purchases of fixed assets	5,632	6,122
Accruals	109,974	106,762
Short term provisions	4,691	2,478
Other	4,966	2,712
Total	**280,411**	**213,140**

Accruals

	31 December 2010	31 December 2009
Salaries	15,033	15,746
Royalties for copyright management organisations	2,844	2,463
Licence fees	49,310	36,045
Distribution costs	21,360	37,491
Other	21,427	15,017
Total	**109,974**	**106,762**

Trade payables and payables relating to purchases of fixed assets by currency

Currency	31 December 2010	31 December 2009
PLN	111,463	35,835
EUR	28,555	15,358
USD	13,089	42,943
Total	**153,107**	**94,136**

Accruals by currency

Currency	31 December 2010	31 December 2009
PLN	70,703	75,010
EUR	15,779	18,986
USD	23,492	12,766
Total	**109,974**	**106,762**

(all amounts in PLN thousand, except where otherwise stated)

33. Deposits for equipment

	31 December 2010	31 December 2009
Subscribers	7,969	10,568
Distributors	7,449	8,215
Other	16	17
Total	**15,434**	**18,800**

Deposits received comprise amounts paid by subscribers under agreements for rental of reception equipment and deposits paid by distributors for reception equipment and mobile phones.

Deposits are returned to customers or offset against receivables from subscribers upon contract termination. All deposits are presented as current liabilities as the notice period is less than 12 months.

34. Deferred income

	31 December 2010	31 December 2009
Deferred income	166,412	135,062

Deferred income comprises mainly subscription fees paid in advance and rental fees for set-top boxes. These fees relate primarily to services to be rendered within 12 months from the reporting date.

35. Financial instruments

Overview

Cyfrowy Polsat S.A. has exposure to the following risks from its use of financial instruments:
- credit risk,
- liquidity risk,
- market risk:
    i) currency risk,
    ii) interest rate risk,
- capital management.

The Company's risk management policies are designed to reduce the impact of any adverse conditions on the Company's results.

The Management Board has overall responsibility for the oversight and management of the risks that the Company is subjected to in its activities. Accordingly, the Management Board has established risk management framework as well as specific risk management policies with respect to credit risks and capital management.

(all amounts in PLN thousand, except where otherwise stated)

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are also included throughout these financial statements.

Bank loans, cash, forward exchange contracts, foreign exchange call options and short-term bank deposits are the main financial instruments used by the Company, with the intention of securing the financing for the Company's activities. The Company also holds other financial instruments such as trade receivables and payables which arise in the course of its business activities.

Financial assets	Carrying amount	
	31 December 2010	**31 December 2009**
Financial assets at fair value through profit or loss, including:	**5,604**	**-**
Foreign exchange call options*	5,604	-
Loans and receivables, including:	**150,311**	**95,905**
Loans granted to related parties	5,446	1,474
Loans granted to non-related parties	1	-
Financial lease receivables from related parties	-	5,917
Trade and other receivables from related parties	4,435	5,641
Trade and other receivables from third parties	140,429	82,873
Held-to-maturity financial assets	**-**	**-**
Available-for-sale financial assets	**-**	**-**
Hedging derivative instruments*	**-**	**-**
Cash and cash equivalents	**24,195**	**70,388**
Restricted cash	**-**	**26,738**

*The Company does not apply hedge accounting, therefore foreign exchange call options are being presented at fair value through profit or loss.

Financial liabilities	Carrying amount	
	31 December 2010	**31 December 2009**
Financial liabilities at fair value through profit or loss	**-**	**-**
Other financial liabilities measured at amortised cost, including:	**174,617**	**164,403**
Finance lease liabilities	1,110	1,385
Loans and borrowings	-	47,370
Trade and other payables to third parties	148,561	107,693
Trade and other payables to related parties	24,946	7,955
Hedging derivative instruments	**-**	**-**

Credit risk

The Company's exposure to credit risk is associated primarily with trade receivables. In the financial year ended 31 December 2010, the Company was not materially exposed to credit risk arising from credit sales. The Company's customer base includes a large number of individual subscribers who are dispersed geographically over the entire country and who are required to prepay their subscription fees. Receivables from subscribers are continuously monitored and recovery actions are taken, including blocking of the signal transferred to subscribers or termination of services to a MVNO and Internet customer.

(all amounts in PLN thousand, except where otherwise stated)

The Company analyses the creditworthiness of distributors as well as TV and radio broadcasters on an ongoing basis.

In terms of credit risk related to the loans granted to subordinate company Cyfrowy Polsat Technology Sp. z o.o and M.Punkt Holdings Ltd. the Company is not exposed to a significant credit risk. The Company owns 100% shares in both subordinate companies and therefore exercises full control over their financial standings.

Moreover, low credit risk related to loan granted to Cyfrowy Polsat Technology Sp. z o.o. results from the fact that in 2008 Cyfrowy Polsat Technology Sp. z o.o. has started selling manufactured set-top boxes to the Company (the only customer). The price was set at the market level assuring sales profitability to Cyfrowy Polsat Technology and sufficient level of liquidity enabling repayment of its liabilities, including liabilities to the Company.

M.Punkt Holdings Ltd. is the owner of mPunkt Polska S.A., which registers new subscribers *inter alia* under the agreement with Cyfrowy Polsat S.A. and receives commissions for its services. Commissions are set at the market level.

Credit risk associated with the Company's other financial assets, such as receivables and cash and cash equivalents arises when a counterparty fails to make payments when due. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at the reporting date was as follows:

Maximum exposure to credit risk

	Carrying amount	
	31 December 2010	**31 December 2009**
Loans granted to related parties	5,446	1,474
Loans granted to third parties	1	-
Financial lease receivables from third parties	-	5,917
Trade and other receivables from non-related parties	140,429	82,873
Trade and other receivables from related parties	4,435	5,641
Cash and cash equivalents	24,195	70,388
Restricted cash	-	26,738
Total	**174,506**	**193,031**

The maximum exposure to credit risk for trade and other receivables, by type of customer, was

	Carrying amount	
	31 December 2010	**31 December 2009**
Receivables from subscribers	122,682	61,664
Receivables from distributors	5,345	11,333
Receivables from media companies	7,937	5,205
Receivables and loans granted to related parties	9,881	13,032
Receivables and loans granted to third parties	4,466	4,671
Total	**150,311**	**95,905**

(all amounts in PLN thousand, except where otherwise stated)

The aging of trade and other receivables at the reporting date was:

	31 December 2010			31 December 2009		
	Gross	**Impairment**	**Net**	**Gross**	**Impairment**	**Net**
Not past due	119,851	3,657	116,194	78,046	1,446	76,600
Past due 0-30 days	16,905	3,096	13,809	5,548	1,195	4,353
Past due 31-60 days	5,370	2,460	2,910	3,732	1,486	2,246
Past due more than 60 days	119,689	102,291	17,398	85,347	72,641	12,706
Total	**261,815**	**111,504**	**150,311**	**172,673**	**76,768**	**95,905**

On 31 December 2010 Cyfrowy Polsat S.A. and Cyfrowy Polsat Technology Sp. z o.o. signed an annex to a loan agreement resulting in the postponement of the loan's repayment date to 31 December 2011. The previous repayment date was 31 December 2010. Had the annex not been signed, principal in the amount of PLN 50 thousand would have been overdue. On 31 December 2010 Cyfrowy Polsat S.A. and M.Punkt Holdings Ltd. signed an annex to a loan agreement resulting in the postponement of the loan's repayment date to 31 December 2011. The previous repayment date was 31 December 2010. Had the annex not been signed, principal in the amount of PLN 5,248 thousand would have been overdue.

