CONSOLIDATED ANNUAL REPORT
OF CYFROWY POLSAT S.A. CAPITAL GROUP
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 the Cyfrowy Polsat S.A. Group 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 thousand 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.

We are also particularly happy with the area of financial performance as we have reason to be pleased. Consolidated revenues increased by 17% to PLN 1,496.4 million. Consolidated EBITDA, or operating income increased by amortization, increased in the period by 28% to PLN 406.9 million and the consolidated net profit increased by 12% to PLN 258.5 million.

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. CAPITAL GROUP 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.

Table of content

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 consolidated revenue from services, products, goods and materials sold in 2010 increased by 17% to PLN 1,482,463 from PLN 1,266,137 in 2009. Our net profit amounted to PLN 258,470 compared to PLN 230,319 in the previous year.

Our offices are in Warsaw at 4a Łubinowa Street.

In Management Board's report on activities of the Capital Group references to the Company apply to Cyfrowy Polsat S.A. and all references to the Group apply to Cyfrowy Polsat S.A. and its consolidated subsidiaries. Expressions such as "we", "us", "our" and similar apply generally to the Group, unless from the context it is clear that they apply to the Company; „DTH" relates to digital satellite platform services which we provide in Poland; "SD" relates to a 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 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 consolidated financial statements and other financial information appearing in this Report. Our inclusion of the exchange rates is not meant to suggest that the zloty amounts actually represent such dollar or euro amounts or that such amounts could have been converted into dollars or euro at any particular rate.

	Year 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 3 and 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 consolidated financial statements for the fiscal year ended 31 December 2010 (including the notes thereto) and condensed interim consolidated financial statements for 3 and 12 month periods ended 31 December 2010 attached to this Report. We have derived the financial data presented in accordance with IFRS from the audited consolidated financial statements for the fiscal year ended 31 December 2010 and unaudited condensed interim consolidated financial statements for 3 and 12 month periods ended 31 December 2010.

Selected financial data

- from the consolidated profit and loss statement for the periods of three months ended 31 December 2010 and 31 December 2009 have been converted into EURO at the rate of PLN 3.9684 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 October to 31 December 2010),

- from the consolidated profit and loss statement and the consolidated 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 consolidated 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 3 months period ended 31 December				For the 12 months period ended 31 December			
	2010		2009		2010		2009	
(in thousand)	PLN	EUR	PLN	EUR	PLN	EUR	PLN	EUR
Income statement								
Revenues from services, goods, products and materials sold	376 633	94 908	337 285	84 993	1 482 463	371 117	1 266 137	316 962
Cost of services, goods, products and materials sold	(208 472)	(52 533)	(181 215)	(45 664)	(788 496)	(197 390)	(690 984)	(172 980)
Cost of sales	(77 883)	(19 626)	(72 048)	(18 155)	(232 973)	(58 322)	(205 263)	(51 385)
General and administration cost	(31 259)	(7 877)	(28 047)	(7 068)	(100 783)	(25 230)	(82 111)	(20 555)
Other operating revenues	2 000	504	1 653	417	13 970	3 497	12 541	3 139
Other operating expenses	(13 403)	(3 377)	(6 543)	(1 649)	(48 427)	(12 123)	(24 270)	(6 076)
Operating profit	47 617	11 999	51 085	12 873	325 754	81 549	276 050	69 106
Pre-tax profit	47 594	11 993	51 351	12 940	321 282	80 429	284 337	71 180
Income tax	(10 645)	(2 682)	(9 907)	(2 496)	(62 812)	(15 724)	(54 018)	(13 523)
Net profit	36 949	9 311	41 444	10 444	258 470	64 705	230 319	57 658
Basic and diluted earnings per share (not in thousands)	0.14	0.03	0.15	0.15	0.96	0.24	0.86	0.21
Weighted average number of issued ordinary shares (not in thousands)	268 325 000		268 325 000		268 325 000		268 325 000	
Cash Flow Statement								
Cash flow from operating activities	-		-		197 534	49 450	183 442	45 922
Cash flow from investing activities	-		-		(77 419)	(19 381)	(61 483)	(15 392)
Cash flow from financing activities	-		-		(191 769)	(48 007)	(268 826)	(67 297)
Cash and cash equivalents at the end of the period	-		-		(71 654)	(17 938)	(146 867)	(36 766)
Balance sheet								
Cash and cash equivalents	27 615	6 973	72 652	18 345	27 615	6 973	72 652	18 345
Assets	1 015 195	256 343	774 846	195 653	1 015 195	256 343	774 846	195 653
Non-current liabilities	68 817	17 377	28 754	7 261	68 817	17 377	28 754	7 261
Current liabilities	518 440	130 909	423 679	106 982	518 440	130 909	423 679	106 982
Equity	427 938	108 057	322 413	81 411	427 938	108 057	322 413	81 411
Share capital	10 733	2 710	10 733	2 710	10 733	2 710	10 733	2 710
Other financial data								
Depreciation and amortization	24 174	6 092	13 040	3 286	81 190	20 325	41 948	10 501
EBITDA*	71 791	18 091	64 125	16 159	406 944	101 874	317 998	79 607
EBITDA margin	19.1%	19.1%	19.0%	19.0%	27.5%	27.5%	25.1%	25.1%
Operating margin	12.6%	12.6%	15.1%	15.1%	22.0%	22.0%	21.8%	21.8%
Capital expenditures					45 593	11 414	37 054	9 276

(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 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

We currently use 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 recently completed 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 Capital Group

Item 5.1. General information about our Capital Group

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, we launched the production of our own SD set-top boxes, which enables us to decrease the cost of acquisition of set-top boxes. We started selling our own-manufactured set-top boxes in March 2008. In 2010 almost 80% of sold or leased set-top boxes were produced in our factory. In April 2010 we 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 we plan 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 1,136 Authorized Points of Sales, out of which 996 APS managed by 25 distributors of traditional network and 140 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. Organizational structure of the Capital Group

The following table presents the companies included in the organizational structure of Cyfrowy Polsat Capital Group as at 31 December 2010 together with the consolidation method:

			Share in voting rights (%) (%)	
	Company's registered office	Activities	31 December 2010	31 December 2009
Parent entity				
Cyfrowy Polsat S.A.	Łubinowa 4a, Warszawa	radio and television activity, telecommunications		
Subsidiaries				
Cyfrowy Polsat Technology Sp. z o.o.*	Łubinowa 4a, Warszawa	set-top boxes' production	100%	100%
M.Punkt Holdings Ltd.*	3 Themistokli Dervi Street, Nikosia (Cyprus)	owns mPunkt Polska S.A. and mTel sp. z o.o.	100%	45%
Cyfrowy Polsat Trade Marks Sp. z o.o.*	Łubinowa 4a, Warszawa	management of fix assets and intellectual property	100%	-

* full consolidation

Additionally in the consolidated financial statements for the year 2010, the following shares were presented:

	Company's registered office	Activities	Share in voting rights (%) 31 grudnia 2010	31 grudnia 2009
Karpacka Telewizja Kablowa Sp. z o.o.*	Chorzowska 3, Radom	no activity	85%	85%

* Shares valued at purchase cost, corrected by impairment

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 by 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 purchase of 94% of shares of M.Punkt Holdings Ltd. seated in Nicosia, Cyprus. The transaction resulted in purchase 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 and the Capital Group

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

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

Item 5.4.1. Group 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 1,136 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[4]	-
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 cable television providers.

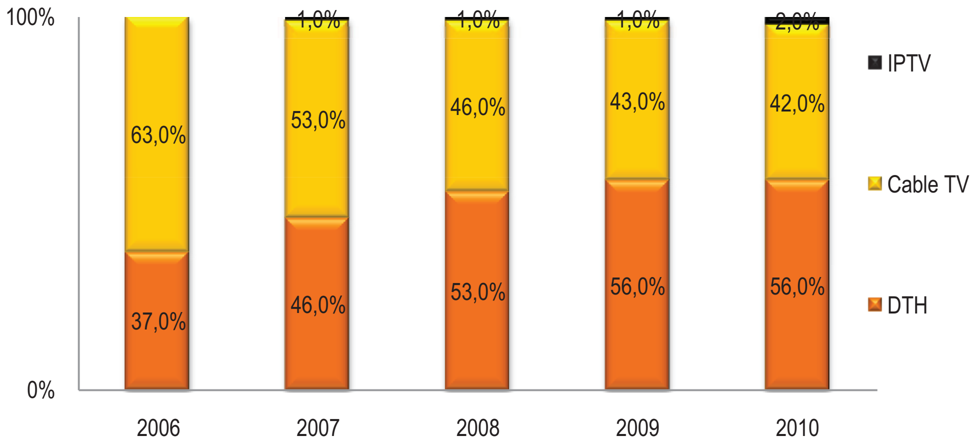
We estimate that at the end of 2010 our market share in the digital pay satellite television segment, based on the number of subscribers, was about 55%.

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.



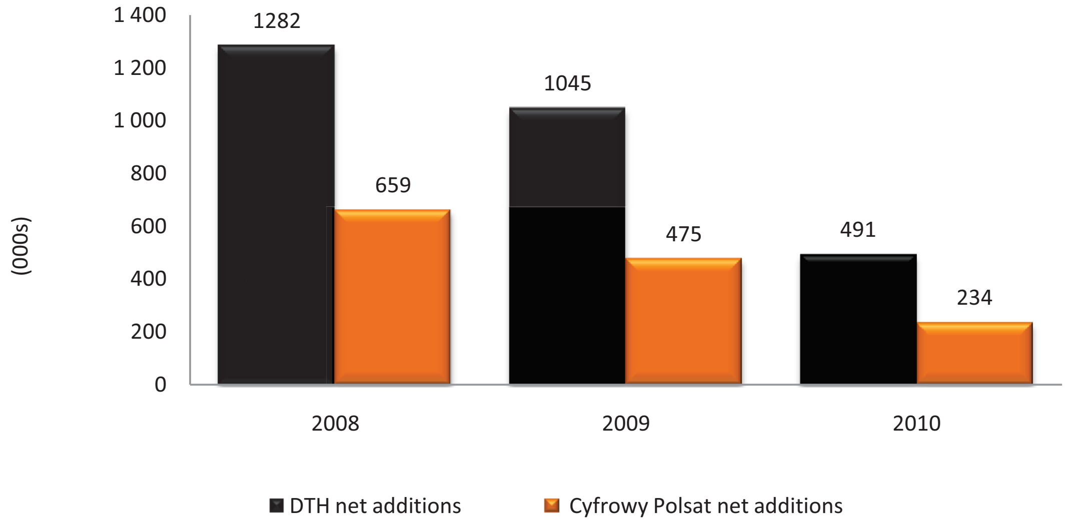
Source: Informa Telecoms and Media, Eastern European TV, 14 th Edition, own estimates; own calculations on the basis of Polish Chamber of Electronic Communication, Central Statistical Office, data concerning cable operators was corrected on the basis of data published by operators

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)

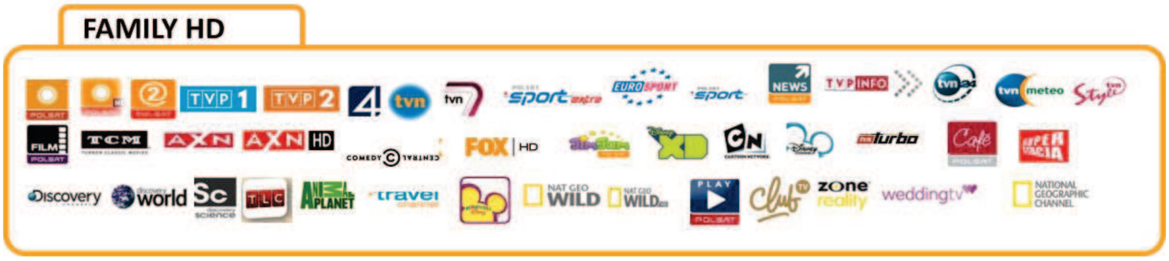
Cinemax HD Package (PLN 15)

HBO Cinemax HD (PLN 35)

Entertainment Package (PLN 21).

Family HD Package

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

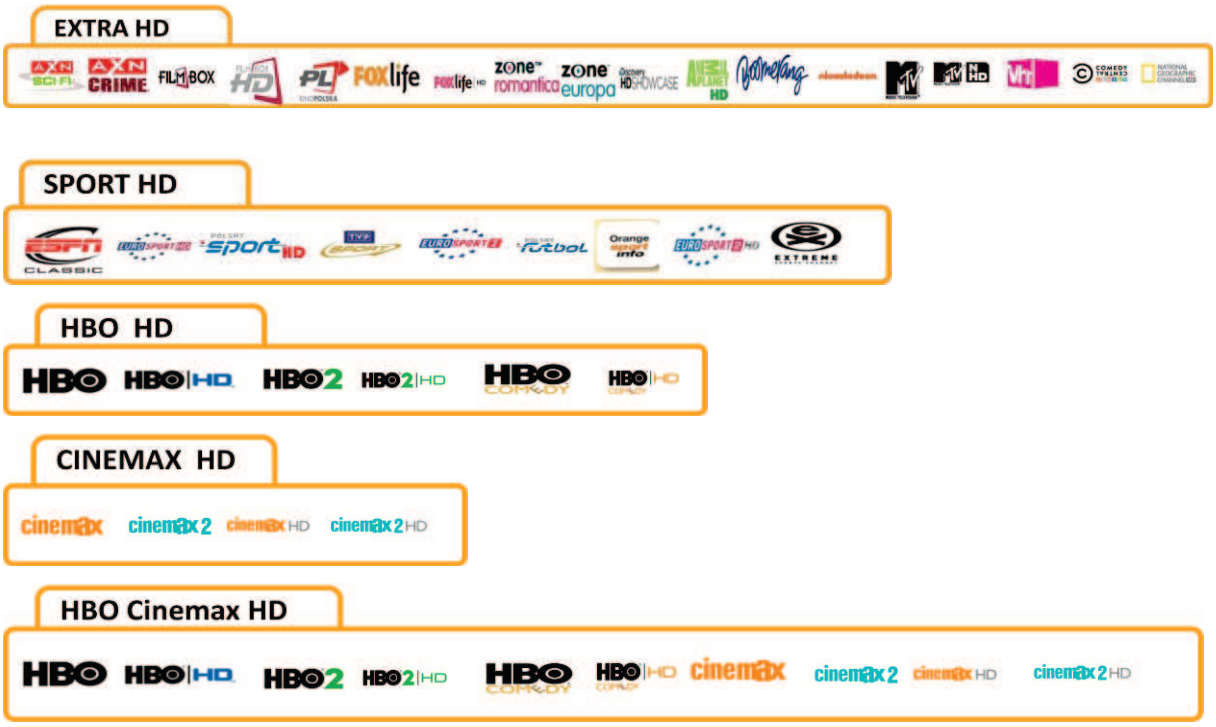


Mini HD Package

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

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 up to the date of this Report, we enriched our programming offer with following channels:

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 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 disk 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 we started the production of SD set-top boxes in our own factory and in 2010 we 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 1 to 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 buying 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

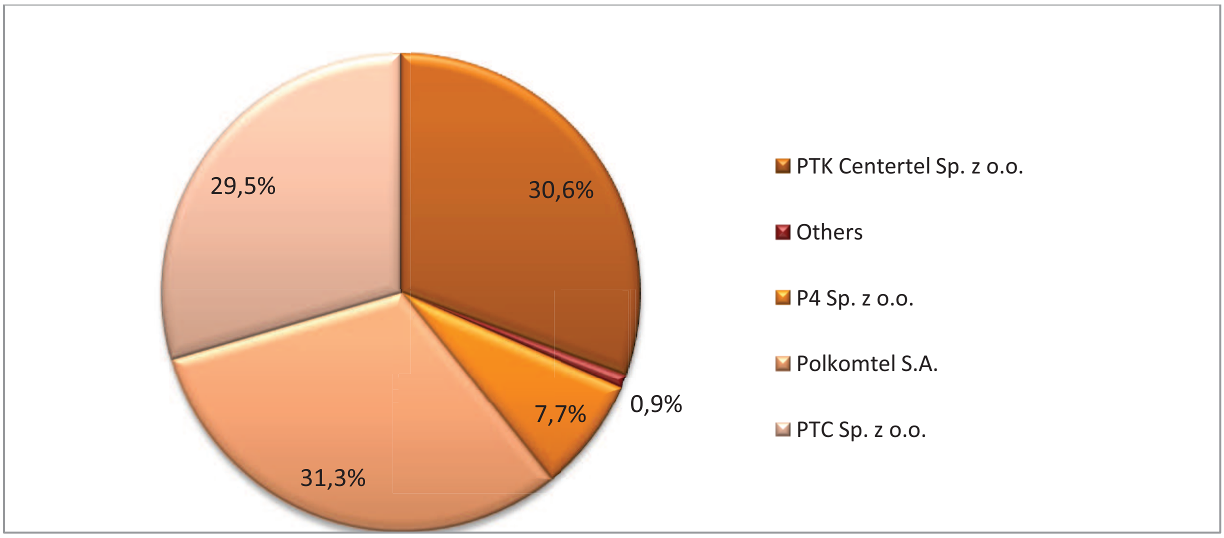
Data on the telecommunication services market is usually available in the second half of the following year, therefore, the latest data available is from 2009.

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



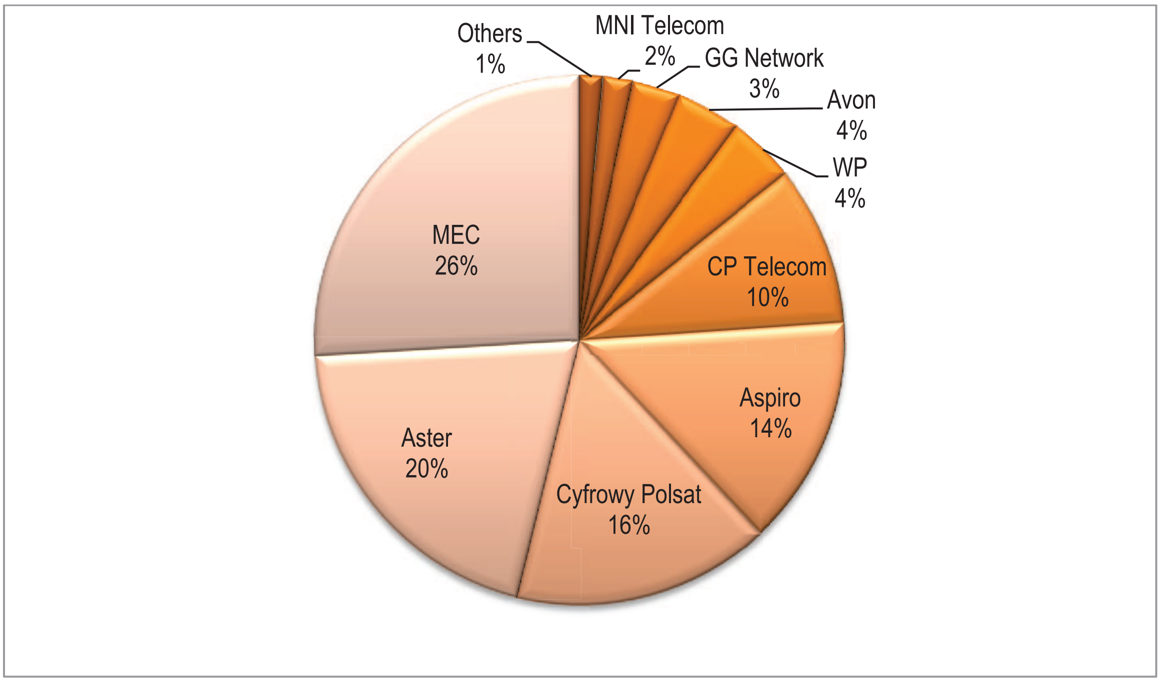
Source: "The report on the telecommunications market in Poland in 2009"- The Electronic Communication Office (UKE)

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

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 1,136 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 digital 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 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 5.11.3. Development prospects of Group services

Following the acquisition of Telewizja Polsat S.A., which is to be completed in the first quarter of 2011, Cyfrowy Polsat will enter the television broadcasters market and will start to derive revenue from the advertising market.

TV advertising generates over 50% of total revenues of advertising market in Poland and this trend is expected to continue. The advertising market revenues are highly correlated to the general trends in the economy and to the level of GDP. The economic downturn in 2009 significantly affected the revenues from advertising, that fell by roughly 11% in one year. In the year 2010, according to Eurostat, the GDP growth was 3.5% and forecasts for the coming years are fairly stable oscillating between 3.5-4.4% (as per the Ministry of Regional Development).This economic stability should support a rebound in advertising expenditure on the Polish TV advertising market, with Zenith Optimedia projecting a growth of 7-9% in 2011 and 2012. Advertising spend is relatively low in Poland compared to other European countries and consequently it is not unreasonable to assume that Polish advertising spend would increase over time, potentially approaching international levels. As a percentage of GDP, Poland spent 0.51% on advertising in 2009, compared to 1.76% in Slovakia, 0.77% in UK and 0.72% in Germany. Cyfrowy Polsat Group, enlarged by Telewizja Polsat, envisages to profit from the predicted growth of revenues of advertising market.

