ANNUAL REPORT
OF CYFROWY POLSAT S.A.
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2011

Place and date of publication: Warsaw, March 12, 2012

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Ladies and Gentlemen,

It is with great pleasure that I present to you the 2011 Annual Report of Cyfrowy Polsat.

The previous year saw many events and projects which proved to be important steps in the consistent implementation of the Group's growth strategy, designed to strengthen our leading position on the market of pay TV and television broadcasters, as well as a steady development of our competencies in the telecommunications sector.

The stable growth of our business is best demonstrated by the Group's improved operating and financial performance. The pay TV subscriber base grew to 3.55 million, which represents an over 30% share in the market, whereas the number of broadband Internet and mobile phone users was 73 thousand and 143 thousand, respectively. Another source of satisfaction is the Company's robust financial performance. Total revenue from sales of services, goods and materials in 2011 grew by 11%, to PLN 1.63 billion, while net profit came in at PLN 156 million.

The completion of the purchase of 100% shares in Telewizja Polsat S.A. for PLN 3.75 billion will remain in our memory for a long time. This transaction positioned the Cyfrowy Polsat Group as the undisputed market leader. The formation of Poland's largest multimedia group with Telewizja Polsat has also paved the way for us to effectively capitalize on technology, marketing, product and administration synergies. The operations of both companies naturally complement each other, which has not only put us at a considerable competitive advantage, but has also strengthened our position and diversified our revenue streams – now derived from subscriptions and commercials.

To ensure continuing enhancement of customer satisfaction, we regularly expanded our pay TV offer to include new channels and products. To address the customers' growing interest in VOD – Home Movie Rental, in April 2011, as the first satellite TV operator in Poland, we launched catch-up TV services to provide customers with free-of-charge Internet access to selected programmes broadcast on channels included in their TV packages. At the beginning of 2012, in cooperation with Redefine, we rolled out VOD services for computer users.

And then in August 2011, as the first operator in Poland, we proudly launched the fastest and most advanced LTE-based mobile broadband Internet, with download speeds of up to 100 MB/s. We strongly believe that over the long term, as the necessary radio infrastructure and LTE-enabled devices develop, the technology will revolutionize not only the broadband Internet market but also content distribution.

In 2011, Cyfrowy Polsat Technology, our production facility, produced the three millionth set-top-box. So far we have launched six set-top-box models, two of which support HD TV, and a 320GB USB hard drive. The latest product of that largest maker of digital set-top-boxes in Poland is a set-top box for digital terrestrial TV reception, whose sales will be launched in the near future.

Having in mind further implementation of our strategy aiming for the widest possible content distribution based on all latest technologies and devices, we bought INFO-TV-FM. The purpose of the acquisition was to enable us to launch mobile DVB-T TV using the acquired company's frequencies. DVB-T TV services are a good fit for our business plans, are in line with current market trends and meet customers' needs.

Our long-term objectives include stable development of the Group, maintaining our leading position on the pay TV market, successful offering of telecommunications services, improved audience ratings of Telewizja Polsat channels and, as a consequence, building our presence on the TV advertising market. We intend to develop modern content distribution channels, such as mobile TV and online services, hoping that in the long-term these initiatives will attract more customers, increase the average revenue per subscriber and enhance customer loyalty. In turn, the achievement of these goals, coupled with efficient financial management, will stimulate growth of the shareholder value.

Yours sincerely

Dominik Libicki

President of the Management Board,
Cyfrowy Polsat S.A.

MANAGEMENT BOARD'S REPORT ON ACTIVITIES OF CYFROWY POLSAT S.A. IN THE FINANCIAL YEAR ENDED DECEMBER 31, 2011

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Item 1. Introduction

Cyfrowy Polsat is the largest in Poland and the fourth largest DTH platform in Europe. Cyfrowy Polsat platform has 3.6 million subscribers. It offers access to over 90 Polish-language TV channels, including 25 HD channels. All subscribers of the platform may use PPV/VOD Home Video Rental and catch-up TV services, we also provide Multiroom service. Within the Capital Group, the platform has its own set-top-boxes factory. From September 2008, Cyfrowy Polsat offers mobile telephony services in MVNO model. From February 2010, it provides broadband Internet access in mobile HSPA+ technology, and from August 30, 2011 – in the latest LTE technology. In June 2010, it introduced multi-play offer – television, Internet and mobile telephony under one agreement, subscription fee and invoice. From May 2008, Cyfrowy Polsat is listed on the Warsaw Stock Exchange.

Our revenue from services, goods and materials sold in 2011 increased by 10.7% to PLN 1,631,628 from PLN 1,473,540 in 2010. Our net profit amounted to PLN 156,093 compared to PLN 884,166 in the previous year.

We sell our services on the entire territory of Poland.

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 or Polsat Group apply to Cyfrowy Polsat S.A. and its subsidiaries. Expressions such as "we", "us", "our" and similar apply generally to the Company; „**DTH**" relates to digital satellite platform services which we provide in Poland; "**SD**" relates to the television signal in the standard definition technology (Standard Definition); „**HD**" relates to the television signal in the high definition technology (High Definition); „**DVR**" relates to set-top boxes with hard disk used to record television channels (Digital Video Recorder); "**Family Package**", "**Family HD Package**", "**Mini Package**" and "**Mini HD 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 subscriber 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 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, defined as the ratio of the number of contracts terminated during a 12-month period to the average number of contracts during such 12-month period. The number of terminated contracts is net of churning subscribers entering into a new contract with us no later than the end of the same 12-month 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 commissions payable to distributors per each attracted customer; "**VoD**" or "**VOD - Home Movie Rental**" relates in general to our services from the video on demand category, while "**nVoD**" relates to our service "VoD Home Movie Rental" - on TV; "**PPV**" relates to pay-per-view, pay access to chosen programming content; "**Catch-up TV**" relates to services enabling access to chosen programming content for a certain period of time after the original broadcast on TV channel; „**MVNO**" relates to mobile virtual network operator services; "**Internet access services**" relates to broadband Internet access services; "**HSPA+**" relates to radio data transfer technology in mobile networks (High Speed Packet Access Plus); "**LTE**" relates to radio data transfer 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.; "**mTel**" relates to mTel Sp. z o.o.; "**CPT**" relates to Cyfrowy Polsat Technology Sp. z o.o.; "**CPTM**" relates to Cyfrowy Polsat Trade Marks Sp. z o.o.; "**Cyfrowy Polsat Finance**", "**CP Finance**" relate to Cyfrowy Polsat Finance AB (publ), Cyfrowy Polsat subsidiary registered in Sweden; "**CP**" relates to Cyfrowy Polsat S.A.; "**Telewizja Polsat**" or "**TV Polsat**" relates to Telewizja Polsat S.A., transformed to Telewizja Polsat Sp. z o.o. on June 15, 2011; "**TV Polsat Group**" relates to Telewizja Polsat Sp. z o.o. and its subsidiaries; „**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; "**Senior Facilities**" relates to senior secured facilities under Senior Facilities Agreement ("**SFA**") with a syndicate of banks including Term Facility Loan **("Term Facility**") of PLN 1,400,000,000 (not in thousands) maturing December 31, 2015; and Senior Secured Revolving Facility Loan ("**Revolving Facility**") of up to PLN 200,000,000 (not in thousands) maturing December 31, 2015; "**Bridge Loan**" relates to senior secured bridge facility of EUR 350,000,000 (not in thousands) with a syndicate of banks, that was fully repaid on May 20, 2011; "**Intercompany Bonds**" relate to unsecured bonds in the nominal aggregate amount of EUR 350.000.000 (not in thousands) due in 2018, bearing interest rate of 8.16%, issued by the Company to its subsidiary Cyfrowy Polsat Finance AB on May 20, 2011; "**Senior Notes**" or "**Notes**" relates to 7.125% senior secured notes of EUR 350.000.000 (not in thousands) issued by Cyfrowy Polsat Finance AB on May 20, 2011; "**Indenture**" relates to the indenture dated May 20, 2011 governing the 7.125% Senior Notes; "**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:

- Eurostat;
- European Commission;
- Polish Central Statistical Office;
- Polish Chamber of Electronic Communication;
- Office of Electronic Communications;
- Ofcom;
- Nielsen Audience Measurement;
- PMR;
- Informa Telecoms and Media;
- 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.

(all financial data presented in PLN thousand, unless otherwise stated)

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 8 „Key Risk and threat factors", Item 6 „Presentation of operating and financial results", and elsewhere in this Report. These cautionary statements qualify all forward looking statements attributable to us or persons acting on our behalf. When we indicate that an event, condition or circumstance could or would have an adverse effect on us, we mean to include effects upon our business, financial situation and results of operations.

Item 2. Currency presentation and exchange rate information

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

	Year ended December 31,				
Year (zloty per 1.00 dollar)	**2007**	**2008**	**2009**	**2010**	**2011**
Exchange rate at end of period	2.4350	2.9618	2.8503	2.9641	3.4174
Yearly average exchange rate	2.7667	2.4092	3.1162	3.0157	2.9634
Highest exchange rate during period	3.0400	3.1303	3.8978	3.4916	3.5066
Lowest exchange rate during period	2.4260	2.0220	2.7093	2.7449	2.6458

Month (zloty per 1.00 dollar)	Highest exchange rate during the month	Lowest exchange rate during the month
September 2011	3.3171	2.8996
October 2011	3.3337	3.0461
November 2011	3.4248	3.1385
December 2011	3.5066	3.3235
January 2012	3.5150	3.2032
February 2012	3.2502	3.0730

(all financial data presented in PLN thousand, unless otherwise stated)

	Year ended December 31,				
Year (zloty per 1.00 euro)	**2007**	**2008**	**2009**	**2010**	**2011**
Exchange rate at end of period	3.5820	4.1724	4.1082	3.9603	4.4168
Yearly average exchange rate	3.7829	3.5166	4.3273	3.9946	4.1198
Highest exchange rate during period	3.9385	4.1848	4.8999	4.1770	4.5642
Lowest exchange rate during period	3.5699	3.2026	3.9170	3.8356	3.8403

Month (zloty per 1.00 euro)	**Highest exchange rate during the month**	**Lowest exchange rate during the month**
September 2011	4.4900	4.1452
October 2011	4.4370	4.2716
November 2011	4.5494	4.3464
December 2011	4.5642	3.3914
January 2012	4.5135	4.2223
February 2012	4.2276	4.1365

Item 3. Selected financial data

The following tables set forth our selected historical financial data for the 12 month periods ended December 31, 2011 and December 31, 2010. The historical financial data should be read in conjunction with Item 6. “Presentation of operating and financial results” and the financial statements for the fiscal year ended December 31, 2011 (including the notes thereto) attached to this Report. We have derived the financial data presented in accordance with IFRS from the audited financial statements for the fiscal year ended December 31, 2011.

Selected financial data

- from the profit and loss statement and the cash flow for the periods of twelve months ended December 31, 2011 and December 31, 2010 have been converted into euro at the rate of PLN 4.1198 per 1 euro, (being the yearly average exchange rate announced by the NBP),
- from the balance sheet as at December 31, 2011 and December 31, 2010 have been converted into euro at the rate of PLN 4.4168 per 1 euro (average NBP exchange rate on December 31, 2011).

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

	For the twelve-month period ended December 31,			
	2011		2010	
	PLN	**EUR**	**PLN**	**EUR**
Income Statement				
Retail subscribtion	1,594,880	387,126	1,416,950	343,937
Sale of equipment	12,224	2,967	28,278	6,864
Other revenue	24,524	5,953	28,312	6,872
Revenue	**1,631,628**	**396,045**	**1,473,540**	**357,673**
Cost of services, products, goods and materials sold	(881,524)	(213,973)	(785,477)	(190,659)
Selling expenses	(257,636)	(62,536)	(221,202)	(53,692)
General and administrative expenses	(115,532)	(28,043)	(89,739)	(21,782)
Total operating costs	**(1,254,692)**	**(304,552)**	**(1,096,418)**	**(266,134)**
Other operating income	5,438	1,320	614,032	149,044
Other operating costs	(72,986)	(17,716)	(42,763)	(10,380)
Profit from operating activities	**309,388**	**75,098**	**948,391**	**230,203**
Finance income	213,018	51,706	5,785	1,404
Finance costs	(371,393)	(90,148)	(4,982)	(1,209)
Gross profit	**151,013**	**36,655**	**949,194**	**230,398**
Income tax	5,080	1,233	(65,028)	(15,784)
Net profit / (loss)	**156,093**	**37,888**	**884,166**	**214,614**
Basic and diluted earnings per share (not in thousands)	0.48	0.12	3.30	0.80
thousands)	324,234,858		268,325,000	
Cash Flow Statement				
Cash flow from operating activities	76,246	18,507	210,244	51,033
Cash flow from investing activities	(2,473,859)	(600,480)	(74,316)	(18,039)
Cash flow from financing activities	2,385,155	578,949	(208,801)	(50,682)
Net change in cash and cash equipments	(12,458)	(3,024)	(72,873)	(17,688)
Other financial data				
Depreciation and amortization and impairment allowance	139,174	33,782	78,873	19,145
EBITDA[1]	448,562	108,880	1,027,264	249,348
EBITDA margin	27.5%	27.5%	69.7%	69.7%
Operating margin	19.0%	19.0%	64.4%	64.4%
Capital expenditures[2]	44,269	10,745	40,642	9,865

1 We define EBITDA as operating profit before depreciation, amortization and impairment allowance, 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

	As of			
	December 31, 2011		December 31, 2010	
(in thousands)	PLN	EUR	PLN	EUR
Balance sheet				
Cash and cash equivalents	11,858	2,685	24,195	5,478
Assets	5,774,580	1,307,413	1,594,289	360,960
Non-current liabilities	2,427,788	549,671	72,770	16,476
Current liabilities	843,716	191,024	462,483	104,710
Equity	2,503,076	566,717	1,059,036	239,774
Share capital	13,934	3,155	10,733	2,430

Item 4. Presentation of Cyfrowy Polsat S.A.

Item 4.1. General information

In pay TV, we are the largest pay TV and DTH provider in Poland and the fourth largest DTH platform in Europe by number of subscribers. We provide a comprehensive multimedia offer designed to appeal to the entire family. As part of our multi-play offer, we provide to our subscribers DTH, broadband Internet in HSPA+ and LTE technologies and mobile telephony services in MVNO model. As of December 31, 2011 among our subscriber base we had 3,551,671 DTH subscribers, 73,190 users of broadband Internet service and 142,651 users of mobile telephony service.

We offer our subscribers access to over 90 Polish language TV channels, including general entertainment, sports, music, lifestyle, news/information, children's, education and movie channels. We offer all of Poland's main terrestrial channels, including POLSAT, TVP1, TVP2, TVN and TV4, and we are the only DTH operator to offer the combination of Polsat Sport, Eurosport and Polsat Sport Extra, the first, second and fifth most widely viewed sports channels in Poland in 2011. In addition, we offer our subscribers 25 HD channels and also provide VoD/PPV, catch-up TV and Multrioom services.

We offer set-top boxes which in majority are produced in the factory of our subsidiary CPT. Due to our own production, we have been able to reduce the costs of obtaining set-top boxes. In 2011, approximately 80% of our sold or leased set-top boxes were manufactured in our own factory.

We sell our services through an effective sales network covering the entire territory of Poland. We distribute our products and services through two main sales channels: retail sales channel and direct sales channel D2D ("door-to-door"). As of December 31, 2011 our sales network included 964 Points of Sales.

Item 4.2. Information on organizational or capital connections with other entities

The following table presents the shares in other entities that we held directly as of December 31, 2011:

	Company's registered office	Activities	Share in voting rights (%) December 31, 2011
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, Warsaw	broadcasting and television production	100%
Cyfrowy Polsat Technology Sp. z o.o.	Łubinowa 4a, Warsaw	set-top boxes' production	100%
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, Warsaw	management of fix assets and intellectual property	100%
Cyfrowy Polsat Finance AB	Stureplan 4C, Stockholm, Sweden	financial transactions	100%
Karpacka Telewizja Kablowa Sp. z o.o.	Chorzowska 3, Radom	no activity	85%

In 2011 Cyfrowy Polsat became a direct owner of two new subsidiaries: Cyfrowy Polsat Finance AB and Telewizja Polsat Sp. z o.o. - through acquiring 100% of shares, and merged with three companies: M.Punkt Holdings Ltd., mPunkt Polska S.A. and mTel Sp. z o.o. (see below).

Acquisition of Cyfrowy Polsat Finance AB

On March 10, 2011 the Company acquired 100% of shares of Goldcup 100051 AB ("Goldcup"), an entity registered in Sweden, for SEK 500 thousand (PLN 231,500, not in thousands). The name of the company was then changed to Cyfrowy Polsat Finance AB. The company is a public limited liability company acting under the laws of Sweden. The company was acquired inter alia in order to perform financial activities for the Group.

Completion of the acquisition of Telewizja Polsat

On April 20, 2011 we completed the acquisition of 100% shares of Telewizja Polsat S.A.. The transaction also resulted in takeover of control over subsidiaries of Telewizja Polsat S.A.: RSTV S.A., Polsat Media Sp. z o.o., Media-Biznes Sp. z o.o., Polsat Futbol Ltd., Nord License A.S., Polsat License Ltd., and joint-ventures Polski Operator Telewizyjny Sp. z o.o. and Polsat Jim Jam Ltd.

On June 15, 2011, Telewizja Polsat S.A. was transformed into a limited liability company Telewizja Polsat Sp. z o.o.

Cross-border merger with M.Punkt Holdings Ltd.

On March 18, 2011 we received a decision of the District Court for the Capital City of Warsaw in Warsaw, XIII Business Division for the National Court Register dated March 14, 2010 regarding the registration of cross-border merger of the Company with M.Punkt Holdings Ltd. seated in Nicosia, Cyprus.

Before the merger, M.Punkt Holdings Ltd. was an owner of 100% of the share capital of mPunkt Polska S.A. seated in Warsaw, specializing in the distribution of telecommunication goods and services and mTel Sp. z o.o. seated in Warsaw.

Merger with mPunkt Polska S.A.

On May 31, 2011 the District Court for the Capital City of Warsaw in Warsaw, XIII Business Division for the National Court Register registered the merger of the Company with mPunkt Polska S.A. seated in Warsaw, address: Domaniewska 37, 02-672 Warsaw, Poland, registered in entrepreneurs register kept by the District Court for the Capital City of Warsaw in Warsaw, XIII Business Division of the National Court Register, under the number KRS 0000246160.

Merger with mTel Sp. z o.o.

On August 31, 2011 we received a decision of the District Court for the Capital City of Warsaw in Warsaw, XIII Business Division for the National Court Register dated August 31, 2011 regarding the registration of merger of the Company with mTel Sp. z o.o. seated in Warsaw, address: Domaniewska 37, 02-672 Warsaw, Poland, registered in entrepreneurs register kept by the District Court for the Capital City of Warsaw in Warsaw, XIII Business Division of the National Court Register, under the number KRS 0000008837.

Item 4.3. Changes to the principle rules of management of our Company

There were no changes to the principle rules of management of our Company in the year 2011.

Item 4.4. Strategy, market opportunities and comparative advantage

Item 4.4.1. Group strategy

Our primary objective is to become the number one player in the Polish entertainment market. We intend to achieve this goal both by providing high quality products and services to individual customers, and by acquiring and creating the programming content of superior quality to be subsequently delivered to Polish households.

The key elements of our strategy include:

- Building value of our individual customer base by increasing the number of subscribers, increasing the average revenue per user (ARPU), as well as by maintaining high levels of customer satisfaction

- Creating value of our Broadcasting and television production segment by keeping high audience shares of our channels, upgrading the viewers profile, as well as by widespread distribution of our content

- Effective management of our cost base by making use of synergy effects achieved across our integrated media group.

Building value of our individual customer base by increasing the number of subscribers, increasing the average revenue per user (ARPU), as well as by maintaining high levels of customer satisfaction

Since the beginning of our operations, we have managed to achieve significant revenue growth in our Retail business segment and we plan to further increase our revenues and market share through miscellaneous marketing activities targeted at our existing and future subscribers. We intend to leverage on the expected increase in consumer spending driven by overall economic growth in Poland, enabling us to gain even more new subscribers to our DTH services and to benefit from the migration of our existing subscribers to packages that generate higher ARPU. In order to uplift our ARPU, both in the group of existing and potential subscribers, we have undertaken many initiatives including the launch of attractive program packages featuring HD channels and the provision of a wide range of additional services, such as VOD/PPV, catch-up TV, and Multiroom.

Concurrently, we are trying to attract the maximum possible number of customers for our mobile broadband Internet access which, according to independent experts, is the fastest growing web access service in Poland. We believe that mobile technology will allow us to offer high quality services in areas inhabited by the majority of our customers which, in combination with the multi-play offer benefits, should help improve the satisfaction of our subscribers and bring further increases in ARPU.

In our opinion, the integrated services market in Poland is still poorly developed outside big cities and, therefore, it will grow rapidly in the future. Additionally, own multi-play services are not offered by any of our competitors in the DTH market, making us the only DTH operator that offers high quality Internet access services in low-urbanized areas. We believe that the provision of integrated services will continue to be our competitive advantage not only in the DTH market but, in the future, throughout the pay television market and it will stand as an important element of our strategy.

Creating value of our Broadcasting and television production segment by keeping high audience shares of our channels and enhancing the viewers profile

The TV channels produced and broadcasted by the Polsat Group have a strong and stable position in the Polish television market and enjoy a high target audience. At present we air 15 Polsat-brand channels addressing most of the target groups among the Polish audience. Our goal is to keep the audience shares at a stable level and consistently improve the viewers profile. We believe that reasonable investments in our programming content as well as wide distribution of our channels will help gradually improve the profile of our audience, which in turn will have a positive impact on the prices of our advertising airtime.

The second important element in enhancing the value of our Broadcasting and television production segment is the widest possible distribution of our self-produced channels, within both the FTA and pay-TV models. We believe that by extending the reach of our channels we will be able to attract more audience as well as boost revenues derived from the distribution of our channels by pay-TV operators.

Effective management of our cost base by making use of synergy effects achieved across our integrated media group

The process of integration of a media group opens up good opportunities to achieve measurable synergy effects and gain significant competitive advantages. For this purpose we have identified several areas of our cost base to be managed at the Group level: (i) cross-promotion and marketing activities, enabling us to promote our program packages, multi-play offer and Polsat Television channels through our various media platforms, including pay TV, VOD, broadband Internet and mobile telephony; (ii) technological synergies, enabling us to use our satellite equipment more efficiently, optimize our hardware and software systems, and benefit from synergies in back-up solutions for the broadcasting center; (iii) benefits on the acquisition of programming content for the entire integrated platform, and strengthening of the bargaining power of our combined businesses; and (iv) synergies associated with our administrative facilities, providing benefits from large-scale operations of our combined businesses and opportunities for sharing of effective solutions.

Item 4.4.2. 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. Growth in our revenues is linked to the state of the Polish economy. Poland has a stable and one of the highest GDP growth rate among European Union member states. In 2011, the average annual GDP growth rate in Poland was 4.3% according to initial estimates of Central Statistical Office, while in the same period it was 1.5% for all 27 members of the European Union (according to Eurostat). Also in the previous years, during the difficult time of the latest world economic crisis, Poland's GDP increased by 1.6% and 3.9% in 2009 and 2010 respectively, while GDP for all 27 members of the European Union decreased by 4.3% in 2009 and increased by 2.0% in 2010. The forecast of a GDP growth in Poland for 2012 is at the level of 2.5% (vs. 0.0% GDP growth in all 27 EU member states), according to Eurostat. We believe that stable, compared to other European economies, Polish economic situation, increasing salaries and average consumer spending will translate to a further growth in our subscriber base value.

Penetration rate of pay television in Poland. According to consumer research conducted on the order of the Office of Electronic Communications, excluding households that use more than one pay-TV offer, the market penetration rate at the end of 2011 amounted to approximately 68% - as we cannot estimate the penetration rate based on available market data we resort to consumer research (source: "Telecommunications market in Poland in 2011. Retail clients.", December 2011). Pay-TV market penetration rate in Poland is considerably lower than 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.

***Penetration rate of multi-play services in 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 Telekomunikacja Polska SA, 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.

According to European Commission („E-Communications Household Survey", July 2011) the penetration rate of multi-play services in Poland amounts to 26% while in European Union reaches 42%, with penetration rate in France and Holland reaching over 50% (55% and 67% respectively). 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, Cyfrowy Polsat may become the leading provider of high quality multi-play services for customers from suburbs, small towns and rural areas of Poland.

Development of Internet market in Poland. According to Central Statistical Office, over 63% of households in Poland have access to the Internet, and approximately 57% - broadband access ("Information society in Poland", 2010). The penetration rate of broadband Internet is significantly lower in rural areas, where it amounts to 47%, while in big cities the penetration rate equals approximately 64%. According to PMR estimates ("Telecommunication market in Poland 2011", October 2011), in 2011, there were nearly 10 million users of broadband Internet, out of which 34% used mobile connections. Until 2015, the number of broadband users is supposed to grow by 18%, with the number of mobile broadband users growing by approximately 31%. The flexibility of mobile solutions and low cost of mobile infrastructure covering low urbanized areas (to which Cyfrowy Polsat targets its offer) will constitute the main growth factors.

High Average Television Viewing Time. According to Nielsen Audience Measurement the average daily television viewing time in Poland was approximately 242 minutes in 2011. 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.

Item 4.4.3. Competitive advantage

We are a leading integrated multimedia group in Poland. Together with our subsidiary Telewizja Polsat, we operate a diversified business comprising DTH, TV broadcasting, broadband Internet and mobile telephony services. We are the largest provider of DTH services in Poland. With 3.6 million subscribers as of December 31, 2011, according to our estimates we had more than twice the number of subscribers as our nearest DTH competitor and more subscribers than all of our DTH competitors combined. We had a domestic market share of approximately 55% in 2011.

We have strong brand recognition and enjoy good reputation among our customers. Cyfrowy Polsat brand is well recognized by Polish consumers and we believe it is associated with high quality and value-for-money services aimed at the entire family. According to GFK Polonia, we have the highest brand recognition (90%) of the three pay DTH satellite operators in Poland (Source: "Brand image study", May 2011, GFK Polonia, N=1400 people).

We believe that our position of the largest pay-TV operator in Poland and good relations with programming licenses providers give us a competitive advantage in obtaining high quality content on attractive market terms. We believe that through offering high quality programming packages at competitive prices we built the attractiveness of our services.

We provide integrated services. Since June 2010, we provide multi-play services combining pay DTH offer, Internet and telecommunication services. Of the three leading pay DTH providers in Poland, we are the only operator that provides own full multi-play services, that is a significant competitive advantage on pay DTH market in Poland. We believe that, similarly to highly developed European countries, preferences of the Polish population will go into integrated services direction, which will strengthen our competitive advantage. We believe that offering DTH packages, broadband Internet and mobile telephony services under a multi-play offer strengthens our position to capitalize on further growth of Polish pay-TV market. We believe that we will be able to leverage the strength of the Cyfrowy Polsat brand name and our 3.6 million existing DTH subscriber base to expand the sales of our broadband Internet and mobile telephony services through our multi-play offer.

New entrants must overcome significant regulatory and operational barriers to compete effectively in the markets in which we operate. We believe that we benefit from significant barriers to entry that will aid us in maintaining our leadership positions in the competitive Polish pay TV market. Unlike potential entrants to the Polish pay TV market, we benefit from economies of scale and a loyal subscriber base, and we can spread the relatively high cost of the necessary technology over our large subscriber base and leverage the stronger bargaining power that comes with a leading market position. The efficiency of our subscriber retention programs, penalties related to early termination of our fixed-term contracts and the burdens related to changing set-top boxes upon a change of pay TV provider all serve as barriers to potential new competitors. Our experience in pay TV translates into an ability to extend attractive programming offers through our existing sales network covering all of Poland.

We have an attractive operating platform with low churn rates and strong customer loyalty. Our position as the largest DTH operator in Poland, our well-developed subscriber retention programs and our strong relationships with licensors enable us to maintain strong customer loyalty by providing our DTH subscribers with high-quality programming on favorable market terms. We offer our Family HD Package at a retail price of PLN 39.90 per month and our Mini HD Package at a retail price of PLN 14.90 per month, which constitutes approximately 1.1% and 0.4%, respectively, of the average monthly remuneration in Poland. We believe our programming packages offer the best value-for-money in the Polish DTH market. We further believe that the development of our subscriber retention programs and our multi-play services, especially in less-densely populated areas of Poland, where quality pay TV and Internet service options are limited, will increase subscriber loyalty and consequently further lower our churn rate.

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 three million high technology equipment left our production line, out of which over 1.5 million of HD set-top boxes. Running our own factory enables us to produce high quality set-top boxes while incurring manufacturing costs which are far lower than the price of purchasing such equipment from third-party providers. The functionalities of our set-top boxes are designed in line with the customers' expectations as analyzed by surveys, so that we can be sure the equipment is going to meet their needs. The software installed on our set-top boxes is developed by in-house engineers, enabling us to rapidly respond to emerging customer needs. In this area we are completely independent and flexible, which translates into better service for our customers.

We have a strong management team. Our management team consists of executives that have been members of the management boards or served in other managerial positions within the media, TV and telecommunications industries and have extensive experience in these industries. In addition, our operations are managed by teams of experienced senior managers who provide expertise and a deep understanding of the markets in which we operate, especially with respect to marketing and sales, customer relations management and retention, technology and finance. Our senior managers have a significant track record of growing our subscriber base and market share and introducing new products in competitive environments while managing costs and increasing free cash flow.

Item 4.5. Market overview

Item 4.5.1. Pay-TV market

Pay TV services in Poland are offered by DTH operators, cable TV operators and IPTV providers.

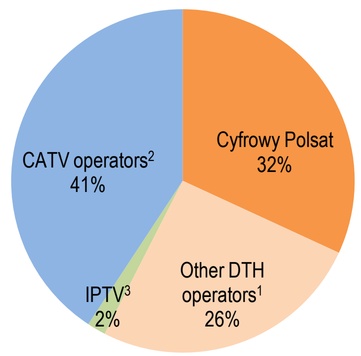
In 2011, according to our estimates, pay-TV services were provided to approximately 11 million Polish subscribers. According to consumer research conducted on the order of the Office of Electronic Communications, excluding households that use more than one pay-TV offer, the market penetration rate at the end of 2011 amounted to approximately 68% - as we cannot estimate the penetration rate based on available market data we resort to consumer research (source: “Telecommunications market in Poland in 2011. Retail clients.”, December 2011). Pay-TV market penetration rate in Poland is considerably lower than the penetration rate of 90% in the most developed pay TV markets, indicating the potential for further growth in the Polish pay TV market.

Historically, cable TV has been the principal pay TV platform in Poland. Although DTH has been growing more rapidly over the past few years, DTH providers compete with cable TV operators only to a limited extent. In particular, cable TV operators concentrate on inhabitants of densely populated areas where they are able to optimize the number of households connected to their network infrastructure, or in locations where the establishment of such infrastructure involves a relatively low cost per subscriber, whereas DTH providers are able to provide their services to customers residing in less densely populated areas with no, or limited cable TV infrastructure at no extra cost, as well as in urban areas.

In recent years, the number of subscribers to DTH platforms has been growing much faster than the number of subscribers to cable TV. The comparatively slow growth rate of cable TV households in recent years has been due to an already high penetration rate of cable TV in urban areas as well as to the reluctance of cable TV operators to make significant investments in cable TV infrastructure in the less-densely populated and rural areas of Poland. As a result, these populations currently have access only to a limited number of Polish terrestrial channels and alternative providers of broadband Internet and mobile telephony services. Polish towns with up to 50,000 inhabitants, suburban and rural areas are therefore natural target markets for DTH because these areas have little cable TV infrastructure and are less attractive for cable TV companies to develop cable TV infrastructure. The growth in the number of DTH subscribers in Poland also reflects the fact that DTH providers are able to offer much broader programming options, including approximately 100 Polish language thematic channels as well as around 500 FTA channels, using both SD and HD technology.

The IPTV market is developing at a relatively slow rate in Poland, mainly due to technological constraints resulting from a lack of modern infrastructure with sufficient capacity to enable a high-quality and effective IPTV service. We believe that the introduction of IPTV services by fixed line telecommunications service providers such as Telekomunikacja Polska S.A. and Telefonia Dialog S.A. initially may have a negative impact on the business of cable TV operators in Poland as a result of their plans to launch IPTV services primarily in urban areas, and a less a significant effect on DTH providers, who are less dependent on customers living in densely populated areas. It is difficult to assess when fixed line telecommunications service providers will significantly develop their IPTV offer in rural, suburban areas and small and medium sized towns and the impact of such a development on the operations of DTH providers.

Pay-TV market in Poland



[1] Based on own estimates and data published by operators (Annual reports of TVN S.A. Group and Telekomunikacja Polska S.A. Group for 2011)

[2] Based on own estimates and data published by PIKE

[3] Based on own estimates and data published by operators (Annual report of Telekomunikacja Polska S.A. Group and the website of Telefonia Dialog S.A.)

In general, the Polish pay TV market is supervised by certain administrative bodies, such as the National Broadcasting Council, the UKE and the Polish Minister of Infrastructure.

DTH

Currently, there are three main DTH platforms in Poland: Cyfrowy Polsat, Cyfra +, “n” platform. In 2011, there was a strong consolidation trend visible on the market. “n” platform and Telekomunikacja Polska S.A. began cooperation and together they offer their pay-TV and Internet packages. At the end of the year, TVN S.A. (“n” platform operator) and Canal+ Cyfrowy Sp. z o.o. (Cyfra+ operator) announced an agreement concerning the merger of two platforms, subject to receipt of approval from the antimonopoly authorities. Since 2006, Cyfrowy Polsat has been the leader in terms of number of subscribers and market share in the Polish DTH market with nearly 3.6 million subscribers and approximately 55% of the domestic market share, as of December 31, 2011.

Cable TV

According to PIKE, the Polish cable TV market was dominated by three major operators with a combined market share of approximately 65% (data according to PIKE as of the end of the third quarter of 2011), and, we estimate, had more than 500 small cable TV operators. In 2011, the three major Polish cable TV operators were: UPC Telewizja Kablowa with Aster (acquired by UPC Telewizja Kablowa in 2011), Telewizja Kablowa Vectra and Multimedia Polska.

IPTV

The leading IPTV provider in Poland offering fixed line telephony services is Telekomunikacja Polska S.A., which started providing IPTV to its clients with DSL in 2006. 110,000 Polish subscribers used IPTV services offered by Telekomunikacja Polska S.A. as of December 31, 2011 (according to data published by Telekomunikacja Polska S.A.). The second largest pay IPTV operator was Telefonia Dialog S.A. (acquired by Netia S.A. in 2011) and according to data published by this operator 43,000 customers used its IPTV services as of the end of the third quarter of 2011.

Item 4.5.2. Internet market

Broadband Internet access in Poland is provided through fixed line and mobile networks. The broadband Internet access market's relatively low penetration rate and strong growth potential makes it an attractive market for development.

Data on communication services market are usually available in the second half of the following year, that is why we present data for 2010.

According to UKE (Report on telecommunications market in Poland 2010, June 2011) , in 2010, 72.02% of households in Poland had access to broadband Internet, while the penetration rate for 100 inhabitants was 25.02%.

Based on European Commission data, in 2011 the penetration rate of fixed broadband in Poland was 16.4% (of 100 inhabitants) giving Poland the third last place amongst EU countries (EU average was 27.2%). However, the penetration rate of mobile broadband in Poland is higher that the European average (7.5%) and amounts to 8.2% (Digital Agenda Scorecard 2011).

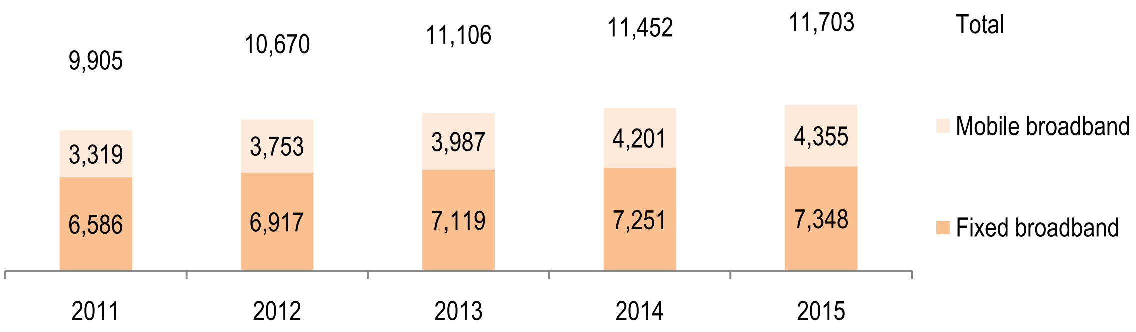
According to the UKE Report, the total value of the Polish Internet market was estimated at PLN 4.9 billion as of December 31, 2010 and increased by 0.7 billion compared to 2009. The increase was due to the larger number of Internet users, the average revenue per user decreased by PLN 6.3 and amounted to PLN 43 in 2010. At the end of 2010, over 5.6 million users had fixed Internet connections and 3.5 million used mobile connections. In 2010, the market increased by 1.6 million new users of the network, with the number of mobile Internet users growing significantly faster. According to UKE report, the number of mobile Internet users increased by 1.4 million. The increase in mobile market is due to (i) the technological weakness of the fixed line broadband infrastructure, (ii) the relatively lower infrastructure construction and maintenance costs of mobile broadband, which is of particular importance in less-densely populated areas, (iii) commercial availability of fast mobile connections, (iv) lack of cable broadband infrastructure outside large cities, (v) flexibility provided by mobile solutions, as well as (vi) the extending UMTS coverage.

In 2010, according to UKE, broadband connections constituted 99.9% of the total number of Internet connections, out of which 63.2% offered speed of over 2 Mb/s.

According to PMR estimates, the total number of broadband subscribers in Poland (both enterprises and households) amounted to 8.9 million in 2010, out of which 2.7 million used mobile connections. PMR forecasts that in 2011 the number of broadband users increased to 9.9 million, including 3.3 mobile broadband users.

(all financial data presented in PLN thousand, unless otherwise stated)

The chart below presents development forecasts of the market in 2011-2015:



Source: PMR Report

The Polish Internet market is serviced by several large telecommunications operators as well as smaller Internet service providers.

The table below presents the market share as a percentage of subscribers of fixed broadband Internet providers in Poland for the first half of 2011:

Provider	**Six Months ended June 30, 2011**
Telekomunikacja Polska Group (TP & Orange)	36.0%
Netia	11.2%
UPC	8.5%
Multimedia Polska	5.9%
Vectra	4.6%
Telefonia Dialog	2.4%
Others	31.4%
Total	**100.0%**

Source: PMR Report

The table below presents the mobile Internet market share, as a percentage of users of 2G/3G modems, of the operators in Poland for the year ended December 31, 2010:

Provider	**Year Ended December 31, 2010**
Polkomtel (Plus)	33.9%
PTC (Era)	22.4%
P4 (Play)	21.7%
PTK Centertel (Orange)	21.0%
Others	1.1%
Total	**100.0%**

Source: UKE Report

There is no governmental agency exclusively dedicated to the supervision of the Polish Internet market.

Item 4.5.3. Mobile telephony market

As of December 31, 2010, the estimated value of the mobile telephony market in Poland, based on revenue generated by operators for retail services, was approximately PLN 19 billion and comprised 44% of overall revenue in the telecommunications market in 2010. According to PMR, at the end of the first half of 2011, the value of Polish mobile telephony market amounted to PLN 12.53 billion and at the end of the year, according to estimates, amounted to PLN 26.02 billion.

The Polish mobile telephony market is mature. According to Central Statistical Office (GUS), the penetration rate of the mobile telephony market, calculated based on the number of SIM card, increased in 2011 by 8.4 p.p. and amounted to 132.7%. The number of SIM cards in mobile telephony networks in Poland amounted to PLN 50.7 million at the end of 2011 (GUS).

According to European Commission data, that has a slightly different definition of an active user, the penetration rate in Poland was 110.8% as of October 2010 and was below the European Union average of 124.5% in (after UKE).

The table below sets forth PMR forecasts of the number of SIM cards in Poland and growth rate from 2011 to 2015:

	2011	2012	2013	2014	2015
SIM cards in Poland (in millions)	49.5	52.1	53.7	55.5	57.1
Growth rate (in %)	4.2	5.3	3.1	3.3	2.8

Source: PMR, Telecommunication market in Poland, Development forecasts for 2011-2015, October 2011.

According to PMR, the average aggregated ARPU of Polish mobile operators decreased from PLN 103.3 in 2001 to PLN 43.7 in 2010, representing a negative CAGR of 8.2%. At the end of the first half of 2011, the average aggregated ARPU of Polish mobile operators amounted to PLN 43.1. The factors that had the most influence on the ARPU decline were decreases in prices and statutory Mobile Termination Rate ("MTR") cuts.

The Polish mobile telephony market is relatively concentrated and highly competitive. The Polish mobile market is serviced by Mobile Network Operators ("MNOs") and Mobile Virtual Network Operators ("MVNOs"). Under the MVNO business model, existing MNOs provide a licensed frequency allocation along the necessary infrastructure to an MVNO.

There are three leading MNOs in Poland: Polkomtel S.A. (Plus), PTK Centertel Sp. z o.o. (Orange) and PTC Sp. z o.o. (T-Mobile, previously Era, Heyah) as well as four smaller providers P4 Sp. z o.o. (Play), CenterNet, Mobyland and Aero2.

According to the PMR report, the three leading MNOs had an aggregate market share of approximately 85.8% as of the end of the first half of 2011, measured by number of operated SIM cards (including: Plus – 28.7%, Orange – 29.9%, T-Mobile and Heyah – 27.2% market share). The market share of MVNOs amounted to 1.4%. The share of MVNOs in the total revenue on the mobile telephony market amounted to 0.5% in the first half of 2011 (PMR).

According to UKE (Report "Summary of UKE President term of office", January 2012), as of the end of 2011, there were eighteen active MVNOs in Poland. According to PMR analysts, the number of active SIM cards operated by MVNOs amounted to 749 thousands at the end of the first half of 2011, and increased by approximately 30% year-on-year. According to PMR data, the share of Cyfrowy Polsat in MVNO market, measured by number of active SIM cards, amounted to 13% in the first half of 2011, giving us the position of the second largest MVNO in Poland.

The mobile services market is supervised and regulated by the President of the UKE, who supervises and regulates the entire Polish telecommunications market.

Item 4.5.4. Multi-play services market

The Polish media and telecommunications sector has been converging as subscribers are increasingly seeking to receive their media and communications services from one provider at affordable prices. In response, service providers are providing TV, broadband Internet access and telephony services bundled into multi-play offerings enabling subscribers to purchase all these services under one contract, one subscription fee and one invoice. Offering bundled services allows media and telecommunications service providers to meet subscribers' needs and, we believe, increase customer loyalty, favorably impacting churn rates.

Multi-play services in Poland are typically provided by cable TV operators and telecommunications service providers over their fixed line networks. Both cable TV operators and telecommunications service providers offer their services mainly in large and medium sized cities, due in part to the geographical limitations of their infrastructure and the quality of the overall telecommunications infrastructure in Poland. The multi-play services market in Poland is underdeveloped in less densely populated areas and therefore has the potential to grow rapidly in suburbs, small towns and rural areas where these services are currently practically non-existent. In addition to the low penetration rate of multi-play services in less densely populated areas, Internet services provided by fixed line operators typically suffer in quality of service due to the severe limitations of the established infrastructure throughout Poland. This creates an opportunity for DTH providers, such as Cyfrowy Polsat, who do not have the same geographic and fixed network infrastructure limitations as cable TV operators and telecommunications service providers, to become the principal providers of high quality multi-play services to consumers in suburbs, small towns and rural areas in Poland.

According to European Commission report "E-Communications Household Survey" dated July 2011, penetration rate of multi-play services market (defined as more than one service within an offer of one operator) in Poland amounts to 26%, while in European Union reaches 42%, and in France and Holland even over 50% (55% and 67%, respectively).

Currently, triple-play services, that include TV, Internet and telephone services, are offered by cable-TV operators, such as UPC and acquired by this company Aster, Multimedia Polska S.A. and Vectra S.A., telecommunications operators, such as Telekomunikacja Polska S.A., Netia S.A. (that in 2011 included mobile TV service in its offer) and Telefonia Dialog S.A. acquired by Netia in 2011, and among DTH operators – Cyfrowy Polsat.