Liquidity risk

The Company's objective in liquidity management is to ensure that it always has sufficient funds to meet its liabilities when due. Any surplus cash is invested into bank deposits.

The Company prepares, on an ongoing basis, analyses and forecasts of its cash requirements based on projected cash flows.

The following are the contractual maturities of the Company's financial liabilities.

	31 December 2010						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	more than 5 years
Finance lease liabilities	1,110	1,110	113	113	226	658	-
Trade and other payables to third parties	148,561	148,561	148,561	-	-	-	-
Trade and other payables to related parties	24,946	24,946	24,946	-	-	-	-
	174,617	**174,617**	**173,620**	**113**	**226**	**658**	**-**

(all amounts in PLN thousand, except where otherwise stated)

	31 December 2009						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	more than 5 years
Loans	47,370	48,257	32,337	15,920	-	-	-
Finance lease liabilities	1,385	1,385	117	117	234	703	214
Trade and other payables to third parties	107,693	107,693	107,693	-	-	-	-
Trade and other payables to related parties	7,955	7,955	7,955	-	-	-	-
	164,403	**165,290**	**148,102**	**16,037**	**234**	**703**	**214**

Market risk

Currency risk

One of the main risks that the Company is exposed to is currency risk resulting from fluctuations in exchange rate of the Polish zloty against other currencies. Revenues generated by the Company are denominated primarily in the Polish zloty, while, a significant portion of operating costs and capital expenditures are incurred in foreign currencies. The Company's currency risk is associated mainly to royalties to TV and radio broadcasters (USD and EUR), transponder capacity leases (EUR), fees for conditional access system (EUR) and purchases of reception equipment and accessories for reception equipment (USD and EUR).

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

In order to keep to an acceptable level its currency risk related to royalties to TV and radio broadcasters, costs of conditional access system and costs of reception equipment purchases the Company purchased a number of foreign exchange call options.

On 10 August 2010 the Company purchased foreign exchange call options for a total value of EUR 12,000 thousand and USD 18,000 thousand. The options provide that the Company is entitled to purchase EUR 1,000 thousand and USD 1,500 thousand on a monthly basis within 12 months until 1 August 2011 inclusively (strike prices are respectively 4.0310 PLN per 1 euro and 3.0790 PLN per 1 dollar). The total premium for purchased options was equal to PLN 4,540 thousand. On 4 November 2010 the Company purchased foreign exchange call options for a total value of USD 18,000 thousand. The options provide that the Company is entitled to purchase USD 1,500 thousand on a monthly basis within 12 months until 1 November 2011 inclusively (strike price is 2.8000 PLN per 1 dollar). The total premium for purchased options was equal to PLN 2,780 thousand. The foreign exchange call options were purchased in order to limit the impact of foreign exchange rates fluctuations on net profit of the Company. The Company did not apply hedge accounting in respect to these options. As at 31 December 2010 the fair value of unrealised foreign exchange call options amounted to PLN 5,604 thousand and was presented in 'Other current assets'. Between 10 August and 31 December 2010 the Company recognized financial expenses resulting from valuation and realization of options in income statement totalling PLN 922 thousand (see note 13).

The Company did not have any assets held for trading denominated in foreign currencies.

The Company does not apply hedge accounting.

The Company's exposure to foreign currency was as follows based ono notional currency amounts:

	31 December 2010		31 December 2009	
(in thousands)	EUR	USD	EUR	USD
Trade receivables	2,123	28	1,035	43
Cash and cash equivalents	1,451	101	680	334
Trade payables	(7,210)	(4,416)	(3,738)	(15,066)
Gross balance sheet exposure	**(3,636)**	**(4,287)**	**(2,023)**	**(14,689)**
Foreign exchange call options	7,000	27,000	-	-
Net exposure	**3,364**	**22,713**	**(2,023)**	**(14,689)**

Following foreign exchange rates were applied in the presented periods:

	Average rate		Rates at the balance sheet date	
(in PLN)	2010	2009	31 December 2010	31 December 2009
1 EUR	3.9946	4.3273	3.9603	4.1082
1 USD	3.0157	3.1162	2.9641	2.8503

For the purposes of the exchange rate sensitivity analysis as at 31 December 2010 and 31 December 2009 exchange rate volatility in the +/- 5% range was assumed as probable. This analysis assumes that all other variables, in particular interest rates, remain constant. The sensitivity analysis below is performed on the same basis for 2009.

	2010				2009			
	As at 31 December 2010 in currency (in thousand)	As at 31 December 2010 in PLN (in thousand)	Estimated change in exchange rate in %	Estimated change in profit in PLN (in thousand)	As at 31 December 2009 in currency (in thousand)	As at 31 December 2009 in PLN (in thousand)	Estimated change in exchange rate in %	Estimated change in profit in PLN (in thousand)
Trade receivables								
EUR	2,123	8,407	5%	420	1,035	4,253	5%	213
USD	28	83	5%	4	43	122	5%	6
Cash and cash equivalents								
EUR	1,451	5,745	5%	287	680	2,795	5%	140
USD	101	300	5%	15	334	953	5%	48
Trade payables								
EUR	(7,210)	(28,555)	5%	(1,428)	(3,738)	(15,358)	5%	(768)
USD	(4,416)	(13,089)	5%	(654)	(15,066)	(42,943)	5%	(2,147)
Change in operating profit				(1,356)				(2,508)
Foreign exchange call options								
EUR	7,000	27,722	5%	923	-	-	5%	-
USD	27,000	80,031	5%	3,040	-	-	5%	-
Income tax				495				(477)
Change in net profit				2,112				(2,031)

	2010				2009			
	As at 31 December 2010 in currency (in thousand)	in PLN (in thousand)	Estimated change in exchange rate in %	Estimated change in profit in PLN (in thousand)	As at 31 December 2009 in currency (in thousand)	in PLN (in thousand)	Estimated change in exchange rate in %	Estimated change in profit in PLN (in thousand)
Trade receivables								
EUR	2,123	8,407	-5%	(420)	1,035	4,253	-5%	(213)
USD	28	83	-5%	(4)	43	122	-5%	(6)
Cash and cash equivalents								
EUR	1,451	5,745	-5%	(287)	680	2,795	-5%	(140)
USD	101	300	-5%	(15)	334	953	-5%	(48)
Trade payables								
EUR	(7,210)	(28,555)	-5%	1,428	(3,738)	(15,358)	-5%	768
USD	(4,416)	(13,089)	-5%	654	(15,066)	(42,943)	-5%	2,147
Change in operating profit				1,356				2,508
Foreign exchange call options								
EUR	7,000	27,722	-5%	(421)	-	-	-5%	-
USD	27,000	80,031	-5%	(2,344)	-	-	-5%	-
Income tax				(268)				477
Change in net profit				(1,141)				2,031

Had the exchange rate of euro and American dollar against the Polish zloty as at 31 December 2010 and 31 December 2009 been higher by 5%, the Company's net profit would have correspondingly increased by PLN 2,112 thousand and decreased by PLN 2,031 thousand. Had the exchange rate of the Polish zloty against euro and American dollar been higher by 5% the Company's net profit would have correspondingly decreased by PLN 1,141 thousand and increased by PLN 2,031 thousand, assuming that all other variables remain constant. Estimated future revenue and cost denominated in foreign currency is not taken into consideration.