Telewizja Polsat is one of the leaders on TV broadcasters market in Poland. According to Nielsen Audience Measurement in 2010, TV Polsat channels audience reached approximately 19.2% of viewers aged 16 to 49 years. Despite high competition on the TV advertising market, the market share of Telewizja Polsat in the last two years was over 20% (Srarlink).

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. Subscription fees were, respectively 93.8% and 94.0% of our revenues from sale of services, goods, products and materials in the three and twelve month periods ended 31 December 20010 as compared to 92.6% and 94.0% respectively in the corresponding periods of 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 sales of equipment accounted for 1.9% and 2.4% of our revenues from sale of services, goods, products and materials in the three and twelve month periods ended 31 December 2010 as compared to respectively 4,7%

and 3,7% in the corresponding periods of 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 and internet access services, rates for traffic generated, interconnection rates, rates for the transfer of data and generated traffic. Revenues from subscription fees, interconnection revenues and settlements with mobile telephony operators amounted to 1.7% and 1.3% of our revenues from sale of services, goods, products and materials in the three and twelve month periods ended 31 December 2010 compared to 0.7% and 0.4% in the corresponding periods of 2009.

Other revenues from sale of services, goods, products and materials

Other revenues from sale of services, goods, products and materials amounted to 2.5% and 2.3% of our revenues from sale of services, goods, products and materials in the three and twelve month periods ended 31 December 2010 as compared to 2.1% and 1.9% in the corresponding periods of 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 distributors' commissions;
(vii) revenues from franchising and distribution;
(viii) other sales revenues.

Item 6.2. Sources of other revenues from operating activities

Other operating revenue in 2010 consisted of:

(i) revenues from sale of mPunkt points of sale;

In 2010 we made transfer of tenancy agreements of certain mPunkt's points of sale.

(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 revenues.

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 accounted for respectively 7.3% and 6.9% of our costs of operating activities and other operating costs in the three and twelve month periods ended 31 December 2010 as compared to 4.5% and 4.2% in the corresponding periods of 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.

Programming costs accounted for respectively 30.2% and 33.5% of our costs of operating activities and other operating costs in the three and twelve month periods ended 31 December 2010 as compared to 27.9% and 35.3% respectively in the corresponding periods of 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 respectively 5.4% and 6,8% of our costs of operating activities and other operating costs in the three and twelve month periods ended 31 December 2010 as compared to 7,0% and 8,2% respectively in the corresponding periods of 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, we launched the production of our own 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 respectively 5.4% and 5.1% of our costs of operating activities and other operating costs in the three and twelve month periods ended 31 December 2010 as compared to 10.2% and 9.0% in the corresponding periods of 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 respectively 28.2% and 25.4% of our costs of operating activities and other operating costs in the three and twelve month periods ended 31 December 2010 as compared to 29.9% and 26.2% respectively in the corresponding periods of 2009.

Salaries and employee-related expenses

Salaries and employee-related expenses consist of salaries paid to employees under employment contracts (excluding factory employees) 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 were respectively 8.6% and 7.5% of our costs of operating activities and other operating costs in the three and twelve month periods ended 31 December 2010 as compared to 9.9% and 7.3% respectively in the corresponding periods of 2009.

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) other costs.

Other operating costs accounted for respectively 10.9% and 10.6% of our costs of operating activities and other operating costs in the three and twelve month periods ended 31 December 2010 as compared to 8.3% and 7.4% in the corresponding period of 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 the 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 group did not adopt hedge accounting in respect to these options.

Consolidation with M.Punkt Holdings Ltd.

In the second quarter of 2010 we finalized purchase transaction of M.Punkt Holdings Ltd., which is an owner of mPunkt. Also in the second quarter of 2010 mPunkt Polska S.A. ceased cooperation with Polkomtel S.A. Sale of Polkomtel goods and services was the main source of revenue for mPunkt. As a result of above mentioned events we expect that:

1. ceased cooperation with Polkomtel S.A and start of distribution of our products had a negative impact on M.Punkt Holdings Ltd. results in 2010; we believe that from 2011 the impact on our results will be positive;

2. our consolidated margins (EBITDA, EBIT) were lower as a result of consolidation with the distribution network which generally is low margin business.

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 introduced attractive promotional offers. In October 2010 we launched 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 amortization 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:

	3 months period ended			12 months period ended		
	31 December 2010 roku	31 December 2009 roku	Change	31 December 2010 roku	31 December 2009 roku	Change
Number of subscribers at end of period, of which:	**3 436 231**	**3 202 319**	**7.3%**	**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%	2 720 154	2 609 567	4.2%
Number of subscribers to Mini Package on end of period	716 077	592 752	20.8%	716 077	592 752	20.8%
Average number of subscribers[1], of which:	**3 314 877**	**3 003 571**	**10.4%**	**3 263 905**	**2 869 676**	**13.7%**
Average number of subscribers to Family Package	2 619 636	2 419 517	8.3%	2 606 082	2 340 351	11.4%
Average number of subscribers to Mini Package	695 241	584 054	19.0%	657 823	529 325	24.3%
Net churn rate[2),] of which:	**10.3%**	**8.2%**	**2.1 pp**	**10.3%**	**8.2%**	**2.1 pp**
Net churn[2)] rate of Family Package	11.8%	9.4%	2.4 pp	11.8%	9.4%	2.4 pp
Net churn[2)] rate of Mini Package	4.6%	2.9%	1.7 pp	4.6%	2.9%	1.7 pp
Average revenue per user (ARPU)[3)] (PLN), of which:	**36.0**	**34.7**	**3.7%**	**35.9**	**34.6**	**3.8%**
Average revenue per user (ARPU) [3)] of Family Package (PLN),	42.5	40.7	4.4%	42.1	40.3	4.5%
Average revenue per user (ARPU) [3)] of Mini Package (PLN),	11.8	9.7	21.6%	11.1	9.2	20.7%
Subscriber average cost (SAC)[4)] (PLN)	**123.2**	**143.6**	**-14.2%**	**128.1**	**132.0**	**-3.0%**

[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 paid 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.

Family Package ARPU in three month period ended 31 December 2010 amounted to PLN 42.5 and increased by 4.4% compared to PLN 40.7 in the corresponding period of 2009. Mini Package ARPU increased by 21.6% to PLN 11.8 from PLN 9.7 in the corresponding period of 2009 mainly as a result of an increase in the number of subscribers choosing Mini Max Package after the initial promotional period of getting this Package. Our monthly ARPU increased by 3.7% to PLN 36.0 in the three month period ended 31 December 2010 from PLN 34.7 in the corresponding period of 2009 mainly as a result of introduction of flexible offer.

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 14.2% to PLN 123.2 in the three month period ended 31 December 2010 from PLN 143.6 in the corresponding period of 2009. The average subscriber acquisition cost decreased mainly as a result of a significant decrease in both threshold and after-sales commissions costs.

Our average subscriber acquisition cost decreased by 3% to PLN 128.1 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 three month period ended 31 December 2010 was prepared based on interim condensed consolidated financial statements for the three and twelve month periods ended 31 December 2010 prepared in accordance with International Accounting Standards approved for use in the European Union as at 1 January 2010.

The following review of results for the fiscal year ended on 31 December 2010 was prepared based on consolidated 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 1,015,195. Fixed assets amounted to PLN 545,224 and current assets to PLN 469,971. Our equity amounted to PLN 427,938 our non-current liabilities amounted to PLN 68,817 and current liabilities to PLN 518,440.

The value of digital satellite receiving equipment increased by PLN 152,942 to PLN 275,399 as at 31 December 2010 from PLN 122,457 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 increased by PLN 6,629 or by 5% to PLN 152,857 as at 31 December 2010 as compared to PLN 146,228 as at 31 December 2009. The change resulted mainly from acquisition of M.Punkt Holdings, investment in new Call Center in Torun, investments in the property at Lubinowa and purchases of new equipment, machines and vehicles.

The value of goodwill amounted to PLN 52,022 as at 31 December 2010. The increase, compared to the balance of PLN 0 as at 31 December 2009, was due to the completion of acquisition of M.Punkt Holdings resulting in the presentation of the transaction value as goodwill instead of other long-term assets.

The value of intangible assets increased by PLN 9,079 or 64% to PLN 23,244 as at 31 December 2010 from PLN 14,165 as at 31 December 2009. The change results mainly from the expansions of the main logistic-stock system and other systems, as well as from the acquisition of M.Punkt Holdings.

The value of other long-term assets amounted to PLN 37,544 as at 31 December 2010 and decreased by PLN 18,326 (33%) compared to PLN 55,870 as at 31 December 2009. This change results mainly from the completion of acquisition of M.Punkt Holdings resulting in the presentation of the transaction value as goodwill instead of other long-term assets, explaining PLN 24,732 of the decrease. The decrease was partially offset by an increase of PLN 5,574 in commissions due to distributors that are amortized throughout the initial term of agreements as well as by including PLN 638 of long-term cautions paid by mPunkt Polska in 2010 balance.

The value of inventories increased by PLN 51,063, or 42 % to PLN 173,154 as at 31 December 2010 from PLN 122,091 as at 31 December 2009. This was mainly a result of an increase in the value of set-top boxes (by PLN 22,007), new item in the stock – removable STB hard disk drives (of PLN 13,797), an increase in the value of USB modems and Internet sets (by PLN 7,369) and an increase in the stock of materials owned by CPT (by PLN 17,483). The increases were partially offset by a decrease in the value of antennas and converters (by PLN 4,994) and SMART and SIM cards (by PLN 782) as well as a decrease in the value of prepayments for deliveries (by PLN 10,521).

The value of trade and other receivables increased by PLN 52,398 (40%) to PLN 184,298 as at 31 December 2010 from PLN 131,900 as at 31 December 2009. The increase resulted mainly from two opposing factors: an increase in trade receivables by PLN 60,996 and a decrease in tax receivables by PLN 9,689 (mainly VAT receivables). The largest impact on the balance of trade receivables had a growth in receivables from subscription fees subject to linear accounting (these receivables were not yet mature). In addition, trade receivables increased due to M.Punkt receivables included in the balance as at 31 December 2010.

The value of other current assets increased by PLN 18,072, or 30%, to PLN 77,362 as at 31 December 2010 from PLN 59,290 as at 31 December 2009. This was mainly a result of an increase in distributors commissions deferred in time by PLN 7,872, valuation of call options at PLN 5,604 and an increase in the deferred income by PLN 3,280.

The value of cash and cash equivalents decreased by PLN 45,037 (62%) to PLN 27,615 as at 31 December 2010 from PLN 72,652 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 interest of PLN 49,414, payment for shares of M.Punkt Holdings Ltd. (cash outflow of PLN 33,271 – value corrected by cash acquired) and payments for purchased fixed assets in the amount of PLN 45,593, 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.

The equity increased by PLN 105,525 to PLN 427,938 as at 31 December 2010 from PLN 322,413 as at 31 December 2009, as a result of the profit gained in the 12 months of 2010 in the amount of PLN 258,470, offset by the division of profit for 2009 – PLN 152,945 paid as dividend.

The value of liabilities from loans and borrowings (long and short term) decreased by PLN 29,329, or 62%, to PLN 18,041 as at 31 December 2010 from PLN 47,370 as at 31 December 2009. The decrease was due to two opposing factors: incurred overdrafts (by CPT and mPunkt) – the loan amounted to PLN 18.041 as at 31 December 2010, and the repayment of the credit incurred under the agreement with Pekao S.A. – during the twelve months period of 2010, the Group repaid the principal installments of PLN 47,277 (the last installment was paid on 6 September 2010).

The value of trade and other payables increased by PLN 95,740 or by 43% to PLN 317,953 at 31 December 2010 from PLN 222,213 as at 31 December 2009, mainly as a result of an increase in trade and other payables to related parties by PLN 6,222 (mainly due to an increase in liabilities to Telewizja Polsat by PLN 6,760 partially offset by lower liabilities to Teleaudio by PLN 877), an increase in trade payables to third parties by PLN 60,436, an increase in short-term provisions by PLN 10,907 and an increase in other liabilities by PLN 8,410.

Deferred income increased by PLN 31,371 or 23% to PLN 166,432 as at 31 December 2010 from PLN 135,062 as at 31 December 2009 as a result of an increase in subscription fees paid in advance by our subscribers.

Comparison of financial results for the three month period ended September 31 December 2010 with the results achieved in the corresponding period of 2009

Revenue from services, goods, products and materials sold

	4Q 2010	4Q 2009	Change %
Revenues from subscription fees	353 368	312 256	13,2%
Revenues from subscription fees (Family Package)	328 912	295 238	11,4%
Revenues from subscription fees (Mini and MiniMax Package)	24 456	17 018	43,7%
Revenues from sales of equipment	7 259	15 774	-54,0%
Revenues from telecommunications subscription fees, interconnection revenues and settlements with mobile telephony operators	6 540	2 207	196,3%
Other revenues from sales	9 466	7 048	34,3%
Total	**376 633**	**337 285**	**11,7%**

Our revenues from services, goods, products and materials sold increased by PLN 11.7% to PLN 376.633 in the three month period ended 31 December 2010 from PLN 337,285 in the corresponding period of 2009. Excluding consolidation of M.Punkt our revenues from services, products, goods and materials sold increased by 11.6% to PLN 376,289 from PLN 337,285. The increase mainly resulted from:

(i) a 13.2% increase in revenue from DTH subscription fees to PLN 353,367 from PLN 312,256 mainly due to a 10.4% increase in the average number of subscribers and a 3.7% increase in monthly blended ARPU resulting from the introduction of flexible offer and a higher number of subscribers to MiniMax Package in the Mini Package subscribers base;

(ii) a significant increase in revenue from telecommunications subscription fees, interconnection revenues and settlements with mobile telephony operators to PLN 6,549 from PLN 2,207, mainly due to the recognition of revenues from Internet services and higher revenues from settlements with mobile telephony operators;

(iii) an increase in other revenues from sale to PLN 9.020 from PLN 7,048 due to higher revenues from the lease of DTH reception equipment and higher revenues from sale of marketing and advertising services.

These increases were partially offset by:

(i) a 53% decrease in the sale of equipment to PLN 7,353 from PLN 15,774 mainly as a result of a decrease in the number of sold set-top boxes (by 80%) 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 boxes sold (by 66%) coming as an effect of promotional offers for set-top boxes in December 2010. The decrease of revenues from sale of equipment was also a result of lower sales of DTH antennas. The decreases mentioned were partially offset by the revenues from sale of STB hard disk drives, modems and other Internet accessories and higher sale of components for set-top boxes production by CPT.

Cost of operating activities

	4Q 2010	4Q 2009	Change %
Depreciation and amortization	24 174	13 040	85%
Programming costs	99 896	80 216	25%
Signal transmission services costs	17 998	20 035	-10%
Costs of equipment sold	17 894	29 470	-39%
Distribution, marketing, customer relation management and retention cost	93 243	85 929	9%
Salaries and employee-related expenses	28 413	28 611	-1%
Other costs	35 996	24 009	50%
Total	**317 614**	**281 310**	**13%**

Our costs of operating activities increased by 12.9% to PLN 317,614 in the three month period ended 31 December 2010 from PLN 281,310 in the corresponding period of 2009. Excluding consolidation of M.Punkt our costs of operating activities increased by 13.0% to PLN 317,791 from PLN 281,310 in the corresponding period of 2009. The increase primarily resulted from:

(i) a 78.1% increase in depreciation and amortization to PLN 23,223 from PLN 13,040 as a result of an increase in depreciation of set-top boxes leased to our subscribers (and thus the set-top boxes recognized as fixed assets) due to the higher share of leased set-top boxes in our newly concluded contracts and an increase in depreciation of newly adopted means of transport, computers and other equipment;

(ii) a 24,5% increase in the programming license fees to PLN 99,896 from PLN 80,216, 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 for organizations of collective managing of copyrights (ZAIKS, SFP, PISF). The costs of programming licenses in the comparative period include reversed provisions for costs from prior periods, resulting from concluded agreements with certain suppliers on more favorable terms than previously assumed. These reversals distort the comparative quarterly figures, but has no impact on annual comparative data.

(iii) a 14.1% increase in distribution, marketing, customer relation management and retention cost to PLN 98,010 from PLN 85,929 mainly, as a result of (a) an increase in customer relation management and retention costs due to the increase in subscribers base and the introduction of retention programs (b) an increase in marketing costs resulting mainly from and 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 threshold commissions;

(iv) a 40.3% increase in the other operating costs to PLN 33,687 from PLN 24,009 mainly as a result of an increase in the costs of providing Internet access services.

These increases were partially offset by:

(i) a 39.2% decrease in the cost of equipment sold to PLN 17,928 from PLN 29,470 mainly as a result of a decrease in the number of set-top boxes sold or exchanged (by 81%), resulting from increased proportion of leased set-top boxes which are amortized rather than expensed, as well as a decrease in the average purchase price of set-top boxes, thanks to own production of set-top boxes. The decrease was partially offset by the costs of sale of STB hard disk drives, modems, Internet sets, routers and external Internet antennas;

(ii) a 5.5% decrease in the salaries and employee-related costs to PLN 27,049 from PLN 28,611 mainly as a result of lower costs of bonuses, excluding the effect of bonuses, the salaries and employee-related costs would have increased by in the 4th quarter of 2010 as compared to the 4th quarter of 2009 due to an increase in average employment in CP and CPT by 24%;

(iii) a 10.2% decrease in the signal transmission costs to PLN 17,998 from PLN 20,035 mainly due to a decrease in conditional access system fees resulting from renegotiated agreement with Nagravision, offset partially by higher costs of transponders lease.

Other operating revenues

Our other operating revenues increased by 21% to PLN 2,000 in the three month period ended 31 December 2010 from PLN 1,653 in the corresponding period of 2009 mainly as a result of an increase in compensations for lost and damaged equipment, offset by a decrease in other items of other operating revenues. Excluding consolidation with M.Punkt other operating revenues increased by 16% to PLN 1,919 from PLN 1,653.

Other operating costs

Our other operating costs increased by 6,860 to PLN 13,403 in the 4th quarter of 2010 from PLN 6,543 in the corresponding period of 2009. Excluding consolidation with M.Punkt, our other operating costs increased by PLN 5,649 (86%) to PLN 12,192 from PLN 6,543. The increase was mainly due to higher bad debt provision and higher costs of receivables written off, resulting from the increase in subscribers base and the development of telecommunication services.

Operating profit

Our operating profit decreased by 7% to PLN 47,617 in the three month period ended 31 December 2010 from PLN 51,085 in the corresponding period of 2009, mainly as a result of an increase in operating costs and other operating costs. The decrease was offset partially by an increase in our revenues from services, goods, products and materials sold and other operating revenues. Excluding consolidation with M.Punkt our operating profit decreased by 6% to PLN 48,225 from PLN 51,085.

Financial income

Our financial income amounted to PLN 1,012 in the three month period ended 31 December 2010compared to PLN 971 in the corresponding period of 2009 (an increase of 4%). Excluding consolidation of M.Punkt our financial income increased by 10% to PLN 1.068 from PLN 971.

Financial income comprised foreign exchange gain from call options of PLN 785 and interest gain of PLN 283.

Financial expenses

Our financial expenses increased by 47% to PLN 1,034 in the three month period ended on 31 December 2010 from PLN 705 in the corresponding period of 2009. Excluding consolidation of M.Punkt, our financial expenses decreased by 1% to PLN 701 from PLN 705.

Financial expenses comprised primarily interest expenses of PLN 674 (mainly interests from overdraft facilities).

Gross profit

Our gross profit decreased by 7% to PLN 47,595 in the three month period ended 31 December 2010 compared to PLN 51,351 in the corresponding period of 2009, mainly as a result of a 7% decrease in operating profit. Excluding consolidation of M.Punkt our gross profit decreased by 5% to PLN 48,592 from PLN 51,351.

Income tax

Income tax was PLN 10,645 in the three month period ended 31 December 2010.

Net profit

Our net profit decreased by 11% to PLN 36,949 in the three month period ended 31 December 2010 compared to PLN 41,444 in the corresponding period of 2009 as a result of the decrease in the gross profit and increased income tax. Excluding consolidation of M.Punkt, our net profit decreased by 8% to PLN 38,232 from PLN 41,444.

Other information

EBITDA

EBITDA increased by 12% to PLN 71,790 in the three month period ended 31 December 2010 from PLN 64,125 in the corresponding period of 2009 mainly as a result of an increase in revenues from services, goods, products and materials sold, offset by a decrease in operating costs excluding depreciation and a decrease in the other operating costs.

