ANNUAL REPORT
OF CYFROWY POLSAT S.A.
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2012

Place and date of publication: Warsaw, March 12, 2013

Content of the annual report:

Ladies and Gentlemen,

It is my great pleasure to present to you the 2012 Annual Report of the Cyfrowy Polsat.

This past year, we pursued both organic growth and strategic acquisitions, while progressing a number of projects that helped us consistently implement Group growth strategy. We focused our entire effort on solidifying our leading position in multimedia entertainment in Poland and in the market for pay television and television broadcasting, as well as on persistently expanding our capabilities in telecommunications and online services.

That we turned yet another year of our operations into a success was confirmed by the Group's operating and financial results. Subscriptions to pay television rose to 3.57 million, with the number of broadband internet and mobile telephony users increasing to 150 and 145 thousand, respectively. We are also very satisfied with the Company's financial performance. In 2012, our total revenue grew by 9.3%, to PLN x billion, with net profit standing at PLN 530 million.

To ensure an increasingly high level of customer satisfaction, we regularly expanded our pay TV services to include new channels and products. Effectively bundling our products and services we give our subscribers even more value for money. We provided viewers with access to pay-per-view sporting events, contributing to the increased popularity of the service on the domestic market. Building on the success of our VOD Home Video Rental and catch-up TV services, our Online Entertainment zone was significantly expanded to offer viewers a one-stop-shop for programme re-runs, online channels, and ipla, HBO GO and FilmBox live services. We launched a cross-promotion programme with the Plus mobile network, as part of which we cross-sell services to multiply benefits for subscribers of both operators. In 2012, we also achieved expected synergies in the areas of technology, marketing, products and back-office between Cyfrowy Polsat and Telewizja Polsat. It was also the year that our new TV Mobilna, PPV, VOD, Multiroom HD and ipla services gained in importance.

In the past year, Cyfrowy Polsat also managed to considerably bolster its presence in the market for online services. We acquired a 100% interest in the companies that run ipla, Poland's leading online video service. Ipla provides linear access to tens of TV channels, HD live broadcasts, and the largest TV-on-demand library in Poland, containing thousands of TV series episodes, programmes and major sporting events. Ipla television services are brought to users of PCs, smartphones, tablets, Smart TV-supporting television sets, pay TV, set-top boxes and consoles, via dedicated applications. According to the latest research, ipla has an average of 2.3 million active users.

Another advance towards growth in the online segment was the launch of muzo, a digital music streaming service. Soon, muzo library will comprise five million audio tracks appealing to the music tastes of nearly 90% of Poland's population. The current muzo offering features the most popular tracks across all music genres, which have been licensed from EMI, Magic Records, SONY Music, Universal Music, and other music publishers.

To ensure that our services can be delivered through any new technology and device, we launched the DVB-T-based TV Mobilna. We paved the way for its launch a year earlier when we acquired INFO-TV-FM, a company allocated frequencies that are appropriate to supporting mobile TV services based on terrestrial digital broadcasting technology. This new service is available to users of traditional set-top boxes and television sets, as well as mobile devices, which are gaining in popularity.

In October last year our wireless broadband service, supported by LTE, the world's fastest and most advanced technology, saw a speed increase of up to 150 Mb/s. We also managed to extend LTE coverage to 50% of the country's population. To cater to changing consumer needs and market trends, we also broadened our internet offering to include new mobile devices – computers, tablets, modems and routers. We also launched HALO, a proprietary instant messenger.

Our set-top box manufacturing plant was subject to continuous improvement. In 2012, three new types of set-top boxes rolled off the production line, including the HD-3000 and HD-6000 for satellite television services and T-HD 1000 for terrestrial digital television services. To date, we have manufactured more than four million set-top boxes.

Our long-term objectives continue to be stable growth, remaining at the forefront of the multimedia entertainment and pay TV markets, improved performance in the telecommunications segment, capturing a loyal audience for the Telewizja Polsat channels, and as a result, securing an ample share in the TV advertising market. As was previously announced, we plan to develop innovative content distribution channels for consumers to freely choose between the technologies and devices that can be used to receive our television services. In the long term, we expect the channels to contribute to increasing the number of our service users, our ARPU and customer loyalty. Successful delivery of said objectives, combined with effective financial management, will go a long way toward creating value for our shareholders.

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, 2012**

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Item 1. Introduction

Cyfrowy Polsat, with over 3.5 million subscribers, is the largest in Poland and the fourth largest DTH platform in Europe. It offers access to over 120 Polish-language TV channels, including 36 HD channels. All subscribers of the platform may use PPV/VOD Home Video Rental and TV Online / catch-up TV services, we also provide Multiroom service. The platform has its own set-top-boxes factory. From September 2008, Cyfrowy Polsat offers mobile telephony services in MVNO model and within the cooperation with Polkomtel Sp. z o.o., Plus network operator. From February 2010, it provides broadband Internet access in mobile HSPA+ technology, and from September 2011 – mobile Internet in the latest LTE technology. In June 2012, it introduced mobile television service in DVB-T technology. From May 2008, Cyfrowy Polsat is listed on the Warsaw Stock Exchange.

Our total revenue from services, goods and materials sold in 2012 increased by 9.3% to PLN 1,783,626 from PLN 1,631,628 in 2011. Our net profit amounted to PLN 529.837 compared to PLN 156,093 in the previous year.

We sell our services on the entire territory of Poland.

Our head office is in Warsaw at 4a Łubinowa Street.

References to the Company contained in this Management Board's report on the activities of Cyfrowy Polsat S.A. apply to Cyfrowy Polsat S.A. and all references to the Capital 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 from 2001; "**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"** – starting programming package offered within the pay digital television service including the subscribers to the following packages: Family Package, Family HD Package, Family Max HD Package and premium packages related to them; **"Mini Package"** – starting programming package offered within the pay digital television service including the subscribers to the following packages: Mini Package, Mini HD Package, Extra Package (Mobile TV); "**MOBILE TV**" relates to our pay mobile TV service rendered in DVB-T technology; "**Ekstra Package**" relates to the pay programming package offered within our services in DVB-T technology; "**DVB-T**" (Digital Video Broadcasting – Terrestrial) relates to technology of terrestrial broadcasting of digital television; "**DTT**" relates to digital terrestrial television; „**Our pay digital TV services**" relate to our paid DTH, mobile and internet television services offered in both prepaid and postpaid model; "**Subscriber**" relates to a person who signed an agreement for subscription to pay digital television services and who is obligated, under the terms of agreement, to make payments to access a package or packages of television and radio channels or who has access to such packages within pay digital television services, after making required payments but without having signed such an agreement; „**ARPU**" relates to average monthly net revenue per subscriber to whom we rendered services calculated as a sum of net revenue generated by our subscribers from our pay digital television services in the reporting period divided by the average number of subscribers to whom we rendered services in this reporting period; „**ARPU Family Package**" and „**ARPU Mini Package**" relate to average monthly 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 as well as of subscribers who used to have more than one agreement and terminated one of them to replace it with the commitment to use Multiroom service; „**Churn Family Package**" and „**Churn Mini Package**" relate to churn rate calculated for the Family Package and Mini Package, respectively; "**VoD**" or "**VOD - Home Movie Rental**" relate 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; "**Multiroom**" relates to our service enabling to profit from the same variety of channels simultaneously on two TV-sets in one household within one subscription fee; „**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 a bundle of two or more services from delivered by us pay TV services, mobile telephony services and Internet access services provided under one agreement and one subscription fee; "**ipla**" relates to internet platform enabling access to video content operated by entities from Redefine Sp. z o.o. Group; "**Muzo**" relates to online music subscription service offered by our subsidiary Redefine Sp. z o.o. Group; "**CP**" relates to the company Cyfrowy Polsat S.A.; "**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; "**Telewizja Polsat**" or "**TV Polsat**" relates to the company Telewizja Polsat Sp. z o.o.; „**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, television channels and telecommunications services. 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;
- Nielsen Audience Measurement;
- PMR;
- Ericsson ConsumerLab;
- IAB AdEx;
- PwC (Global entertainment and media Outlook: 2012-2016);
- TNS; and
- Operators functioning on the Polish market.

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.

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

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

Forward looking statements

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

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

We disclose important risk factors that could cause our actual results to differ materially from our expectations under Item 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 present - 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 (zloty per 1.00 dollar)	2008	2009	2010	2011	2012
Exchange rate at end of period	2.9618	2.8503	2.9641	3.4174	3.0996
Yearly average exchange rate	2.4092	3.1162	3.0157	2.9634	3.2570
Highest exchange rate during period	3.1303	3.8978	3.4916	3.5066	3.5777
Lowest exchange rate during period	2.0220	2.7093	2.7449	2.6458	3.0690

Month (zloty per 1.00 dollar)	Highest exchange rate during the month	Lowest exchange rate during the month
September 2012	3.3693	3.1131
October 2012	3.2145	3.1261
November 2012	3.2945	3.1556
December 2012	3.1978	3.0690
January 2013	3.1700	3.0660
February 2013	3.1841	3.0563

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

Year (zloty per 1.00 euro)	2008	2009	2010	2011	2012
Exchange rate at end of period	4.1724	4.1082	3.9603	4.4168	4.0882
Yearly average exchange rate	3.5166	4.3273	3.9946	4.1198	4.1850
Highest exchange rate during period	4.1848	4.8999	4.1770	4.5642	4.5135
Lowest exchange rate during period	3.2026	3.9170	3.8356	3.8403	4.0465

Month (zloty per 1.00 euro)	Highest exchange rate during the month	Lowest exchange rate during the month
September 2012	4,2157	4,0584
October 2012	4,1543	4,0721
November 2012	4,1782	4,0968
December 2012	4,1332	4,0643
January 2013	4.1969	4.0671
February 2013	4.2028	4.1515

Item 3. Selected financial data

The following tables set forth our selected historical financial data for the 12 month periods ended December 31, 2012 and December 31, 2011. 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, 2012 (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, 2012.

Selected financial data

- from the profit and loss statement and the cash flow for the periods of twelve months ended December 31, 2012 and December 31, 2011 have been converted into EURO at the rate of PLN 4.1850 per 1 euro, (being the yearly average exchange rate in 2012, announced by the NBP),

- from the balance sheet as at December 31, 2012 and December 31, 2011 have been converted into euro at the rate of PLN 4.0882 per 1 euro (average NBP exchange rate on December 31, 2012).

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,			
	2012		2011	
	PLN	EUR	PLN	EUR
Income Statement				
Retail revenue	1,732,787	414,047	1,594,880	381,094
Sale of equipment	18,965	4,532	12,224	2,921
Other revenue	31,874	7,616	24,524	5,860
Revenue	**1,783,626**	**426,195**	**1,631,628**	**389,875**
Cost of services, goods and materials sold	(966,132)	(230,856)	(943,652)	(225,484)
Selling expenses	(279,333)	(66,746)	(257,636)	(61,562)
General and administrative expenses	(130,008)	(31,065)	(115,532)	(27,606)
Total operating costs	**(1,375,473)**	**(328,667)**	**(1,316,820)**	**(314,652)**
Other operating income / costs	(10,481)	(2,504)	(5,420)	(1,295)
Profit from operating activities	**397,672**	**95,023**	**309,388**	**73,928**
Gains and losses on investment activities	315,817	75,464	208,560	49,835
Finance costs	(130,397)	(31,158)	(366,935)	(87,679)
Gross profit	**583,092**	**139,329**	**151,013**	**36,084**
Income tax	(53,255)	(12,725)	5,080	1,214
Net profit	**529,837**	126,604	**156,093**	37,298
Basic and diluted earnings per share (not in thousands)	1.52	0.36	0.48	0.12
Weighted average number of issued ordinary and preference shares (not in thousands)	348,352,836		324,234,858	
Cash Flow Statement				
Cash flow from operating activities	425,092	101,575	76,246	18,219
Cash flow from investing activities	198,157	47,349	(2,472,329)	(590,760)
Cash flow from financing activities	(575,796)	(137,586)	2,383,625	569,564
Net change in cash and cash equivalents	47,453	11,339	(12,458)	(2,977)
Other financial data				
Depreciation and amortization and impairment allowance	202,783	48,455	139,174	33,255
EBITDA[1]	600,455	143,478	448,562	107,183
EBITDA margin	33.7%	33.7%	27.5%	27.5%
Operating margin	22.3%	22.3%	19.0%	19.0%
Capital expenditures[2]	56,413	13,480	44,269	10,578

[1] We define EBITDA as net profit/(loss), as determined in accordance with IFRS, before depreciation and amortization, impairment charges and reversals on property, plant and equipment and intangible assets, gains and losses on investment activities, finance costs and income taxes. The reconciling item between EBITDA and reported operating profit/(loss) is depreciation and amortization expense and impairment charges and reversals on property, plant and equipment and intangible assets.
We believe EBITDA serves as a useful supplementary financial indicator in measuring the liquidity of media companies. EBITDA is not an IFRS measure and should not be considered as an alternative to IFRS measures of net profit/(loss), as an indicator of operating performance, as a measure of cash flow from operations under IFRS, or as an indicator of liquidity. You should note that EBITDA is not a uniform or standardized measure and the calculation of EBITDA, accordingly, may vary significantly from company to company, and by itself our presentation and calculation of EBITDA may not be comparable to that of other companies.

[2] Capital expenditure represents our investment in fixed assets and intangible assets. It does not include expenditure on purchase of reception equipment leased to our subscribers which are reflected in the cash flow from operating activities

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

	As at			
	December 31, 2012		December 31, 2011	
	PLN	EUR	PLN	EUR
Balance sheet				
Cash and cash equivalents	59,316	14,509	11,858	2,901
Assets	5,994,539	1,466,303	5,797,960	1,418,218
Non-current liabilities	2,004,654	490,351	2,435,383	595,710
Current liabilities	1,009,387	246,903	859,501	210,239
Equity	2,980,498	729,049	2,503,076	612,268
Share capital	13,934	3,408	13,934	3,408

Item 4. Presentation of Cyfrowy Polsat S.A.

Item 4.1. General information

In pay TV, we are the largest pay TV 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, mobile television, broadband Internet in HSPA+ and LTE and mobile telephony services (in MVNO model and from April 2012 based on cooperation with Polkomtel Sp. z o.o., operator of Plus network). As of December 31, 2012 we had 3,566,144 pay digital television subscribers, 150,199 users of broadband Internet service and the number of mobile telephony users amounted to 144,887*.

We offer our subscribers access to over 120 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 2012 in the commercial group 16-49 (NAM). In addition, we offer our subscribers access to 36 HD channels and also provide VoD/PPV, catch-up TV and Multrioom services. We provide the subscribers to our Mobile TV service with the access to 20 encrypted channels (8 television and 12 radio channels) and to all DTT channels, through various devices (including smartphones, tablets and laptops).

We offer set-top boxes, enabling reception of pay-TV services, that in majority are produced in-house. Due to our own production, we have been able to reduce the costs of obtaining set-top boxes. In 2012, over 85% of our sold or leased set-top boxes were manufactured in our own factory.