Interest rate risk

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

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

(all amounts in PLN thousand, except where otherwise stated)

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

	Carrying amount	
	31 December 2010	**31 December 2009**
Fixed rate instruments		
Financial assets	-	51,926
Financial liabilities	-	-
Total	**-**	**51,926**

	Carrying amount	
	31 December 2010	**31 December 2009**
Interest-rate-sensitive instruments		
Financial assets	34,693	24,487
Financial liabilities	-	(47,277)
Total	**34,693**	**(22,790)**

Cash flow sensitivity analysis for variable rate instruments:

	Income statement	
	Increase by 100 bp	**Decrease by 100 bp**
31 December 2010		
Variable rate instruments	530	(524)
Cash flow sensitivity (net)	**530**	**(524)**
31 December 2009		
Variable rate instruments	(228)	(228)
Cash flow sensitivity (net)	**(228)**	**228**

The Company does not apply hedge accounting.

(all amounts in PLN thousand, except where otherwise stated)

Fair value versus carrying amount

Presented below are fair values and carrying amounts of financial assets and liabilities.

	31 December 2010		31 December 2009	
	Fair value	Carrying amount	Fair value	Carrying amount
Loans granted to related parties	5,443	5,446	1,392	1,474
Loans granted to third parties	1	1	-	-
Financial lease receivables from related parties	-	-	5,987	5,917
Trade and other receivables	144,864	144,864	88,514	88,514
Foreign exchange call options	5,604	5,604	-	-
Cash and cash equivalents	24,195	24,195	70,388	70,388
Restricted cash	-	-	26,738	26,738
Loans and borrowings	-	-	(47,275)	(47,370)
Finance lease liabilities	(970)	(1,110)	(1,243)	(1,385)
Trade and other payables	(173,507)	(173,507)	(115,648)	(115,648)
Total	**5,630**	**5,493**	**28,853**	**28,628**
Unrecognised gain		137		225

The fair values of cash and cash equivalents and restricted cash are assumed to be equal to their carrying amounts, therefore no fair value measurement was applied thereto. When determinining the fair value of finance lease liabilities, forecasted cash flows from the reporting date to November 2015 (assumed date of lease agreements termination) were analysed. The discount rate for each month was calculated as a WIBOR 1M interest rate plus a margin regarding the Company's credit risk. Trade and other receivables and trade and other payables comprise mainly receivables and payables which will be settled no later than at the end of the first month after the reporting date. It was therefore assumed that their fair value, taking into account the effect of the time value of money, would approximate their carrying amounts. The evaluation methods used to establish fair values of loans granted to related and third parties were based on observable market input – WIBOR interest rates. When determinining the fair value of loans granted to related and third parties, forecasted cash flows from the balance sheet date to May 2011 (assumed date of repayment of the loan) were analysed. The discount rate for each month was calculated as a sum of implied WIBOR 6M interest rate (calculated on the basis of WIBOR interest rates structure as at 31 December 2010) and a margin of 2.00% (the Company would be willing to forward a loan on such terms).

The fair value of foreign exchange call options is assumed in accordance to the valuation of the Bank, with which the Company concluded agreements.

Capital management

The Company's capital management's goal is to maintain its ability to operate as a going concern in order to ensure proper return on the shareholders' investment as well as benefits for other stakeholders. The Company might issue shares, increase debt or sell assets in order to maintain or improve the equity structure.

(all amounts in PLN thousand, except where otherwise stated)

The Company monitors capital on the basis of leverage ratio, which is calculated as a ratio of net debt to sum of equity and net debt. Net debt represents interest-bearing loans and borrowings less cash and cash equivalents (including restricted cash).

	Carrying amount	
	31 December 2010	**31 December 2009**
Loans	-	47,370
Cash and cash equivalents	(24,195)	(97,126)
Net debt	**(24,195)**	**(49,756)**
Equity	1,059,036	327,815
Equity and net debt	1,034,841	278,059
Leverage ratio	**<0***	**<0***

*Ratio is negative in both periods due to negative net debt.

36. Barter transactions

The Company is a party to barter transactions. The table below presents revenues and costs of barter transactions executed on an arm's-length basis. Revenue comprise revenue from services, goods and materials sold, costs comprise selling expenses.

	for the year ended	
	31 December 2010	**31 December 2009**
Revenues from barter transactions	2,226	2,803
Cost of barter transactions	2,356	2,721

	31 December 2010	**31 December 2009**
Barter receivables	660	1,463
Barter payables	190	449

37. Litigation and public administration proceedings

As at the date of preparation of these financial statements for the period ended 31 December 2010 following material public administration proceedings and claims before the court against the Company were pending.

Public administration proceedings

Proceedings before the President of UOKiK (Office of Competition and Consumer Protection) regarding the application of practices breaching collective interests of consumers

The Company received UOKIK's decision No. 11/2009 dated 31 December 2009 whereby the President of UOKiK confirmed that certain statements included in the Company's service delivery regulations in force prior to 1 November 2009 were breaching the collective interests of consumers. At the same time, the President of UOKiK acknowledged that these unlawful provisions were eliminated from the amended regulations.

The President of UOKiK also ordered, once the above decision becomes legally binding, it is published on the Company's website (www.cyfrowypolsat.pl) and also in a daily nationwide newspaper. Moreover, pursuant to Article 106 Clause 1 Point 4 Protection of Competition and Consumers Act dated 16 February 2007 UOKiK imposed a cash fine of PLN 994 thousand, representing 0.09% of the Company's 2008 revenue.

The Company filed an appeal against the decision to the Polish Competition and Consumer Protection Court. On 14 April 2010 the President of UOKiK called for the appeal to be dismissed in full.

In these financial statements the Company created a provision for potential costs resulting from the final settlement of the above-mentioned proceedings.

Other legal proceedings

Action brought by SkyMedia Sp. z o.o.

A lawsuit filed by Skymedia Sp. z o.o. z with its registered office in Katowice for compensation and indemnity. On 2 April 2010 the Praga District Court X Commercial Department in Warsaw announced the conclusion, according to which, the Company is ordered to pay in favour of SkyMedia Sp. z o.o. an amount of PLN 545 thousand plus legal interest calculated from 28 August 2007 and also PLN 30 thousand of legal costs reimbursement. On 22 September 2010 the Court of Appeal in Warsaw upheld the verdict.
In these financial statements the Company created a provision for the liabilities.

38. Important agreements and events

Annex to the agreement with Nagravision S.A.

On 31 March 2010 Annex 4 to the agreement dated 2 November 2004 with Nagravision S.A. was signed. For the rent, license, and technical support for the conditional access system, the Company will pay Nagravision S.A. a monthly, fixed fee, expressed in euro, based on the defined number of subscribers as set forth in the agreement. In addition, the Company will pay Nagravision a fee, expressed in euro, for the purchase of smartcards, per each purchased smartcard.