The EBITDA margin was 19.1% in the 4th quarter of 2010 compared to 19.0% in corresponding period of 2009.

Excluding consolidation of M.Punkt, EBITDA increased by 11% to PLN 71,448 from PLN 64,125. EBITDA margin amounted to 19%.

Employment.

Average number of employees was 934, including factory employees, in the period of three months ended 31 December 2010 compared to 601 in the corresponding period of 2009. The increase in the average number of employees resulted from acquisition of M.Punkt, our organic growth, increased capacity of our set-top boxes factory and launch of internet access services.

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	35 707	46 584	-23%
Revenues from telecommunications subscription fees, interconnection revenues and settlements with mobile telephony operators	19 498	5 550	251%
Other revenues from sales	33 746	24 185	40%
Total	**1 482 463**	**1 266 137**	**17%**

Our revenues from services, goods, products and materials sold increased by PLN 17.1% to PLN 1,482,463 in 2010 from PLN 1,266,137 in 2009. Excluding consolidation of M.Punkt our revenues from services, goods, products and materials sold increased by 16.7% to PLN 1,477,665 from PLN 1,266,137. The increase mainly resulted from:

(i) a 17% increase in revenue from DTH 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 revenue from telecommunications subscription fees, interconnection revenues and settlements with mobile telephony operators by PLN 13,973 to PLN 19,523 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 6,978 (or 29%) to PLN 31,163 from PLN 24,185 in 2009. The increase was mainly due to an increase in revenues from rent of digital satellite reception equipment, an increase in revenues from marketing and advertising services, and an increase in other revenues.

These increases were partially offset by:

(i) a 28% decrease in the sale of equipment to PLN 33,468 from PLN 46,584 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 boxes sold coming as an effect of promotional offers for set-top boxes; the decrease of revenues from the sale of equipment was also a result of lower sales of antennas. The decreases mentioned were partially offset by the revenues from the sale of removable STB hard disk drives, modems and other Internet accessories, an increase in revenues from sale of components for production of set-top boxes by CPT.

Cost of operating activities

	Year ended		
	31 December 2010	**31 December 2009**	**Change %**
Depreciation and amortization	81 190	41 948	94%
Programming costs	392 035	354 395	11%
Signal transmission services costs	79 855	82 570	-3%
Costs of equipment sold	59 546	89 736	-34%
Distribution, marketing, customer relation management and retention costs	297 319	262 347	13%
Salaries and employee-related expenses	88 348	72 787	21%
Other costs	123 959	74 575	66%
Total operating costs	**1 122 252**	**978 358**	**15%**

Our costs of operating activities increased by 15% to PLN 1,122,252 in 2010 from PLN 978,358 in 2009. Excluding consolidation of M.Punkt, our costs of operating activities increased by 13% to PLN 1,101,336 from PLN 978,358. The increase primarily resulted from:

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

(ii) an 87% increase in depreciation and amortization to PLN 78,438 from PLN 41,948 as a result of an increase in depreciation of set-top boxes leased to our subscribers (and thus the set-top boxes recognized as fixed assets) due to the higher share of leased set-top boxes in our newly concluded contracts and an increase in depreciation of newly adopted means of transport, computers and other equipment;

(iii) a 13% increase in distribution, marketing, customer relation management 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 the increase in subscribers base and the introduction of retention programs (b) an increase in marketing costs resulting mainly from and 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 56% increase in the other operating costs to PLN 116,171 from PLN 74,575 mainly as a result of an increase in the costs of providing Internet access service.

(v) a 10% increase in the salaries and employee-related costs to PLN 79,907 from PLN 72,787 mainly due to higher average number of employees in CP and CPT.

These increases were partially offset mainly by:

(i) a 36% decrease in the cost of equipment sold to PLN 57,401 from PLN 89,736 primarily as a result of a decrease in the number of set-top boxes sold, resulting from increased proportion of leased set-top boxes which are depreciated rather than expensed, as well as a decrease in the average purchase price of set-top boxes. The decrease was partially offset by recognition of costs of sale of STB hard disk drives, modems, Internet sets, routers and external Internet antennas.

(ii) a 3% decrease in the signal transmission costs to PLN 79,855 from PLN 82,570 mainly due to a decrease in conditional access system fees resulting from renegotiated agreement with Nagravision, offset partially by higher costs of transponders lease.

Other operating revenues

Our other operating revenues increased by PLN 1,429 or 11% to PLN 13,970 in 2010 from PLN 12,541 in 2009 mainly as a result of revenues recognized by M.Punkt from the cession of tenant agreements of points of sales. The increase was largely offset by a decrease in compensations received (in 2009 we received high compensation from Nagravision connected to the replacement of cards for set-top boxes). Excluding consolidation with M.Punkt other operating revenues decreased by 53% to PLN 5,898 from PLN 12,541.

Other operating costs

Our other operating costs increased by 24,157 (99.6%) to PLN 48,427 in 2010 from PLN 24,270 in 2009. Excluding consolidation of M.Punkt, our other operating costs increased by 82% to PLN 44,211 from PLN 24,270. The increase was mainly due to higher bad debt provision and higher costs of receivables written off, resulting from the increase in subscribers base and the development of telecommunication services, as well as higher provisions for tangibles and inventories, and other operating costs (mainly related to disposals of fixed assets or inventories and discrepancies in inventory count).

Operating profit

Our operating profit increased by 18% to PLN 325,754 in the twelve month period ended 31 December 2010 from PLN 276,050 in the corresponding period of 2009, mainly as a result of an increase in our revenues from services, goods, products and materials sold. The increase was offset partially by an increase in operating costs and other operating costs. Excluding consolidation with M.Punkt our operating profit increased by 22% to PLN 338,016 from PLN 276,050.

Financial income

Our financial income decreased by 91% and amounted to PLN 1,288 in 2010 compared to PLN 14,319 in 2009. Excluding consolidation of M.Punkt our financial income decreased by 90% to PLN 1.402 from PLN 14,319. The decrease was mainly due to lower interests on deposits and bank accounts by PLN 4,617 and to the fact, that in 2009 we recognized revenues from foreign exchange differences realized on forward contracts in the amount of PLN 7,540 (no such item in 2010).

Financial expenses

Our financial expenses decreased by 4.5%% to PLN 5,760 in 2010 from PLN 6,032 in 2009. Excluding consolidation of M.Punkt, our financial expenses increased by 16% to PLN 5,005 from PLN 6,032.

Financial expenses comprised mainly net foreign exchange differences of PLN 1,921, costs of interests on bank loans of PLN 1,723 and the result on valuation and realization of call options of PLN 922. The decrease results from lower interests, other financial costs items increased.

Gross profit

Our gross profit increased by 13% to PLN 321,282 in the twelve month period ended on 31 December 2010 compared to PLN 284,337 in the corresponding period of 2009, mainly as a result of an 18% increase in operating profit partially offset by a decrease in the result on financial activities. Excluding consolidation of M.Punkt our gross profit increased by 18% to PLN 334,412 from PLN 284,337.

Income tax

Income tax amounted to PLN 62,812 in 2010. The effective tax rate was 19,6%.

Net profit

Our net profit increased by 12% to PLN 258,470 in the twelve month period ended 31 December 2010 compared to PLN 230,319 in the corresponding period of 2009 as a result of a increase in the gross profit, offset by increased income tax. Excluding consolidation of M.Punkt, our net profit increased by 17% to PLN 269,899 from PLN 230,319.

Other information

EBITDA

EBITDA increased by 28% to PLN 406,944 in 2010 from PLN 317,998 in 2009 mainly as a result of the increase in our revenues from services, goods, products and materials sold, offset by the increase in operating costs excluding depreciation and a decrease in the other operating costs.

The EBITDA margin was 27.5% in 2010 compared to 25.1% in 2009.

Excluding consolidation of M.Punkt, EBITDA increased by 31% to PLN 416,454 from PLN 317,998. EBITDA margin amounted to 28.2%. It shows, that the negative effect of M.Punkt amounted to about PLN 10,000, which was in line with our expectations.

Capital expenditure

Capital expenditures amounted to PLN 45,593 in 2010 compared to PLN 37,054 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 in 2010, including factory employees, amounted to 864 compared to 569 in 2009. The increase in the average number of employees resulted from acquisition of M.Punkt, and from our organic growth, increased capacity of our set-top boxes factory and launch of 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	197 534	183 442
Cash flow from investing activities	(77 419)	(61 483)
Cash flow from financial activities	(191 769)	(268 826)
Net changes in cash and cash equivalents	(71 654)	(146 867)

Cash flow from operating activities

Cash flow from operating activities increased by PLN 14,092 to PLN 197,534 in 2010 from PLN 183,442 in 2009. The increase is a net effect of 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 set-top boxes under operating lease, higher increase in receivables and other assets, as well as higher increase in inventories.

Cash flow from investing activities

Negative cash flow from investing activities increased by PLN 15,936 as a result of two main factors: purchase of M.Punkt shares (in 2009 we purchased 45% of shares and in 2010 – the remaining 55%) and an increase in expenditures on purchases of tangible and intangible assets.

Cash flow from financial activities

Negative cash flow from financial activities decreased by PLN 77,057 due to the payment of lower (by PLN 48,299) dividend in 2010, lower cash outflow for repayment of loans and credits together with interests incurred (decrease of PLN 17,833) and incurrence of overdrafts by CPT and mPunkt during the twelve month period of 2010 (the balance of PLN 18,041 as at 31 December 2010, compared to PLN 0 as at 31 December 2009). The above factors were offset by the expenses on purchase of call options for PLN 7,320 (no such item in 2009).

Consolidated cash flows for 12 month period ended 31 December 2010, showed a net decrease in cash and cash equivalents of PLN 71,654. It was due to the negative cash flow from investing activities (PLN 77,419) and from financial activities (PLN 191,769), that were offset by positive cash flow from operating activities (PLN 197,534).

Cash and cash equivalents as at 31 December 2010 amounted to PLN 27,615 compared to PLN 99,390 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 68,817 as at 31 December 2010 as compared to PLN 28,754 as at 31 December 2009.

Our total debt from long- and short-term loans and borrowings as at 31 December 2010 was PLN 18,041 compared to PLN 47,370 as at 31 December 2009.

In the first quarter of 2011, we plan to take a loan to finance the acquisition 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 PLN 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.

On 27 May 2010, mPunkt Polska S.A. signed an overdraft facility agreement with BRE Bank S.A. On the grounds of the agreement mPunkt Polska S.A. may utilize a credit line up to PLN 12,000. The interest rate for loan was agreed as WIBOR O/N plus bank margin. A borrower's incomplete blank promissory note with a bill of exchange declaration and a statement on submitting to enforcement of up to PLN 7,500 and a pledge by Cyfrowy Polsat S.A. of up to PLN 13,000 are the collateral for the loan. The agreement expires on 26 May 2011.

On 21 July 2010, Cyfrowy Polsat Technology Sp. z o.o. signed an overdraft facility agreement with Bank Polska Kasa Opieki S.A. On the grounds of the agreement Cyfrowy Polsat Technology Sp. z o.o. may utilize a credit line up to PLN 4,000, including opening a letter of credit or granting a guarantee. The interest rate for loan was agreed as WIBOR O/N plus bank margin. A proxy for the bank to all Cyfrowy Polsat Technology's bank accounts, a statement on submitting to enforcement of up to PLN 22,500 and an additional statement on submitting to enforcement for every letter of credit or guarantee are the collateral for the loan. On 30 November 2010 CPT signed an annex to this agreement increasing the overdraft facility to PLN 15,000. The agreement expires on 21 July 2011.

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

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 Cyfrowy Polsat S.A. granted a pledge of up to PLN 13,000 to mPunkt 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 Group entered into agreements for manufacturing and purchase of technical equipment. Amount of unbilled purchases of goods and services resulting from the agreements totaled PLN 12,595 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 Group entered into agreements for purchase of licenses and software – as at 31 December 2010 the value of unbilled deliveries and services under the agreements amounted to PLN 344.

Contingent liabilities relating to promissory notes

As at 31 December 2010, the Group had contingent liabilities relating to promissory notes in the total amount of PLN 38,007 thousand (excluding blank promissory notes). The value of promissory notes issued for the benefit of Polkomtel S.A., being a good performance bond, was PLN 37,985 thousand as at 31 December 2010.

Furthermore, the Group had ten blank promissory notes (good performance bonds for the benefit of mobile network operators, rental, credit and lease agreements collaterals).

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

Public administration proceedings

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

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

Action brought by SkyMedia Sp. z o.o.

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 acquisition of Telewizja Polsat S.A. is expected to be finalized by the end of first quarter 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.

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

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

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 Group purchased a number of foreign exchange call options.

On 10 August 2010 the Parent 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 entitle 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 mitigate 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'. In the period 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 Group does not hold any assets held for trading denominated in foreign currencies.

The Group 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 in currency	in PLN	Estimated change in exchange rate in %	Estimated change in profit in PLN	As at 31 December 2009 in currency	in PLN	Estimated change in exchange rate in %	Estimated change in profit in PLN
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	1,469	5,816	5%	291	686	2,820	5%	141
USD	932	2,763	5%	138	365	1,041	5%	52
Trade payables								
EUR	(7,373)	(29,200)	5%	(1,460)	(3,806)	(15,636)	5%	(782)
USD	(8,915)	(26,426)	5%	(1,321)	(16,715)	(47,642)	5%	(2,382)
Change in operating profit				(1,928)				(2,752)
Foreign exchange call options								
EUR	7,000	27,722	5%	923	-	-	5%	-
USD	27,000	80,031	5%	3,040	-	-	5%	-
Income tax				387				(523)
Change in net profit				1,648				(2,229)

	2010				2009			
	As at 31 December 2010		Estimated change in exchange rate	Estimated change in profit	As at 31 December 2009		Estimated change in exchange rate	Estimated change in profit
	in currency	in PLN	in %	in PLN	in currency	in PLN	in %	in PLN
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	1,469	5,816	-5%	(291)	686	2,820	-5%	(141)
USD	932	2,763	-5%	(138)	365	1,041	-5%	(52)
Trade payables								
EUR	(7,373)	(29,200)	-5%	1,460	(3,806)	(15,636)	-5%	782
USD	(8,915)	(26,426)	-5%	1,321	(16,715)	(47,642)	-5%	2,382
Change in operating profit				1,928				2,752
Foreign exchange call options								
EUR	7,000	27,722	-5%	(421)	-	-	-5%	-
USD	27,000	80,031	-5%	(2,344)	-	-	-5%	-
Income tax				(159)				523
Change in net profit				(678)				2,229

Had there been a 5% weakening of the Polish zloty against the exchange rate of Euro and the USD Dollar as at 31 December 2010 and 31 December 2009, the Group's net profit would have increased by PLN 1,648 and decreased by PLN 2,229, respectively. Had the exchange rate of the Polish zloty against Euro and USD Dollar been higher by 5% the Company's net profit would have correspondingly decreased by PLN 678 and increased by PLN 2,229, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

Interest rate risk

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

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

Liquidity risk

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

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

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

	31 December 2010						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	Over 5 years
Loans and borrowings	18,041	18,041	9,582	8,459	-	-	-
Finance lease liabilities	1,586	1,586	285	205	334	762	-
Trade and other payables to third parties	179,641	179,641	179,641	-	-	-	-
Trade and other payables to related parties	7,137	7,137	7,137	-	-	-	-
	206,405	**206,405**	**196,645**	**8,664**	**334**	**762**	**-**

	31 December 2009						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	Over 5 years
Loans and borrowings	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	114,560	114,560	114,560	-	-	-	-
Trade and other payables to related parties	915	915	915	-	-	-	-
	164,230	**165,117**	**147,929**	**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 consolidated 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 present information relating to shares held directly and indirectly by particular members of the Supervisory Board as at day of the publication of this Report, ie. 17 March 2011:

	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 indirectly holds 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. (respectively 3.95% of ownership interest and 4.74% of votes).
[2]Heronim Ruta indirectly holds 26,253,750 shares of Cyfrowy Polsat S.A. (respectively 9.78% of ownership interest and 11.46% of votes) through Polaris Finance B.V. Heronim Ruta does not hold 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.

Insurance agreements

In 2010 Cyfrowy Polsat S.A signed the 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)

In 2010 Cyfrowy Polsat Technology Sp z o.o. 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), insuring the loss of profit on the basis of possessions against all risks and insuring machines against damages.

In 2010 mPunkt Polska 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).

Moreover in 2010 Cyfrowy Polsat S.A. and Cyfrowy Polsat Technology Sp z o.o. signed motor insurance agreements with Ergo Hestia S.A. mPunkt signed vehicle insurance agreements with TUiR Warta S.A.

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

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

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

The following summary presents a list of services provided by KPMG Audyt Spółka z ograniczoną odpowiedzialnością 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**
Remuneration for audit of financial statements	633	567
Remuneration for other certifying services, including the review of financial statements	215	226
Total	**848**	**793**

Item 14. Specification of the principles of corporate governance which the issuer is subject to and the location of the set of principles where they are publicly available

The Company is subject to the set of principles of the corporate governance for joint-stock companies issuing shares, convertible bonds, or senior bonds that are admitted to trade on the stock exchange. The principles of corporate governance in the form of the Best Practices of WSE Listed Companies, constitute an appendix to the Decree No. 12/1170/2007 of the Council of GPW of 4 July 2007.

The content of the document is publicly available at the seat of the Warsaw Stock Exchange (GPW) and on the website of GPW dedicated to those issues at www.corp-gov.gpw.pl.

Item 15. Specification of the principles of corporate governance that the issuer has waived including the reasons for the waiver.

In order to implement a transparent and effective information policy we provide shareholders with fast and safe access to information to shareholders, analysts and investors employing, both traditional and modern, technologies of publishing information about the Company to the greatest possible extent.

We strive to make every possible effort to employ the corporate governance principles, set out in the above document, trying to execute all the recommendations regarding best practices of WSE Listed Companies and all recommendations directed to the management boards, supervisory boards and shareholders in all areas of our business.

However, we have waived the recommendation of direct broadcast from the general meetings of shareholders due to the ambiguity of provisions in that area.

Item 16. Description of the basic features of the internal control system and the risk management system applied in the Company with respect to the process of preparing financial statements and consolidated financial statements.

The Management Board is responsible for our internal control system and its effectiveness in the process of preparing financial statements and interim reports prepared and published in accordance with the provisions of the Decree of the Finance Minister 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 recognized as equivalent.

We draw on our employees' extensive experience in the identification, documentation, recording and controlling of economic operations, including numerous control procedures supported by modern information technologies used for recording, processing and presentation of operational and financial data.

In order to ensure the accuracy and reliability of the accounts of the parent and subsidiary companies, we apply the following principles:

- Accounting Policy for Cyfrowy Polsat S.A.

- Inventory Instructions

And also for Cyfrowy Polsat S.A.:

- Market risk management policy

and various of internal procedures relating to transaction control systems and processes resulting from the activities of the Company and the Group.

We keep our accounts in the computer system connected/integrated with the underlying source systems and auxiliary books. We ensure data security through the use of access rights on the need-to-know basis granted to authorized users. System operation is assured by the IT department specialists with extended experience in this field. In addition, the system security is ensured by applying the appropriate solutions for physical security of the equipment. We have a complete IT system documentation in all its areas. In accordance with Article 10 of the Act of September 29 1994, the accounting information system documentation shall be periodically reviewed and updated upon approval by heads of units.

An important element of the risk management, in relation to the financial reporting process, is ongoing internal controls exercised by the Controlling department and the Internal Audit department, which was established in January 2010.

The Internal audit functions on the basis of the Audit Charter adopted by the Management Board and the Audit Committee of the Supervisory Board. Its primary task is to test and evaluate controls for the reliability and consistency of financial data underlying the preparation of financial statements and management information.

The Controlling department functions on the basis of financial controlling system and business controlling system, and exercises control over both the current processes and the implementation of financial and operational plans, and preparation of financial statements and reports.

An important element of quality control and data review is the use of management standalone and consolidated reporting system, as well as regular monthly analysis of financial and operational performance and key indicators performed by the Management Board. The monthly results analysis is carried out in relation to both the current financial and operational plan and the prior period results.

The budgetary control system is based on monthly and annual financial and operational plans and 6-year business projections. Financial results are monitored regularly in relation to the financial and operational plans. During the year, we perform an additional reviews of the financial and operational plans for the year if such need arises. The financial and operational plans are always adopted by the Management Board and approved by the Supervisory Board.

One of the basic elements of control in the preparation of financial statements of the Company and the Group is verification carried out by independent auditors. An auditor is chosen from a group of reputable firms, which guarantee a high standard of service and independence. The Supervisory Board of the Company chooses the Company's auditor, while the Meeting of Shareholders chooses auditors for the subsidiaries. The tasks of the independent auditor include, in particular: a review of semi-annual individual and consolidated financial statements and audit of annual stand alone and consolidated financial statements.