We sell our services through 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, 2012 our sales network included 827 Points of Sales. In addition, from April 2012, within cooperation with Plus network operator we run cross selling of services. Thanks to that our standard offer, as of the end of 2012, was available in additional almost 800 points of sales of Polkomtel Sp. z o.o. network.

* including 137,103 users of our MVNO service and 7,784 our clients who bought Polkomtel's mobile telephony service within cross promotion

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, 2012:

	Entity's registered office	Activity	Share in voting rights (%)
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, Warsaw	broadcasting and television production	100%
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, Warsaw	non-current assets and intellectual property rights management	100%
Cyfrowy Polsat Finance AB	Stureplan 4C, 4 TR 114 35 Stockholm, Sweden	financial transactions	100%
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, Warsaw	radio and TV activities	100%
Redefine Sp. z o.o.	Al. Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%
Gery.pl Sp. z o.o.	Al. Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%
Frazpc.pl Sp. z o.o.	Al. Stanów Zjednoczonych 61 A, Warsaw	web portals activities	100%
Netshare Sp. z o.o	Al. Stanów Zjednoczonych 61 A, Warsaw	electronic media (Internet) advertising broker	100%
Karpacka Telewizja Kablowa Sp. z o.o.	Chorzowska 3, Radom	dormant	85%

In 2012, the Company became a direct owner of five new subsidiaries: INFO-TV-FM Sp. z o.o., Redefine Sp. z o.o., Gery.pl Sp. z o.o., Frazpc.pl Sp. z o.o. and Netshare Sp. z o.o.- through acquiring 100% of shares, and merged with three Cyfrowy Polsat Technology Sp. z o.o.

Finalization of acquisition of INFO-TV-FM Sp. z o.o.

On January 30, 2012, 100% shares in the share capital of INFO-TV-FM Sp. z o.o. (INFO-TV-FM) were transferred to the Company following the fulfillment of all conditions precedent included in the acquisition agreement with Narodowy Fundusz Inwestycyjny Magna Polonia S.A. and Evotec Management Limited dated October 28, 2011. The fair value price of the acquisition amounted to PLN 29,313,202.19 (not in thousands).

Acquisition of internet television ipla

On March 12, 2012, the Company concluded with Bithell Holdings Ltd. agreements concerning the acquisition of shares in the companies running ipla service, the leader in online video distribution in Poland.. The agreements concerned the following shares:

1. 100% shares in Redefine Sp. z o.o. seated in Warsaw ("Redefine")
2. 100% shares in Gery.pl Sp. z o.o. seated in Warsaw (in liquidation)
3. 100% shares in Frazpc.pl Sp. z o.o. seated in Warsaw
4. 100% shares in Netshare Sp. z o.o. seated in Warsaw.

The transfer of the legal rights to the acquired shares was effectuated on April 2, 2012.

On December 21, 2012, the shareholders meeting of Gery.pl Sp. z o.o. resolved to repeal the process of liquidation of the company effective December 31, 2012.

Following the acquisition of the companies abovementioned, we also took control over the subsidiaries of Redefine Sp. z o.o.: Poszkole Sp. z o.o. and Stat24 Sp. z o.o. On November 30, 2012, the merger of Stat24 Sp. z o.o. with Redefine Sp. z o.o. was effected by transferring all the assets of Stat24 Sp. z o.o. to Redefine Sp. z o.o. as the only shareholder of the company. As a result of the merger, Stat24 Sp. z o.o. will be terminated without liquidation.

Merger with Cyfrowy Polsat Technology Sp. z o.o.

On December 31, 2012 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 Cyfrowy Polsat Technology Sp. z o.o.

The merger was effected by:

(i) transferring to the Company - as the sole shareholder of CPT - all the assets of CPT by the way of universal succession, and
(ii) termination of CPT without liquidation,

in accordance with article 492 §1 item 1) of the Polish Commercial Companies Code (PCCC).

As a result of the merger, Cyfrowy Polsat - in accordance with article 494 §1 PCCC assumed all rights and obligations of CPT, effective on the date of the merger.

Given that Cyfrowy Polsat held all the shares of CPT, and according to article 515 §1 PCCC, the merger was effected without increasing the share capital of the Company.

The detailed terms of the merger, were specified in the Merger Plan prepared on October 19, 2012 and published on October 25, 2012 in the Court and Commercial Gazette (Monitor Sądowy i Gospodarczy) no 208, item 13971.

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 and the Capital Group in the year 2012.

Item 4.4. Strategy, market opportunities and comparative advantage

Item 4.4.1. Group strategy

Our vision: We will continue to create and provide the most attractive content using the best and latest technologies to deliver high quality multi-play services with the highest levels of customer satisfaction.

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 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.

Offering packages characterized by the most attractive price to value ratio on the Polish market, we want to attract as many as possible customers to our platform. We intend to profit from changes in the Polish pay-TV market and emerging opportunities related to the evolving needs and expectations of consumers (i.e. growing interest in OTT (over-the-top) services and increasing media consumption on mobile devices) and provide customers with a comprehensive suite of additional services (VOD/PPV, catch-up TV, internet video and music services, Multiroom, Mobile TV). Through the development of our pay-TV offer enriched by complementary products and services, we intend to get both increase in ARPU and increase in satisfaction and loyalty of our subscribers.

In addition, we intend to attract to our platform viewers of analog TV, who, along with the ongoing process of digitization, will be forced to take a decision concerning the investment in the equipment suitable to receive digital terrestrial television. Therefore, we offer this group of potential customers high quality set-top-boxes produced in-house along with a package of additional channels at a very attractive price.

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. We believe that our extensive offer of package services and the ability to cross-promote additional services delivered through diversified digital entertainment distribution platforms 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 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 20 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 that 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, internet television and broadband

Internet; (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.

Penetration rate of pay television in Poland. We believe that the Polish pay TV market still has some growth potential, related primarily to the transition from analog to digital television and the following need of supplying households with suitable reception equipment. Thanks to our satellite and terrestrial 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. Moreover, our programming packages offer the best value-for-money in the Polish DTH market. We believe, that it gives us a chance to attract the significant portion of the potential new clients to our platform.

Penetration rate of multi-play services in low-urbanized areas. Integrated services in Poland are provided by cable and telecommunications (Orange Polska) and offered 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", June 2012) the penetration rate of multi-play services in Poland amounts to 28% while in European Union reaches 43%, with penetration rate in Holland and Belgium reaching over 60% (64% and 61% 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.

Growing market for new technologies and equipment and the resultant increase in access to and consumption of audiovisual content. As the market for innovative technologies is growing at a fast pace, the number of mobile devices (notebooks, tablets, smartphones or Smart TV sets) owned by consumers is on the rise as well. This has spurred a sharp increase in access to video content, and hence in video viewership – a survey conducted by Ericsson ConsumerLab shows that 67% of respondents (12 thousand people in 12 countries in the research) watch videos on their tablets, smartphones and notebooks. Additionally, nearly 15% of the respondents play video files while moving around the city as passengers in public transportation or cars. Consumers expect service providers to offer them the possibility to watch TV on any screen, anywhere, and at any time. We perceive this group as a prospective customer segment for pay television services.

Development of Internet market in Poland. In 2012, over 71% of households in Poland had access to the Internet, and approximately 67% - broadband access (according to Central Statistical Office, "Information society in Poland. Results of statistical research conducted in 2008-2012"), while in 27 EU members the average amounted to 72% (Eurostat). The percentage of household with Internet access varied depending i.a. on the place of living – in big cities, it amounted to 76%, while in the rural areas 66%, and on the urbanization rate – 66% penetration rate for low urbanized and 75% for highly urbanized areas. According to PMR estimates ("Telecommunication market in Poland 2012-2016", October 2012), in 2012, there were nearly 11.6 million users of broadband Internet, out of which 38% used mobile connections. Until 2016, the number of broadband users is supposed to grow by 13%, with the number of mobile broadband users growing by approximately 55% (data concerning mobile Internet include exclusively subscribers using modems and PCs). The main drivers for growth in the number of mobile Internet users in the long term will include: increased speeds of data transfer, elimination of restricted downloading and uploading related to the limited capacity of the network (through expansion of LTE technology, pioneered commercially by Cyfrowy Polsat), increase in the number of mobile devices i.e. laptops, smartphones, tablets, as well as relatively low cost of mobile infrastructure covering low urbanized areas (to which, i.a., we target our offer).

Item 4.4.3. Competitive advantage

We are a leading integrated multimedia group in Poland. Together with our subsidiaries, we operate a diversified business comprising DTH, mobile and internet television, TV broadcasting, broadband Internet in HSPA+ and LTE technologies and mobile telephony services. We are the largest provider of DTH services in Poland.

With over 3.5 million subscribers as of December 31, 2012, according to our estimates we had more subscribers than all of our DTH competitors combined. We had a domestic market share of approximately 56% in 2012.

We have strong brand recognition and enjoy good reputation among our customers and viewers. Cyfrowy Polsat brand is well recognized by Polish consumers and we believe they are associated with high quality and value-for-money services aimed at the entire family. According to TNS, we have the highest top of the mind brand awareness (75%) of the pay DTH satellite operators in Poland (the percentage of customers in the target group, that without being prompted by the interviewer are able to quote the brand name, based on TNS "The world of pay TV and mobile Internet", August 2012).

The high quality of our products and services was proven by the second position in the annual ranking of "Puls Biznesu" journal's annual ranking "Listed company of the year" in the category of "the quality of products and services".

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 two leading pay DTH providers in Poland, we are the only operator that provides 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 provide Internet access services in LTE technology. As the first commercial supplier in Poland, in the third quarter of 2011, we started to provide broadband Internet access service in LTE technology, that currently enables the speeds of up to 150 Mb/s. 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 transmission 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.

We have frequencies enabling us to provide services in DVB-T technology. Through our subsidiary INFO-TV-FM Sp. z o.o. we own the rights to use frequencies from 470-790 MHz band assigned to provide mobile audio-visual media services in DVB-T technology. These frequencies enable us to offer pay TV services in another field of delivering entertainment to subscribers, being mobile television service, that is available in our offer on the most popular mobile devices, as well as on the latest in-house produced DVB-T set-top-box. Currently, there are around 5 million households and 15 million people within the technical reach of the multiplex. Providing services in DVB-T technology gives us also an important competitive advantage in the context of progressing digitalization and switch-off of the analog signal. Offering set-top-boxes for reception of digital terrestrial television with a package of additional channels at a very attractive price, we are able to attract a part of current viewers of analog TV, who, in order to continue to watch free terrestrial television, need to purchase a new TV set or acquire a suitable set-top-box.

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, as well as the sales network of our business partner – Plus mobile telephony operator.

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. In addition, since November 2012, we offer a new extended Family Max HD Package, currently comprising 87 channels, including 16 HD, at PLN 49.90 (1.3% average monthly remuneration). 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, in April 2010 we began to produce HD set-top boxes, and in 2012 started to produce DVB-T set-top-boxes. By the end of 2012, more than four million high technology equipment left our production line, out of which over 2.5 million were 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 the surveys, so that we can be sure the equipment will meet their needs. The fact that 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 increasing 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.

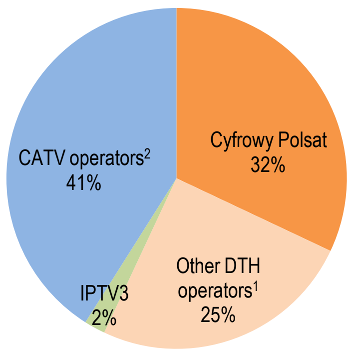
At the end of 2012, according to our estimates, Polish operators had in total approximately 11 million subscribers to pay-TV services. According to AC Nielsen data (Establishment Survey 2012) excluding the overlaps in households that use more than one pay-TV offer, the market penetration rate at the end of 2012 amounted to approximately 66% of households in Poland.

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 poorly developed 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 more than 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 2012)

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

[3] Based on own estimates and data published by operators (Annual reports of Telekomunikacja Polska S.A. Group and Netia S.A. for 2012)

In general, the Polish pay TV market is supervised by certain administrative bodies, such as the National Broadcasting Council, the Office of Electronic Communications and the Ministry of Administration and Digitalization.

DTH

In 2012, there were three main DTH platforms operating in Poland: Cyfrowy Polsat, Cyfra+, “n” platform. At the end of 2012, Canal+ Cyfrowy and TVN announce the finalization of strategic partnership agreement and start of the process of merging their platforms: Cyfra+ and “n” into one joint platform nc+. According to the information presented by TVN group, the new platform will have approximately 2.5 million customers. Since 2006, Cyfrowy Polsat has been the leader in terms of number of subscribers and market share in the Polish DTH market with over 3.5 million subscribers and approximately 56% of the domestic market share, as of December 31, 2012.

Cable TV

According to Polish Chamber of Electronic Communication ("PIKE"), the Polish cable TV market was dominated by three major operators with a combined market share of approximately 67% (data according to PIKE as of the end of the third quarter of 2012). According to PIKE, the total number of subscribers of domestic cable operators amounts to 4.6 million. In 2012, the three major Polish cable TV operators were: UPC Polska, Multimedia Polska and Vectra. In addition, according to our estimates, there are more than 500 small cable TV operators.

IPTV

The leading IPTV provider in Poland offering fixed line telephony services is Telekomunikacja Polska S.A., which started providing IPTV to its clients of broadband services in 2006. 119,000 Polish subscribers used IPTV services offered by Telekomunikacja Polska S.A. as of December 31, 2012 (according to data published by Telekomunikacja Polska S.A.). The second largest pay IPTV operator was Netia S.A. (that acquired Telefonia Dialog Sp. z o.o. in December 2011) and according to data published by this operator 79,285 customers used its television services (IPTV and services in smooth streaming technology introduced in the third quarter of 2012) as of the end 2012.

Item 4.5.2. Internet access 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. Mobile data transmission is currently the fastest growing telecommunications market segment. With the increasing number of mobile devices – smartphones and tablets – mobile Internet access services are becoming more and more popular.

The report of the Office of Electronic Telecommunications ("UKE") concerning the telecommunications market is usually available in the second half of the following year, that is why we present data for 2011.