Acquisition of 100% shares in Telewizja Polsat S.A.

On 15 November 2010 an investment agreement was concluded between the Company and Zygmunt Solorz-Żak, Heronim Ruta, Karswell Limited and Sensor Overseas Limited (jointly "Sellers").

The agreement pertains to obligating the Sellers to sell to the Company the shares of Telewizja Polsat Spółka Akcyjna seated in Warsaw ("TV Polsat"). Pursuant to the Agreement the Company undertakes to buy and the Sellers undertake to sell jointly 2,369,467 shares of TV Polsat with the par value of PLN 100 each, constituting 100% of the share capital of the company and 100% votes at the shareholder meeting of TV Polsat for the total price of PLN 3,750,000,003.32.

The agreement stipulates that 69.33 % of the price for the shares, i.e. PLN 2,600,000,000, will be paid in the form of transfer to the Sellers' accounts on the date of transfer of the title to the shares and the remainder of the price, i.e. PLN 1,150,000,003.32 through setting off the Company's receivables on account of payment for the shares taken up by the Sellers in pursuance of the rights under subscription warrants to be issued by the Company pursuant to the Company's Shareholder Meeting resolution against the Sellers' receivables on account of payment of the remainder of the price for the Shares.

On 17 December 2010 the Extraordinary General Meeting of the Company resolved to conditionally increase the share capital of the Company by no more than PLN 3,201,113.44 through the issuance of no more than 80,027,836 ordinary bearer Series H shares with (issue price shall be PLN 14.37). The rights to subscribe for the shares shall expire on 30 September 2011. The purpose of the conditional share capital increase in the Company is to vest the right to subscribe for its shares in holders of registered Series H subscription warrants of the Company, thus enabling the Company to pursue its investment plans concerning the acquisition of 2,369,467 shares of TV Polsat representing 100% of the share capital of that company. The persons eligible to take up the Series H shares are the persons who will acquire Series H subscription warrants to be issued by the Company and dedicated to TV Polsat shareholders.

The Extraordinary General Meeting of the Company resolved to issue 80,027,836 registered Series H subscription warrants, which shall entitle their holders to subscribe for ordinary bearer Series H shares. The subscription warrants are offered for subscription free of charge to the entities being the shareholders of TV Polsat. The Extraordinary General Meeting of the Company also resolved to exclude preemptive right of the existing shareholders with respect to the new Series H shares and registered Series H subscription warrants.

The acquisition of Telewizja Polsat S.A. is expected to be finalised by the end of the first quarter of 2011.

Purchase of data transfer services from Mobyland Sp. z o.o.

On 15 December 2010 the Company and Mobyland Sp. z o.o. signed the agreement, according to which Mobyland will provide an access to the wireless data transfer service, based on 1800MHz and 900MHz bands in LTE and HSPA+ technology, respectively. The maturity of the agreement is unlimited and its value will be defined based on separate orders placed by the Company, regarding the purchase of data transfer service, expressed as a number of GB.

At the agreement date, the Company placed an order no. 1, regarding purchase of 12 million GB of data transfer service with the guaranteed utilization period by 31 December 2013 and price of PLN 0.00903 per MB. The payment will be done in 12 equal monthly installments, starting from January 2011. Next orders will be placed in later periods, and its value will depend both on geographical coverage of Mobyland network and capacity of data transfer service required.

(all amounts in PLN thousand, except where otherwise stated)

39. Off-balance sheet liabilities

Securities relating to granted pledges

On 25 August 2010 we granted our subsidiary mPunkt Polska S.A. a pledge of PLN 13,000 thousand as the collateral for the overdraft facility from BRE Bank of up to PLN 12,000 thousand.

Liabilities relating to operating leases

Liabilities relating to operating leases are described in note 31.

Contractual liabilities related to purchase of non-current assets

Cyfrowy Polsat S.A. entered into a number of agreements on manufacturing and purchase of the technical equipment. The total amount of capital commitments resulting from these agreements was PLN 12,403 thousand as at 31 December 2010. The Company entered into a number of agreements on property improvements. The total amount of capital commitments resulting from these agreements was PLN 75 thousand as at 31 December 2010. In addition, the Company entered into a number of agreements for purchase of licences and software – as at 31 December 2010 the amount of deliveries and services committed to under these agreements was PLN 173 thousand.

40. Remuneration of the Management Board

The table below presents the Management Board's remuneration (excluding value of share-based payments and bonuses) from Cyfrowy Polsat S.A.

Name	**Function**	**2010**	**2009**
Dominik Libicki	President of the Management Board	1,020	1,020
Maciej Gruber	Member of the Management Board	-	275
Dariusz Działkowski	Member of the Management Board	624	636
Aneta Jaskólska	Member of the Management Board	292	-
Andrzej Matuszyński	Member of the Management Board	52	636
Tomasz Szeląg	Member of the Management Board	624	394
Total		**2,612**	**2,961**

(all amounts in PLN thousand, except where otherwise stated)

The amounts of bonuses payable to each member of the Management Board for 2010 and 2009 are presented below:

Name	Function	2010	2009
Dominik Libicki	President of the Management Board	2,200	3,200
Maciej Gruber	Member of the Management Board	-	400
Dariusz Działkowski	Member of the Management Board	500	800
Aneta Jaskólska	Member of the Management Board	300	-
Andrzej Matuszyński	Member of the Management Board	-	-
Tomasz Szeląg	Member of the Management Board	1,000	500
Total		**4,000**	**4,900**

The table below presents the remuneration of the Management Board of Cyfrowy Polsat S.A. from other related companies:

Name	Function	2010	2009
Dominik Libicki	President of the Management Board	60	60
Maciej Gruber	Member of the Management Board	-	13
Dariusz Działkowski	Member of the Management Board	36	36
Aneta Jaskólska	Member of the Management Board	17	-
Andrzej Matuszyński	Member of the Management Board	1	23
Tomasz Szeląg	Member of the Management Board	36	23
Total		**150**	**155**

Management Stock Option Plan

On 4 December 2007, the Extraordinary General Shareholders' Meeting of Cyfrowy Polsat S.A. adopted a resolution on the introduction of a management incentive plan. Under the plan, managers would be granted options for the Company shares. The persons entitled to acquire the shares would be holders of subscription warrants who acquired the warrants in line with the incentive plan's rules and on the basis of a resolution of the Extraordinary General Shareholders Meeting on issue of subscription warrants. Holders of the subscription warrants should exercise their right to receive shares issued pursuant to the resolution on the conditional share capital increase, within six months following the day on which the General Shareholders' Meeting approves the financial statements of the Company for 2011. Notwithstanding the foregoing, for individual series of shares, the following dates are the first day of the period for filing statements on subscription of relevant shares:

(i) Series G1 shares – the date on which the 2008 financial statements are approved by the General Shareholders' Meeting,
(ii) Series G2 shares – the date on which the 2009 financial statements are approved by the General Shareholders' Meeting,
(iii) Series G3 shares – the date on which the 2010 financial statements are approved by the General Shareholders' Meeting,
(iv) Series G4 shares – the date on which the 2011 financial statements are approved by the General Shareholders' Meeting.

(all amounts in PLN thousand, except where otherwise stated)

As at the date of approval of these financial statements, the incentive plan had not yet been approved.