Auditor's independence is fundamental to ensuring the accuracy of the audit. An audit committee, appointed within the Company's Supervisory Board, supervises the financial reporting process in the Company, in cooperation with the independent auditor. The Audit Committee oversees the financial reporting process, in order to ensure sustainability and transparency of financial information. The audit committee includes two members of the Supervisory Board, who meet the independence criteria set out in the Best Practices of WSE Listed Companies in Chapter III, Section 6 and the requirements of the Act of May 7, 2009 "On chartered auditors and their governing bodies, entities entitled to audit financial statements and on public supervision" in article 86 item 4.

Moreover, under Article 4a of the Act of 29 September 1994 of the accounting act, the duties of the Supervisory Board include ensuring that the financial statements and the report of the Company's operations meet the requirements of the law, and the Supervisory Board carries out this duty, using the powers under the law and the articles of association of the Company. This is yet another level of control exercised by an independent body to ensure the accuracy and reliability of the information presented in the stand alone and consolidated financial statements.

Item 17. Presentation of shareholders holding, directly or indirectly, material bundles of shares.

The following table presents our shareholders as of 31 December 2010:

Shareholder	Number of shares held	% of share capital	Number of votes	% of votes
Polaris Finance B.V.	175.025.000	65,23%	341.967.501	76,38%
Others......................................	93.300.000	34,77%	105.775.000	23,62%
Total	**268.325.000**	**100,00%**	**447.742.501**	**100,00%**

[1]Zygmunt Solorz-Żak helds 85% of shares of Polaris Finance B.V and Heronim Ruta helds 15% of shares of Polaris Finance B.V

Item 18. Presentation of holders of securities with special controlling rights

Current shareholders do not have any other rights in the General Meeting of Shareholders than those resulting from holding our shares. As at 31 December 2010 the shares of the A through D series are shares preferential as to the voting rights in the way that:

- Series A shares totalling 2,500,000 have preferential voting rights entitling their holder to two voting rights per share;
- Series B shares totalling 2,500,000 have preferential voting rights entitling their holder to two voting rights per share;
- Series C shares totalling 7,500,000 have preferential voting rights entitling their holder to two voting rights per share;
- Series D shares totalling 166,917,501 numbered 1-166,917,501 have preferential voting rights entitling their holder to two voting rights per share.

The holders of shares with special controlling rights are: Polaris Finance B.V. (166.942.501 shares giving 333.885.002 voting rights on General Shareholders Meeting), Zygmunt Solorz-Żak (10.603.750 shares giving 21.207.500 voting rights on General Shareholders Meeting) and Koma Fundusz Inwestycyjny Zamknięty (1.871.250 shares giving 3.742.500 voting rights on General Shareholders Meeting).

8,082,499 shares of D Series, numbered 166,917,502 -175,000,000; 75,000,000 shares of E Series and 5,825,000 F Series shares are ordinary bearer shares.

On 8 March 2010 Extraordinary Shareholders Meeting of Cyfrowy Polsat S.A. resolved to amend the Company's Statute in the following manner: 8,082,499 out of 175,000,000 shares registered series D shares privileged as to the voting rights (2 votes per share) owned by Polaris Finance B.V. were transformed into ordinary bearer shares.

The above amendment of the Company's Statute was registered by the Court of Registration in Warsaw on 22 March 2010.

It was additionally resolved that these shares shall be the subject to 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 the Management Board of the Warsaw Stock Exchange S.A. by the Resolution no. 504/2010, admitted to trade on the primary market 8,082,499 ordinary registered shares of the Company of D series. The shares were available for trade on the primary market effective 4 June 2010.

Moreover, the Company was informed by Krajowy Depozyt Papierów Wartościowych S.A.("KDPW"), that pursuant to the resolution of the Management Board of KDPW No. 269/10 dated 14 may 2010, that on 4 June 2010 8,082,499 shares of the Company were registered with KPDW under the ISIN code PLCFRPT00013.

Item 19. Specification of limitations in exercising voting rights

There are no limitations to exercise of the voting rights.

Item 20. Specification of ownership rights transfer limitations relating to the Company's securities

Except for the limitations regarding our securities ownership rights transfer resulting from the general provisions of the law and those set out in the Company's Prospectus published on 10 April 2008, there are no other limitations, in particular contractual limitations, regarding our securities ownership rights transfer.

Item 21. Description of rules regarding appointment and dismissal of the management and their rights, in particular the right to issue or buy back shares.

Pursuant to art. 15 of the Articles of Association of the Company the Management Board consist of one or more members, including the President of the Management Board, appointed by the Supervisory Board. The Supervisory Board decides as to the number of Management Board members upon their appointment. The term of office of the Management Board is joint and lasts three years. The members of the Management Board may be dismissed at any time by the Supervisory Board.

Pursuant to the Articles of Association, the Management Board of the Company, led by the President of the Management Board, is responsible for our day-to-day management and for our representations in dealing with third parties. All business decisions are in the scope of activities of the Management Board, unless limited by law Articles of Association to be the competence of the Supervisory Board or the General Shareholders' Meeting.

Members of the Management Board participate in each General Shareholders' Meeting and provide answers to questions asked during the General Shareholders' Meeting. Moreover, members of the Management Board invited by the Chairman of the Supervisory Board to a Meeting of the Supervisory Board participate in the Meeting with a right to voice their opinion on issues on the agenda.

The General Shareholders' Meeting makes decisions regarding an issue or buy back of our shares. The competencies of the Board in respect to the above are limited to execution of any resolutions adopted by the General Shareholders' Meeting.

Item 22. Description of rules or amending the Articles of Association.

An amendment to the Articles of Association requires a resolution of the General Shareholders' Meeting and an registry into the Court register. The general provisions of law and the Bylaws of the General Shareholders' Meeting and the Articles of Association govern the procedure for adopting resolutions regarding amendments to the Articles of Association.

Pursuant to the provisions of the Articles of Association, taking into account the provisions of art. 417 § 4 of the commercial companies code, an amendment to the Articles of Association may take place without a share buyback.

Item 23. The Bylaws of the General Shareholders' Meeting and its principal rights and description of rights of shareholders and their exercise, in particular the rules resulting from the Bylaws of the General Shareholders' Meeting, unless information on that scope results directly from the provisions of law.

The General Shareholders' Meeting acts pursuant to the provisions of the commercial companies' code, the Articles of Association, and the Bylaws of General Shareholders' Meeting adopted by Resolution 6 of the Extraordinary Shareholders' Meeting dated 4 December 2007 and amended by Resolution 29 of the Extraordinary Shareholders' Meeting dated 23 April 2009.

The General Shareholders' Meeting adopts resolutions regarding, in particular, the following issues:

a) discussion and approval of Reports on the Management Board's activity and the Supervisory Board's activity, and the financial statements for the previous year,

b) decision about distribution of profits, or covering losses.

c) signing off for the Supervisory Board's and the Management Board's performance of duties,

d) appointment and dismissal of members of the Supervisory Board and determination of their compensation,

e) amendments to the Articles of Association of the Company,

f) amendments to the business activity of the Company,

g) increase or decrease in the share capital,

h) merger or transformation of the Company,

i) dissolution or liquidation of the Company,

j) issue of bonds,

k) sale or lease of the Company and establishment of a right of use or sale of the Company's plant,

l) all decisions regarding claims for damages upon establishment of the Company, or activities of management or supervision.

The General Meeting shall be attended by persons who are shareholders of the Company sixteen days prior to the date of the General Meeting (the day of registration for participation in the General Meeting). The date of registration for participation in the General Meeting is consistent for bearer shares and registered shares holders. Holders of shares and interim certificates and lienors and users who have the right to vote, are entitled to participate in the General Meeting of the Company, provided they are entered in the register of shareholders on the day of registration for participation in the General Meeting.

A shareholder, being a natural person, is entitled to participation in the General Shareholders' Meeting and execution of voting rights in person, or through a proxy. A shareholder, being a legal entity, is entitled to participation in the General Shareholders' Meeting and execution of voting rights through a person authorized to make representations of intent on its behalf, or through a proxy.

The power of attorney to attend the General Meeting and exercise voting rights requires a written or an electronic form. The shareholder must notify the Company about electronically granting the power of attorney by sending the information specifying the Shareholder and the Shareholder's proxy, including the name and surname or company (the name) and address (seat), and indicating the number of shares and votes, of which the proxy is authorized to exercise to the address: akcjonariusze@cyfrowypolsat.pl.

The General Meeting should be attended by members of the Management Board and Supervisory Board - in the composition which allows for substantive answers to the questions asked during the General Meeting - and by the auditor of the Company, if the General Meeting is held to discuss financial matters.

The General Meeting is opened by the Chairman of the Supervisory Board or a person they nominate. The person opening the General Meeting shall proceed with immediate election of Chairman of the General Meeting, refraining from considering any other substantive or formal matters.

Each participant in the General Meeting is entitled to be elected the Chairman of the General Meeting, and also nominate one person as candidate to the position of Chairman of the General Meeting. Decisions shall not be made until Chairman the General Meeting is elected.

The Chairman of the General Meeting directs proceedings in accordance with the agreed agenda, provisions of law, the Articles of Association and the By-laws, and in particular: giving the floor to speakers, ordering voting and announcing the results thereof. The Chairman ensures efficient proceedings and respecting of the rights and interests of all Shareholders. The Chairman may decide on issues of the order of the agenda.

After creation and signing of the attendance list the Chairman approves that the Shareholders' Meeting has been called in a proper manner and is authorized to pass resolutions; presents the agenda and orders selection of the Ballot Committee.

The General Meeting may pass a motion regarding nonfeasance of voting over an item on the agenda, and also on adjourning the order of issues on the agenda. However, removing an item form the agenda, or its adjourning upon a request of shareholders, requires prior consent of all the shareholders present, who have forwarded such a motion, supported by a majority of votes of the General Meeting. Motions regarding the aforementioned issues shall be justified in detail.

The Chairman, after opening an item on the agenda, may give the floor in order of application of speakers. In the event of a significant number of applications the Chairman may set a time limit or limit the number of speakers. The floor may be taken regarding items on the agenda and currently under discussion only. The Chairman may give the floor outside of the order of application to the members of the Management Board or Supervisory Board, and also to the Company experts called by them.

The Meeting may not pass resolutions regarding items that are not on the agenda unless all the share capital is represented in the General Meeting and none of the present in the Meeting raises any objections as to the adoption of a resolution.

Voting shall proceed in a manner adopted by the General Meeting using a computerized system of casting and counting votes, ensuring that votes are cast in the number corresponding to the number of shares held and - in case of a secret ballot - allowing to eliminate a possibility of detecting the manner of voting by individual Shareholders.

With observation of the governing provisions of law resolutions passed by the General Meeting are legally effective regardless of the number of shareholders and the number of shares they represent present in the Meeting and are adopted by a majority of votes.

As at 31 December 2010 the shareholders participating in the General Meeting have the number of votes corresponding to the number of shares held, observing the fact that the registered shares Series A through C and in part Series D are preferential in such a way that each of them entitles to casting two (2) votes in the General Meeting.

The Chairman of the General Meeting closes the General Meeting upon exhausting its agenda.

Item 24. Personnel composition and changes in the previous business year and description of the functioning of the management, supervisory, or administrative bodies of the Company and its committees.

The Management Board

Currently, our Management Board has four members. The composition of the Board changed during 2010. In January 2010, Andrzej Matuszyński, member of the Management Board for Marketing and Customer Services, resigned from his position; his duties were taken over by Dominik Libicki, President of the Management Board. In June 2010 the Supervisory Board appointed Dominik Libicki as the President of the Management Board, and Dariusz Działkowski and Tomasz Szeląg as Members of the Management Board for another three-year term. In July 2010, the Supervisory Board appointed Aneta

Jaskólska as a Member of the Management Board and made her responsible for Legal Department, Administration Department, Personal Department and Safety Department.

Composition of the Management Board

The following table presents names, surnames, functions, date of appointment and date of expiry of the current term of particular members of the Management Board as at 31 December 2010.

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Dominik Libicki	President of the Management Board	2001	2010	2013
Dariusz Działkowski	Member of the Management Board	2007	2010	2013
Tomasz Szeląg....................	Member of the Management Board	2009	2010	2013
Aneta Jaskólska.............	Member of the Management Board	2010	2010	2013

Dominik Libicki has been the President and Chief Executive Officer of Cyfrowy Polsat S.A. since March 2001. Mr. Libicki is also the President of the Management Board of Cyfrowy Polsat Technology Sp. z o.o. He also sits on the Supervisory Board of Polskie Media S.A., the broadcaster of TV4. Mr. Libicki sits on the Supervisory Board of POT Sp. z o.o. which executes the project of implementing the digital terrestrial television in Poland. Since February 2005, Mr. Libicki has also been Vice President of the Union of Private Media Employers of the Polish Confederation of Private Employers "Lewiatan" (Zwiazek Mediow przy Polskiej Konfederacji Pracodawcow Prywatnych Lewiatan). His previous professional experience is related mainly to the television production industry. He was the Managing Director of PAI Film. He also ran his own company Studio Meg which produced television advertising spots and television programs. Between 2005 and 2006 he was a member and between 2006 and 2008 the Vice- Chairman of the Supervisory Board of Polska Telefonia Cyfrowa Sp. z o.o., the largest mobile network in Poland (the Era network). Mr. Libicki graduated from the Department of Environmental Studies at the Wroclaw Technical University and completed a training course for supervisory board members organized by the Polish Ministry of Economy.

Dariusz Działkowski has been a Member of the Management Board responsible for technology since August 2007. Mr. Działkowski is also a Member of the Management Board of Cyfrowy Polsat Technology Sp. z o.o. From November 2001 Działkowski was the Technical Director of Cyfrowy Polsat S.A.. Mr. Działkowski got his previous professional experience with Canal+ and Ericsson where he held the positions of Technical Director and Services Sales Department Manager respectively. He is one of the founders of Centrum Telemarketingowe Sp. z o.o. Mr. Działkowski graduated from the Faculty of Electronics at the Warsaw University of Technology at the radio and television specialization and has an MBA degree from the University of Maryland.

Aneta Jaskólska has been a Member of the Management Board of Cyfrowy Polsat S.A since July 2010. She is responsible for Legal Department, Administration Department, Personal Department and Safety Department. Aneta Jaskólska graduated from the Faculty of Law and Administration of Warsaw University and completed legal internship with the District Chamber of Legal Advisers in Warsaw, receiving the title of a solicitor. She also graduated from Copyright, Publishing and Press Law Faculty at the Department of Management and Social Communication of Jagiellonian University. Since 2007 Mrs. Jaskólska has been Director of Legal and Regulatory Department of Cyfrowy Polsat S.A. Mrs. Jaskólska is also a Member of the

Management Board of Cyfrowy Polsat Technology Sp. z o.o. and a Member of Supervisory Board of mPunkt Polska S.A. Between 2004 and 2007 Aneta Jaskólska held the position of Proxy and Director of Legal Department of UPC Polska Sp. z o.o. Mrs. Jaskólska has 13 years of experience in the legal advisory and services to large business entities.

Tomasz Szeląg is a Member of the Management Board and Chief Financial Officer since May 2009. Mr Szeląg is also a Member of Management Board of CPT and a President of the Management Board of mPunkt Polska S.A. In the years 2000-2003 he was an assistant at the University of Economics in Wroclaw (Department of Foreign Trade). In May 2003 he defended his doctorate on the hedge transaction used by the world's copper producers, and was an assistant professor of Department of International Economic Relations. In the years 2003 - 2004 he also held the position of assistant professor in the School of Banking in Wroclaw - Department of International Economic Relations. In parallel, since 2003, he served as Chief Specialist in the Foreign Exchange Risk Division at KGHM Polska Miedź SA, and then at the Department of Analysis and Market Risk. In September 2004 he was made director of the department. In December 2004 he was made Director of the Hedging Department at KGHM and he performed his function until March 2007. From April 2007 to May 2008 he worked as Director of the Branch of Société Générale Bank in Wroclaw. In July 2008 he became Vice-President for Finance at Telefonia Dialog SA, which position he held until March 2009. He graduated from Wroclaw University of Economics in the Faculty of National Economy, the branch of International Economic and Political Relations, specialization in Foreign Trade.

Bylaws of the Management Board

Our Management Board acts pursuant to the provisions of the commercial companies code, and the Bylaws of Management Board approved by the Supervisory Board on 29 November 2007.

The Management Board runs our matters in a transparent and efficient way pursuant to the provisions of the law, our internal provisions and "the Best Practices of WSE Listed Companies". Upon taking decisions related to our matters, the members of the Management Board act within justified limits of business risk.

The following are entitled to submit statements on our behalf (i) in the case of one person Management Board – the President of the Management Board acting independently, and (ii) in the case of a more numerous Management Board – the President of the Management Board acting independently, two members of Management Board acting jointly, or a member of the Management Board acting jointly with a proxy.

All issues related to our management, not restricted by the provisions of the law or the Articles of Association to the competence of the Supervisory Board or the General Meeting, are within the scope of competence of the Management Board.

Members of the Management Board participate in sessions of the General Meeting and provide substantive answers to questions asked during the General Meeting. Members of the Management Board invited to a meeting of the Supervisory Board by the Chairman of the Supervisory Board participate in the meeting with the right to take the floor regarding issues on the agenda. Members of the Management Board shall, within their scope of competence and the scope necessary to settle issues discussed by the Supervisory Board, submit explanation and information regarding our matters to the participants in the meeting of the Supervisory Board.

The Board adopts resolutions provided that at least a half of the members of the Board are present in the meeting and all members of the Board have been notified of the meeting. Resolutions are adopted by an absolute majority of votes of the members of the Board present in the meeting or participating in the voting. The establishment of a proxy requires consent of all the members of the Management Board. Each member of the Management Board may revoke the power of proxy. In the case of equality of votes upon adoption of resolutions by the Management Board the vote of the President of the Management Board shall prevail.

Resolutions are adopted in a meeting or in a manner set out below. The President of the Management Board, or a person they authorized, calls meetings of the Management Board. The meetings of the Management Board are held in our offices or another place indicated by the person calling the meeting.

The voting is open. A secret voting shall be administered upon a request of just one member of the Board present in the meeting.

Moreover, according to the Bylaws of the Management Board, the Management Board may adopt resolutions in writing, or in a manner enabling instantaneous communication of the members of the Management Board by means of audio-video communication (e.g. teleconferencing, videoconferencing).

The Supervisory Board

The Supervisory Board comprises five members. The Supervisory Board has acted in a stable composition throughout 2009.

The Composition of the Supervisory Board

The following persons sat on the Supervisory Board:

Name and Surname	Function	Year of first appointment	Year of appointment to the current term	Year of term expiry
Zygmunt Solorz-Żak.............	Chairman of the Supervisory Board Member of the Remuneration committee	2008	2009	2012
Robert Gwiazdowski..............	Independent[1] member of the Supervisory Board Member of the Audit Committee	2008	2009	2012
Andrzej Papis	Member of the Supervisory Board	2007	2009	2012
Leszek Reksa.........................	Independent[1] member of the Supervisory Board Member of the Audit Committee	2008	2009	2012
Heronim Ruta.........................	Member of the Supervisory Board Member of the Audit Committee Member of the Remuneration Committee	2001	2009	2012

[1]conforms with the independence criteria listed in the Best Practices of WSE listed Companies in Chapter III point 6

Zygmunt Solorz-Żak is one of the greatest private entrepreneurs in Poland. Having spent a few years abroad he returned to Poland and set up the Foreign Enterprise SOLPOL at the end of the 1980s. At the beginning of the 1990s Mr. Solorz-Żak took interest in the media sector investing in the Kurier Polski. In 1993 Mr. Solorz-Żak started first private satellite television in Poland – Polsat which, by receiving a license, transformed into a nationwide television. Within a few years Telewizja Polsat became the leader of the television market in Poland. Since the foundation of Telewizja Polsat Zygmunt Solorz-Żak has been the Chairman of the Supervisory Board. Mr. Solorz-Żak's investment interest also includes other business sectors through companies such as Elektrim S.A., Invest-Bank S.A., PAK S.A., PTE Polsat, or TU Polisa Zycie. Mr. Solorz-Żak is also the founder of Cyfrowy Polsat S.A. The entrepreneur has great experience of work in statutory bodies of commercial code companies from being the President of Supervisory Boards of companies such as Polskie Media S.A., Invest Bank S.A. and Elektrim S.A.

Robert Gwiazdowski a senior Doctor of Law,. Since 1997 holder of Investment Advisor title. Mr. Gwiazdowski is also an arbiter in arbitrary proceedings at the Stock Exchange Court within the Warsaw Stock Exchange S.A.. He is the President of Adam Smith Centre. Between 1985 and 2006 he was a senior researcher at the University of Warsaw (assistant and then lecturer on the Law and Administration Faculty). In 1992-2002 he was partner in Smoktunowicz & Falandysz Legal Office. In 1994-2004 he was the Head of Tax Commission of Adam Smith Centre. Since 2002 he has run a business within legal and tax, and also finance and economic consultancy, trading as Gwiazdowski Consulting. Mr. Gwiazdowski is an author of commentaries regarding tax and economic topics on Polish television and radio stations, and an author of numerous publications and articles. Mr. Gwiazdowski is the Supervisory Board member of Gemius S.A., MNI S.A. (independent member of the Supervisory Board) and DGA S.A..