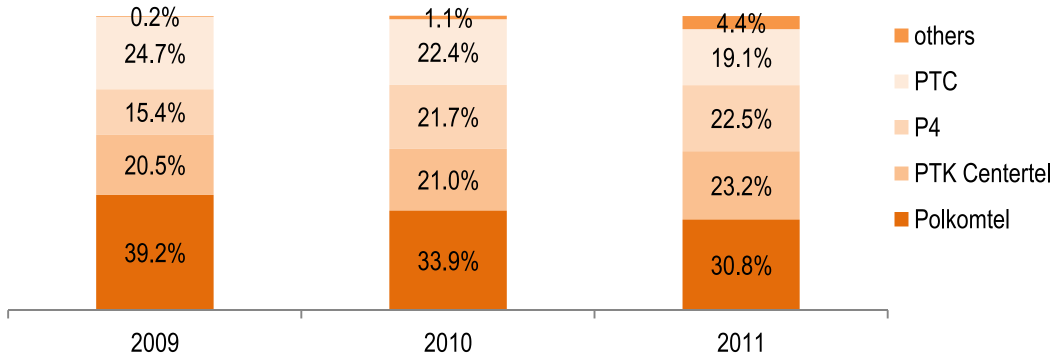
According to UKE ("Report on telecommunications market in Poland 2011", June 2012), in 2011, 74.4% of households in Poland had access to broadband Internet, while the penetration rate for 100 inhabitants was 26%. Almost 6.7 million residents of Poland had fixed connection to the network, while 3.3 million used mobile Internet service. Among one million new Internet users more than half purchased mobile service.

Based on European Commission data quoted in the "Digital Agenda Scoreboard 2011", Poland was ranked on the 9th position among EU countries in terms of mobile Internet penetration rate for 100 inhabitants. It amounted to 8.3%, which is by 0.2 p.p. more than the EU average (8.1%). The penetration rate of fixed broadband connection in Poland amounted to 17.3%, which is by 10.4 p.p. lower than the EU average (27.7%).

According to the UKE Report, the total value of the Polish Internet market measured by revenues from services amounted to almost PLN 4 billion (not in thousands) in 2011 and decreased by 1.8% compared to 2010. As a main cause for the decrease UKE reports the decline in the revenues from services based on xDSL connections by almost 10.7% (revenue of operators offering services based on other access technologies increased). The average monthly revenue per one user of Internet service (ARPU) in 2011 amounted to PLN 33.1, which is less by 12% compared to the prior year.

Based on UKE data, the market of mobile Internet access in 2011 continued to be dominated by four largest mobile network operators (together they covered 95.6% of the total customer base). However, the increase in competitiveness of other operators was clearly marked, with the four times growth of their share (including primarily the share of Cyfrowy Polsat).

The chart below presents the operators' market shares as a percentage of users of 2G/3G modems:



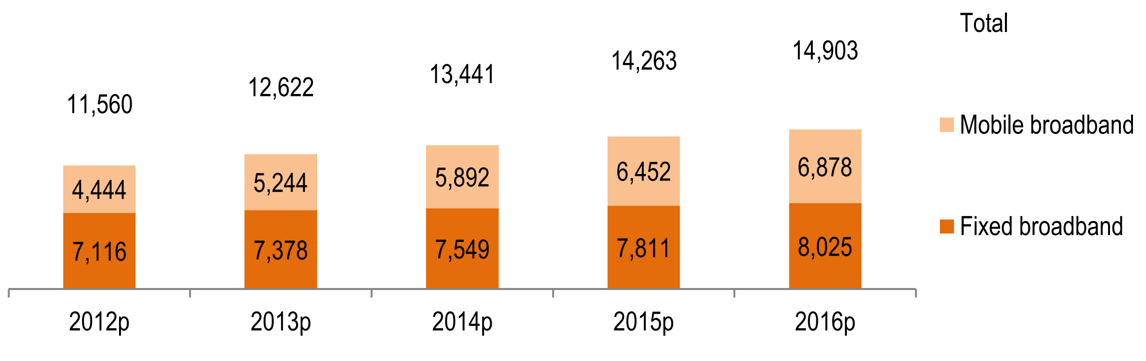
Source: UKE

According to PMR estimates ("Telecommunications market in Poland 2012 – Development forecasts for 2012 - 2016"), the market of data transmission, leased lines and Internet access services will continue to be the fastest growing segment of the telecommunications market. Further investments in development of broadband networks and the progress of LTE technology will have a crucial impact on the market. Until 2016, the market will grow at 3.5% CAGR and its value in 2016 will amount to PLN 7.9 billion (not in thousands), including Internet access segment of PLN 4.34 billion (not in thousands) and data transmission segment of PLN 2.30 billion (not in thousands). In 2016 the number of subscribers to broadband access services in Poland will increase to 14.9 million, with continued growth in the demand for mobile services.

PMR analysts explain the growing interest in mobile Internet i.a. by the decline in prices of mobile services and the expanding coverage of 3G network, that directly impacts the quality and continuity of the service purchased.

The expansion of the network based on new LTE technology, in which services are delivered by only two market players so far – Cyfrowy Polsat and Polkomtel – constitutes an additional driver for development and lowering prices of mobile Internet services. The LTE standard enables providing mobile services of data transfer speed and bandwidth of the network unreachable within the radio technologies used so far. According to experts, this technology may successfully replace the cable connections. The vast interest of the operators in suitable radio frequencies, and therefore in the tenders for 1800 MHz band and expected in 2013 tender for 800MHz band, also proves the attractiveness of providing mobile Internet services in LTE technology.

The chart below presents development forecasts of the broadband access services market (by the number of subscribers) in 2011-2016:



Source: PMR Report

According to PMR forecasts, in four next years, the number of users of mobile broadband access will grow faster that the number of users of fixed connections. The observed growth will amount to 11.5% and 3.1% (CAGR), respectively.

Item 4.5.3. Mobile telephony market

The mobile telephony services market is supervised and regulated by the President of the Office of Electronic Communications ("UKE"), who supervises and regulates the entire Polish telecommunications market.

The report of UKE concerning the telecommunications market is usually available in the second half of the following year, that is why we present data for 2011.

The Polish mobile telephony market is mature. Based on UKE data, the penetration rate of the mobile telephony market, calculated based on the number of SIM cards, increased in 2011 by 8.4 p.p. and amounted to 131.6%, which translated to 50.1 million SIM cards used by customers. According to UKE, mobile telephony consumer base in Poland has already been largely covered and the increase in the number of active SIM cards in the coming years will depend primarily on the customers choosing to have more than one mobile phone.

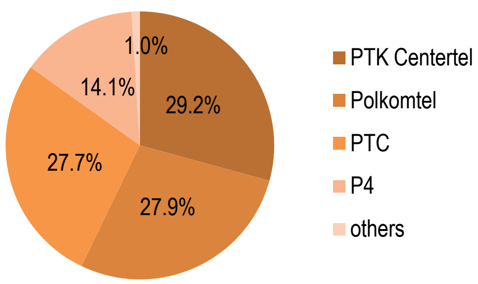
In 2011, the estimated value of the mobile telephony market in Poland, based on revenue generated by operators for retail services, was slightly over PLN 19 billion (not in thousands) and was by approximately 0.6% higher than in 2010 (according to UKE). More than 80% of the revenue was generated by customers of post-paid services. Average revenue per user of mobile telephony decreases systematically mainly due to reductions in MTR.

The Polish mobile telephony market is relatively concentrated and highly competitive. It 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.

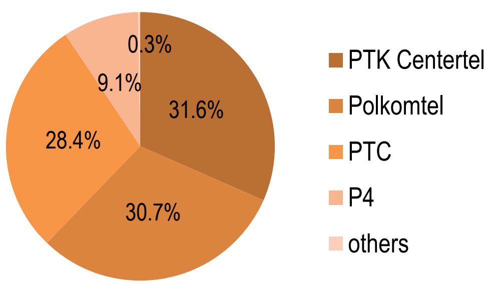
There are three leading MNOs in Poland: Polkomtel S.A. (Plus network), PTK Centertel Sp. z o.o. (Orange network) and PTC Sp. z o.o. (T-Mobile network) as well as four smaller providers P4 Sp. z o.o. (Play network), CenterNet, Mobyland and Aero2. In addition there are over a dozen MVNO operators, whose total market share, however, does not exceed 1% both in terms of revenue as well as the number of users (based on UKE data).

The charts below present the operators' market shares at the end of 2011:

Share by the number of users



Share by revenues



Source: UKE, "Report on telecommunications market in Poland 2011"

Item 4.5.4. Bundled 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 June 2012, penetration rate of multi-play services market (defined as more than one service within an offer of one operator) in Poland amounts to 28%, while in European Union reaches 43%, and in the Netherlands and Belgium even over 60% (64% and 61%, respectively).

According to the report of the Office of Electronic Communications ("The market of multi-play services in Poland and UE countries"), the Polish multi-play services market develops dynamically, which is reflected in continuous growth in the number of subscribers – it amounted to 2.6 million at the end of 2011, which was by 23.5% more than in 2010.

Currently, triple-play services, that include TV, Internet and telephone services, are offered by cable-TV operators, such as UPC Polska Sp. z o.o., Multimedia Polska S.A. and Vectra S.A., telecommunications operators, such as Orange Group (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. Since 2011 TVN S.A. and Telekomunikacja Polska S.A. (TP) cooperate within offering their services – Internet (TP) and TV packages ("n" platform). In the middle of 2012 Cyfra+ platform launched cooperation with Play network operator and started to sell Internet access services of the operator. At the end of the year, TVN S.A. Group and Canal+ Cyfrowy Sp. z o.o. finalized the agreement concerning the merger of their DTH platforms, and the cooperation with TP is supposed to be maintained and extended to joint nc+ platform. The growing group of companies controlled by Zygmunt Solorz-Żak, including Cyfrowy Polsat S.A. Capital Group and Polkomtel Sp. z o.o. acquired in 2011, also has an impact on the development of the multi-play services market. In 2012 the companies announced the launch of cooperation and began to cross-sell their services.

Item 4.6. Offer

Item 4.6.1. DTH offer

Currently, for the new clients of Cyfrowy Polsat we offer: three introductory packages: Mini HD Package, Family HD Package and Family Max HD Package and additional packages: Film HD, Sport HD, HBO HD, Cinemax HD and Entertainment HD, as well as Premium promotion enabling subscribers to profit from the full television offer. In addition we offer to our subscribers VOD rental on television or computer and access to internet service Online Entertainment, within which subscribers can watch online channels or reruns of selected materials (within catch-up TV), new functionality is the access to popular internet services HBO GO and ipla. Moreover, we offer Multiroom HD service.

Our programming strategy is to offer a wide range of programming packages with 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 120 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 2012 in the commercial group 16-49 (Nielsen Audience Measurement). Currently, we enable access to 36 HD channels.

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

Family Max HD Package is a novelty in our offer (introduced at the end of November 2012) and is characterized by the most attractive price to value relation. To the lowest market segment, we target our popular Mini HD Package.

Our subscribers to pay-TV packages can either rent or buy a set-top-box from us. The price and availability of equipment depends on the chosen option of the subscription agreement.

Mini HD Package

The Mini HD Package is an introductory package that currently provides subscribers with access to 32 Polish TV channels (including 6 HD channels) 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.

Family HD Package

Our Family HD Package is an introductory package that currently provides subscribers with access to 67 Polish language channels (including 10 HD channels) 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.

Family Max HD Package

Our Family Max HD Package is our new, enriched package, introduced at the end of November 2012, that currently provides subscribers with access to 87 Polish language channels (including 16 HD channels) and all TV and radio channels available via Hotbird satellite (FTA channels). This package is characterized by the most attractive price to value ratio and eventually is to replace Family HD Package as an introductory package. Currently, the monthly fee for Family HD Package is PLN 49.90 for a fixed term.

Additional packages

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

Additional packages	No. of channels	Price
Film HD Package	18*	PLN 10
Sport HD Package	10*	PLN 10
Cinemax HD Package	4	PLN 15
HBO HD Package	6	PLN 25
HBO Cinemax HD Package	10	PLN 40
Entertainment Package	4	PLN 25

*Including channels available promotionally.

Premium Offer

For demanding clients we have an offer including all linear channels and, since November 2012, also Super Premium offer enriched by new, very attractive online services ipla and HBO GO. The benefit of Premium offer is the monthly subscription fee lower than the sum of the monthly fees for separate packages included in it.

Flexible offer

Through introducing flexibility to our offers, we intend to give clients the possibility to better test our programming offer, for example, a client choosing any programming package gets a present from us in form of higher package or additional package for a period of up to 6 months (subscribers to Family Max HD Package can get access to Sport HD and/or Film HD Packages). Moreover, thanks to flexibility, clients can better manage their costs related to television services.

Multiroom HD

Moreover, we offer our subscribers Multiroom HD service, that enables to access the same range of TV channels on two TV-sets within one household. The service is delivered based on set-top boxes manufactured by our factory. We provide Multiroom HD service to the subscribers from Family HD Package at the promotional prices starting from PLN 5 to PLN 15 per month depending on the purchased programming package.

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, CNBC, Bloomberg, ZDF, Rai News 24 and nine leading radio channels.

VOD Home Movie Rental

We offer our subscribers access to 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 does not require a storage disc in the set-top box or a recording functionality, however, it is available to the subscribers with HD set-top box. 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" service in "on TV-set" option consists of 20 satellite channels with approximately 50 movies available per month. Our subscribers are able to choose from 20 movies daily. We update our offer within "on TV-set" option 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. 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 service "on PC" enables subscribers to Cyfrowy Polsat the access on a computer to movies from the offer of our internet television ipla at special prices. Currently we propose our subscribers pay access codes to over 950 movies, that our subscribers can watch on their computers. The films are offered at prices ranging from PLN 4.00 to PLN 8.50 and include approximately 15% 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.

Online Entertainment

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 "Reruns" ("Powtórki Programów"). 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 27 TV channels. "Reruns" service is available within the price of the chosen TV package. Moreover, within the service "Channels Online" ("Kanały Online") we provide our subscribers with a possibility to watch live selected channels through the Internet without any additional charges (5 channels available). Both services are provided based on the technology of ipla.

Online Entertainment service also provides our subscribers with access to the library of our ipla internet television, and the subscribers to HBO HD Package – with access to HGO GO – internet video on demand service with movie hits and own productions of HBO. Within current promotion we offer iplaEXTRA package for all our subscribers within the subscription fee, the subscribers to premium packages get additionally iplaSPORT and/or iplaPremiery package. Moreover, all subscribers can profit from reduced prices on all ipla packages.

Item 4.6.2. Mobile pay TV offer provided in DVB-T technology

We strive to take an active part in the ongoing digitalization process in Poland. Therefore, we introduced to our offer modern and functional set-top-boxes for reception of digital terrestrial television. We offer clients not only high quality in-house produced equipment but also a package of additional channels.

In June 2012, we expanded our service portfolio to include an innovative product – Mobile TV in the DVB-T standard. As part of the Mobile TV service we offer the paid Ekstra Package of 20 encrypted channels – 8 TV and 12 radio channels. It includes channels from four thematic categories, including sports: Polsat Sport and Polsat Sport Extra, movies: Polsat Film, Kino Polska, TVP Seriale, Comedy Central, news: Polsat News, and children: Nickelodeon, as well as radio stations, including Radio Zet, Antyradio, Radio Plus, RMF FM, RMF MAXXX, Radio TOK FM, Radio ROXY FM, Radio Złote Przeboje, Eska Rock, Radio PiN, Radio Bajka, Moje Polskie Radio. The Ekstra Package is also available for owners of our "home" set-top boxes for receiving digital terrestrial television (T-HD 1000). Set-top boxes for the reception of terrestrial signal additionally enable access to FTA channels broadcast within three digital terrestrial television multiplexes, including: Polsat, TVN, Polsat Sport News, TV4, TVP1, TVP 2, TVP Info, TVP Kultura, TVP Historia, TVP Polonia, TVN 7. T-HD 1000 set-top-box was additionally equipped in ipla application, and since March it also supports our pay-per-view service.