According to the aforementioned resolution, should not all shares of a given series be distributed, in line with the objective of the resolution, the Supervisory Board may transfer the remaining undistributed shares to other series, effectively increasing the number of shares in that series. On no account may the overall number of shares issued on the grounds of the resolution be changed.

41. Remuneration of the Supervisory Board

The Supervisory Board members receive remuneration based on the resolution of the Extraordinary General Shareholders' Meeting of Cyfrowy Polsat S.A. dated 5 September 2007.

Presented below total remuneration payable to the Supervisory Board members in 2010 and 2009:

Name	Function	2010	2009
Zygmunt Solorz-Żak	President of the Supervisory Board	180	180
Heronim Ruta	Member of the Supervisory Board	120	120
Andrzej Papis	Member of the Supervisory Board	120	120
Robert Gwiazdowski	Independent Member of the Supervisory Board	120	120
Leszek Reksa	Independent Member of the Supervisory Board	120	120
Total		**660**	**660**

(all amounts in PLN thousand, except where otherwise stated)

42. Transactions with related parties

Receivables

	31 December 2010	31 December 2009
Cyfrowy Polsat Technology Sp. z o.o.	468	283
Cyfrowy Polsat Technology Sp. z o.o. (leasing)	-*	5,917
Dom Sprzedaży Radia PIN Sp. z o.o.	108	61
Invest Bank S.A.	9	-
Media Biznes Sp. z o.o.	59	116
mPunkt Polska S.A.	976	-
Polsat Futbol Ltd.	1,200	-
Polsat Jim Jam Ltd.	326	-
Polsat Media Sp. z o.o.	1	1
Polskie Media S.A.	152	37
Sferia S.A.	7	16
Superstacja Sp. z o.o.	347	181
Teleaudio Sp. z o.o.	108	2
Telewizja Polsat S.A.	674	4,944
Total	**4,435**	**11,558**

* Leasing receivables are recognised by Cyfrowy Polsat Trade Marks Sp. z o.o., which entered into the rights and liabilities of a lessor due to the laser and production line lease agreements.

Liabilities

	31 December 2010	31 December 2009
Cyfrowy Polsat Technology Sp. z o.o.*	14,414	7,040
Invest Bank S.A.	-	4
mPunkt Polska S.A.	3,395	-
Polsat Jim Jam Ltd.	353	-
Polsat Media Sp. z o.o.	24	-
Polskie Media S.A.	-	34
Teleaudio Sp. z o.o.	-	877
Telewizja Polsat S.A.	6,760	-
Total	**24,946**	**7,955**

*Amounts presented above do not include deposit (PLN 29 thousand) related to leased property, paid by Cyfrowy Polsat Technology Sp. z o.o. to the Company.

Receivables from related parties and liabilities to related parties do not serve as security.

Amounts presented in the table “Liabilities” do not include accruals.

(all amounts in PLN thousand, except where otherwise stated)

Receivables from Cyfrowy Polsat Technology Sp. z o.o. comprised mainly of the receivables due to finance lease of set-top boxes' production line and finance lease of a laser. In 2010 Cyfrowy Polsat Trade Marks entered into the rights and liabilities of a lessor (see note 21b).

Liabilities to Cyfrowy Polsat Technology Sp. z o.o. comprise liabilities resulting from purchases of set-top boxes and set-top boxes' accessories. In 2010 the Company purchased from Cyfrowy Polsat Technology Sp. z o.o. set-top boxes and set-top boxes' accessories for a total value of PLN 147,264 thousand.

Loans granted

	31 December 2010	31 December 2009
Cyfrowy Polsat Technology Sp. z o.o.	51	1,474
M.Punkt Holdings Ltd.	5,395	-
Total	**5,446**	**1,474**

Significant transactions with related parties are presented below:

Revenues

	for the year ended	
	31 December 2010	31 December 2009
Cyfrowy Polsat Technology Sp. z o.o.	2,395	1,531
Dom Sprzedaży Radia PIN Sp. z o.o.	138	150
Invest Bank S.A.	54	-
Media Biznes Sp. z o.o.	192	192
mPunkt Polska S.A.	154	-
Polsat Futbol Ltd.	1,200	-
Polsat Jim Jam Ltd.	3	-
Polskie Media S.A.	150	172
Superstacja Sp. z o.o.	59	74
Teleaudio Sp. z o.o.	501	15
Telewizja Polsat S.A.	796	643
Total	**5,642**	**2,777**

The most significant transactions include revenues from servicing and property rental from Cyfrowy Polsat Technology Sp. z o.o. and signal broadcast services for Polsat Futbol Ltd.

(all amounts in PLN thousand, except where otherwise stated)

Expenses

	for the year ended	
	31 December 2010	31 December 2009
Cyfrowy Polsat Trade Marks Sp. z o.o.	937	n/a
Dom Sprzedaży Radia PIN Sp. z o.o.	99	-
Elektrim S.A.	1,764	1,633
Invest Bank S.A.	5	1
Media Biznes Sp. z o.o.	192	192
mPunkt Polska S.A.	9,686	-
PAI Media S.A.	82	48
Polsat Jim Jam Ltd.	1,047	-
Polsat Media Sp. z o.o.	638	124
Polskie Media S.A.	150	150
Radio PIN S.A.	-	77
Sferia S.A.	161	64
Superstacja Sp. z o.o.	6	-
Teleaudio Sp. z o.o.	9,731	11,874
Telewizja Polsat S.A.	74,254	50,119
Total	**98,752**	**64,282**

The most significant transactions include license fees to Telewizja Polsat S.A. for broadcasting programs Polsat Sport, Polsat Sport Extra, Polsat Film, Polsat Futbol, Polsat News, Polsat Play, Polsat Cafe and Polsat SportHD.

Teleaudio Sp. z o.o. provides mainly telecommunication services with respect to the Company's customer call center. The Company leases office space at Chałubińskiego Street in Warsaw from Elektrim S.A. The Company incurs expenses for using "Cyfrowy Polsat" trade mark for the benefit of Cyfrowy Polsat Trade Marks Sp. z o.o.

Transactions with related parties are being concluded substantially on an arm's length basis.

Finance income

	for the year ended	
	31 December 2010	31 December 2009
Cyfrowy Polsat Technology Sp. z o.o.	418	974
M.Punkt Holdings Ltd.	147	-
Total	**565**	**974**

The table above does not include purchasing shares of Sferia S.A. by Cyfrowy Polsat S.A. from Zygmunt Solorz-Żak and their further sale to Polaris Finance B.V. (transactions in 2009). The cost of acquiring shares by Cyfrowy Polsat S.A. amounted to PLN 53,396 thousand and the amount paid by Polaris Finance B.V. amounted to PLN 53,726 thousand. The resulting finance income totaled PLN 330 thousand.

Other

Invest Bank is the main banking partner of the Company and therefore the Company pays banking fees and bears the costs of mass payment reconciliation. At the same time, the Company earns interest income from term deposits.

In 2010 the Company paid the dividend for 2009 in amount of PLN 152,945 thousand (PLN 0.57 per share).

43. Events subsequent to the reporting date

On 10 March 2011 the Company acquired 100% of shares of Goldcup 100051 AB ("Goldcup), an entity registered in Sweden, for SEK 500 thousand (PLN 232 thousand). Goldcup holds no activities since its inception.