Andrzej Papis is a Legal Advisor. Mr. Papis graduated from the Law and Administration Faculty of the Warsaw University and completed his legal apprenticeship in the Local BAR Chamber in Warsaw. Between 1998 and 1999 he was an assistant in the team of professor M. Kulesza for the administrational reform of the country, followed by his post as co-worker of the Government Proxy Office for Implementation of the General Health Insurance. Since 2000 he has been the lawyer of Telewizja Polsat S.A. Since 2003 he has also been a member of the Board of TFP Sp. z o.o. and since 2004 he has been a member of the Supervisory Board of Elektrim S.A.. Since 2007 Mr. Papis has been on the Supervisory Board of Media Biznes Sp. z o.o. – broadcaster of the television channel TV Biznes.

Leszek Reksa is a graduate of the Foreign Trade Faculty of the School of Planning and Statistics (now the Warsaw School of Economics). He has extensive professional experience on managerial positions in various companies. For over 15 years he has been employed on managerial positions in the banking sector (PKO BP S.A.). He also has great experience of work in statutory bodies of legal companies - held a position of President of Board of PHU BIMOT S.A., member of the Supervisory Board of Bankowy Fundusz Leasingowy S.A. and member of the Supervisory Board of Żaklady Azotowe Kedzierzyn S.A.

Heronim Ruta graduated from the Electrical Faculty of the Warsaw University of Technology. He is employed by Ster Sp. z o.o. and seats on the Supervisory Boards of Invest Bank S.A., PAI Media S.A., Gurex S.A., and Telewizja Polsat S.A., and also on the board of Diasen Ltd. Between 1973 and 1978 Mr. Ruta was a trainee and then an electrical technology specialist with Plastics Processing Plant (Żaklady Tworzyw Sztucznych) Pronit Erg, between 1978 and 1979 he was a specialist supervising development of an experimental car for detection of cracks in rail tracks in Centralny Ośrodek Badań Techniki Kolejnictwa. In 1980, Mr. Ruta worked for Cementation International Limited, London, designing the electrical layout for the Marriott Hotel in Warsaw. Between 1980 and 1987 he was the head of Wytworczo-Uslugowa Spoldzielnia Pracy. In 1987 Heronim founded Herom Sp. z o.o., where he was President until 1992. From 1992 to 1994 he was President of Ster Sp. z o.o., and between 1991 and 1998 he ran his own business activities within trade and services in the field of electronics goods and establishment of television broadcast transmitters for Telewizja Polsat S.A.. From 2002 to 2005 Mr. Ruta was member of the Management Board of Polaris Finance B.V. and between 2002 and 2004 he was member of the Supervisory Board of Uzddaroji Akcine Bendrove „Baltijos Televizja”.

Description of operations of the Supervisory Board

The Supervisory Board acts pursuant to the commercial companies code and also pursuant to the Articles of Association of the Company and the Bylaws of the Supervisory Board of 3 December 2007.

Pursuant to the Articles of Association of the Company the Supervisory Board performs constant supervision over activities of the enterprise. Within the scope of supervision performance the Supervisory Board may demand any information and documents regarding our business from the Management Board.

Members of the Supervisory Board shall take necessary steps to receive regular and full information from the Management Board regarding material matters concerning our business and risks involved in the business and the strategies of risk management. The Supervisory Board may - not infringing the competencies of other bodies of the Company - express their opinion on all the issues related to our proceedings, including forwarding motions and proposals to the Board.

The competencies of the Supervisory Board also include matters restricted by the commercial companies code, in particular:

(a) audit of the financial statements both as to their compliance with books and documents and also the factual state, audit of the interim and annual reports of the Management Board, or Management Board's motions regarding allocation of profit or covering debts and presenting written reports with results of the audits before the General Shareholders Meeting,

(b) once a year, prepare and present a concise evaluation of the situation of the Company to the General Meeting, considering the evaluation of the internal control system and the management system of risks that are important for the Company,

(c) appointment of members of the Management Board,

(d) delegation of members of the Supervisory Board to temporary performance of duties of members of the Management Board who are unable to perform their duties,

(e) suspending particular or all members of the Management Board for material reasons,

(f) approval of the Bylaws of the Management Board,

(g) determination of remuneration of the members of the Management Board,

(h) appointment of a certified auditor to examine financial statements of the Company.

(i) granting consent for disbursement of a down payment toward the anticipated dividend.

Moreover, the competencies of the Supervisory Board include:

(a) creation and presentation of an evaluation of the Management Board's performance before the General Shareholders' Meeting,

(b) analysis and issuing of an opinion on matters that may be the subject of a resolution of the General Meeting,

(c) approval of one-year and long-term programs for the Company developed by the Management Board,

(d) determination of the remuneration level of the Supervisory Board delegated to temporary performance of duties of a member of the Management Board,

(e) granting consent for participation in other companies,

(f) granting consent for entering into a material agreement with a related entity,

(g) granting consent for performance of activities resulting in the Company incurring a liability, with the exception of:

- activities projected or set out in the annual program for the Company approved by the Supervisory Board, or

- activities resulting in incurring a liability of the value up to PLN 10,000,000 (ten million zlotys), including guarantees or issuing or guaranteeing bills of exchange done in the scope of daily business, in particular the business of pay digital television, internet service or the business of MVNO.

h) issuing, upon the Management Board's request, opinion on all issues material for the Company.

The Supervisory Board consists of five to nine members including the Chairman of the Supervisory Board, appointed by the General Shareholders' Meeting. The General Shareholders' Meeting, prior to appointment of members of the Supervisory Board for a new term, determines the number of members of the Supervisory Board. The term of office of the Supervisory Board is three years and is a joint one.

The Supervisory Board may consist of two members meeting the criteria of an independent member of the Supervisory Board as set out in the corporate governance regulations included in the Best Practices of WSE listed Companies.

Meetings of the Supervisory Board take place at least once a quarter. The venue for meetings is the seat of the Company or any other place indicated by the person calling the meeting.

The Chairman of the Supervisory Board, or a member of the Supervisory Board appointed by the Chairman calls a meeting of the Supervisory Board. Meetings of the Supervisory Board are chaired by the Chairman, and in the case of their absence by a member of the Supervisory Board indicated by the Chairman in writing, or another member of the Supervisory Board elected by the members present in the meeting.

The Chairman calls a meeting of the Supervisory Board also upon request of a member of the Management Board, or a member of the Supervisory Board, or upon a motion of a shareholder representing at least 1/10 (one tenth) of the share capital. A Meeting of the Supervisory Board shall take place at least within 14 days of the date of filing a written application to the Chairman.

Resolutions of the Supervisory Board are passed by majority of votes cast. In the case of equality the vote the Chairman prevails. A resolution of the Supervisory Board requires inviting all the members of the Supervisory Board and presence of at least half of the members of the Supervisory Board to be valid.

The Supervisory Board may pass resolutions via means of direct, remote communication and also a member of the Supervisory Board may cast their vote in writing via other member of the Supervisory Board.

Members of the Supervisory Board execute their rights and perform their duties in person. Members of the Supervisory Board participate in General Meetings.

Moreover, within the performance of their duties, the Supervisory Board shall:

(a) once a year prepare and present before the General Meeting a concise evaluation of the situation of the Company, considering the evaluation of the internal control system and the management system of risks that are important for the Company.

(b) once a year prepare and present before the Annual General Meeting an evaluation of its own performance,

(c) discuss and issue opinions about matters to be subjects of resolutions of the General Meeting.

Committees of the Supervisory Board

Pursuant to the Bylaws of the Supervisory Board the Supervisory Board may appoint permanent committees, in particular the Audit Committee, or the Remuneration Committee, or ad hoc committees to investigate certain issues remaining in the competence of the Supervisory Board or acting as advisory and opinion bodies of the Supervisory Board.

The Audit Committee, as at 31 December 2010 comprised the following members of the Supervisory Board:

- Heronim Ruta

- Robert Gwiazdowski, an independent member of the Supervisory Board,

- Leszek Reksa, an independent member of the Supervisory Board.

The composition of the Audit Committee meets the requirements of Article 86, Paragraph 4 of the Act of 7 May 2009 on auditors and their self-government, entities authorized to audit the financial statements and the public supervision, according to which, the Audit Committee should include at least three members, including at least one member of the Audit Committee who must satisfy the condition of independence and be qualified in the field of accounting or auditing.

The Remuneration Committee, as at 31 December 2010, comprised the following members of the Supervisory Board:

- Zygmunt Solorz – Żak,

- Heronim Ruta.

The provisions of the Bylaws apply to meetings, resolutions, and minutes of the committees of the Supervisory Board, with reservation of the following information.

A committee is appointed by the Supervisory Board from among its members by means of a resolution. The committee appoints, by means of a resolution, the Chairman of the particular committee from among its members. The mandate of a member of a particular committee expires upon expiry of the mandate of the member of the Supervisory Board. The Supervisory Board may, by means of a resolution, resolve to dismiss a member from the composition of a particular committee before the expiry of the mandate of the member of the Supervisory Board. Dismissal from membership in a committee is not tantamount to dismissal from the Supervisory Board.

The first meeting of a committee is convened by the Chairman of the Supervisory Board or other member of the Supervisory Board they indicate. Meetings of the committees are convened as needs arise, ensuring thorough delivery of duties assigned with a particular committee. Minutes of committee's meetings and adopted resolutions are made available to the members of the Supervisory Board not being members of the committee. The Chairman of a given committee chairs its proceedings. The Chairman also performs supervision over preparation of the agenda, distribution of documents, and preparation of minutes of the meetings of the committee.

KPMG

KPMG Audyt
Spółka z ograniczoną
odpowiedzialnością sp.k.
ul. Chłodna 51
00-867 Warszawa
Poland

Telefon +48 22 528 11 00
Fax +48 22 528 10 09
E-mail kpmg@kpmg.pl
Internet www.kpmg.pl

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OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting Cyfrowy Polsat S.A.

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

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

Management of the Parent Entity is responsible for the preparation and fair presentation of these consolidated 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 Group's activities. Management of the Parent Entity is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 Parent Entity and members of the Supervisory Board are required to ensure that the consolidated financial statements and the Report on the Group'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 consolidated financial statements. 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 whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the accompanying consolidated financial statements of Cyfrowy Polsat S.A. Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2010 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Other Matters

As required under the Accounting Act, we also report that the Report on the Group'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 consolidated 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 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 consolidated financial statements and the comparative information were prepared in accordance with the current effective accounting principles, and they truly and fairly present the financial position of the Group as well as its financial performance, and the Management Board's report on activities contains a true image of the Group's development, achievements, and standing, including description of basic risks and threats;

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

Warsaw, 16 March 2011

CYFROWY POLSAT S.A. GROUP

Consolidated 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 CONSOLIDATED FINANCIAL STATEMENTS

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

1. Consolidated Income Statement for the period

from 1 January 2010 to 31 December 2010	showing a net profit of:	PLN 258,470 thousand

2. Consolidated Statement of Comprehensive Income for the period

from 1 January 2010 to 31 December 2010	showing a total comprehensive income of:	PLN 258,470 thousand

3. Consolidated Balance Sheet as at

31 December 2010	showing total assets and total equity and liabilities of:	PLN 1,015,195 thousand

4. Consolidated Cash Flow Statements for the period

from 1 January 2010 to 31 December 2010	showing a net decrease in cash and cash equivalents of:	PLN 71,654 thousand

5. Consolidated Statement of Changes in Equity for the period

from 1 January 2010 to 31 December 2010	showing an increase in equity of:	PLN 105,525 thousand

6. Accompanying notes

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

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

Warsaw, 16 March 2011

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

Consolidated Income Statement

	Nota	for the year ended 31 December 2010	for the year ended 31 December 2009
Revenue	**9**	1,482,463	1,266,137
Cost of services, products, goods and materials sold	**10**	(788,496)	(690,984)
Selling expenses	**10**	(232,973)	(205,263)
General and administrative expenses	**10**	(100,783)	(82,111)
Other operating income	**11**	13,970	12,541
Other operating costs	**12**	(48,427)	(24,270)
Profit from operating activities		**325,754**	**276,050**
Finance income	**13**	1,288	14,319
Finance costs	**14**	(5,760)	(6,032)
Gross profit for the year		**321,282**	**284,337**
Income tax	15	(62,812)	(54,018)
Net profit for the year		**258,470**	**230,319**
Net profit attributable to:			
Equity holders of the Parent		258,447	230,319
Non-controlling interests		23	-
		258,470	**230,319**
Basic and diluted earnings per share (in PLN)	**17**	**0.96**	**0.86**

Condolidated Statement of Comprehensive Income

	for the year ended 31 December 2010	for the year ended 31 December 2009
Net profit for the year	**258,470**	**230,319**
Other comprehensive income	-	-
Income tax relating to components of other comprehensive income	-	-
Other comprehensive income, net of tax	**-**	**-**
Total comprehensive income for the year	**258,470**	**230,319**
Comprehensive income attributable to:		
Equity holders of the Parent	258,447	230,319
Non-controlling interests	23	-

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

Consolidated Balance Sheet - Assets

	Note	31 December 2010	31 December 2009
Reception equipment	**18**	275,399	122,457
Other property, plant and equipment	**18**	152,857	146,228
Goodwill	**19**	52,022	-
Intangible assets	**20**	23,244	14,165
Other non-current assets	**22**	37,544	55,870
Deferred tax assets	**15**	4,158	2,190
Total non-current assets		**545,224**	**340,910**
Inventories	**23**	173,154	122,091
Trade and other receivables	**24**	184,298	131,900
Income tax receivable		7,542	21,265
Other current assets	**25**	77,362	59,290
Cash and cash equivalents	**26**	27,615	72,652
Restricted cash	**27**	-	26,738
Total current assets		**469,971**	**433,936**
Total assets		**1,015,195**	**774,846**

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

Consolidated Balance Sheet – Equity and Liabilities

	Note	31 December 2010	31 December 2009
Share capital	**28**	10,733	10,733
Reserve capital	**28**	156,534	73,997
Other reserves	**28**	10,174	10,174
Retained earnings		250,497	227,509
Total equity		**427,938**	**322,413**
Finance lease liabilities	**30**	1,095	1,151
Deferred tax liabilities	**15**	65,338	26,060
Other non-current liabilities and provisions		2,384	1,543
Total non-current liabilities		**68,817**	**28,754**
Loans and borrowings	**29**	18,041	47,370
Finance lease liabilities	**30**	491	234
Trade and other payables	**31**	317,953	222,213
Deposits for equipment	**32**	15,523	18,800
Deferred income	**33**	166,432	135,062
Total current liabilities		**518,440**	**423,679**
Total liabilities		**587,257**	**452,433**
Total equity and liabilities		**1,015,195**	**774,846**

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

Consolidated Cash Flows Statement

		for the year ended	
	Note	**31 December 2010**	**31 December 2009**
Net profit for the year		**258,470**	**230,319**
Adjustments for:		**(50,158)**	**(186)**
Depreciation and amortisation		81,190	41,948
Loss/(profit) on investing activity		2,040	(55)
Interest expense/(income)		1,278	(1,908)
Change in inventories		(47,977)	(27,092)
Change in receivables and other assets		(54,577)	(6,680)
Change in liabilities, provisions, accruals and deferred income		97,990	37,314
Foreign exchange losses		121	14,112
Income tax	**15**	62,812	54,018
Net increase in set-top boxes provided under operating lease		(195,403)	(112,637)
Other adjustments		2,368	794
Cash flows from operations before income taxes and interest		**208,312**	**230,133**
Income tax paid		(11,974)	(52,709)
Interest received from operating activities		1,196	6,018
Net cash from operating activities		**197,534**	**183,442**
Acquisition of intangible assets		(16,880)	(10,530)
Acquisition of property, plant and equipment		(28,713)	(26,524)
Acquisition of financial assets		-	(53,396)
Proceeds from sale of financial assets		-	53,726
Acquisition of M.Punkt Holdings Ltd., net of cash acquired	**34**	(33,271)	(24,801)
Loans granted		(3,536)	-
Loans repaid - principal		3,536	-
Interest on loans repaid		58	-
Proceeds from sale of property, plant and equipment		1,387	42
Net cash used in investing activities		**(77,419)**	**(61,483)**
Net cash from bank overdraft		18,041	-
Repayment of loans and borrowings		(47,277)	(63,035)
Payment of interest on loans, borrowings and finance lease		(2,198)	(4,212)
Finance lease – principal repayments		(864)	(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		**(191,769)**	**(268,826)**
Net decrease in cash and cash equivalents		**(71,654)**	**(146,867)**
Cash and cash equivalents at the beginning of the year		**99,390**	**246,422**
Effect of exchange rate fluctuations on cash and cash equivalents		(121)	(165)
Cash and cash equivalents at the end of the year*		**27,615**	**99,390**

*The amount as at 31 December 2009 includes PLN 26,738 thousand of restricted cash (see note 27).

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

Consolidated Statement of Changes in Equity

	Note	Share capital	Reserve capital	Other reserves	Retained earnings	Non-controlling interest	**Total equity**
Balance as at 1 January 2010		10,733	73,997	10,174	227,509	-	**322,413**
Purchase of 94% shares in M.Punkt Holdings Ltd.		-	-	-	-	4,509	**4,509**
Total comprehensive income		-	-	-	258,447	23	**258,470**
Purchase of 6% shares in M.Punkt Holdings Ltd.		-	-	-	23	(4,532)	**(4,509)**
Dividend declared and paid		-	-	-	(152,945)	-	**(152,945)**
Appropriation of 2009 profit – transfer to reserve capital	**28**	-	82,537	-	(82,537)	-	**-**
Balance as at 31 December 2010		**10,733**	**156,534**	**10,174**	**250,497**	**-**	**427,938**

	Share capital	Reserve capital	Other reserves	Retained earnings	**Total equity**
Balance as at 1 January 2009	10,733	3,964	10,174	268,467	**293,338**
Dividend declared and paid	-	-	-	(201,244)	**(201,244)**
Appropriation of 2008 profit – transfer to reserve capital	-	70,033	-	(70,033)	**-**
Total comprehensive income	-	-	-	230,319	**230,319**
Balance as at 31 December 2009	**10,733**	**73,997**	**10,174**	**227,509**	**322,413**

The accompanying notes are an integral part of these consolidated financial statements

Notes to the consolidated financial statements

1. The Parent Company

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

The Parent 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 provides Internet access services.

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

The principal activities of the Company and its subsidiaries include:
- television and radio operations,
- telecommunication services,
- rental of real estate,
- real estate management,
- set-top boxes' design and manufacturing.

These consolidated financial statements comprise the Company and its subsidiaries (together referred as ''the Group'').

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 consolidated financial statements

Statement of compliance

These consolidated 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 consolidated financial statements of the Group.

(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 consolidated 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.

Revised IFRS 3 was applied to the acquisition of 94% shares in M.Punkt Holdings Ltd. by Cyfrowy Polsat S.A. on 4 May 2010. Non-controlling interest was valued at fair value, acquisition-related costs were recognized in the income statement. The transaction was described in the Note 34 in detail.

(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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, the Group 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 Group

(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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements.

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

(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 consolidated 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. Group of consolidated companies

These consolidated financial statements for 2010 include the following entities:

			Share in voting rights (%)	
	Entity's registered office	Activity	31 December 2010	31 December 2009
Parent Company				
Cyfrowy Polsat S.A.	Łubinowa 4a, Warsaw	radio, TV and telecommunication activities	n/a	n/a
Subsidiaries				
Cyfrowy Polsat Technology Sp. z o.o.*	Łubinowa 4a, Warszawa	production of set-top boxes	100%	100%
M.Punkt Holdings Ltd.*	3 Themistokli Dervi Street, Nikozja (Cypr)	owner of mPunkt Polska S.A. i mTel Sp. z o.o.- see note 34	100%	45%
Cyfrowy Polsat Trade Marks Sp. z o.o.*	ul. Łubinowa 4a, Warszawa	non-current assets and intellectual propery rights management	100%	-

* consolidation using full method

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

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

	Entity's registered office	Activity	Share in voting rights (%) 31 December 2009	31 December 2008
Karpacka Telewizja Kablowa Sp. z o.o.**	ul. Chorzowska 3, Radom	no activity	85%	85%

** Investment accounted for at cost less any accumulated impairment losses

7. Accounting and consolidation policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements by all entities within the Group.

a) Basis of measurement

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

b) Going concern

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

c) Functional and presentation currency

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

d) Use of estimates and judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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 46.