The reception of real-time television as part of the Mobile TV service on mobile devices is enabled by a mobile set-top box M-T 5000, connected through the WI-FI network to a terminal, e.g. a smartphone, tablet or notebook. As the service is available in the DVB-T standard, its use does not require internet access, which means that it does not generate any data transfer and hence any related payments.

The Ekstra Package with the set-top box for receiving digital terrestrial TV is provided either on a subscription or a prepayment basis. Currently, new customers may purchase the Ekstra Package on a subscription basis at a discount price, starting from PLN 9.90 monthly. The set-top boxes: T-HD 1000 for PLN 1 and mobile M-T 5000 for PLN 99, providing also access to FTA DVB-T channels, become the property of the customer. Additionally, customers are granted up to 6 months of access to the Ekstra Package free of charge, depending on the term of agreement.

At present, in the prepayment offering, the customer pays a one-off fee for the set-top box: PLN 329 or PLN 119 for the mobile M-T 5000 or the T-HD 1000 one, respectively. In both cases, the customer is granted a 6-month access to the Ekstra Package for free and, additionally, may receive FTA digital terrestrial TV channels through the purchased device. After the promotion ends, the customer may continue to use the Ekstra Package, paying PLN 19.90 monthly, in accordance with the price list, or use a promotion for the purchase of a pay service, or watch only FTA digital terrestrial television channels.

We also sell our DVB-T set-top-boxes in cooperation with external partners. We establish partnerships with the largest sales networks such us Electro World, MixElectronics, Carrefour and Auchan. The offer at our partners may differ from the one at our points of sales (we only recommend retail price).

Item 4.6.3. Internet access offer

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

Launching our LTE services, we proposed an universal offer, including access to Internet service in both technologies – LTE and HSPA+, 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.

We offer data packages of various sizes, adapted to different needs and advancement of users. The offer is affordable for every budget. For only PLN 14.90 monthly fee clients can profit from the latest Internet technology. Within the monthly subscription fee[*], the client get “Darmowe noce” (“Nights for free”) option, which gives more liberty to use Internet.

Everybody who intends to buy LTE Internet at Cyfrowy Polsat with equipment on lease or without the equipment, may profit from “7 trail days” enabling to try the service and possible return of equipment.

Once a package is used up, the subscriber can still profit from Internet access with unchanged parameters – both during the day and at night – 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. Modems: Huawei E398, Huawei E3276 (enabling downloading speed of up to 150 Mb/s) and ZTE MF821 support 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, netbook 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 data packages without the need to purchase the equipment.

We also offer a promotion in which clients can purchase Internet access with laptop or tablet. We constantly develop the offer of devices available in this promotion.

For internet clients being simultaneously subscribers to our TV offer we provide additional benefits. Subscribers to TV packages can sign a separate agreement for Internet service and every month get an additional data package of up 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 4.6.4. Mobile telephony offer

We have been operating in the mobile telephony services market as an MVNO since 2008. From the beginning we have regarded these services as complementary to pay TV and then also broadband Internet services and we have had no intention to compete with domestic mobile operators by promoting an offer on a stand-alone basis. Therefore, following the cooperation with Polkomtel Sp. z o.o. established in April 2012, we have resigned from active selling of own mobile telephony services in MVNO model, in order to provide clients with a stronger telephony offer of Plus mobile telephony. Thanks to the cooperation, we offer our subscribers special offer of Plus network, and subscribers to Plus telephony can profit from our offer dedicated to them. New clients, that did not use any services of neither company, can purchase a bundle offer and receive additional advantages within both services.

Item 4.6.5. Bundle services offer

The multi-play offering is designed for new and existing subscribers, who can add broadband Internet to their TV package at any time during the term of agreement. Subscribers to both services are granted an additional data package (of up to 5GB) for free.

As part of the bundle service scheme, our subscribers may also benefit from a dedicated Plus mobile telephony offering. Subscribers to Cyfrowy Polsat may purchase Plus offer and receive a special bonus. Also the clients of Polkomtel who decide to profit from our offer get an additional present from us. New subscribers who decide to purchase Cyfrowy Polsat’s TV services and Plus telephony services receive a double benefit.

Moreover, Cyfrowy Polsat customers are granted special terms on using our ipla internet TV resources, which can be purchased at attractive discounts.

Our subscribers may also enjoy special terms on our Mobile TV service and the Ekstra Package in the DVB-T standard. Having entered into an agreement, our subscribers will pay a monthly fee of PLN 9.90 instead of PLN 14.90.

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[*] Available in some options

We currently view our bundle services 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. Sales and marketing, 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 and online advertising for dedicated products or promotions. Additionally, our website is an important communication channel with new and prospective subscribers. Moreover we communicate with our subscribers using our subscribers channel, telemarketing, prints on letters/envelopes and through our Internet Customer Service Center.

Item 4.7.2. Sales

Digital TV products and services sales network

We sell our services through 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, 2012 our sales network included 827 points of sales. In addition, from April 2012, within cooperation with Plus network operator we run cross selling of services. Thanks to that our standard offer, as of the end of 2012, was available in additional almost 800 points of sales of Polkomtel Sp. z o.o. network.

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

As of December 31, 2012, subscribers could sign up for our broadband Internet service in approximately 780 authorized points of sale which are located in the areas where we are technically able to provide our broadband HSPA and LTE Internet services and through one of our door-to-door sales agents in 18 regional offices.

Sales of mobile telephony services

Customers may subscribe for mobile telephony services in almost all of our authorized points of sales. However, as a result of the cooperation with Polkomtel (a leading mobile telephony operator) conluded in April 2012, we have resigned from the active sale of our own mobile telephony services within MVNO model, in order to propose the customers stronger offer of Plus telephony. As of December 31, 2012, the offer of Plus was available in over 700 points of sales within our network.

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. For the customers willing to have access to their account through the Internet we propose in addition Internet Customer Service Center, where, after logging in, customers can check the status of purchased services, payments, subscribed packages, dates of payments and much more.

Online

Our website plays an important informative role to a growing number of subscribers as well as prospective subscribers. It provides users with an opportunity to familiarize themselves with our programming, multimedia and telecommunication offers, order selected equipment together with a package of their choice or to locate our nearest point of sale.

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 post or bank orders, check technical specifications of their set-top boxes, print the relevant user manual, restore signal transmission, restore the factory PIN settings of their set-top box, process electronic payments as well as contact us through our contact form. 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.

We also provide the users of our website with a daily updated TV guide with the programming of over 365 channels. The service accompanied by editorial in which we recommend the most interesting in our opinion programming positions and enable sorting the scheduling according to users' criteria.

Our existing subscribers may also use our website to buy additional data packages within Internet access service, find information about current VOD offer and purchase selected video. In addition, through our portal, our subscribers have access to Online Entertainment section, in which they can watch chosen programming or selected channels online, as well as profit from the packages of ipla internet television at reduced prices, and the subscribers to HBO HD Package – use the pay service HBO GO.

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 700,000 pieces of equipment. 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 – pay-TV

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.

Moreover, we cooperate with Irdeto to secure the digital content transmitted using DVB-T technology. Irdeto provides us with a conditional access system with the necessary technical support, as well as specialized and complete Internet monitoring enabling collection and analysis of occurrences that may infringe copyrights of entities in our Group.

Satellite

We entered into satellite capacity contracts with Eutelsat. The contracts involve three transponders dedicated to SD and one transponder dedicated to HD signal. The contracts expire in 2016 and we have the right to extend the agreements for additional successive seven-year periods. In 2012 we extended the agreements with Eutelsat by additional transponders – since August 2012 we lease half of the capacity on the fifth transponder (for HD channels) and since May – a part of transponder, that we use for mobile television purposes. New agreements were concluded for five-year periods expiring in 2017.

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. In 2012 we conducted a further modernization of the emission systems, which will enable the playout of even up to 100 channels. It is equipped with up-to-date integrated video, audio and information systems and is used to broadcast SD and HD TV 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 2013 we will begin equipping the uplink backup broadcasting center with the transmitting devices.

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.

Services provided in DVB-T technology

Our "Mobile TV" services are provided in DVB-T technology within the multiplex dedicated to mobile digital television, on 470-790 MHz frequencies (assigned to provide mobile audio-visual media services including broadcasting of radio and television nationwide channels) owned by our subsidiary INFO-TV-FM Sp. z o.o. For the broadcasting of channels we use the infrastructure of INFO-TV-OPERATOR Sp. z o.o., that comprise the network of radio transmitters in 31 largest cities in Poland. Currently, there are around 5 million households and 15 million people within the technical reach of the multiplex.

Set-top boxes

To reduce our costs, we began manufacturing our 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.

So far, eight models of set-to-boxes have left our production line: four models enabling reception of standard quality signal (MINI, Familijny, F300 and M100) and four models enabling watching high-definition television (HD 5000, HD 6000, MINI HD 2000, HD 3000) and HD T-1000 in DVB-T standard, as well as a 320 GB USB hard drive (DTU 320).

In 2012, we equipped selected models of set-top-boxes produced in-house with ipla application, enabling access to the content of our internet television after connecting the set-top-box to the Internet. Moreover, we enriched our offer in Multiroom service on HD set-top-boxes (the services was available on SD set-top-boxes since October 2011).

Set-top boxes manufactured in-house represented over 85% of overall set-top boxes that we sold or leased to our subscribers in 2012. As of the end of 2012, in our factory already a total of over 4 million set-top boxes were manufactured, including over 2.5 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.

We also cooperate with Valups Cooperation, that supplies us with pocket M-T 5000 set-top-boxes enabling reception of “Mobile TV” in DVB-T technology.

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 access service

Network

Our broadband Internet access services are based on a radio infrastructure provided by companies of Midas S.A. capital group (Mobyland, CenterNet, Aero2) and Polkomtel. Under the agreement with Mobyland, we have access to mobile data transfer services on 1800MHz and 900MHz bands in LTE and HSPA+ technologies, whereas under the tripartite agreement with Mobyland and Polkomtel Sp. z o.o. we have access to mobile data transfer service on 900 MHz and 2100 MHz frequencies in EDGE/GPRS and HSPA technologies.

Our HSPA+ network on 900MHZ has a maximum transfer speed of 21 Mb/s (28.8 Mb/s with MIMO) for data received from the Internet and 5.7 Mb/s for data sent by a user. By using HSPA+ MIMO, we increased the transmission speed to 28.8 Mb/s. The 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 aggregate data transfer rate, better quality and better frequency use. It enables the use of all Internet functions including web browsing, file uploading and downloading, movie playing, HD and 3D transmissions.

Since 2011, as the first commercial provider in Poland we offer broadband Internet access 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, that has been constructed since 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 transmission 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 150 Mb/s for data received from the Internet and 50 Mb/s for data sent by a user.

According to data published by our supplier, as of the date of the publication of this report, LTE and HSPA network covers over 50% and over 90% of the population in Poland, respectively. The network is being rapidly expanded. The mobile LTE Internet network is planned to cover 66% of Poles, eventually.

In addition, since August 2012, based on the cooperation with Polkomtel Sp. z o.o. we enable our subscribers the use of the operator’s 3G and 2G radio networks on 2100 MHz and 900 MHz frequencies in HSPA and EDGE/GPRS technologies, that has a nationwide coverage.

In January 2012, 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 Mbit/s on the move (ex. driving) and 1 Gbit/s stationary (through mobile network). The term 4G remains undefined, but it is still used by operators using LTE, HSPA+ or WiMax technologies.

Internet equipment

We offer technologically advanced modems, routers and tablets enabling broadband access to the Internet. 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 equipment and the greater the choice of available types of modems.

To provide our broadband services in LTE technology, we use a latest technology modems, that operate also in HSPA/HSPA+ and EDGE/GPRS technologies. Thanks to this solution, with one modem, Cyfrowy Polsat clients can use our Internet service in both LTE and HSPA/HSPA+ technologies as well as in EDGE/GPRS nationwide network. Currently we offer three such modems:

- new modem Huawei E3276, introduced in 2012, enabling data transfer speed of up to 150 Mb/s;
- earlier, Huawei E398 modem with maximum data transfer speed of 100 Mb/s;
- ZTE MF821 with maximum data transfer speed of 100 Mb/s.

In the offer of modems servicing HSPA technology we also propose the following models: in-house produced Cyfrowy Polsat's B150 modem, and purchased ZTE MF668, ZTE MF669, Huawei E367, Huawei E182E/Huawei E182E MIMO.

The modems are compatible with all portable and desktop PCs equipped with USB 2.0 port, and serving most of the leading computer software. The equipment is offered also in sets comprising an external magnetic antenna (windowsill) or a "chimney" antenna on customer's request. The use of antenna enhances the quality of received signal and increases the range of the service, and improves data transfer speed.

Moreover, we offer our subscribers the first on the market tablet, that is equipped with a module supporting LTE technology up to 100 Mb/s speed – Samsung Galaxy Tab 8.9 LTE. The device supports also HSPA+ technology. We also offer two other models of tablets: Manta MID9701 9.7'' Wi-Fi and Ferguson S3 Wi-Fi DVB-T (with built-in DVB-T tuner and GPS function), and Acer Aspire E1 laptop with Windows 8 operating system, that supplied with a modem enable fast and easy Internet access.

In our offer we also have several models of routers, including the first mobile router ZTE MF60, that supports HSPA+/HSPA/UMTS/EDGE/GPRS technologies.

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 mobile telephony services, realized in MVNO model, are provided in 2G and 3G systems and are based on GSM/UMTS/HSPA radio interface of our partners – MNO operators. The services include voice calls, SMS, MMS as well as GPRS/EDGE/UMTS/HSPA data transmission. Our subscribers may also use international connections and international roaming service.

Item 4.9. Development prospects

We believe that the Polish pay TV market still has some growth potential, related primarily to the transition from analog to digital television and the following need of supplying households with suitable reception equipment. Thanks to our satellite and terrestrial 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. Moreover, our programming packages offer the best value-for-money in the Polish DTH market. We believe, that it gives us a chance to attract the significant portion of the potential new clients to our platform.

We further believe, that we can significantly expand the pay TV market by adequately responding to changes in the customers behaviors and expectations and addressing new target groups. With the development of the market and technologies, the choice of devices, for which we can produce and distribute television content, has grown significantly. The number of mobile equipment, like laptops, tablets and smartphones, held by customers increases rapidly. In this group we see the perspective market segment, inter alia for TV services. Furthermore, we see the potential for the market growth in the group of Polish households equipped in more than one TV set as well as in the low ARPU market segment.