44. Accounting estimates and assumptions

The preparation of financial statements in conformity with EU IFRS requires the Management Board to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are based on historical data and other factors considered reliable under the circumstances, and their results provide grounds for an assessment of the carrying amounts of assets and liabilities, which cannot be based directly on any other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The key accounting estimates accounted for by the Management Board are the impairment losses on set-top boxes, the allowance for accounts receivable from individual customers, depreciation period for set-top boxes rented to subscribers under operating leases (detailed description included in the accounting policies).

KPMG

TRANSLATION

Cyfrowy Polsat S.A.

Report supplementing the auditor's opinion on the separate financial statements Financial Year ended 31 December 2010

The report supplementing the auditor's opinion
contains 10 pages
Report supplementing the auditor's opinion
on the separate financial statements
for the financial year ended
31 December 2010

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation

Contents

1. General

1.1. General information about the Company

1.1.1. Company name

Cyfrowy Polsat S.A.

1.1.2. Registered office

ul. Łubinowa 4a
03-878 Warsaw

1.1.3. Registration in the National Court Register

Registration court:	District Court for the Capital City Warsaw in Warsaw, XIII Commercial Department of the National Court Register
Date:	21 June 2001
Registration number:	KRS 0000010078
Initial capital as at balance sheet date:	PLN 10,733,000

1.1.4. Management of the Company

The Management Board is responsible for management of the Company.

At 31 December 2010, the Management Board of the Company was comprised of the following members:

- Dominik Libicki – President of the Management Board,
- Tomasz Szeląg – Member of the Management Board,
- Dariusz Działkowski – Member of the Management Board,
- Aneta Jaskólska – Member of the Management Board.

According to the resolution of the Supervisory Board dated 13 July 2010 Mrs Aneta Jaskólska was appointed to the position of the Member of the Management Board.

On 6 January 2010 Mr Andrzej Matuszyński resigned from the position of the Member of the Management Board.

1.2. Auditor information

1.2.1. Key certified auditor information

Name and surname:	Marek Strugała
Registration number:	9645
Name and surname:	Krzysztof Kuśmierski
Registration number:	90106

1.2.2. Audit firm information

Name:	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Address:	ul. Chłodna 51, 00-867 Warsaw
Registration number:	KRS 0000339379
Registration court:	District Court for the Capital City Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number:	527-26-15-362

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. is entered in the register of audit firms under number 3546.

1.3. Prior period financial statements

The separate financial statements for the year ended 31 December 2009 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion with the following emphasis of matters:

"We draw your attention to the information presented in note 8 to the financial statements Due to the Supervisory Board's Resolution dated 5 May 2010 on granting the bonus for 2009 to the Management Board and Directors of the Company in the amount of PLN 9,400 thousand. Management Board of the Company decided to supersede the financial statements dated 17 March 2010 by the financial statements dated l4 May 2010. Due to the above, this opinion withdraws the opinion dated 17 March 2010 on the financial statements dated on that day."

The separate financial statements were approved at the General Meeting on 24 June 2010 where it was resolved to allocate the profit for the prior financial year of PLN 232,041 thousand as follows:

- PLN 152,945 thousand – to be paid as a dividend,
- PLN 79,096 thousand – to reserve capital.

The separate financial statements were submitted to the Registry Court on 2 July 2010 and were published in Monitor Polski B No. 2380 dated 1 December 2010.

1.4. Audit scope and responsibilities

This report was prepared for the General Meeting of Cyfrowy Polsat S.A. seated in Warsaw, ul. Łubinowa 4a, and relates to the separate financial statements comprising: the balance sheet as at 31 December 2010, the income statement and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and notes to the financial statements, comprising of a summary of significant accounting policies and other explanatory information.

The audited Company prepares its separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of General Meeting dated 4 December 2007.

The separate financial statements have been audited in accordance with the contract dated 31 December 2010, concluded on the basis of the resolution of Supervisory Board dated 22 June 2010 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act, national standards on auditing issued by Polish National Council of Certified Auditors and International Standards on Auditing.

We audited the separate financial statements in the Company's head office during the period from 7 February to 16 March 2011.

Management of the Company is responsible for the accuracy of the accounting records and the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the Report on the Company's activities.

Our responsibility is to express an opinion and to prepare a supplementing report on the separate financial statements and whether the financial statements are derived from properly maintained accounting records based on our audit.

Management of the Company submitted a statement dated the same date as this report as to the true and fair presentation of the separate financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the separate financial statements.

All required statements, explanations and information and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

Key certified auditors and KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. fulfill independence requirements as described in Art. 56 points 3 and 4 of the Act on certified auditors and their government, audit firms and public oversight dated 7 May 2009 (Official Journal No. 77, item 649).

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.

2. Financial analysis of the Company

2.1. Summary of the separate financial statements

2.1.1. Balance sheet

ASSETS	31.12.2010 PLN '000	% of total	31.12.2009 PLN '000	% of total
Non-current assets				
Reception equipment	291,208	18.3	133,004	17.2
Other property, plant and equipment	131,994	8.3	132,344	17.1
Intangible assets	20,479	1.3	13,435	1.7
Long term receivables granted to related parties	-	-	4,887	0.6
Investment property	6,931	0.4	6,946	0.9
Shares in subsidiaries	675,471	42.4	1,504	0.2
Other non-current assets	35,898	2.3	54,485	7.0
Total non-current assets	1,161,981	72.9	346,605	44.7
Current assets				
Inventories	140,165	8.8	115,833	15.0
Short-term loans granted to related parties	5,446	0.3	1,474	0.2
Income tax receivable	6,760	0.4	21,262	2.7
Trade and other receivables	178,588	11.2	132,971	17.2
Other current assets	77,154	4.8	58,589	7.6
Cash and cash equivalents	24,195	1.5	70,388	9.1
Restricted cash	-	-	26,738	3.5
Total current assets	432,308	27.1	427,255	55.3
TOTAL ASSETS	1,594,289	100.0	773,860	100.0

EQUITY AND LIABILITIES	31.12.2010 PLN '000	% of total	31.12.2009 PLN '000	% of total
Equity				
Share capital	10,733	0.7	10,733	1.4
Reserve capital	153,093	9.6	73,997	9.6
Other reserves	10,174	0.7	10,174	1.3
Retained earnings	885,036	55.5	232,911	30.1
Total equity	1,059,036	66.5	327,815	42.3
Non-current liabilities				
Finance lease liabilities	884	0.1	1,151	0.1
Deferred tax liabilities	69,986	4.3	29,178	3.8
Other non-current liabilities and provisions	1,900	0.1	1,110	0.1
Total non-current liabilities	72,770	4.5	31,439	4.1
Current liabilities				
Loans and borrowings	-	-	47,370	6.1
Finance lease liabilities	226	-	234	0.0
Trade and other payables	280,411	17.6	213,140	27.5
Deposits for equipment	15,434	1.0	18,800	2.4
Deferred income	166,412	10.4	135,062	17.5
Total current liabilities	462,483	29.0	414,606	53.6
Total liabilities	535,253	33.5	446,045	57.7
TOTAL EQUITY AND LIABILITIES	1,594,289	100.0	773,860	100.0