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) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Parent. Control exists when the Company has the power to govern, either directly or indirectly, the financial and operating policies of an entity so as to obtain benefits from its activities. Potential voting rights that are currently exercisable are considered in assessing control.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The financial statements of subsidiaries are prepared for the same period as the financial statements of the Company and using the accounting policies that are consistent with those of the Company for like transactions and events.

(ii) Associates

An associate is any entity over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for under the equity method and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of an associate's profit or loss after the acquisition date is recognized in its profit and loss with a corresponding increase or decrease to the carrying amount of the investment. Adjustments to the carrying amount of an investment in associate are also made for changes in the Group's proportionate interest in an associate arising from changes in the investee's other comprehensive income. The Group's share of those changes is recognized in its other comprehensive income.

When the Group's share of losses of an associate equals or exceeds its interest in that associate, including any unsecured loans, the Group discontinues recognizing its share of further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the assets transferred.

Forward contracts among an acquirer and a that would result in business combinations, are not recognised by the Group as financial instruments.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated against the investment to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

g) Foreign currency transactions

Transactions in foreign currencies are translated to the Polish zloty at exchange rates in effect one day prior to the recording of 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 and loss. Non-monetary assets and liabilities in a foreign currency that are measured in terms of historical cost are translated using the average NBP exchange rate in effect at the date of the 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.

h) Financial instruments

(i) Non-derivative financial instruments

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

Non-derivative financial instruments, other than investments 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 Group becomes a party to the contractual obligations of the instrument. The Group derecognises a financial asset when contractual rights to the cash flows from the financial assets expire, or it transfers the financial asset to another party in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Standardised transactions for sale or purchase of financial assets are recognised at the transaction date i.e. on the date the Group assumes an obligation to acquire or sell the asset. Financial liabilities are derecognised when the Group'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 consolidated 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 7 (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 Group 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 Group 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 Group 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 Group concludes an agreement. Purchased instruments are initially recognized at fair value or, in case of financial liabilities, at sale price.
The Group ceases to account derivatives for hedging instruments as the instruments expire, are sold, terminated or settled or as the Group 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.

i) Share capital

Ordinary shares

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

Preference share capital

Preference share capital is classified as equity, if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are 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 capital is excluded from distribution, however, it can be utilised to cover accumulated losses.

Other reserves

Other reserves include the difference between the fair value of the shares assumed by the Members of the Management Board and their respective issue price.

j) Property, plant and equipment

(i) Property, plant and equipment owned by the Group

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

Cost includes purchase price of the asset and other expenditure that isdirectly 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 also may include, if necessary, the estimated cost of dismantling and removing the asset and restoring the site. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

(ii) Subsequent costs

Subsequent cost of replacing a component of an item of property, plant and equipment is 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 Group 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 Group's statement of financial position.

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

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

k) Intangible assets

(i) Goodwill

Initial recognition

Goodwill represents the excess of the sum of consideration transferred and payable, the amount of non-controlling interest in the acquiree and the fair value as at the date of acquisition of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired.

Subsequent measurement

Goodwill is presented at purchase price less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if possible impairment is indicated. Goodwill is allocated to acquirer's cash-generating units for the purpose of testing for impairment. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Internally developed software

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

(iii) Other intangible assets

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

(iv) 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.

(v) 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.

l) 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.

m) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in making them available for use or sale. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads determined based on normal operating capacity.

Net realisable value is the 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 Group are sold below cost, the loss on the sale is recorded when the set-top box is transferred to the customer.

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

n) Impairment of assets

(i) Financial assets

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

An impairment loss in respect of a financial asset measured at 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 recognised 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 each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated by the Group. For goodwill and 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 recorded in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or 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 Group'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 Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised through in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

p) Restricted cash

Restricted cash comprises cash deposited on the Group'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.

q) Employee benefits

(i) Defined contribution plan

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

(ii) Defined benefit plan – retirement benefits

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

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

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

(iii) Termination benefits

Termination benefits are recognised as an expense when the Group 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 Group 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 recognized 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 Group has a present legal or constructive obligation to make such payments as a result of past services provided by the employees and the obligation can be estimated reliably.

(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.

r) Provisions

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

(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 Group recognises any impairment loss of the assets associated with that contract.

s) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group or a present obligation that arises from past events, but its amount cannot be estimated reliably or it is not probable that there will be an outflow of resources embodying economic benefits.

The Group does not recognize a contingent liability, except for contingent liability assumed in a business combination..

A contingent liability is disclosed in the consolidated 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 Group discloses for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:
- an estimate of its financial effect;
- an indication of the uncertainties relating to the amount or timing of any outflow; and
- the possibility of any reimbursement.

t) 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.

u) Revenue

(i) Multiple-element arrangements

The Group 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 consolidated income statement.

(c) Revenue from Video on Demand (VOD) services

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

(d) Rental of set-top boxes

Revenue from the rental of set-top boxest 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) 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.

(j) Revenue from commission for acquired subscribers

Revenue from commission for acquired subscribers due from outside the Group is recognized in profit and loss account accordingly to periods of rendering services (subscriber acquisition). The revenue is recognized in "other operating revenue".

(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.

v) 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 completed 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 losson the date that the Group'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 completed forward exchange contracts and call options. Borrowing costs are recognised in profit or loss using the effective interest method.

x) Lease payments

Payments made under operating leases 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 made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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 Group companies, provided that they are entitled to compensate current tax assets and liabilities when calculating their tax liabilities. An entity has the entitlement to offset deferred tax assets and liabilities when calculating its tax liability if:

a) the entity has a legally enforceable right to offset current tax assets against current tax liabilities and

b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either:
   - the same taxable entity or
   - different taxable entities, but these entities intend either to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realised simultaneously.

z) Earnings per share

The Group 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 from continuing operations attributable to ordinary shareholsder of the Company 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 Group that is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

The Group presents operating segments according to its internal management accounting principles applied in the preparation of periodical management reports which are regularly analysed by the Management Board of Cyfrowy Polsat S.A. The activities of the Group 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 analyzed 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 Group and the economic environments where the Group is operating.

The Group operates exclusively in Poland and substantially all of its assets and clients are located in Poland. As a result, the Group does not analyze 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.

8. 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 being owned. 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.

(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 rate as at the reporting date.

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

(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 rate 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.

9. 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	35,707	46,584
Subscription fees, interconnection revenues and settlements with mobile network operators	19,498	5,550
Other revenue	33,746	24,185
Total	**1,482,463**	**1,266,137**

Other revenue consists of revenue from marketing and advertising services, revenue from rental of reception equipment, revenue from signal broadcast services, revenue from commision for acquired subscribers, revenue from lease of property and appliances, other MVNO revenue and other.

10. Operating costs

	Note	for the year ended	
		31 December 2010	**31 December 2009**
Depreciation and amortisation		81,190	41,948
Programming licenses costs		392,035	354,395
Signal broadcast costs	**a**	79,855	82,570
Cost of equipment sold		59,546	89,736
Distribution, marketing, customer relation management and retention costs	**b**	297,319	262,347
Salaries and employee-related costs	**c**	88,348	72,787
Other operating costs	**d**	123,959	74,575
Total costs by kind		**1,122,252**	**978,358**

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

	for the year ended	
	31 December 2010	31 December 2009
Cost of services, products goods and materials sold	788,496	690,984
Selling expenses	232,973	205,263
General and administrative expenses	100,783	82,111
Total costs by function	**1,122,252**	**978,358**

a) Signal broadcast costs

	for the year ended	
	31 December 2010	31 December 2009
Transponders capacity 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
Distibution and logistics costs	115,916	123,595
Marketing costs	80,360	57,468
Customer relation management costs	101,043	81,284
Total	**297,319**	**262,347**

c) Salaries and employee-related costs

	for the year ended	
	31 December 2010	31 December 2009
Salaries	76,508	63,535
Social security contributions	8,828	6,988
Other employee-related costs	3,012	2,264
Total	**88,348**	**72,787**

Salaries and social security contributions relating to employees directly involved in set-top boxes manufacturing are presented as part of cost of equipment sold.

Average headcount

	for the year ended	
	31 December 2010	31 December 2009
Number of employees – employment contracts*	864	569
Total	**864**	**569**

*Including employees directly involved in set-top boxes manufacturing whose salaries are presented in cost of equipment sold.

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

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	12,874	16,468
Legal, advisory and consulting costs	9,423	7,875
Property maintenance costs	13,201	6,030
Taxes and other charges	2,961	1,771
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	7,352	4,002
Other	13,646	12,568
Total	**123,959**	**74,575**

11. Other operating income

	for the year ended	
	31 December 2010	31 December 2009
Revenue from sale of Points of Sale	7,858	-
Contractual damages for replacement of encryption cards and set-top boxes (SWAP)	-	7,794
Other damages	2,144	2,983
Other	3,968	1,764
Total	**13,970**	**12,541**

12. Other operating costs

	for the year ended	
	31 December 2010	31 December 2009
Bad debt provision and cost of receivables written off	36,541	19,512
Fixed assets and inventory impairment write-downs	5,145	1,835
Other	6,741	2,923
Total	**48,427**	**24,270**

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

13. Finance income

	for the year ended	
	31 December 2010	31 December 2009
Foreign currency exchange differences on forward exchange contracts	-	7,540
Interest on bank accounts and deposits	1,256	6,018
Profit from sale of financial assets	-	330
Other	32	431
Total	**1,288**	**14,319**

14. Finance costs

	for the year ended	
	31 December 2010	31 December 2009
Interest on loans and borrowings	2,044	4,109
Foreign exchange rate differences, net	1,927	1,665
Valuation of foreign exchange call options	580	-
Other interest	490	-
Realisation of foreign exchange call options	342	-
Other	377	258
Total	**5,760**	**6,032**

15. Income tax

(i) Income tax expense

	for the year ended	
	31 December 2010	31 December 2009
Current tax expense	25,728	57,298
Deferred tax expense	37,286	13,597
Correction of income tax returns of previous years	(202)	(16,877)
Income tax expense - total	**62,812**	**54,018**

	for the year ended	
Deferred tax expense	31 December 2010	31 December 2009
Tax losses carried forward	(359)	216
Receivables and other assets	3,198	(4,962)
Liabilities	(3,300)	(12,704)
Deferred distribution fees	2,830	15,330
Tangible and intangible assets	34,941	15,717
Acquisition of subsidiary	(24)	-
Change in deferred income tax – total	**37,286**	**13,597**

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

(ii) Effective tax rate reconciliation

	for the year ended	
	31 December 2010	31 December 2009
Gross profit for the year	321,282	284,337
Income tax at applicable statutory tax rate in Poland of 19%	61,044	54,024
Non-tax deductible, stock-taking differences at 19% tax rate	229	167
Non-tax deductible interest cost at 19% tax rate	-	248
Correction of income tax returns of previous years	(202)	(1,277)
Tax loss of mPunkt Polska S.A.	359	-
Other non-taxable revenue and non-tax deductible costs, net, at 19% tax	1,382	856
Tax expense for the year	**62,812**	**54,018**
Effective tax rate	**19.6%**	**19.0%**

(iii) Deferred tax assets

	31 December 2010	31 December 2009
Tax losses carried forward	359	-
Liabilities	27,825	24,636
Tangible assets	1,071	270
Receivables and other assets	23,313	16,034
Total deferred tax assets	**52,568**	**40,940**
Set off of deferred tax assets and liabilities	(48,410)	(38,750)
Deferred tax assets in the balance sheet	**4,158**	**2,190**

(iv) Tax losses recognised

	31 December 2010	31 December 2009
2010 tax loss carried forward	1,889	-
Tax losses carried forward – total	**1,889**	**-**

As at 31 December 2010 the Group recognised tax losses of mPunkt Polska S.A. to the extent that it was probable that they would be utilised in the future. Cumulative tax losses of mPunkt Polska S.A. for 2010 amount to PLN 3,778 thousand.

According to Art. 7 of the Corporate Income Tax Act dated 15 February 1992, tax losses incurred in a given financial year can be utilised in the subsequent five fiscal years. However, no more than 50% of a tax loss for any given year can be utilised in a single subsequent fiscal year.

(v) Deferred tax liabilities

	31 December 2009	31 December 2008
Receivables and other assets	43,029	32,552
Liabilities	24	135
Deferred distribution fees	19,118	16,288
Tangible assets	51,577	15,835
Total deferred tax liabilities	**113,748**	**64,810**
Set off of deferred tax assets and liabilities	(48,410)	(38,750)
Deferred tax liabilities in the balance sheet	**65,338**	**26,060**

16. EBITDA

EBITDA (earnings before interest, taxes, depreciation and amortisation) presents the Group's key measure of earnings performance. The level of EBITDA measures the Group's ability to generate cash from recurring operations. The Group defines EBITDA as operating profit adjusted by depreciation 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	325,754	276,050
Depreciation and amortisation	81,190	41,948
EBITDA	**406,944**	**317,998**

17. 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 Group 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 2009	31 December 2008
Net profit for the year (in PLN thousand)	258,470	230,319
Weighted average number of ordinary shares in the period	268,325,000	268,325,000
Earnings per share in PLN	**0.96**	**0.86**

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

18. 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	**6,866**	**70,116**	**100,901**	**221,560**	**6,604**	**15,594**	**421,641**	**4,653**	**77**
Additions	-	4,7941	12,436,37	198,512	1,778	3,14345	**220,663**	6,264	21
Acquisition of subsidiary	-	3,405	2,436	-	1,216	3,054	**10,111**	121	-
Transfer from tangible assets under construction	-	2,807	941	-	-	202	**3,950**	(3,950)	-
Disposals	-	(1,453)	(4,855)	(81,849)	(1,067)	(1,749)	**(90,973)**	-	(77)
Cost as at 31 December 2010	**6,866**	**79,669**	**111,859**	**338,223**	**8,531**	**20,244**	**565,392**	**7,088**	**21**
Impairment losses as at 1 January 2010	**-**	**(8)**	**(1,075)**	**(1,050)**	**-**	**(56)**	**(2,189)**	**-**	**-**
Additions	-	(563)	(151)	(2,657)	(9)	(736)	**(4,116)**	-	-
Disposals	-	-	75	-	-	27	**102**	-	-
Utilisation	-	507	10	-	9	385	**911**	-	-
Impairment losses as at 31 December 2010	**-**	**(64)**	**(1,141)**	**(3,707)**	**-**	**(380)**	**(5,292)**	**-**	**-**
Accumulated depreciation									
Accumulated depreciation as at 1 January 2010	**-**	**7,290**	**40,937**	**98,053**	**2,208**	**7,009**	**155,497**	**-**	**-**
Additions	-	4,428	17,249	42,300	1,604	4,255	**69,836**	-	-
Disposals	-	(78)	(4,358)	(81,236)	(276)	(432)	**(86,380)**	-	-
Accumulated depreciation as at 31 December 2010	**-**	**11,640**	**53,828**	**59,117**	**3,536**	**10,832**	**138,953**	**-**	**-**
Carrying amount									
As at 1 January 2010	**6,866**	**62,818**	**58,889**	**122,457**	**4,396**	**8,529**	**263,955**	**4,653**	**77**
As at 31 December 2010	**6,866**	**67,965**	**56,890**	**275,399**	**4,995**	**9,032**	**421,147**	**7,088**	**21**

The Group 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	**4,348**	**39,113**	**89,972**	**144,444**	**4,370**	**11,773**	**294,020**	**15,648**	**30**
Additions	-	16,422	14,740	113,703	2,542	3,938	**151,345**	4,324	1,332
Transfers from investment property	2,518	15,058	-	-	-	-	**17,576**	-	-
Disposals	-	(477)	(3,811)	(36,587)	(308)	(117)	**(41,300)**	(15,319)	(1,285)
Cost as at 31 December 2009	**6,866**	**70,116**	**100,901**	**221,560**	**6,604**	**15,594**	**421,641**	**4,653**	**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	**-**	**3,630**	**29,372**	**100,528**	**1,382**	**3,942**	**138,854**	**-**	**-**
Additions	-	3,180	14,760	10,965	1,076	3,174	**33,155**	-	-
Transfers from investment property	-	621	-	-	-	-	**621**	-	-
Disposals	-	(141)	(3,195)	(13,440)	(250)	(107)	**(17,133)**	-	-
Accumulated depreciation as at 31 December 2009	**-**	**7,290**	**40,937**	**98,053**	**2,208**	**7,009**	**155,497**	**-**	**-**
Carrying amount									
As at 1 January 2009	**4,348**	**35,483**	**59,642**	**20,785**	**2,988**	**7,831**	**131,077**	**15,648**	**30**
As at 31 December 2009	**6,866**	**62,818**	**58,889**	**122,457**	**4,396**	**8,529**	**263,955**	**4,653**	**77**

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

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

19. Goodwill

	2010
Balance as of 1 January	**-**
Acquisition of M.Punkt Holdings Ltd. (see note 34)	52,227
Disposal	(205)*
Balance as of 31 December	**52,022**

* mPunkt Polska S.A. disposed of some of points of sale (POS). Goodwill written off is goodwill allocated to POS sold (see note 34d).

Goodwill was allocated to cash-generating unit „services rendered for individual clients – retail services" Cyfrowy Polsat S.A. (see note 34c).

The recoverable amount of the cash-generating unit is determined based on fair value less cost to sell. The Group tests the total carrying amount of the cash-generating unit and in case of impairment write-offs are made with respect to goodwill first. If goodwill is fully impaired the Group continues impairment testing of the brand with potential write-offs against the carrying value of brand and other assets allocated to the on-line cash-generating unit. As at the reporting date fair value less cost to sell of the cash-generating unit "services rendered for individual clients" exceeded the carrying amount, therefore no goodwill impairment was recognised.

20. Intangible assets

	Software and licences	Other	Trade mark	Under development	Total
Cost					
Cost as at 1 January 2010	**34,072**	**1,080**	**-**	**5,108**	**40,260**
Additions	9,845	1,416	-	7,332	18,593
Acquisition of subsidiary	1,209	143	500	-	1,852
Transfer from intangible assets under development	3,441	399	-	(3,840)	-
Disposals	(2,531)	(36)	-	-	(2,567
Cost as at 31 December 2010	**46,036**	**3,002**	**500**	**8,600**	**58,138**
Impairment losses as at 1 January 2010	**-**	**(18)**	**-**	**-**	**(18)**
Additions	(4)	-	-	-	(4)
Disposals	4	-	-	-	4
Impairment losses as at 31 December 2010	**-**	**(18)**	**-**	**-**	**(18)**
Accumulated amortisation as at 1 January 2010	**25,446**	**631**	**-**	**-**	**26,077**
Additions	10,246	908	200	-	11,354
Disposals	(2,526)	(29)	-	-	(2,555)
Accumulated amortisation as at 31 December 2010	**33,166**	**1,510**	**200**	**-**	**34,876**
Carrying amounts					
As at 1 January 2010	**8,626**	**431**	**-**	**5,108**	**14,165**
As at 31 December 2010	**12,870**	**1,474**	**300**	**8,600**	**23,244**

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

	Software and licences	Other	Under development	Total
Cost				
Cost as at 1 January 2009	**27,601**	**818**	**868**	**29,287**
Additions	6,555	262	4,460	11,277
Disposals	(84)	-	(220)	(304)
Cost as at 31 December 2009	**34,072**	**1,080**	**5,108**	**40,260**
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	**17,266**	**145**	**-**	**17,411**
Additions	8,264	486	-	8,750
Disposals	(84)	-	-	(84)
Accumulated amortisation as at 31 December 2009	**25,446**	**631**	**-**	**26,077**
Carrying amounts				
As at 1 January 2009	**10,335**	**673**	**868**	**11,876**
As at 31 December 2009	**8,626**	**431**	**5,108**	**14,165**

21. Investment property

Cost	
Cost as at 1 January 2009	**17,576**
Transfers to property, plant and equipment	(17,576)
- Buildings	(15,058)
- Land	(2,518)
Cost as at 31 December 2009	**-**
Accumulated depreciation	
Accumulated depreciation as at 1 January 2009	**578**
Additions	43
Transfers to property, plant and equipment	(621)
Accumulated depreciation as at 31 December 2009	**-**
Carrying amounts	
As at 1 January 2009	**16,998**
As at 31 December 2009	**-**

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

Revenues from the rental of investment property amounted to PLN 331 thousand in the 12 months of 2009. The related costs amounted to PLN 117 thousand. In 2010 the Group did not have investment property and did not recognize revenue from rental and costs of investment property rental.

22. Other non-current assets

	31 December 2010	31 December 2009
Shares	1,454	26,186
Deferred distribution fees	35,258	29,684
Other non-current receivables	832	-
Total	**37,544**	**55,870**

As at 31 December 2009 “Shares” comprised 85% shares in KTK Sp. z o.o. and 45% shares in M.Punkt Holdings Ltd. (M.Punkt Holdings). In the first half of 2010 the Group acquired remaining 55% shares in M.Punkt Holdings – see note 34. As at 31 December 2010 85% shares in KTK Sp. z o.o. were included in “Shares”.