We consider the combination of traditional television with VOD, on-line video services and mobile television to be the key to the future growth. We believe we can seize the potential market expansion by developing our pay TV offer enriched by complementary products and services.

Our “Mobile TV” service provides viewers with the access to TV channels on portable devices, answering customers’ expectations and market trends. We believe mobile services have a large growth potential in Poland. The growing availability of smartphones and tablets as well as increasingly faster and more reliable technologies of mobile Internet access, such as LTE, will have an important impact on the development of this market segment, and we intend to take an active role in this process. “Mobile TV” service is delivered in DVB-T technology within a multiplex dedicated to digital terrestrial television. The advantage of this technology is its low cost for the user as the only requirement is to have a DVB-T tuner which does not generate data transfer.

We further believe, that thanks to services in DVB-T technology offered at attractive prices, we will manage to attract the households that currently use the free analog signal and following the progressive switch-off of the analog signal face the decision concerning the purchase of equipment necessary to receive digital television signal. The factor, which in our opinion, attracts customers to our offer is, next to the package of additional channels, the offer of in-house produced high quality set-top-boxes.

Provided by us LTE Internet 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. In addition it has the advantage of mobility, which is increasingly more desired by consumers. 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. We believe, our LTE Internet service constitute a significant competitive advantage and it will help us to further increase our subscribers base both of stand-alone and integrated services. Technical reach of LTE network is growing systematically and with its expansion we can expect the growth in the number of subscribers to our service.

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.

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, 2012, 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 industry. 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

Purchase of data transfer services from Mobyland Sp. z o.o.

On January 23, 2012, the Company placed with Mobyland Sp. z o.o. ("Mobyland") an order for data transfer services. The order was placed under the provisions of the agreement between both parties concluded on December 15, 2010. Under that agreement, Mobyland provides the access to wireless data transfer service, based on 1800MHz and 900MHz bands in LTE and HSPA+ technologies, respectively.

This order was the second one and included the purchase of 13 million GB of data transfer service with the guaranteed utilization period till December 31, 2015, with a possible extension of the term. The net price of 1 MB is PLN 0.00774 (not in thousands).

On September 28, 2012, we signed with Mobyland a memorandum of understanding concerning the agreement for the provision of data transfer services, that defines the terms of settling the unused data packages from the first two orders together with a new – third order. As a result, all packages purchased so far and not used will be settled at a new, lower rate of PLN 0.00645 net (not in thousands) per 1 MB.

The new package of 31 million GB includes unused by us data packages from orders no.1 and no. 2 and additional 10.4 million GB. We believe it is an optimal volume of data package acquired at an optimal price, and it guarantees a chance to achieve our medium term business goals.

Submitting order no. 3 enables us to achieve our business objectives over the medium term, and the lower rate for 1MB allows us to present even more attractive offering for our customers, contributing to a faster rate of subscriber acquisition in the future and improvement of margins generated from the telecommunications services.

Finalization of acquisition of INFO-TV-FM Sp. z o.o.

On January 30, 2012, 100% shares in the share capital of INFO-TV-FM Sp. z o.o. (INFO-TV-FM) were transferred to the Company following the fulfillment of all conditions precedent included in the acquisition agreement with Narodowy Fundusz Inwestycyjny Magna Polonia S.A. and Evotec Management Limited dated October 28, 2011. The fair value price of the acquisition amounted to PLN 29,313,202.19 (not in thousands).

The agreement for the acquisition of shares in INFO-TV-FM was concluded in order to further implementation of the Group's strategy aiming at the widest possible content distribution based on all latest technologies. Upon the acquisition of INFO-TV-FM, the Company acquired frequencies on 470-790 MHz and reservation agreements related to them. Based on these assets, we have expanded our business by mobile television service and a pay Ekstra Package offered within digital terrestrial television, which fits well with both our business plans, market development trends and customers' expectations.

Acquisition of internet television ipla

On March 12, 2012, the Company concluded with Bithell Holdings Ltd. agreements concerning the acquisition of shares in the companies running ipla service, the leader in online video distribution in Poland. The agreements concerned the following shares:

1. 100% shares in Redefine Sp. z o.o. seated in Warsaw;
2. 100% shares in Gery.pl Sp. z o.o. seated in Warsaw (in liquidation);
3. 100% shares in Frazpc.pl Sp. z o.o. seated in Warsaw;
4. 100% shares in Netshare Sp. z o.o. seated in Warsaw.

The price for shares in the companies abovementioned and the amount necessary to repay ipla's current bank and trade liabilities amounted to PLN 150 million (not in thousands); cash consideration transferred amounted to PLN 43 million (not in thousands. The transfer of the legal rights to the acquired shares was effectuated on April 2, 2012.

The purchased entities run ipla, the leader of online video market in Poland in terms of: availability on different devices - PCs, laptops, tablets, smatrphones, connected TVs, game consoles, home cinemas and set-top-boxes; content library, thanks to programming deals with TV Polsat, TVP and film studios (i.e. Warner Bros, Disney, Best Film, Kino Świat, Epelpol Entertainment); number of users and time spent by user on watching video online.

The acquisition of ipla completes the Company's strategy of which an important element was the acquisition of TV Polsat, aiming at providing the best quality content using most advanced devices and technologies. Ipla, being the leader on online video market, strengthens Cyfrowy Polsat's market position as a content aggregator and distributor and provides a competitive advantage in the developing market segment.

Launching cooperation with Polkomtel Sp. z o.o.

The Company has established cooperation with Polkomtel Sp. z o.o., the leading telecommunications company operating Plus mobile network, within the introduction of package offer and cross selling of standard products. The agreement is effective from April 2012.

As a result of this cooperation, Cyfrowy Polsat began to offer its subscribers a special offer of mobile telephony services rendered by Polkomtel, and Polkomtel's customers can profit from dedicated offer of the largest satellite TV platform in Poland. New customers can get a joint offer and receive additional benefits with both services. At the same time standard offers of Polkomtel and Cyfrowy Polsat were introduced to both sales networks.

As of the end of 2012, the cross-selling included almost 800 points of sales of Polkomtel's network and over 700 points of sales of our network, while the additional benefits to the customers of both satellite TV of Cyfrowy Polsat and telephony of Plus are provided in the entire sales networks of both companies.

The cooperation of Cyfrowy Polsat and Polkomtel means more attractive offers of both companies, additional benefits for the users buying services from both operators, increased sales potential due to the possibility to reach the partner's subscribers with an attractive product, increased availability of services of both operators through cross selling and customer service in the points of sales as well as consequently, increased customer satisfaction and loyalty.

Thanks to established cooperation, we can combine the purchase potential of approximately 14 million customers of Polkomtel, who get access to television services, and more than 11 million people in over 3.5 million Polish households currently using Cyfrowy Polsat's services.

The letter of intent with Polkomtel Sp. z o.o.

In August 2012, we have concluded a letter of intent with Polkomtel, based on which we have started to provide the internet access service within the operator's 3G and 2G radio networks on 2100 MHz and 900 MHz frequencies in HSPA and EDGE/GPRS technology, that has a nationwide coverage. On January 31, 2013we have signed a tripartite agreement, based on which Mobyland Sp. z o.o. took over the rights and obligations of Polkomtel arising from the letter of intent. Since then, the use of Polkomtel's telecommunications network is executed through Mobyland.

Insurance agreements

In 2012 the Company signed insurance agreements described below.

Property insurance with PZU S.A. in co-insurance of STU Ergo Hestia: insuring assets against all risks, electronic equipment insurance, insuring machinery against damages, loss-of-profit insurance, insuring assets in domestic transport (cargo) and insuring assets in international transport (cargo).

Third-party liability insurance: third-party liability insurance, including professional liability insurance with PZU S.A. in co-insurance of STU Ergo Hestia, bookkeeping liability insurance with PZU S.A., Directors and Management Board liability insurance with AIG Europe Limited Sp. z o.o. Branch in Poland (former Chartis Europe S.A.).

In 2012 the Company purchased fleet motor insurance with STU Ergo Hestia S.A. and assistance insurance with Europ Assistance Polska Sp. z o.o.

The agreement concluded in 2008 with AIG Europe Limited Sp. z o.o. Branch in Poland (former Chartis Europe S.A. and AIG Europe S.A. Branch in Poland) for the period of 6 years concerning third-party liability insurance relating to public securities offering was still in force.

Moreover, international business travel health insurance was concluded with ACE European Group Limited Sp. z o.o. Branch in Poland.

Item 6. Presentation of operating and financial results

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

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

Retail subscription revenue

Retail sales consists primarily of (i) monthly subscription fees paid by our pay digital television 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 Internet and mobile telephony services and (vi) fees for extra services such as nVoD. The total amount of pay digital television 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, tablets, laptops, 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 within Internet and telecommunications services purchased by the subscriber and the duration of the agreement.

Other revenue

Other revenue sources consist primarily of revenue from:

- (i) transmission services;
- (ii) the lease of premises and facilities;
- (iii) revenue from marketing and advertising services;
- (iv) revenue from phone calls to call center;
- (v) revenue from cable, satellite and internet TV operators; and
- (vi) other services.

Item 6.2. Sources of other operating revenue

Other operating income consists of:

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

Item 6.3. Sources of operating costs

Operating costs consist of:

- (i) programming costs,
- (ii) distribution, marketing, customer relation management and retention costs,
- (iii) depreciation, amortization and impairment,
- (iv) salaries and employee-related costs,
- (v) broadcasting and signal transmission costs,
- (vi) cost of settlements with mobile network operators and interconnection charges,

(vii) cost of debt collection services and bad debt allowance and receivables written off,
(viii) costs of equipment sold and
(ix) other costs.

Programming costs

Programming costs consist of:

(i) monthly license fees due to television broadcasters and distributors and
(ii) royalties due 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 the distributors consisting of the amounts due both to distributors and retail points of sale when they conclude sale or retention agreements with our subscribers for pay television, broadband Internet and mobile telephony services and (ii) costs of courier services, distribution of reception equipment 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 centre costs 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 (excluding salaries and social security contributions of factory employees, which are included in the costs of manufacturing the reception equipment and salaries and social security contributions relating to employees directly involved in the production of TV programmes which are presented as part of the costs of internal TV production) 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 conditional access system based on the number of access cards; and
(iii) other signal transmission costs.

Cost of settlements with mobile network operators and interconnection charges

Cost of settlements with mobile network operators and interconnection charges include costs related to MVNO services – domestic and international roaming and InterConnect (depending on the number of connections, text and multimedia messages realized) as well as costs related to internet services – costs of data transfer service.

Cost of debt collection services and bad debt allowance and receivables written off

In this group of costs we present:

(i) bad debt recovery fees, previously included in distribution, marketing, customer relation management and retention costs,

(ii) bad debt allowance and the cost of receivables written off, previously included in other operating costs.

Cost of equipment sold

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

Other costs

Key items of other costs include:

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

Item 6.4. Sources of other operating costs

Other operating costs consist of:

(i) inventory impairment write-downs,
(ii) other costs not related to the ordinary operations and the ordinary course of business.

Item 6.5. Factors and occurrences that impacted our business and results in 2012

Macroeconomic environment

In 2012, despite slightly slower economic growth compared to two previous years, Polish economy maintained one of the highest GDP growth rate in the European Union, proving to be stable facing the negative events in the world and in Europe, which were economic instability of many countries and crisis in the Euro zone. According to initial estimates of Central Statistical Office, in 2012, Polish GDP increased by 2%, while average GDP growth in 27 countries of the European Union was negative and amounted to -0.3% (according to Eurostat). In addition, a further increase in salaries and private consumption was observed (although much slower especially in the second half of the year). For us it translated into our customers still being willing to choose additional packages and services offered by us, that resulted in an increase in ARPU.

Exchange rates fluctuations

Our functional and reporting currency is zloty. Our revenues are expressed in zloty, while approximately 35% of our operating expenses (in 2012) were denominated in currencies other than zloty, mainly US dollars and euro.

Foreign exchange rate movements impact our gains and losses on investment activities 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 Senior Notes, that we offered, 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 Notes.

In 2012 Zloty weakened against the US dollar by 10% and weakened against the euro by 2% (based on annual average exchange rates announced by the National Bank of Poland).

We do not have any impact on the development of exchange rates in the future, consequently foreign currency fluctuations will continue to have an impact (positive or negative) on our costs.

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

Competition on DTH market

Our market is very dynamic and competitive. In 2012 there were 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+’. The end of November 2012 saw the finalization of the agreements concerning the strategic partnership. The introduction of the joint offer is expected in 2013.

Increased competition on the market (also consolidation processes on DTH and cable TV market) influenced our special offers to newly acquired subscribers. Preparing the Christmas offer, in the fourth quarter of 2012, we introduced additional attractive promotional offers and services comprising i.a.: 20 new channels from international and Polish broadcasters, including 4 HD; new very attractive package for entire family: Family Max HD Package for PLN 49.90 (on two TV-sets for only PLN 59.90); revised additional packages from PLN 10; new services: HBO GO and ipla; attractive Premium promotion – full TV offer with HD set-top-boxes from PLN 1 and HBO GO and ipla Mix even 6 month for free.

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.

Development of digital terrestrial television

The project of replacing analog broadcasting with terrestrial digital, run in Poland, forces viewers of terrestrial television, with old TV-sets, to adapt to the new equipment requirements. Taking this as an opportunity to develop our business, we decided to attract these people to our offer. In 2012 we launched our own production and sales of set-top boxes for the reception of digital terrestrial television. We attract the customers not only by high-quality equipment, but also by the package of additional channels at a very attractive price. In June 2012, we enriched our offer with a new "Mobile TV" service provided in the DVB-T standard, within which the client gets access to terrestrial digital television on mobile devices.

Costs of financing of the acquisition of Telewizja Polsat Sp. z o.o.

On April 20, 2011, Cyfrowy Polsat completed the acquisition of TV Polsat. The acquisition was financed in a large part by the Term Loan and the Bridge Loan repaid with proceeds from the issue of Senior Notes. Due to the debt financing we incur significant interest costs. Our financial results were also impacted by the valuation of Senior Notes denominated in euro.

On August 29, 2012 we have partly re-paid the Term Facility Loan incurred on March 31, 2011 for the acquisition of TV Polsat. The repayment amounted to PLN 200 million (not in thousands) and significantly lowered our total indebtedness. The partial settlement of the liability resulted in lowering of both principal payments and accrued interest, beginning from the third quarter 2012.

Acquisition of INFO-TV-FM Sp. z o.o.

On January 30, 2012, Cyfrowy Polsat has finalized the acquisition of shares in INFO-TV-FM Sp. z o.o. (INFO-TV-FM). The fair value price of the acquisition amounted to PLN 29 million (not in thousands).