2.1.2. Income statement

	1.01.2010 - 31.12.2010 PLN '000	% of total sales	1.01.2009 - 31.12.2009 PLN '000	% of total sales
Revenue	1,473,540	100.0	1,267,458	100.0
Cost of services, goods and materials sold	(785,477)	53.3	(696,622)	55.0
Gross profit on sales	*688,063*	*46.7*	*570,836*	*45.0*
Selling expenses	(221,202)	15.1	(204,347)	16.1
General and administrative expenses	(89,739)	6.1	(78,586)	6.2
Other operating income	614,032	41.7	12,430	1.0
Other operating costs	(42,763)	2.9	(22,998)	1.8
Profit from operating activities	*948,391*	*64.4*	*277,335*	*21.9*
Finance income	5,785	0.4	15,237	1.2
Finance costs	(4,982)	0.3	(6,265)	0.5
Net financing costs	803	0.1	8,972	0.7
Gross profit for the year	*949,194*	*64.4*	*286,307*	*22.6*
Income tax	(65,028)	4.4	(54,266)	4.3
Net profit for the year	*884,166*	*60.0*	*232,041*	*18.3*
Basic and diluted earnings per share (PLN)	3.30	-	0.86	-

2.2. Selected financial ratios

		2010	2009	2008
1.	**Return on sales**			
	profit for the period x 100% / revenue	60,0%	18,3%	24,7%
2.	**Return on equity**			
	profit for the period x 100% / equity - profit for the period	505,5%	242,3%	1053,9%
3.	**Debtors' days**			
	average trade receivables (gross) x 365 days / revenue	52 days	45 days	40 days
4.	**Debt ratio**			
	liabilities x 100% / equity and liabilities	33,6%	57,6%	60,6%
5.	**Current ratio**			
	current assets / current liabilities	0,9	1,0	1,4

- Net revenues are comprised of the sale of finished products, merchandise and raw materials.
- Average trade receivables represent the average of trade receivables at the beginning and at the end of the period, excluding allowances for receivables.

A significant increase in **return on sales** and **return on equity** in the current year as compared to the prior year resulted primarily from recognition of income on disposal of an organized part of the enterprise at its fair value, contributed in kind to a subsidiary Cyfrowy Polsat Trade Marks Sp. z o.o., in amount of PLN 608,434 thousands, as described in the note 21 b to the financial statements.

3. Detailed report

3.1. Proper operation of the accounting system

The Company maintains current documentation describing the applied accounting principles adopted by the Management Board to the extent required by Art. 10 of the Accounting Act.

During the audit of the financial statements, we tested, on a sample basis, the operation of the accounting system.

On the basis of the work performed, we have not identified material irregularities in the accounting system which have not been corrected and that could have a material impact on the separate financial statements. Our audit was not conducted for the purpose of expressing a comprehensive opinion on the operation of the accounting system.

The Company performed a physical verification of assets in accordance with the requirements and time frame specified in Art. 26 of the Accounting Act.

3.2. Notes to the separate financial statements

All information included in the notes to the separate financial statements, comprising of a summary of significant accounting policies and other explanatory notes, is, in all material respects, presented accurately and completely. This information should be read in conjunction with the separate financial statements.

3.3. Report on the Company's activities

The Report on the Company's activities includes, in all material respects, information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259) and the information is consistent with the separate financial statements.

3.4. Information on the opinion of the independent auditor

Based on our audit of the separate financial statements as at and for the year ended 31 December 2010, we have issued an unqualified opinion.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. registration number 3546
ul. Chłodna 51, 00-867 Warsaw

Signed on the Polish original

....
Certified Auditor No. 90106
Krzysztof Kuśmierski

Signed on the Polish original

....
Certified Auditor No. 9645
Limited Liability Partner with power of attorney
Marek Strugała

16 March 2011
Warsaw

CYFROWY POLSAT S.A.

Interim Condensed Financial Statements for 3 and 12 Months Ended 31 December 2010

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding.
The binding Polish original should be referred to in matters of interpretation.

(all amounts in PLN thousand)

Interim Income Statement

	Note	for 3 months ended 31 December 2010 unaudited	for 3 months ended 31 December 2009 unaudited	for 12 months ended 31 December 2010	for 12 months ended 31 December 2009
Revenue from services, goods and materials sold	5	375,773	337,516	1,473,540	1,267,458
Cost of services, goods and materials sold	6	(207,702)	(184,433)	(785,477)	(696,622)
Cost of sales	6	(80,062)	(71,798)	(221,202)	(204,347)
General and administration costs	6	(28,607)	(26,956)	(89,739)	(78,586)
Other operating revenue		610,292	1,652	614,032	12,430
Other operating costs		(10,903)	(5,325)	(42,763)	(22,998)
Profit from operating activities		**658,791**	**50,656**	**948,391**	**277,335**
Financial income		1,153	1,115	5,785	15,237
Financial expenses		(1,745)	(638)	(4,982)	(6,265)
Profit before tax		**658,199**	**51,133**	**949,194**	**286,307**
Income tax		(10,422)	(9,857)	(65,028)	(54,266)
Net profit		**647,777**	**41,276**	**884,166**	**232,041**
Basic and diluted earnings per share		**2.41**	**0.15**	**3.30**	**0.86**

Interim Statement of Comprehensive Income

	for 3 months ended 31 December 2010 unaudited	for 3 months ended 31 December 2009 unaudited	for 12 months ended 31 December 2010	for 12 months ended 31 December 2009
Net profit	**647,777**	**41,276**	**884,166**	**232,041**
Other comprehensive income	-	-	-	-
Income tax relating to components of other comprehensive income	-	-	-	-
Other comprehensive income, net of tax	**-**	**-**	**-**	**-**
Total comprehensive income	**647,777**	**41,276**	**884,166**	**232,041**

(all amounts in PLN thousand)

Interim Balance Sheet – Assets

	31 December 2010	31 December 2009
Digital satellite reception equipment and modems	291,208	133,004
Other property, plant and equipment	131,994	132,344
Intangible assets	20,479	13,435
Long term receivables from related parties	-	4,887
Investment property	6,931	6,946
Shares in subsidiaries	675,471	1,504
Other long-term assets	35,898	54,485
Total non-current assets	**1,161,981**	**346,605**
Inventories	140,165	115,833
Short-term loans granted to related parties	5,446	1,474
Income tax receivable	6,760	21,262
Trade and other receivables	178,588	132,971
Other current assets	77,154	58,589
Cash and cash equivalents	24,195	70,388
Restricted cash	-	26,738
Total current assets	**432,308**	**427,255**
Total assets	**1,594,289**	**773,860**

(all amounts in PLN thousand)

Interim Balance Sheet – Equity and Liabilities

	31 December 2010	31 December 2009
Share capital	10,733	10,733
Reserve capital	153,093	73,997
Statutory reserve funds	10,174	10,174
Retained earnings	885,036	232,911
Total equity	**1,059,036**	**327,815**
Long-term finance lease liabilities	884	1,151
Deferred tax liability	69,986	29,178
Other long-term liabilities and provisions	1,900	1,110
Total non-current liabilities	**72,770**	**31,439**
Current loans and borrowings	-	47,370
Current finance lease liabilities	226	234
Trade and other payables	280,411	213,140
Deposits for equipment	15,434	18,800
Deferred income	166,412	135,062
Total current liabilities	**462,483**	**414,606**
Total liabilities	**535,253**	**446,045**
Total equity and liabilities	**1,594,289**	**773,860**