Consolidation trends, observed on the media and telecommunications market, indicate that large groups emerge on the market and will provide customers with packages of services developing the multi-play services market. In 2011 TVN S.A. and Telekomunikacja Polska S.A. (TP) launched cooperation in offering their services – Internet (TP) and TV packages ("n" platform). At the end of the year, TVN S.A. Group and Canal+ Cyfrowy Sp. z o.o. concluded an agreement concerning the merger of their DTH platforms, and the cooperation with TP is supposed to be maintained and extended to joint n/C+ platform. The growing group of companies controlled by Zygmunt Solorz-Żak, including Cyfrowy Polsat S.A. Capital Group and Polkomtel S.A. acquired in 2011, will also have impact on the development of the multi-play services market.

Item 4.6. Offer

Item 4.6.1. DTH offer

Promotional offer

In October 2010, within the promotional offer "Nowy Cyfrowy Polsat" ("New Cyfrowy Polsat"), we introduced new programming packages with HD channels as standard. Since then we offer to our clients two introductory packages: the Family HD Package and the Mini HD Package, additional packages: Sport HD and Extra HD, additional services: HBO HD, Cinemax HD as well as VoD, Multiroom (in SD and HD versions) and catch-up TV – "TV Online". We also have a prepaid offer, within which clients can watch for free digital TV including basic terrestrial channels: Polsat, TV4, TVP1, TVP2, TVN, TVP Info, as well as FTA channels.

Our programming strategy is to offer a range of channels that appeal to the whole family in an effort to increase the subscribers' loyalty to our offerings while pricing our packages competitively. Currently, we provide our subscribers with access to over 90 TV channels, including general, sports, movie, news/information, education, lifestyle and children's channels. In our offer, we have the most popular sports channels: Polsat Sport and Polsat Sport Extra (as the only DTH operator) and Eurosport, being the first, the fifth and the second most widely viewed sports channels in Poland in 2011 (Nielsen Audience Measurement). Currently, 25 of our channels are available in HD.

(all financial data presented in PLN thousand, unless otherwise stated)

Our package pricing strategy is based on a two-step approach: securing a significant DTH subscriber base through attractive pricing of the Family HD Package and upgrading these new subscribers to our higher packages. To the lowest market segment, we target our popular Mini HD Package. Mini HD Package is currently the cheapest package available on the pay-TV market. In addition, in response to the development of DTT, we propose to our clients a prepaid offer.

We provide our subscribers of pay-TV packages with set-top boxes. The price to rent set-top box depends on the chosen option of the subscription agreement.

Family HD Package

Our Family HD Package is a promotional introductory package that provides subscribers with access to 56 Polish language channels (52 in the package + 4 promotionally) and all TV and radio channels available via Hotbird satellite (FTA channels). Currently, the monthly fee for Family HD Package is PLN 39.90 for a fixed term.

Mini HD Package

The Mini HD Package is an introductory package that provides subscribers with access to 23 Polish TV channels (20 in the package + 3 promotionally) and all TV and radio channels available via Hotbird satellite. Currently, the monthly fee for Mini HD Package is PLN 14.90 for a fixed term.

Additional packages and services

The table below presents additional packages and services available in our offer:

Additional packages	**No. of channels**	**Price**
Extra HD Package	23	PLN 20
Sport HD Package	7 + 2 promotionally*	PLN 20
Additional services		
Cinemax HD Package	4	PLN 15
HBO HD Package	6	PLN 25
HBO Cinemax HD Package	10	PLN 35
Entertainment Package	2	PLN 21
Monthly VoD Catalogue	7	PLN 20

*Channels available for clients promotionally but not included in the package.

Premium Offer

Within temporary promotions, for clients who want to gain access to the widest offer of channels, we propose Premium Offer at an attractive price. The offer includes the following packages: Family HD, Extra HD, Sport HD, HBO HD and Cinemax HD, and the monthly subscription fee is lower than the sum of the monthly fees for separate packages.

Flexibility

We introduced to our offer a flexible option, which is exclusive on the market. It provides a possibility to change the number of packages and thus the monthly subscription fee (vertical flexibility) or to change between packages staying at the same subscription fee level (horizontal flexibility). Flexibility give clients the feeling of financial security and a possibility to adapt their TV offer to their needs.

Multiroom

In October 2011, we introduced to our offer Multiroom SD service. In March 2012 the services was expanded by Multiroom HD. Multiroom service enables to access the same range of TV channels (except the access to Monthly VoD Catalogue) on two TV-sets within one household under one subscription fee. The service is delivered based on set-top boxes manufactured by CPT factory. We provide Multiroom service at the promotional prices starting from PLN 0 per month.

Free-to-air channels

With our set-top box, in addition to paid programming packages, our subscribers get access to over 500 uncoded TV and radio channels available via Hotbird satellite in Poland, including a dozen of additional Polish-language channels and wide-known foreign channels, such us: TVP Kultura, TV Biznes, CNBC, Bloomberg, Super RTL, ZDF, Rai News 24 and nine leading radio channels.

Digital TV offer with no fees and liabilities

At the end of 2011, Cyfrowy Polsat launched prepaid offer, which does not require signing a subscription agreement, clients can buy a digital set-top box for PLN 149 and get Mini HD Package for 6 months. After this promotional period, clients can still watch digital TV by activating channels: Polsat, TV4, TVP1, TVP2, TVN, TVP Info and still have unlimited access to numerous not coded channels. The access to digital terrestrial channels need to be activated every 6 months. The services is free of charge and includes unlimited number of activations realized.

VoD Home Movie Rental

In December 2009, we successfully introduced VoD Home Movie Rental, a service in the video on demand category, available on TV-sets. We have dedicated an entire satellite transponder to this service. The service is available to our subscribers regardless of the type of set-top box they use, as it does not require a storage disc in the set-top box or a recording functionality. In February 2012, we enriched our VoD offer by providing the possibility to access films directly in the Internet and currently our subscribers can use the service not only on TV set but also on the PC.

“VoD Home Video Rental – on TV” consists of 16 satellite channels with approximately 60 movies available per month. Our subscribers are able to choose from 16 movies daily. We update our Vod Home Movie Rental offer by new titles on a weekly basis. Subscribers are charged for each individual movie they select as follows: PLN 11 for access to a movie in the “New” category, PLN 8 for access to a movie in the “Hit” category, PLN 5 for access to a movie in the “Catalogue” category and PLN 11 for access to a movie in the “For adults” category. Often introduced promotions are strong aspect of our offer, currently they include: “VoD Packages” special offer, providing a possibility to buy packages of movies at lower prices, “Pierwszy film za 1zł” (“First movie for PLN 1”) special offer and promotional actions of discount prices for last seances of movies in nVoD. A selected movie is available to the subscriber for 24 hours from the time of placing the order. In addition, within “Monthly VoD Catalogue”, it is possible to purchase monthly unlimited access to the films in the “Catalogue” category for a price of PLN 20.

“VoD Home Rental – on PC” is provided in partnership with Internet TV IPLA. Currently we propose our subscribers pay access codes to over 900 movies, that our subscribers can watch on their computers. The films are offered at prices ranging from PLN 4.50 to PLN 8 and include 10% discount for Cyfrowy Polsat subscribers from prices charged by IPLA. Thanks to this service our subscribers can get access to attractive movie offer in any place and at any time.

TV Online (catch-up TV)

In April 2011, Cyfrowy Polsat, as the first satellite platform in Poland, has expanded its offer by a new service in catch-up TV category, initially offered under the name “StrefaWideo” (“VideoZone”). Currently the service is available under the name “Online Programs” (“Programy Online”). This service enables our subscribers to watch online a selection of content chosen from the channels included in their television packages. Currently, the users have access to the most popular titles from 26 TV channels. “Online Programs” service is available within the price of the chosen TV package. The service is provided under the cooperation with Redefine Sp. z o.o., the owner of IPLA, based on its technology.

Item 4.6.2. Internet offer

We offer our broadband Internet services through the use of two technologies: HSPA+ MIMO and from 2011 LTE technology.

Launching our services in LTE technology, we proposed an universal offer, including access to Internet service in both technologies – LTE of speed up to 100 Mb/s and HSPA+ of speed up to 28.8 Mb/s, under one subscription fee. Such an offer combines advantages of both technological solutions – high parameters of LTE and wide reach of HSPA+. The technical reach of LTE network is currently lower than the reach of HSPA+ network, but the network develops systematically.

Currently, within promotion “Internet dla każdego” (“Internet for everyone”) we offer four data packages, adapted to different needs of our subscribers:

- 3GB package for PLN 29 per month;
- 5GB package for PLN 49 per month;
- 10GB package for PLN 69 per month;
- 25GB package for PLN 119 per month.

All subscribers with defined term agreement are additionally charged a monthly subscription fee of PLN 1, that includes 200MB data package. Promotionally, activation fee amounts to PLN 49 and PLN 29 within Multi-play offer.

In addition to the packages abovementioned, we provide all subscribers with “Darmowe noce” (“Nights for free”) option, which is a package of up to 50 GB to use between 0.00.01 – 07.59.59 am without any charges on top.

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, according to the price list, or buying additional one-time data package.

To use our broadband Internet service within the promotion “Internet dla każdego”, subscribers may choose to either buy from us a modem and optionally a router, or to use the option with leased device. Prices of equipment or leasing fees differ, depending on the data package bought and the term of the agreement. The Huawei E398 modem supports both technologies: LTE and HSPA+.

For the clients who already have their own equipment enabling to connect with the network, i.e. modem or laptop, notebook or tablet with built-in modem, we launched a promotion “Internet dla każdego – tylko SIM” (“Internet for everyone – only SIM”) including a choice from one of three packages: 3GB, 5GB and 10GB (priced PLN 29, PLN 49, PLN 69, respectively plus in each case: monthly subscription fee of PLN 0.9 and PLN 49 activation fee) without the need to buy or lease a modem from us. Subscribers to this option also receive “Darmowe noce” (“Nights for free”) option. The users of 5GB and 10GB packages get additional data packages of 2GB and 4GB, respectively, to use during the day, included in the subscription fee.

Moreover, we provide additional benefits to our Internet offer clients being simultaneously subscribers to our TV offer. Subscribers to TV packages can sign a separate agreement for Internet service and every month get an additional data package from 512MB to 5GB (depending on the level of the purchased TV package) within the promotion “Więcej danych z telewizją w Cyfrowym Polsacie” (“More data with TV in Cyfrowy Polsat”).

Item 4.6.3. Mobile telephony offer

We have been operating in the mobile telephony services market as an MVNO since 2008. We view our mobile telephony services as complementary to our DTH and broadband Internet services and have no intention to compete with domestic mobile operators by promoting an offer on a stand-alone basis. We intend to leverage our brand name using our existing DTH subscriber base to become a multi-play operator offering DTH, broadband Internet access and mobile telephony services. We believe that expected synergies between our DTH service, broadband Internet and mobile telephony businesses will help us to attract new subscribers, increase operating revenue and overall subscriber satisfaction and, as a result, help to maintain our low churn rate.

Within the subscription fee, a customer get 30 minutes (exchangeable for 90 text messages) to domestic mobile networks and fixed numbers. After using this package, the price per minute is PLN 0.29, and can be reduced (to PLN 0.24 or PLN 0.20, respectively), through activation of one of the additional packages.

We offer two additional packages of minutes:

- 120 minutes exchangeable for 360 text messages for PLN 29 per month; and
- 240 minutes exchangeable for 720 text messages for PLN 49 per month.

Within the offer "Taniej w Sieci" ("Cheaper within the Network") – connections within our network are priced at PLN 0.10 per minute.

Item 4.6.4. Multi-play offer

We started offering our Multi-play offer in June 2010. The Multi-play offer enables subscribers to obtain all three services: DTH, broadband Internet and mobile telephony services under one contract, one subscription fee and one invoice. The multi-play offer is designed for new subscribers as well as our existing subscribers, who may add one or both telecommunication services (broadband Internet and/or mobile telephony) to their TV package.

We provide various promotional packages in our Multi-play offer. The subscriber is also able to activate one of data packages available in our offer. The selected package may be upgraded with a higher level package at any time during the term of the agreement, and then come back to the initial one.

We currently view the multi-play offer as a tool to expand the subscriber base and grow our revenue, as well as to increase subscriber satisfaction and loyalty. In the long-term, we believe the multi-play offer will enable us to increase ARPU and to further reduce our churn rate.

Item 4.7. Marketing and sales, customer service and maintenance

Item 4.7.1. Marketing

Our main advertising channel is TV. We also advertise through other channels such as radio, press, outdoor and online advertising for dedicated products or promotions. Additionally, our website is an important communication channel with new and prospective subscribers. Additionally we communicate regularly with our subscribers using mail, e-mail and telemarketing activities.

Item 4.7.2. Sales

DTH products and services sales network

We sell our products and services through two distribution channels: the traditional retail sales channel and a direct sales channel. Our sales network covers all of Poland. As of December 31, 2011, our distribution network operated based on 17 distributors and 52 franchisees, cooperating with 947 retail points of sale and 17 own points of sale. The direct sales channel (door-to-door) includes our in-house divisions which employ 200 sales agents. The distributors are independent businesses entering agreements directly with the points of sale.

We supply our points of sale with marketing materials, such as posters and leaflets in order to increase client awareness of our services. At these points of sale, customers can sign an agreement to purchase our services, obtain equipment necessary to receive our services or order the installation of a satellite dish. In addition, these points of sale provide subscribers with technical assistance and widely understood after-sales service. We organize training seminars for employees at our points of sale aimed at improving their sales skills and their knowledge of customer service standards. We organize incentive programs for the sales representatives which award bonuses based on the number of subscribers each sales representative acquires or serviced within their loyalty agreements and type of programming packages they declared to subscribe for.

Our direct sales channel enables us to precisely target selected groups of customers, to establish direct communication with customers and to expand our sales network.

Sales of broadband Internet services

Our broadband Internet service is currently available to approximately 70.4% of the population of Poland. As of December 31, 2011, subscribers may sign up for our broadband Internet service in approximately 683 authorized points of sale which are located in the areas where we are technically able to provide our broadband Internet services and through 51 door-to-door sales agents.

Sales of mobile telephony services

Customers may subscribe for mobile telephony services in almost all of our authorized points of sales.

Call center

We provide our sales' call center number in advertisements of our products and services placed in various media and our promotional materials to enable potential subscribers to obtain information about our services, place orders or ask for directions to the nearest point of sale.

We currently operate our call center with approximately 600 operator stands as well as approximately 150 back-office stands handling written requests (including faxes and e-mails). Our call center service is available to our present and potential clients 24 hours a day, seven days a week, and is responsible for providing comprehensive and professional customer service. The call service operators provide information on our services, enter into service agreements with subscribers, accept subscriber complaints and provide information on payments and other support for subscribers.

Online

Our website acts as an interface to a growing number of subscribers as well as prospective subscribers. It provides users with an opportunity to familiarize themselves with our programming multimedia offers, order selected satellite TV receiving equipment together with programming packages of their choice or to locate our nearest point of sale. Our existing subscribers may also use our website to buy additional programming packages, find information about current VoD offers or purchase programming. In April 2011, we launched a new service available through our portal "Strefa Wideo" ("Video Zone", catch-up TV) with a set of channels distributing their programming to our subscribers through their Internet connection in conjunction with their DTH subscription offer.

In addition, our Internet Customer Service Center is an advanced tool which enables our subscribers to have secure and free access to our back-office resources and on-line technical support. By accessing our website, subscribers can check their payment balances, print payment orders, review a history of 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, revise personal data to make payments online and send us questions. In addition, subscribers can activate and deactivate certain services, check available units for use within their active services/packages and see a detailed list of rendered services. Broadband Internet and mobile telephony subscribers can also access account and billing data on the Internet or on their mobile phone.

Central warehouse

To support our distribution channels, we have organized our own central warehouse and logistics system. The central warehouse has a total area of approximately 9,500 m2 and stores set-top boxes, modems, accessories, parts and materials necessary to ensure efficient logistics and sales operations including promotional materials and packaging. Together with our logistics system, our warehouse enables us to prepare 15,000 pre-activated set-top boxes per day for delivery and allows us to store up to 300,000 set-top boxes and access cards. We believe our central warehouse is large enough to satisfy all our anticipated storage needs.

Item 4.7.3. Customer Relations and Retention Management

Customer Relations Management

We seek to consistently improve the quality of our customer service using the latest technology. Our customer service department is managed by experienced and committed staff with a 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 text to speech communications and mail. Our customer relationship management system makes it possible to comprehensively document and handle all requests placed by subscribers in a timely and effective manner.

Our Customer Service Center also has employees dedicated solely to addressing subscribers' queries related to the broadband Internet and mobile telephony services. These employees are supported by a number of technical tools in order to ensure the highest level of subscriber satisfaction.

Retention Management

We place a high importance on subscriber retention. In 2009, we implemented a new subscriber retention program, aimed at reducing our churn rate, keeping our existing subscribers and increasing our revenue. We are constantly developing and adapting our retention programs to tailor our services to our subscribers. We have dedicated one department in our organization specifically to retention management and have dedicated significant resources to this department. We conduct reactive and proactive subscriber retention programs.

Our reactive retention programs are aimed mainly at subscribers who already delivered their termination notices. These programs are being handled by our anti-churn department, which contacts such clients and provides them with offers aimed at encouraging them to continue their subscription.

In our proactive retention programs, we begin the retention efforts well before the end of the initial period of the subscription agreement. Using a variety of communication channels, we communicate to our subscribers our offers for extending contracts such as a set-top box upgrade or a more attractive programming package. Moreover, we introduced a contract auto-renewal policy that extends contracts automatically by 12 months after the initial period.

Our multi-play offer supports our subscriber retention efforts. Subscribers can extend the package of services by adding broadband Internet or mobile telephony services to their already purchased TV package at any time during the term of their agreement. All subscribers can also upgrade their TV package or buy additional telecommunications packages.

The introduction of our retention programs and the offering of multi-play services will help us to manage our churn rate as an increasing part of our subscriber base is maintained on fixed-term (loyalty) agreements.

Item 4.8. Technology and infrastructure

Item 4.8.1. Technology and infrastructure – DTH

Conditional access system

Access to TV channels offered in our pay programming packages is secured with a conditional access system that we leased from Nagravision. We use this system to control access to particular pay programming packages.

Upon signing a contract for our services, the subscribers receive a set-top box together with an access card, which allows them to receive the pay programming offer.

We routinely identify unauthorized access to our service because of the significant risks unauthorized access poses to our business and revenue. According to our agreement with Nagravision, in the event of a breach of our systems, which cannot be cured, Nagravision is obligated, under certain conditions, to replace the conditional access system together with the cards provided to our subscribers and, if necessary, to adapt the set-top boxes to the new system.

Nagravision is paid a monthly fee on a per-subscriber basis.

Satellite

We entered into satellite capacity contracts with Eutelsat. The contracts involve two transponders dedicated to SD, one transponder dedicated to HD as well as one transponder dedicated to support our nVoD service and to serve as a backup transponder if needed. The contracts expire in 2016 and we have the right to extend the agreements for additional successive seven-year periods.

Broadcasting center

Our broadcasting center is located in Warsaw, Poland and enables us to transmit TV channels to the transponders we use on the Hot Bird satellites. Some TV channels are transmitted by the broadcasters of these channels or by third parties. We believe our broadcasting center, which was built in 2006 and expanded in 2009, is one of the largest broadcasting centers in Poland. It is equipped with up-to-date integrated video, audio and information systems and is used to broadcast TV channels, including HD channels.

To mitigate risks of failure or shutdown of our broadcasting center or any of its parts, our broadcasting, transmission and multiplexing equipment has redundancy solutions on critical nodes of our broadcasting network. In addition, Eutelsat will provide us with a backup transponder if necessary. In addition, we can transfer signal broadcasting to the transponder we currently use for nVoD services, after we first disengage that transponder from the nVoD services. We are planning to establish an uplink backup broadcasting center, initially scheduled to be completed by the end of 2012.

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.

Set-top boxes

To reduce our costs, our subsidiary CPT began manufacturing own SD set-top boxes in November 2007 and HD set-top boxes in April 2010. The in-house manufacturing of set-top boxes has proved to be more cost-efficient than purchasing set-top boxes manufactured by third parties and has allowed us to offer more competitively priced packages and achieve higher operational efficiency in our business. In-house manufacturing of set-top boxes has allowed us to save approximately 20% of the cost of a single device in comparison to equipment purchased from third parties. Additionally, it has allowed us to unify the software and interface of the set-top box, which is convenient to our customers if they switch between set-top box models. In addition, we have control over set-top box software and we have the flexibility to adapt the software to meet subscriber requirements.

We believe we can increase or decrease production levels through our partnerships with third parties and believe we can adapt to future equipment needs and production demands. In manufacturing our set-top boxes, we rely on mature solutions and do not experiment with untested technologies. Thus far, we have not experienced any major post-manufacturing problems that would have led to the recall and replacement of set-top boxes manufactured by us.

Set-top boxes manufactured in-house represented approximately 80% of overall set-top boxes that we sold or leased to our subscribers in 2011. In our factory already a total of over 3 million set-top boxes were manufactured, including over 1.5 million HD set-top boxes. We still cooperate with external providers of set-top boxes, mainly Samsung, Echostar and Sagem, but already in 2010, we limited the purchases from external providers only to newly-developed technology, such as PVR set-top boxes.

Our subscribers can either buy or lease set-top boxes from us. The price of a purchased set-top box depends on the package of pay TV programs purchased by the subscriber. Typically, the higher-priced the package purchased, the lower the price and the higher set-top box subsidy we allow. We view the subsidizing of set-top boxes as a necessary component of acquiring new subscribers. Changes in set-top box prices and the size of the subsidy available for subscribers are linked to market conditions. We have a warranty service designed to help ensure customer satisfaction with the performance and operation of set-top boxes. Leased set-top boxes remain our property, and we update them on regular basis.

Item 4.8.2. Technology and infrastructure – Internet service

Network

Our broadband Internet access services are based on a radio infrastructure provided by companies of Midas NFI capital group (Mobyland, CenterNet, Aero2). Under the agreement with Mobyland, we have access to mobile data transfer services on 1800MHz and 900MHz bands in LTE and HSPA+ technologies.

The HSPA+ network on 900MHZ has a maximum a maximum transfer speed of 21 Mb/s for data received from the Internet and 5.76 Mb/s for data sent by a user. The current standard for mobile networks is 7.2 Mb/s and 1.9 Mb/s, respectively. By using HSPA+ MIMO, we increased the transmission speed to 28.8 Mb/s. The HSPA+ MIMO technology, based on multiple transmitting and receiving antennas at a base station and a terminal, enables a simultaneous transfer of several data streams and, therefore, offers a higher transfer capacity, better transmission quality and optimized frequency use. It enables the use of all Internet functions including web browsing, file uploading and downloading, movie playing, HD and 3D transmissions.

In the third quarter of 2011, on successful completion of the tests, we became the first commercial provider in Poland to offer broadband Internet in LTE technology, which currently is able to provide a maximum speed of up to 150 Mb/s. We provide a service through the LTE network on 1800 MHz frequencies, launched in September 2010 by Mobyland in cooperation with CenterNet. Compared to HSPA+ or UMTS, LTE is characterized by much lower latency and has the capacity to support a greater number of users. The potential of the LTE technology is based on greater capacity and speed with lower latency, which enables LTE Internet service subscribers to use interactive and multimedia applications requiring high bandwidth and transmission in real time, such as online games, video communication and HD TV through Internet. Modem offered for customers of Cyfrowy Polsat LTE service enables the speeds of up to 100 Mb/s for data received from the Internet and 50 Mb/s for data sent by a user.

Our broadband Internet services in HSPA+ technology, as of the date of the publication of this report, are available on over one thousand base stations and the number is growing constantly. In total, 24 thousand of towns and villages, including 184 with over 20 thousands inhabitants, are within the technical reach of Cyfrowy Polsat mobile Internet service. Our LTE service is currently available on over 600 base stations, in over 1,600 locations. The network will be gradually expanded.

In January, International Telecommunication Union (ITU) has approved a new standard of mobile technology. ITU decided, that “LTE-Advanced” and “WirelessMAN-Advances” solutions will be commonly named IMT-Advanced. In the future, IMT-Advanced will replace, developed since 2000, IMT-2000 standard popularly known as 3G. The target speed offered by technologies compatible with IMT-Advanced standard will be 100 Mb/s on the move (ex. driving) and 1 Gb/s stationary (through mobile network). The term 4G remains undefined, but it is still used by operators using LTE, HSPA+ or WiMax technologies.

Modems

We offer technologically advanced modems. The price of the modem depends on the terms of the agreement and data package purchased by the subscriber. Typically, the longer the term of the agreement and the higher-priced the data package purchased, the lower the price of the modem and the greater the choice of available types of modems. The price of the modem in the Multi-play offer depends on the term of each subscriber's agreement and the additional data package chosen from those available in the broadband Internet offer.

To provide our broadband services in LTE technology, we use a latest technology Huawei E398 modem, that is able to operate on the following frequencies:

- LTE - 900/2100/1800/2600 MHz,
- DC-HSPA+/HSPA+/UMTS - 900/2100MHz ,
- GSM/GPRS/EDGE - 850/900/1800/1900MHz.

Thanks to this solution, with one modem, Cyfrowy Polsat clients can use our Internet service in both LTE and HSPA+ technologies. Huawei E398 modem operates on 20MHz channel and provides maximum speed of up to 100 Mb/s download and up to 50 Mb/s sending speed for LTE and 21.6 Mb/s and 5.76 Mb/s, respectively, for HSPA+. It supports the following operating systems: Windows 2000, XP (SP2), Vista (SP1), Mac OS, Windows 7.

Item 4.8.3. Technology and infrastructure - MVNO

We operate as a full capacity Mobile Virtual Network Operator, which means that we have our own telecommunications infrastructure except for the radio network. This business model assures we have full control of our client offerings through our own billing system and enables direct interconnections to other operators, and the opportunity to generate additional interconnection revenue. The radio network infrastructure is provided by leading mobile networks operators through domestic roaming agreements.

Our MVNO mobile telephony service is provided in the GSM system which is based on UMTS technology provided on the radio interface of the MNO operator. The service includes voice data transmission, SMS, MMS as well as GPRS/Edge/UMTS/HSPA data transmission. Our subscribers may also use international connections through our roaming service.

Item 4.9. Development prospects

As a result of our satellite TV transmission and infrastructure-light approach to mobile telephony and broadband Internet, we are able to access less-densely populated and rural areas of Poland at much lower cost than cable TV and Internet providers. Of the three leading DTH providers in Poland, we are the only operator that provides own full multi-play services. We further believe that offering multi-play services strengthens our position on the Polish pay TV market. We believe we can leverage the strength of the Cyfrowy Polsat brand name and access to our 3.6 million DTH subscriber base to expand the sales of our telephony and broadband Internet services as well as our multi-play services.

In March 2011, we began testing commercial broadband Internet access based on the LTE technology, which we believe will be an important technology for the future of mobile broadband Internet and the successor to the commonly used UMTS standard. An LTE mobile connection can offer a maximum speed of up to 150 Mb/s. In August 2011, upon satisfactory test results, we launched commercial sale of LTE services, which makes us the first Internet provider to offer this technology in Poland. We believe, that it will provide us with a significant competitive advantage over our competitors. That is why we plan to use the growth potential of the Internet market and offer innovative solutions for Internet access in increasingly wider area of Poland.

Telecommunications infrastructure of Mobyland and CenterNet (subsidiaries of NFI Midas), based on which we provide our services, currently has over 1,000 base stations for HSPA+ and over 600 base stations for LTE services and the number is constantly growing. In total, our Internet service is available in 24,000 locations (including nearly 1,600 covered by LTE network), that means the coverage of 70.4% of the population of Poland.

While developing our Multi-play service, we want to develop and launch new additional services for our pay-TV packages subscribers. In 2011, as the first satellite platform in Poland, we have expanded our offer by catch-up TV service, enabling our subscribers to watch online a selection of content chosen from their television packages. Another novelty in Multiroom – service enabling subscribers to watch simultaneously different channels from the purchased TV package on two TV sets under one subscription fee. Moreover, for the first time, we broadcasted an important sport event in pay-per-view (PPV). Subscribers could buy access to the transmission of Tomasz Adamek vs Vitali Klitschko Live Boxing WBC title fight. We believe, that additional services increase clients' satisfaction, while contributing to our subscribers base value creation and increase in ARPU, for example Adamek-Klitschko fight in PPV, that in third quarter of 2011 generated a growth of PLN 0.8 and PLN 0.2 in ARPU of Family Package and Mini Package, respectively.

In January 2012, we acquired 100% shares in the share capital of INFO-TV-FM Sp. z o.o. thus acquiring frequencies on 470-790 MHz bands and reservation agreements related to them. Based on these assets, we plan to expand our business by services provided through mobile devices, which fits well with both our business plans, market development trends and customers' expectations.

Planning to implement mobile TV services, we have signed a cooperation agreement with Dutch company Irdeto, one of the leading companies in securing digital content. Under this agreement Irdeto will provide conditional access system together with technological support, enabling us to build technical infrastructure for the launch of pay mobile digital terrestrial television. Additionally, based on the agreement signed, we plan to develop the market of mobile devices such as smartphones, tablets, DVB-T USB tuners and portable routers enabling mobile TV reception on mobile phones, that are necessary to provide mobile TV services.

Item 4.10. 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 4.11. Other Aspects of Our Business

Research, development and IT systems

Our research and development activities are focused on intensive development work with respect to information technology systems. We have developed several technology systems which enable us to effectively and efficiently manage our subscriber base. Those systems include, among others, a customer relationship management system, a sales services system, an Internet customer service center and a transactions system using n-layer technology. We own all of these systems and the related intellectual property rights. We also use systems licensed from third parties such as our conditional access system. In addition, we conduct development work with regard to the set-top boxes we manufacture in our factory. Additionally, we have contracted for the development of modems to enable us to provide wireless data transmission services using the LTE technology.

Trademarks

We hold a number of trademarks which are registered with, or have applications pending for registration with, the appropriate authorities in order to secure our rights to these trademarks. We believe that the most significant trademarks to our business operations are the word and device marks of Cyfrowy Polsat (this trademark was transferred as a contribution in a kind to our subsidiary Cyfrowy Polsat Trade Marks Sp. z o.o. at the end of 2010).

License for wireless distribution of TV and radio channels

We hold a broadcasting license for wireless distribution by way of satellite transmission (through Eutelsat Hot Bird 8 and 9 satellite) of TV and radio channels. On October 22, 2003, Cyfrowy Polsat obtained a KRRiT broadcasting license for wireless distribution by way of satellite transmission (through the satellite Eutelsat Hot Bird) of the following TV and radio channels: (i) POLSAT - distributed by TV Polsat; (ii) TV4 - distributed by Polskie Media; (iii) Telewizja Niepokalanow PLUS - distributed by the Order of the Franciscans; (iv) Tele 5 - distributed by "ANTEL"; and (v) RMF FM - distributed by "Radio Muzyka Fakty". The broadcasting license is valid until October 21, 2013. We are also required to have a valid consent of the broadcaster for wireless distribution of every channel enumerated above, on the day of launching the operations and throughout the validity of the broadcasting license.

It was unclear under Polish law whether a DTH provider is actually required to obtain a license to distribute TV programs. Notwithstanding this uncertainty, we have obtained a license to distribute TV programs via satellite. Pursuant to the recent amendments to the Broadcasting Act, the distribution of TV programs by DTH providers requires only registration with the President of the KRRiT and does not require a distribution license.

Telecommunications operations

We have obtained from the President of the UKE all necessary decisions required under applicable regulations to provide services as an MVNO operator and to conduct broadcasting and distribution operations including frequencies reservations and radio permits for use of the radio equipment in terrestrial satellite stations and to broadcast the signal of TV channels.

Properties

We own the vast majority of the real property on which our DTH satellite TV infrastructure, office and warehousing facilities are located. All of our real property is located in Poland. We believe that all of our real property is well maintained and in good condition. As of December 31, 2011, there was a mortgage registered on entire real estate owned by us, established in respect to the Senior Facility Agreements and Senior Notes. Some insignificant parts of our real property are encumbered with typical easement rights for electricity cable conservation. We lease a number of pieces of real property from third parties that are not material to our business.

Environmental matters

We believe that our operations do not violate environmental protection laws and regulations in force in Poland. We monitor our compliance with the applicable environmental laws and regulations and any other environmental requirements that may apply to us. When necessary, we contact the relevant authorities and cooperate with them in monitoring compliance with the applicable laws and regulations. We are not aware of any material proceedings, pending or threatened, that might be initiated against us in relation to our environmental compliance.

Insurance

We believe that we have insurance plans that adequately cover our business and our assets. These insurance plans are customary in the Polish pay TV. We have third party liability insurance, damage and personal auto insurance agreements, insurance policies concerning property and electronic equipment, insurance against all risks, as well as third-party liability insurance on business operations. We also have directors' and officers' liability insurance.

Item 5. Material agreements

Acquisition of 100% shares of Telewizja Polsat

1. Completion of the acquisition

On April 20, 2011, in accordance with the provisions of the investment agreement dated November 15, 2010, and as a result of entering into agreements to acquire 100% of share capital of Telewizja Polsat and the issue of ordinary bearer shares of H series for the shareholders of Telewizja Polsat, Cyfrowy Polsat has completed the purchase of Telewizja Polsat. Cyfrowy Polsat acquired 2,369,467 shares in the share capital of Telewizja Polsat with a face value of PLN 100 each for the total price of PLN 3.75 billion (not in thousands), representing 100% of the share capital and entitling to 100 % of votes at the General Meeting. Part of the price for shares of Telewizja Polsat, i.e. PLN 2.6 billion (not in thousands) was paid by a bank transfer and was financed by the debt financing obtained by Cyfrowy Polsat under the agreements signed on March 31, 2011 (see below). The remaining amount, i.e. PLN 1.15 billion (not in thousands) was paid through the issuance of the ordinary bearer Series H shares (see below). As a result of the transaction, Cyfrowy Polsat together with Telewizja Polsat formed the largest media group in Poland.

2. *Issue of shares for TV Polsat shareholders*

As explained above, the acquisition of TV Polsat was financed by loan facilities (see below for details) together with issuance of subscription warrants of the value of PLN 1.15 billion (not in thousands) exchangeable for shares. On April 1, 2011 the Company entered into four subscription agreements as a result of which:

(i) MAT Fundusz Inwestycyjny Zamknięty took up 14,135,690 Subscription Warrants, authorizing it to take up a total of 14,135,690,

(ii) KOMA Fundusz Inwestycyjny Zamknięty took up 2,494,526 Subscription Warrants, authorizing it to take up a total of 2,494,526,

(iii) Karswell Limited took up 53,887,972 Subscription Warrants, authorizing it to take up a total of 53,887,972,

(iv) Sensor Overseas Limited took up 9,509,648 Subscription Warrants, authorizing it to take up a total of 9,509,648

ordinary Series H bearer shares in exchange for a cash contribution of PLN 14.37 per each share.

The holders of registered Series H subscription warrants, exercised their rights under the subscription warrants on April 20, 2011, i.e. they made statements on the take-up of ordinary bearer Series H Shares in the same proportion as described above.

The payment for ordinary bearer Series H Shares by the shareholders of TV Polsat (“Sellers”) involved a contractual setoff of the Company's claims against the Sellers of TV Polsat in respect of the payment for the Series H Shares with the Sellers' claims against the Company in respect of the payment of a portion of the price for the shares in Telewizja Polsat.

As a result of the issue of 80,027,836 Series H Shares with a nominal value of four grosz (PLN 0.04) each, the Company's share capital was increased by PLN 3,201,113.44 (not in thousands). The current share capital of the Company is PLN 13,934,113.44 (not in thousands), divided into 348,352,836 shares. At present, the total number of votes at the General Shareholders' Meeting of the Company is 527,770,337. The increase in share capital of the Company was registered by the District Court for the City of Warsaw, XIII Economic Division of the National Court Register on May 13, 2011.

The Series H shares were registered on May 30, 2011 in the National Depository for Securities under ISIN code PLCFRPT00013, and were admitted to trading on the main market of the stock exchange pursuant to the Resolution 666/2011 of the Management Board of Warsaw Stock Exchange of 26 May 2011.

3. *Debt Financing of the transaction*

On March 31, 2011, we concluded credit agreements with a consortium of banks, to provide the Company with debt financing for the acquisition of Telewizja Polsat of the total amount up to PLN 3 billion (not in thousands).

According to the agreements the Group was granted a term facility loan of up to PLN 1.4 billion (not in thousands), a revolving facility loan of up to PLN 200 million (not in thousands) and a bridge loan facility in EUR of up to the equivalent of PLN 1.4 billion (not in thousands) which, as of the day of the execution of this agreement, equaled approximately EUR 350 million (not in thousands). For detailed description of the bank loans please refer to the section *Liquidity and capital resources* in the point *6.9. Liquidity and capital resources*. The bridge facility was repaid in full on May 20, 2011 with the net proceeds from the Intercompany Bonds (see below), together with cash on hand.

4. *Issue of Intercompany Bonds*

On 20 May 2011, the Company issued unsecured interest-bearing Series A Bonds due in 2018 in the nominal aggregate amount of EUR 350 million (EUR 35 million each, not in thousands), acquired in whole by its subsidiary Cyfrowy Polsat

Finance AB (CP Finance) (the "Intercompany Bonds"). The aggregate issue price of the Intercompany Bonds in the amount of EUR 343 million (not in thousands) was equal to the nominal value of the Intercompany Bonds less 2% commission.

The interest rate applicable to the Intercompany Bonds accrue at the rate of 8.16% per annum and are payable semiannually in arrears on May 20 and November 20, commencing on November 20, 2011. Intercompany Bonds shall be redeemed on May 20, 2018 by way of pecuniary payment equal to the nominal value of the Intercompany Bonds.

As mentioned above, the net proceeds from the Intercompany Bonds were used together with cash on hand to refinance the bridge loan that was used as part of financing of the acquisition of TV Polsat.

The funds from the Intercompany Bonds were raised through the issue by Cyfrowy Polsat Finance AB, our wholly owned subsidiary, of Senior Notes due May 20, 2018 of the aggregate principal amount of EUR 350 million (not in thousands). The Notes were approved and listed on the Luxembourg Stock Exchange and were rated Ba3/BB- by Moody's Investor Service Inc. and Standard & Poor's Rating Services, respectively.

Conclusion of significant agreements with TVN S.A. Group

On April 29, 2011 the Company and its subsidiary Telewizja Polsat have signed the agreements with TVN S.A. and its subsidiaries ITI Neovision Sp. z o.o. and Mango Media Sp. z o.o. (“TVN”), concerning distribution of television channels.

According to the agreements, the Company will continue to distribute the television channels broadcasted by TVN, including TVN, TVN 7, TVN24, TVN Style, TVN Turbo, TVN Meteo, TVN CNBC and TVN HD as well as Telezakupy Mango.

Additionally, under the agreements, ITI Neovision Sp. z o.o. will initiate distribution through “n” platform of the following channels: Polsat, Polsat HD, Polsat 2, Polsat Film, Polsat News, Polsat Cafe, Polsat Play, TV Biznes, Polsat JimJam, and later also Polsat Sport News.

The agreements were concluded for a specified period and are valid from May 1, 2011 to April 30, 2015.

Signing a new license agreement with HBO Polska Sp. z o.o.

On August 24, 2011, a license agreement with HBO Polska Sp. z o.o. (indirect subsidiary of Time Warner Inc.) seated in Warsaw ("Licensor") was concluded in a written form. The agreement replaced the previous license agreement for reemitting television channels distributed by HBO Polska Sp. z o.o., that expired February 28, 2011 and an oral agreement effective since then. Under the agreement, the Company received a three-year license to distribute the following TV channels: HBO, HBO HD, HBO2, HBO Comedy and HBO2 HD and HBO Comedy HD. These channels will be distributed both as part of a bundle of channels and on "a la carte" basis.

Agreement concerning acquisition of INFO-TV-FM Sp. z o.o.

On October 28, 2011, Cyfrowy Polsat signed a conditional agreement with NFI Magna Polonia S.A. and Evotec Management Limited concerning acquisition of INFO-TV-FM Sp. z o.o. Following the fulfillment of all the conditions precedent, on January 30, 2012, the Company acquired 100% shares in the share capital of INFO-TV-FM Sp. z o.o. for the total price of PLN 29,033,202.19 (not in thousands). Upon the acquisition of INFO-TV-FM Sp. z o.o., the Company acquired frequencies on 470-790 MHz and reservation agreements related to them. These frequencies may be used to provide mobile television services. Based on these assets, we plan to expand our business by services provided through mobile devices, which fits well with both our business plans, market development trends and customers’ expectations. Additionally, upon the “Agreement on the provision of multiplex signal broadcasting service for the wholesale of audiovisual media services, including distribution of radio and television programs” concluded with INFO-TV-FM Sp. z o.o. (after the division of this company, the rights and obligations under this agreement were transferred to INFO-TV-OPERATOR Sp. z o.o.).

New agreement with Telewizja Polsat

On December 30, 2011, we signed a new agreement with Telewizja Polsat. The new agreement replaced the license agreements between the parties, hitherto in force, including license agreements concerning distribution of TV Polsat channels.

According to the agreement, the Company will continue to distribute television channels broadcasted by Telewizja Polsat, including: Polsat (in HD and SD version), Polsat2, Polsat News, Polsat Play, Polsat Cafe, Polsat Futbol, Polsat Film, Polsat Sport, Polsat Sport HD, Polsat Sport Extra and Polsat Sport News. Additionally, the Agreement regulates technical aspects of the Company's cooperation with Telewizja Polsat. According to the Agreement, the Company will provide technical services to Telewizja Polsat (including transmission and encrypting of some channels broadcasted by Telewizja Polsat).

The Agreement was concluded for indefinite period. For distributing the channels abovementioned, the Company will pay the Licensor a monthly flat fee expressed in Polish zlotys. For technical services, the Company will receive from Telewizja Polsat monthly remuneration, depending on the scope of services provided in a given month, expressed in Polish zlotys.

Insurance agreements

In 2011 Cyfrowy Polsat S.A signed the following insurances agreements with PZU S.A. in co-insurance of STU Ergo Hestia S.A.: third-party liability insurance, insuring assets against all risks, insuring the electronic equipment against all risks, insuring assets in domestic transport (cargo) and insuring assets in international transport (cargo).

Moreover, in 2011 Cyfrowy Polsat S.A. signed motor insurance agreements with STU Ergo Hestia S.A.

Moreover, in 2011 Cyfrowy Polsat signed agreements with Chartis Europe S.A. branch in Poland in respect to third-party liability insurance for directors and members of the Management Board. Apart from that, the agreement concluded in 2008 with Chartis Europe S.A. branch in Poland (at that time 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 6. Presentation of operating and financial results

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

Revenue is derived from (i) retail sales, (ii) sale of equipment and (iii) other revenue sources.

Retail sales

Retail sales consists primarily of (i) monthly subscription fees paid by our DTH subscribers for programming packages, (ii) fees for the leasing of set-top boxes, (iii) activation fees, (iv) penalties due to termination of contracts (v) monthly subscription fees and other revenue from users of our mobile telephony and Internet services and (vi) fees for extra services such as VoD. The total amount of DTH subscription fees depends on the number of subscribers and the amount of monthly subscription fees paid for our packages. Activation fees are collected up-front and amortized over the life of the contract.

Sale of equipment

Sale of equipment consists mostly of revenue from sale of set-top boxes, STB hard disk drives, antennas, Internet modems, routers and mobile handsets to our subscribers when they enter into DTH, broadband Internet and mobile telephony services agreements. The sale price of equipment depends on the model, the tariff plan purchased by the subscriber and the duration of the agreement.

Other revenue

Other revenue sources consist primarily of revenue from:

(i) transmission services;
(ii) calls to customer service desk;
(iii) marketing and advertising sales;
(iv) the lease of premises and facilities; and
(v) other services.

Item 6.2. Sources of other revenues from operating activities

Other operating income consists of:

(i) compensations from customers and distributors for failing to return equipment or returning damaged equipment,
(ii) reversal of inventory impairment write-downs,
(iii) other operating revenue, not derived in the ordinary course of business.

Item 6.3. Sources of costs of operating activities

Operating costs consist of (i) programming costs, (ii) distribution, marketing, customer relation management and retention costs (iii) depreciation and amortization and impairment allowance, (iv) salaries and employee-related costs, (v) broadcasting and signal transmission costs, (vi) costs of equipment sold and (vii) other costs.

Programming costs

Programming costs consist of:

(i) monthly license fees due to television broadcasters and distributors and
(ii) royalties to collective copyright management organizations and the Polish Film Institute.

Distribution, marketing, customer relation management and retention cost

Distribution costs consist of (i) 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 subscribers for DTH, broadband Internet and mobile telephony services and (ii) costs of courier services, distribution of set-top boxes and modems and costs associated with services of our regional agents. Marketing expenses consist of expenses for TV and radio commercials, press and website advertising, promotional activities and materials, as well as other expenses incurred to increase sales and brand recognition. Customer relation management and retention costs consist of mailing costs, call center costs, bad debt recovery fees and other customer relation management costs.