The agreement for the acquisition of shares in INFO-TV-FM was concluded in view of further implementation of the Group’s strategy aiming at the widest possible content distribution based on all latest technologies. Upon the acquisition of INFO-TV-FM, the Company acquired frequencies on 470-790 MHz and reservation agreements related to them. Based on these assets, in June 2012 we have expanded our business by pay-TV services provided through mobile devices, which fits well with both our business plans, market development trends and customers’ expectations.

Acquisition of ipla

On March 12, 2012, the Company concluded agreements concerning the acquisition of shares in the companies running ipla service, the leader in online video distribution in Poland. The price for shares and the amount necessary to repay ipla's current bank and trade liabilities amounted to PLN 150 million (not in thousands).

The acquisition of ipla completes the Company's strategy of which an important element was the acquisition of TV Polsat, aiming at providing the best quality content using most advanced devices and technologies. Ipla, being the leader on online video market, strengthens Cyfrowy Polsat's market position as a content aggregator and distributor and provides a competitive advantage in the developing market segment.

The acquisition of ipla also enables us to achieve synergies in terms of costs and revenues, that were already partially realized in 2012. Costs synergies come from jointly executed content acquisition and investments in technology development, marketing activities, use of the same billing systems as well as optimized use of back-office resources. Revenues synergies come from cross-selling and from increased attractiveness of current and new products introduced, that positively impact the customers' satisfaction level.

Expansion of technical reach of HSPA+ and LTE Internet

Following the development of our partners' network, from the end of 2011 until the end of 2012, the technical reach of LTE network increased from 21% to approximately 48% of inhabitants of Poland, while the technical reach of HSPA/HSPA+ network increased from 69% to 91%.

Moreover, in August 2012 we concluded a letter of intent with Polkomtel, based on which we have started to provide the internet access service within the operator's 3G and 2G radio networks on 2100 MHz and 900 MHz frequencies in HSPA and EDGE/GPRS technology of a nationwide technical range. Currently, we use Polkomtel's network through Mobyland Sp. z o.o. intermediary (based on tripartite agreement, which replaced the letter of intent).

Growing technical range of our Internet service had a positive impact on the number of subscribers, that translated into significant growth in our telecommunication revenue.

Launch of cooperation with Polkomtel Sp. z o.o.

We have established cooperation with Polkomtel Sp. z o.o., the leading telecommunications company operating Plus mobile network, within the introduction of package offer and cross selling of standard products. The agreement is effective from April 2012.

As a result of this cooperation, Cyfrowy Polsat began to offer its subscribers a special offer of mobile telephony services rendered by Polkomtel, and Polkomtel's customers can profit from dedicated offer of the largest satellite TV platform in Poland. New customers can get a joint offer and receive additional benefits with both services. At the same time standard offers of Polkomtel and Cyfrowy Polsat were introduced to both sales networks. Thanks to that, as of the end of 2012, our standard offer was available in almost 800 point of sales of Polkomtel's network. Moreover, the cooperation enables us to combine the purchase potential of approximately 14 million customers of Polkomtel, who now get access to television services, and more than 11 million people in over 3.5 million Polish households currently using Cyfrowy Polsat's services.

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 (consolidation of the market, growing interest in OTT services).
2. Development of digital terrestrial television (increasing coverage, progressive switch-off of television service).
3. Development of Internet services market (growing demand for data transmission and fast Internet connections, higher growth dynamics of mobile services vs. cable connections).

4. Growing number of users of mobile devices (including laptops, smartphones and tablets).
5. Increase in sales of TV-sets connected to the Internet.
6. Growing importance of multi-play services (joint telecommunication and television services).

Item 6.7. Major investments

Finalization of acquisition of INFO-TV-FM Sp. z o.o.

On January 30, 2012, 100% shares in the share capital of INFO-TV-FM Sp. z o.o. (INFO-TV-FM) were transferred to the Company following the fulfillment of all conditions precedent included in the acquisition agreement with Narodowy Fundusz Inwestycyjny Magna Polonia S.A. and Evotec Management Limited dated October 28, 2011. The fair value price of the acquisition amounted to PLN 29,313,202.19 (not in thousands).

Acquisition of internet television ipla

On March 12, 2012, the Company concluded with Bithell Holdings Ltd. agreements concerning the acquisition of shares in the companies running ipla service, the leader in online video distribution in Poland. The agreements concerned the following shares:

1. 100% shares in Redefine Sp. z o.o. seated in Warsaw;
2. 100% shares in Gery.pl Sp. z o.o. seated in Warsaw (in liquidation);
3. 100% shares in Frazpc.pl Sp. z o.o. seated in Warsaw;
4. 100% shares in Netshare Sp. z o.o. seated in Warsaw.

The price for shares in the companies abovementioned and the amount necessary to repay ipla's current bank and trade liabilities amounted to PLN 150 million (not in thousands); cash consideration transferred amounted to PLN 43 million (not in thousands. The transfer of the legal rights to the acquired shares was effectuated on April 2, 2012.

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

Item 6.8. Review of operating and financial situation

Item 6.8.1. Operating results

We consider the number of subscribers, churn rate, and ARPU when analyzing and evaluating our Retail business segment. 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.

	12 months ended December 31		
	2012	**2011**	**Change / %**
Number of subscribers at end of period, of which:	**3,566,144**	**3,551,671**	**0.4%**
Family Package	2,761,248	2,785,016	-0.9%
Mini Package	804,896	766,655	5.0%
Average number of subscribers[1], of which:	**3,537,603**	**3,488,784**	**1.4%**
Family Package	2,763,276	2,734,951	1.0%
Mini Package	774,327	753,834	2.7%
Churn rate of which:	**8.6%**	**9.8%**	**-1.2 p.p.**
Family Package	9.0%	10.6%	-1.6 p.p.
Mini Package	7.1%	7.0%	0.1 p.p.
Average revenue per user[2] (ARPU) (PLN), of which:	**39.3**	**37.3**	**5.4%**
Family Package (PLN)	46.6	44.2	5.4%
Mini Package (PLN)	13.4	12.7	5.5%

[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.

[2]In line with the provisions of IAS 18, starting from the year 2012 the Company recognizes lower revenues from penalties for breaching contracts by the clients due to change of accounting estimates regarding recognition and recoverability of these revenues. This change of estimates does not materially influence the Company's operating results as the Company respectively recognizes lower bad debt allowance expense. It causes, however, a slight decrease in ARPU, though not perturbing its stable upward trend. The Management Board believes that this approach reflects the business standing of the Company more precisely and is more transparent for the market environment.

Subscribers

We define a "subscriber" as a person who signed an agreement for subscription to pay digital television services and who is obligated, under the terms of agreement, to make payments to access a package or packages of television and radio channels or who has access to such packages within pay digital television services, after making required payments but without having signed such an agreement. Our number of subscribers increased by 0.4%, to approximately 3,566.1 thousand subscribers as of December 31, 2012 from approximately 3,551.7 thousand subscribers as of December 31, 2011. Family Package subscribers constituted 77.4% and 78.4% of our entire subscriber base as of December 31, 2012 and 2011, 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 as well as of subscribers who used to have more than one agreement and terminated one of them to replace it with the commitment to use Multiroom service. Our churn rate decreased from 9.8% to 8.6% in the twelve-month period ended December 31, 2011 and December 31, 2012, with the churn rate of the Family Package decreasing by 1.6 percentage point and the churn rate of Mini Package increasing by 0.1 percentage point. The decrease in churn rate was due to the efficient retention programs and the effort to ensure high satisfaction of the clients.

ARPU

We define “ARPU” as the average net revenue per subscriber to whom we rendered services calculated as a sum of net revenue generated by our subscribers from our pay digital television services in the reporting period divided by the average number of subscribers to whom we rendered services in this reporting period. ARPU increased by 5.4% to PLN 39.3 in 2012 from PLN 37.3 in 2011. Family Package ARPU increased by 5.4%, to PLN 46.6 in t 2012 from PLN 44.2 in 2011. Mini Package ARPU increased by 5.5%, to PLN 13.4 in 2012 from PLN 12.7 in 2011. The increase in ARPU was mainly due to increasing number of subscribers to higher packages and the revenue from additional services (ex. Multiroom).

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

The company did not present forecasts for 2012.

Item 6.8.3 Review of the financial situation

The following review of results for the fiscal year ended on December 31, 2012 was prepared based on financial statements for the fiscal year ended on December 31, 2011 prepared in accordance with International Financial Reporting Standards and own analysis.

All financial data is expressed in thousands.

Comparison of financial results in 2012 with the result in 2011

Revenue

Our total revenue increased by PLN 151,998, or 9.3%, to PLN 1,783,626 in 2012 from PLN 1,631,628 in 2011. Revenue increased for the reasons set forth below.

Retail subscription revenue

Revenue from retail subscription fees increased by PLN 137,907, or 8.6%, to PLN 1,732,787 in 2012 from PLN 1,594,880 in 2011. This increase primarily resulted from higher DTH subscription fee revenue (attributable to a higher average number of subscribers in 2012 compared to 2011 and an increase in ARPU) and higher revenue from telecommunications services.

Sale of equipment

Revenue from the sale of equipment increased by PLN 6,741, or 55.1%, to PLN 18,965 in 2012 from PLN 12,224 in 2011. This increase was primarily due to sales of set-top-boxes for reception of digital terrestrial television.

Other revenue

Other revenue increased by PLN 7,350, or 30.0%, to PLN 31,874 in 2012 from PLN 24,524 in 2011. This increase was a net effect of several factors, including primarily higher revenue from broadcasting and signal transmission services.

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

Total operating costs

	For the twelve-month period ended December 31,		
	2012	**2011**	**Change / %**
Programming costs	425,050	434,480	-2.2%
Distribution, marketing, customer relation management and retention costs	312,400	311,443	0.3%
Depreciation, amortization and impairment	202,783	139,174	45.7%
Salaries and employee - related costs	98,406	94,041	4.6%
Broadcasting and signal transmission costs	91,772	86,736	5.8%
Cost of settlements with mobile network operators and interconnection charges*	44,110	25,374	73.8%
Cost of debt collection services and bad debt allowance and receivables written off**	27,315	71,097	-61.6%
Cost of equipment sold	36,173	29,800	21.4%
Other costs***	137,464	124,675	10.3%
Total operating costs	**1,375,473**	**1,316,820**	**4.5%**

* Since the first quarter of 2012, we present the Cost of settlements with mobile network operators and interconnection charges (previously presented in Other costs) in a separate line. We adjusted the presentation in 2011 for comparability purposes.

** Since the second quarter 2012, we present bad debt recovery fees (previously presented in Distribution, marketing, customer relation management and retention costs) and bad debt allowance and the cost of receivables written off (previously presented in *Other operating costs*) in a separate line in Operating costs. We adjusted the presentation in 2011 for comparability purposes.

*** Following the presentation changes abovementioned, we adjusted the presentation in 2011 for comparability purposes.

Total operating costs increased by PLN 58,653, or 4.5%, to PLN 1,375,473 in 2012 from PLN 1,316,820 in 2011. Costs grew for the reasons set forth below.

Programming costs

Programming costs decreased by PLN 9,430, or 2.2%, to PLN 425,050 in 2012 from PLN 434,480 in 2011. This decrease was mainly due to better fees negotiated for the purchase of programming content, despite the negative impact of currency fluctuations and the increase in the average number of subscribers, based on which the licenses fees are charged.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs amounted to PLN 312,400 in 2012 and remained at practically unchanged level compared to PLN 311,443 in 2011.

Depreciation, amortization and impairment

Depreciation, amortization and impairment cost increased by PLN 63,609, or 45,7%, to PLN 202.783 in 2012 from PLN 139.174 in 2011. The increase in depreciation, amortization and impairment was caused primarily by the dynamic increase in the number of set-top-boxes, modems, STB hard disks and routers leased to our subscribers (accounted for as fixed assets).

Salaries and employee-related costs

Salaries and employee-related costs increased by PLN 4,365, or 4.6%, to PLN 98,406 in 2012 from PLN 94,041 in 2011. The increase was mainly due to a higher number of employees resulting from the growth of our business.

Broadcasting and signal transmission costs

Broadcasting and signal transmission costs increased by PLN 5,036, or 5.8%, to PLN 91,772 in 2012 from PLN 86,736 in 2011, mainly due to the negative impact of currency fluctuations and the lease of additional transponders' capacity from Eutelsat (from May and August 2012).

Cost of settlements with mobile network operators and interconnection charges

Cost of settlements with mobile network operators and interconnection charges increased by PLN 18,736, or 73.8%, to PLN 44,110 in 2012 from PLN 25,374 in 2011. The increase resulted primarily from the growth in the base of subscribers to Internet access service and higher average use of data packages.

Cost of debt collection services and bad debt allowance and receivables written off

Cost of debt collection services and bad debt allowance and receivables written off decreased by PLN 43,782, or 61.6%, to PLN 27,315 in 2012 from PLN 71,097 in 2011. The decrease was primarily due to lower bad debt allowance and the cost of receivables written off.

Cost of equipment sold

Cost of equipment sold increased by PLN 6,373, or 21.4%, to PLN 36,173 in 2012 from PLN 29,800 in 2011. This decrease was a net effect of several factors, out of which the most significant were: (i) cost of sale of equipment for reception of DTT, laptops and tablets recognized in 2012 (no such positions in 2011), (ii) lower cost of sales of hard discs for set-top boxes, resulting from the fact that in 2012 the disks were mainly leased to our subscribers, (iii) lower unit cost of sold modems, and (iv) decreased sale of DTH antennas.

Other costs

Other costs increased by PLN 12,789, or 10.3%, to PLN 137,464 in 2012 from PLN 124,675 in 2011. This increase was a net effect of several factors, out of which the most significant was an increase in costs of trademarks, due to the transfer to our subsidiary CPTM Sp. z o.o. of "Cyfrowy Polsat" trademark in December 2011.

Other operating income / costs

Net other operating income and costs amounted to PLN -10,481 in 2012 compared to PLN -5,420 in 2011.

Gains and losses on investment activities

Gains and losses on investment activities increased by PLN 107,257, or by 51.4%, to PLN 315,817 in 2012 from PLN 208,560 in 2011. The increase is explained primarily by the higher dividend received from TV Polsat (the dividend amounted to PLN 297,230 in 2012 compared to 197,030 in 2011).

Finance costs

Finance costs decreased by PLN 236.538, or by 64.5%, to PLN 130.397 in 2012 from PLN 366.935 in 2011. The decrease was a net effect of sever factors including primarily: (i) foreign exchange losses on valuation of Intercompany Bonds recognized in 2011 vs. gains recognized in 2012, and (ii) higher cost of interests on Intercompany Bonds, (in 2011 the interests were calculated from May 20, in 2012 for the whole period).

Net profit

Net profit increased by PLN 373,744 or 239.4%, to PLN 529,837 in 2012 from PLN 156,093 in 2011.

Other information

EBITDA & EBITDA margin

EBITDA increased by PLN 151,893, or 33.9%, to PLN 600,455 in 2012 from PLN 448,562 in 2011. EBITDA margin amounted to 33.7% in 2012 compared to 27.5% in 2011.