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

23. Inventories

Types of inventories	31 December 2010	31 December 2009
Set-top boxes – merchandise	54,695	56,849
Set-top boxes – finished goods	41,182	19,539
Removable STB hard disk drives	13,797	-
SMART and SIM cards	10,239	11,021
Telephones and modems	9,661	2,846
Antennas and converters	3,287	8,281
Other inventories	45,642	17,817
Prepayments for inventories	-	10,521
Total gross book value	**178,503**	**126,874**
Write-down of inventories	(5,349)	(4,783)
Total net book value	**173,154**	**122,091**

Prepayments for inventories presented as at 31 December 2009 related to prepayments made to third parties for future deliveries of set-top boxes and respective cards.

Other inventories comprise primarily of raw materials used in the production of set-top boxes.

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

Write-downs of inventories	31 December 2010	31 December 2009
Opening balance	**4,783**	**3,767**
Increase	884	2,928
Decrease	(318)	(1,912)
Closing balance	**5,349**	**4,783**

There are no restrictions on the Group's rightsfor the use and disposal of its inventories, with the exception of a registered pledge on goods in the amount of at least PLN 4,500 thousand established as a collateral for a loan agreement entered by mPunkt Polska and BRE Bank S.A. The credit line as stipulated in this agreement was not used as at the balance sheet date and continues to be unused.

24. Trade and other receivables

	31 December 2010	31 December 2009
Trade receivables from related parties	2,991	5,358
Trade receivables from third parties	145,154	81,791
Tax and social security receivables	33,740	43,429
Other receivables	2,413	1,322
Total	**184,298**	**131,900**

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	139,655	82,774
EUR	8,407	4,253
USD	83	122
Total	**148,145**	**87,149**

Movements in the allowance for impairment of accounts receivable

	31 December 2010	31 December 2009
Opening balance	**76,777**	**60,811**
Increase	35,561	19,199
Reversal	(100)	(314)
Utilisation	(146)	(2,919)
Closing balance	**112,092**	**76,777**

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

25. Other current assets

	31 December 2010	31 December 2009
Deferred distribution fees	63.914	56.042
Foreign exchange call options	5.604	-
Other deferred income	4,185	905
Other deferred costs	3.659	2.343
Total	**77,362**	**59.290**

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.

26. Cash and cash equivalents

	31 December 2010	31 December 200
Cash in hand	109	58
Current accounts	4,458	1,708
Deposits	23,048	70,886
Total	**27,615**	**72,652**

Currency	31 December 2010	31 December 2009
PLN	19,036	68,791
EUR	5,816	2,820
USD	2,763	1,041
Total	**27,615**	**72,652**

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

27. 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 mPunkt Holdings Ltd., as described in note 34. As at 31 December 2010 the Group did not have restricted cash.

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

28. 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.

The table below presents the shareholders' equity structrure as at 31 December 2010:

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 Series were preference shares (2 voting rights per share), while Series E, F and 8,082,499 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 directly shares of Cyfrowy Polsat S.A.

(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. On 17 June 2010 the General Shareholders Meeting of Cyfrowy Polsat Technology Sp z o.o. transferred part of the profit in the amount of PLN 3,441 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: 11 August 2010 the amount of PLN 101,963 thousand and 17 November 2010 the amount of PLN 50,982 thousand.

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

29. Loans and borrowings

Loans and borrowings	31 December 2010	31 December 2009
Short-term loans and borrowings	18,041	47,370
Total	**18,041**	**47,370**

The Company has an overdraft facility with Bank Pekao S.A. that allows it to 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. The agreement is valid until 30 April 2011. No credit line liabilities exist as at 31 December 2010.

Cyfrowy Polsat Technology Sp. z o.o. has an overdraft facility (based on agreement concluded with Bank Pekao S.A.) that allows it to utilize a credit line up to PLN 4,000 thousand. The facility may also be used to open letters of credit and guarantees. The facility limit was increased to PLN 15,000 thousand based on the annex dated 30 November 2010.
The interest rate for loan is WIBOR 1M plus a margin of 1%. A proxy for the bank to all Cyfrowy Polsat Technology's bank accounts, a statement on submitting to enforcement of up to PLN 22,500 thousand and an additonal statement on submitting to enforcement for every letter of credit or guarantee are the collateral for the loan. The agreement is valid until 21 July 2011. As at 31 December 2010 the debt resulting from the agreement totaled PLN 8,460 thousand.

An overdraft facility signed with BRE Bank S.A. by mPunkt Polska S.A. can be utilized up to PLN 12,000 thousand. The interest rate for loan is WIBOR O/N plus a margin of 2,5%. A borrower's incomplete blank promissory note with a bill of exchange declaration and a statement on submitting to enforcement of up to PLN 7,500 thousand and a pledge by Cyfrowy Polsat S.A. of up to PLN 13,000 thousand are the collateral for the loan. The agreement is valid until 26 May 2011. As at 31 December 2010 the debt resulting from the agreement totaled PLN 9,582 thousand and was classified as short-term.

Based on the agreement entered by BRE Bank S,A. and mPunkt Polska S.A., BRE Bank may provide good performance guarantee in the amount up to PLN 9,000 thousand in respect of agreements concluded by mPunkt.
Security established for the benefit of BRE Bank S.A. for the revolving loan includes the following:

- registered pledge on goods in the amount of at least PLN 4,500 thousand
- blank bill of exchange issued by the Borrower
- assignment of receivables due to mPunkt Polska S.A. in respect to sales transactions concluded with customers indicated by the Bank
- commitment to insure the underlying movable assets over the full loan period.

The credit line as stipulated in this agreement was not used as at the balance sheet date and continues to be unused.

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.

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

30. Group as a lessor and as a lessee

a) Group as a lessor

Operating lease

The Group 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 Group rents equipment to third parties and concludes rental agreements with franchisees. Most of agreements with franchisees are contracts with indefinite terms.

Future minimum lease payments with respect to operating lease are as follows:

	31 December 2010	31 December 2009
less than 1 year	19,589	12,083
between 1 and 5 years	60,961	46,148
more than 5 years	1,701	-
Total	**82,251**	**58,231**

Finance lease

Future minimum lease payments under finance leases are as follows:

	31 December 2010	31 December 2009
less than 1 year	-	161
Total	**-**	**161**

The present value of minimum lease payments amounted to PLN 160 thousand as at 31 December 2009.

b) Group as a lessee

Operating leases

The Group 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.

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

In addition, the Group is a party to rental agreements for commercial space which is subleased to franchisees. Majority of these agreements are for indefinite period.

Future minimum lease payments under operating leases are as follows:

	31 December 2010	31 December 2009
less than 1 year	93,637	97,001
between 1 and 5 years	365,433	383,655
more than 5 years	158,290	274,576
Total	**617,360**	**755,232**

In 2010 the Group incurred costs related to operating lease agreements amounting to PLN 95,298 thousand and in 2009 PLN 83,535 thousand.

Finance leases

The total carrying amount of equipment used under finance lease contracts amounted to PLN 1,984 thousand as at 31 December 2010 and PLN 1,670 thousand as at 31 December 2009. The lease term is 10 years with respect to conditional access equipment and 5 years with respect to vehicles and other equipment.

Future minimum lease payments under finance leases are as follows:

	31 December 2010	31 December 2009
less than 1 year	491	234
between 1 and 5 years	1,095	937
more than 5 years	-	214
Total	**1,586**	**1,385**

The present value of minimum lease payments amounted to PLN 1,446 thousand as at 31 December 2010 and PLN 1,243 thousand as at 31 December 2009.

31. Trade and other payables

	31 December 2010	31 December 2009
Trade payables to related parties	7,137	915
Trade payables to third parties	146,986	86,550
Taxation and social security payables	11,399	7,769
Payables relating to purchases of fixed assets	5,873	6,361
Accruals	114,157	107,534
Short term provisions	21,142	10,235
Other	11,259	2,849
Total	**317,953**	**222,213**

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

Accruals

	31 December 2010	31 December 2009
Salaries	16,113	16,402
Royalties for copyright management organisations	2,844	2,463
Licence fees	50,041	36,045
Distribution costs	22,812	37,491
Other	22,347	15,133
Total	**114,157**	**107,534**

Trade payables and payables relating to purchases of fixed assets, by currency

Currency	31 December 2010	31 December 2009
PLN	104,370	30,549
EUR	29,200	15,636
USD	26,426	47,642
Total	**159,996**	**93,827**

Accruals, by currency

Currency	31 December 2010	31 December 2009
PLN	74,155	75,780
EUR	15,779	18,988
USD	24,223	12,766
Total	**114,157**	**107,534**

32. Deposits for equipment

	31 December 2010	31 December 2009
Subscribers	7,969	10,568
Distributors	7,538	8,215
Other	16	17
Total	**15,523**	**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.

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

33. Deferred income

	31 December 2010	31 December 2009
Deferred income	166,432	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.

34. Investment in M.Punkt Holdings Ltd.

On 4 May 2010 Cyfrowy Polsat S.A. completed its acquisition of a 94% shareholding 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 resulting in acquisition of 94% shares. The total purchase price for 94% shares of M.Punkt Holdings amounted to PLN 54,013 thousand.

On 9 June 2010 Cyfrowy Polsat S.A. acquired remaining 6% shares of M.Punkt Holdings for PLN 4,509 thousand and increased its stake to 100%.

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

a) Purchase price of shares

	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.

b) Reconciliation of cash flows resulting from the transaction

Purchase price of shares	**58,522**
Amount paid in 2009	(24,556)
Cash and Cash equivalents acquired	(695)
Cash outflow in cash flow statement for 12 months ended 31 December 2010	**33,271**

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

c) Goodwill calculation

	As of 5 May 2010
Purchase price of 94% shares	54,013
Non-controlling interest (6%)	4,509
Fair value of net assets	(6,295)
Goodwill	**52,227**

The goodwill of PLN 52,227 thousand arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of mPunkt Holdings Ltd. with the Company.

Non-controlling interest were valued as at 4 May 2010 (date of acquisition of shares) at fair value. Fair value was represented by purchase price from transaction concluded by the Company on 9 June 2010.

d) Fair value calculation of net assets acquired as at the date of purchase transaction

	As of 4 May 2010	
	Fair value	Book value
Other property, plant and equipment	10,233	6,184
Goodwill	-	6,517
„mPunkt" brand (see note 20)	500	-
Other intangible assets	1,352	1,343
Other non-current assets	1,060	1,060
Deferred tax assets	-	807
Inventories	3,086	3,086
Trade and other receivables	14,975	14,975
Other current assets	498	498
Cash and cash equivalents	695	695
Deferred tax liabiliity	(11)	-
Other liabilities	(26,053)	(25,800)
Deferred income	(40)	(114)
Identified net assets	**6,295**	**9,251**

In the purchase price allocation process the Group identified and valued trademark – „mPunkt" brand. The preliminary fair value of the trademark was estimated on the basis of relief from royalty method (see note 20).

Between 4 May and 31 December 2010 32 points of sale (POS) were sold. Goodwill allocated to POS sold amounted to PLN 205 thousand.

If the share purchase transaction was concluded on 1 January 2010, the Group would recognize consolidated revenue of PLN 1,527,618 thousand and consolidated net income in the amount of PLN 257,487 thousand for 12 months ended 31 December 2010.

In 8 months ended 31 December 2010 the Group presented additional consolidated revenue amounting to PLN 12,869 thousand and consolidated net loss of PLN 11,428 thousand resulting from consolidation with M.Punkt Holdings Ltd.

e) 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 plan 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 Ltd. 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.

35. Financial instruments

Overview

Cyfrowy Polsat S.A. Group has exposure to the following risks from its use of financial instruments:
- credit risk,
- liquidity risk,
- market risk:
    (i) currency risk,
    (ii) interest rate risk,
- capital management.

The Group's risk management policies are designed to reduce the impact of any adverse conditions on the Group's results.

The Management Board has overall responsibility for the oversight and management of the risks that the Group is subjected to in its activities. Accordingly, the Management Board has established risk management framework as well as specific risk management policies with respect to credit risks and capital management.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are also included throughout these consolidated financial statements.

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

Bank loans, cash, forward exchange contracts, foreign exchange call options and short-term bank deposits are the main financial instruments used by the Group, with the intention of securing the financing for the Group's activities. The Group also holds other financial instruments such as trade receivables and payables 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:	**150,558**	**88,471**
Loans granted to third parties	1	-
Trade and other receivables from related parties	2,991	5,358
Trade and other receivables from third parties	147,566	83,113
Held-to-maturity financial assets	**-**	**-**
Available-for-sale financial assets	**-**	**-**
Hedging derivative instruments *	**-**	**-**
Cash and cash equivalents	**27,615**	**72,652**
Restricted cash	**-**	**26,738**

*The Group 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:	**206,405**	**164,230**
Finance lease liabilities	1,586	1,385
Loans and borrowings	18,041	47,370
Trade and other payables to third parties	179,641	114,560
Trade and other payables to related parties	7,137	915
Hedging derivative instruments	**-**	**-**

Credit risk

The Group's exposure to credit risk is associated primarily with trade receivables. In the financial year ended 31 December 2010, the Group was not materially exposed to credit risk arising from credit sales. The Parent's customer base includes a large number of individual subscribers who are dispersed geographically over the entire country, and who are required to prepay their subscription fees. Receivables from subscribers are continuously monitored and recovery actions are taken, including blocking of the signal transferred to subscribers or termination of services to a MVNO client and Internet customer.

The Group analyses the creditworthiness of distributors as well as TV and radio broadcasters on an ongoing basis.

Credit risk associated with the Group'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 creditexposure. The maximum exposure to credit risk as at the reporting date was as follows:

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

Maximum exposure to credit risk

	Carrying amount	
	31 December 2010	31 December 2009
Loans granted to third parties	1	-
Trade and other receivables from third parties	147,566	83,113
Trade and other receivables from related parties	2,991	5,358
Cash and cash equivalents	27,615	72,652
Restricted cash	-	26,738
Total	**178,173**	**187,861**

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	9,080	11,333
Receivables from media companies	7,937	5,205
Receivables from related parties	2,991	5,358
Receivables and loans granted to third parties	7,868	4,911
Total	**150,558**	**88,471**

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	116,116	3,657	112,459	72,073	1,446	70,627
Past due 0-30 days	17,673	3,098	14,575	5,394	1,195	4,199
Past due 31-60 days	5,976	2,463	3,513	3,713	1,486	2,227
Past due more than 60 days	122,885	102,874	20,011	84,068	72,650	11,418
Total	**262,650**	**112,092**	**150,558**	**165,248**	**76,777**	**88,471**

Liquidity risk

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

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

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

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

	31 December 2010						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	Over 5 years
Loans and borrowings	18,041	18,041	9,582	8,459	-	-	-
Finance lease liabilities	1,586	1,586	285	205	334	762	-
Trade and other payables to third parties	179,641	179,641	179,641	-	-	-	-
Trade and other payables to related parties	7,137	7,137	7,137	-	-	-	-
	206,405	**206,405**	**196,645**	**8,664**	**334**	**762**	**-**

	31 December 2009						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	Over 5 years
Loans and borrowings	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	114,560	114,560	114,560	-	-	-	-
Trade and other payables to related parties	915	915	915	-	-	-	-
	164,230	**165,117**	**147,929**	**16,037**	**234**	**703**	**214**

Market risk

Currency risk

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

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

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 Group purchased a number of foreign exchange call options.

On 10 August 2010 the Parent 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 unrealized 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 14).

The Group does not hold any assets held for trading denominated in foreign currencies.

The Group does not apply hedge accounting.

The Group'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	1,469	932	686	365
Trade payables	(7,373)	(8.915)	(3,806)	(16,715)
Gross balance sheet exposure	**(3,781)**	**(7,955)**	**(2,085)**	**(16,307)**
Forward exchange contracts	7,000	27,000	-	-
Net exposure	**(3,219)**	**(19,045)**	**(2,085)**	**(16,307)**

*During the 12-month period from the reporting date.

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

	Average rate		**Rates at the reporting 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		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	1,469	5,816	5%	291	686	2,820	5%	141
USD	932	2,763	5%	138	365	1,041	5%	52
Trade payables								
EUR	(7,373)	(29,200)	5%	(1,460)	(3,806)	(15,636)	5%	(782)
USD	(8,915)	(26,426)	5%	(1,321)	(16,715)	(47,642)	5%	(2,382)
Change in operating profit				(1,928)				(2,752)
Foreign exchange call options								
EUR	7,000	27,722	5%	923	-	-	5%	-
USD	27,000	80,031	5%	3,040	-	-	5%	-
Income tax				387				(523)
Change in net profit				1,648				(2,229)

	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	1,469	5,816	-5%	(291)	686	2,820	-5%	(141)
USD	932	2,763	-5%	(138)	365	1,041	-5%	(52)
Trade payables								
EUR	(7,373)	(29,200)	-5%	1,460	(3,806)	(15,636)	-5%	782
USD	(8,915)	(26,426)	-5%	1,321	(16,715)	(47,642)	-5%	2,382
Change in operating profit				1,928				2,752
Foreign exchange call options								
EUR	7,000	27,722	-5%	(421)	-	-	-5%	-
USD	27,000	80,031	-5%	(2,344)	-	-	-5%	-
Income tax				(159)				523
Change in net profit				(678)				2,229

Had there been a 5% weakening of the Polish zloty against the exchange rate of Euro and the USD Dollar as at 31 December 2010 and 31 December 2009, the Group's net profit would have increased by PLN 1,648 thousand and decreased by PLN 2,229 thousand, respectively. Had the exchange rate of the Polish zloty against Euro and USD Dollar been higher by 5% the Company's net profit would have correspondingly decreased by PLN 678 thousand and increased by PLN 2,229 thousand, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

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

Interest rate risk

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

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

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	-	46,009
Financial liabilities	(477)	-
Total	**(477)**	**46,009**

	Carrying amount	
	31 December 2010	**31 December 2009**
Variable rate instruments		
Financial assets	32,289	26,585
Financial liabilities	(18,041)	(47,277)
Total	**14,248**	**(20,692)**

Cash flow sensitivity analysis for variable rate instruments:

	Income statement	
	Increase by 100 bp	**Decrease by 100 bp**
31 December 2010		
Variable rate instruments	325	(318)
Cash flow sensitivity (net)	325	(318)
31 December 2009		
Variable rate instruments	(207)	207
Cash flow sensitivity (net)	(207)	207

The Group 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 third parties	1	1	-	-
Trade and other receivables	150,557	150,557	88,471	88,471
Forward exchange contracts	5,604	5,604	-	-
Cash and cash equivalents	27,615	27,615	72,652	72,652
Restricted cash	-	-	26,738	26,738
Loans and borrowings	(18,041)	(18,041)	(47,275)	(47,370)
Finance lease liabilities	(1,446)	(1,586)	(1,243)	(1,385)
Trade and other payables	(186,778)	(186,778)	(115,475)	(115,475)
Total	**(22,489)**	**(22,628)**	**23,868**	**23,631**
Unrecognised gain		139		237

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. 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 accountthe time value of money, would approximate their carrying amounts. The valuation methods used to establish fair values of loans granted to related and third parties were based on observable market input – WIBOR interest rates. The fair values of loans and borrowings were based on their nominal value as at the reporting date , as these liabilities results from agreements for an overdraft facility, therefore, no payment schedule was prepared and liabilities may be repaid at any date.

The fair value of foreign exchange call options is assumed in accordance to the valuation of the Bank, with which the Parent concluded agreements.

Capital management

The Group'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 Group 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 Group monitors capital on the basis of leverage ratio, which is calculated as a ratio of net debt to sum of equity and net debt. Net debt represents interest-bearing loans and borrowings less cash and cash equivalents (including restricted cash).

	Carrying amount	
	31 December 2010	**31 December 2009**
Loans	18,041	47,370
Cash and cash equivalents	(27,615)	(99,390)
Net debt	**(9,574)**	**(52,020)**
Equity	427,938	322,413
Equity and net debt	418,364	270,393
Leverage ratio	**<0***	**<0***

*Ratio is negative in both periods due to negative net debt.

36. Barter transactions

The Group is a party to barter transactions. The table below presents revenues and costs of barter transactions executed on an arm's-length basis. Revenue comprise revenue from services, products, goods and materials sold, costs comprise selling expenses.

	for the year ended	
	31 December 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 consolidated financial statements for the period ended 31 December 2010 following material public administration proceedings and claims before the court against the consolidated entities were pending.

Proceedings before the President of UOKiK (Office of Competition and Consumer Protection) regarding the application of practices breaching collective interests of consumers

The Group 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 of the Protection of Competition and Consumers Act dated 16 February 2007UOKiK imposed a cash fine of PLN 994 thousand, representing 0.09% of the Company's 2008 revenue, 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 Protection of Competition and Consumers Act dated 16 February 2007, within the scope of the above decision..