Depreciation, amortization and impairment

Depreciation, amortization and impairment costs primarily consist of depreciation and amortization of set-top boxes leased to our subscribers, plant and equipment, and depreciation of intangible assets and telecommunications equipment related to our mobile telephony services, as well as fixed assets impairment allowance.

Salaries and employee-related costs

Salaries and employee-related expenses consist of salaries paid to employees under employment contracts or project-specific contracts, managerial contracts, remuneration of our Supervisory Board members, social security costs and other employee benefits.

Broadcasting and signal transmission costs

Broadcasting and signal transmission costs consist of:

(i) payments for the lease of satellite transponder capacity;
(ii) payments for the use of the Nagravision conditional access system based on the number of access cards;
(iii) other signal transmission costs.

Cost of equipment sold

Cost of equipment sold relates mostly to set-top boxes, STB hard disk drives, antennas, Internet modems, routers and mobile handsets that we sell to our customers.

Other costs

Key items of other costs include:

(i) infrastructure rental and network maintenance,
(ii) the cost of SMART and SIM cards provided to customers,
(iii) IT services,
(iv) property maintenance costs,
(v) guarantee services costs,
(vi) legal, advisory and consulting costs,
(vii) charges from mobile network operators,
(viii) taxes and other charges,
(ix) the cost of trademarks, and
(x) other costs.

Item 6.4. Sources of other operating costs

Other operating costs consist of:

(i) bad debt allowance and the cost of receivables written off,
(ii) other costs not related to ordinary operations and the ordinary course of business.

Item 6.5. Factors and occurrences that impacted our business and results in 2011

Macroeconomic environment

In 2011, once again Polish economy proved resistant to negative events in the world and in Europe, which was economic instability of many countries and crisis in the Euro zone. According to initial estimates of Central Statistical Office, in 2011, Polish GDP increased by 4.3%, while GDP in the European Union increased on average by 1.5% (according to Eurostat). In addition, an increase in salaries and private consumption was observed. For us it translated into our customers being more willing to choose additional packages and services offered by us.

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, while approximately 40% of our operating expenses (in 2011) were denominated in currencies other than zloty, mainly US dollars and euro.

Foreign exchange rate movements impact our finance income and finance costs through our programming costs, signal transmission costs, trade liabilities or other liabilities denominated in currencies other than the zloty. In addition, the

Intercompany Bonds, that we issued, are denominated in euro, which significantly increases our exposure to foreign currency fluctuations as movements in the exchange rate of the euro to Polish zloty could increase the amount of cash, in Polish zloty, that must be generated in order to pay principal and interest on the Intercompany Bonds.

In 2011 Zloty strengthened towards the US dollar by 2% and weakened towards the euro by 3% (based on annual average exchange rates announced by the National Bank of Poland). Significant fluctuations of both currencies exchange rates occurred mainly in the second half of 2011. In the second half of 2011, Zloty weakened year-on-year towards the US dollar and the Euro by 3% and 7%, respectively (based on arithmetic average of monthly average exchange rates announced by the National Bank of Poland for the second half of 2010 and 2011), which had a negative impact on our operating and finance costs.

We are unable to mould the future foreign exchange rates fluctuations and future foreign exchange rate fluctuations will impact (either positively or negatively) 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.

Acquisition of TV Polsat

On April 20, 2011, Cyfrowy Polsat completed the acquisition of TV Polsat. The acquisition of TV Polsat was financed in a large part by the Term Loan and the Bridge Loan repaid with proceeds from the issue of Intercompany Bonds. Due to the debt financing we incur significant interest costs (for details of the financing see the part *6.9.1. External sources of financing*). Our financial results were also impacted by the valuation of Intercompany Bonds denominated in euro.

Merger with M.Punkt Holdings Ltd. and its subsidiaries mPunkt Polska S.A. and mTel Sp. z o.o.

In 2011, the Company merged with its subsidiaries: M.Punkt Holdings Ltd. and companies in which M.Punkt held 100% share: mPunkt Polska S.A. and mTel Sp. z o.o. The mergers were performed in order to optimize costs and simplify the organizational structure of Cyfrowy Polsat Group. The mergers were effectuated by transferring to Cyfrowy Polsat, as the sole shareholder, all the assets of these companies by the way of universal succession. The mergers had impact on the net assets of the Company, see the notes 38, 39 and 40 of the financial statements for the financial year ended December 31, 2011.

Launch of LTE Internet

On August 30, 2011, following the successful completion of customer tests, we launched a commercial LTE (Long Term Evolution) Internet access service. LTE technology is considered to be the future of mobile broadband Internet and successor of commonly used UMTS standard. Due to its technical characteristics and quality parameters, mobile LTE Internet can eventually replace fixed-line connections and satisfy increasingly demanding customers while enabling them to profit from growing capabilities of the Internet. As a result of expanding our Internet offer at the end of August 2011, by the end of December 2011 we manage to attract over 25 thousands new subscribers to our Internet services. We believe that LTE Internet access service will provide us with a significant competitive advantage and will enable us to increase our subscriber base of both Multi-play offer and stand-alone Internet service.

Competition on DTH market

Our market is very dynamic and competitive. There are three main players on the DTH market in Poland: Canal + Cyfrowy, the operator of Cyfra+ platform, ITI Neovision the operator of "n" platform and Cyfrowy Polsat S.A., operator of Cyfrowy Polsat platform. At the end of 2011, a process of ownership changes began and concerned the merger of Cyfra+ and "n" DTH platforms under the name 'n/C+'. Increased competition on the market (also consolidation processes on cable TV market) influenced our special offers to newly acquired subscribers. Preparing for the last quarter of the year, we introduced attractive promotional offers consisting of: introduction of Premium Package to the flexible offer, free of charge periods (up to 6 months), access to additional packages from PLN 10 or attractive pricing for equipment. Additionally, we enlarged the portfolio of our services by Multiroom service, enabling our subscribers to watch simultaneously different channels from the purchased TV package on two TV sets under one subscription fee. The service is available within the Family HD Package and higher packages.

Due to the strong competition on the market, we continue to invest in customer loyalty programs and retention management. Although that results in an increase in our costs, we believe that our proactive approach to subscriber retention is more cost effective in the long run and decreases the churn rate.

Rising share of leased television receiving equipment

Due to increased share of leased set-top boxes in the new contracts signed, our cost of equipment sold and the revenue from sale of equipment are respectively lower. However, 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.

Item 6.6. 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:

1. Development of pay television market (including i.a. development of new services, consolidation on both cable and DTH market, penetration of pay-TV market).

2. Development of telecommunications market – mobile telephony services, mobile Internet and mobile TV.

3. Development and penetration of multi-play services market (TV, Internet, telephone).

4. 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. In the second half of 2011, zloty weakened compared to USD and euro. Weakening of PLN against these currencies has an adverse influence on our financial results (you will find more information regarding currency risk in the Item 6.13. Information on market risks / Currency risk).

5. In March 2011 the inflation rate was 4.3%, in June 2011 – 4.2%, in September 2011 – 3.9% and in December 2011 – 4.6%. In 2012, experts forecast a decreasing inflationary trend. 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 6.7. Major investments

Telewizja Polsat

On April 20, 2011, in accordance with the provisions of the investment agreement dated November 15, 2010, and as a result of entering into agreements to acquire 100% of share capital of Telewizja Polsat and the issue of ordinary bearer shares of H series for the shareholders of Telewizja Polsat, Cyfrowy Polsat has completed the purchase of Telewizja Polsat. Cyfrowy Polsat acquired 2,369,467 shares in the share capital of Telewizja Polsat with a face value of PLN 100 each for the total price of PLN 3.75 billion (not in thousands), representing 100% of the share capital and entitling to 100 % of votes at the General Meeting. Part of the price for shares of Telewizja Polsat, i.e. PLN 2.6 billion (not in thousands) was paid by a bank transfer and was financed by the debt financing obtained by Cyfrowy Polsat on March 31, 2011 (see below). The remaining amount, i.e. PLN 1.15 billion (not in thousands) was paid through the issuance of the ordinary bearer Series H shares (see below). As a result of the transaction, Cyfrowy Polsat together with Telewizja Polsat formed the largest media group in Poland.

The acquisition of TV Polsat will help us to strengthen our competitive advantages and achieve the position of unquestioned leader on the Polish media market. The investment in TV Polsat sets clear development perspectives, and assures diversified revenue. Moreover, it proves our ability to adapt to the changing market environment and enables us to profit from short-term synergies as well as medium and long-term strategic advantages.

Agreement concerning acquisition of INFO-TV-FM Sp. z o.o.

Taking into account further implementation of our strategy aiming at the widest possible distribution of programming content by using all latest technologies, on October 28, 2011, Cyfrowy Polsat signed a conditional agreement with NFI Magna Polonia S.A. and Evotec Management Limited concerning acquisition of INFO-TV-FM Sp. z o.o. Following the fulfillment of all the conditions precedent, on January 30, 2012, the Company acquired 100% shares in the share capital of INFO-TV-FM Sp. z o.o. for the total price of PLN 29,033,202.19 (not in thousands). Upon the acquisition of INFO-TV-FM Sp. z o.o., the Company acquired frequencies on 470-790 MHz and reservation agreements related to them. These frequencies may be used to provide mobile television services. Based on these assets, we plan to expand our business by services provided through mobile devices, which fits well with both our business plans, market development trends and customers' expectations.

NFI Magna Polonia S.A. bonds

On November 10, 2011, the Company acquired unsecured interest-bearing Series C bonds of NFI Magna Polonia S.A. with nominal value of PLN 14,000 and a maturity date set at 13 January 2013. The interest rate applicable to the bonds will accrue at the rate of WIBOR 3M plus margin. As of the day of the publication of this report this bonds were already fully settled.

Item 6.8. Review of operating and financial situation

Item 6.8.1. Operating results

We consider the number of subscribers, churn rate, ARPU and subscriber acquisition cost when analyzing and evaluating our activities. The table below sets forth these key performance indicators for the relevant periods and is followed by a detailed explanation of each key performance indicator.

	Twelve months ended December 31,		
	2011	**2010**	**Change / %**
Number of subscribers at end of period, of which:	**3,551,671**	**3,436,231**	**3.4%**
Family Package	2,785,016	2,720,154	2.4%
Mini Package	766,655	716,077	7.1%
Average number of subscribers[1], of which:	**3,488,784**	**3,263,905**	**6.9%**
Family Package	2,734,951	2,606,082	4.9%
Mini Package	753,834	657,823	14.6%
Churn rate of which:	**9.8%**	**10.3%**	**-0,5 p.p.**
Family Package	10.6%	11.8%	-1,2 p.p.
Mini Package	7.0%	4.6%	2,4 p.p.
Average revenue per user (ARPU) (PLN), of which:	**37.3**	**35.9**	**3.9%**
Family Package (PLN)	44.2	42.1	5.0%
Mini Package (PLN)	12.7	11.1	14.4%
Subscriber average cost (SAC) (PLN)	**124.0**	**129.0**	**-3.9%**

[1] Calculated as the sum of the average number of subscribers in each month of the period divided by the number of months in the period. Average number of subscribers per month is calculated as the average of the number of subscribers on the first and the last business day of the month.

Subscribers

We define a “subscriber” as a person who signed an agreement for subscription to DTH services and who is obligated, under the terms of the agreement, to make payments to access a package or packages of television and radio channels or who has access to such packages after making required payments but without having signed such an agreement. Our number of subscribers increased by 3.4%, from approximately 3,436.2 thousand subscribers as of December 31, 2010 to approximately 3,551.7 thousand subscribers as of December 31, 2011. We attribute this increase in our subscriber base to the continued demand for DTH services in the Polish pay TV market and the value-for-money of our products. Family Package subscribers constituted 78.4% and 79.2% of our entire subscriber base as of December 31, 2011 and 2010, respectively.

Churn rate

We define “churn rate” as the ratio of the number of contracts terminated during a twelve-month period to the average number of contracts during such twelve-month period. The number of terminated contracts is net of churning subscribers entering into a new contract with us no later than the end of the same twelve-month period. Our churn rate has decreased from 10.3% to 9.8% for the twelve-month period ended December 31, 2010 and December 31, 2011, respectively with the churn rate of the Family Package decreasing by 1.2 percentage point and the churn rate of Mini Package increasing by 2.4 percentage points. The decrease in churn resulted from our attractive retention offers and continued high satisfaction of our customers.

ARPU

We define “ARPU” as the average net revenue per subscriber to whom we rendered services calculated as a sum of fees payable by our subscribers for our services divided by the average number of subscribers to whom we rendered services in the reporting period. ARPU increased by 3.9% from PLN 35.9 in 2010 to PLN 37.3 in 2011. Family Package ARPU increased by 5.0%, from PLN 42.1 in 2010 to PLN 44.2 in 2011. Mini Package ARPU increased by 14.4%, from PLN 11.1 in 2010 to PLN 12.7 in 2011. Our ARPU increased thanks to revenues from additional services (nVoD).

Subscriber Acquisition Cost

We define subscriber acquisition cost (“SAC”) as commission payable to distributors per customer acquired. Our average SAC decreased by 3.9% from PLN 129.0 in 2010 to PLN 124.0 in 2011.

Item 6.8.2. Presentation of differences between achieved financial results and published forecasts

The company did not present forecasts for 2011.

Item 6.8.3. Review of the financial situation

The following review of results for the fiscal year ended on December 31, 2011 was prepared based on financial statements for the fiscal year ended on December 31, 2011 prepared in accordance with International Accounting Standards approved for use in the European Union as at January 1, 2011.

All financial data is expressed in thousands.

Comparison of financial results in 2011 with the result in 2010

Revenue

Our total revenue increased by PLN 158.088, or 10.7%, to PLN 1,631,628 in 2011 from PLN 1,473,540 in 2010. Revenue increased for the reasons set forth below.

(all financial data presented in PLN thousand, unless otherwise stated)

Retail subscription revenue

Revenue from retail subscription fees increased by PLN 177,930, or 12.6%, to PLN 1,594,880 in 2011 from PLN 1,416,950 in 2010. This increase primarily resulted from DTH subscription fee revenue (attributable to a higher average number of subscribers in 2011 compared to 2010 and an increase in ARPU) and revenue from telecommunications services.

Sale of equipment

Revenue from the sale of equipment decreased by PLN 16,054, or 56.8%, to PLN 12,224 in 2011 from PLN 28,278 in 2010. This decrease was a net effect of several factors, out of which the most significant was significantly lower revenues from sale of set-top boxes, resulting from the fact that the majority of our new subscribers prefer to lease rather than purchase set-top-boxes.

Other revenue

Other revenue decreased by PLN 3,788, or 13.4%, to PLN 24,524 in 2011 from PLN 28,312 in 2010. This decrease is a net effect of several factors, out of which the most significant was a decrease in revenue from the lease of premises and equipment (resulting from the contribution in kind to our subsidiary CPTM Sp. z o.o. assets that used to be leased by the Company, effectuated in December 2010).

Operating costs

	For the year ended December 31,		
	2011	**2010**	**Change / %**
Programming costs	434,480	392,035	10.8%
Distribution, marketing, customer relation management and retention costs	320,411	297,530	7.7%
Depreciation, amortization and impairment	139,174	78,873	76.5%
Salaries and employee-related costs	94,041	76,616	22.7%
Broadcasting and signal transmission costs	86,736	79,855	8.6%
Cost of equipment sold	29,800	56,151	-46.9%
Other costs	150,050	115,358	30.1%
Total operating costs	**1,254,692**	**1,096,418**	**14.4%**

Total operating costs increased by PLN 158,274, or 14.4%, to PLN 1,254,692 in 2011 from PLN 1,096,418 in 2010. Costs grew for the reasons set forth below.

Programming costs

Programming costs increased by PLN 42,445, or 10.8%, to PLN 434,480 in 2011 from PLN 392,035 in 2010. This increase was a net effect of several factors, including mainly the increase in the average number of our DTH subscribers and lower costs of the programming content.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs increased by PLN 22,881, or 7.7%, to PLN 320,411 in 2011 from PLN 297,530 in 2010. This increase resulted primarily from an increase in subscriber base and consequently an increase in customer relation management costs and introduction of customer retention programs.

Depreciation, amortization and impairment

Depreciation, amortization and impairment cost increased by PLN 60,301, or 76.5%, to PLN 139,174 in 2011 from PLN

78,873 in 2010. The increase in depreciation, amortization and impairment was caused primarily by (i) an increase in depreciation of set-top boxes leased to our subscribers, which we account for as fixed assets, resulting from the higher number of leased set-top boxes and (ii) recognition of non-current assets' impairment allowance (concerning primarily impairment of set-top boxes) in 2011.

Salaries and employee-related costs

Salaries and employee-related costs increased by PLN 17,425, or 22.7%, to PLN 94,041 in 2011 from PLN 76,616 in 2010. The increase was mainly due to a higher number of employees resulting from the growth of our business and the merger with mPunkt.

Broadcasting and signal transmission costs

Broadcasting and signal transmission costs increased by PLN 6,881, or 8.6%, to PLN 86,736 in 2011 from PLN 79,855 in 2010, mainly due to currency fluctuations (weakening of the Polish currency).

Cost of equipment sold

Cost of equipment sold decreased by PLN 26,351, or 46.9%, to PLN 29,800 in 2011 from PLN 56,151 in 2010. This decrease was a net effect of several factors, out of which the most significant was significantly lower costs of sales of set-top boxes, resulting from the fact that the majority of our new subscribers chose to lease rather than purchase set-top-boxes from us.

Other costs

Other costs increased by PLN 34,692, or 30.1%, to PLN 150,050 in 2011 from PLN 115,358 in 2010. This increase was a net effect of several factors, out of which the most significant were: (i) an increase in costs of trademarks, due to transfer to our subsidiary CPTM Sp. z o.o. of "Cyfrowy Polsat" trademark in December 2010, (ii) higher costs of realized traffic and fees to mobile operators resulting from the increase in the number of our mobile telephony and Internet service users, and (iii) a decrease in the costs of infrastructure rental and network maintenance.

Other operating income

Other operating income decreased by PLN 608,594, or 99.1%, to PLN 5,438 in 2011 from PLN 614,032 in 2010. The decrease was mainly due to gain recognized in 2010 following the contribution in a kind of an organized part of the enterprise to subsidiary CPTM Sp. z o.o. in the amount of PLN 608,434.

Other operating costs

Other operating costs increased by PLN 30,223, or 70.7%, to PLN 72,986 in 2011 from PLN 42,763 in 2010. The increase was a net effect of several factors, including: (i) higher bad debt allowance and receivables written off, (iii) higher other costs.

Finance income

Finance income increased by PLN 207,233, to PLN 213,018 in 2011 from PLN 5,785 in 2010. The change is explained by the dividend received from TV Polsat .

Finance costs

Finance costs increased by PLN 366,411 to PLN 371,393 in 2011 from PLN 4,982 in 2010. The increase was primarily due to the costs of service of debt financing of acquisition of TV Polsat (interest costs on Term Facility Loan, Revolving Facility, Bridge Facility Loan and Intercompany Bonds) and unrealized foreign exchange differences related to valuation of the EUR 350 million (not in thousands) Intercompany Bonds.

Net profit

Net profit decreased by PLN 728,073 or 82.3%, to PLN 156,093 in 2011 from PLN 884,166 in 2010. High net profit in 2010 was related to other operational profit recognized following the contribution in a kind of an organized part of the enterprise to subsidiary CPTM Sp. z o.o. in the amount of PLN 608,434. Excluding the effect of that transaction, the operating profit decreased by PLN 119,639, or by 43.4%. The decrease was mainly due to high financial costs including the significant costs resulting from foreign exchange rates fluctuations (mainly losses on valuation of Intercompany Bonds denominated in euro), that was partially compensated by high finance income related primarily to the dividend from TV Polsat.

Other information

EBITDA & EBITDA margin

EBITDA decreased by PLN 578,702, or 56.3%, to PLN 448,562 in 2011 from PLN 1,027,264 in 2010. The decrease was related to revenue from transferring contribution in a kind of an organized part of the enterprise to subsidiary CPTM Sp. z o.o. in the amount of PLN 608,434 recognized in 2010. Excluding the effect of that transaction, EBITDA in 2010 amounted to PLN 418,830 and in 2011 increased by PLN 29,732, or 7.1%. EBITDA margin amounted to 27.5% in 2011 compared to 28.4% in 2010 (excluding the effect of the transaction with CPTM).

Employment

Average number of employees in Cyfrowy Polsat was 669 in 2011, as compared to 548 in 2010. The increase in the average number of employees resulted from our organic growth and the merger with mPunkt.

Comparison of financial position as of December 31, 2011 and December 31, 2010

As of December 31, 2011 and December 31, 2010, our balance sheet amount was PLN 5,774,580 and PLN 1,594,289 respectively.

As of December 31, 2011 and December 31, 2010, our non-current assets were PLN 5,216,344 and PLN 1,161,981, respectively, and accounted for 90.3% and 72.9% of total assets, respectively.

The value of reception equipment increased by PLN 143,108 or by 49.1%, to PLN 434,316 as of December 31, 2011 from PLN 291,208 as of December 31, 2010 due to an increase in the number of leased set-top boxes.

The value of other property, plant and equipment increased by PLN 1,847 or by 1.4% to PLN 133,841 as of December 31, 2011 from PLN 131,994 as of December 31, 2010. The increase was a net effect of several factors, including primarily merger with mPunkt, purchase of equipment and depreciation charges.

The value of goodwill amounted to PLN 52,022 as of December 31, 2011 compared to a nil balance as of December 31, 2010. The value of goodwill was presented in the standalone financial statements as a result of the merger with mPunkt.

The value of other intangible assets increased by PLN 8,119, or 39.6%, to PLN 28,598 as of December 31, 2011 from PLN 20.479 as of December 31, 2010, due to purchases of intangible assets offset by amortization charges for the period.

The value of investment property decreased slightly (by 1.3%) to PLN 6,843 to PLN 6,931. Investment property of the Company comprises land and buildings held for rent.

The value of shares in subsidiaries and associates increased by PLN 3,840,562 to 4,516,033 as of December 31, 2011 from PLN 675,471 as of December 31, 2010. The increase resulted primarily from the acquisition of TV Polsat netted by a decrease resulting from the merger with mPunkt, mTel and M.Punkt.

The value of other non-current assets amounted to PLN 44,691 as of December 31, 2011 and increased by PLN 8,793, or 24.5%, compared to PLN 35,898 as of December 31, 2010. This increase was due to an increase in long-term costs accruals and recognition of CIRS transactions in 2011.

As of December 31, 2011 and December 31, 2010, our current assets were PLN 558,236 and PLN 432,308, respectively, and accounted for 9.7% and 27.1% of total assets, respectively.

The value of inventories increased by PLN 19,785, or 14.1%, to PLN 159,950 as of December 31, 2011 from PLN 140,165 as of December 31, 2010. This was mainly a result of an increase in the stock of removable STB hard disk drives and Internet modems, partially offset by a decrease in the stock of set-top boxes.

The value of bonds amounted to PLN 14,854 as of December 31, 2011 compared to a nil balance as of December 31, 2010. The balance related to unsecured interest-bearing bonds of NFI Magna Polonia S.A. with nominal value of PLN 14,000.

The value of trade and other receivables decreased slightly (0.1%), to PLN 178,417 as of December 31, 2011 from PLN 178,588 as of December 31, 2010.

The value of cash and cash equivalents decreased by PLN 12,337, or 51.0%, to PLN 11,858 as of December 31, 2011, from PLN 24,195 as of December 31, 2010. This decrease is a net effect of net cash of PLN 76,246 from operating activities generated in 2011, net cash of PLN 2,385,155 from financing activities, negative cash flow of PLN 2,473,859 from investing activities and exchange rate differences (see item *6.9.2. Cash flows* for details).

The value of other current assets increased by PLN 106,384, or 137.9%, to PLN 183,538 as of December 31, 2011, from PLN 77,154 as of December 31, 2010. This increase resulted primarily from higher short term costs accruals (mainly resulting from the agreement with Mobyland for provision of data transfer services), recognition of CIRS transactions in 2011 and prepayment for shares of INFO-TV-FM Sp. z o.o.

Equity increased by PLN 1,444,040, or by 136.4% to PLN 2,503,076 as of December 31, 2011 from PLN 1,059,036 as of December 31, 2010, mainly as a result of: (i) increase in share capital by PLN 3,201 through issue of H Series shares, (ii) recognition of the surplus of purchase price over the nominal value of acquired shares of TV Polsat in the amount of PLN 1,146,799 net of transaction costs (PLN 548) in Other reserves, (iii) fair value measurement of consideration transferred for shares in TV Polsat in Other reserves (PLN 148,852), (iv) recognition of hedging instruments PLN 4,758 and (v) PLN 156,093 profit generated in 2011.

The value of liabilities from loans and borrowings (long and short term) amounted to PLN 1,249,023 as of December 31, 2011, compared to a nil balance as of December 31, 2010. The increase resulted primarily from the Term Loan incurred to finance the acquisition of TV Polsat.

The value of liabilities from Intercompany Bonds (long and short term) amounted to PLN 1,516,954 as of December 31, 2011 and resulted from the issue of EUR 350 million (not in thousands) Intercompany Bonds maturing in 2018 to our subsidiary Cyfrowy Polsat Finance AB. The proceeds from the issue of the Intercompany Bonds were used to refinance the Bridge Loan that was used as part of financing of acquisition of TV Polsat.

The value of other non-current liabilities and provisions increased by PLN 3,689 to PLN 5,589 as of December 31, 2011 from PLN 1,900 as of December 31, 2010, mainly due to recognized liabilities from valuation of financial instruments.

The value of trade and other payables decreased by PLN 40,580, or 14.5%, to PLN 239,831 as of December 31, 2011 from PLN 280,411 as of December 31, 2010 mainly as a result of a decrease in trade payables to non-related parties, partially offset mainly by an increase in trade payables to related parties and an increase in accruals (mainly license fees).

The value of deposits for equipment decreased by PLN 2,691, or by 17.4%, to PLN 12,743 as of December 31, 2011 from PLN 15,434 as of December 31, 2010 primarily as a result of a decrease in deposits received from subscribers, partially offset by deposits received from distributors.

Deferred income increased by PLN 14,388, or 8.6%, to PLN 180,800 as of December 31, 2011 from PLN 166,412 as of December 31, 2010 as a result of an increase in subscription fees paid in advance by our subscribers.

Item 6.9. Liquidity and capital resources

We maintain cash and cash equivalents to fund the day-to-day requirements of our business. We hold cash primarily in Polish zloty. Historically, we have relied primarily upon cash flows from operations and bank borrowings to provide the funds required for acquisitions and operations. Recently, we used additional source of financing - issue of bonds. Our objective is to ensure cost-efficient access to various financing sources, including bank loans and other borrowings.

While we hold cash primarily in zloty, we maintain euro and U.S. dollar positions, the value of which depends on the amount of payments to be made for license fees to broadcasters, signal transmission costs, the costs of using the conditional access system, the purchase of set-top boxes as well as payments related to service of Intercompany Bonds denominated in euro.

Our non-current liabilities amounted to PLN 2,427,788 as of December 31, 2011 as compared to PLN 72,770 as of December 31, 2010. Our current liabilities amounted to PLN 843,716 as of December 31, 2011 as compared to PLN 462,483 as of December 31, 2010.

Our total debt from long- and short-term loans and borrowings and bonds as of December 31, 2010 was PLN 2,765,977 compared to a nil balance as at December 31, 2010.

Our cash and cash equivalents amounted to PLN 11,858 as at December 31, 2011 as compared to PLN 24,195 as at December 31, 2010.

The increase in liabilities was primarily due to the Term Loan incurred and the Intercompany Bonds issued in order to finance the acquisition of TV Polsat. The Term Loan is due at the end of 2015 and the Intercompany Bonds mature in May 2018 (see below for details).

We believe that our cash balances and cash generated from our current operations as well as means available within our revolving facility (described below) will be sufficient to fund the future cash needs for our operational activity, development of our services and for service of our debt.

Item 6.9.1. External sources of funding, financing and indebtedness

Item 6.9.1.1. Information on incurred and noticed credit and loan agreements

In connection with the acquisition of Telewizja Polsat, on March 31, 2011 the Company, together with its subsidiaries, concluded a Senior Facilities Agreement with a syndicate of Polish and international banks led by: Citibank, N.A., London Branch, Bank Handlowy w Warszawie S.A., Crédit Agricole CIB, The Royal Bank of Scotland plc. (“the Bookrunners”).

The Senior Facilities Agreement provided for a term facility loan of up to PLN 1,400,000,000 (not in thousands) and a revolving facility loan of up to PLN 200,000,000 (not in thousands). The interest rate applicable for both, the term facility and revolving facility loan, was agreed as variable rates comprising WIBOR, for the relevant interest periods, and the applicable margin. The term facility loan is to be repaid in quarterly installments in varying amounts commencing June 30, 2011. Both facilities expire on December 31, 2015. As at December 31, 2011 the revolving facility was not used.

We use interest rate swaps to hedge our exposure to volatility in the Term Loan interest payments. These transactions were described in the Note no. 30 of the financial statements for the year ended December 31, 2011.

In addition, on March 31, 2011, the Company, together with its subsidiaries, concluded a Bridge Facility Agreement with the Bookrunners. This agreement provided for a bridge loan facility in EUR of up to the amount equivalent of PLN 1,400,000,000 (not in thousands) which, as of the day of the execution of this agreement, equaled approximately EUR 350,000,000 (not in thousands). The interest rate applicable for the bridge facility loan was agreed as EURIBOR, for the relevant interest periods, plus the applicable margin, which increases as the term of the facility increases. The bridge facility was repaid on May 20, 2011 with the net proceeds from the offering of Senior Notes, together with EUR 14,897,339.53 (not in thousands) of cash on hand.

Summary of significant provisions of the agreements

Mandatory prepayments

The facilities will be cancelled and the outstanding balance, together with accrued interest, shall become immediately due and payable upon loss of control by Mr Zygmunt Solorz-Żak (or party related with him) over the Company or loss of control by the Company over Telewizja Polsat. The facilities shall become immediately due upon sale of all or substantially all of the Group or the assets of the Group.

Mandatory prepayments are also required in the following amounts:

- in the amount equal to 65% of excess cash flow for any financial year of the Company or equal to 25% if total net debt to EBITDA ratio of the Company is less than 2.0,
- in the amount of disposal proceeds for transaction exceeding PLN 10 million (not in thousands) in respect of any one disposal or PLN 40 million (not in thousands) in aggregate at any time before the facilities are repaid in full
- in the amount of debt proceeds or equity proceeds if total net debt to EBITDA ratio of the Company exceeds 2.0.

In addition, voluntary Senior Notes repayment is allowable only if accompanied by a repayment of term and revolving facilities.

Financial covenants

The loan agreement imposed on the Group the obligation to maintain financial ratios at a certain level. The Debt Service Cover shall be at least 1.4 for a given Period. The Interest Cover shall be at least 2.5 for a given Period. The Total leverage shall not exceed 4.25 for a given Period. Financial covenants shall be tested on each quarter date and shall be reported on by an auditor on annual basis.

Additionally, restrictions which are imposed on the Group include the following:

- restrictions relating to mergers, acquisitions, joint venture transactions
- restrictions related to disposal of assets and substantial change of business
- restrictions related to incurring additional financial indebtedness and share capital issue
- restrictions relating to cash out transactions (inter alia dividend and other distribution payments, repayment of principal and interest of financial indebtedness, management/advisory fee payments, advance or similar kind of payment to related parties)

Additionally, the Group is obliged inter alia to the following:

- provide the banks with any material documents and information concerning the financial standing of the Group,
- hedge against interest rate and foreign exchange rate fluctuations in respect of the amounts outstanding under the term facility and High Yield Notes
- all bank accounts shall be opened and maintained with the lending banks
- use, for the purpose of financial statements' audit, only the services of the auditors specified in the agreement or the services of other auditors if approved by the majority of banks.

On April 28, 2011, we paid and closed overdraft facility at Bank Polska Kasa Opieki S.A. of up to PLN 139,000, floating interest rate (WIBOR O/N + bank margin).

Item 6.9.1.2. Issue of Intercompany Bonds

On May 20, 2011, the Company issued unsecured interest-bearing Series A Bonds due in 2018 in the nominal aggregate amount of EUR 350 million (EUR 35 million each, not in thousands) acquired in whole by its subsidiary Cyfrowy Polsat Finance AB (the "Intercompany Bonds"). The aggregate issue price of the Intercompany Bonds in the amount of EUR 343 million (not in thousands) was equal to the nominal value of the Bonds less 2% commission.

The interest rate applicable to the Intercompany Bonds accrues at the rate of 8.16% per annum and is payable semiannually in arrears on May 20 and November 20, commencing on November 20, 2011. Intercompany Bonds shall be redeemed on May 20, 2018 by way of pecuniary payment equal to the nominal value of the Intercompany Bonds.

The funds from the Intercompany Bonds were raised through the issue by Cyfrowy Polsat Finance AB, our wholly owned subsidiary, of Senior Notes due May 20, 2018 of the aggregate principal amount of EUR 350 million (not in thousands). The issuer of Senior Notes is a special purpose financing company with no operations of its own. Cyfrowy Polsat Finance relies on payments from us under the Notes Proceeds Loan to make cash payments on the Senior Notes.

Pursuant to the Indenture, interest on the Senior Notes accrues from (and including) May 20, 2011 and will be computed on the basis of a 360-day year comprised of twelve 30-day months. Interest on the Senior Notes will accrue at the rate of 7.125% per annum and will be payable semiannually in arrears on May 20 and November 20, commencing on November 20, 2011. The Senior Notes were issued in minimum denominations of EUR 100,000 (not in thousands) and integral multiples of EUR 1,000 (not in thousands) in excess thereof.

For the purpose of hedging future cash flows regarding Senior Notes interest payments, denominated in euro, the Company concluded CIRS (cross-currency interest rate swap) transaction. These transactions were described in the Note no. 30 of the financial statements for the year ended December 31, 2011.

The Indenture contains covenants that are typical for high yield notes and impose financial and operating restrictions on the Company. These covenants limit, among other things, the ability of the Company and its restricted subsidiaries to: (i) incur additional indebtedness; (ii) make certain restricted payments; (iii) transfer or sell assets; (iv) enter into transactions with affiliates; (v) create certain liens; (vi) create restrictions on the ability of restricted subsidiaries to pay dividends or other payments; (vii) issue guarantees of indebtedness by restricted subsidiaries; (viii) merge, consolidate, amalgamate or combine with other entities; and (ix) designate restricted subsidiaries as unrestricted subsidiaries. Each of the covenants is subject to a number of important exceptions and qualifications set forth in the Indenture.

Item 6.9.2. Cash flows

The following table presents selected cash flow data for twelve-month periods ended December 31, 2011 and 2010:

	For the nine months ended December 31,	
	2011	**2010**
Net cash flow from operating activities	76,246	210,244
Net cash flow used in investing activities	(2,473,859)	(74,316)
Net cash flow from financing activities	2,385,155	(208,801)
Net increase/(decrease) in cash and cash equivalents	(12,458)	(72,873)

Net cash flow from operating activities

Net cash from operating activities amounted PLN 76,246 in the twelve-month period ended December 31, 2011 resulting mainly from the net profit of PLN 156,093 adjusted by various elements including primarily: (i) depreciation, amortization and impairment, and interest expense, (ii) a net increase in set-top boxes provided under operating lease, (iii) foreign exchange losses, (iv) dividend from TV Polsat, (v) a decrease in liabilities, provisions and deferred income, (vi) an increase in receivables and other assets. Net cash from operating activities in the twelve-month period ended December 31, 2010 amounted to PLN 210,244 and it resulted from the net profit amounting to PLN 884,166 adjusted by various positions including mainly: (i) contribution in a kind of an organized part of the enterprise to the subsidiary CPTM Sp. z o.o., (ii) a net increase in set-top boxes provided under operating lease, (iii) an increase in receivables and other assets, (iv) a decrease in liabilities, provisions and deferred income, (v) depreciation, amortization and impairment and (vi) income tax.

(all financial data presented in PLN thousand, unless otherwise stated)

Net cash flow used in investing activities

Net cash used in investing activities amounted to PLN 2,473,859 in the twelve-month period ended December 31, 2011 and consisted primarily of the acquisition of 100% shares in TV Polsat, the other payments included: purchase of property, plant and equipment and acquisition of intangible assets, as well as purchase of bonds from NFI Magna Polonia S.A. and advances for purchase of shares in INFO-TV-FM Sp. z o.o. Net cash used in investing activities amounted to PLN 74,316 in the twelve-month period ended December 31, 2010 and consisted primarily of purchase of shares in M.Punkt, acquisition of property, plant and equipment and acquisition of intangible assets.

Net cash flow from financing activities

Net cash from financing activities amounted PLN 2,385,155 in the twelve-month period ended December 31, 2011 and consisted primarily of PLN 2,800,000 cash from Term Loan and Bridge Loan and PLN 1,372,245 from the issue of Intercompany Bonds, which was partially offset by repayment of bank loans in the amount or PLN 1,531,023 and repayment of interests on loans, borrowings and finance lease in the amount of PLN 303,547. Net cash used in financing activities amounted PLN 208,801 in the twelve-month period ended December 31, 2010 and consisted primarily of dividends paid and repayment of loans and borrowings.

Item 6.9.3. Capital expenditures

We incurred capital expenditures of PLN 44,269 and PLN 40,642 in the twelve-month periods ended December 31, 2011 and 2010, respectively. Capital expenditures to revenue ratio amounted 2.7% and 2.8% in the twelve-month periods ended December 31, 2011 and 2010, respectively. Capital expenditures in the twelve-month period ended December 31, 2011 concerned primarily the payments of investment liabilities presented in the financial statement as of December 31, 2010 and the purchase of technical equipment and machinery, vehicles, computers and other equipment as well as modernization of our property and improvements in our IT systems.

Item 6.9.4. Contractual Obligations

Our most significant contractual obligations (future cash flows) as of December 31, 2011 were as follows:

	Total	Less than 1 year	1 to 5 years	Over 5 years
Contractual liabilities				
Loans and borrowings	1,567,832	307,986	1,259,846	-
Senior Notes liabilities	2,365,815	126,144	504,575	1,735,096
Financial leases liabilities	1,186	252	934	-
Operating leases liabilities	602,212	106,500	394,420	101,292
Total contractual liabilities	**4,537,045**	**540,882**	**2,159,775**	**1,836,388**

As of December 31, 2011, most of our contractual liabilities were long-term liabilities due in more than one year.

Item 6.9.5. Off-Balance Sheet Arrangements

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of the technical equipment was PLN 1,527 as at December 31, 2011 (PLN 12,403 as at December 31, 2010). Total amount of capital commitments resulting from agreements on property improvements was PLN 3,906 as at December 31, 2011 (PLN 75 as at December 31, 2010). Additionally the amount of deliveries and services committed to under agreements for the purchases of licenses and software as at December 31, 2011 was PLN 431 (PLN 173 as at December 31, 2010).

Contingent liabilities relating to promissory notes

As at December 31, 2011, the Company had contingent liabilities relating to promissory notes in the total amount of PLN 22 (excluding blank promissory notes). Furthermore, as at December 31, 2011 the Company had blank promissory notes (good performance bonds under the agreements with mobile network operators as well as rental, loan and lease agreements).

Item 6.10. Information on loans granted with particular emphasis on related entities

In 2011, Cyfrowy Polsat did not grant any loans.

Item 6.11. Information on granted and received guarantees with particular emphasis on guarantees granted to related entities

On April 14, 2011 the Group entered into agreements for the establishment of the following security in respect to the Senior Facilities Agreements and the Bridge Facility Agreements entered into on 31 March 2011:

(i) Registered pledge on tangible assets and intangible rights comprising the business of the Company, Cyfrowy Polsat Technology Sp. z o.o., Cyfrowy Polsat Trade Marks Sp. z o.o.;

(ii) Financial and registered pledges on all shares in Cyfrowy Polsat Technology Sp. z o.o. and Cyfrowy Polsat Trade Marks Sp. z o.o., held by the Company;

(iii) Transfer of receivables for security, due to Cyfrowy Polsat Technology Sp. z o.o., Cyfrowy Polsat Trade Marks Sp. z o.o. from various debtors;

(iv) Contractual mortgage on real estate owned by the Company;

(v) Statement of the Company, Cyfrowy Polsat Technology Sp. z o.o., Cyfrowy Polsat Trade Marks Sp. z o.o. on submission to the enforcement procedure as stipulated by the notary deed.

On April 18, 2011 the Group entered into agreements for the establishment of the following security in respect to the Senior Facilities Agreement and the Bridge Facility Agreement:

(i) Transfers of receivables for security, due to the Company from various debtors.

On April 20, 2011 the Company entered into a pledge agreement by which it established a financial and registered pledge on all the shares of Telewizja Polsat S.A. held by the Company.

On June 20, 2011, in connection with the transformation of the Company's subsidiary - Telewizja Polsat S.A. - into a limited liability company, the Company entered into a pledge agreement which established a financial and registered pledge on all the shares of Telewizja Polsat Sp. z o.o. held by the Company.

On June 17 and June 20, 2011, Telewizja Polsat Sp. z o.o. and its subsidiaries: RS TV S.A., Polsat Media Sp. z o.o., Media-Biznes Sp. z o.o., Nord License AS with its registered office in Norway, Polsat License Ltd. with its registered office in

Switzerland and Polsat Futbol Ltd. with its registered office in the United Kingdom entered into agreements and other documents for the establishment in particular of the following security in respect to the repayment of the term and revolving facility loans granted under the Senior Facilities Agreement and the repayment (redemption) of the High Yield Notes (i.e. Senior Notes):

(i) Registered pledge on tangible assets and intangible rights of Telewizja Polsat Sp. z o.o., RS TV S.A., Polsat Media Sp. z o.o., Media-Biznes Sp. z o.o.;

(ii) Security established on the assets of Nord License AS, Polsat Futbol Ltd., Polsat License Ltd.;

(iii) Financial and registered pledge on all shares in RS TV S.A., Polsat Media Sp. z o.o., Media-Biznes Sp. z o.o., held by Telewizja Polsat Sp. z o.o.;

(iv) Pledge on shares in Nord License AS., Polsat License Ltd. and Polsat Futbol Ltd. held by Telewizja Polsat Sp. z o.o.;

(v) Transfer of receivables for security, due to Telewizja Polsat Sp. z o.o., RS TV S.A., Polsat Media Sp. z o.o. and Media-Biznes Sp. z o.o., Nord License AS, Polsat License Ltd. and Polsat Futbol Ltd. from various debtors;

(vi) Mortgage on real estate owned by Telewizja Polsat Sp. z o.o.;

(vii) Mortgage on real estate owned by RS TV S.A.;

(viii) Statement of Telewizja Polsat Sp. z o.o., RS TV S.A., Polsat Media Sp. z o.o. and Media-Biznes Sp. z o.o. on submission to the enforcement procedure as stipulated by the notary deed.

Aside from securities presented above, pursuant to the Indenture, the Senior Notes (for details refer to the part *Liquidity and Capital Resources* in point *12.7.2. Review of the financial situation*) are guaranteed by each of the Initial Guarantors (the Company, Cyfrowy Polsat Technology Sp. z o.o., Cyfrowy Polsat Trade Marks Sp. z o.o.).

In addition, on May 20, 2011, the following agreements have been concluded and the following securities have been established:

(i) Registered and financial pledges for Citicorp over rights to the bank accounts of the Issuer maintained by RBS Bank (Polska) S.A.

(ii) Share pledge for the benefit of the finance parties represented by Citicorp over all present and future shares in the Issuer and all rights relating to any of those shares.

(iii) Account pledge for the benefit of the finance parties represented by Citicorp over rights to the bank account of the Issuer maintained by EFB Bank AB.

On June 10, 2011, Cyfrowy Polsat Finance AB ("Cyfrowy Polsat Finance") entered into a pledge agreement with Citicorp Trustee Company Limited. Pursuant to the agreement Cyfrowy Polsat Finance established in favor of Citicorp a registered and financial pledge over 10 registered Series A bonds issued by the Company on 20 May 2011 with the total nominal value of EUR 350 million (not in thousands) maturing in 2018 (the "Bonds"). The aforementioned pledges secure the senior secured bonds with the total nominal value of EUR 350 million (not in thousands) maturing in 2018 issued by Cyfrowy Polsat Finance as well as liabilities of the Company and other debtors under the loan agreements.

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

The Company received UOKiK's decision No. 11/2009 dated December 31, 2009 whereby the President of UOKiK confirmed that certain statements included in the Company's service delivery regulations in force prior to November 1, 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 Competition and Consumer Protection Act dated February 16, 2007 UOKiK imposed a cash fine of PLN 994,000 (not in thousands), representing 0.09% of the Company's 2008 revenue.