Employment

Average number of employees in Cyfrowy Polsat was 704 in 2012, as compared to 669 in 2011. The increase in the average number of employees resulted from our organic growth.

Comparison of financial position as of December 31, 2012 and December 31, 2011

As of December 31, 2012 and December 31, 2011, our balance sheet amount was PLN 5,994,539 and PLN 5,797,960 respectively.

As of December 31, 2012 and December 31, 2011, our non-current assets were PLN 5,417,761 and PLN 5,269,172, respectively, and accounted for 90.4% and 90.9% of total assets, respectively.

The value of reception equipment decreased by PLN 14,256 or by 3.3%, to PLN 420,060 as of December 31, 2012 from PLN 434,316 as of December 31, 2011 due to depreciation charges. The decrease was partially netted by an increase in the number of leased pay-TV reception equipment and Internet equipment.

The value of other property, plant and equipment increased by PLN 38,360 or by 28.7% to PLN 172.201 as of December 31, 2012 from PLN 133,841 as of December 31, 2011. The increase was a net effect of several factors, including primarily merger with CPT, increase in assets under construction, expenditure on buildings and amortization charges.

The value of goodwill amounted to PLN 52,022 as of December 31, 2012 and remained unchanged compared to December 31, 2011. The goodwill was recognized in the stand-alone financial statement following the merger with mPunkt.

The value of other intangible assets increased by PLN 19,223, or 67.2%, to PLN 47,821 as of December 31, 2012 from PLN 28,598 as of December 31, 2011, primarily as a result of purchase of intangible assets, higher intangible assets under construction and merger with CPT, offset by amortization charges.

Investment property amounted to PLN 0 as of December 31, 2012 compared to PLN 6,843 as of December 31, 2011 due to elimination following the merger with CPT (the balance as of the end of 2011 related to production hall and warehouse leased to CPT).

The value of shares in subsidiaries increased by PLN 72,895 to PLN 4,588,928 as of December 31, 2012 from PLN 4,516,033 as of December 31, 2011. The increase was primarily a result of acquisition of INFO-TV-FM SP. z o.o., Redefine Sp. z o.o. and Netshare Sp. z o.o.

Non-current deferred distribution fees amounted to PLN 35,125 as of December 31, 2012 and remained at the similar level compared to the balance as of December 31, 2011 (increase by 0.3%). Current deferred distribution fees amounted to PLN 57,096 as of December 31, 2012 and decreased by 3.8% compared to PLN 59,361 as of December 31, 2011.

The value of other non-current assets amounted to PLN 101,604 as of December 31, 2012 and increased by PLN 39,113, or 62.6%, compared to PLN 62,491 as of December 31, 2011. This increase was primarily due to an increase in long-term deferred cost (mainly following the second and the third order for data transmission from Mobyland).

As of December 31, 2012 and December 31, 2011, our current assets were PLN 576,778 and PLN 528,788, respectively, and accounted for 9.6% and 9.1% of total assets, respectively.

The value of inventories amounted to PLN 159,885 as of December 31, 2012 and did not change significantly compared to PLN 159,950 as of December 31, 2011.

The value of bonds amounted to PLN 0 as of December 31, 2012 compared to PLN 14,854 as of December 31, 2011. The balance as of the end of 2011 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 increased by PLN 20,970, or 10.4%, to PLN 222,767 as of December 31, 2012 from PLN 201,797 as of December 31, 2011. The increase resulted mainly from an increase in trade receivables from non-related parties, partially netted by a decrease in tax and social security receivables.

The value of cash and cash equivalents increased by PLN 47,458, or more than four times, to PLN 59,316 as of December 31, 2012, from PLN 11,858 as of December 31, 2011. This increase resulted primarily from generated cash from operating and investing activities (mainly dividend from TV Polsat). The increase was partially offset primarily by repayment of principal (including voluntary prepayment of PLN 200,000) and interests on SFA, payment of interests on Intercompany Bonds and capital expenditures.

The value of other current assets amounted to PLN 71,256 as of December 31, 2012 and did not change significantly compared to PLN 71,349 as of December 31, 2011.

Equity increased by PLN 477,422, by 19.1%, to PLN 2,980,498 as of December 31, 2012 from PLN 2,503,076 as of December 31, 2011. The increase was primarily a result of the net profit generated in 2012 partially offset by the effect of merger with CPT.

The loans and borrowings liabilities (long and short term) decreased by PLN 345,581, or 27.7%, to PLN 903,442 as of December 31, 2012, from PLN 1,249,023 as of December 31, 2011. The change was due primarily to the prepayment in the amount of PLN 200,000 as well as scheduled repayments of Term Loan.

The issued bonds (long and short-term) decreased by PLN 107,683, or by 7.1%, to PLN 1,409,271 as of December 31, 2012 from PLN 1,516,954 as of December 31, 2011, primarily due to the repayment of interests and a decrease in the euro exchange rate used for valuation of the Intercompany Bonds. The decrease was partially netted off mainly by the interest accrued for the new period.

Non-current and current deferred income amounted to PLN 205,845 as of December 31, 2012 and did not change significantly compared to PLN 204,180 as of December 31, 2011 (increase by 0.8%).

The value of other non-current liabilities and provisions increased by PLN 9,055 to PLN 14,644 as of December 31, 2012 from PLN 5,589 as of December 31, 2011, primarily due to the recognition of long-term deposits for equipment and higher liabilities from the valuation of financial instruments.

The value of trade and other payables increased by PLN 131,630, or 54.9%, to PLN 371,461 as of December 31, 2012 from PLN 239,831 as of December 31, 2011, mainly as a result of the merger with CPT, an increase in trade payables and payables relating to purchases of non-current assets to non-related parties and other payables.

The value of deposits for equipment increased by PLN 516, or 4.0%, to PLN 13,259 as of December 31, 2012 from PLN 12,743 as of December 31, 2011 due to an increase in deposits from distributors.

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. Until 2011, we relied primarily upon cash flows from operations and bank borrowings to provide the funds required for acquisitions and operations. In 2011, 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 Polish zloty, we maintain also other currencies, 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 and the purchase of components for in-house manufactured set-top boxes as well as payments related to service of Senior Notes denominated in euro.

Our non-current liabilities amounted to PLN 2,004,654 as at December 31, 2012 as compared to PLN 2,435,383 as at December 31, 2011 (decrease by 17.7%). Our current liabilities amounted to PLN 1,009,387 as at December 31, 2012 as compared to PLN 859,501 as at December 31, 2011 (increase by 17.4%).

Our total debt from long- and short-term loans and borrowings and notes as at December 31, 2012 was PLN 2,312,713 compared to PLN 2,765,977 as at December 31, 2011 (decrease by 16.4%).

Our cash and cash equivalents amounted to PLN 59,316 as at December 31, 2012 as compared to PLN 11,858 as at December 31, 2011 (increase by 400.2%).

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, service of our debt as well as for realization of investment plans.

In 2012, the Company generated high cash flow, that were sufficient for both current needs and servicing the debt (described below) and even its prepayments.

Item 6.9.1. External sources of funding, financing and indebtedness

Bank Loans

In connection with the acquisition of TV 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, 2012 the revolving facility was not used.

We use interest rate swaps to hedge our exposure to volatility in the Term Loan interest payments. The IRS transactions concluded in 2011 were described in the Note no. 30 of the financial statements for the year ended December 31, 2011, and the transactions concluded in 2012 are described in the attached financial statement for the financial year ended December 31, 2012 (in the Note no. 27).

On August 29, 2012 we have partly re-paid the Term Facility Loan in the amount of PLN 200,000. The repayment was executed using the cash generated from the Group's operations. This repayment will have a positive impact on our future results through proportional decrease in further principal payments and accrued interest.

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 TV 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 1.50 for the period of 12 months ended December 31, 2012. The Interest Cover shall be at least 3.00 for the period of 12 months ended December 31, 2012. The Total leverage shall not exceed 3.50 for the period of 12 months ended December 31, 2012. 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 Senior 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.

Intercompany Notes

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 interest payments, denominated in euro, the Company concluded CIRS (cross-currency interest rate swap) transaction. The CIRS transactions concluded in 2011 were described in the Note no. 30 of the financial statements for the year ended December 31, 2011, and the transactions concluded in 2012 are described in the attached financial statement for the financial year ended December 31, 2012 (in the Note no. 27).

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 6.9.1.1. Information on incurred and terminated credit and loan agreements

In 2012, the Company did not incur or terminated any credit or loan agreements.

Item 6.9.2. Cash flows

The following table presents selected cash flow data for twelve-month periods ended December 31, 2012 and 2011:

	For the twelve months ended December 31,	
	2012	**2011**
Net cash flow from operating activities	425,092	76,246
Net cash flow used in investing activities	198,157	(2,472,329)
Net cash flow from financing activities	(575,796)	2,383,625
Net increase/(decrease) in cash and cash equivalents	47,453	(12,458)

Net cash flow from operating activities

Net cash from operating activities amounted PLN 425,092 in the twelve-month period ended December 31, 2012 resulting mainly from the generated net profit of PLN 529,837 adjusted by various elements including primarily: (i) depreciation, amortization and impairment, interest expense and income tax, (ii) income on dividend from TV Polsat, (iii) a net increase in reception equipment provided under operating lease, (iv) net gains on foreign exchange, (v) an increase in receivables and other assets, (vi) a change in liabilities, provisions and deferred income. 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 flow from investing activities

Net cash from investing activities amounted to PLN 198,157 in the twelve-month period ended December 31, 2012 and consisted primarily of dividend from TV Polsat, netted partially by acquisition of shares in INFO-TV-FM Sp. z o.o., Redefine Sp. z o.o. and Netshare (net of cash acquired) and the purchase of property, plant and equipment and acquisition of intangible assets. Net cash used in investing activities amounted to PLN 2,472,329 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. Outflows were partially compensated primarily by dividend from TV Polsat received in 2011.

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

Net cash flow used in financing activities

Net cash used in financing activities amounted to PLN 575,796 in the twelve-month period ended December 31, 2012 and consisted primarily of voluntary prepayment and scheduled repayments of SFA in the amount of PLN 357,652 and repayment of interests on loans, borrowings, Notes and finance lease as well as paid provisions in the total amount of PLN 209,803. Net cash from financing activities amounted PLN 2,383,625 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.

Item 6.9.3. Capital expenditures

We incurred capital expenditures of PLN 56,413 and PLN 44,269 in 2012 and 2011, respectively. Capital expenditures to revenue from sales ratio amounted 3.2% and 2.7% in 2011 and 2010, respectively. Capital expenditures in 2012 were related primarily to the payments of investment liabilities presented in the financial statement as of December 31, 2011 and the purchase of technical equipment, computers and other equipment as well as improvements in our IT systems and modernization works.

Item 6.9.4. Contractual Obligations

Our most significant contractual obligations (future cash flows) as of December 31, 2012 were as follows:

	Total	Less than 1 year	1 to 5 years	Over 5 years
Contractual liabilities				
Loans and borrowings	1,062,912	332,268	730,644	-
Senior Notes liabilities	2,073,044	116,758	467,036	1,489,250
Total contractual liabilities	**3,135,956**	**449,026**	**1,197,680**	**1,489,250**

As of December 31, 2012, 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 66 as of December 31, 2012 (PLN 1,527 as of December 31, 2011). Total amount of capital commitments resulting from agreements on property improvements was PLN 5,878 as of December 31, 2012 (PLN 3,906 as of December 31, 2011). Additionally the amount of deliveries and services committed to under agreements for the purchases of licenses and software as of December 31, 2012 was PLN 405 (PLN 431 as of December 31, 2011).

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

Based on the agreements dated March 20, 2012 and April 2, 2012, the Company granted Redefine Sp. z o.o. two loans of PLN 1,100 and PLN 600. The interest rate applicable was agreed as variable rates comprising WIBOR 3M + 2%. The loans matured on December 31, 2012, but were repaid fully on April 30, 2012 together with the interests accrued.

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

On April 18, 2012 the Company signed with Citicorp Trustee Company Limited agreements for the establishment of additional security in respect to the repayment of Term Loan and Revolving Facility according to Senior Facilities

Agreements entered into on March 31, 2011 and the repayment (redemption, repurchase) of the High Yield Notes (Senior Notes), in particular:

(i) financial and registered pledges on all shares in Gery.pl Sp. z o.o.;

(ii) financial and registered pledges on all shares in Frazpc.pl Sp. z o.o.;

(iii) financial and registered pledges on all shares in Redefine Sp. z o.o.;

(iv) financial and registered pledges on all shares in Netshare Sp. z o.o.

Moreover, on July 10, 2012, Telewizja Polsat Sp. z o.o. entered into agreement with Citicorp Trustee Company Limited establishing registered and financial pledges on all shares in Telewizja Polsat Holdings Sp. z o.o.

On November 27, 2012 Telewizja Polsat Holdings Sp. z o.o., in which Telewizja Polsat Sp. z o.o. holds 100% of shares, entered the Senior Facility Agreement dated March 31, 2011 and consequently established the following security for Citicorp Trustee Company Limited:

(i) registered pledge on tangible assets and intangible rights comprising the business of Telewizja Polsat Holdings Sp. z o.o.

(ii) statement of Telewizja Polsat Holdings Sp. z o.o. on submission to the enforcement procedure as stipulated by the notary deed;

(iii) moreover, the change of the pledgor on the shares in Media-Biznes Sp. z o.o. was effected following the acquisition on November 27, 2012 of 100% shares of this company by Telewizja Polsat Holdings Sp. z o.o. (new pledgor) from Telewizja Polsat Sp. z o.o. (initial pledgor).

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

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

In 2009 the Company received UOKiK's decision 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 and imposed a cash fine of PLN 994. At the same time, the President of UOKiK acknowledged that these unlawful provisions were eliminated from the amended regulations.

On April 26, 2012 the Court of Appeals has ruled to reduce the penalty imposed on the Company by UOKiK to PLN 500 which was paid by the Company on June 6, 2012.

On August 24, 2012 the Company appealed against the decision to the Supreme Court.

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

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). Since 2011 the level of currency risk exposure has increased because of new financing denominated in EUR obtained to purchase TV Polsat.

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

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

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

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

	December 31, 2012				December 31, 2011			
	EUR	USD	GBP	CHF	EUR	USD	GBP	CHF
Trade receivables	3,188	192	-	-	1,736	48	-	-
Cash and cash equivalents	2,604	2,038	-	1	307	36	1	1
Issued bonds	(344,717)	-	-	-	(343,451)	-	-	-
Trade payables	(4,148)	(6,300)	-	(71)	(518)	(2,194)	-	-
Gross balance sheet exposure	**(343,073)**	**(4,070)**	**-**	**(70)**	**(341,926)**	**(2,110)**	**1**	**1**
CIRS	37,406	-	-	-	43,641	-	-	-
Net exposure	**(305,667)**	**(4,070)**	**-**	**(70)**	**(298,285)**	**(2,110)**	**1**	**1**

Following foreign exchange rates were applied in the presented periods:

	Average rate		Rates at the balance sheet date	
(in PLN)	2012	2011	December 31, 2012	December 31, 2011
1 EUR	4.1850	4.1198	4.0882	4.4168
1 USD	3.2570	2.9634	3.0996	3.4174

For the purposes of exchange rate volatility sensitivity analysis as at December 31, 2012 and December 31, 2011 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 2011.