The Group 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 consolidated financial statements the Group 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 Group 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 consolidated financial statements the Group 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 finalized by the end of first quarter 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 made 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

Security relating to loans and borrowings

Security relating to loans and borrowings is described in note 29.

Liabilities relating to operating leases

Liabilities relating to operating leases are described in note 30.

Contractual liabilities related to purchases of non-current assets

The Group entered into a number of agreements on manufacturing and purchase of the technical equipment. The total amount of capital commitments resulting from these agreementswas PLN 12,595 thousand as at 31 December 2010. The Group 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 Group entered into a number of agreements for the purchases of licences and software – as at 31 December 2010 the amount of deliveries and servicescommitted to under these agreements was PLN 344 thousand.

Contingent liabilities relating to promissory notes

As at 31 December 2010, the Group had contingent liabilities relating to promissory notes in the total amount of PLN 38,007 thousand (excluding blank promissory notes). The value of promissory notes issued for the benefit of Polkomtel S.A., being a good performance bond, was PLN 37,985 thousand as at 31 December 2010.

Furthermore, the Group had ten blank promissory notes (good performance bonds for the benefit of mobile network operators, rental, credit and lease agreements collaterals).

40. Remuneration of the Management Board

The table below presents the Management Board's remuneration (excluding value of share-based payments and bonuses).

Name	Function	2010	2009
Dominik Libicki	President of the Management Board	1,080	1,080
Maciej Gruber	Member of the Management Board	-	288
Dariusz Działkowski	Member of the Management Board	660	672
Aneta Jaskólska	Member of the Management Board	309	-
Andrzej Matuszyński	Member of the Management Board	53	659
Tomasz Szeląg	Member of the Management Board	660	417
Total		**2,762**	**3,116**

(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**

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.

As at the date of approval of these consolidated 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.

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

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**

42. Transactions with related parties

Receivables

	31 December 2010	31 December 2009
Dom Sprzedaży Radia PIN Sp. z o.o.	108	61
Invest Bank S.A.	9	-
Media Biznes Sp. z o. o.	59	116
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	**2,991**	**5,358**

Liabilities

	31 December 2010	31 December 2009
Invest Bank S.A.	-	4
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	**7,137**	**915**

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)

Significant transactions with related parties are presented below:

Revenues

	for the year ended	
	31 December 2010	31 December 2009
Dom Sprzedaży Radia PIN Sp. z o.o.	138	150
Invest Bank S.A.	54	-
Media Biznes Sp. z o.o.	192	192
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	**3,093**	**1,246**

The most significant transactions include revenue from signal broadcast services from Polsat Futbol Ltd.

Expenses

	for the year ended	
	31 December 2010	31 December 2009
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
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	**88,129**	**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 Group's customer call center. The Group leases office space at Chałubińskiego Street in Warsaw from Elektrim S.A.

Transactions with related parties are being concluded substantially on an arm's length basis.

Other

Invest Bank is the main banking partner of the Group and therefore the Group pays banking fees and bears the costs of mass payment reconciliation. At the same time, the Group 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 judgements

The preparation of consolidated 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 Parent's 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).

TRANSLATION

Cyfrowy Polsat S.A. Group

Report supplementing the auditor's opinion on the consolidated financial statements Financial Year ended 31 December 2010

The report supplementing the auditor's opinion
contains 11 pages
Report supplementing the auditor's opinion
on the consolidated 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 Identification of the Group

1.1.1 Name of the Group

Cyfrowy Polsat S.A. Group

1.1.2 Registered office of the Parent Company of the Group

ul. Łubinowa 4a
03-878 Warsaw

1.1.3 Registration of the Parent Company 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 Parent Company

The Management Board is responsible for management of the Parent Company.

At 31 December 2010, the Management Board of the Parent 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 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2010, the following companies were consolidated by the Group:

Parent Company:

- Cyfrowy Polsat S.A.

Subsidiaries consolidated on the full consolidation basis:

- Cyfrowy Polsat Technology Sp. z o.o.

- M.Punkt Holdings Ltd.

- Cyfrowy Polsat Trade Marks Sp. z o.o.

1.2.1. Entities exluced from consolidation

As at 31 December 2010, Karpacka Telewizja Kablowa Sp. z o.o. was not consolidated due to insignificant size of that company for the Group and fact that this entity does not carry out any operations.

1.3 Auditor information

1.3.1 Key certified auditor information

Name and surname:	Marek Strugała
Registration number:	9645
Name and surname:	Krzysztof Kuśmierski
Registration number:	90106

1.3.2 Audit auditor 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.

1.4 Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2009 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion with the following emphasis of matter:

"We draw your attention to the information presented in note 9 to the consolidated 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 Cyfrowy Polsat S.A. in the amount of PLN 9,400 thousand. Management Board of the Cyfrowy Polsat S.A. decided to supersede the consolidated financial statements dated 17 March 2010 by the consolidated financial statements dated 14 May 2010. Due to the above, this opinion withdraws the opinion dated 17 March 2010 on the consolidated financial statements dated on that day."

The consolidated financial statements were approved at the General Meeting on 24 June 2010.

The consolidated 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.

1.5 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 consolidated financial statements comprising: the consolidated balance sheet as at 31 December 2010, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information.

The Parent Company prepares its consolidated 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 consolidated 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 consolidated financial statements in the Parent Company's head office during the period from 7 February to 16 March 2011.

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated 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 financial statements.

The Management Board of the Parent Company submitted a statement, dated the same date as this report, as to the true and fair presentation of the consolidated financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated 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.

1.6 Information on audits of the financial statements of the consolidated companies

1.6.1 Parent Company

The financial statements of the Parent Company for the year ended 31 December 2010 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k., certified auditor number 3546, and received an unqualified opinion.

1.6.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Cyfrowy Polsat Technology Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2010	Unqualified opinion
M.Punkt Holdings Ltd.	KPMG Ltd.	31 December 2010	audit not yet completed
Cyfrowy Polsat Trade Marks Sp. z o.o.	not audited	31 December 2010	not applied

2 Financial analysis of the Group

2.1 Summary of the consolidated financial statements

2.1.1 Consolidated balance sheet

ASSETS	31.12.2010 PLN '000	% of total	31.12.2009 PLN '000	% of total
Non-current assets				
Reception equipment	275,399	27.1	122,457	15.8
Other property, plant and equipment	152,857	15.1	146,228	18.9
Goodwill	52,022	5.1	-	-
Intangible assets	23,244	2.3	14,165	1.8
Other non-current assets	37,544	3.7	55,870	7.2
Deferred tax assets	4,158	0.4	2,190	0.3
Total non-current assets	545,224	53.7	340,910	44.0
Current assets				
Inventories	173,154	17.1	122,091	15.8
Trade and other receivables	184,298	18.2	131,900	17.0
Income tax receivable	7,542	0.7	21,265	2.7
Other current assets	77,362	7.6	59,290	7.7
Cash and cash equivalents	27,615	2.7	72,652	9.4
Restricted cash	-	-	26,738	3.4
Total current assets	469,971	46.3	433,936	56.0
TOTAL ASSETS	1,015,195	100.0	774,846	100.0

EQUITY AND LIABILITIES	31.12.2010 PLN '000	% of total	31.12.2009 PLN '000	% of total
Equity				
Share capital	10,733	1.1	10,733	1.4
Reserve capital	156,534	15.4	73,997	9.5
Other reserves	10,174	1.0	10,174	1.3
Retained earnings	250,497	24.7	227,509	29.4
Total equity	427,938	42.2	322,413	41.6
Liabilities				
Finance lease liabilities	1,095	0.1	1,151	0.1
Deferred tax liabilities	65,338	6.5	26,060	3.4
Other non-current liabilities and provisions	2,384	0.2	1,543	0.1
Total non-current liabilities	68,817	6.8	28,754	3.7
Loans and borrowings	18,041	1.8	47,370	6.1
Finance lease liabilities	491	-	234	-
Trade and other payables	317,953	31.3	222,213	28.7
Deposits for equipment	15,523	1.5	18,800	2.4
Deferred income	166,432	16.4	135,062	17.5
Total current liabilities	518,440	51.0	423,679	54.7
Total liabilities	587,257	57.8	452,433	58.4
TOTAL EQUITY AND LIABILITIES	1,015,195	100.0	774,846	100.0

2.1.1. Consolidated 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	1,482,463	100.0	1,266,137	100.0
Cost of services, products, goods and materials sold	(788,496)	53.2	(690,984)	54.6
Selling expenses	(232,973)	15.7	(205,263)	16.2
General and administrative expenses	(100,783)	6.8	(82,111)	6.5
Other operating income	13,970	0.9	12,541	1.0
Other operating costs	(48,427)	3.3	(24,270)	1.9
Profit from operating activities	325,754	22.0	276,050	21.8
Financial income	1,288	0.1	14,319	1.1
Financial costs	(5,760)	0.4	(6,032)	0.4
Net finance profits/costs	(4,472)	0.5	8,287	1.5
Gross profit for the year	*321,282*	*21.4*	*284,337*	*23.1*
Income tax	(62,812)	4.2	(54,018)	4.3
Net profit for the year	*253,998*	*17.1*	*238,606*	*18.8*
Net profit attributable to:				
Equity holders of the Parent	258,447	17.4	230,319	18.2
Non-controlling interests	23	-	-	-
Net profit for the year	258,470	17.4	230,319	18.2

2.2 Selected financial ratios

	2010	2009	2008
1. Return on sales			
net profit x 100% / net revenues	17.1%	18.2%	24.6%
2. Return on equity			
net profit x 100% / equity - net profit	146.0%	284.7%	1144.3%
3. Debtors turnover			
average trade receivables (gross) x 365 days / net revenues	52 days	45 days	39 days
4. Debt ratio			
liabilities x 100% / equity and liabilities	57.8%	58.4%	61.3%
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.

3 Detailed report

3.1 Accounting principles

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

Entities included in the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company.

The financial statements of the entities included in the consolidated financial statements were prepared at the end of the same reporting period as the financial statements of the Parent Company.

3.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Cyfrowy Polsat S.A. Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements the Decree of the Ministry of Finance dated 25 September 2009 on principles for the preparation of consolidated financial statements of a capital group by companies other than banks and insurance companies (Official Journal from 2009 r., No 169, item 1327).

3.3 Method of consolidation

The method of consolidation is described in note 7f of the notes to the consolidated financial statements.

3.4 Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in note 7k of the notes to the consolidated financial statements.

3.5 Consolidation of equity and calculation of non-controlling interest

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Company's share in the subsidiaries' equity as at the end of the reporting period to the corresponding positions of the equity of the Parent Company.

Only equity of subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

Non-controlling interests in subsidiaries included in the consolidated financial statements were determined based on the non-controlling interests' share in the subsidiaries' equity as at the end of the reporting period.

3.6 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Cyfrowy Polsat S.A. and agreed with information received from the subsidiaries.

3.7 Notes to the consolidated financial statements

All information included in the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information, is, in all material respects, presented correctly and completely. This information should be read in conjunction with the consolidated financial statements.

3.8 Report of the Management Board of the Parent Company on the Group's activities

The Report of the Management Board of the Parent Company on the Group'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 consolidated financial statements.

3.9 Information on the opinion of the independent auditor

Based on our audit of the consolidated financial statements of the Group 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. GROUP

Interim Condensed Consolidated Financial Statements for the 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 Consolidated Income Statement

	Note	for 3 months ended		for 12 months ended	
		31 December 2010 unaudited	31 December 2009 unaudited	31 December 2010	31 December 2009
Revenue from services, products, goods and materials sold	5	376,633	337,285	1,482,463	1,266,137
Cost of services, products, goods and materials sold	6	(208,472)	(181,215)	(788,496)	(690,984)
Cost of sales	6	(77,883)	(72,048)	(232,973)	(205,263)
General and administration costs	6	(31,259)	(28,047)	(100,783)	(82,111)
Other operating revenue		2,000	1,653	13,970	12,541
Other operating costs		(13,403)	(6,543)	(48,427)	(24,270)
Profit from operating activities		**47,616**	**51,085**	**325,754**	**276,050**
Financial income		1,012	971	1,288	14,319
Financial expenses		(1,034)	(705)	(5,760)	(6,032)
Profit before tax		**47,594**	**51,351**	**321,282**	**284,337**
Income tax		(10,645)	(9,907)	(62,812)	(54,018)
Net profit		**36,949**	**41,444**	**258,470**	**230,319**
Net profit attributable to:					
Equity holders of the Parent		36,949	41,444	258,447	230,319
Non-controlling interests		-	-	23	-
		36,949	**41,444**	**258,470**	**230,319**
Basic and diluted earnings per share (in PLN)		**0.14**	**0.15**	**0.96**	**0.86**

Interim Consolidated Statement of Comprehensive Income

	for 3 months ended		for 12 months ended	
	31 December 2010 unaudited	31 December 2009 unaudited	31 December 2010	31 December 2009
Net profit	**36,949**	**41,444**	**258,470**	**230,319**
Other comprehensive income	-	-	-	-
Income tax relating to components of other comprehensive income	-	-	-	-
Other comprehensive income, net of tax	**-**	**-**	**-**	**-**
Total comprehensive income	**36,949**	**41,444**	**258,470**	**230,319**
Comprehensive income attributable to:				
Equity holders of the Parent	36,949	41,444	258,447	230,319
Non-controlling interests	-	-	23	-

(all amounts in PLN thousand)

Interim Consolidated Balance Sheet – Assets

	31 December 2010	31 December 2009
Digital satellite reception equipment and modems	275,399	122,457
Other property, plant and equipment	152,857	146,228
Goodwill	52,022	-
Intangible assets	23,244	14,165
Other non-current assets	37,544	55,870
Deferred tax assets	4,158	2,190
Total non-current assets	**545,224**	**340,910**
Inventories	173,154	122,091
Trade and other receivables	184,298	131,900
Income tax receivable	7,542	21,265
Other current assets	77,362	59,290
Cash and cash equivalents	27,615	72,652
Restricted cash	-	26,738
Total current assets	**469,971**	**433,936**
Total assets	**1,015,195**	**774,846**

(all amounts in PLN thousand)

Interim Consolidated Balance Sheet – Equity and Liabilities

	31 December 2010	31 December 2009
Share capital	10,733	10,733
Reserve capital	156,534	73,997
Statutory reserve funds	10,174	10,174
Retained earnings	250,497	227,509
Total equity	**427,938**	**322,413**
Long-term finance lease liabilities	1,095	1,151
Deferred tax liability	65,338	26,060
Other long-term liabilities and provisions	2,384	1,543
Total non-current liabilities	**68,817**	**28,754**
Current loans and borrowings	18,041	47,370
Current finance lease liabilities	491	234
Trade and other payables	317,953	222,213
Deposits for equipment	15,523	18,800
Deferred income	166,432	135,062
Total current liabilities	**518,440**	**423,679**
Total liabilities	**587,257**	**452,433**
Total equity and liabilities	**1,015,195**	**774,846**

(all amounts in PLN thousand)

Interim Consolidated Cash Flow Statement

	for 12 months ended	
	31 December 2010	**31 December 2009**
Net profit	**258,470**	**230,319**
Adjustments:	**(50,158)**	**(186)**
Depreciation and amortization	81,190	41,948
Loss/(profit) on investing activity	2,040	(55)
Interest expense/(income)	1,278	(1,908)
Increase in inventories	(47,977)	(27,092)
Increase in receivables and other assets	(54,577)	(6,680)
Increase in liabilities, provisions, accruals and deferred income	97,990	37,314
Foreign exchange losses	121	14,112
Income tax	62,812	54,018
Increase in set-top boxes under operating lease	(195,403)	(112,637)
Other adjustments	2,368	794
Net cash flow from operating activities	**208,312**	**230,133**
Income tax paid	(11,974)	(52,709)
Interest received from operating activity	1,196	6,018
Cash flow from operating activities	**197,534**	**183,442**
Purchases of intangible assets	(16,880)	(10,530)
Purchases of tangible assets	(28,713)	(26,524)
Purchases of financial assets	-	(53,396)
Proceeds from sale of financial assets	-	53,726
Acquisition of M.Punkt Holdings Ltd.	(33,271)	(24,801)
Loans granted	(3,536)	-
Loans repaid - principal	3,536	-
Interest on loans repaid	58	-
Proceeds from sale of non-financial tangible assets	1,387	42
Cash flow from investing activities	**(77,419)**	**(61,483)**
Net cash from bank overdraft	18,041	-
Repayment of loans and borrowings	(47,277)	(63,035)
Payment of interest on loans, borrowings and finance lease	(2,198)	(4,212)
Finance lease – principal repayments	(864)	(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)
Cash flow from financing activities	**(191,769)**	**(268,826)**
Net decrease in cash and cash equivalents	**(71,654)**	**(146,867)**
Cash and cash equivalents at the beginning of the year	**99,390**	**246,422**
Foreign exchange rate differences	(121)	(165)
Cash and cash equivalents at the end of the year*	**27,615**	**99,390**

*The amount as at 31 December 2009 includes PLN 26,738 thousand of restricted cash.

(all amounts in PLN thousand)

Interim Consolidated Statement of Changes in Equity

	Share capital	Reserve capital	Statutory reserve funds	Retained earnings	Non-controlling interest	**Total equity**
Balance as at 1 January 2010	10,733	73,997	10,174	227,509	**-**	**322,413**
Purchase of 94% shares in M.Punkt Holdings Ltd.	-	-	-	-	4,509	**4,509**
Total comprehensive income	-	-	-	258,447	23	**258,470**
Purchase of 6% shares in M.Punkt Holdings Ltd.	-	-	-	23	(4,532)	**(4,509)**
Dividend declared and paid	-	-	-	(152,945)	**-**	**(152,945)**
Appropriation of 2009 profit – transfer to reserve capital	-	82,537	-	(82,537)	**-**	**-**
Balance as at 31 December 2010	**10,733**	**156,534**	**10,174**	**250,497**	**-**	**427,938**

	Share capital	Reserve capital	Statutory reserve funds	Retained earnings	**Total equity**
Balance as at 1 January 2009	10,733	3,964	10,174	268,467	**293,338**
Dividend declared and paid	-	-	-	(201,244)	**(201,244)**
Appropriation of 2008 profit – transfer to reserve capital	-	70,033	-	(70,033)	**-**
Total comprehensive income	-	-	-	230,319	**230,319**
Balance as at 31 December 2009	**10,733**	**73,997**	**10,174**	**227,509**	**322,413**

(all amounts in PLN thousand)

Supplementary Information to the Interim Condensed Consolidated Financial Statements for 3 and 12 months ended 31 December 2010

1. Activity of the Parent

Cyfrowy Polsat S.A. operates a paid digital satellite platform called "Cyfrowy Polsat" and provides services in Poland. The Parent is also a Mobile Virtual Network Operator and provides Internet access services.

2. Composition of the Management Board of the Parent

- Dominik Libicki	President of the Management Board,
- Dariusz Działkowski	Member of the Management Board,
- Aneta Jaskólska	Member of the Management Board (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 Parent

- 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 consolidated financial statements

Statement of compliance

These interim condensed consolidated 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 Group applied the same accounting policies in the preparation of the financial data for 3 and 12 months ended 31 December 2010 and the consolidated financial statements for the years 2010 and 2009, presented in the consolidated annual report for 2010.

IAS 34 requires minimum information disclosure assuming that readers of the interim consolidated financial statements have access to most recent published annual consolidated financial statements, information disclosed are material and were not disclosed elsewhere in the interim financial statements.

The most recent published annual consolidated financial statements were prepared and audited for the year ended 31 December 2010. Annual consolidated financial statements fully disclose accounting policies approved by the Group.

(all amounts in PLN thousand)

5. Revenue from services, products, 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	7,259	15,774	35,707	46,584
Subscription fees from telecommunication services, interconnection revenues and settlements with mobile network operators	6,540	2,207	19,498	5,550
Other operating revenue	9,466	7,048	33,746	24,185
Total	**376,633**	**337,285**	**1,482,463**	**1,266,137**

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	24,174	13,040	81,190	41,948
Programming costs	99,896	80,216	392,035	354,395
Transmission costs	17,998	20,035	79,855	82,570
Cost of equipment sold	17,894	29,470	59,546	89,736
Distribution, marketing, customer relation management and retention costs	93,243	85,929	297,319	262,347
Salaries and employee-related expenses	28,413	28,611	88,348	72,787
Other operating costs	35,996	24,009	123,959	74,575
Total costs by kind	**317,614**	**281,310**	**1,122,252**	**978,358**

	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, products, goods and materials sold	208,472	181,215	788,496	690,984
Cost of sales	77,883	72,048	232,973	205,263
General and administration costs	31,259	28,047	100,783	82,111
Total costs by function	**317,614**	**281,310**	**1,122,252**	**978,358**