The Company filed an appeal against the decision to the Polish Competition and Consumer Protection Court. On April 14, 2010, the President of UOKiK called for the appeal to be dismissed in full.

On August 12, 2011 the Polish Competition and Consumer Protection Court announced a verdict which supports the decision of the President of UOKiK in respect of practices breaching a collective interests of consumers. The Court also agreed with the amount of penalty imposed by UOKiK in the amount of PLN 994,000 (not in thousands).

On October 10, 2011 the Company filed an appeal against the above-mentioned verdict.

As at the date of approval of these financial statements, no changes occurred in respect of the above.

Other litigations

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 April 2, 2010, the Praga District Court X Commercial Department, in Warsaw announced the verdict, according to which, the Company is ordered to pay in favour of SkyMedia Sp. z o.o. an amount of PLN 545,000 (not in thousands) plus legal interest accrued from August 28, 2007, and also PLN 30,000 (not in thousands) of legal costs reimbursement. On September 22, 2010 the Court of Appeals in Warsaw upheld the verdict. On January 26, 2012 the Supreme Court has cancelled the judgement in full and turned the matter back for reappraisal.

Item 6.13. Information on market risks

The Company has an active approach to managing its market risk exposure. The objectives of market risk management are:

- to limit fluctuations in profit/loss before tax,
- to increase the probability of meeting budget assumptions,
- to maintain the healthy financial condition, and
- to support the process of undertaking strategic decisions relating to investing activity, with attention to sources of capital for this activity.

All the market risk management objectives should be considered as a whole, while their realization is dependant primarily upon the internal situation and market conditions.

The Company applies an integrated approach to market risk management. This means a comprehensive approach to the whole spectrum of identified market risks, rather than to each of them individually. The Company applies a consistent and step-by-step approach to market risk management. The primary technique for market risk management is the use in the Company of hedging strategies involving derivatives. Apart from this, natural hedging is also used to the extent available.

All of the potential hedging strategies and the selection of those preferred reflect the following factors: the nature of identified market risk exposures of the Company, the suitability of instruments to be applied and the cost of hedging, current and forecasted market conditions. In order to mitigate market risk, derivatives are primarily used. The Company transacts only those derivatives for which it has the ability to assess their value internally, using standard pricing models appropriate for a particular type of derivative, and also these which can be traded without significant loss of value with a counterparty other than the one with whom the transaction was initially entered into. In evaluating the market value of a given instrument, the Company relies on information obtained from particular market leading banks, brokers and information services.

It is permitted to use the following types of instruments:

- Swaps,
- Forwards and futures,
- Options.

Currency risk

One of the main risks to which the Company is exposed is currency risk related to fluctuations in the exchange rate between the Polish zloty and other currencies. The revenues generated by the Company are denominated mainly in Polish zloty, however, a significant portion of operating costs and capital expenditures are incurred in foreign currencies. The Company's currency risk is related to royalties for 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 2011 the level of currency risk exposure has increased because of new financing denominated in EUR obtained to purchase Telewizja Polsat S.A.

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

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

On August 10, 2010 the Company purchased foreign exchange call options for a total value of EUR 12,000 and USD 18,000. On November 4, 2010 the Company purchased foreign exchange call options for a total value of USD 18,000. 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 December 31, 2010 the fair value of unrealized foreign exchange call options amounted to PLN 5,604 and was presented in 'Other current assets'. In 2011 the Company recognized financial expenses resulting from valuation and realization of options in income statement totaling PLN 3,125 and between August 10, and December 31, 2010 PLN 922.

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

(all financial data presented in PLN thousand, unless otherwise stated)

The Company's exposure to foreign currency was as follows based on a notional currency amounts:

	December 31, 2011				December 31, 2010	
	EUR	**USD**	**GBP**	**CHF**	**EUR**	**USD**
Trade receivables	1,736	48	-	-	2,123	28
Cash and cash equivalents	307	36	1	1	1,451	101
Intercompany Bonds	(343,451)	-	-	-	-	-
Trade payables	(518)	(2,194)	-	-	(7,210)	(4,416)
Gross balance sheet exposure	**(341,926)**	**(2,110)**	**1**	**1**	**(3,636)**	**(4,287)**
Foreign exchange call options	-	-	-	-	7,000	27,000
CIRS	43,641	-	-	-	-	-
Net exposure	**(298,285)**	**(2,110)**	**1**	**1**	**3,364**	**22,713**

Following foreign exchange rates were applied in the presented periods:

	Average rate		Rates at the balance sheet date	
(in PLN)	**2011**	**2010**	**December 31, 2011**	**December 31, 2010**
1 EUR	4.1198	3.9946	4.4168	3.9603
1 USD	2.9634	3.0157	3.4174	2.9641

For the purposes of exchange rate volatility sensitivity analysis as at December 31, 2011 and December 31, 2010 it was assumed that probable volatility will be in the +/- 5% band. This analysis assumes that all other variables, in particular interest rates, remain constant. The sensitivity analysis below is performed on the same basis for 2010.

(all financial data presented in PLN thousand, unless otherwise stated)

	2011					2010				
	As at December 31, 2011		Estimated change in exchange rate	Estimated change in profit	Estimated change in other comprehensive income	As at December 31, 2010		Estimated change in exchange rate	Estimated change in profit	Estimated change in other comprehensive income
	in currency	in PLN	in %	in PLN	in PLN	in currency	in PLN	in %	in PLN	in PLN
Trade receivables										
EUR	1,736	7,669	5%	383	-	2,123	8,407	5%	420	-
USD	48	165	5%	8	-	28	83	5%	4	-
Cash and cash equivalents										
EUR	307	1,356	5%	68	-	1,451	5,745	5%	287	-
USD	36	124	5%	6	-	101	300	5%	15	-
GBP	1	5	5%	-	-	-	-	5%	-	-
CHF	1	4	5%	-	-	-	-	5%	-	-
Intercompany Bonds										
EUR	(343,451)	(1,516,954)	5%	(75,848)	-	-	-	5%	-	-
Trade payables										
EUR	(518)	(2,287)	5%	(114)	-	(7,210)	(28,555)	5%	(1,428)	-
USD	(2,194)	(7,499)	5%	(375)	-	(4,416)	(13,089)	5%	(654)	-
Change in operating profit				(75,872)	-				(1,356)	
Foreign exchange call options										
EUR	-	-	5%	-	-	7,000	27,722	5%	923	-
USD	-	-	5%	-	-	27,000	80,031	5%	3,040	-
CIRS										
EUR	43,641	192,754	5%	612	8,861	-	-	5%	-	-
Income tax				(14,299)	1,684				495	-
Change in net profit				(60,961)	7,177				2,112	-

	2011					2010				
	As at December 31, 2011		Estimated change in exchange rate	Estimated change in profit	Estimated change in other comprehensive income	As at December 31, 2010		Estimated change in exchange rate	Estimated change in profit	Estimated change in other comprehensive income
	in currency	in PLN	in %	in PLN	in PLN	in currency	in PLN	in %	in PLN	in PLN
Trade receivables										
EUR	1,736	7,669	-5%	(383)	-	2,123	8,407	-5%	(420)	-
USD	48	165	-5%	(8)	-	28	83	-5%	(4)	-
Cash and cash equivalents										
EUR	307	1,356	-5%	(68)	-	1,451	5,745	-5%	(287)	-
USD	36	124	-5%	(6)	-	101	300	-5%	(15)	-
GBP	1	5	-5%	-	-	-	-	-5%	-	-
CHF	1	4	-5%	-	-	-	-	-5%	-	-
Intercompany Bonds										
EUR	(343,451)	(1,516,954)	-5%	75,848	-	-	-	-5%	-	-
Trade payables										
EUR	(518)	(2,287)	-5%	114	-	(7,210)	(28,555)	-5%	1,428	-
USD	(2,194)	(7,499)	-5%	375	-	(4,416)	(13,089)	-5%	654	-
Change in operating profit				75,872	-				1,356	-
CIRS										
EUR	43,641	192,754	-5%	(612)	(8,853)	-	-	-5%	-	-
Foreign exchange call options										
EUR	-	-	-5%	-	-	7,000	27,722	-5%	(421)	-
USD	-	-	-5%	-	-	27,000	80,031	-5%	(2,344)	-
Income tax				14,299	1,682				(268)	-
Change in net profit				60,961	(7,171)				(1,141)	-

(all financial data presented in PLN thousand, unless otherwise stated)

	2011		2010	
	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
Estimated change in exchange rate by 5 %				
EUR	(60,668)	7,177	164	-
USD	(293)	-	1,948	-
GBP	-	-	-	-
CHF	-	-	-	-
Estimated change in exchange rate by -5 %				
EUR	60,668	(7,171)	243	-
USD	293	-	(1,384)	-
GBP	-	-	-	-
CHF	-	-	-	-

Had there been a 5% weakening of the Polish zloty against the exchange rate of euro and the US dollar as at December 31, 2011 and December 31, 2010, the Company's net profit would have decreased by PLN 60,961 and increased by PLN 2,112, respectively and other comprehensive income would have increased by PLN 7,177 in 2011 (no effect on other comprehensive income in 2010). Had the exchange rate of the Polish zloty against euro and US dollar been higher by 5% the Company's net profit would have correspondingly increased by PLN 60,961 and decreased by PLN 1,141 and other comprehensive income would have decreased by PLN 7,171 in 2011 (no effect on other comprehensive income in 2010), 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 Company'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 Company regularly analyses its level of interest rate risk exposure, including refinancing and risk minimising scenarios. Based on these analyses, the Company estimates the effects of changes in interest rates on its profit and loss.

In order to reduce interest rate risk exposure resulting from interest payments on floating rate senior facility, the Company stipulated interest rate swaps.

(all financial data presented in PLN thousand, unless otherwise stated)

At the reporting date, the interest rate risk profile of interest-bearing financial instruments was:

	Carrying amount	
	December 31, 2011	**December 31, 2010**
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	(1,545,880)	-
Variable rate instruments		-
Financial assets	26,610	34,693
Financial liabilities	(1,324,839)	-
Net interest exposure	**(1,298,229)**	**34,693**
Notional of interest rate hedges		
Interest rate risk profile of interest-bearing financial instruments including effect of interest rate hedges		
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	(1,545,880)	-
Variable rate instruments		
Financial assets	26,610	34,693
Financial liabilities	(684,339)	-
Net interest exposure after hedges	**(657,729)**	**34,693**

Cash flow sensitivity analysis for variable rate instruments:

	Income statement		Other comprehensive income	
	Increase by 100 bp	**Decrease by 100 bp**	**Increase by 100 bp**	**Decrease by 100 bp**
December 31, 2011				
Variable rate instruments*	(12,982)	12,982	11,160	(11,160)
Cash flow sensitivity (net)	(12,982)	12,982	11,160	(11,160)
December 31, 2010				
Variable rate instruments*	530	(524)	-	-
Cash flow sensitivity (net)	**530**	**(524)**	-	-

* - includes sensitivity to changes of the fair value of hedging instruments (IRS) resulting from the changes of interest rates

The Company applies cash flow hedge model under IAS 39 for interest rate exposure from floating rate interest payments in PLN on senior facility hedged by interest rate swap.

Item 7. Transactions with related parties

We present information on material transaction we, or our subsidiary, concluded with a related party in the financial statements for the financial year ended December 31, 2011 in *Note 43 Transactions with related parties*.

Item 8. Key risk and threat factors

Risks Related to Our Business

We could be adversely affected by the effects of a regional or global downturn on the consumer spending in Poland.

Almost all of our revenue is derived from DTH subscribers in Poland. Any reduction or shift in consumer spending in Poland could adversely affect our subscriber base or the rate of subscriber growth, or the amount that our subscribers spend on our services. Our revenue depends on the amount of disposable income that existing and potential subscribers in Poland are able to spend on entertainment, leisure and telecommunications services. If the Polish economy deteriorates, consumers may spend less on entertainment, leisure and telecommunications services. The effects of an economic downturn on consumer spending could also lead existing and potential subscribers to choose our lower-priced packages, which would negatively impact our revenue and growth prospects.

We are exposed to foreign currency risks that could harm our results of operations.

Our business is vulnerable to fluctuations in currency exchange rates. While we account for revenue in zloty, approximately 40% of our operating expenses (in 2011) are denominated in other currencies. We have trade receivables and trade liabilities (including liabilities from purchasing access to TV channels, set-top boxes, other hardware equipment, software and liabilities from rental of capacity on transponders) that are denominated in foreign currencies, mostly in euro and U.S. dollars. We cannot control fluctuations in currency exchange rates, and adverse foreign currency fluctuations against the zloty could significantly increase our costs in zloty, which would have a material adverse effect on our business, financial condition, results of operations and prospects. In addition, the Intercompany Bonds issued are denominated in euro, which significantly increases our exposure to foreign currency fluctuations as movements in the exchange rate of the euro to zloty could therefore increase the amount of cash, in zloty, that must be generated in order to pay principal and interest on the Notes.

Our success is dependent upon customer satisfaction with our programs.

We operate in markets where commercial success depends primarily on the satisfaction and acceptance of programming content, which is difficult to predict. We attempt to attract and retain DTH subscribers by providing access to a broad array of channels, including sports, music, entertainment, news/information, children, education, movie channels and all major terrestrial channels in Poland, as well as high definition channels and FTA TV and radio channels. Subscriber satisfaction with our program offerings is essential to our ability to attract and retain subscribers and to generate and grow subscriber revenue.

Demand for TV programming as well as programming preferences change frequently, regardless of the medium through which access to such programming is obtained. We may be unable to attract and retain subscribers for our DTH services if we are not able to successfully anticipate program demand or changes in programming tastes, or if our competitors anticipate such demand or changes in tastes more effectively than we do. This would increase our churn rate.

If we cannot enter into and extend license agreements for access to key programming rights we may not be able to attract and retain subscribers.

We depend on our ability to obtain attractive TV programming. We rely entirely on licenses with TV broadcasters in order to provide subscribers with access to TV channels. Our license agreements typically have limited terms, and, in some instances, may be terminated prior to the expiration of the term by the licensor without our consent, in particular if we default on our obligations including our obligations to pay fees under the relevant license. Attractive TV programming is essential to our ability to attract and retain subscribers. We cannot guarantee that our current license agreements will be renewed on terms as favorable as the current terms or at all upon their expiration or that licensors will not terminate material license agreements prior to their expiration. Failure to attract and retain subscribers would have a material adverse effect on our business, financial condition and results of operation.

We face intense competition in all of the market segments in which we operate, and we cannot guarantee that in the future subscribers will choose to purchase or to continue purchasing the services we provide rather than those provided by our competitors.

Competition in the Polish TV market is intense, and we cannot guarantee that we will be successful in generating sufficient DTH subscriber revenue in the future in light of the competition we face. Existing and potential future competitors may have access to greater financial and marketing resources than we do, which may allow them to more successfully capture subscribers for their services. Our primary competitors in the DTH market are Cyfra + platform and “n” platform. In addition to our direct DTH competitors, we face competition from providers of other TV transmission technologies, such as terrestrial TV, cable TV and IPTV. We also expect to face growing competition from joint ventures and strategic alliances between DTH providers, cable TV and telecommunications providers. We may also face competition from foreign competitors entering the Polish market.

Loss of subscribers to our competitors would have a material adverse effect on our business, financial condition and results of operations.

Our ability to increase sales of DTH, broadband Internet and mobile telephony services depends on our ability to maintain the effectiveness of our sales network.

We have an organized and specialized sales distribution network throughout Poland that we depend on to distribute our DTH, broadband Internet and mobile telephony services. Due to increased competition with other pay TV service providers, we may be forced to increase the commissions paid to our distributors, to expand our sales distribution network and to alter the distribution channels that we currently rely on to distribute our DTH, broadband Internet and mobile telephony services. Any increase in the commissions that we pay to distributors in our sales distribution network would increase our operating costs and likely decrease our net income. Any failure to maintain or expand or modify our sales distribution network could significantly hinder our ability to retain and attract subscribers for our DTH, broadband Internet and mobile telephony services, which would materially and adversely impact our overall revenue. In addition, if we determine that we need to significantly reorganize or rebuild our existing sales distribution network, we may be forced to make significant incremental investments in our sales network.

We rely on third parties to support our operations and any delay or failure by such third-party providers to provide services, facilities or equipment could cause delays or interruptions in our operations, which could damage our reputation and result in the loss of customers.

We are reliant on third parties to provide support, equipment and facilities for our operations. We have limited or no control over how and when these third parties perform their obligations to us. We depend on third parties to provide our DTH, broadband Internet and mobile telephony services. In providing DTH services to our subscribers, we depend on third parties for the proper functioning of certain facilities and equipment. In providing broadband Internet and mobile telephony services, we depend on the quality of a third party’s broadband Internet infrastructure and other third parties’ mobile networks. These and other third-party services are critical to many of our operating activities.

If any of the third parties that we rely on becomes unable to or refuses to provide to us the services, facilities and equipment that we depend on in a timely and commercially reasonable manner or at all, we may experience disruptions or suspensions in the products and services we provide. We cannot guarantee that these or other risks to the reputation of, and value associated with, the “Cyfrowy Polsat” brand will not materialize. Any such damage or erosion in the reputation of, or value associated with our brand could have a material adverse effect on our business, financial condition, results of operations and prospects.

Technology in the markets in which we operate is constantly changing and any failure by us to anticipate and adapt to such changes and to introduce new products and services could render the services we provide undesirable or obsolete.

The technology used in the DTH, broadband Internet and mobile telephony markets is rapidly evolving, and we cannot assure that we will be able to sufficiently and efficiently adapt the services we provide to keep up with this rapid development. We face constant pressure to update our satellite TV technology and to provide the most up-to-date mobile telephony and broadband Internet service options to our subscribers. The compression, scrambling and subscriber management systems that are integral to the proper functioning of our satellite broadcasting center, the set-top boxes that are produces by our subsidiary, as well as other software and technology that we and our suppliers depend on, need to be continually updated and replaced as their technology becomes obsolete. If we are unable to replace obsolete technology we could experience disruptions in the DTH services we provide, and we may lose subscribers to competitors who have successfully replaced such obsolete technology. As we continue to expand the mobile telephony and broadband Internet services we offer, including our multi-play package, we may experience technical and logistical difficulties. In addition, we currently intend to capitalize on the lack of developed Internet infrastructure throughout Poland, especially in suburban and rural areas of Poland, to promote and sell our multi-play services and DTH services. If the fixed line Internet infrastructure in Poland improves, we may lose a competitive advantage that we have due to our current reliance on wireless technology rather than the Internet infrastructure to deliver our services.

We face constant pressure to adapt to changes in the way programming content is distributed and viewed. New technologies, including new video formats, IPTV, streaming and downloading capabilities via the Internet, VoD, mobile TV, digital video recorders and other devices and technologies are increasing the number of media and entertainment options available to audiences and are changing the way in which viewers consume content. Some of these devices and technologies allow users to view TV from a remote location or on a time-delayed basis and provide users with the ability to set their programming. These technologies are gaining in popularity and ease of use. Any failure to adapt to the changing lifestyles and preferences of our target audiences and adjust our business model to capitalize on technological advances could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our initiatives to expand the services we provide may cause costs to increase more rapidly than our revenue, which could temporarily or permanently decrease our profit margins.

While we believe it is important to continually expand the services we provide, the costs of our initiatives may be significant. We believe that our continued expansion in mobile telephony and broadband Internet could significantly increase our average SAC. Our efforts to increase penetration in the pay TV services market could also significantly increase our average SAC. In addition, our average SAC may rise as a result of an increase in commissions we have to pay to our distributors. We cannot guarantee that we will recover the investments that we have already made or will make in the future to expand the services we provide or that we will be able to generate sufficient revenue to offset the costs of our expansion efforts.

IT and telecommunications system failures, including a failure in our satellite broadcasting center, could force significant capital expenditures to restore them and harm our operations and prospects.

We rely heavily on our information and telecommunications technology systems and a failure in one or more of these systems could significantly harm our results of operations and prospects. Our IT systems are vulnerable to damage and destruction from 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 rely heavily on our satellite broadcasting center as well as our customer management system, reporting systems, sales service system and customer relationship management system. Any failure of individual components of our satellite broadcasting center, including the satellite transponders or any link in the delivery chain, could result in serious disruption to, or suspension of, our operations for a prolonged period. If any of our IT systems fail, we could be prevented from effectively operating our business or we may be required to make significant capital expenditures to restore operations. Further, we may be held liable by subscribers for any disruptions or suspensions resulting from any failures in our information technology systems.

Loss or failure to maintain Cyfrowy Polsat's historical reputation and the value of our brand would adversely affect our business.

The brand name "Cyfrowy Polsat", being an asset of our subsidiary CPTM, is important asset to our Group. It is vital to our continued ability to retain and attract subscribers to maintain the reputation of, and value associated with, the "Cyfrowy Polsat" name. Our reputation may be harmed if we encounter difficulties in providing existing products and services, or in deploying new products and services, including HD TV, MVNO services, broadband Internet access and VoD services, whether due to technical faults, lack of necessary equipment or other factors or circumstances resulting in a failure to meet or exceed the expectations of our existing and potential subscribers. In addition, the quality of the products and services we offer will depend on the services and the quality of third party infrastructure, services and related functions, over which we will have little or no influence or control. If these third parties on whom we rely do not meet our performance standards or provide technically flawed products or services, the quality of our products and services and our reputation may be harmed. We cannot guarantee that these or other risks to the reputation of, and value associated with, the "Cyfrowy Polsat" brand will not materialize. Any such damage or erosion in the reputation of, or value associated with our brand could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may fail to realize the anticipated benefits of the acquisition of Telewizja Polsat or future acquisitions.

The success of the acquisition of Telewizja Polsat will depend on, among other things, our ability to realize our strategy and our ability to capitalize on synergies between the legacy Cyfrowy Polsat and TV Polsat businesses in a manner that does not materially disrupt existing relationships or otherwise result in decreased productivity. If we are unable to achieve these objectives, the anticipated benefits of the acquisition may not be realized in full or at all or may take longer to realize than expected.

It is possible that the acquisition integration process could result in the loss of key employees, the disruption of the ongoing businesses of our Company or inconsistencies in standards, controls, procedures or policies that could adversely affect our ability to maintain relationships with third parties and employees or to achieve the anticipated benefits of the transaction. Among other things, in order to realize the anticipated benefits of the acquisition we must identify and eliminate redundant operations and assets across the combined organization.

Integration efforts could also divert management attention and resources, which could negatively impact our day-to-day operations. An inability to realize the full extent of, or any of, the anticipated benefits of the acquisition, as well as any delays encountered in the integration process, could have a material adverse effect on us.

In addition, the actual integration may result in additional and unforeseen expenses, and the anticipated benefits of the integration plan may not be realized. Actual cost synergies may be lower than we expect and may take longer to achieve than we anticipated.

Our debt service obligations under the Notes, the Senior Facilities and our other indebtedness may restrict our ability to fund our operations.

We are a highly leveraged company, and we have significant debt service obligations under the Senior Facilities and under the Intercompany Bonds, proceeds of which were financed from the issue of Senior Notes by our subsidiary.

Our substantial debt could have important consequences, for example, it could:

- make it difficult for us to satisfy our obligations with respect to the Notes, the Senior Facilities and our other indebtedness;
- require us to dedicate a substantial portion of our cash flows from operations to payments on our indebtedness, which will reduce our cash flow available to fund capital expenditures, working capital and other corporate requirements and business opportunities;
- place us at a competitive disadvantage compared to our competitors that have less debt than we do;
- increase our vulnerability and limit our flexibility in planning for, or reacting to, general and specific adverse economic conditions in our industry; and
- limit our ability to borrow additional funds, increase the cost of any such borrowing and/or limit our ability to raise equity funding.

We may incur substantial additional debt in the future. The terms of the Indenture and the Senior Facilities will restrict our ability to incur, but will not prohibit us from incurring, additional indebtedness or other obligations that do not constitute indebtedness. If we were to incur additional debt, the related risks we now face would intensify.

We rely on the experience and talent of our management and skilled employees, and the loss of any of these individuals could harm our business.

The successful operation of our businesses as well as the successful implementation of our strategy is dependent on the experience of our management and the contributions of our key personnel. Our future success depends in part on our ability to retain the members of our management who have had a significant impact on our development, as well as on our ability to attract and retain skilled employees able to effectively operate our business. There is intense competition for skilled personnel in the Polish and the global TV broadcasting, mobile telephony and Internet industries. We cannot guarantee that we will be able to attract and retain such members of management or skilled employees in the future. The loss of any of our key managers, or the inability to attract and appropriately train, motivate and retain qualified professionals, or any delay in doing so, could have a material adverse effect on our business, financial results, results of operations and prospects.

An increase in available FTA terrestrial channels which could result from the switch in Poland from analog to digital terrestrial TV could decrease demand for our DTH services, which would also lead to an increase our churn rate.

The required switch from analog to digital terrestrial TV in Poland could significantly increase the number of TV providers we compete with. We believe that as a result of the switch from analog to digital terrestrial TV, the number of FTA terrestrial channels may significantly increase and FTA TV programming in Poland may become more attractive, which could result in decreased demand for our DTH services and loss of existing subscribers and could have a materially adverse effect on our business, financial results, results of operations and prospects.

Any disruption in our ability to internally produce set-top boxes for our DTH subscribers could harm our reputation and increase our churn rate.

To reduce our costs of obtaining satellite TV reception equipment and therefore enable us to offer our DTH subscribers more attractive purchase and rental prices for set-top boxes, in our subsidiary we began producing SD set-top boxes in November 2007 and HD set-top boxes in April 2010. In 2011, internally produced set-top boxes represented approximately 80% of overall set-top boxes that we sold or leased to our DTH subscribers. If any part of our internally produced set-top boxes proved to be defective and are recalled, we could be required to cover the costs of replacements or repairs which could be significant. In addition, our reputation could be damaged by any such recall. We currently manufacture at almost full capacity. If we encounter problems with our ability to produce set-top boxes in-house we could be forced to rely more heavily on external sources to obtain the set-top boxes that we offer. We may not be able to obtain the necessary quantity of set-top boxes from external suppliers in a timely manner. In addition, the costs involved in obtaining a greater proportion of the set-top boxes from external sources will be significantly higher than our costs of in-house production of the large majority of the set-top boxes we offer. If we cannot obtain set-top boxes from external sources on satisfactory pricing terms, we may be forced to increase the prices that we charge our subscribers because our amortization cost will increase. In addition, if we do not have access to a sufficient supply of set-top boxes to meet subscriber demand, our reputation among existing and potential subscribers would be damaged. Any of the consequences related to difficulties we may encounter in our ability to internally produce the majority of set-top boxes we offer could result in the loss of existing subscribers and damage our ability to attract new subscribers for our DTH services. Any such damage or erosion in the reputation of, or value associated with, our brands could have a material adverse effect on our business, financial condition, results of operations and prospects.

Labor disruptions or increased labor costs could materially adversely affect our business.

While we believe we have good labor relations, we could experience a material labor disruption, strike, or significantly increased labor costs at one or more of our facilities. Any of these situations could prevent us from meeting customer demands or result in increased costs, thereby reducing our profitability. Additionally, labor issues that affect third parties that we rely on for services and technology could also have a material adverse effect on us if those issues interfere with our ability to obtain necessary services and technology on a timely basis. Any such disruption could have a material adverse effect on our business, financial condition and results of operation.

We may be adversely affected by claims of collective copyright management organizations.

Under the Polish Copyright Act we are required to pay fees to the collective copyright management organizations, which collect royalties on behalf of authors of copyright works broadcasted and distributed by us in the course of our business. These fees are collected pursuant to license agreements entered into with these organizations. Although we have entered into such agreements with several of the collective copyright management organizations, there is a risk that other such organizations may bring claims against us. It is currently impossible to estimate the aggregate amount of such possible claims. However, the final amount of payments that we may be required to make for the use of copyrights and the amount of the outstanding royalties we may be required to pay, may have a material adverse effect on our business, financial condition, results of operations and prospects.

If third parties claim that we have breached their intellectual property rights, we may be forced to make significant expenditures to either defend ourselves against such claims, license rights to the third party's technology or to identify ways to conduct our operations without breaching such rights.

The success of our business depends to a large extent on the use of intellectual property rights, in particular rights to advanced technological solutions, software and programming content. We cannot guarantee that we have not breached or that we will not in the future breach the intellectual property rights of third parties. Any alleged breach could expose us to liability claims from third parties. In addition, we might be required to obtain a license or acquire new solutions that allow us to conduct our business in a manner that does not breach such third party rights and we may be forced to expend significant time, resources and money in order to defend ourselves against such allegations. The diversion of management's time and resources along with potentially significant expenses that could be involved could materially adversely affect our business, financial condition, results of operations and prospects.

Our intellectual property rights and other security measures may not fully protect our operations, and any failure to protect our content, technology and know-how could result in loss of customers to our competitors and decreased profits.

Our products are largely comprised of proprietary or licensed content that is transmitted through broadcast programming, interactive TV services and pay TV. We rely on trademark, copyright and other intellectual property laws to establish and protect our rights to this content. However, we cannot guarantee that the intellectual property rights we rely on will not be challenged, invalidated or circumvented. Further, we cannot guarantee that we will be able to renew our rights to such content when the term of protection for any such trademark or copyright expires.

Even if our intellectual property rights remain intact, we cannot assure that security and anti-piracy measures will prevent unauthorized access to our services and piracy of our content. Further, third parties may be able to copy, infringe or otherwise profit from our proprietary and licensed content, without our, or the respective right holders' authorization. In addition, the lack of Internet-specific legislation relating to trademark and copyright protection creates additional challenges for us in protecting our intellectual property rights in cyberspace. The unauthorized use of our intellectual property may adversely affect our business by harming our reputation and by decreasing the confidence our business partners rest in our ability to protect our proprietary and licensed content.

We are subject to laws and regulations relating to satellite TV distribution, which are generally subject to periodic governmental review, and a violation of these laws and regulations could harm our business, reputation and financial results.

We are subject to Polish and European Union laws and regulations that restrict the manner in which we operate our businesses. Our operations are subject to significant governmental regulations and the market regulators, particularly the UKE and the KRRiT play an active role to ensure that we comply with the Broadcasting Act as well as the terms and conditions of our broadcasting licenses. Decisions by the Chairman of the KRRiT, the UKE and other regulators may restrict the way in which we operate our business.

We operate as an MVNO provider in Poland. MVNO providers in Poland are subject to extensive legal and administrative requirements regulating, among other things, the setting of maximum rates for telecommunications services. We cannot assure that we will be able to satisfy the extensive requirements imposed on us by Polish telecommunications law, in particular those regulating the MVNO business. If the UKE were to determine that we breached a provision of the Polish Telecommunications Law, we could be forced to pay a fine of up to 3% of the revenue we generated in the year prior to the imposition of the fine and we could be prohibited from providing further telecommunications services in Poland.

Our DTH business could in the future become subject to zoning, environmental or other regulatory restrictions on our ability to place our satellite dishes. We could also encounter pressure from Polish citizens relating to our placement of satellite dishes. Any legal restrictions or social friction related to the placement of our satellite dishes could make our DTH services less attractive and cause us to lose subscribers.

Failure to comply with any of the laws or regulations that we are subject to could have a material adverse effect on our business, financial condition and results of operation.

We cannot guarantee that in the future the President of the Polish Competition and Consumer Protection Office (Antimonopoly Office) will not deem the operations we conduct to limit competition or violate the Polish consumer protection laws.

Our operations are frequently reviewed by competition authorities to ensure that we comply with Polish regulatory provisions that prohibit practices that limit competition or violate the collective interests of consumers, including providing inaccurate information to customers, dishonest market practices, use of prohibited contract clauses and terms and limiting competition. In addition to the Antimonopoly Office, natural persons can bring court actions against us claiming that certain provisions of our standard subscriber contracts violate consumer protection laws. If any of our practices or contract terms are deemed to be misleading or in conflict with Polish consumer protection laws, we may be subject to fines and our reputation could be harmed.

In addition, if the President of the Antimonopoly Office was to determine that any of our practices had the effect of limiting competition or violating the consumer protection law, the President of the Antimonopoly Office could require us to discontinue the unlawful practice. In addition, the President of the Antimonopoly Office could impose cash fines on us of up to 10% of our revenue for the fiscal year prior to the year the fine is imposed.

Risks Related to Senior Facilities Agreement and the 7.125% Senior Notes ("Notes") issued by our subsidiary Cyfrowy Polsat Finance AB

The Issuer of the Senior Notes is a special purpose financing company with no operations of its own. The Issuer must rely on payments from us under the Notes Proceeds Loan to make cash payments on the Notes, and we must rely on payments from our subsidiaries to make cash payments on the Notes Proceeds Loan. Our subsidiaries are subject to various restrictions on making such payments.

We conduct a substantial part of our operations through direct and indirect subsidiaries, and the Issuer will rely solely on payments made to it under the Notes Proceeds Loan to make payments on the Notes. In order to make payments on the Notes Proceeds Loan and the Notes or to meet our other obligations, we depend upon receiving payments from our subsidiaries. In particular, we are dependent on dividends and other payments by our direct and indirect subsidiaries to service our obligations, including the Notes and those arising under our Senior Facilities Agreement. In addition, the payment of dividends and the making of loans and advances to us by our subsidiaries may be subject to various restrictions. Existing and future debt of certain of these subsidiaries, including our Senior Facilities, may limit or prohibit the payment of dividends or loan payments or the making of loans or advances to us. In addition, the ability of our subsidiaries to make payments, loans or advances to us may be limited by the laws of the relevant jurisdictions in which such subsidiaries are organized or located. Any of the situations described above could make it more difficult for a Guarantor to service its obligations and therefore adversely affect our ability to service our obligations in respect of the Notes. If payments are not made to us by our subsidiaries, we may not have any other sources of funds available that would permit us to make payments on the Notes Proceeds Loan and the Notes.

We require a significant amount of cash to service our indebtedness. Our ability to generate sufficient cash depends on a number of factors, many of which are beyond our control.

Our ability to make payments on or repay our indebtedness will depend on our future operating performance and ability to generate sufficient cash to make such payments and satisfy our other obligations. This depends, to a significant degree, on general economic, financial, competitive, market, legislative, regulatory and other factors discussed in his chapter, many of which are beyond our control.

Historically, we met our debt service and other cash requirements with cash flows from operations and our existing revolving credit facilities. As a result of our recent acquisition of TV Polsat and the related financing transactions, our debt service requirements have increased significantly. We cannot assure that our business will generate sufficient cash flows from operating activities, or that future debt and equity financing will be available to us in an amount sufficient to enable us to pay our debts when due or to fund our other financing needs.

If our future cash flows from operations and other capital resources are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

- reduce or delay our business activities and capital expenditures;
- sell assets;
- obtain additional debt or equity capital; or
- restructure or refinance all or a portion of our debt, including the Notes, on or before maturity.

In addition, the terms of the Indenture governing the Notes and our Senior Facilities Agreement will limit our ability to pursue any of these alternatives, and we may not be able to affect any of these actions, if necessary, on commercially reasonable terms, if at all. Any refinancing of our debt could be at higher interest rates and may require us to comply with more-onerous covenants, which could further restrict our business operations. If we obtain additional debt financing, the related risks we now face would intensify.

Furthermore, significant changes in market liquidity conditions resulting in a tightening in the credit markets and a reduction in the availability of debt and equity capital could impact our access to funding and our related funding costs, which could materially and adversely affect our ability to obtain and manage liquidity, to obtain additional capital and to restructure or refinance any of our existing debt.

If we default on the payments required under the terms of certain of our indebtedness, that indebtedness, together with debt incurred pursuant to other debt agreements or instruments that contain cross-default or cross-acceleration provisions, may become payable on demand, and we may not have sufficient funds to repay all of our debts, including the Notes. As a result, our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance or restructure our obligations on commercially reasonable terms, if at all, would have an adverse effect, which could be material, on our business, financial condition and results of operations, as well as on our ability to satisfy our obligations in respect of the Notes.

We may be unable to refinance our existing debt financings or obtain favorable refinancing terms or obtain financing for new projects.

We are subject to the customary risks associated with debt financings, including the risk that indebtedness will not be able to be renewed, repaid or refinanced when due, or that the terms of any renewal or refinancing will not be as favorable as the terms of such indebtedness. We also may need to raise capital in the future if our cash flow from operations is not adequate to meet our liquidity requirements or to pursue new projects. Depending on capital requirements, market conditions and other factors, we may need to raise additional funds through debt or equity offerings. If we were unable to refinance indebtedness on acceptable terms, or at all, we might be forced to dispose of assets on disadvantageous terms, or reduce or suspend operations, any of which would materially and adversely affect our financial condition and results of operations. If we cannot obtain financing for new projects, we would decline to pursue them and this may be disadvantageous to us or our competitive position.

The Notes and the Guarantees will be structurally subordinated to indebtedness and preferred stock, if any, of our non-guarantor subsidiaries.

Not all of our subsidiaries will guarantee the Notes. In the event that any non-guarantor subsidiary becomes subject to foreclosure, dissolution, winding-up, liquidation, reorganization, administration or other bankruptcy or insolvency proceeding:

- the creditors of the Issuer and the Guarantors (including the holders of the Notes) will have no right to proceed against the assets of such subsidiary; and
- creditors of such non-guarantor subsidiary, including trade creditors, and preference shareholders (if any) will generally be entitled to payment in full from the sale or other disposal of the assets of such subsidiary before any Guarantor, as direct or indirect shareholder, will be entitled to receive any distributions from such subsidiary.

Covenant restrictions under the Indenture governing the Notes and our Senior Facilities Agreement impose significant operating and financial restrictions on us and may limit our ability to operate our business and consequently to make payments on the Notes. A failure to comply with those covenants, whether or not within our control, could result in an event of default that could materially and adversely affect our financial condition and results of operations.

The Indenture governing the Notes contain, and other financing arrangements that we may enter into in the future may contain, covenants that restrict our ability to finance future operations or capital needs or to take advantage of other business opportunities that may be in our interest. These covenants restrict our ability to, among other things:

- incur or guarantee additional indebtedness;
- make certain restricted payments and investments;
- sell, lease or transfer certain assets, including shares of any restricted subsidiary of Cyfrowy Polsat;
- enter into certain transactions with affiliates;
- create or permit to exist certain liens;
- impose restrictions on the ability of restricted subsidiaries to pay dividends or other distributions, make loans or advances to, and on transfer of assets to, Cyfrowy Polsat and its Restricted Subsidiaries;
- impair the security interests provided for the benefit of the holders of the Notes;
- merge, consolidate, amalgamate or combine with other entities; and
- designate restricted subsidiaries as unrestricted subsidiaries.

Our Senior Facilities Agreement contains negative covenants restricting, among other things, our ability to:

- make acquisitions or investments;
- make loans or otherwise extend credit to others;
- incur indebtedness or issue guarantees;
- create security;
- sell, lease, transfer or dispose of assets;
- merge or consolidate with other companies;
- make a substantial change to the general nature of our business;
- pay dividends, redeem share capital, pay intercompany indebtedness or redeem or reduce subordinated indebtedness;
- repay the principal of certain indebtedness, including the Notes;
- issue shares;
- enter into joint venture transactions;
- pay certain investors and creditors;
- make certain derivative transactions;
- enter into transactions other than at arm’s length;
- enter into sale and leaseback transactions; and
- modify certain agreements, including agreements governing the Notes.

In addition, the Senior Facilities Agreement will require us to comply with certain affirmative covenants and certain specified financial covenants which require us to ensure that our leverage ratio (calculated as the ratio of total net debt on the last day of that relevant period to EBITDA) does not exceed an agreed level. Furthermore, our interest cover (calculated as the ratio of EBITDA to net finance charges) and cashflow cover (calculated as the ratio of cashflow to debt service charges) must meet an agreed level.

The restrictions contained in the Senior Facilities Agreement and the Indenture for the Notes could affect our ability to operate our business and may limit our ability to react to market conditions or take advantage of potential business opportunities as they arise. For example, such restrictions could adversely affect our ability to finance our operations, make strategic acquisitions, investments or alliances, restructure our organization or finance our capital needs. Additionally, our ability to comply with these covenants and restrictions may be affected by events beyond our control. These include prevailing economic, financial and industry conditions. If we breach any of these covenants or restrictions, we could be in default under the Senior Facilities Agreement, the Indenture and our other indebtedness.

If there were an event of default under any of our debt instruments that was not cured or waived, the holders of the defaulted debt could terminate their commitments thereunder and cause all amounts outstanding with respect to such indebtedness to be due and payable immediately, which in turn could result in cross-defaults under our other debt instruments, including the Notes. Our ability to make principal or interest payments when due on our indebtedness, including the Notes and our Senior Facilities Agreement, and to fund our ongoing operations, will depend on our future performance and our ability to generate cash, which to a certain extent is subject to general economic, financial, competitive, legislative, legal, regulatory and other factors, as well as other factors discussed in this chapter, many of which are beyond our control. Any such actions could force us into bankruptcy or liquidation, and we may not be able to repay our obligations under the Notes in such an event.

The Guarantees and the security interests securing the Notes may be limited by applicable laws or subject to certain limitations or defenses that may adversely affect their validity and enforceability.

The obligations of the Guarantors incorporated in Poland, Switzerland, Norway and the United Kingdom, and the enforcement of each such guarantee as well as other security provided by the Guarantors will be limited to the maximum amount that can be guaranteed by such Guarantor under the applicable laws of each jurisdiction, to the extent that the granting of such guarantee is not in the relevant Guarantor's corporate interests, or the burden of such guarantee exceeds the benefit to the relevant Guarantor, or such guarantee would be in breach of the financial assistance rules, capital maintenance or thin capitalization rules or any other general statutory laws and would cause the directors of such Guarantor to contravene their fiduciary duties and incur civil or criminal liability. Accordingly, enforcement of any such guarantee or security interest against the relevant Guarantor would be subject to certain defenses available to guarantors generally or, in some cases, to limitations contained in the terms of the guarantees or relevant Security Document designed to ensure compliance with statutory requirements applicable to the relevant Guarantors. As a result, a Guarantor's liability under its guarantee or security interest could be materially reduced or eliminated entirely, depending upon the law applicable to it. It is possible that a Guarantor, or a creditor of a Guarantor, or the bankruptcy trustee in the case of a bankruptcy of a Guarantor, may contest the validity and enforceability of the Guarantor's guarantee or security interest on any of the above grounds and that the applicable court may determine that the guarantee or security interest should be limited or voided. To the extent that agreed limitations on the guarantee obligation or security interest apply, the Notes would be to that extent effectively subordinated to all liabilities of the applicable Guarantor, including trade payables of such Guarantor or the guarantee obligations will be considered unenforceable. Future guarantees or security interest may be subject to similar limitations.

Fraudulent conveyance laws, bankruptcy regulations and other limitations on the Guarantees and the security interests securing the Notes may have a material adverse effect on the Guarantees' validity and enforceability, and may not be as favorable to creditors as laws of other jurisdictions.

The Guarantors guarantee the payment of the Notes on a senior secured basis. The Guarantors are organized under the laws of Poland, Switzerland, Norway and the United Kingdom. Although laws differ among various jurisdictions, in general, under fraudulent conveyance and other laws, a court could subordinate or void any guarantee and, if payment had already been made under the relevant guarantee, require that the recipient return the payment to the relevant guarantor, if the court found that:

- the guarantee was incurred with actual intent to hinder, delay or defraud creditors or shareholders of the guarantor or, in certain jurisdictions, even when the recipient was merely aware that the guarantor was insolvent when it issued the guarantee;

- the Guarantor did not receive fair consideration or reasonably equivalent value for the guarantee and the Guarantor: (i) was insolvent or was rendered insolvent as a result of having granted the guarantee; (ii) was undercapitalized or became undercapitalized because of the guarantee; or (iii) intended to incur, or believed that it would incur, indebtedness beyond its ability to pay at maturity;

- the guarantee was held not to be in the best interests or not to be for the corporate benefit of the guarantor; or

- the aggregate amounts paid or payable under the guarantee were in excess of the maximum amount permitted under applicable law.

The measure of insolvency for purposes of fraudulent conveyance laws varies depending on the law applied. Generally, however, a Guarantor would be considered insolvent if it could not pay its debts as they become due, it has no access to new credit and/or if its liabilities exceed its assets. If a court decided any Guarantee was a fraudulent conveyance and voided the Guarantee, or held it unenforceable for any other reason, the holders would cease to have any claim in respect of the Guarantor and would be a creditor solely of the Issuer and the remaining Guarantors.

The Collateral may not be sufficient to secure the obligations under the Notes.

The Notes and the Guarantees will be secured by security interests in the Collateral, which collateral also will secure the obligations under the Senior Facilities. The Collateral may also secure additional debt to the extent permitted by the terms of the Indenture and the Intercreditor Agreement. The holder's rights to the Collateral may be diluted by any increase in the first-priority debt secured by the Collateral or a reduction of the Collateral securing the Notes.