(all amounts in PLN thousand)

Interim Cash Flow Statement

	for 12 months ended	
	31 December 2010	31 December 2009
Net profit	**884,166**	**232,041**
Adjustments:	**(665,365)**	**(4,352)**
Depreciation and amortization	78,873	40,165
(Profit)/loss on investing activity	122	(55)
Interest	191	(2,780)
Change in inventories	(24,332)	(26,795)
Change in receivables and other assets	(64,224)	5,499
Change in liabilities, provisions, accruals and deferred income	94,328	33,915
Foreign exchange losses	58	14,112
Income tax	65,028	54,266
Increase in set-top boxes under operating lease	(203,408)	(123,544)
Dividends received	(4,000)	-
Transfer of a contribution in a kind to a subsidiary	(608,434)	-
Other adjustments	433	865
Net cash flow from operating activities	**218,801**	**227,689**
Income tax paid	(9,718)	(49,023)
Interest received from operating activity	1,161	5,912
Cash flow from operating activities	**210,244**	**184,578**
Purchases of intangible assets	(15,012)	(9,981)
Purchases of tangible assets	(25,630)	(25,492)
Loans granted	(8,784)	-
Loans repaid	3,636	-
Interest on loans repaid	1,389	-
Purchases of financial assets	(392)	(53,396)
Proceeds from sale of financial assets	-	53,726
Purchase of M.Punkt Holdings Ltd. shares	(33,966)	(24,801)
Proceeds from sale of non-financial tangible assets	92	42
Dividends received	4,000	-
Payment of finance lease liabilities by a subsidiary	351	459
Cash flow from investing activities	**(74,316)**	**(59,443)**
Repayment of loans	(47,277)	(63,035)
Interest on loans and borrowings	(1,816)	(4,212)
Finance lease – principal repayments	(237)	(237)
Dividends paid	(152,945)	(201,244)
Purchases of foreign exchange call options	(7,320)	-
Proceeds from realisation of foreign exchange call options	794	-
Other financial outflows, net	-	(98)
Cash flow from financing activities	**(208,801)**	**(268,826)**
Net decrease in cash and cash equivalents	**(72,873)**	**(143,691)**
Cash and cash equivalents at the beginning of the year	**97,126**	**240,979**
Foreign exchange rate differences	(58)	(162)
Cash and cash equivalents at the end of the year*	**24,195**	**97,126**

*The amount as at 31 December 2009 includes PLN 26,738 thousand of restricted cash.

(all amounts in PLN thousand)

Interim Statement of Changes in Equity

	Share capital	Reserve capital	Statutory reserve funds	Retained earnings	**Total equity**
Balance as of 1 January 2010	10,733	73,997	10,174	232,911	**327,815**
Dividend declared and paid	-	-	-	(152,945)	**(152,945)**
Appropriation of 2009 profit – transfer to reserve capital	-	79,096	-	(79,096)	**-**
Total comprehensive income	-	-	-	884,166	**884,166**
Balance as of 31 December 2010	**10,733**	**153,093**	**10,174**	**885,036**	**1,059,036**

	Share capital	Reserve capital	Statutory reserve funds	Retained earnings	**Total equity**
Balance as of 1 January 2009	10,733	3,964	10,174	272,147	**297,018**
Dividend declared and paid	-	-	-	(201,244)	**(201,244)**
Appropriation of 2008 profit – transfer to reserve capital	-	70,033	-	(70,033)	**-**
Total comprehensive income	-	-	-	232,041	**232,041**
Balance as of 31 December 2009	**10,733**	**73,997**	**10,174**	**232,911**	**327,815**

(all amounts in PLN thousand)

Supplementary Information to the Interim Condensed Financial Statements for 3 and 12 months Ended 31 December 2010

1. Activity of the Company

Cyfrowy Polsat S.A. operates a paid digital satellite platform called “Cyfrowy Polsat” and provides services in Poland. The Company is also a Mobile Virtual Network Operator and provides Internet access services.

2. Composition of the Management Board of the Company

- Dominik Libicki	President of the Management Board,
- Dariusz Działkowski	Member of the Management Board,
- Aneta Jaskólska	Member of the Management Board (from 13 July 2010),
- Andrzej Matuszyński	Member of the Management Board (until 6 January 2010),
- Tomasz Szeląg	Member of the Management Board.

3. Composition of the Supervisory Board of the Company

- Zygmunt Solorz-Żak	President of the Supervisory Board,
- Robert Gwiazdowski	Member of the Supervisory Board,
- Andrzej Papis	Member of the Supervisory Board,
- Leszek Reksa	Member of the Supervisory Board,
- Heronim Ruta	Member of the Supervisory Board.

4. Basis of preparation of the interim condensed financial statements

Statement of compliance

These interim condensed financial statements for 3 and 12 months ended 31 December 2010 have been prepared in accordance with the International Accounting Standard 34 “Interim Financial Reporting”. The Company applied the same accounting policies in the preparation of the financial data for 3 and 12 months ended 31 December 2010 and the financial statements for the years 2010 and 2009, presented in the annual report for 2010.

IAS 34 requires minimum information disclosure assuming that readers of the interim financial statements have access to most recent published annual financial statements, information disclosed are material and were not disclosed elsewhere in the interim financial statements.

The most recent published annual financial statements were prepared and audited for the year ended 31 December 2010. Annual financial statements fully disclose accounting policies approved by the Company.

(all amounts in PLN thousand)

5. Revenue from services, goods and materials sold

	for 3 months ended		for 12 months ended	
	31 December 2010 unaudited	31 December 2009 unaudited	31 December 2010	31 December 2009
DTH subscription fees (Mini and MiniMax Package)	24,456	17,018	87,393	58,146
DTH subscription fees (other packages)	328,912	295,238	1,306,119	1,131,672
Sale of equipment	6,530	15,593	28,278	46,403
Subscription fees from telecommunication services, interconnection revenues and settlements with mobile network operators	6,552	2,207	19,529	5,550
Other operating revenue	9,323	7,460	32,221	25,687
Total	**375,773**	**337,516**	**1,473,540**	**1,267,458**

6. Operating costs

	for 3 months ended		for 12 months ended	
	31 December 2010 unaudited	31 December 2009 unaudited	31 December 2010	31 December 2009
Depreciation and amortization	23,306	12,375	78,873	40,165
Programming costs	99,896	80,216	392,035	354,395
Transmission costs	17,998	20,035	79,855	82,570
Cost of equipment sold	17,292	33,763	56,151	97,850
Distribution, marketing, customer relation management and retention costs	98,011	85,929	297,530	262,347
Salaries and employee-related expenses	26,102	27,690	76,616	69,862
Other operating costs	33,766	23,179	115,358	72,366
Total costs by kind	**316,371**	**283,187**	**1,096,418**	**979,555**

	for 3 months ended		for 12 months ended	
	31 December 2010 unaudited	31 December 2009 unaudited	31 December 2010	31 December 2009
Cost of services, goods and materials sold	207,702	184,433	785,477	696,622
Cost of sales	80,062	71,798	221,202	204,347
General and administration costs	28,607	26,956	89,739	78,586
Total costs by function	**316,371**	**283,187**	**1,096,418**	**979,555**