The value of the Collateral and the amount to be received upon an enforcement of such Collateral will depend upon many factors, including, among others, the ability to sell the Collateral in an orderly sale, the condition of the economies in which operations are located and the availability of buyers. The book value of the Collateral should not be relied on as a measure of realizable value for such assets. All or a portion of the Collateral may be illiquid and may have no readily ascertainable market value. Likewise, we cannot assure the holders that there will be a market for the sale of the Collateral, or, if such a market exists, that there will not be a substantial delay in its liquidation. In addition, the share pledges of an entity may be of no value if that entity is subject to an insolvency or bankruptcy proceeding. The Collateral is located in a number of countries, and the multijurisdictional nature of any foreclosure on the collateral may limit the realizable value of the Collateral. For example, the bankruptcy, insolvency, administrative and other laws of the various jurisdictions may be materially different from, or conflict with, each other, including in the areas of rights of creditors, priority of government and other creditors, ability to obtain post-petition interest and duration of the proceedings.

The security over the Collateral is in each jurisdiction granted to the Security Agent. Pursuant to English law, the Security Agent holds all security on trust for each Secured Party which includes the Notes Trustee and each Noteholder. The Security Agent also has the benefit of a direct covenant to pay, or "parallel debt", from each debtor who is party to the Intercreditor Agreement, including each guarantor of the Notes and provider of security therefore. The ability of the Security Agent to enforce the security may be restricted by local law.

The ability of the Security Agent to enforce the security is subject to mandatory provisions of the laws of each jurisdiction in which security over the collateral is taken. There is some uncertainty under the laws of certain jurisdictions, including the laws of Poland, Norway and Switzerland, as to whether trusts, including the security trust created pursuant to the Intercreditor Agreement, will be recognized and enforceable. To address this, a direct covenant to pay (the "Parallel Debt") has been granted to the security agent by each debtor under the Intercreditor Agreement, including each guarantor of the Notes and provider of security therefore. The Parallel Debt provision allows the Security Agent to act in its own name in its capacity as a creditor. The Parallel Debt is an obligation under the Intercreditor Agreement to pay to the Security Agent amounts equal to any amounts owing from time to time by that debtor to any secured party under the debt documents, including the Notes and the Indenture (the "Principal Obligations"). The Parallel Debt is a separate obligation of each respective debtor to the Security Agent and independent from the corresponding Principal Obligations. The Parallel Debt provisions constitute a secured obligation for the purposes of each security document securing the notes and the other indebtedness secured subject to the Intercreditor Agreement. Any payment in respect of the Principal Obligations shall discharge the corresponding Parallel Debt and any payment in respect of the Parallel Debt shall discharge the corresponding Principal Obligations. In respect of the security interests granted to the Security Agent (including to secure the Parallel Debt), the Notes Trustee and the holders of Notes do not have direct security and are not entitled to take enforcement actions in respect of such security, except through the Security Agent. As a result, the holders of Notes bear some risks associated with the security trust and Parallel Debt structure. There also is no assurance that such Parallel Debt structure will be effective before all courts as there is no (or very limited) judicial or other guidance as to its effectiveness in each relevant jurisdiction.

Enforcing holders' rights as a holder of the Notes or under the Guarantees or the Collateral across multiple jurisdictions may prove difficult.

The Issuer is incorporated under the laws of Sweden; the Guarantors are organized under the laws of Poland, Switzerland, Norway and the United Kingdom; the Collateral will include security interests granted under the laws of these jurisdictions. In the event of bankruptcy, insolvency, administration or similar event, proceedings could be initiated in any of these jurisdictions. Holders' rights under the Notes, the guarantees and the Collateral are likely to be subject to insolvency and administrative laws of several jurisdictions and there can be no assurance that the holders will be able to effectively enforce their rights in such complex proceedings. In addition, the multijurisdictional nature of enforcement over the Collateral may limit the realizable value of the Collateral.

The insolvency, administration and other laws of the jurisdiction of organization of the Issuer and the Guarantors may be materially different from, or conflict with, each other and with the laws of the United States, including in the areas of rights of creditors, priority of governmental and other creditors, ability to obtain post-petition interest, the duration of proceeding and preference periods. The application of these laws, and any conflict between them, could call into question whether, and to what extent, the laws of any particular jurisdiction should apply, adversely affect the holders' ability to enforce their rights under the guarantees and the security documents in these jurisdictions or limit any amounts that they may receive.

The Issuer and the Guarantors will have control over the Collateral, and the operation of the business or the sale of particular assets could reduce the pool of assets securing the Notes.

The Security Documents allow the Issuer and the Guarantors to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from, the Collateral. So long as no default or event of default under the Indenture would result therefrom, the Issuer and the Guarantors may, subject to specified restrictions in the Security Documents and Senior Facilities Agreement, among other things, without any release or consent by the Trustee or Security Agent, conduct ordinary-course activities with respect to the Collateral such as selling, modifying, factoring, abandoning or otherwise disposing of Collateral and making ordinary-course cash payments, including repayments of indebtedness. Any of these activities could reduce the value of the Collateral, which could reduce the amounts payable to the holders from the proceeds of any sale of the Collateral in the case of an enforcement of the Collateral.

It may be difficult to realize the value of the Collateral securing the Notes.

The Collateral securing the Notes will be subject to any and all exceptions, defects, imperfections encumbrances and other liens permitted under the Indenture and the Senior Facilities Agreement. The existence of any such exceptions, defects, encumbrances, imperfections and other liens could adversely affect the value of the Collateral securing the Notes as well as the ability of the Security Agent to realize or foreclose on that Collateral. Further, the first-priority ranking of security interests can be affected by a variety of factors, including, among others, the timely satisfaction of perfection requirements, statutory liens or re-characterization under the laws of certain jurisdictions.

The security interests of the Security Agent will be subject to practical problems generally associated with the realization of security interests in collateral. For example, the Security Agent may need to obtain the consent of a third party to enforce a security interest. We cannot assure that the Security Agent will be able to obtain any such consent. We also cannot assure that the consents of any third parties will be given when required to facilitate a foreclosure on such assets. Accordingly, the

Security Agent may not have the ability to foreclose upon those assets and the value of the Collateral may significantly decrease.

In addition, our business requires a variety of licenses. The continued operation of properties that comprise part of the Collateral and which depend on the maintenance of such permits and licenses may be prohibited. Our business is subject to regulations and permitting requirements and may be adversely affected if we are unable to comply with existing regulations or requirements or changes in applicable regulations or requirements. In the event of foreclosure, the transfer of such permits and licenses may be prohibited or may require us to incur significant cost and expense. Further, we cannot assure that the applicable governmental authorities will consent to the transfer of all such licenses. If the regulatory approvals required for such transfers are not obtained or are delayed, the foreclosure may be delayed, a temporary shutdown of operations may result and the value of the Collateral may be significantly decreased.

The assets that constitute the Collateral hereunder are also pledged, on a pari passu basis, for the benefit of the lenders and letter of credit issuers under the Senior Facilities Agreement and counterparties under certain hedging obligations. In addition, the Indenture and the Intercreditor Agreement will allow us to incur certain additional permitted indebtedness in the future that is secured by the Collateral. The incurrence of any additional secured indebtedness would reduce amounts payable from the proceeds of any sale of the Collateral.

The value of the Collateral and the amount to be received upon a sale of such Collateral will depend upon many factors, including, among others, the ability to sell the Collateral in an orderly sale, the condition of the economies in which operations are located and the availability of buyers. The book value of the Collateral should not be relied on as a measure of realizable value for such assets. All or a portion of the Collateral may be illiquid and may have no readily ascertainable market value. Likewise, we cannot assure that there will be a market for the sale of the Collateral, or, if such a market exists, that there will not be a substantial delay in its liquidation. In addition, the share pledges of an entity may be of no value if that entity is subject to an insolvency or bankruptcy proceeding. The Collateral will be released in connection with an enforcement sale pursuant to the Intercreditor Agreement.

Rights in the Collateral may be adversely affected by the failure to perfect security interests in the Collateral.

Under applicable law, a security interest in certain tangible and intangible assets can be properly perfected, and its priority retained only through certain actions undertaken by the secured party and/or the grantor of the security. The liens in the Collateral securing the Notes may not be perfected with respect to the claims of the Notes if we or the Security Agent fails or is unable to take the actions we are required to take to perfect any of these liens. In addition, applicable law requires that certain property and rights acquired after the grant of a general security interest, such as real property, equipment subject to a certificate and certain proceeds, can only be perfected at or promptly following the time such property and rights are acquired and identified.

The Trustee or the Security Agent for the Notes may not properly monitor, or we may not comply with our obligations to inform the Trustee or Security Agent of, any future acquisition of property and rights by us, and the necessary action may not be taken to properly perfect the security interest in such after acquired property or rights. Such failure may result in the invalidity of the security interest in the Collateral or adversely affect the priority of the security interest in favor of the Notes against third parties. Neither the Trustee nor the Security Agent for the Notes has any obligation to monitor the acquisition of additional property or rights by us or the perfection of any security interest.

The Senior Facilities Agreement will restrict our ability to repay the Notes or make certain amendments to the Notes.

The Senior Facilities Agreement and the Intercreditor Agreement will contain certain restrictions on our rights under the Indenture with respect to the Notes. These agreements restrict our ability to (i) repay, prepay, defease, redeem or purchase of the principal amount of the Notes (except to the extent the same is made out of excess cashflow not required to be applied in repayment of the senior secured facilities and a corresponding pro rata prepayment of such facilities also is made), and (ii) amend, waive, vary or supplement the Notes in any way inconsistent with the Senior Notes Major Terms (as defined in the Intercreditor Agreement). In addition, the Senior Facilities Agreement will restrict our ability to refinance the Notes without the consent of the Majority Lenders (as defined therein). Accordingly, the Senior Facilities Agreement and the Intercreditor

Agreement may prevent us from exercising certain rights in respect of the Notes that would typically be available under the Indenture.

Holders of the Notes will not control certain decisions regarding the Collateral.

The Notes will be secured by the same Collateral securing the obligations under the Senior Facilities Agreement. In addition, under the terms of the Indenture, we will be permitted in the future to incur additional indebtedness and other obligations that may share in the liens on the Collateral securing the Notes and the liens on the Collateral securing our other secured debt.

As a result of the voting provisions set out in the Intercreditor Agreement, the lenders under the Senior Facilities Agreement, together with the counterparties to certain secured hedging, will have effective control on all decisions with respect to enforcement of the Collateral. The Intercreditor Agreement provides that Citicorp Trustee Company Limited who will serve as the Security Agent for the secured parties under the Senior Facilities Agreement and the Notes, will (subject to certain limited exceptions) act with respect to such Collateral (and with respect to the filing of claims necessary to enforce such Collateral) only at the direction of the majority (66.66%) with respect to the then committed and undrawn and outstanding senior secured debt (which includes creditors in respect of certain secured hedging obligations and which excludes creditors in respect of the Notes and any additional Notes), until the aggregate amount committed or funded under such senior secured debt (excluding the Notes and any additional Notes) is less than 25% of the aggregate principal amount of all such committed and undrawn and outstanding senior secured debt (including the Notes and any additional Notes). Thereafter, creditors holding more than 50% of the aggregate amount of committed and undrawn and outstanding senior secured debt (including the Notes and any additional Notes) will be able to instruct the Security Agent to enforce the Collateral. No holder of the Notes will have any separate right to enforce or to require the enforcement of the Collateral. The lenders under the Senior Facilities Agreement may have interests that are different from the interests of holders of the Notes and they may not elect to pursue their remedies under the Security Documents at a time when it would otherwise be advantageous for the holders of the Notes to do so.

In addition, if the Security Agent sells the shares of our subsidiaries that have been pledged as Collateral through an enforcement of their security interest in accordance with the Intercreditor Agreement, claims under the guarantees of the Notes and the liens over any other assets securing the Notes and the Guarantees may be released.

As a result, until the aggregate of the undrawn committed and funded senior secured debt (other than debt under the Notes and any additional notes) has fallen below 25% of the aggregate amount of the undrawn committed and funded senior secured debt, lenders under the Senior Facilities Agreement, together with the counterparties to certain secured hedging arrangements, will have effective control of all decisions with respect to the Collateral. It is possible that disputes may occur between the holders of the Notes and lenders under the Senior Facilities Agreement as to the appropriate manner of pursuing enforcement remedies with respect to the Collateral (as well as with respect to the filing of claims necessary to enforce such Collateral). In such an event, the holders of the Notes will be bound by any decisions of the instructing group, which may result in enforcement actions against the Collateral that are not approved by the holders of the Notes or that may be adverse to such holders. The effective control of the lenders under the Senior Facilities Agreement and hedge counterparties may delay enforcement against the Collateral.

We may not be able to repurchase the Notes upon a change of control.

Upon the occurrence of a change of control, we will be required to make an offer to the holders in cash to repurchase all or any part of their Notes at 101% of their principal amount, plus accrued and unpaid interest. If a change of control were to occur, our ability to make such purchase may be limited by our then existing financial resources and we cannot assure that we would have sufficient funds available at such time to pay the purchase price of the outstanding Notes or to repay the indebtedness outstanding under our Senior Facilities Agreement or other indebtedness. As such, we expect that we would require third-party financing to make an offer to repurchase the Notes upon a change of control. We cannot assure that we would be able to obtain such financing. In addition, restrictions in our then-existing contractual obligations, including the Senior Facilities Agreement, may not allow us to make such required repurchases upon the occurrence of certain events constituting a change of control. If an event constituting a change of control occurs at a time when we are prohibited from repurchasing Notes, we may seek the consent of the lenders under such indebtedness to the purchase of Notes or may attempt to refinance the borrowings that contain such prohibition. If we do not obtain such consent or repay such borrowings, we will remain prohibited from repurchasing any tendered Notes. A change of control may result in an event of default under, or acceleration of, the indebtedness outstanding under the Senior Facilities Agreement and other indebtedness. The repurchase of the Notes pursuant to such an offer could cause a default under such indebtedness, even if the change of control itself does not. Any failure by us to offer to purchase Notes would constitute a default under the Indenture, which would in turn constitute a default under the Senior Facilities Agreement, and could result in an acceleration of our indebtedness thereunder, which could have a material adverse effect on our business.

The change of control provision contained in the Indenture may not necessarily afford the holders protection in the event of certain important corporate events, including a reorganization, restructuring, merger or other similar transaction involving us that may adversely affect holders of the Notes, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a “Change of Control” as defined in the Indenture. With certain exceptions the Indenture does not contain provisions that require us to offer to repurchase or redeem the Notes in the event of a reorganization, restructuring, merger, recapitalization or similar transaction.

The definition of “Change of Control” contained in the Indenture includes a disposition of all or substantially all of the assets of Cyfrowy Polsat and its Restricted Subsidiaries taken as a whole to any person. Although there is a limited body of case law interpreting the phrase “all or substantially all”, there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of “all or substantially all” of the assets of Cyfrowy Polsat and its Restricted Subsidiaries taken as a whole. As a result, it may be unclear as to whether a change of control has occurred and whether the Issuer is required to make an offer to repurchase the Notes.

Enforcement of civil liabilities and judgments against the Issuer or us or any of our directors or officers may be difficult.

The Issuer is a Swedish public limited liability company, Cyfrowy Polsat is a Polish joint stock company and TV Polsat is a Polish limited liability company. Substantially all of our assets and all of our operations are located, and all of our revenue is derived, outside the United States. In addition, all of our directors and officers are non-residents of the United States, and all or a substantial portion of the assets of such persons are or may be located outside the United States. As a result, investors may be unable to effect service of process within the United States upon such persons, or to enforce judgments against them obtained in United States courts, including judgments predicated upon the civil liability provisions of the United States federal and state securities laws. There is uncertainty as to whether the courts of Sweden or Poland would enforce (i) judgments of United States courts obtained against us or such persons predicated upon the civil liability provisions of the United States federal and state securities laws or (ii) in original actions brought in such countries, liabilities against us or such persons predicated upon the United States federal and state securities laws.

The interests of our principal shareholder may conflict with interests of holders of the Notes.

Mr. Zygmunt Solorz-Żak controls: (i) directly 10,603,750 shares (constituting 3.04% in the share capital and 4.02% of votes in Cyfrowy Polsat) and (ii) indirectly, through Pola Investments Ltd., 168,941,818 shares (representing 48.50% of the share capital and 63.64% of the voting power in Cyfrowy Polsat). As a result, Mr. Zygmunt Solorz-Żak, through his shareholdings, has and will continue to have, directly or indirectly, the power to affect our legal and capital structure as well as the ability to elect and change our management and to approve other changes to our operations and to control the outcome of matters requiring action by shareholders, and to effectively control many other major decisions regarding our operations. Mr. Zygmunt Solorz-Żak’s and Pola Investments Ltd. interests in these and other circumstances may conflict with the interests of holders of the Notes.

Transfers of the Notes will be restricted, which may adversely affect the value of the Notes.

The Notes have not been and will not be registered under the U.S. Securities Act or any U.S. state securities laws and we have not undertaken to effect any exchange offer for the Notes in the future. The holders may not offer the Notes in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws, or pursuant to an effective registration statement. The Notes and the indenture governing the Notes contain provisions that restrict the Notes from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A and Regulation S, or other exceptions, under the U.S. Securities Act. Furthermore, we have not registered the Notes under any other country's securities laws. It is the potential holders obligation to ensure that their offers and sales of the Notes within the United States and other countries comply with applicable securities laws.

An active trading market may not develop for the Notes, in which case the holders' ability to transfer the Notes will be more limited.

The Notes are listed on the Official List of the Luxembourg Stock Exchange to be traded on the Euro MTF Market of the Luxembourg Stock Exchange, we cannot assure that the Notes will remain listed. We cannot guaranty the liquidity of any market for the Notes, the ability of holders of the Notes to sell them or the price at which holders of the Notes may be able to sell them. The liquidity of any market for the Notes will depend on the number of holders of the Notes, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and our own financial condition, performance and prospects, as well as recommendations of securities analysts. As a result, we cannot assure that an active trading market for the Notes will develop or, if one does develop, that it will be maintained. The liquidity of, and trading market for, the Notes may also be hurt by declines in the market for high yield securities generally. Such a general decline may be caused by a number of factors, including, but not limited to, the following:

- interest rates and inflation expectations;
- foreign currency exchange rates;
- the prospect of quantitative easing in the money supply of major reserve currencies;
- general economic and business trends;
- regulatory developments in our operating countries;
- the condition of the media industry in the countries in which we operate; and
- investor and securities analyst perceptions of us and other companies that investors deem comparable in TV broadcasting.

Such a decline may affect any liquidity and trading of the Notes independent of our financial performance and prospects.

Certain covenants may be suspended upon the occurrence of a change in our ratings.

The Indenture will provide that, if at any time following the Issue Date, the Notes receive a rating of Ba3 or better by Moody's and a rating of BB- or better from S&P and no default or event of default has occurred and is continuing, then, beginning on that day and continuing until such time, if any, at which the Notes cease to have such rating, certain covenants will cease to be applicable to the Notes. If these covenants were to cease to be applicable, we would be able to incur additional indebtedness or make payments, including dividends or investments, which may conflict with the interests of holders of the Notes. There can be no assurance that the Notes will ever achieve an investment grade rating or that any such rating will be maintained.

Item 9. Information on shares and shareholders

Item 9.1. Cyfrowy Polsat shares

The shares of Cyfrowy Polsat are listed on the Warsaw Stock Exchange from May 6, 2008.

The table below presents the characteristics of the shares issued as of December 31, 2011:

Series	Number of shares	Type	Number of votes at General Meeting	Face value /PLN (not in thousands)
A	2,500,000	Privileged registered shares	5,000,000	100,000.00
B	2,500,000	Privileged registered shares	5,000,000	100,000.00
C	7,500,000	Privileged registered shares	15,000,000	300,000.00
D	166,917,501	Privileged registered shares	333,835,002	6,676,700.04
D	8,082,499	Ordinary bearer shares	8,082,499	323,299.96
E	75,000,000	Ordinary bearer shares	75,000,000	3,000,000.00
F	5,825,000	Ordinary bearer shares	5,825,000	233,000.00
H	80,027,836	Ordinary bearer shares	80,027,836	3,201,113.44
Total	348,352,836		527,770,337	13,934,113.44
including:	179,417,501	Registered	358,835,002	7,176,700.04
	168,935,335	Floating	168,935,335	6,757,413.40

Changes in 2011

Issue of H Series shares

On April 20, 2011, the Company issued 80,027,836 ordinary bearer H Series shares with a nominal value of four grosz (PLN 0.04) each. This shares were registered on May 30, 2011 in the National Depository for Securities under ISIN code PLCFRPT00013, and were admitted to trading on the main market of the stock exchange pursuant to the Resolution 666/2011 of the Management Board of Warsaw Stock Exchange of 26 May 2011. Through this issue, the Company's share capital was increased by PLN 3,201,113.44 (not in thousands). The increase in share capital of the Company was registered by the District Court for the City of Warsaw, XIII Economic Division of the National Court Register on May 13, 2011.

The proceeds from the issue of H Series shares were used as part of financing the acquisition of Telewizja Polsat. All H Series shares were took-up by the shareholders of Telewizja Polsat.

The current share capital of the Company is PLN 13,934,113.44 (not in thousands), divided into 348,352,836 shares. At present, the total number of votes at the General Meeting is 527,770,337.

(all financial data presented in PLN thousand, unless otherwise stated)

Basic data on the Cyfrowy Polsat shares in trading

Cyfrowy Polsat's shares are listed on the Warsaw Stock Exchange

date of first quotation	May 6, 2008
component of indices	WIG, mWIG40, WIG-MEDIA
market	main
quotation system	continuous
sector	media

International Securities Identification Number (ISIN)	PLCFRPT00013

Cyfrowy Polsat's identification codes

GPW	CPS
Reuters	CYFWF.PK
Bloomberg	CPS:PW

Item 9.2. Shareholders structure

The following table presents shareholders of Cyfrowy Polsat S.A. possessing - according to our best knowledge - no less than 5% of votes at General Meeting of Cyfrowy Polsat S.A. as of the date of publication of this report. The information included in the table is based on the information received from the shareholders pursuant to Art. 69, of the Act dated July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies.

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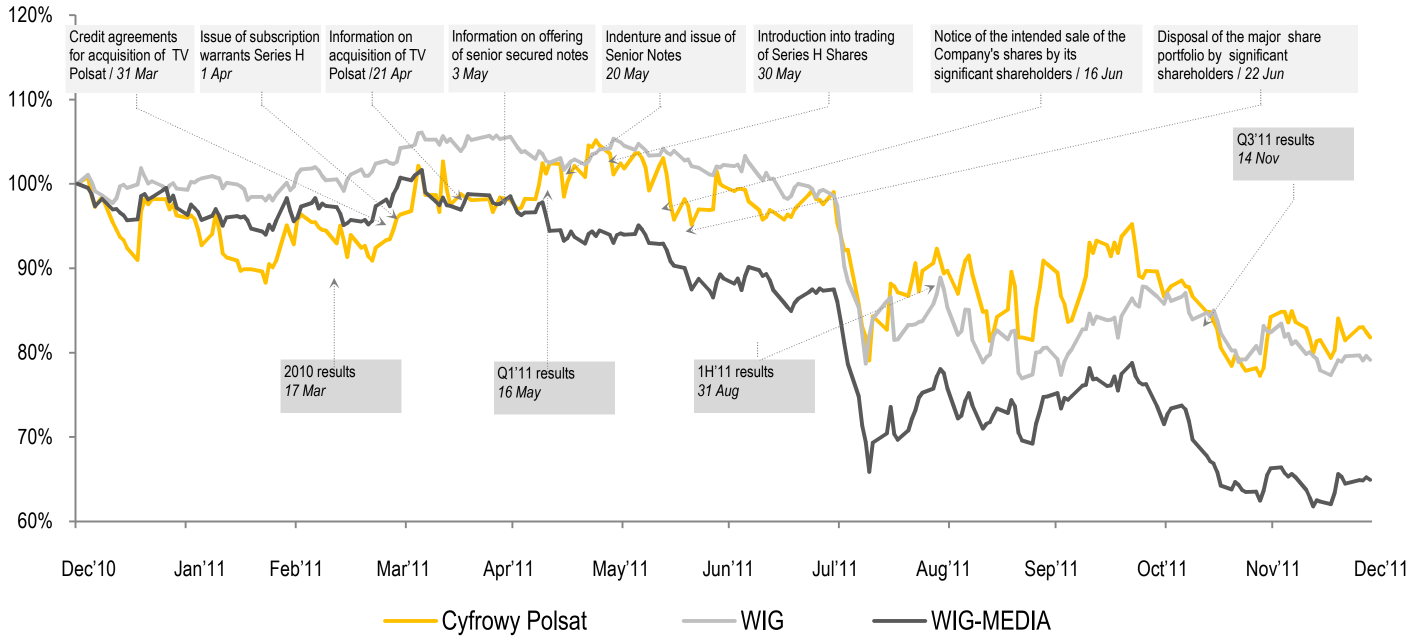
Shareholder	Number of shares	% of share	Number of votes	% of votes
Pola Investments Ltd. (1), including:	168,941,818	48.50%	335,884,319	63.64%
- Privileged registered shares	166,942,501	47.92%	333,885,002	63.26%
- Ordinary bearer shares	1,999,317	0.57%	1,999,317	0.38%
Others	179,411,018	51.50%	191,886,018	36.36%
Total	348,352,836	100.00%	527,770,337	100.00%

(1) Pola Investments' holding entity is Mr. Zygmunt Solorz-Żak, President of the Supervisory Board of Cyfrowy Polsat. Mr. Solorz-Żak controls in total 179,545,568 Cyfrowy Polsat's shares constituting 51.54% interest in the Company's share capital and representing 357,091,819 votes at the general meeting of the Company, which constitutes 67.66% of the total number of votes in the Company.

Item 9.3. Shares quotes

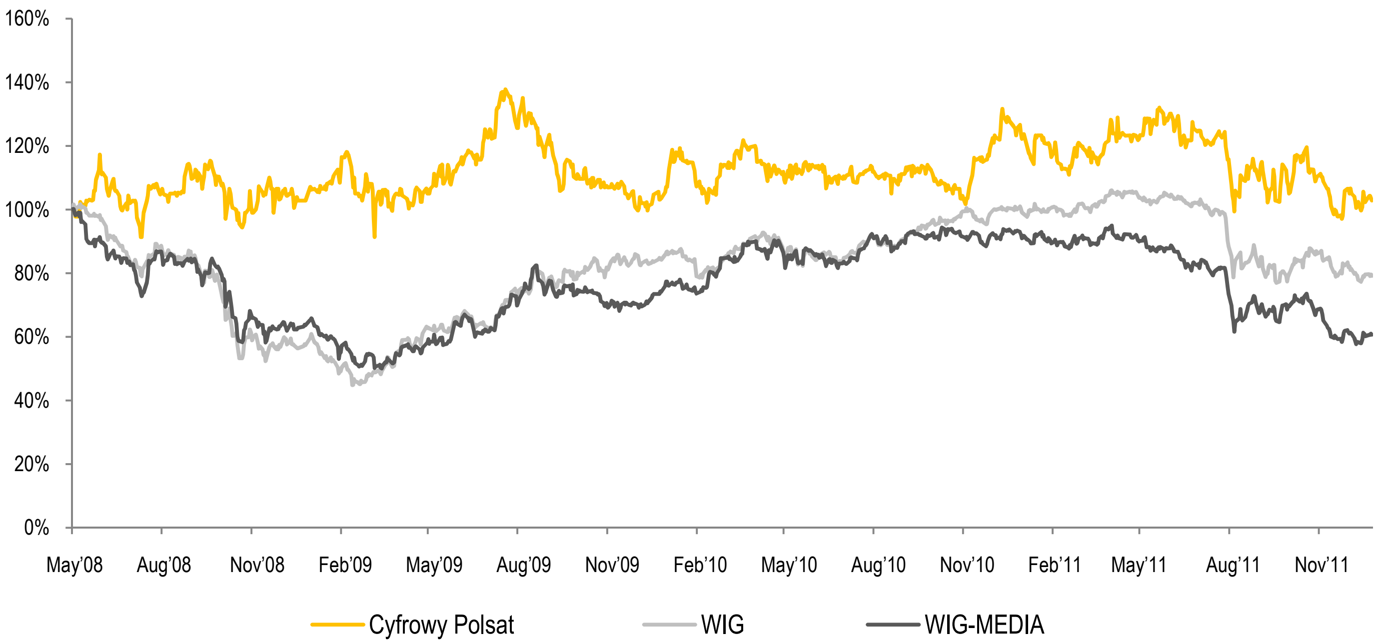
Performance of Cyfrowy Polsat shares in 2011

(indexed; 100 = closing price on December 31, 2010)



Performance of Cyfrowy Polsat shares since the debut on the WSE in May 2008 till the end of 2011

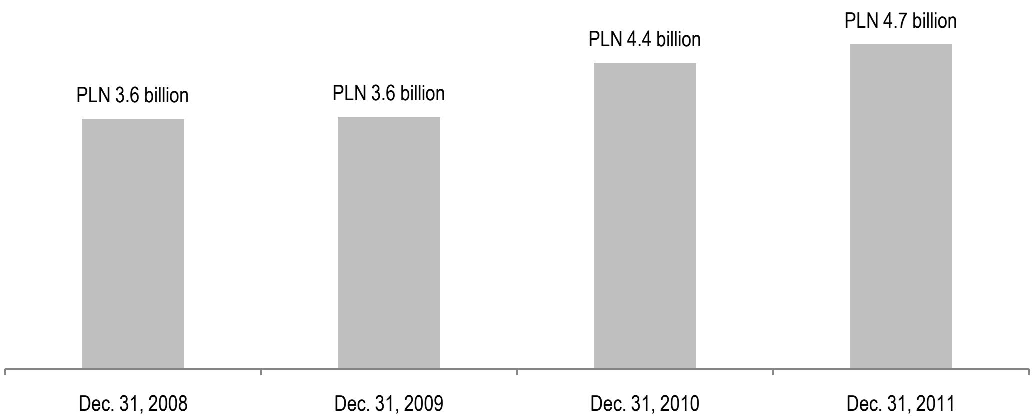
(indexed; 100 = closing price on May 6, 2008)



Cyfrowy Polsat shares on the stock exchange in 2011

		2011	2010
Year-end price	PLN	13.50	16.50
High for the year	PLN	17.35	17.30
Low for the year	PLN	12.75	13.36
Average for the year	PLN	15.26	14.82
Average daily turnover	PLN '000	5,891	4,408
Average daily trading volume	shares	392,209	297,830
Number of shares (as of Dec. 31, 2011)	shares	348,352,836	268,325,000
Bearer shares	shares	168,935,335	88,907,499
Market capitalization (as of Dec. 31, 2011)	PLN '000	4,702,763	4,427,363

Market capitalization of Cyfrowy Polsat since its debut on the WSE



Item 9.4. Analysts coverage and recommendations

Brokerages covering the Company:

Local

- Dom Maklerski BDM S.A.
- Dom Inwestycyjny BRE Banku S.A.
- Dom Maklerski BZ WBK S.A.
- Dom Maklerski IDM S.A.
- IPOPEMA Securities S.A.
- Trigon Dom Maklerski S.A.

International

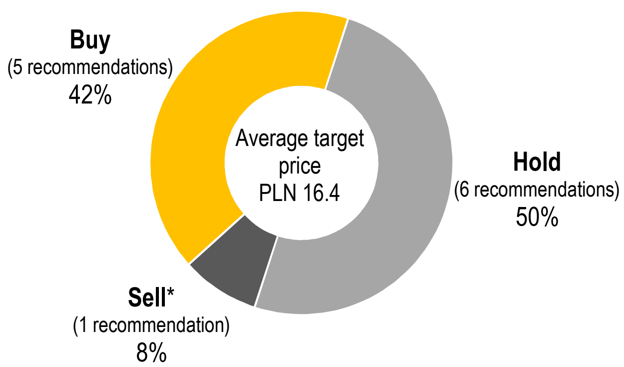
- Deutsche Bank Securities S.A.
- Citi Investment Research
- ERSTE Group Research
- Banco Espírito Santo de Investimento, S.A.
- ING Securities S.A.
- KBC Securities N.V
- Raiffeisen Centrobank AG
- UBS Investment Bank
- UniCredit CAIB Poland S.A.

(all financial data presented in PLN thousand, unless otherwise stated)

Recommendations for the shares of Cyfrowy Polsat published in 2011

Date	Company	Target price	Recommendation (PLN)
14 January	IPOPEMA Securities S.A.	↑ Buy	18.4
17 January	UniCredit CAIB Poland S.A.	↑ Buy	16.9
18 January	Deutsche Bank Securities S.A.	↑ Buy	19.0
18 January	UBS Investment Bank	— Neutral	17.3
25 January	Dom Maklerski IDM S.A.	— Hold	17.9
7 February	KBC Securities N.V	— Hold	16.1
14 March	Trigon Dom Maklerski S.A.	↑ Buy	18.6
18 March	Raiffeisen Centrobank AG	↑ Buy	18.5
16 May	Dom Maklerski IDM S.A.	— Hold	19.0
18 May	Trigon Dom Maklerski S.A.	↑ Buy	19.0
24 May	Deutsche Bank Securities S.A.	↑ Buy	20.0
20 June	Dom Maklerski IDM S.A.	↑ Buy	19.0
20 June	UBS Investment Bank	↑ Buy	18.4
28 June	UniCredit CAIB Poland S.A.	↑ Buy	18.9
26 July	Raiffeisen Centrobank AG	↑ Buy	18.8
2 August	CITI Investment Research	— Hold	19.1
12 September	IPOPEMA Securities S.A.	— Hold	16.3
14 September	ERSTE Group	↑ Buy	19.0
3 October	Raiffeisen Centrobank AG	— Hold	16.6
3 October	CITI Investment Research	↑ Buy	19.1
13 October	Dom Maklerski IDM S.A.	— Hold	15.2
13 October	DI BRE Banku S.A.	— Hold	14.8
19 October	Deutsche Bank Securities S.A.	↑ Buy	18.5
22 November	Trigon Dom Maklerski S.A.	— Hold	14.0
29 November	UniCredit CAIB Poland S.A.	↑ Buy	16.3
13 December	CITI Investment Research	↑ Buy	17.1

Recommendations structure at the end of 2011



* upgraded on January 9, 2012 to "Accumulate"

Close dialogue with the capital market

Our corporate strategy aims to create sustainable value of the Company. We support this strategy through regular and open communication with all capital market participants.

In order to ensure current access to information we participate in conferences with investors, we organize numerous individual meetings and raodshows both in Europe and in United States. Moreover, every quarter, after the publication of financial results, we organize periodical meetings with investors and sell-side analysts as well as teleconferences with the members of the Company's management. Both events have an open character.

In 2011, we participated in over 200 individual meetings with capital market participants.

In communication with the capital market we are guided by the main principle of transparency and equal access to information. Following this principle, we introduced the rule of limited communication before the publication of our financial results. Under this rule the representatives of the Company do not discuss or meet with analysts and investors two weeks prior to the publication of the quarterly results. This rule is meant to increase transparency and ensure the equal access to information on the Company before the publication of our financial results.

Moreover, in our communications we use such tools as website dedicated to investors (http://www.cyfrowypolsat.pl/inwestor), electronic newsletters, periodic newsletters including both information on current events in the Company and latest market developments (press review), as well as reminders of the most important events in the Company.

Item 10. Dividend policy

Our Ordinary Annual Shareholders' Meeting, held on July 4, 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.

On May 19, 2011, the General Meeting, taking into consideration the recommendation of the Management Board and the economic situation of the Company, decided to allocate the net profit for the financial year 2010 entirely to reserve capital.

The Management Board justified its recommendation by the need of future service of the debt incurred by the Company to purchase 100% shares of Telewizja Polsat. The reduction of indebtedness of the Company, planned by the Management Board, and thereby reduction of the net debt/EBITDA ratio, will reduce interest charges arising from the signed loan agreements, and thus will have a positive impact on the Company's financial standing.

Decreasing our debt in the shortest possible term is a part of our strategy, and as a result and in accordance with the provisions of Senior Facilities Agreements, the Management Board can consider the payment of dividend when net debt/EBITDA ratio is less than 2x.

Item 11. 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. March 12, 2012:

	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. March 12, 2012:

	No. of shares	**Nominal value of shares (not in thousands)**
Zygmunt Solorz-Żak[1]	179,545,568	7,181,822.72
Robert Gwiazdowski........................	-	-
Andrzej Papis..................................	-	-
Leszek Reksa..................................	-	-
Heronim Ruta..................................	-	-
Total...	**179,545,568**	**7,181,822.72**

[1] Mr. Zygmunt Solorz-Zak controls: (i) 10,603,750 shares directly (representing 3.04% in the share capital and 4.02% of votes in the Cyfrowy Polsat); and (ii) 168,941,818 shares indirectly, through Pola Investments Ltd., (representing 48.50% in the share capital and 63.64% of votes in Cyfrowy Polsat).

Item 12. 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 December 31, 2011 is included in Note 47 (Members of the Management Board) and Note 48 (Members of the Supervisory Board) of Financial Statements.

Item 13. 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 55,000 (not in thousands) 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 40,000 (not in thousands) 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 40,000 (not in thousands) 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 40,000 (not in thousands) over the number of months specified in non-competition agreement.

Item 14. Agreements with an entity certified to perform an audit of the financial statements

On December 29, 2011 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 December 31, 2011.

(all financial data presented in PLN thousand, unless otherwise stated)

The following summary presents a list of services provided by KPMG Audyt Spółka z ograniczoną odpowiedzialnością s.k. and remuneration for the services in the period of 12 months ended on December 31, 2011 and December 31, 2010.

	for year ended	
	December 31, 2011	**December 31, 2010**
Remuneration for audit of the financial statements for the year and other certifying services, including the review of financial statements	767	718
Other services	2,737	-
Total	**3,504**	**718**

Item 15. Statement on the application of the principles of corporate governance

Item 15.1. 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 Resolution No. 12/1170/2007 of the Council of GPW of July 4, 2007, amended by the following resolutions of GPW Council: no. 17/1249/2010 dated May 19, 2010, no. 15/1282/2011 dated August 31, 2011 and no. 20/1287/2011 dated October 19, 2011 (amendments introduced in 2011 came into force on January 1, 2012).

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

We 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.

In 2011, we employed all the rules included in Parts: II, III and IV, to which the principle "comply or explain" applies. Concerning the recommendations stated in Part I, we need to comment on three issues.

Recommendation I.1. In order to implement a transparent and effective information policy we provide 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. However, we have waived the recommendation of direct broadcasting, recording and publishing the records from the general meetings on our website, as it involves additional costs that in our opinion, are not effective.

Recommendation I.5. The Company does not comply with the recommendation in relation to setting policy of remuneration of members of managing and supervising bodies. The rules of remuneration of the members of managing and supervising bodies were not developed based on provisions of directives of the European Commission and thus, not all the recommendations are applied. In accordance with article 24 d) of the Company's Articles of Association, the remuneration of the members of the Supervisory Board requires a resolution of the General Meeting, except for the members of the Supervisory Board delegated to temporarily perform functions of a members of the Management Board, pursuant to article 19 2d) of the Articles of

Association, when the decision is taken by the Supervisory Board. The remuneration relates to the scope of tasks and responsibilities related to the function performed, reflects the size of the Company and keeps a healthy relation to its financial results. The remuneration of the Management Board members is set by the Supervisory Board and reflects the duties and responsibilities appointed to them.

Recommendation I.9 "Warsaw Stock Exchange recommends public companies and their shareholders to ensure the balanced participation of men and women in performing management and supervision functions in the enterprises, thus enhancing creativity and innovations in their businesses". In Cyfrowy Polsat, members of the Supervisory Board and the Management Board are appointed by the General Meeting and the Supervisory Board, respectively, based on qualifications, experience and competencies of the candidates. Factors such as gender are not considered when choosing the members of the Company's bodies. Company authorities believe that this approach guarantees the selection of the best persons to perform functions of management and supervision.

Item 15.3. Description of the basic features of the internal control system and the risk management system applied in the Company and in the Capital Group with respect to the process of preparing financial statements and 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 the Ordinance of the Minister of Finance of February 19, 2009 regarding current and periodic information to be submitted by issuers of securities, and the conditions for recognizing equivalence of information required under non-member states regulations.

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 Accounting Policies for Cyfrowy Polsat S.A. Group 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 systems 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. Systems operations 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 Polish Accounting Act of September 29, 1994, the accounting information systems documentation is 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.

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 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.

(all financial data presented in PLN thousand, unless otherwise stated)

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. In the subsidiaries, the auditor is chosen by either Supervisory Board, General Meeting or the Meeting of Shareholders. The tasks of the independent auditor include, in particular: a review of semi-annual individual and financial statements and audit of annual stand alone and 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 Polish Accounting 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 financial statements.

Item 15.4. Presentation of shareholders holding, directly or indirectly, material bundles of shares

The following table presents our shareholders as of the day of publication of this report:

Shareholder	Number of shares	% of share	Number of votes	% of votes
Pola Investments Ltd. (1), including:	168,941,818	48.50%	335,884,319	63.64%
- Privileged registered shares	166,942,501	47.92%	333,885,002	63.26%
- Ordinary bearer shares	1,999,317	0.57%	1,999,317	0.38%
Others	179,411,018	51.50%	191,886,018	36.36%
Total	348,352,836	100.00%	527,770,337	100.00%

(1) Pola Investments' holding entity is Mr. Zygmunt Solorz-Żak, President of the Supervisory Board of Cyfrowy Polsat. Mr. Solorz-Żak controls in total 179,545,568 Cyfrowy Polsat's shares constituting 51.54% interest in the Company's share capital and representing 357,091,819 votes at the general meeting of the Company, which constitutes 67.66% of the total number of votes in the Company.

Item 15.5. 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 December 31, 2011 the shares of the A through D series are shares preferential as to the voting rights in the way that:

- Series A shares totaling 2,500,000 have preferential voting rights entitling their holder to two voting rights per share;

- Series B shares totaling 2,500,000 have preferential voting rights entitling their holder to two voting rights per share;
- Series C shares totaling 7,500,000 have preferential voting rights entitling their holder to two voting rights per share;
- Series D shares totaling 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: Pola Investments Ltd. (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; 5,825,000 F Series shares and 80,027,836 shares of H Series are ordinary bearer shares.

Item 15.6. Specification of limitations in exercising voting rights

There are no limitations to exercise of the voting rights.

Item 15.7. 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 15.8. 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 15.9. 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 15.10. 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.

Subject to mandatory provisions of law, resolutions taken 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 December 31, 2011 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 votes at the General Meeting.

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

Item 15.11. 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 did not change during 2011. The members of the Management Board were appointed in 2010 for three years term.

(all financial data presented in PLN thousand, unless otherwise stated)

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 December 31, 2011.

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. and a member of the Supervisory Board of Telewizja Polsat Sp. z o.o. 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. From May 1999 to March 2011, Mr Libicki was member of the Supervisory Board of Polskie Media S.A. 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. Mrs. Jaskólska is also a Member of the Management Board of Cyfrowy Polsat Technology Sp. z o.o. and a Member of the Management Board of Cyfrowy Polsat Trade Marks Sp. z o.o. 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. 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 14 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 Cyfrowy Polsat Technology Sp. z o.o., President of the Management Board of Cyfrowy

Polsat Trade Marks Sp. z o.o., Member of the Management Board of Cyfrowy Polsat Finance AB and a Member of the Management Board of Telewizja Polsat Sp. z o.o. 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 S.A., 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).

(all financial data presented in PLN thousand, unless otherwise stated)

The Supervisory Board

The Supervisory Board comprises five members. The Supervisory Board has acted in a stable composition throughout 2011.

The Composition of the Supervisory Board

The following persons were Members of 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, conducting business in various areas of the Polish economy. At the end of the 1980s, he set up Foreign Enterprise SOLPOL. 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 launched the first private satellite television in Poland – Polsat which, by receiving a broadcasting license, transformed into a nationwide television. Within a few years Telewizja Polsat became one of the leaders of the television market in Poland. Currently, Mr. Solorz-Żak focuses his business activities in the media and telecommunications sector, in particular through entities like Cyfrowy Polsat S.A. (being also its founder), Telewizja Polsat Sp. z o.o., Polkomtel S.A. and Midas Group. Mr. Solorz-Żak's investment interest also includes companies from the following sectors: energy (ZE PAK S.A), finance and banking (Invest-Bank S.A., PTE Polsat S.A.), project development and construction (Port Praski Sp. z o.o.) and sports (WKS Śląsk Wrocław S.A.). Mr. Solorz-Żak has a great work experience in statutory bodies of commercial code companies being a member or president of Supervisory Boards of companies such as Telewizja Polsat Sp. z o.o., Polkomtel S.A., NFI Midas S.A., Invest Bank S.A. and ZE PAK S.A.

Robert Gwiazdowski has a senior post-doctoral qualifications in law. Since 1997, he holds an 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. From 1985 till 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 a 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/tax and finance/economic advisory, trading as Gwiazdowski Consulting. Mr. Gwiazdowski is an author of commentaries regarding tax and economic issues regarding Polish television and radio channels, 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 University of Warsaw and completed his legal apprenticeship in the Local BAR Chamber in Warsaw. From 1998 till 1999 he was an assistant in the team of professor M. Kulesza for administrational reform of the country, then a co-worker of the Government Proxy Office for

Implementation of the General Health Insurance. Since 2000 he has been the lawyer of Telewizja Polsat Sp. z o.o. He has been a member of the Board of TFP Sp. z o.o. since 2003, a member of the Supervisory Board of Elektrim S.A. since 2004 and a member of the Supervisory Board of Cyfrowy Polsat S.A. since 2007. In 2007-2010 Mr. Papis has been a member of the Supervisory Board of Media-Biznes Sp. z o.o. In 2011, he was appointed to the Supervisory Board of Polkomtel S.A.

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 (large banking institution). He also has a great work experience in statutory bodies of commercial code companies – he was President of the Management Board of PHU BIMOT S.A., member of the Supervisory Board of Bankowy Fundusz Leasingowy S.A. and member of the Supervisory Board of Zaklady 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 sits on the Supervisory Boards of Invest Bank S.A., PAI Media S.A., Gurex S.A., and Telewizja Polsat Sp. z o.o., and also on the Management Board of Diasen Ltd. From 1973 to 1978 Mr. Ruta was a trainee and then an electrical technology specialist at Zaklady Tworzyw Sztucznych Pronit Erg (plastics processing plant), from 1978 till 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. From 1980 till 1987 he was the head of Wytworczo-Uslugowa Spoldzielnia Pracy. In 1987 he founded Herom Sp. z o.o., where he was President until 1992. From 1992 till 1994 he was President of Ster Sp. z o.o., and from 1991 till 1998 he ran his own business within trade and services in the field of electronics goods and establishment of television broadcasting transmitters for Telewizja Polsat S.A. From 2002 till 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". Since November 2011, he has been the President of the Supervisory Board of Polkomtel S.A.

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 appointing, dismissing and suspending members of authorities of the subsidiaries,

g. granting consent for entering into a material agreement with a related entity,

h. 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, not in thousands), 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.

i. 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 December 31, 2011 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 December 31, 2011, 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.

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, March 9, 2012

Management Board's representations

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

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

hereby represents that:

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

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

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, 9 March 2012

KPMG Audyt
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OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting Cyfrowy Polsat S.A.

We have audited the accompanying separate financial statements of Cyfrowy Polsat S.A., seated in Warsaw, ul. Łubinowa 4a ("the Company"), which comprise the balance sheet as at 31 December 2011, the income statement and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and supplementary information to the financial statements, comprising of a summary of significant accounting policies and other explanatory information.

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

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

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying separate financial statements of Cyfrowy Polsat S.A. have been prepared and present fairly, in all material respects, the unconsolidated financial position of the Company as at 31 December 2011 and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, are in compliance with the respective regulations and the provisions of the Company's articles of association that apply to the Company's separate financial statements and have been prepared from accounting records, that, in all material respects, have been properly maintained.

Other Matters

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

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

....
Certified Auditor No. 90106
Krzysztof Kuśmierski

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

9 March 2012
Warsaw

CYFROWY POLSAT S.A.

Financial Statements
for the year ended 31 December 2011

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

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APPROVAL OF THE FINANCIAL STATEMENTS

On 9 March 2012, the Management Board of Cyfrowy Polsat S.A. approved the financial statements of the Cyfrowy Polsat S.A. prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which include:

Income Statement for the period
from 1 January 2011 to 31 December 2011 showing a net profit of: PLN 156,093 thousand

Statement of Comprehensive Income for the period
from 1 January 2011 to 31 December 2011 showing a total comprehensive income of: PLN 160,851 thousand

Balance Sheet as at
31 December 2011 showing total assets and total equity and liabilities of: PLN 5,774,580 thousand

Cash Flow Statement for the period
from 1 January 2011 to 31 December 2011 showing a net decrease in cash and cash equivalents amounting to: PLN 12,458 thousand

Statement of Changes in Equity for the period
from 1 January 2011 to 31 December 2011 showing an increase in equity of: PLN 1,444,040 thousand

Supplementary Information to the Financial Statements

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

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

Dorota Wołczyńska
Chief Accountant

Warsaw, 9 March 2012

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

Income Statement

		for the year ended	
	Note	**31 December 2011**	**31 December 2010**
Revenue	9	1,631,628	1,473,540
Operating costs		(1,254,692)	(1,096,418)
Cost of services, goods and materials sold	10	(881,524)	(785,477)
Selling expenses	10	(257,636)	(221,202)
General and administrative expenses	10	(115,532)	(89,739)
Other operating income	11	5,438	614,032
Other operating costs	12	(72,986)	(42,763)
Profit from operating activities		**309,388**	**948,391**
Finance income	13	213,018	5,785
Finance costs	14	(371,393)	(4,982)
Gross profit for the year		**151,013**	**949,194**
Income tax	15	5,080	(65,028)
Net profit for the year		**156,093**	**884,166**
Basic and diluted earnings per share (in PLN)	17	**0.48**	**3.30**

Statement of Comprehensive Income

	for the year ended	
	31 December 2011	**31 December 2010**
Net profit for the year	**156,093**	**884,166**
Hedge valuation	5,874	-
Income tax relating to other comprehensive income	(1,116)	-
Other comprehensive income, net of tax	**4,758**	**-**
Total comprehensive income for the year	**160,851**	**884,166**

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

Balance Sheet - Assets

	Note	31 December 2011	31 December 2010
Reception equipment	18	434,316	291,208
Other property, plant and equipment	18	133,841	131,994
Goodwill	39	52,022	-
Intangible assets	19	28,598	20,479
Investment property	20	6,843	6,931
Shares in subsidiaries and associates	21	4,516,033	675,471
Other non-current assets	22	44,691	35,898
Total non-current assets		**5,216,344**	**1,161,981**
Inventories	23	159,950	140,165
Short-term loans granted to related parties	24	-	5,446
Bonds	25	14,854	-
Trade and other receivables	26	178,417	178,588
Income tax receivable		9,619	6,760
Other current assets	27	183,538	77,154
Cash and cash equivalents	28	11,858	24,195
Total current assets		**558,236**	**432,308**
Total assets		**5,774,580**	**1,594,289**

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

Balance Sheet - Equity and Liabilities

	Note	31 December 2011	31 December 2010
Share capital	29	13,934	10,733
Reserve capital		1,037,258	153,093
Other reserves	29	1,305,277	10,174
Hedge valuation reserve	30	4,758	-
Retained earnings		141,849	885,036
Total equity		**2,503,076**	**1,059,036**
Loans and borrowings	31	958,406	-
Issued bonds	32	1,397,481	-
Finance lease liabilities	33	934	884
Deferred tax liabilities	15	65,378	69,986
Other non-current liabilities and provisions	34	5,589	1,900
Total non-current liabilities		**2,427,788**	**72,770**
Loans and borrowings	31	290,617	-
Issued bonds	32	119,473	-
Finance lease liabilities	33	252	226
Trade and other payables	35	239,831	280,411
Deposits for equipment	36	12,743	15,434
Deferred income	37	180,800	166,412
Total current liabilities		**843,716**	**462,483**
Total liabilities		**3,271,504**	**535,253**
Total equity and liabilities		**5,774,580**	**1,594,289**

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

Cash Flow Statement

		for the year ended	
	Note	31 December 2011	31 December 2010
Net profit		**156,093**	**884,166**
Adjustments for:		**(82,804)**	**(665,365)**
Depreciation, amortization and impairment	10	139,174	78,873
Loss on investing activity		440	122
Interest expense		186,673	191
Change in inventories		(19,406)	(24,332)
Change in receivables and other assets		(95,602)	(64,224)
Change in liabilities, provisions and deferred income		(25,278)	94,328
Valuation of hedging instruments		5,874	-
Foreign exchange losses, net		168,432	58
Income tax	15	(5,080)	65,028
Net increase in reception equipment provided under operating lease		(244,158)	(203,408)
Dividends income		(197,030)	(4,000)
Transfer of a contribution in a kind to a subsidiary		-	(608,434)
Other adjustments		3,157	433
Cash from operations before income taxes and interest		**73,289**	**218,801**
Income tax paid		(1,485)	(9,718)
Interest received from operating activities		4,442	1,161
Net cash from operating activities		**76,246**	**210,244**
Acquisition of property, plant and equipment		(25,074)	(25,630)
Acquisition of intangible assets		(19,195)	(15,012)
Acquisition of financial assets		-	(392)
Loans granted		-	(8,784)
Dividends received		196,817	4,000
Acquisition of shares in subsidiaries	21	(2,600,232)	(33,966)
Acquisition of bonds	25	(14,684)	-
Prepayment for shares	27	(12,000)	-
Loans repaid - principal		50	3,636
Interest on loans repaid		2	1,389
Proceeds from sale of property, plant and equipment		457	92
Payment of interest on finance lease liabilities by a subsidiary		-	351
Net cash used in investing activities		**(2,473,859)**	**(74,316)**
Term loans received	31	2,800,000	-
Issuance of bonds	32	1,372,245	-
Net cash from Cash Pool		43,839	-
Proceeds from realization of foreign exchange call options		2,480	794
Merger with related entities		1,530	-
Dividends paid		-	(152,945)
Purchases of foreign exchange call options		-	(7,320)
Payment of interest on loans, borrowings, finance lease and commissions		(303,547)	(1,816)
Finance lease – principal repayments		(369)	(237)
Repayment of loans and borrowings	31	(1,531,023)	(47,277)
Net cash from/(used in) financing activities		**2,385,155**	**(208,801)**
Net increase/(decrease) in cash and cash equivalents		**(12,458)**	**(72,873)**
Cash and cash equivalents at the beginning of the year*		**24,195**	**97,126**
Effect of exchange rate fluctuations on cash and cash equivalents		121	(58)
Cash and cash equivalents at the end of the year		**11,858**	**24,195**

* Cash and cash equivalents as at 1 January 2010 included PLN 26,738 thousand of restricted cash.

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

Statement of Changes in Equity for the year ended 31 December 2011

	Note	Share capital	Reserve capital	Other reserves	Hedge valuation reserve	Retained earnings	Total equity
Balance as at 1 January 2011		10,733	153,093	10,174	-	885,036	**1,059,036**
Share issue	29	3,201	-	1,295,103	-	-	**1,298,304**
Merger with M.Punkt Holdings Ltd.	38	-	-	-	-	(460)	**(460)**
Merger with mPunkt Polska S.A.	39	-	-	-	-	(14,616)	**(14,616)**
Merger with mTel Sp. z o.o.	40	-	-	-	-	(39)	**(39)**
Hedge valuation		-	-	-	4,758	-	**4,758**
Net profit for the year		-	-	-	-	156,093	**156,093**
Appropriation of 2010 profit – transfer to reserve capital	29	-	884,165	-	-	(884,165)	**-**
Balance as at 31 December 2011		**13,934**	**1,037,258**	**1,305,277**	**4,758**	**141,849**	**2,503,076**

Statement of Changes in Equity for the year ended 31 December 2010

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

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

Supplementary Information to the Financial Statements for the year ended 31 December 2011

1. The Company

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

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

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

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,
- Tomasz Szeląg	Member of the Management Board.

3. Composition of the Supervisory Board of the Company

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

4. Basis of preparation of the financial statements

Statement of compliance

These financial statements for the year ended 31 December 2011 have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU. The Company applied the same accounting policies in the preparation of the financial data for the year ended 31 December 2011 and the financial statements for 2010, presented in the annual report, except for the EU-endorsed standards and interpretations which are effective for the reporting periods beginning on or after 1 January 2011.

During the year ended 31 December 2011 the following became effective:

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

(ii) amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*
The amendments clarify the accounting for prepayments of a minimum funding requirement. The changes have no impact on these financial statements.

(iii) IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
Interpretation explains how to account for extinguishing financial liabilities with equity instruments. The changes have no impact on these financial statements.

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

(v) Improvements to 2010 International Financial Reporting Standards revise six standards and one interpretation. The revisions relate to the scope, presentation, recognition and measurement as well as changes of terminology and editorial changes. The changes have no impact on these financial statements.

(vi) amendment to IAS 32 *Classification of Rights Issues*
The amendment clarifies the classification of financial instruments that give the holders the right to be settled in issuer's own equity. The change has no impact on these financial statements.

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 the EU but are not yet effective.

In preparing these consolidated financial statements, the Company did not early adopt the new Standards which have already been published and adopted by the European Union and which should be applied for annual periods beginning after 1 January 2011 (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 7 – *Transfers of Financial Assets*
The amendments relate to transfers of financial assets. They apply for annual periods beginning on or after 1 July 2011. They have no impact on these financial statements.

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

- IFRS 9 *Financial Instruments;*
- IFRS 10 *Consolidated financial statements;*
- IFRS 11 *Joint Arrangements;*
- IFRS 12 *Disclosures of Interests in Other Entities;*
- IFRS 13 *Fair Value Measurement;*
- IAS 27 *Separate Financial Statements;*
- IAS 28 *Investments in Associates and Joint Ventures;*
- amendments to IAS 12 *Deferred 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;
- amendments to IAS 1 *Presentation of Items of Other Comprehensive Income;*
- amendments to IAS 19 *Employee Benefits*;
- amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities*;
- amendments to IAS 32 *Presentation – Offsetting Financial Assets and Financial Liabilities*;
- amendments to IFRS 9 *Financial Instruments* (issued in 2010);
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*.

The Company has not assessed the impact of the above amendments on the financial statements as at the date of approval of these financial statements.

5. Accounting policies

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

a) Basis of measurement

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets, which are valued at fair value as well as financial liabilities (loans and bonds), which are valued at amortised costs.

b) Going concern assumption

The 2011 financial statements have been prepared assuming that the Company will continue as a going concern in the foreseeable future, not shorter than 12 months from 31 December 2011.

c) Functional currency and presentation currency

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

d) Judgments and estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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 50.

e) Comparative financial information

Comparative data or data presented in previously published financial statements are restated, if necessary, in order to reflect presentational changes introduced in the current period. In 2011 changes were made in respect of the presentation of revenues from sale of services, products, goods and materials resulting from the development in the presentation of our business. The primary change related to the presentation of Retail sales comprising of DTH subscription revenues (Mini, MiniMax and other offers), subscription from MVNO and Internet as well as revenue from the rental of reception equipment (formerly presented as Other revenues). None of the introduced changes affected the previously reported amounts of net profit, EBITDA, or equity.

f) Foreign currency

Transactions in foreign currencies are translated to Polish zloty at exchange rates in effect one day prior to the recording of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated as at the balance sheet date into Polish zloty at the average exchange rate quoted by the National Bank of Poland ("NBP") for that date. The foreign exchange differences arising on translation of transactions denominated in foreign currencies and from the balance–sheet valuation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency 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 stated at fair value are translated at the average NBP foreign exchange rate in effect at the date the fair value was determined.

g) Financial instruments

(i) Non-derivative financial instruments

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

Non-derivative financial instruments are recognized initially at fair value increased by - except for investments valued at fair value through profit or loss - directly attributable transaction costs (except as described below).

A financial instrument is recognized if the Company becomes a party to the contractual obligations of the instrument. Financial assets are derecognized if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset. Standardised sale and purchase transactions of financial assets are recognized at the transaction date i.e. on the date the Company is obliged to acquire or sell the asset. Financial liabilities are derecognized if the Company's obligations specified in the contract expire (are discharged or cancelled).

Cash and cash equivalents comprise cash on hand and on-call deposits. The cash and cash equivalents balance presented in the cash flow statement comprises the above mentioned cash and cash equivalents.

Principles for recognition of finance income and finance costs are presented in note 5 (w).

Loans and receivables and other financial liabilities

Loans and receivables which are not derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses. Other financial liabilities which are not derivative financial instruments 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 in fair value – other than impairment losses and in the case of monetary assets, such as bonds, other than gains or losses on foreign exchange differences – are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss. If such investments are interest-bearing, interest, calculated using the effective interest method, is recognized in the income statement.

(ii) Derivative financial instruments

Hedge accounting

The Company may use derivative financial instruments such as forward currency contracts, foreign exchange call options, interest rate swaps and cross-currency interest rate swaps to hedge its foreign currency and interest rate risks. The Company may use forward currency contracts and foreign exchange call options as cash flow hedges of its exposure to foreign currency risk in forecasted EUR denominated fixed coupon payments on Eurobonds and operating expenses as well as interest rate swaps and cross-currency interest rate swaps for its exposure to volatility in the interest payments on floating rate debt.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (excluding currency risk)

- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

For fair value hedges the change in the fair value of an hedging instrument is recognized in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying amount of the hedged item and is also recognized in the income statement.
For fair value hedges relating to items measured at amortized cost, the adjustment to their carrying amount is amortized through the income statement over the remaining term to maturity.

For cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the hedge valuation reserve, while any ineffective portion is recognized immediately in the income statement.
The amounts recognized within other comprehensive income are transferred from equity to the income statement when the hedged transaction affects profit or loss, such as when the related finance income or expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as other comprehensive income are included in the initial carrying amount of such asset or liability.

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is divided into a current portion and a non-current portion only if a reliable allocation can be made.

Other derivatives not designated for hedge accounting

Derivative instruments that are not designated for hedge accounting are recognized initially at fair value, attributable transaction costs are recognized in the profit or loss as incurred. Subsequent to initial recognition, the Company measures those derivative financial instruments at fair value, and changes therein are recognized in profit or loss.

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or divided into a current and non-current portion based on an assessment of the relevant facts and circumstances (i.e. the underlying contracted cash flows).

- Where the Company will hold a derivative instrument considered an economic hedge (for which hedge accounting is not applied) for a period exceeding 12 months after the reporting date, such derivative instrument is classified as non-current (or divided into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivates that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

h) Equity

Ordinary shares

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

Preferred shares

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 recognized as distributions within equity.

Costs attributable to the issue of new shares and the public offer of existing shares

Costs attributable to a new issue of shares are recognized in equity while costs attributable to a public offering of existing shares are recognized directly in finance costs. These costs relating to both new issue and sale of existing shares are recognized 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 excess of acquisition price over the nominal value of shares of Telewizja Polsat S.A. and the fair value measurement of consideration transferred.

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

i) Property, plant and equipment

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

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

Cost includes purchase price of the asset and other expenditure that is directly attributable to the acquisition and bringing the asset to a working condition for its intended use, including initial delivery as well as handling and storage costs. The cost of purchased assets is reduced by the amounts of vendor discounts, rebates and other similar reductions received.

The cost of self-constructed assets and assets under construction includes all costs incurred for their construction, installation, adoption, and improvement as well as borrowing costs incurred until 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) External financing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the costs of the asset. Borrowing costs consist of interest and foreign exchange gains or losses up to an amount that adjusts the interest costs.

(iii) Subsequent costs

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

(iv) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Company will obtain ownership by the end of the lease term and in that case assets are depreciated over the useful lives.

Land is not depreciated.

The estimated useful lives for the current and comparative period are as follows:

Buildings	60	years
Digital satellite reception equipment and modems	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.

(v) Leased assets

Assets used under lease, tenancy, rental or similar contracts which meet finance lease criteria, are classified as non-current assets and recognized at the lower of fair value of the leased asset and the present value of the minimum lease payments. Set-top boxes that are provided to customers under operational leases are accounted for as property, plant and equipment.

Set-top boxes that are provided to customers under finance lease agreements are not recognized on the Company's balance sheet.

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

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

j) Intangible assets

(i) Internally generated software

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

(ii) Other intangible assets

Other intangible assets acquired by the Company are stated at cost less accumulated amortization and impairment losses.

(iii) Subsequent expenditure

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

(iv) Amortization

Amortization is based on the cost of an asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful life is 2 years.

Intangible assets with indefinite useful life are not amortized and are subject to impairment testing as at each financial year-end.

k) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Items recognized as investment property are measured at their cost, being their purchase price or cost of development, less accumulated depreciation and accumulated impairment.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

When the use of an investment property changes to owner-occupied, it is reclassified as property, plant and equipment, and its gross book value, accumulated depreciation and carrying amount at the date of reclassification become its gross book value, accumulated depreciation and carrying amount for subsequent accounting.

Land classified as an investment property is not depreciated, whereas the estimated useful live of buildings classified as an investment property was equal to 60 years.

l) Shares

Shares in subsidiaries and associates are measured at cost less impairment losses.

m) Inventories

Inventories are measured at the lower of cost or net realisable value. The cost of inventories is determined based on the first-in first-out principle. The cost of inventories includes purchase price, costs relating directly to the acquisition and the costs related to preparing the inventory for use or sale.

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

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

n) Impairment of assets

(i) Financial assets

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

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

Individually significant financial assets are tested for impairment on an individual basis at balance sheet 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 recoverability of overdue receivables and recovery efficiency.

All impairment losses are recognized in the income statement.

Impairment losses are reversed if a subsequent increase in recoverable value of a financial asset can be related objectively to an event occurring after the impairment losses were recognized.

(ii) Non-financial assets

The carrying amounts of non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of intangible assets with an indefinite useful life and intangible assets which are not yet ready for use is assessed at each financial year-end.

An impairment loss is recognized when the carrying amount of an asset or a cash-generating unit is greater than its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in the income statement. An impairment loss for a cash-generating unit is initially recognized as a decrease of goodwill assigned to this unit (group of units), then it proportionally reduces the carrying amount of other assets from this unit (group of units).

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 flows, the value in use is estimated for the smallest identifiable cash-generating unit to which the asset belongs.

An impairment loss for goodwill cannot be reversed. As for other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss other than that in respect of goodwill 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 amortization, if no impairment loss had been recognized.

o) Non-current assets held for sale

Non-current assets (or groups comprising assets and liabilities held for sale) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, assets (or components of a disposal group) are measured in accordance with the Company's accounting policies. Thereafter, at the date the assets (or a disposal group) are classified as held for sale, they are measured at the lower of their carrying amount or fair value less cost to sell. An impairment loss for a group of assets held for sale is initially recognized as a decrease of goodwill, then it proportionally reduces the carrying amounts of other assets from this group, except for inventories, financial assets, deferred tax assets and investment properties, which are valued in accordance with the Company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized through the income statement. Gains on re-measurement are recorded only to the level of previously recognized impairment losses.

p) Restricted cash

Restricted cash comprises cash deposited in Company's bank accounts which according to signed agreements may only be expensed for strictly defined purposes or cash deposited in escrow bank accounts. Restricted cash is presented as current or non-current assets according to the terms of agreements relating to the period for which the restrictions are valid.

q) Employee benefits

(i) Defined contribution program

The Company is obliged, under applicable regulations, to collect and remit the contribution to the state pension fund. These benefits, according to IAS 19 *Employee Benefits* represent state plans and are classified as defined contribution plans. Therefore, the Company's obligations for each period are estimated as the amount of contributions to be remited for a given period.

(ii) Defined benefit program – retirement benefits

The Company is obliged to pay retirement benefits calculated in accordance with the relevant provisions of the Polish labour code. The minimum retirement benefit is as per the labour code provisions at the moment of payment.

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

Changes in the value of the retirement benefit provision are recognized in the income statement.

(iii) 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.

The Company creates a provision and charges the income statement for the amounts expected to be paid under short-term bonuses and profit sharing plans, if the Company has a legal or constructive obligation to make such payments as a result of past services provided by the employees and the obligation can be estimated reliably.

r) Provisions

A provision is recognized when the Company has a present obligation as a result of a past event 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, the Company discounts the provision, using a pre-tax discount rate that reflects current market assessments of the time value of money and those risks specific to the component of the liability.

(i) Warranty provision

A warranty provision is recognized when products or goods, for which the warranty was granted, are sold. The amount of the provision is based on historical warranty data and on a weighted average of all possible outflows connected with warranty claims against their associated probabilities.

(ii) Onerous contracts

A provision for an onerous contract is recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. A provision for an onerous contract is measured at the lower of the cost of fulfilling the contract and the cost related to any compensation or penalties arising from failure to fulfill it. Before recognition of a provision for an onerous contract, the Company recognises the impairment of the assets dedicated to these contracts.

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 Company or a present obligation that arises from past events, but its amount cannot be estimated reliably or it is not probable that there will be an outflow of resources embodying economic benefits.

A contingent liability is disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

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

t) Deposits

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

u) Revenue

Revenue, which excludes value added tax, returns, trade discounts and volume rebates, represents the gross inflow of economic benefit from Company's operating activities. Revenue is measured at the fair value of the consideration received or receivable. The Company's main sources of revenue are recognized as follows:

(a) Retail sales, including subscription and activation fees for DTH, Near Video on Demand (nVoD), MVNO and the Internet access, interconnection revenue, settlements with mobile network operators and revenue from the rental of reception equipment, are recognized as these services are provided. Retail sales also include contractual penalties related to terminated agreements which are recognized when the contract is terminated.
   Revenue from the rental of reception equipment is recognized on a straight-line basis over the minimum base period of the subscription contract, other than for finance lease agreements, that are recognized as a sale with deferred payment date.
   Revenues from prepaid mobile telephone services are recognized in profit or loss once the prepaid credit is utilised or forfeited.

(b) Revenue from sale of equipment 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 recognized in profit or loss when the significant risks and rewards of ownership have been transferred to the customer.

(c) Other revenue is recognized, net of any discount given, when the relevant goods or service are provided.

When the Company sells goods (reception equipment, set-top boxes, CAM) and services in one bundled transaction, the total consideration from the arrangement is allocated to each element of such multiple-element arrangements based on their relative fair values.

v) Distribution fees

Commissions for distributors for registering new subscribers and for retention existing subscribers are recognized during the minimum basic period of the subscription agreement. Turnover commissions for concluding a certain number of subscription contracts are recognized in the income statement as they are due.

Commissions for distributors which will be settled within the period of 12 months after the balance sheet date are presented as other current assets, however, the commissions, which will be settled after the 12-month period from the balance sheet date, are presented as other long-term assets.

w) Finance income and finance expenses

Finance income includes interest income resulting from invested cash, dividends receivable, gains on sale of financial instruments available for sale, from changes in the fair value of financial instruments at fair value through profit or loss, from completed forward exchange contracts and net foreign exchange rate gains. Interest received is presented in the income statement on an accrual basis using the effective interest method. Dividends received are recognized in the income statement at the moment the Company obtains the right to the dividend.

Finance expenses include interest expense on debt, unwinding of the discount on provisions, dividends from preference shares classified as liabilities, losses from completed forward exchange contracts, net foreign exchange losses, losses resulting from changes in the fair value of financial instruments at fair value through profit or loss, and financial assets impairment. Interest expense is calculated using the effective interest rate method.

x) Lease payments

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

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

y) Taxation

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

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

Deferred tax is recognized using the balance sheet method, 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 realisation or settlement of the carrying amount of assets and liabilities, respectively, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets are 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 profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are offset by the Company provided that it is entitled to compensate current tax assets and liabilities when calculating its tax liabilities. The Company 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 the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
   - the same taxable entity or
   - different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

z) Earnings per share

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

aa) Segment reporting

The Company operates in the retail business segment which relates to the provision of services to the general public, including digital television transmission signal, mobile services and the Internet access services.

The Company conducts its operating activities in Poland.

ab) Cash flow statement

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

The purchase of set-top boxes provided to clients under operating lease contracts is classified in the cash flow statement in operating activities. The purchase and disposal of these set-top boxes are classified in the cash flow statement in operating activities and presented as "Net decrease/(increase) in reception equipment provided under operating lease".

Purchases of property, plant and equipment or intangible assets are presented in their net amount (net of VAT).

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

6. Determination of fair values

A number of accounting principles 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. In justified cases, further information on methods of fair value measurement is described in the appropriate notes specific to that asset or liability.

(i) Property, plant and equipment and investment property

The fair value of property, plant and equipment acquired in business combinations, including investment property, is based on market value. The market value of real estate is the amount for which it could be exchanged between knowledgeable and willing parties in an arm's length transaction, after carrying out appropriate marketing activities, with both parties acting in a conscious and prudent manner. The fair value of other tangible non-current assets is based on prices of comparative market transactions.

(ii) Intangible assets

The fair value of trademarks and patents acquired in business combinations is based on the discounted estimated payments of royalties that have been avoided as a result of the acquisition of the trademarks and patents. The fair value of other intangible assets is based on the discounted cash flows forecasted to be derived from their usage and ultimate disposal.

(iii) Inventories

The fair value of inventories acquired in business combinations is based on net realisable market value, net of selling and finishing costs as well as a margin based on a reasonable estimate of expenditures required for finishing products and executing sales.

(iv) Investments in equity and debt instruments

The fair value of financial assets valued at fair value through profit and loss, investments held to maturity and financial assets available for sale is calculated based on their quoted closing bid price at the balance sheet date. The fair value of investments held to maturity is calculated only for disclosure purposes.

(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 a market interest rate as at the balance sheet date.

(vi) Non-derivative financial liabilities

The fair value for disclosure purposes is based on the present value of future cash flows from repayment of capital and interest, discounted using a market interest rate as at the balance sheet date. A market interest rate for a finance lease contract is estimated based on interest rates for similar lease contracts.

(vii) Derivatives

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

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

7. Approval of the Financial Statements

These financial statements were approved for publication by the Management Board on 9 March 2012.

8. Information on Seasonality in the Company's Operations

In 2011, the Company's revenue was not subject to seasonality. Historically, revenues from sales of equipment were subject to seasonality. The seasonality of sales of equipment was due to the increased number of new subscribers in the fourth quarter of the year (before Christmas) and important sporting events which were not covered in terrestrial channels. Revenue from subscription fees is not directly subject to any seasonal trend.

9. Revenue

	for the year ended	
	31 December 2011	**31 December 2010**
Retail sales	1,594,880	1,416,950
Sale of equipment	12,224	28,278
Other revenue	24,524	28,312
Total	**1,631,628**	**1,473,540**

Retail revenue consists of DTH subscription fees, MVNO and Internet subscription fees, interconnection revenues and settlements with mobile network operators, revenue from rental of reception equipment and contractual penalties related to terminated agreements.

10. Operating costs

		for the year ended	
	Note	**31 December 2011**	**31 December 2010**
Programming costs		434,480	392,035
Distribution, marketing, customer relation management and retention costs		320,411	297,530
Depreciation, amortization and impairment		139,174	78,873
Salaries and employee-related costs	**a**	94,041	76,616
Broadcasting and signal transmission costs		86,736	79,855
Cost of equipment sold		29,800	56,151
Other costs		150,050	115,358
Total costs by kind		**1,254,692**	**1,096,418**

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

	for the year ended	
	31 December 2011	31 December 2010
Cost of services, goods and materials sold	881,524	785,477
Selling expenses	257,636	221,202
General and administrative expenses	115,532	89,739
Total costs by function	**1,254,692**	**1,096,418**

a) Salaries and employee-related costs

	for the year ended	
	31 December 2011	31 December 2010
Salaries	81,595	66,442
Social security contributions	9,417	7,499
Other employee-related costs	3,029	2,675
Total	**94,041**	**76,616**

Average headcount

	for the year ended	
	31 December 2011	31 December 2010
Number of employees – employment contracts	669	548

11. Other operating income

	for the year ended	
	31 December 2011	31 December 2010
Compensations	3,500	1,994
Reversal of inventory impairment losses	698	-
Transfer of an organized part of enterprise as a contribution in a kind to CPTM Sp. z o.o.*	-	608,434
Other	1,240	3,604
Total	**5,438**	**614,032**

* On 20 December 2010 Cyfrowy Polsat S.A. transferred an organised part of the enterprise (forming a branch under the name of Cyfrowy Polsat Spółka Akcyjna Oddział w Waszawie) as a contribution in a kind to CPTM to cover the share of the Company in an increased share capital in CPTM. After the increase by PLN 615,440 thousand CPTM share capital amounts to PLN 615,445 thousand.

12. Other operating costs

	for the year ended	
	31 December 2011	31 December 2010
Bad debt allowance and receivables written off	62,128	35,961
Inventory impairment write-downs	-	3,299
Other	10,858	3,503
Total	**72,986**	**42,763**

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

13. Finance income

	for the year ended	
	31 December 2011	31 December 2010
Dividends received	197,030	4,000
Guarantee fees from related parties (see note 43)	11,302	-
Interest	4,686	1,785
Total	**213,018**	**5,785**

14. Finance costs

	for the year ended	
	31 December 2011	31 December 2010
Interest expense on loans and borrowings	116,167	1,723
Interest expense on issued bonds	75,040	-
Other interest	153	253
Results on call options:	3,125	922
Foreign currency options not designated as hedging instruments	(580)	580
Foreign currency options – settlement of instruments	3,705	342
Foreign exchange losses on issued bonds	168,553	-
Other foreign exchange losses, net	1,167	1,969
Guarantee fees	3,723	-
Bank and other charges	3,452	75
Other	13	40
Total	**371,393**	**4,982**

15. Income tax

(i) Income tax in the income statement

	for the year ended	
	31 December 2011	31 December 2010
Corporate income tax	-	24,424
Change in deferred income tax in the income statement	(4,667)	40,808
Correction of income tax statements for previous years	(413)	(204)
Income tax expense in the income statement	**(5,080)**	**65,028**

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

	for the year ended	
Change in deferred income tax	**31 December 2011**	**31 December 2010**
Receivables and other assets	70	4,996
Liabilities	(19,190)	139
Hedge valuation	218	-
Deferred distribution fees	(1,184)	2,830
Tangible and intangible non-current assets	31,561	32,843
Tax loss	(17,199)	-
Merger with mPunkt Polska S.A.	1,057	-
Change in deferred income tax – total	**(4,667)**	**40,808**

(ii) Income tax recognized in other comprehensive income

	for the year ended	
	31 December 2011	**31 December 2010**
Change in deferred income tax on hedge valuation	1,116	-
Income tax expense recognized in other comprehensive income - Total	**1,116**	**-**

(iii) Effective tax rate reconciliation

	for the year ended	
	31 December 2011	**31 December 2010**
Profit before income tax	151,013	949,194
Profit before tax multiplied by the statutory tax rate in Poland of 19%	28,692	180,347
Profit from valuation of an organized part of enterprise transferred as a contribution in a kind to subsidiary Cyfrowy Polsat Trade Marks Sp. z o.o.	-	(115,602)
Dividend received from subsidiaries	(37,436)	(760)
Receivables written off	3,797	233
Other non-taxable revenue and non-tax deductible costs, net at 19% tax rate	(133)	810
Tax charge for the year	**(5,080)**	**65,028**
Effective tax rate	**(3.4%)**	**6.9%**

(iv) Deferred tax assets

	31 December 2011	**31 December 2010**
Liabilities	41,847	22,670
Hedge valuation	1,320	-
Tangible non-current assets	2,562	905
Receivables and other assets	17,502	22,552
Tax loss	17,199	-
Total deferred tax assets	**80,430**	**46,127**
Offsetting of deferred tax liabilities and deferred tax assets	(80,430)	(46,127)
Deferred tax assets in the balance sheet	**-**	**-**

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

(v) Tax losses recognized and carried forward

	31 December 2011	31 December 2010
2011 tax loss carried forward	90,518	-
Tax losses carried forward – total	**90,518**	**-**

As at 31 December 2011 the Company incurred tax losses amounting to 90,518 thousand złoty and recognized deferred tax asset on tax losses in full due to reasonable assurance that the tax losses will be utilized in full in the future.

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

(vi) Deferred tax liabilities

	31 December 2011	31 December 2010
Receivables and other assets	41,731	46,711
Hedge valuation	2,654	-
Liabilities	-	13
Deferred distribution fees	17,934	19,118
Tangible non-current assets	83,489	50,271
Total deferred tax liabilities	**145,808**	**116,113**
Offsetting of deferred tax liabilities and deferred tax assets	(80,430)	(46,127)
Deferred tax liabilities in the balance sheet	**65,378**	**69,986**

16. EBITDA

The key measure of earnings in the Company is EBITDA. EBITDA measures the Company's ability to generate cash from recurring operations. The Company defines EBITDA as operating profit adjusted by depreciation and amortization. EBITDA is not an EU IFRS measure and can be calculated differently by other entities.

	for the year ended	
	31 December 2011	31 December 2010
Profit from operating activities	309,388	948,391
Depreciation, amortization and impairment*	139,174	78,873
EBITDA	**448,562**	**1,027,264**

* includes impairment of fixed assets and intangible assets other than programming assets

17. Basic and diluted earnings per share

Basic earnings per share are 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.

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

	for the year ended	
	31 December 2011	**31 December 2010**
Net profit (in PLN thousand)	156,093	884,166
Weighted average number of ordinary shares in the year	324,234,858	268,325,000
Earnings per share in PLN	**0.48**	**3.30**

(all amounts in PLN thousand)

18. Property, plant and equipment

	Land	Buildings, premises and civil engineering structures	Technical equipment and machinery	Digital satellite reception equipment	Vehicles	Other tangible non-current assets	Total	Non-current tangible assets under construction	Prepay-ments for assets under construction
Cost									
Cost as at 1 January 2011	**6,005**	**70,481**	**98,042**	**357,135**	**7,941**	**15,669**	**555,273**	**6,818**	**21**
Merger with related entities	-	2,576	1,777	-	539	1,696	**6,588**	-	-
Additions		1,994	12,266	246,779	4,008	2,778	**267,825**	2,698	153
Transfer from assets under construction	-	839	4,032	-	-	384	**5,255**	(5,234)	(21)
Disposals	-	(457)	(184)	(5,473)	(1,105)	(1,435)	**(8,654)**	(265)	-
Cost as at 31 December 2011	**6,005**	**75,433**	**115,933**	**598,441**	**11,383**	**19,092**	**826,287**	**4,017**	**153**
Impairment provision as at 1 January 2011	**-**	**(8)**	**(999)**	**(3,707)**	**-**	**(30)**	**(4,744)**	**-**	**-**
Merger with related entities	-	(55)	(112)	-	-	(212)	**(379)**	-	-
Additions	-	-	-	(7,977)	-	-	**(7,977)**	-	-
Utilisation	-	-	2	-	-	11	**13**	-	-
Impairment provision as at 31 December 2011	**-**	**(63)**	**(1,109)**	**(11,684)**	**-**	**(231)**	**(13,087)**	**-**	**-**
Accumulated depreciation									
Accumulated depreciation as at 1 January 2011	**-**	**10,839**	**48,494**	**62,220**	**3,403**	**9,210**	**134,166**	**-**	**-**
Merger with related entities	-	625	399	-	187	570	**1,781**	-	-
Additions	-	4,483	15,718	92,903	1,977	3,221	**118,302**	-	-
Disposals	-	(134)	(176)	(2,682)	(813)	(1,231)	**(5,036)**	-	-
Accumulated depreciation as at 31 December 2011	**-**	**15,813**	**64,435**	**152,441**	**4,754**	**11,770**	**249,213**	**-**	**-**
Carrying amount									
As at 1 January 2011	**6,005**	**59,634**	**48,549**	**291,208**	**4,538**	**6,429**	**416,363**	**6,818**	**21**
As at 31 December 2011	**6,005**	**59,557**	**50,389**	**434,316**	**6,629**	**7,091**	**563,987**	**4,017**	**153**

The Company recognized an impairment loss on items of property, plant and equipment whose carrying amounts exceeded their recoverable amounts. The impairment increase for reception equipment relates to the equipment that is under vindication. The impairment provision is recognized in 'depreciation, amortization and impairment allowance'.

(all amounts in PLN thousand)

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

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

19. Intangible assets

	Software and licences	Other	Under development	Total
Cost				
Cost as at 1 January 2011	**45,470**	**257**	**8,188**	**53,915**
Additions	11,504	-	8,899	20,403
Merger with related entities	1,212	642	-	1,854
Transfer from intangible assets under development	6,283	-	(6,283)	-
Disposals	(334)	(500)	-	(834)
Cost as at 31 December 2011	**64,135**	**399**	**10,804**	**75,338**
Impairment provision as at 1 January 2011	**-**	**(18)**	**-**	**(18)**
Additions	-	(175)	-	(175)
Diminutions	-	175	-	175
Impairment provision as at 31 December 2011	**-**	**(18)**	**-**	**(18)**
Accumulated amortization				
Accumulated amortization as at 1 January 2011	**33,262**	**156**	**-**	**33,418**
Additions	12,536	81	-	12,617
Merger with related entities	894	452		1,346
Disposals	(334)	(325)	-	(659)
Accumulated amortization as at 31 December 2011	**46,358**	**364**	**-**	**46,722**
Carrying amounts				
As at 1 January 2011	**12,208**	**83**	**8,188**	**20,479**
As at 31 December 2011	**17,777**	**17**	**10,804**	**28,598**

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

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

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

20. Investment property

Cost	
Cost as at 1 January 2011	**7,290**
Additions, including:	22
- Buildings	22
- Land	-
Cost as at 31 December 2011	**7,312**
Accumulated depreciation	
Accumulated depreciation as at 1 January 2011	**359**
Additions	110
Accumulated depreciation as at 31 December 2011	**469**
Carrying amounts	
As at 1 January 2011	**6,931**
As at 31 December 2011	**6,843**

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

The value of investment property is based on historical cost. The assets constituting investment property were acquired in September 2006. Management of the Company considers the fair value of the investment property at the balance sheet date to be substantially consistent with its purchase price.

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

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

Revenues from the rental of investment property amounted to PLN 688 thousand in the 12 months of 2011. The related costs amounted to PLN 547 thousand. In 2010 revenues and costs amounted to PLN 641 thousand and PLN 381 thousand, respectively.

21. Shares in subsidiaries

Shares in subsidiaries as at 31 December 2011

	Company's registered office	Activity	Voting rights percentage	Cost	Impairment	Carrying amount
Telewizja Polsat Sp. z o.o.	ul. Ostrobramska 77, Warsaw	television broadcasting and production	100%	3,898,852	-	3,898,852
Cyfrowy Polsat Technology Sp. z o.o.	ul. Łubinowa 4a, Warsaw	set-top boxes' production	100%	50	-	50
Cyfrowy Polsat Trade Marks Sp. z o.o.	ul. Łubinowa 4a, Warsaw	non-current assets and intellectual propery rights management	100%	615,445	-	615,445
Cyfrowy Polsat Finance AB	Stureplan 4C, 4 TR 114 35 Stockholm, Sweden	financial transactions	100%	232	-	232
Karpacka Telewizja Kablowa Sp. z o.o.	ul. Chorzowska 3, Radom	dormant	85%	2,231	(777)	1,454
			Total	**4,516,810**	**(777)**	**4,516,033**

Changes in the value of shares

Changes in book values of subsidiaries

	1 January 2011	Additions	Decreases	31 December 2011
Cyfrowy Polsat Technology Sp. z o.o.	50	-	-	50
Cyfrowy Polsat Trade Marks Sp. z o.o.	615,445	-	-	615,445
M.Punkt Holdings Ltd.	58,522	-	(58,522)	-
mPunkt Polska S.A.	-	63,590	(63,590)	-
mTel Sp. z o.o.	-	32	(32)	-
Telewizja Polsat Sp. z o.o.	-	3,898,852	-	3,898,852
Cyfrowy Polsat Finance AB	-	232	-	232
Karpacka Telewizja Kablowa Sp. z o.o.	1,454	-	-	1,454
Total	**675,471**	**3,962,706**	**(122,144)**	**4,516,033**

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

	2011	2010
Purchase price		
As at 1 January	**676,248**	**2,281**
Increase	3,962,706	673,967
Decrease	(122,144)	-
As at 31 December	**4,516,810**	**676,248**
Impairment provision		
As at 1 January	**777**	**777**
Increase	-	-
Decrease	-	-
As at 31 December	**777**	**777**
Carrying amounts		
As at 1 January	**675,471**	**1,504**
As at 31 December	**4,516,033**	**675,471**

In 2011 Cyfrowy Polsat S.A. purchased 100% of shares in Cyfrowy Polsat Finance AB and Telewizja Polsat S.A. In 2011, the Company concluded a merger with M.Punkt Holdings Ltd. and its subsidiaries: mPunkt Polska S.A. and mTel Sp. z o.o.

Acquisition of Cyfrowy Polsat Finance AB

On 10 March 2011 the Company acquired 100% shares of Goldcup 100051 AB ("Goldcup"), an entity registered in Sweden, for the total consideration of SEK 500 thousand (PLN 232 thousand). The consideration transferred for the Swedish entity was equal to the value of the entity's share capital as at the acquisition date. The entity's balance sheet included solely receivables from the seller of SEK 500 thousand and the corresponding amount of the entity's share capital of SEK 500 thousand.

Goldcup was acquired *inter alia* in order to perform issuance of bonds. On 18 March 2011 Goldcup changed its name into Cyfrowy Polsat Finance AB.

Acquisition of Telewizja Polsat S.A.

On 20 April 2011 Cyfrowy Polsat S.A. pursuant to the investment agreement dated 15 November 2010 assumed control over 100% shares of Telewizja Polsat S.A. ("Telewizja Polsat"). Following the transaction the Company also assumed control over the following subsidiaries: RSTV S.A., Polsat Media Sp. z o.o., Media-Biznes Sp. z o.o., Polsat Futbol Ltd., Nord Licence AS, Polsat Licence Ltd., and obtained joint control over: Polski Operator Telewizyjny Sp. z o.o. and Polsat Jim Jam Ltd.

The Company acquired 100% of the share capital of Telewizja Polsat represents 100% votes at the Telewizja Polsat's shareholders' meetings, for the total purchase consideration of PLN 3,750,000 thousand. PLN 2,600,000 thousand was paid in the form of a cash transfer on 28 April 2011 and the remaining PLN 1,150,000 thousand through the subscription warrants issued by the Company on 20 April 2011 (see note 29).

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

As a result of fair value measurement of consideration paid on 20 April 2011 the cost of the shares of Telewizja Polsat S.A. held by the Company was adjusted by PLN 148,852 thousand (the value of Telewizja Polsat S.A. shares amounted to PLN 3,898,852 thousand).

On 15 June 2011 a transformation of Telewizja Polsat S.A. into a limited liability company (Sp. z o.o.) was registered.

Table below presents fair value valuation of net assets as at the acquisition date.

	fair value as at 20 April 2011
Property, plant and equipment:	
Land	2,046
Buildings	6,157
Television and broadcasting equipment	85,284
Vehicles	34,201
Other fixed assets	3,637
Assets under construction	1,308
Polsat brand	840,000
Other intangible assets	26,582
Non-current programming assets	62,561
Investment property	7,677
Other non-current assets	4,738
Deferred tax assets	16,649
Current programming assets	236,232
Inventory	1,540
Trade receivables and other receivables	148,459
Other current assets	5,280
Cash and cash equivalents*	263,534
Deferred tax liabilities	(6,180)
Non-current liabilities and accruals	(8,548)
Loans and borrowings	(20,121)
Trade liabilities and other liabilities	(171,974)
Income tax liabilities	(1,228)
Deferred income	(4,831)
Value of net assets	**1,533,003**

* includes restricted cash in the amount of PLN 42 thousand

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

22. Other non-current assets

	31 December 2011	31 December 2010
Deferred distribution fees	35,028	35,898
Financial instruments (IRS/CIRS) (see note 30)	3,140	-
Other deferred costs	6,249	-
Other	274	-
Total	**44,691**	**35,898**

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

23. Inventories

Types of inventories	31 December 2011	31 December 2010
Set-top boxes and disc drives	118,720	110,537
SMART and SIM cards	6,921	10,239
Telephones and modems	21,170	9,010
Antennas and converters	6,135	3,287
Other inventories	9,600	7,743
Prepayments for inventory	581	2,745
Total gross value	**163,127**	**143,561**
Provision	(3,177)	(3,396)
Total net value	**159,950**	**140,165**

As at 31 December 2010 prepayments comprised items to Cyfrowy Polsat Technology Sp. z o.o. for set-top boxes.

Provision for inventories	31 December 2011	31 December 2010
Opening balance	**3,396**	**2,649**
Increase	1,139	747
Decrease	(1,358)	-
Closing balance	**3,177**	**3,396**

In 2011, the Group reversed write-downs of inventories due to change in estimates with reference to the set-top-boxes.

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

24. Short term loans granted to related parties

	31 December 2011	31 December 2010
Cyfrowy Polsat Technology Sp. z o.o.	-	51
M.Punkt Holdings Ltd.	-	5,395
Total	**-**	**5,446**

Movements in short term loans

	2011	2010
Carrying amount as at 1 January	**5,446**	**1,474**
Loans granted	-	5,248
Interest accrued	66	156
Principal repayments	(50)	(100)
Interest repayments	(1)	(1,332)
Merger effect	(5,461)	-
Carrying amount as at 31 December	**-**	**5,446**

25. Bonds

On 10 November 2011, the Company acquired for PLN 14,684 thousand unsecured interest-bearing Series C bonds of NFI Magna Polonia S.A. with nominal value of PLN 14 million and a maturity date set at 13 January 2013. The interest rate applicable to the bonds will accrue at the rate of WIBOR 3M plus margin. The carrying amount of these bonds as at 31 December 2011 was equal to PLN 14.854 (thousand includes interest accrued from the purchase date).

26. Trade and other receivables

	31 December 2011	31 December 2010
Trade receivables from related entities (see note 43)	4,320	4,435
Trade receivables from non-related entities	132,792	139,004
Tax and social security receivables	40,359	33,723
Other receivables	946	1,426
Total	**178,417**	**178,588**

Trade receivables from non-related entities include receivables from individual clients, distributors and others.

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

Trade receivables in currency

Currency	31 December 2011	31 December 2010
PLN	129,278	134,949
EUR	7,669	8,407
USD	165	83
Total	**137,112**	**143,439**

Movements in bad debt allowance

	31 December 2011	31 December 2010
Opening balance	**111,504**	**76,768**
Increase	65,208	34,973
Reversal	(3,177)	(91)
Utilisation	(88,101)	(146)
Closing balance	**85,434**	**111,504**

27. Other current assets

	31 December 2011	31 December 2010
Deferred distribution fees	59,361	64,722
Prepayment for INFO-TV-FM Sp. z o.o. shares	12,000	-
Financial instruments (IRS/CIRS) (see note 30)	10,828	-
Foreign exchange call options	-	5,604
Other deferred costs	98,412	3,497
Other deferred income	2,937	3,331
Total	**183,538**	**77,154**

Deferred distribution fees comprise commissions for distributors for contracts effectively concluded with subscribers. These costs are expensed over the minimum basic period of the subscription contracts.
Other deferred costs comprise chiefly deferred costs related to the agreement with Mobyland Sp. z o.o. (see note 43).

28. Cash and cash equivalents

	31 December 2011	31 December 2010
Cash on hand	102	40
Current accounts	3,127	1,493
Deposits	8,629	22,662
Total	**11,858**	**24,195**

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

Currency	31 December 2011	31 December 2010
PLN	10,369	18,150
EUR	1,356	5,745
USD	124	300
GBP	5	-
CHF	4	-
Total	**11,858**	**24,195**

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

29. Equity

(i) Share capital

Presented below is the structure of the Company's share capital as at 31 December 2011:

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
Series H	80,027,836	3,201	ordinary bearer shares
Total	**348,352,836**	**13,934**	

The shareholders' structure as at 31 December 2011 was as follows:

	31 December 2011				
	Number of shares	Nominal value of shares	% of share capital held	Number of votes	% of voting rights
Delas Holdings Limited [1]	168,941,818	6,758	48.50%	335,884,319	63.64%
Zygmunt Solorz-Żak	10,603,750	424	3.04%	21,207,500	4.02%
Other	168,807,268	6,752	48.46%	170,678,518	32.34%
Total	**348,352,836**	**13,934**	**100%**	**527,770,337**	**100%**

[1]Mr. Zygmunt Solorz-Żak held 85% shares and Mr Heronim Ruta held 15% shares in the share capital of Delas Holdings Limited.

Issue of subscription warrants

In relation to the acquisition of Telewizja Polsat S.A., on 1 April 2011 the Company entered into four subscription agreements with: (i) MAT Fundusz Inwestycyjny Zamknięty ("Seller I"), (ii) KOMA Fundusz Inwestycyjny Zamknięty ("Seller II"), (iii) Karswell Limited ("Seller III"), and (iv) Sensor Overseas Limited ("Seller IV") (jointly: "the Sellers"), relating to the issuance of 80,027,836 registered Series H subscription warrants ("subscription warrants"). The subscription warrants authorise their holders to acquire Series H ordinary bearer shares with a nominal value of PLN 0.04 per share issued by the Company pursuant to the Company's General Shareholders Meeting's resolution dated 17 December 2010.

Based on the subscription agreements, the Company offered the warrants for no consideration and each of the Sellers accepted the offer to acquire the subscription warrants offered thereto, as a result of which:
(i) Seller I took up 14,135,690 subscription warrants, authorising it to assume a total of 14,135,690,
(ii) Seller II took up 2,494,526 subscription warrants, authorising it to assume a total of 2,494,526,
(iii) Seller III took up 53,887,972 subscription warrants, authorising it to assume a total of 53,887,972,
(iv) Seller IV took up 9,509,648 subscription warrants, authorising it to assume a total of 9,509,648
ordinary Series H bearer shares in the share capital of the Company respectively, on or before 30 September 2011, in exchange for a cash contribution of PLN 14.37 per share. On 20 April 2011 the holders of registered Series H subscription warrants exercised their rights under these subscription warrants. The Company issued to the Sellers the certificates for the shares acquired and, as a result, the Company's share capital was increased by PLN 3,201 thousand and other reserves were increased by PLN 1,295,103 thousand.

As at 31 December 2011 other reserve capital amounted to PLN 1,305,277 thousand.

Share disposal

On 22 June 2011 Sensor Overseas Limited, 100% owned by Mr. Heronim Ruta, sold 12,004,174 of his shares in the Company. Mr. Heronim Ruta held 100% of the share capital of Sensor.

On 22 June 2011 Mr Zygmunt Solorz-Żak reduced his share in the total number of votes in the Company following:
- the sale of 6,083,182 shares of the Company by Polaris Finance B.V. (Polaris)
- the sale of 68,023,662 shares of the Company by Karswell Limited (Karswell).

On 13 and 14 December 2011 Delas Holdings Limited (the sole shareholder of Polaris), acquired the total of 168,941,818 of the Company's shares in course of liquidation of Polaris Finance B.V. in liquidation.

On 13 January 2012 Pola Investments Ltd. acquired the total of 168,941,818 of the Company's shares through donation received from its sole shareholder, Delas Holdings Limited.

As at the date of the approval of these financial statements, Pola Investments Ltd. directly held 168,941,818 shares in the Company (48.5% ownership interest), representing 335,884,319 votes at the Company's General Shareholders' Meeting, i.e. 63.64% of the total number of votes in the Company. Mr. Zygmunt Solorz-Żak held 85% shares in the share capital of Pola Investments Ltd.

As at the date of the approval of these financial statements, Karswell did not hold either directly or indirectly any shares in the Company. Mr. Zygmunt Solorz-Żak held 100% of the share capital of Karswell.

As at the date of the approval of these financial statements, Mr. Zygmunt Solorz-Żak controlled (directly and indirectly through Pola Investments) 179,545,568 shares in the Company (collectively representing 51.54% ownership interest and 357,091,819 or 67.66% votes at the Company's General Shareholders' Meeting).

As at the date of the approval of these financial statements, Sensor did not hold either directly or indirectly any shares in the Company. Mr. Heronim Ruta held 100% of the share capital of Sensor.

As at the date of the approval of these financial statements, Polaris did not hold any shares in the Company. Mr. Zygmunt Solorz-Żak held 85% of the share capital of Polaris.

As at the date of the approval of these financial statements, Delas Holdings did not hold any shares in the Company. Mr. Zygmunt Solorz-Żak held 85% of the share capital of Delas Holdings.

(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 19 May 2011 the Annual General Meeting of Cyfrowy Polsat S.A. transferred part of net income for the financial year 2010 of PLN 884,165 thousand to reserve capital.

(iii) Other reserves

Other reserves in the amount of PLN 1,305,277 thousand include the difference between the consideration transferred and the nominal value of shares of Telewizja Polsat S.A. (PLN 1,146,799 thousand) less transaction costs (PLN 548 thousand) as well as fair value measurement of consideration transfered (PLN 148,852 thousand). Other reserves also include the difference between the fair value of shares assumed by the members of the Management Board in 2007 and their issue price.

(iv) Retained earnings

The net profit for the year is presented within retained earnings.

30. Hedge valuation reserve

Purchase of hedging instruments

On 29 June 2011 the Company concluded an IRS (interest rate swap) transaction for the purpose of hedging its future cash flows associated with interest payments on term loan (Senior Facilities Agreement – see note 31). The Senior Facilities Agreement was concluded to finance the acquisition of Telewizja Polsat S.A. According to the agreement the Company is a fixed rate payer and the floating rate payers are banks. 30 June 2014 was agreed to be the termination date of the hedge relationship and the total notional amount is PLN 332,150,000.

On 6 July 2011 the Company concluded a CIRS (cross-currency interest rate swap) transaction for the purpose of hedging its future cash flows regarding Senior Notes interest payments, denominated in euro. The Senior Notes were issued by related party Cyfrowy Polsat Finance AB. According to the agreement the Company is a PLN fixed rate payer and the EUR fixed rate payers are banks. 20 May 2013 was agreed to be the termination date of the hedge relationship and the total EUR notional amount equals to EUR 175,000,000 and the PLN notional amount totals PLN 691,950,000.

On 7 July 2011 the Company concluded a CIRS transaction for the purpose of hedging its future cash flows regarding Senior Notes interest payments, denominated in euro. The Senior Notes were issued by related party Cyfrowy Polsat Finance AB. According to the agreement the Company is a PLN fixed rate payer and the EUR fixed rate payers are banks. The termination date of the hedge relationship was agreed to be 20 May 2013 and the total EUR notional amount is EUR 175,000,000 and the PLN notional amount totals PLN 691,425,000.

On 8 July 2011 the Company concluded an IRS transaction for the purpose of hedging its future cash flows associated with interest payments on term loan (Senior Facilities Agreement – see note 31). The Senior Facilities Agreement was concluded to finance the acquisition of Telewizja Polsat S.A. According to the agreement the Company is a fixed rate payer and the floating rate payer is bank. 30 June 2014 was agreed to be the termination date of the hedge relationship. The total notional amount equals, in total, to PLN 332,150,000.

On 18 November 2011 the Company concluded a CIRS transaction for the purpose of hedging its future cash flows associated with Senior Notes interest payments, denominated in euro. The Senior Notes were issued by related party Cyfrowy Polsat Finance AB. According to the agreement the Company is a PLN fixed rate payer and the banks are EUR fixed rate payers. The termination date of the hedge relationship was agreed to be 20 November 2013. The total EUR notional amount equals EUR 175,000,000 and the PLN notional amount totals PLN 772,625,000.

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

Impact of hedging instruments valuation on assets and liabilities

	IRS	CIRS	Total
Assets			
Non-current	-	3,140	3,140
Current	-	10,828	10,828
Liabilities			
Long-term	(4,588)	(262)	(4,850)
Short-term	(2,099)	-	(2,099)
Total	**(6,687)**	**13,706**	**7,019**

Impact of hedging instruments valuation on hedge valuation reserve

	Hedge valuation reserve
Balance as at 1January 2011	**-**
Valuation of cash flow hedges	7,019
Amount transferred to income statement	(1,145)
Deferred tax	(1,116)
Change for the year	**4,758**
Balance as at 31 December 2011	**4,758**

As at 31 December 2011 the hedge was valued at PLN 7,019 thousand, including PLN 1,145 thousand recognized in the profit and loss account in correspondence with finance costs. Since the hedge was determined to be effective, the remaining gain in the amount of PLN 5,874 thousand was recognized within the hedge valuation reserve. The total effect of the hedge valuation on the hedge valuation reserve amounts to PLN 4,758 thousand, representing the amount of the valuation, net of related deferred tax.

In 2010 the Company did not have hedging instruments accounted for under hedge accounting.

31. Loans and borrowings

Loans and borrowings	31 December 2011	31 December 2010
Short-term liabilities	290,617	-
Long-term liabilities	958,406	-
Total	**1,249,023**	**-**

Conclusion of the Senior Facilities Agreement and Bridge Facility Agreement

In connection with the acquisition of Telewizja Polsat S.A., on 31 March 2011 the Company (together with its related parties), concluded a Senior Facilities Agreement with a syndicate of Polish and international banks led by: Citibank, N.A., London Branch, Bank Handlowy w Warszawie S.A., Crédit Agricole CIB, The Royal Bank of Scotland plc. ("the Bookrunners").

The Senior Facilities Agreement provided for a term facility loan of up to PLN 1,400,000 thousand and a revolving facility loan of up to PLN 200,000 thousand. The interest rate applicable to both, the term facility and revolving facility, was agreed as variable rate based on WIBOR, for the relevant interest periods, and the applicable margin. The term facility will be repaid in quarterly instalments in varying amounts commencing 30 June 2011. Both facilities expire on 31 December 2015. As at 31 December 2011 the revolving facility was not used.

In addition, on 31 March 2011, the Company (together with its related parties) concluded a Bridge Facility Agreement with the Bookrunners. This agreement provided for a bridge loan facility in EUR of up to the amount equivalent of PLN 1,400,000 thousand which, as of the day of the execution of this agreement, equaled approximately EUR 350,000 thousand. The interest rate applicable to the Bridge Facility was agreed as EURIBOR, for the relevant interest periods, plus the applicable margin, increasing over the term of the facility. The outstanding bridge facility liability was settled on 20 May 2011.

Summary of significant provisions of the agreements

Mandatory prepayments

The facilities will be cancelled and the outstanding balance, together with accrued interest, shall become immediately due and payable upon loss of control by Mr Zygmunt Solorz-Żak (or party related with him) over the Company or loss of control by the Company over Telewizja Polsat. The facilities shall also become immediately due upon sale of all or substantially all of the Cyfrowy Polsat Group or the assets of the Cyfrowy Polsat Group.

Mandatory prepayments are required in the following amounts:
- 65% of the excess cash flows for any financial year or 25% if total net debt to EBITDA ratio is below 2.0,
- the amounts of proceeds for individual asset disposal transaction in excess of PLN 10 million or PLN 40 million in aggregate at any time before the facilities are repaid in full
- the amount of debt or equity proceeds if total net debt to EBITDA ratio exceeds 2.0.

In addition, voluntary bonds repayment is allowed only if accompanied by a repayment of term and revolving facilities.

Financial covenants

The loan agreement imposed on the Cyfrowy Polsat S.A. Capital Group the obligation to maintain financial ratios at a certain level. The Debt Service Cover shall be at least 1.4 for a given Period. The Interest Cover shall be at least 2.5 for a given Period. The Total leverage shall not exceed 4.25 for a given Period. Financial covenants shall be tested on each quarter date and shall be reported on by an auditor on annual basis.

Further, restrictions which are imposed on the Company include the following:
- restrictions relating to mergers, acquisitions, joint venture transactions
- restrictions related to disposal of assets and substantial change of business
- restrictions related to incurring additional financial indebtedness and share capital issue
- restrictions relating to cash out transactions (*inter alia* dividend and other distribution payments, repayment of principal and interest of financial indebtedness, management/advisory fee payments, advance or similar kind of payment to related parties).

Additionally, the Company *inter alia* has the following obligations:
- provide the banks with any material documents and information concerning the financial standing of the Company,
- hedge against interest rate and foreign exchange rate fluctuations in respect of the amounts outstanding under the term facility and notes payable
- all bank accounts shall be opened and maintained with the lending banks
- use, for the purpose of financial statements' audit, only the services of the auditors specified in the agreement or the services of other auditors if approved by the banks.

Establishment of security for loan facilities

On 14 April 2011 the Company entered into agreements for the establishment of the following security in respect to the Senior Facilities Agreement and the Bridge Facility Agreement entered into on 31 March 2011:
(i) Registered pledge on tangible assets and intangible rights comprising the business of the Company;
(ii) Financial and registered pledges on all shares in Cyfrowy Polsat Technology Sp. z o.o. and Cyfrowy Polsat Trade Marks Sp. z o.o. held by the Company;
(iii) Contractual mortgage on real estate owned by the Company;
(iv) Company's statement on submission to the enforcement procedure as stipulated by the notary deed.

On 18 April 2011 the Group entered into agreements for the establishment of security, *inter alia* transfers of receivables due to the Company from various debtors, in respect to the Senior Facilities Agreement and the Bridge Facility Agreement.

On 20 April 2011 the Company entered into a pledge agreement by which it established a financial and registered pledge on all the shares of Telewizja Polsat S.A. held by the Company.

On 20 June 2011, in connection with the transformation of the Company's subsidiary – Telewizja Polsat S.A. - into a limited liability company, the Company entered into a pledge agreement which established a financial and registered pledge on all the shares of Telewizja Polsat Sp. z o.o. held by the Company.

Cash Pool liabilities amounted to PLN 43,839 thousand as at 31 December 2011.

Repayments of loans and borrowings in 2011 were equal to PLN 1,531,023 thousand.

32. Issued bonds

On 20 May 2011 the Company issued unsecured interest-bearing Series A Bonds maturing in 2018, with the aggregate face value of PLN 1,372,245 thousand/EUR 350 million (EUR 35 million each), which were all acquired by its subsidiary Cyfrowy Polsat Finance AB (CP Finance) (the "Issued Bonds"). The aggregate issue price of the Issued Bonds in the amount of EUR 343 million was equal to their aggregate face value net of 2% commission.

The interest on the Issued Bonds will accrue at the rate of 8.16% per annum payable semiannually in arrears on 20 May and 20 November, commencing on 20 November 2011. The Issued Bonds shall be redeemed on 20 May 2018 by way of a pecuniary payment equal to the face value of the Issued Bonds.

As at 31 December 2011 the outstanding obligations on the Issued Bonds amounted to PLN 1,516,954 thousand of which PLN 1,397,481 thousand was non-current and PLN 119,473 thousand current.

33. Company as a lessor and as a lessee

a) Company as a lessor

Operating leases

The Company entered into contracts with third parties, which are classified as operating leases due to their economic substance. The contracts relate to rental of digital satellite reception equipment. Assets connected with such contracts are presented as property, plant and equipment.

Lease contracts for set-top boxes are concluded for a basic contractual period ranging from 12 to 36 months. After the basic period, the contracts are converted into contracts with indefinite or definite terms, unless terminated by subscribers.

The Company rents office space to Cyfrowy Polsat Technology Sp. z o.o. and Cyfrowy Polsat Trade Marks Sp. z o.o.

Future minimimum lease payments concerning set-top boxes under operating lease are as follows:

	31 December 2011	31 December 2010
within 1 year	14,605	6,039
between 1 and 5 years	17,268	11,351
in more than 5 years	-	225
Total	**31,873**	**17,615**

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

b) Company as a lessee

Operating leases

The Company entered into agreements, which are classified as operating lease contracts due to their economic substance. Assets leased under these contracts are not recorded in the financial statements. The assets comprise rental of transponder capacity, rental of office space and rental of equipment.

Future minimum lease payments under operating leases are as follows:

	31 December 2011	31 December 2010
within 1 year	106,500	87,936
between 1 and 5 years	394,420	350,528
in more than 5 years	101,292	154,953
Total	**602,212**	**593,417**

In 2011 the Company incurred costs related to operating lease agreements amounting to PLN 97,696 thousand and in 2010 the costs of the Company amounted to PLN 89,243 thousand.

Finance leases

The carrying value of devices used on the basis of finance lease contracts amounted to PLN 1,567 thousand as at 31 December 2011 and PLN 1,384 thousand as at 31 December 2010. The lease period is 10 years.

Future minimum lease payments under finance leases are as follows:

	31 December 2011	31 December 2010
within 1 year	252	226
between 1 and 5 years	934	884
in more than 5 years	-	-
Total	**1,186**	**1,110**

The present value of minimum lease payments amounted to PLN 1,048 thousand as at 31 December 2011 and PLN 970 thousand as at 31 December 2010.

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

34. Other non-current liabilities and provisions

	31 December 2011	31 December 2010
Financial instruments liabilities (see note 30)	4,850	-
Other	740	1,900
Total	**5,589**	**1,900**

35. Trade and other payables

	31 December 2011	31 December 2010
Trade payables to related parties (see note 43)	69,026	24,946
Trade payables to non-related parties	14,601	122,529
Taxation and social security payables	11,337	7,673
Payables relating to purchases of non-current assets	3,057	5,632
Accruals	131,547	109,974
Short term provisions	3,933	4,691
Other	6,330	4,966
Total	**239,831**	**280,411**

Accruals

	31 December 2011	31 December 2010
Salaries	18,924	15,033
Royalties for copyright management organisations	1,802	2,844
Licence fees	67,799	49,310
Distribution costs	13,979	21,360
Other	29,043	21,427
Total	**131,547**	**109,974**

Trade payables and payables relating to purchases of non-current assets by currency

Currency	31 December 2011	31 December 2010
PLN	76,898	111,463
EUR	2,287	28,555
USD	7,499	13,089
Total	**86,684**	**153,107**

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

Accruals by currency

Currency	31 December 2011	31 December 2010
PLN	98,973	70,703
EUR	23,706	15,779
USD	8,868	23,492
Total	**131,547**	**109,974**

36. Deposits for equipment

	31 December 2011	31 December 2010
Subscribers	4,325	7,969
Distributors	8,400	7,449
Other	18	16
Total	**12,743**	**15,434**

Deposits received comprise amounts paid by subscribers under agreements for rental of set-top boxes and deposits paid by distributors for digital satellite reception equipment and mobile phones.

Deposits are returned to customers or offset against receivables from subscribers upon contract termination. All deposits are presented as short-term liabilities as the notice period is less than 12 months.

37. Deferred income

	31 December 2011	31 December 2010
Deferred income	180,800	166,412

Deferred income comprises mainly subscription fees paid in advance and rental fees for set-top boxes. These fees mainly relate to services to be rendered within 12 months from the balance sheet date.

38. The impact of merger with M.Punkt Holdings Ltd. on assets, equity and liabilities

On 30 July 2010 the Management Board of Cyfrowy Polsat S.A. resolved to merge with M.Punkt Holdings Ltd. („M.Punkt Holdings") based in Nicosia, Cyprus and approved a cross-border merger plan. Prior to the above, on 4 May 2010 the Company completed the purchase of 94% shares in M.Punkt Holdings and on 9 June 2010 purchased the remaining 6% shares. The transaction also resulted in assuming of control over subsidiaries: mPunkt Polska S.A. and mTel Sp. z o.o. On 15 September 2010 the Company's Extraordinary General Shareholders' Meeting resolved to execute the cross-border merger and authorized the Management Board to exercise all necessary activities related to conducting the procedure of the cross-border merger.

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

On 18 March 2011 the Management Board of Cyfrowy Polsat S.A. received a decision of the District Court for the Capital City of Warsaw in Warsaw, XIII Commercial Department of the National Court Register, dated 14 March 2010 regarding the registration of the cross-border merger of the Company with M.Punkt Holdings.

As a result of the cross-border merger (merger concluded by summing of the respective assets and liabilities):
i. M.Punkt Holdings was dissolved without liquidation proceedings, and
ii. Cyfrowy Polsat S.A. assumed, by the way of universal succession, all assets and liabilities of M.Punkt Holdings.

The merger's effects on the Company's assets, equity and liabilities were as follows:

	Change resulting from the merger as at 14 March 2011
Shares in mPunkt Polska S.A.*	5,248
Shares in M.Punkt Holdings	(146)
Receivables relating to a short-term loan granted to M.Punkt Holdings	(5,461)
Tax and social security receivables	12
Cash and cash equivalents	31
Trade payables to third parties	(74)
Accruals	(70)
Total	**(460)**

* The balance relates to the principal amount of the loan granted by Cyfrowy Polsat to M.Punkt Holdings as at 14 March 2011. The loan was granted in June 2010 (first tranche) and was utilized by M.Punkt Holdings to repay a loan raised from mPunkt Polska S.A. (the amount of this loan was PLN 5.2 million as at the date of the assumption of control by Cyfrowy Polsat, i.e. as at 4 May 2010). As a consequence of the merger the principal amount of the loan granted by Cyfrowy Polsat was recognized as an increase in the amount of shares in mPunkt Polska S.A. held by the Company.

As a result of the merger net assets of Cyfrowy Polsat decreased by PLN 460 thousand, which was reflected in a decrease in retained earnings.

39. The impact of merger with mPunkt Polska S.A. on assets, equity and liabilities

On 31 May 2011 the District Court for the Capital City of Warsaw in Warsaw, XIII Commercial Department of the National Court Register registered the merger of the Company with mPunkt Polska S.A. ("mPunkt") seated in Warsaw.

The merger was effected by:
(i) transferring to the Company, as the sole shareholder of mPunkt, all the assets of mPunkt by the way of universal succession, and
(ii) dissolution of mPunkt without liquidation.

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

As a result of the merger, Cyfrowy Polsat assumed all rights and obligations of mPunkt, effective on the date of the merger. Given that prior to the merger, the Company held all the shares of mPunkt, the merger was effected without increasing the share capital of the Company. The detailed terms of the merger were specified in the Merger Plan agreed upon on 21 March 2011 and published on 1 April 2011 in the Court and Commercial Bulletin (*Monitor Sądowy i Gospodarczy*). The merger was performed in order to optimize costs and simplify the organizational structure of Cyfrowy Polsat Group, which was required for its medium and long term strategy to be realized.

The merger's effects on the Company's assets, equity and liabilities were as follows:

	Change resulting from the merger as at 31 May 2011
Shares in mPunkt	(63,590)
Goodwill *	52,022
Other property, plant and equipment	4,422
Intangible assets	333
Trade mark	175
Other non-current assets	468
Deferred tax assets	1,452
Inventories	379
Receivables	1,978
Other current assets	(906)
Cash and cash equivalents	1,492
Non-current liabilities and provisions	(788)
Current liabilities and provisions	(12,039)
Deferred income	(14)
Total	**(14,616)**

* Goodwill from the acquisition of mPunkt on 4 May 2010 in the amount of PLN 52,227 thousand net of impairment losses of PLN 205 thousand.

The increase in goodwill was allocated to retail cash-generating unit.

The impairment test is based on the recoverable amounts of the cash generating unit to which the goodwill has been allocated. The recoverable amount of the cash-generating unit is determined based on the value-in-use calculations.

Impairment reviews performed on these goodwill balances as at 31 December 2011 did not indicate impairment.

As a result of the merger, net assets of Cyfrowy Polsat decreased by PLN 14,616 thousand, which was reflected in a decrease in retained earnings.

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

40. The impact of merger with mTel Sp. z o.o. on assets, equity and liabilities

On 31 August 2011 the District Court for the Capital City of Warsaw in Warsaw, XIII Commercial Department of the National Court Register registered the merger of the Company with mTel Sp. z o.o. ("mTel") seated in Warsaw.

The merger was effected by:
(i) transferring to the Company, as the sole shareholder of mTel, all the assets of mTel by the way of universal succession, and
(ii) dissolution of mTel without liquidation.

As a result of the merger, Cyfrowy Polsat assumed all rights and obligations of mTel, effective on the date of the merger. Given that prior the merger, the Company held all the shares of mTel, the merger was effected without increasing the share capital of the Company. The detailed terms of the merger were specified in the Merger Plan agreed upon on 17 June 2011 and published on 4 July 2011 in the Court and Commercial Bulletin (Monitor Sądowy i Gospodarczy). The merger was performed in order to optimize costs and simplify the organizational structure of Cyfrowy Polsat Group, which was required for its medium and long term strategy to be realized.

The merger's effects on the Company's assets, equity and liabilities were as follows:

	Change resulting from the merger as at 31 August 2011
Shares in mTel	(32)
Receivables	1
Cash and cash equivalenst	7
Liabilities	(15)
Total	**(39)**

As a result of the merger, net assets of Cyfrowy Polsat decreased by PLN 39 thousand, which was reflected in a decrease in retained earnings.

41. Financial instruments

Overview

Cyfrowy Polsat S.A. is exposed to the following financial risks:
- credit risk,
- liquidity risk,
- market risk:
    a. currency risk,
    b. interest rate risk,
- capital management.

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

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

The Management Board is responsible for oversight and management of each of the risks faced by the Company. Therefore, the Management Board has established an overall risk management framework as well as risk management policies on credit risks and capital management.

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

Bank loans, bonds, cash, foreign exchange call options, interest rate swaps, cross-currency interest rate swaps and short-term bank deposits are the main financial instruments used by the Company. They are intended to secure the financing for the Company's activities. The Company uses also other financial instruments such as trade receivables and trade payables which arise in the course of business activities.

Financial assets	**Carrying amount**	
	31 December 2011	**31 December 2010**
Financial assets at fair value through profit or loss, including:	**-**	**5,604**
Foreign exchange call options	-	5,604
Loans and receivables, including:	**138,058**	**150,311**
Loans granted to related parties	-	5,446
Loans granted to non-related parties	-	1
Trade and other receivables from related parties	4,320	4,435
Trade and other receivables from non-related parties	133,738	140,429
Financial assets held to maturity	**-**	**-**
Financial assets available for sale	**14,854**	**-**
Hedging derivative instruments:	**13,968**	**-**
Interest rate swaps	-	-
Cross-currency interest rate swaps	13,968	-
Cash and cash equivalents	**11,858**	**24,195**

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

Financial liabilities	Carrying amount	
	31 December 2011	**31 December 2010**
Financial liabilities at fair value through profit or loss	**-**	**-**
Other financial liabilities valued at amortised cost, including:	**2,870,821**	**174,617**
Financial lease liabilities	1,186	1,110
Borrowings and loans	1,249,023	-
Issued bonds	1,516,954	-
Trade payables and other payables to third parties	33,156	148,561
Trade and other payables to related parties	70,502	24,946
Hedging derivative instruments:	**6,949**	**-**
Interest rate swaps	6,687	-
Cross-currency interest rate swaps	262	-

Credit risk

Credit risk is defined as the risk that counterparties of the Company will not be able to meet their contractual obligations. Exposure to credit risk is related to three main areas: it relates to

- the creditworthiness of the customers with whom physical sale transactions are undertaken,
- the creditworthiness of the financial institutions (banks/brokers) with whom, or through whom, hedging or other derivative transactions are undertaken,
- the creditworthiness of the entities in which investments are made, or whose securities are purchased.

Credit risk arises mainly on trade receivables. In the financial year ended 31 December 2011, the Company was not materially exposed to credit risk arising from sales on credit. The Company's customer base includes a large number of individual subscribers dispersed geographically over the country who prepay subscription fees. Receivables from subscribers are constantly monitored and recovery actions are taken, including blocking of the signal transferred to subscribers or termination of services to a MVNO and Internet client.

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

Due to diversification of risk in terms of the nature of individual entities and their geographical location as well as due to cooperation with highly-rated financial institutions, and also taking into consideration the fair value of liabilities arising from derivative transactions, the Company is not materially exposed to credit risk as a result of derivative transactions entered into.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at the reporting date was as follows:

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

Maximum exposure to credit risk

	Carrying amount	
	31 December 2011	31 December 2010
Foreign exchange call options	-	5,604
Loans granted to related parties	-	5,446
Loans granted to non-related parties	-	1
Trade and other receivables from non-related parties	133,738	140,429
Trade and other receivables from related parties	4,320	4,435
Bonds	14,854	-
CIRS	13,968	-
Cash and cash equivalents	11,858	24,195
Total	**178,738**	**180,110**

The maximum exposure to credit risk for trade and other receivables, by type of customer, was:

	Carrying amount	
	31 December 2011	31 December 2010
Receivables from subscribers	117,728	122,682
Receivables from distributors	4,313	5,345
Receivables from media companies	7,668	7,716
Receivables and loans granted to related parties	4,320	9,881
Receivables from DTH and cable TV operators	195	221
Receivables and loans granted to non-related parties	3,834	4,466
Total	**138,058**	**150,311**

The ageing of trade and other receivables at the reporting date was:

	31 December 2011			31 December 2010		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	115,188	8,389	106,799	119,851	3,657	116,194
Past due 0-30 days	21,756	8,362	13,394	16,905	3,096	13,809
Past due 31-60 days	5,375	2,010	3,365	5,370	2,460	2,910
Past due more than 60 days	81,173	66,673	14,500	119,689	102,291	17,398
Total	**223,492**	**85,434**	**138,058**	**261,815**	**111,504**	**150,311**

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

Liquidity risk

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

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

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

	31 December 2011						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	more than 5 years
Loans and borrowings	1,249,023	1,567,832	143,354	164,632	341,732	918,114	-
Issued bonds	1,516,954	2,365,815	63,072	63,072	126,144	378,431	1,735,096
Finance lease liabilities	1,186	1,186	126	126	351	583	-
Trade and other payables to non-related parties	33,156	33,156	33,156	-	-	-	-
Trade and other payables to related parties	70,502	70,502	70,502	-	-	-	-
IRS*	6,687	2,566	603	580	993	390	-
CIRS	262						
– inflows		(55,072)	-	-	(55,072)	-	-
– outflows		57,599	-	-	57,599	-	-
	2,877,770	**4,043,584**	**310,813**	**228,410**	**471,747**	**1,297,518**	**1,735,096**

*Pursuant to the agreements settlements shall be on a net basis

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

Market risk

The Company has an active approach to managing its market risk exposure. The objectives of market risk management are:

- to limit fluctuations in profit/loss before tax,
- to increase the probability of meeting budget assumptions,
- to maintain the healthy financial condition, and
- to support the process of undertaking strategic decisions relating to investing activity, with attention to sources of capital for this activity.

All the market risk management objectives should be considered as a whole, while their realisation is dependant primarily upon the internal situation and market conditions.

The Company applies an integrated approach to market risk management. This means a comprehensive approach to the whole spectrum of identified market risks, rather than to each of them individually. The Company applies a consistent and step-by-step approach to market risk management. The primary technique for market risk management is the use in the Company of hedging strategies involving derivatives. Apart from this, natural hedging is also used to the extent available.

All of the potential hedging strategies and the selection of those preferred reflect the following factors: the nature of identified market risk exposures of the Company, the suitability of instruments to be applied and the cost of hedging, current and forecasted market conditions. In order to mitigate market risk, derivatives are primarily used. The Company transacts only those derivatives for which it has the ability to assess their value internally, using standard pricing models appropriate for a particular type of derivative, and also these which can be traded without significant loss of value with a counterparty other than the one with whom the transaction was initially entered into. In evaluating the market value of a given instrument, the Company relies on information obtained from particular market leading banks, brokers and information services.

It is permitted to use the following types of instruments:

- Swaps,
- Forwards and futures,
- Options.

Currency risk

One of the main risks to which the Company is exposed is currency risk related to fluctuations in the exchange rate between the Polish zloty and other currencies. The revenues generated by the Company are denominated mainly in Polish zloty, however, a significant portion of operating costs and capital expenditures are incurred in foreign currencies. The Company's currency risk is related to royalties for 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 2011 the level of currency risk exposure has increased because of new financing denominated in EUR obtained to purchase Telewizja Polsat S.A.

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

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

On 10 August 2010 the Company purchased foreign exchange call options for a total value of EUR 12,000 thousand and USD 18,000 thousand. On 4 November 2010 the Company purchased foreign exchange call options for a total value of USD 18,000 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'. In 2011 the Company recognized financial expenses resulting from valuation and realization of options in income statement totaling PLN 3,125 thousand and between 10 August and 31 December 2010 PLN 922 thousand (see note 14).

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

The Company's exposure to foreign currency was as follows based on a notional currency amounts:

	31 December 2011				31 December 2010	
(in thousands)	**EUR**	**USD**	**GBP**	**CHF**	**EUR**	**USD**
Trade receivables	1,736	48	-	-	2,123	28
Cash and cash equivalents	307	36	1	1	1,451	101
Issued bonds	(343,451)	-	-	-	-	-
Trade payables	(518)	(2,194)	-	-	(7,210)	(4,416)
Gross balance sheet exposure	**(341,926)**	**(2,110)**	**1**	**1**	**(3,636)**	**(4,287)**
Foreign exchange call options	-	-	-	-	7,000	27,000
CIRS	43,641	-	-	-	-	-
Net exposure	**(298,285)**	**(2,110)**	**1**	**1**	**3,364**	**22,713**

Following foreign exchange rates were applied in the presented periods:

	Average rate		Rates at the balance sheet date	
(in PLN)	**2011**	**2010**	**31 December 2011**	**31 December 2010**
1 EUR	4.1198	3.9946	4.4168	3.9603
1 USD	2.9634	3.0157	3.4174	2.9641

For the purposes of exchange rate volatility sensitivity analysis as at 31 December 2011 and 31 December 2010 it was assumed that probable volatility will be in the +/- 5% band. This analysis assumes that all other variables, in particular interest rates, remain constant. The sensitivity analysis below is performed on the same basis for 2010.

	2011					2010				
	As at 31 December 2011 in currency (in thousand)	As at 31 December 2011 in PLN (in thousand)	Estimated change in exchange rate in %	Estimated change in profit in PLN (in thousand)	Estimated change in other comprehensive income in PLN (in thousand)	As at 31 December 2010 in currency (in thousand)	As at 31 December 2010 in PLN (in thousand)	Estimated change in exchange rate in %	Estimated change in profit in PLN (in thousand)	Estimated change in other comprehensive income in PLN (in thousand)
Trade receivables										
EUR	1,736	7,669	5%	383	-	2,123	8,407	5%	420	-
USD	48	165	5%	8	-	28	83	5%	4	-
Cash and cash equivalents										
EUR	307	1,356	5%	68	-	1,451	5,745	5%	287	-
USD	36	124	5%	6	-	101	300	5%	15	-
GBP	1	5	5%	-	-	-	-	5%	-	-
CHF	1	4	5%	-	-	-	-	5%	-	-
Issued bonds						-	-	-	-	-
EUR	(343,451)	(1,516,954)	5%	(75,848)	-	-	-	-	-	-
Trade payables										
EUR	(518)	(2,287)	5%	(114)	-	(7,210)	(28,555)	5%	(1,428)	-
USD	(2,194)	(7,499)	5%	(375)	-	(4,416)	(13,089)	5%	(654)	-
Change in operating profit				(75,872)	-				(1,356)	
Foreign exchange call options										
EUR	-	-	5%	-	-	7,000	27,722	5%	923	-
USD	-	-	5%	-	-	27,000	80,031	5%	3,040	-
CIRS										
EUR	43,641	192,754	5%	612	8,861	-	-	5%	-	-
Income tax				(14,299)	1,684				495	-
Change in net profit				(60,961)	7,177				2,112	-

	2011					2010				
	As at 31 December 2011		Estimated change in exchange rate in %	Estimated change in profit in PLN (in thousand)	Estimated change in other comprehensive income in PLN (in thousand)	As at 31 December 2010		Estimated change in exchange rate in %	Estimated change in profit in PLN (in thousand)	Estimated change in other comprehensive income in PLN (in thousand)
	in currency (in thousand)	in PLN (in thousand)				in currency (in thousand)	in PLN (in thousand)			
Trade receivables										
EUR	1,736	7,669	-5%	(383)	-	2,123	8,407	-5%	(420)	-
USD	48	165	-5%	(8)	-	28	83	-5%	(4)	-
Cash and cash equivalents										
EUR	307	1,356	-5%	(68)	-	1,451	5,745	-5%	(287)	-
USD	36	124	-5%	(6)	-	101	300	-5%	(15)	-
GBP	1	5	-5%	-	-	-	-	-5%	-	-
CHF	1	4	-5%	-	-	-	-	-5%	-	-
Issued bonds						-	-	-	-	-
EUR	(343,451)	(1,516,954)	-5%	75,848	-	-	-	-	-	-
Trade payables										
EUR	(518)	(2,287)	-5%	114	-	(7,210)	(28,555)	-5%	1,428	-
USD	(2,194)	(7,499)	-5%	375	-	(4,416)	(13,089)	-5%	654	-
Change in operating profit				75,872	-				1,356	-
CIRS										
EUR	43,641	192,754	-5%	(612)	(8,853)	-	-	-5%	-	-
Foreign exchange call options										
EUR	-	-	-5%	-	-	7,000	27,722	-5%	(421)	-
USD	-	-	-5%	-	-	27,000	80,031	-5%	(2,344)	-
Income tax				14,299	1,682				(268)	-
Change in net profit				60,961	(7,171)				(1,141)	-

	2011		2010	
	Estimated change in profit in PLN (in thousand)	Estimated change in other comprehensive income in PLN (in thousand)	Estimated change in profit in PLN (in thousand)	Estimated change in other comprehensive income in PLN (in thousand)
Estimated change in exchange rate by 5 %				
EUR	(60,668)	7,177	164	-
USD	(293)	-	1,948	-
GBP	-	-	-	-
CHF	-	-	-	-
Estimated change in exchange rate by -5 %				
EUR	60,668	(7,171)	243	-
USD	293	-	(1,384)	-
GBP	-	-	-	-
CHF	-	-	-	-

Had there been a 5% weakening of the Polish zloty against the exchange rate of euro and the US dollar as at 31 December 2011 and 31 December 2010, the Company's net profit would have decreased by PLN 60,961 thousand and increased by PLN 2,112 thousand, respectively and other comprehensive income would have increased by PLN 7,177 thousand in 2011 (no effect on other comprehensive income in 2010). Had the exchange rate of the Polish zloty against euro and US dollar been higher by 5% the Company's net profit would have correspondingly increased by PLN 60,961 thousand and decreased by PLN 1,141 thousand and other comprehensive income would have decreased by PLN 7,171 thousand in 2011 (no effect on other comprehensive income in 2010), 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 Company'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 Company regularly analyses its level of interest rate risk exposure, including refinancing and risk minimising scenarios. Based on these analyses, the Company estimates the effects of changes in interest rates on its profit and loss.

In order to reduce interest rate risk exposure resulting from interest payments on floating rate senior facility, the Company stipulated interest rate swaps.

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

At the reporting date, the interest rate risk profile of interest-bearing financial instruments was:

	Carrying amount	
	31 December 2011	**31 December 2010**
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	(1,545,880)	-
Variable rate instruments		
Financial assets	26,610	34,693
Financial liabilities	(1,324,839)	-
Net interest exposure	**(1,298,229)**	**34,693**
Notional of interest rate hedges		
Interest rate risk profile of interest-bearing financial instruments including effect of interest rate hedges		
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	(1,545,880)	-
Variable rate instruments		
Financial assets	26,610	34,693
Financial liabilities	(684,339)	-
Net interest exposure after hedges	**(657,729)**	**34,693**

Cash flow sensitivity analysis for variable rate instruments:

	Income statement		Other comprehensive income	
	Increase by 100 bp	**Decrease by 100 bp**	**Increase by 100 bp**	**Decrease by 100 bp**
31 December 2011				
Variable rate instruments*	(12,982)	12,982	11,160	(11,160)
Cash flow sensitivity (net)	**(12,982)**	**12,982**	**11,160**	**(11,160)**
31 December 2010				
Variable rate instruments*	530	(524)	-	-
Cash flow sensitivity (net)	**530**	**(524)**	**-**	**-**

* - include sensitivity in fair value changes of hedging instruments (interest rate swaps) due to changes in interest rate

The Company applies cash flow hedge model under IAS 39 for interest rate exposure from floating rate interest payments in PLN on senior facility hedged by interest rate swap.

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

Fair value vs. carrying amount

Presented below are fair values and carrying amounts of financial assets and liabilities.

	Category according to IAS 39	31 December 2011		31 December 2010	
		Fair value	Carrying amount	Fair value	Carrying amount
Loans granted to related parties	L&R	-	-	5,443	5,446
Loans granted to non-related parties	L&R	-	-	1	1
Bonds	AFS	14,854	14,854	-	-
Trade and other receivables	L&R	138,058	138,058	144,864	144,864
Foreign exchange call options	FVPL	-	-	5,604	5,604
IRS	Hedges	(6,687)	(6,687)	-	-
CIRS	Hedges	13,706	13,706	-	-
Cash and cash equivalents	L&R	11,858	11,858	24,195	24,195
Loans and borrowings	Other	(1,348,074)	(1,249,023)	-	-
Issued bonds	Other	(1,603,761)	(1,516,954)	-	-
Finance lease liabilities	Other	(1,048)	(1,186)	(970)	(1,110)
Trade and other payables	Other	(103,658)	(103,658)	(173,507)	(173,507)
Total		**(2,884,752)**	**(2,699,032)**	**5,630**	**5,493**
Unrecognized gain/(loss)			(185,720)		137

It is assumed that the fair value of cash and cash equivalents is equal to their nominal value, therefore no evaluation methods were used in order to calculate their fair value.

When determining the fair value of financial lease liabilities, forecasted cash flows from the reporting date to November 2015 (assumed date of repayment of lease agreements termination) were analyzed. The discount rate for each month was calculated as an applicable WIBOR interest rate plus a margin regarding the Company's credit risk.

Trade and other receivables and trade and other payables comprise mainly receivables and payables which will be settled no later than at the end of the first month after the reporting date. It was therefore assumed that the effect of their valuation, taking the effect of time value of money into account, would approximately be equal to their nominal value. Evaluation methods used to calculate fair values of loans granted to related and non-related parties are based on observable market data – WIBOR interest rates.

As at 31 December 2011 loans and borrowings comprised senior facility and Cash Pool. When determinining the fair value of senior facility, forecasted cash flows from the reporting date to 31 December 2015 (assumed date of repayment of the loan) were analyzed. The discount rate for each payment was calculated as a sum of implied WIBOR interest rate and a margin. The fair value of Cash Pool is set as the nominal value, which is equal to carrying amount.

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

The fair value of foreign exchange call options, interest rate swaps and cross-currency interest rate swaps is assumed in accordance to the valuation of the Bank, with which the Company concluded agreements.

When determining the fair value of issued bonds, forecasted cash flows from the reporting date to 20 May 2018 (assumed maturity date of the bonds) were analyzed. EURIBOR interest rate plus margin was applied as a discount rate.

The fair value of bonds (bonds issued by NFI Magna Polonia S.A.) is set as the carrying amount, since the estimated difference between the carrying amount and the fair value was insignificant.

As at 31 December 2011, the Company held the following financial instruments carried at fair value on the statement of financial position. The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

Assets and liabilities measured at fair value				
	31 December 2011	**Level 1**	**Level 2**	**Level3**
Bonds			14,854	
IRS			(6,687)	
CIRS			13,706	
Total		**-**	**21,873**	**-**

As at 31 December 2010, the Company held the following financial instruments measured at fair value:

Assets and liabilities measured at fair value				
	31 December 2010	**Level 1**	**Level 2**	**Level3**
Foreign exchange call options			5,604	
Total			**5,604**	

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

Items of income, costs, profit and losses recognized in profit or loss generated by loans and issued bonds (including hedging transactions)

For the period from 1 January 2011 to 31 December 2011	Loans and borrowings	Issued bonds	Hedging instruments	Total
Interest expense on loans and borrowings	(115,471)	-	(696)	**(116,167)**
Interest expense on issued bonds	-	(80,373)	5,333	**(75,040)**
Foreign exchange rate differences	-	(168,553)	-	**(168,553)**
Total finance costs	(115,471)	(248,926)	4,637	**(359,760)**
Total gross profit/(loss)	**(115,471)**	**(248,926)**	**4,637**	(359,760)
Hedge valuation reserve	**-**	**-**	**5,874**	**5,874**

For the period from 1 January 2010 to 31 December 2010	Loans and borrowings	Total
Interest expense on loans and borrowings	(1,723)	**(1,723)**
Total finance costs	(1,723)	**(1,723)**
Total gross profit/(loss)	**(1,723)**	(1,723)
Hedge valuation reserve	**-**	**-**

Capital management

The goal of capital management is to maintain the Company's ability to operate as a going concern in order to provide the shareholders return on investment as well as benefits for other stakeholders. The Company might issue shares, increase debt or sell assets in order to maintain or improve the equity structure.

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

	Carrying amount	
	31 December 2011	**31 December 2010**
Loans	1,249,023	-
Issued bonds	1,516,954	
Cash and cash equivalents	(11.858)	(24,195)
Net debt	**2,754,119**	**(24,195)**
Equity	2,503,076	1,059,036
Equity and net debt	**5,257,195**	**1,034,841**
Leverage ratio	**0.52**	**<0***

*Ratio is negative in 2010 due to negative net debt.

Hedge accounting and derivatives

Cash Flow Hedge of interest rate risk of interest payments

At 31 December 2011, the Company held a number of interest rate swaps, designated as hedges of floating interest payments on senior facility denominated in PLN. The interest rate swaps are being used to hedge the interest rate risk of the Company's floating rate financing in PLN.

The terms of the interest rate swaps have been negotiated to match the terms of the floating rate financing in PLN. There were no highly probable transactions for which hedge accounting has been claimed that have not occurred and no significant element of hedge ineffectiveness requiring recognition in the income statement.

Table below presents the basic parameters of IRS designed as hedging instrument, including the periods in which cash flows occur due to cash flow hedges, periods they will affect the financial results and their fair value in PLN of hedging instruments as at 31 December 2011.

	31 December 2011
Type of instrument	Interest rate swap
Exposure	Floating rate interest payments in PLN
Hedged risk	Interest rate risk
Notional value of hedging instrument (PLN thousand)	640,500
Fair value of hedging instruments	(6,687)
Hedge accounting approach	Cash Flow Hedge
Expected period the hedge item affect income statement	Until 30 June 2014 (termination date)

Change in fair value of cash flow hedges recognized in equity is presented below:

	For the period from 1 January 2011 to 31 December 2011
Opening Balance	**-**
Effective part of gains or losses on the hedging instrument	(6,687)
Amounts recognized in the profit and loss statement, of which:	-
- adjustment of interest costs	-
- adjustment due to inefficiency of the hedge relationships	-
Closing Balance	**(6,687)**

Cash Flow Hedge of foreign exchange risk of interest payments

At 31 December 2011, the Company held a number of cross-currency interest rate swaps, designated as hedges of interest payments on senior facility denominated in euro. The cross-currency interest rate swaps are being used to hedge the foreign exchange risk of the financing denominated in euro.

The terms of the cross-currency interest rate swaps have been negotiated to match the terms of the financing in euro. There were no highly probable transactions for which hedge accounting has been claimed that have not occurred and no significant element of hedge ineffectiveness requiring recognition in the income statement.

Table below presents the basic parameters of CIRS designed as hedging instrument, including the periods in which cash flows occur due to cash flow hedges, periods they will affect the financial results and their fair value in PLN of hedging instruments as at 31 December 2011.

	31 December 2011
Type of instrument	Cross-currency interest rate swap
Exposure	Interest payments in euro
Hedged risk	Foreign exchange risk
Notional value of hedging instrument (EUR thousand)	525,000
Fair value of hedging instruments	13,706
Hedge accounting approach	Cash Flow Hedge
Expected period the hedge item affect income statement	Until 20 November 2013 (termination date)

Change in fair value of cash flow hedges recognized in equity is presented below:

	For the period from 1 January 2011 to 31 December 2011
Opening Balance	**-**
Effective part of gains or losses on the hedging instrument	12,561
Amounts recognized in the profit and loss statement, of which:	1,145
- adjustment of interest costs	1,145
- adjustment due to inefficiency of the hedge relationships	-
Closing Balance	**13,706**

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

42. Barter transactions

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

	for the year ended	
	31 December 2011	**31 December 2010**
Revenues from barter transactions	3,611	2,226
Cost of barter transactions	3,097	2,356

	31 December 2011	**31 December 2010**
Barter receivables	1,162	660
Barter payables	88	190

43. Transactions with related parties

Receivables

	31 December 2011	**31 December 2010**
Polsat Futbol Ltd.	1,442	1,200
Superstacja Sp. z o.o.	921	347
Telewizja Polsat Sp. z o.o.	724	674
Polsat Jim Jam Ltd.	466	326
Cyfrowy Polsat Technology Sp. z o.o.	449	468
Invest Bank S.A.	128	9
Teleaudio DWA Sp. z o.o.	77	108
Media-Biznes Sp. z o. o.	59	59
Cyfrowy Polsat Trade Marks Sp. z o.o.	21	-
Sferia S.A.	15	7
mPunkt Polska S.A.	-	976
Polskie Media S.A.	-	152
Dom Sprzedaży Radia PIN Sp. z o.o.	-	108
Other	18	1
Total	**4,320**	**4,435**

Other current assets

	31 December 2011	**31 December 2010**
Mobyland Sp. z o.o.	94,281	-
Cyfrowy Polsat Finance AB	1,169	-
Total	**95,450**	**-**

Other current assets comprise mainly of deferred costs related to the agreement with Mobyland Sp. z o.o.

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

Liabilites

	31 December 2011	31 December 2010
Cyfrowy Polsat Trade Marks Sp. z o.o.	41,181	-
Cyfrowy Polsat Technology Sp. z o.o.*	20,024	14,414
Telewizja Polsat Sp. z o.o.	6,360	6,760
Polsat Media Sp. z o.o.	2,916	24
Invest Bank S.A.	12	-
mPunkt Polska S.A.	-	3,395
Polsat Jim Jam Ltd.	-	353
Other	9	-
Total	**70,502**	**24,946**

*Amounts presented above do not include deposit (PLN 29 thousand) related to leased property, paid by Cyfrowy Polsat Technology Sp. z o.o. to the Company.

Receivables due from related parties and liabilities due to related parties are unsecured and have not been pledged as security.

The amounts presented above as "Liabilities" do not include accruals.

Receivables due from Cyfrowy Polsat Technology Sp. z o.o. comprise mainly the receivables relating to guarantee service and property rental.

Liabilities due to Cyfrowy Polsat Technology Sp. z o.o. comprise mainly liabilities resulting from purchases of set-top boxes and set-top boxes' accessories. Until 31 December 2011 the Company purchased from Cyfrowy Polsat Technology Sp. z o.o. set-top boxes and set-top boxes' accessories for a total value of PLN 204,492 thousand.

Liabilities due to Cyfrowy Polsat Trade Marks Sp. z o.o. comprise mainly liabilities resulting from using "Cyfrowy Polsat" trade mark.

Liabilities due to mPunkt Polska S.A. included mainly liabilities resulting from commissions for subscribers' acquisitions.

Bond liabilities

	31 December 2011	31 December 2010
Cyfrowy Polsat Finance AB	1,516,954	-
Total	**1,516,954**	**-**

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

Loans granted

	31 December 2011	31 December 2010
Cyfrowy Polsat Technology Sp. z o.o.	-	51
M.Punkt Holdings Ltd.	-	5,395
Total	**-**	**5,446**

Revenues

	for the year ended	
	31 December 2011	31 December 2010
Cyfrowy Polsat Technology Sp. z o.o.	4,096	2,395
Telewizja Polsat Sp. z o.o.	1,735	796
Cyfrowy Polsat Trade Marks Sp. z o.o.	1,386	-
Polsat Futbol Ltd.	1,243	1,200
Polskie Media S.A.*	790	150
Teleaudio DWA Sp. z o.o.	663	501
Polkomtel S.A.**	316	-
Media-Biznes Sp. z o.o.	192	192
Invest Bank S.A.	125	54
Dom Sprzedaży Radia PIN Sp. z o.o.	63	138
Superstacja Sp. z o.o.	60	59
Radio PIN S.A.	62	-
Centernet S.A.	13	-
mPunkt Polska S.A.	-	154
Other	24	3
Total	**10,768**	**5,642**

*Revenues cover the period to 8 July 2011 (the company was related until 8 July 2011)

**Revenues cover the period from 9 November 2011 (the company is related from 9 November 2011)

The most significant transactions include revenues from Cyfrowy Polsat Technology Sp. z o.o. and Cyfrowy Polsat Trade Marks Sp. z o.o. for guarantee services and property rental and from Telewizja Polsat Sp. z o.o. and Polsat Futbol Ltd. for signal broadcast services.

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

Expenses

	for the year ended	
	31 December 2011	**31 December 2010**
Telewizja Polsat Sp. z o.o.	78,920	74,254
Cyfrowy Polsat Trade Marks Sp. z o.o.	35,827	937
Mobyland Sp. z o.o.*	12,278	-
Polsat Media Sp. z o.o.	9,507	638
Teleaudio DWA Sp. z o.o.	9,465	9,731
mPunkt Polska S.A.	6,222	9,686
Polsat Jim Jam Ltd.	4,090	1,047
Elektrim S.A.	2,031	1,764
Redefine Sp. z o.o.	1,703	-
Polkomtel S.A.**	753	-
Polskie Media S.A.***	374	150
IT Polpager S.A.	300	-
Sferia S.A.	242	161
Media-Biznes Sp. z o.o.	192	192
Dom Sprzedaży Radia PIN Sp. z o.o.	164	99
Invest Bank S.A.	93	5
Radio PIN S.A.	63	-
Ster Sp. z o.o.	52	-
Tower Service Sp. z o.o.****	34	-
Aero 2 Sp. z o.o.*	18	-
PAI Media S.A.	-	82
Other	6	6
Total	**162,334**	**98,752**

*Costs cover the period from 13 May 2011 (the company is related from 13 May 2011)
**Costs cover the period from 9 November 2011 (the company is related from 9 November 2011)
***Costs cover the period until 8 July 2011 (the company was related until 8 July 2011)
****Costs cover the period from 20 April 2011 (the company is related from 20 April 2011)

The most significant transactions include license fees to Telewizja Polsat Sp. z o.o. for broadcasting programs: Polsat Sport, Polsat Sport Extra, Polsat Film, Polsat Futbol, Polsat News, Polsat Play, Polsat Cafe and Polsat Sport HD and to Polsat Jim Jam Ltd. for broadcasting Polsat Jim Jam.

The Company incurs expenses for using “Cyfrowy Polsat” trade mark for the benefit of Cyfrowy Polsat Trade Marks Sp. z o.o. The expenses incurred for the benefit of mPunkt Polska S.A. resulted mainly from the commissions for subscribers’ acquisitions. On 31 May 2011 the merger of the Company with mPunkt Polska S.A. was registered (see note 39). Costs presented in the table above cover the 1 January-31 May 2011 period. Polsat Media Sp. z o.o. sells advertising time to the Company. Teleaudio DWA Sp. z o.o. provides mainly telecommunication services with respect to the Company’s customer call center. Mobyland Sp. z o.o. provides data transfer services. Elektrim S.A. provides some office space lease to the Company.

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

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

Financial income

	for the year ended	
	31 December 2011	31 December 2010
Telewizja Polsat Sp. z o.o.	196,817	-
Cyfrowy Polsat Finance AB	11,302	-
Cyfrowy Polsat Technology Sp. z o.o.	213	4,418
Other	69	147
Total	**208,401**	**4,565**

Financial income from Telewizja Polsat Sp. z o.o. and Cyfrowy Polsat Technology Sp. z o.o comprise dividends. Financial income from Cyfrowy Polsat Finance AB relates to guarantees granted by the Company in respect to settlement of high yield notes issued by Cyfrowy Polsat Finance AB.

Finance costs

	for the year ended	
	31 December 2011	31 December 2010
Cyfrowy Polsat Finance AB	80,375	-
Cyfrowy Polsat Trade Marks Sp. z o.o.	1,707	-
Telewizja Polsat Sp. z o.o.	1,428	-
Polsat Media Sp. z o.o.	130	-
RS TV S.A.	102	-
Nord Licence AS	79	-
Polsat License Ltd.	22	-
Cyfrowy Polsat Technology Sp. z o.o.	21	-
Other	8	-
Total	**83,872**	**-**

Finance cost due to Cyfrowy Polsat Finance AB comprise chiefly interest on bonds. Other finance costs incurred by the Company relate to guarantee fees in respect to settlement of Senior Facility loan.

44. Litigations

Management believes that the provisions as at 31 December 2011 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

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

The Company received UOKiK's decision No. 11/2009 dated 31 December 2009 whereby the President of UOKiK confirmed that certain statements included in the Company's service delivery regulations in force prior to 1 November 2009, were breaching the collective interests of consumers. At the same time, the President of UOKiK acknowledged that these unlawful provisions were eliminated from the amended regulations.

The President of UOKiK also ordered, once the above decision becomes legally binding, that 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 Competition and Consumer Protection Act dated 16 February 2007 UOKiK 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 Competition and Consumer Protection Act dated 16 February 2007, within the scope of the above decision.

The Company filed an appeal against the decision to the Polish Competition and Consumer Protection Court. On 14 April 2010, the President of UOKiK called for the appeal to be dismissed in full.

On 12 August 2011 the Polish Competition and Consumer Protection Court announced its verdict which supported the decision of the President of UOKiK in respect of practices breaching collective interests of consumers. The Court also agreed with the penalty imposed by UOKiK in the amount of PLN 994 thousand.

On 10 October 2011 the Company filed an appeal against the above-mentioned verdict.

As at the date of approval of these financial statements, no changes occurred in respect of the above.

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 its verdict, according to which, the Company was ordered to pay to SkyMedia Sp. z o.o. the amount of PLN 545 thousand plus legal interest accrued from 28 August 2007, and also PLN 30 thousand of legal costs reimbursement. On 22 September 2010 the Court of Appeals in Warsaw upheld the verdict. On 26 January 2012 the Supreme Court cancelled the judgement in full and turned the matter back for reappraisal.

45. Important agreements and events

Acquisition of 100% shares of INFO-TV-FM Sp. z o.o.

On 28 October 2011 Cyfrowy Polsat entered into an agreement with Narodowy Fundusz Inwestycyjny Magna Polonia S.A. and Evotec Management Limited for the acquisition of 100% shares of INFO-TV-FM Sp. z o.o. for the amount of PLN 28,962,542.46.

The ownership of shares of INFO-TV-FM Sp. z o.o. was transferred to the Company on 30 January 2012 following fulfillment of the conditions precedent. The total final purchase price was equal to PLN 29,033,202.19.

The conditions precedent include separation of some INFO-TV-FM assets and activities, signing of the guarantee agreement by INFO Operator (spin-off company) for the benefit of the Company and entering of a guarantee agreement by INFO-TV-FM and INFO Operator.

The acquisition agreement was concluded in order to continue realization of strategy of Cyfrowy Polsat S.A. Group ("Group") aiming at wide distribution of content using all modern technologies.

As at the date of approval of these financial statements, the estimation of fair value of acquired assets and liabilities has not been completed.

46. Off-balance sheet liabilities

Security relating to loans and borrowings

Security relating to loans and borrowings is described in note 31.

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of the technical equipment was PLN 1,527 thousand as at 31 December 2011 (PLN 12,403 thousand as at 31 December 2010). Total amount of capital commitments resulting from agreements on property improvements was PLN 3,906 thousand as at 31 December 2011 (PLN 75 thousand as at 31 December 2010). Additionally the amount of deliveries and services committed to under agreements for the purchases of licences and software as at 31 December 2011 was PLN 431 thousand (PLN 173 thousand as at 31 December 2010).

Contingent liabilities relating to promissory notes

As at 31 December 2011, the Company had contingent liabilities relating to promissory notes in the total amount of PLN 22 thousand (excluding blank promissory notes). Furthermore, as at 31 December 2011 the Company had blank promissory notes (good performance bonds under the agreements with mobile network operators as well as rental, loan and lease agreements).

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

47. Remuneration of the Management Board

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

Name	Function	2011	2010
Dominik Libicki	President of the Management Board	1,020	1,020
Dariusz Działkowski	Member of the Management Board	624	624
Tomasz Szeląg	Member of the Management Board	624	624
Aneta Jaskólska	Member of the Management Board	624	292
Andrzej Matuszyński	Member of the Management Board	-	52
Total		**2,892**	**2,612**

The bonuses and additional remuneration payable to each member of the Management Board for years 2011 and 2010 are presented below:

Name	Function	2011	2010
Dominik Libicki	President of the Management Board	4,100	2,200
Dariusz Działkowski	Member of the Management Board	1,000	500
Aneta Jaskólska	Member of the Management Board	1,400	300
Tomasz Szeląg	Member of the Management Board	2,700	1,000
Total		**9,200**	**4,000**

The table below presents the remuneration of the Management Board of Cyfrowy Polsat S.A. in 2011 and 2010 from other related companies:

Name	Function	2011	2010
Dominik Libicki	President of the Management Board	60	60
Dariusz Działkowski	Member of the Management Board	36	36
Tomasz Szeląg	Member of the Management Board	36	36
Aneta Jaskólska	Member of the Management Board	36	17
Andrzej Matuszyński	Member of the Management Board	-	1
Total		**168**	**150**

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

48. The Supervisory Board remuneration

The Supervisory Board receives remuneration based on the resolution of the Extraordinary General Shareholders' Meeting of Cyfrowy Polsat S.A. dated 5 September 2007.

The table below presents the total remuneration payable to the Supervisory Board members in 2011 and 2010:

Name	Function	2011	2010
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**

49. Events subsequent to the reporting date

Changes in shareholders

On 13 January 2012 Pola Investments Ltd. acquired the total of 168,941,818 of the Company's shares through donation received from its sole shareholder, Delas Holdings Limited.
As at the date of the approval of these financial statements, Pola Investments Ltd. held 168,941,818 shares in the Company (48.5% ownership interest), representing 335,884,319 or 63.64% votes at the Company's General Shareholders' Meeting. Mr. Zygmunt Solorz-Żak held 85% of the share capital of Pola Investments Ltd.

Acquisition of 100% shares of INFO-TV-FM Sp. z o.o.

The ownership of shares of INFO-TV-FM Sp. z o.o. was transferred to the Company on 30 January 2012 following fulfilment of the conditions precedent (see note 45).

Order for data transfer services

On 23 January 2012 the Group placed an order with Mobyland Sp. z o.o. for data transfer services. The order was placed pursuant to the provisions of the agreement dated 15 December 2010. According to the agreement, Mobyland provides the access to wireless data transfer services, based on 1800MHz and 900MHz bands in LTE and HSPA+ technologies.

The order is for the purchase of 13 million GB of data transfer service with the guaranteed utilization period until 31 December 2015, with a possible extension of the term as stipulated by the agreement. The net price of 1 MB is PLN 0.00774. The payment for the order will be performed in 12 equal monthly installments, starting from January 2012.

50. Accounting estimates and assumptions

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The key accounting estimates and assumptions applied in preparation of financial statements were the same as those adopted in the preparation of financial statements for the year ended 31 December 2010.

Estimates and assumptions made primarily related to the following:

- Economic useful lives of reception equipment rented to customers under an operating lease agreements
  The estimates are made by the Company's internal experts at least at initial recognition of an asset and at the balance sheet date. For further details refer to note 5i and note 18

- Economic useful lives of property, plant and equipment and their residual values, economic useful lives of other intangible assets
  The assessment of the useful economic lives of these assets requires judgment. Depreciation and amortization is charged to the income statement based on the useful economic life selected. This assessment requires estimation of the period over which the Company will benefit from the assets. The estimates regarding property, plant and equipment, programming assets and other intangible assets are made by the Company's internal experts at least at initial recognition of an asset and at the balance sheet date. For further details refer to note 5i, 5j and 5k and notes 18, 19, 20

- Measurement of goodwill as at the reporting date
  Judgment is required in evaluating whether any impairment loss has arisen against the carrying amount of goodwill. This may require calculation of the recoverable amount of cash generating units to which the goodwill is associated. Such a calculation may involve estimates of the net present value of future forecasted cash flows and selecting an appropriate discount rate. Alternatively, it may involve a calculation of the fair value less costs to sell of the applicable cash generating unit. For further details refer to note 5n and note 39

- Impairment of receivables
  Judgment is required in evaluating the likelihood of collection of customer debt after revenue has been recognized. This evaluation requires estimates to be made including the level of bad debt allowance made for amounts with uncertain recovery profiles. Allowances are based on the probability of receivables collection, and on more detailed reviews of individually significant balances. For further details refer to note 5n and 41 of these financial statements.

- Provisions relating to pending litigation

  Provisions are raised based on court documentation and on opinions of lawyers participating in the proceedings who estimate the Company's probable obligations based on the progress of litigation proceedings. For further details refer to note 5r and 44

- Deferred tax

  The key assumption in relation to deferred tax accounting is the assessment of the expected timing and manner of realization or settlement of the carrying amounts of assets and liabilities held at the reporting date. In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deductible temporary differences can be utilized. For further details refer to note 5y and 15.

KPMG

Cyfrowy Polsat S.A.

Report supplementing the auditor's opinion on the separate financial statements Financial Year ended 31 December 2011

The report supplementing the auditor's opinion
contains 10 pages
Report supplementing the auditor's opinion
on the separate financial statements
for the financial year ended
31 December 2011

Contents

1. General

1.1. General information about the Company

1.1.1. Company name

Cyfrowy Polsat S.A.

1.1.2. Registered office

ul. Łubinowa 4a
03-878 Warsaw

1.1.3. Registration in the National Court Register

Registration court:	District Court for the Capital City Warsaw in Warsaw, XIII Commercial Department of the National Court Register
Date:	21 June 2001
Registration number:	KRS 0000010078
Share capital as at balance sheet date:	PLN 13,934,113

1.1.4. Management of the Company

The Management Board is responsible for management of the Company.

At 31 December 2011, the Management Board of the Company was comprised of the following members:

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

1.2. Auditor information

1.2.1. Key certified auditor information

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

1.2.2. Audit firm information

Name:	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Address:	ul. Chłodna 51, 00-867 Warsaw
Registration number:	KRS 0000339379
Registration court:	District Court for the Capital City Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number:	527-26-15-362

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. is entered in the register of audit firms under number 3546.

1.3. Prior period financial statements

The separate financial statements for the period ended 31 December 2010 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. and received an unqualified opinion.

The separate financial statements were approved at the General Meeting on 19 May 2011 where it was resolved to allocate the profit for the prior financial year of PLN 884,165 thousand to reserve capital.

The separate financial statements were submitted to the Registry Court on 31 May 2011 and were published in Monitor Polski B No. 1421 on 29 August 2011.

1.4. Audit scope and responsibilities

This report was prepared for the General Meeting of Cyfrowy Polsat S.A. seated in Warsaw, ul. Łubinowa 4a and relates to the separate financial statements comprising: the balance sheet as at 31 December 2011, the income statement and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and supplementary information to the financial statements, comprising of a summary of significant accounting policies and other explanatory information.

The audited Company prepares its separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of General Meeting dated 4 December 2007.

The separate financial statements have been audited in accordance with the contract dated 29 December 2011, concluded on the basis of the resolution of Supervisory Board dated 5 July 2011 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 the Polish National Council of Certified Auditors and International Standards on Auditing.

We audited the separate financial statements in the Company's head office during the period from 6 February to 9 March 2012.

Management of the Company is responsible for the accuracy of the accounting records and the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the Report on the Company's activities.

Our responsibility is to express an opinion and to prepare a supplementing report on the separate financial statements and whether these financial statements are derived from properly maintained accounting records based on our audit.

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

All required statements, explanations and information and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

Key certified auditors and KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. fulfill independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and Their Government, Audit Firms and Public Oversight dated 7 May 2009 (Official Journal from 2009, No. 77, item 649).

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.

2. Financial analysis of the Company

2.1. Summary of the separate financial statements

2.1.1. Balance sheet

ASSETS	31.12.2011 PLN '000	% of total	31.12.2010 PLN '000	% of total
Non-current assets				
Reception equipment	434,316	7.5	291,208	18.3
Other property, plant and equipment	133,841	2.3	131,994	8.3
Goodwill	52,022	0.9	-	-
Intangible assets	28,598	0.5	20,479	1.3
Investment property	6,843	0.1	6,931	0.4
Shares in subsidiaries and associates	4,516,033	78.2	675,471	42.4
Other non-current assets	44,691	0.8	35,898	2.3
Total non-current assets	5,216,344	90.3	1,161,981	73.0
Current assets				
Inventories	159,950	2.8	140,165	8.8
Short-term loans granted to related parties	-	-	5,446	0.3
Bonds	14,854	0.2	-	-
Trade and other receivables	178,417	3.1	178,588	11.2
Income tax receivable	9,619	0.2	6,760	0.4
Other current assets	183,538	3.2	77,154	4.8
Cash and cash equivalents	11,858	0.2	24,195	1.5
Total current assets	558,236	9.7	432,308	27.0
TOTAL ASSETS	5,774,580	100.0	1,594,289	100.0

EQUITY AND LIABILITIES	31.12.2011 PLN '000	% of total	31.12.2010 PLN '000	% of total
Equity				
Share capital	13,934	0.2	10,733	0.7
Reserve capital	1,037,258	18.0	153,093	9.6
Other reserves	1,305,277	22.6	10,174	0.6
Hedge valuation reserve	4,758	0.1	-	-
Retained earnings	141,849	2.5	885,036	55.5
Total equity	2,503,076	43.4	1,059,036	66.4
Non-current liabilities				
Loans and borrowings	958,406	16.6	-	-
Issued bonds	1,397,481	24.2	-	-
Finance lease liabilities	934	0.0	884	0.1
Deferred tax liabilities	65,378	1.1	69,986	4.4
Other non-current liabilities and provisions	5,589	0.1	1,900	0.1
Total non-current liabilities	2,427,788	42.0	72,770	4.6
Current liabilities				
Loans and borrowings	290,617	5.0	-	-
Issued bonds	119,473	2.1	-	-
Finance lease liabilities	252	-	226	0.0
Trade and other payables	239,831	4.2	280,411	17.6
Deposits for equipment	12,743	0.2	15,434	1.0
Deferred income	180,800	3.1	166,412	10.4
Total current liabilities	843,716	14.6	462,483	29.0
Total liabilities	3,271,504	56.6	535,253	33.6
TOTAL EQUITY AND LIABILITIES	5,774,580	100.0	1,594,289	100.0

2.1.2. Income statement

Statement of comprehensive income (by function)

	1.01.2011 - 31.12.2011 PLN '000	% of total sales	1.01.2010 - 31.12.2010 PLN '000	% of total sales
Revenue	1,631,628	100.0	1,473,540	100.0
Operating costs	(1,254,692)	76.9	(1,096,418)	74.4
Cost of services, goods and materials sold	(881,524)	54.0	(785,477)	53.3
Selling expenses	(257,636)	15.8	(221,202)	15.0
General and administrative expenses	(115,532)	7.1	(89,739)	6.1
Other operating income	5,438	0.3	614,032	41.7
Other operating costs	(72,986)	4.5	(42,763)	2.9
Profit from operating activities	*309,388*	*19.0*	*948,391*	*64.4*
Finance income	213,018	13.1	5,785	0.4
Finance costs	(371,393)	22.8	(4,982)	0.3
Gross profit for the year	151,013	9.3	949,194	64.4
Income tax	5,080	0.3	(65,028)	4.4
Net profit for the year	*156,093*	*9.6*	*884,166*	*60.0*
Basic and diluted earnings per share (PLN)	0.48	-	3.30	-

2.2. Selected financial ratios

		2011	2010	2009
1.	**Return on sales** profit for the period x 100% Revenue	9.6%	60.0%	18.3%
2.	**Return on equity** profit for the period x 100% equity - profit for the period	6.7%	505.5%	242.3%
3.	**Debtors' days** average trade receivables (gross) x 365 days revenue	53 days	52 days	45 days
4.	**Debt ratio** liabilities x 100% equity and liabilities	56.7%	33.6%	57.6%
5.	**Current ratio** current assets current liabilities	0.7	0.9	1.0

- Sales revenues are comprised of the revenues from sale of services, 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. Proper operation of the accounting system

The Company maintains current documentation describing the applied accounting principles adopted by the Management Board to the extent required by Art. 10 of the Accounting Act.

During the audit of the separate financial statements, we tested, on a sample basis, the operation of the accounting system.

On the basis of the work performed, we have not identified material irregularities in the accounting system which have not been corrected and that could have a material impact on the separate financial statements. Our audit was not conducted for the purpose of expressing a comprehensive opinion on the operation of the accounting system.

The Company performed a physical verification of assets in accordance with the requirements and time frame specified in Art. 26 of the Accounting Act.

3.2. Notes to the separate financial statements

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

3.3. Report on the Company's activities

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

3.4. Information on the opinion of the independent auditor

Based on our audit of the separate financial statements as at and for the year ended 31 December 2011, 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

....
Certified Auditor No. 90106
Krzysztof Kuśmierski

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

9 March 2012
Warsaw

CYFROWY POLSAT S.A.

Interim Condensed Financial Statements
for 3 and 12 Months Ended 31 December 2011

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

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(all amounts in PLN thousand)

Interim Income Statement

	Note	for 3 months ended 31 December 2011 unaudited	for 3 months ended 31 December 2010 unaudited	for 12 months ended 31 December 2011	for 12 months ended 31 December 2010
Revenue	**5**	427,388	375,773	1,631,628	1,473,540
Operating costs		(361,007)	(316,371)	(1,254,692)	(1,096,418)
Cost of services, goods and materials sold	**6**	(247,618)	(207,702)	(881,524)	(785,477)
Selling expenses	**6**	(76,499)	(80,062)	(257,636)	(221,202)
General and administrative expenses	**6**	(36,890)	(28,607)	(115,532)	(89,739)
Other operating income		4,760	610,292	5,438	614,032
Other operating costs		(24,493)	(10,903)	(72,986)	(42,763)
Profit from operating activities		**46,648**	**658,791**	**309,388**	**948,391**
Finance income		4,018	1,153	213,018	5,785
Finance costs		(67,716)	(1,745)	(371,393)	(4,982)
Gross profit/(loss) for the period		**(17,050)**	**658,199**	**151,013**	**949,194**
Income tax		4,339	(10,422)	5,080	(65,028)
Net profit/(loss) for the period		**(12,711)**	**647,777**	**156,093**	**884,166**
Basic and diluted earnings per share (in		**(0.04)**	**2.41**	**0.48**	**3.30**

Interim Statement of Comprehensive Income

	for 3 months ended 31 December 2011 unaudited	for 3 months ended 31 December 2010 unaudited	for 12 months ended 31 December 2011	for 12 months ended 31 December 2010
Net profit/(loss) for the period	**(12,711)**	**647,777**	**156,093**	**884,166**
Hedge valuation	(583)	-	5,874	-
Income tax relating to other comprehensive income	111	-	(1,116)	-
Other comprehensive income, net of tax	**(472)**	**-**	**4,758**	**-**
Total comprehensive income for the period	**(13,183)**	**647,777**	**160,851**	**884,166**

(all amounts in PLN thousand)

Interim Balance Sheet – Assets

	31 December 2011	31 December 2010
Reception equipment	434,316	291,208
Other property, plant and equipment	133,841	131,994
Goodwill	52,022	-
Intangible assets	28,598	20,479
Investment property	6,843	6,931
Shares in subsidiaries and associates	4,516,033	675,471
Other non-current assets	44,691	35,898
Total non-current assets	**5,216,344**	**1,161,981**
Inventories	159,950	140,165
Short-term loans granted to related parties	-	5,446
Bonds	14,854	-
Trade and other receivables	178,417	178,588
Income tax receivable	9,619	6,760
Other current assets	183,538	77,154
Cash and cash equivalents	11,858	24,195
Total current assets	**558,236**	**432,308**
Total assets	**5,774,580**	**1,594,289**

(all amounts in PLN thousand)

Interim Balance Sheet – Equity and Liabilities

	31 December 2011	31 December 2010
Share capital	13,934	10,733
Reserve capital	1,037,258	153,093
Other reserves	1,305,277	10,174
Hedge valuation reserve	4,758	-
Retained earnings	141,849	885,036
Total equity	**2,503,076**	**1,059,036**
Loans and borrowings	958,406	-
Issued bonds	1,397,481	-
Finance lease liabilities	934	884
Deferred tax liabilities	65,378	69,986
Other non-current liabilities and provisions	5,589	1,900
Total non-current liabilities	**2,427,788**	**72,770**
Loans and borrowings	290,617	-
Issued bonds	119,473	-
Finance lease liabilities	252	226
Trade and other payables	239,831	280,411
Deposits for equipment	12,743	15,434
Deferred income	180,800	166,412
Total current liabilities	**843,716**	**462,483**
Total liabilities	**3,271,504**	**535,253**
Total equity and liabilities	**5,774,580**	**1,594,289**

(all amounts in PLN thousand)

Interim Cash Flow Statement

	for the year ended	
	31 December 2011	**31 December 2010**
Net profit	**156,093**	**884,166**
Adjustments for:	**(82,804)**	**(665,365)**
Depreciation, amortization and impairment	139,174	78,873
Loss on investing activity	440	122
Interest expense	186,673	191
Change in inventories	(19,406)	(24,332)
Change in receivables and other assets	(95,602)	(64,224)
Change in liabilities, provisions and deferred income	(25,278)	94,328
Valuation of hedging instruments	5,874	-
Foreign exchange losses, net	168,432	58
Income tax	(5,080)	65,028
Net increase in reception equipment provided under operating lease	(244,158)	(203,408)
Dividends income	(197,030)	(4,000)
Transfer of a contribution in a kind to a subsidiary	-	(608,434)
Other adjustments	3,157	433
Cash from operations before income taxes and interest	**73,289**	**218,801**
Income tax paid	(1,485)	(9,718)
Interest received from operating activities	4,442	1,161
Net cash from operating activities	**76,246**	**210,244**
Acquisition of property, plant and equipment	(25,074)	(25,630)
Acquisition of intangible assets	(19,195)	(15,012)
Acquisition of financial assets	-	(392)
Loans granted	-	(8,784)
Dividends received	196,817	4,000
Acquisition of shares in subsidiaries	(2,600,232)	(33,966)
Acquisition of bonds	(14,684)	-
Prepayment for shares	(12,000)	-
Loans repaid - principal	50	3,636
Interest on loans repaid	2	1,389
Proceeds from sale of property, plant and equipment	457	92
Payment of interest on finance lease liabilities by a subsidiary	-	351
Net cash used in investing activities	**(2,473,859)**	**(74,316)**
Term loans received	2,800,000	-
Issuance of bonds	1,372,245	-
Net cash from Cash Pool	43,839	-
Proceeds from realization of foreign exchange call options	2,480	794
Merger with related parties	1,530	-
Dividends paid	-	(152,945)
Purchases of foreign exchange call options	-	(7,320)
Payment of interest on loans, borrowings, finance lease and commissions	(303,547)	(1,816)
Finance lease – principal repayments	(369)	(237)
Repayment of loans and borrowings	(1,531,023)	(47,277)
Net cash from/(used in) financing activities	**2,385,155**	**(208,801)**
Net increase/(decrease) in cash and cash equivalents	**(12,458)**	**(72,873)**
Cash and cash equivalents at the beginning of the year*	**24,195**	**97,126**
Effect of exchange rate fluctuations on cash and cash equivalents	121	(58)
Cash and cash equivalents at the end of the year	**11,858**	**24,195**

* Cash and cash equivalents as at 1 January 2010 included PLN 26,738 thousand of restricted cash.

(all amounts in PLN thousand)

Interim Statement of Changes in Equity for the year ended 31 December 2011

	Share capital	Reserve capital	Other reserves	Hedge valuation reserve	Retained earnings	**Total equity**
Balance as at 1 January 2011	10,733	153,093	10,174	-	885,036	**1,059,036**
Share issue	3,201	-	1,295,103	-	-	**1,298,304**
Merger with M.Punkt Holdings Ltd.	-	-	-	-	(460)	**(460)**
Merger with mPunkt Polska S.A.	-	-	-	-	(14,616)	**(14,616)**
Merger with mTel Sp. z o.o.	-	-	-	-	(39)	**(39)**
Hedge valuation	-	-	-	4,758	-	**4,758**
Net profit for the year	-	-	-	-	156,093	**156,093**
Appropriation of 2010 profit – transfer to reserve capital	-	884,165	-	-	(884,165)	**-**
Balance as at 31 December 2011	**13,934**	**1,037,258**	**1,305,277**	**4,758**	**141,849**	**2,503,076**

Interim Statement of Changes in Equity for the year ended 31 December 2010

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

(all amounts in PLN thousand)

Supplementary Information to the Interim Condensed Financial Statements for 3 and 12 months Ended 31 December 2011

1. Activity of the Company

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

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

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

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,
- Tomasz Szeląg	Member of the Management Board.

3. Composition of the Supervisory Board of the Company

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

4. Basis of preparation of the interim condensed financial statements

Statement of compliance

These interim condensed financial statements for 3 and 12 months ended 31 December 2011 have been prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting". The Company applied the same accounting policies in the preparation of the financial data for 3 and 12 months ended 31 December 2011 and the financial statements for the years 2011 and 2010, presented in the annual report for 2011.

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

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

(all amounts in PLN thousand)

5. Revenue

	for 3 months ended		for 12 months ended	
	31 December 2011 unaudited	31 December 2010 unaudited	31 December 2011	31 December 2010
Retail sales	415,526	361,419	1,594,880	1,416,950
Sale of equipment	4,746	6,530	12,224	28,278
Other revenue	7,116	7,824	24,524	28,312
Total	**427,388**	**375,773**	**1,631,628**	**1,473,540**

6. Operating costs

	for 3 months ended		for 12 months ended	
	31 December 2011 unaudited	31 December 2010 unaudited	31 December 2011	31 December 2010
Programming costs	116,107	99,896	434,480	392,035
Distribution, marketing, customer relation management and retention costs	95,438	98,011	320,411	297,530
Depreciation, amortization and impairment	40,891	23,306	139,174	78,873
Salaries and employee-related costs	32,030	26,102	94,041	76,616
Broadcasting and signal transmission costs	23,746	17,998	86,736	79,855
Cost of equipment sold	8,431	17,292	29,800	56,151
Other costs	44,364	33,766	150,050	115,358
Total costs by kind	**361,007**	**316,371**	**1,254,692**	**1,096,418**

	for 3 months ended		for 12 months ended	
	31 December 2011 unaudited	31 December 2010 unaudited	31 December 2011	31 December 2010
Cost of services, goods and materials sold	247,618	207,702	881,524	785,477
Selling expenses	76,499	80,062	257,636	221,202
General and administrative expenses	36,890	28,607	115,532	89,739
Total costs by function	**361,007**	**316,371**	**1,254,692**	**1,096,418**