	2012					2011				
	As at December 31, 2012 in currency	in PLN	Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at December 31, 2011 in currency	in PLN	Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
Trade receivables										
EUR	3,188	13,032	5%	652	-	1,736	7,669	5%	383	-
USD	192	594	5%	30	-	48	165	5%	8	-
Cash and cash equivalents										
EUR	2,604	10,645	5%	532	-	307	1,356	5%	68	-
USD	2,038	6,316	5%	316	-	36	124	5%	6	-
GBP	-	2	5%	-	-	1	5	5%	-	-
CHF	1	3	5%	-	-	1	4	5%	-	-
Issued Bonds										
EUR	(344,717)	(1,409,271)	5%	(70,464)	-	(343,451)	(1,516,954)	5%	(75,848)	-
Trade payables										
EUR	(4,148)	(16,959)	5%	(848)	-	(518)	(2,287)	5%	(114)	-
USD	(6,300)	(19,529)	5%	(976)	-	(2,194)	(7,499)	5%	(375)	-
CHF	(71)	(241)	5%	(12)	-	-	-	5%	-	-
Change in operating profit				(70,770)	-				(75,872)	
CIRS										
EUR	37,406	152,923	5%	581	6,841	43,641	192,754	5%	612	8,861
Income tax				13,336	(1,300)				14,299	(1,684)
Change in net profit				(56,853)	5,541				(60,961)	7,177

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

	2012					2011				
	As at December 31, 2012 in currency	in PLN	Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at December 31, 2011 in currency	in PLN	Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
Trade receivables										
EUR	3,188	13,032	-5%	(652)	-	1,736	7,669	-5%	(383)	-
USD	192	594	-5%	(30)	-	48	165	-5%	(8)	-
Cash and cash equivalents										
EUR	2,604	10,645	-5%	(532)	-	307	1,356	-5%	(68)	-
USD	2,038	6,316	-5%	(316)	-	36	124	-5%	(6)	-
GBP	-	2	-5%	-	-	1	5	-5%	-	-
CHF	1	3	-5%	-	-	1	4	-5%	-	-
Issued bonds										
EUR	(344,717)	(1,409,271)	-5%	70,464	-	(343,451)	(1,516,954)	-5%	75,848	-
Trade payables										
EUR	(4,148)	(16,959)	-5%	848	-	(518)	(2,287)	-5%	114	-
USD	(6,300)	(19,529)	-5%	976	-	(2,194)	(7,499)	-5%	375	-
CHF	(71)	(241)	-5%	12	-	-	-	-5%	-	-
Change in operating profit				70,770	-				75,872	-
CIRS										
EUR	37,406	152,923	-5%	(581)	(6,819)	43,641	192,754	-5%	(612)	(8,853)
Income tax				(13,336)	1,296				(14,299)	1,682
Change in net profit				56,853	(5,523)				60,961	(7,171)

	2012		2011	
	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	(56,333)	5,541	(60,668)	7,177
USD	(510)	-	(293)	-
GBP	-	-	-	-
CHF	(10)	-	-	-
Estimated change in exchange rate by -5 %				
EUR	56,333	(5,523)	60,668	(7,171)
USD	510	-	293	-
GBP	-	-	-	-
CHF	10	-	-	-

Had the Polish zloty weakened 5% against the basket of currencies as at December 31, 2012 and December 31, 2011, the Company's net profit would have decreased by PLN 56,853 and decreased by PLN 60,961, respectively and other comprehensive income would have increased by PLN 5,541 in 2012 and PLN 7,177 in 2011. Had the Polish zloty strengthened 5%, the Company's net profit would have correspondingly increased by PLN 56,853 in 2012 and increased by PLN 60,961 in 2011 and other comprehensive income would have decreased by PLN 5,523 in 2012 and decreased by PLN

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

7,171 in 2011, 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.

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

	Carrying amount	
	December 31, 2012	**December 31, 2011**
Fixed rate instruments		
Financial assets	1	-
Financial liabilities	(1,430,870)	(1,545,880)
Variable rate instruments		
Financial assets	59,188	26,610
Financial liabilities	(963,904)	(1,324,839)
Net interest exposure	**(904,716)**	**(1,298,229)**

Cash flow sensitivity analysis for variable rate instruments (pre-tax effect):

	Income statement		Other comprehensive income		Equity	
	Increase by 100 bp	**Decrease by 100 bp**	**Increase by 100 bp**	**Decrease by 100 bp**	**Increase by 100 bp**	**Decrease by 100 bp**
December 31, 2012						
Variable rate instruments*	(9,047)	9,047	7,787	(7,787)	(1,260)	1,260
Cash flow sensitivity (net)	**(9,047)**	**9,047**	**7,787**	**(7,787)**	**(1,260)**	**1,260**
December 31, 2011						
Variable rate instruments*	(12,982)	12,982	11,160	(11,160)	(1,822)	1,822
Cash flow sensitivity (net)	**(12,982)**	**12,982**	**11,160**	**(11,160)**	**(1,822)**	**1,822**

* - 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.

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, 2012 in Note 39 *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 Polish advertising market or consumer spending in Poland.

Almost all of our revenue of the Company is derived from pay TV subscribers in Poland. Any reduction or shift in consumer spending in Poland could adversely affect our subscriber base or the rate of the 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 35% of our operating expenses (in 2012) 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 the 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 Senior Notes.

Our success is dependent upon customer satisfaction.

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 pay TV 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 offer 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 pay TV 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 and advertisers.

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, , 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 on the Polish TV market is intense, and we cannot guarantee that we will be successful in generating sufficient pay TV subscriber revenue or TV advertising revenue in the future in the 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 (that at the end of 2012 announced finalization of agreements concerning strategic partnership and began to merge their platforms). 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 the 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 pay TV and broadband Internet 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 pay TV and broadband Internet. 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 pay TV and broadband Internet. Any increase in the commissions that we pay to distributors in our sales distribution network would increase our operating costs and likely decrease net income in our retail business segment. Any failure to maintain or expand or modify our sales distribution network could significantly hinder our ability to retain and attract subscribers for our pay TV, 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 pay TV, broadband Internet and mobile telephony services. In providing pay TV 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. We also rely on numerous third parties to assist us in providing our broadcasting services. 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 pay TV, 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 we produce in-house, 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 pay TV services we provide, and we may lose subscribers to competitors who have successfully replaced such obsolete technology. As we continue to expand the broadband Internet services we offer, including our integrated services offer, 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 pay TV 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.

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 decide on the programming. These technologies are gaining in popularity and ease of use and the resulting audience fragmentation could lead to a general decline in our TV advertising revenue. We must identify ways to maintain audience and advertiser demand for the channels we broadcast. Any failure to adapt to the changing lifestyles and preferences of our target audiences and adjust our broadcasting 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 broadband Internet could significantly increase our average subscriber acquisition cost. Our efforts to increase penetration in the pay TV services market could also significantly increase our average cost of acquisition. In addition, our average subscriber acquisition cost 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, 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.

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 and 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 pay TV 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 pay TV subscribers more attractive purchase and rental prices for set-top boxes, we began producing SD set-top boxes in November 2007 and HD set-top boxes in April 2010. In 2012, internally produced set-top boxes represented over 85% of overall set-top boxes that we sold or leased to our pay TV 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 limit our ability to attract new subscribers for our pay TV 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 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 an 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. 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. 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.

Frequent changes and ambiguities in Polish tax regulations may adversely affect our business

The Polish tax system is characterized by low stability. Tax regulations are frequently amended, often to the detriment of the taxpayers, they may also need to be amended in order to implement new EU legislation.

Tax payment and other regulated areas of business (including customs and currency-related activities) may be subject to inspection by administrative bodies, which have the right to impose high fines and sanctions. In the absence of well-established legislation, Polish regulations tend to be unclear and inconsistent. There are frequent differences in the interpretation of tax regulations both within state administration bodies and between such bodies and corporations, which gives rise to uncertainties and conflicts. As a result, tax risk in Poland is substantially higher than in countries with more mature tax systems. Tax payments may be inspected for five years after the year when the tax was paid.

The above factors may have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

The Issuer 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 the 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 consolidated EBITDA) does not exceed an agreed level. Furthermore, our interest cover (calculated as the ratio of consolidated EBITDA to net finance charges) and cashflow cover (calculated as the ratio of consolidated 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 the 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 precisely 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 the 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.

Pola Investments Ltd., controlled by the family foundation (trust) TiVi Foundation founded by Mr. Zygmunt Solorz-Żak, holds voting right from 174,995,671 shares (representing 50.24% of the share capital and 65.99% of the voting power in Cyfrowy Polsat). As a result, Pola Investments Ltd., through his shareholdings, has and will continue to have, 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. 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 hindered 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.

The abovementioned factors 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.

Currently the ratings of the Notes assigned by Moody's and S&P are Ba2 and BB, respectively. The agencies have upgraded the ratings of Ba3 and BB- assigned in 2011, on July 23, 2012 and June 14, 2012, respectively. On February 26, 2013, S&P revised its outlook on Cyfrowy Polsat from stable to positive.

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, 2012:

Series	Number of shares	Type	Number of votes at General Meeting	Face value /PLN (not in thousands)
A	2,500,000	Preference shares (2 voting rights)	5,000,000	100,000.00
B	2,500,000	Preference shares (2 voting rights)	5,000,000	100,000.00
C	7,500,000	Preference shares (2 voting rights)	15,000,000	300,000.00
D	166,917,501	Preference shares (2 voting rights)	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

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.

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

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

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.

Shareholder	Number of shares	% of share	Number of votes	% of votes
Pola Investments Ltd. (1), including:	154,204,296	44.27%	306,709,172*	58.11%*
- Privileged registered shares	152,504,876	43.78%	305,009,752*	57.79%*
- Ordinary bearer shares	1,699,420	0.49%	1,699,420	0.32%
Sensor Overseas Ltd. (2), including:	25,341,272	7.27%	50,382,647	9.55%
- Privileged registered shares	25,041,375	7.19%	50,082,750	9.49%
- Ordinary bearer shares	299,897	0.09%	299,897	0.06%
Others	168,807,268	48.46%	170,678,518	32.34%
Total	348,352,836	100.00%	527,770,337	100.00%

1 Pola Investments Ltd. is controlled by family foundation (trust) TiVi Foundation
2 Sensor Overseas Ltd. is controlled by Mr. Heronim Ruta.

* On February 12, 2013, the Company was informed that on February 7, 2013, Pola Investments Ltd. ("Pola") received from Sensor Overseas Limited the proxy to exercise voting rights from 20,791,375 privileged registered shares of the Company, constituting 5.97% of the Company's share capital and representing 41,582,750 votes at the general meeting of the Company, which is 7.88% of the total number of votes (the "Proxy"). After receiving the Proxy, Pola holds and is entitled to exercise voting rights from 174,995,671 shares of the Company, that constitute 50.24% of the Company's share capital. The shares held by Pola and included in the Proxy represent 348,291,922 votes at the general meeting of the Company, which is 65.99% of the total number of votes in the Company.

The abovementioned package includes:

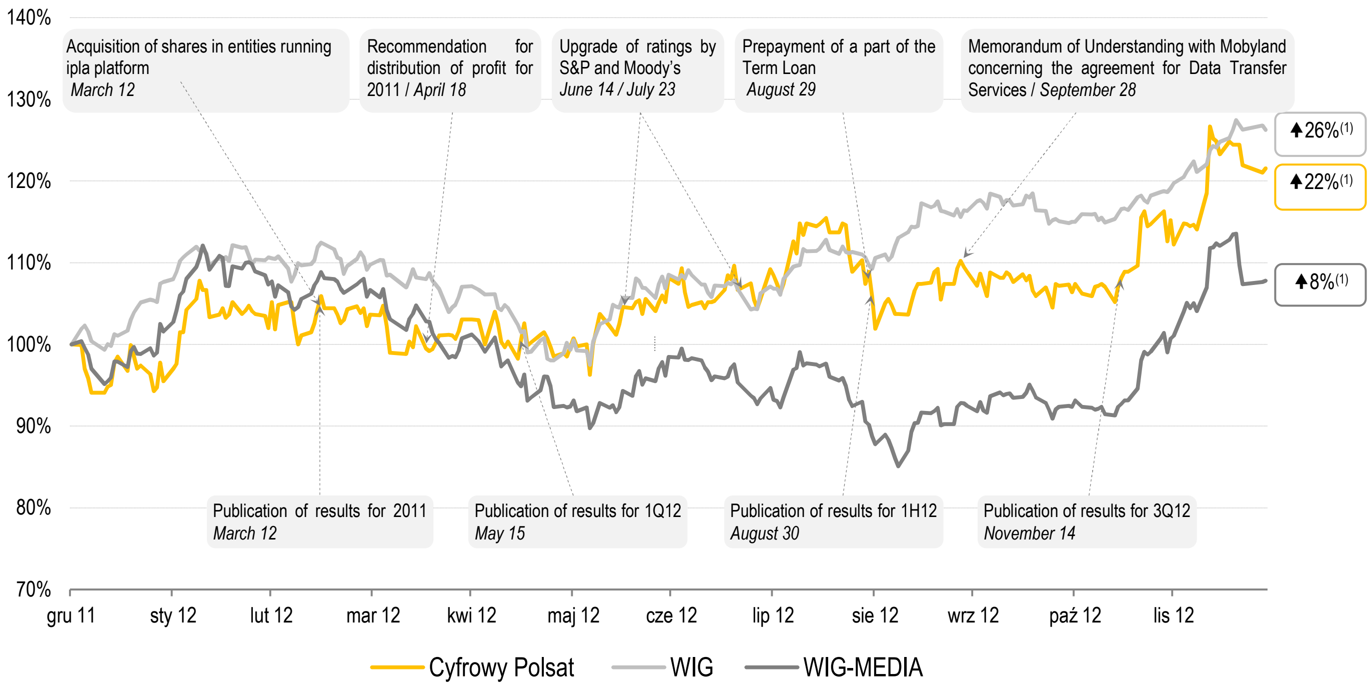
a) 173,296,251 privileged registered shares constituting 49.75% of the Company's share capital and representing 346,592,502 votes at the general meeting of the Company, which constitutes 65.67% of the total number of votes in the Company, and

b) 1,699,420 bearer shares constituting 0.49% of the Company's share capital and representing 1,699,420 votes at the general meeting of the Company, which constitutes 0.32% of the total number of votes in the Company.

Item 9.3. Shares quotes

Performance of Cyfrowy Polsat shares in 2012

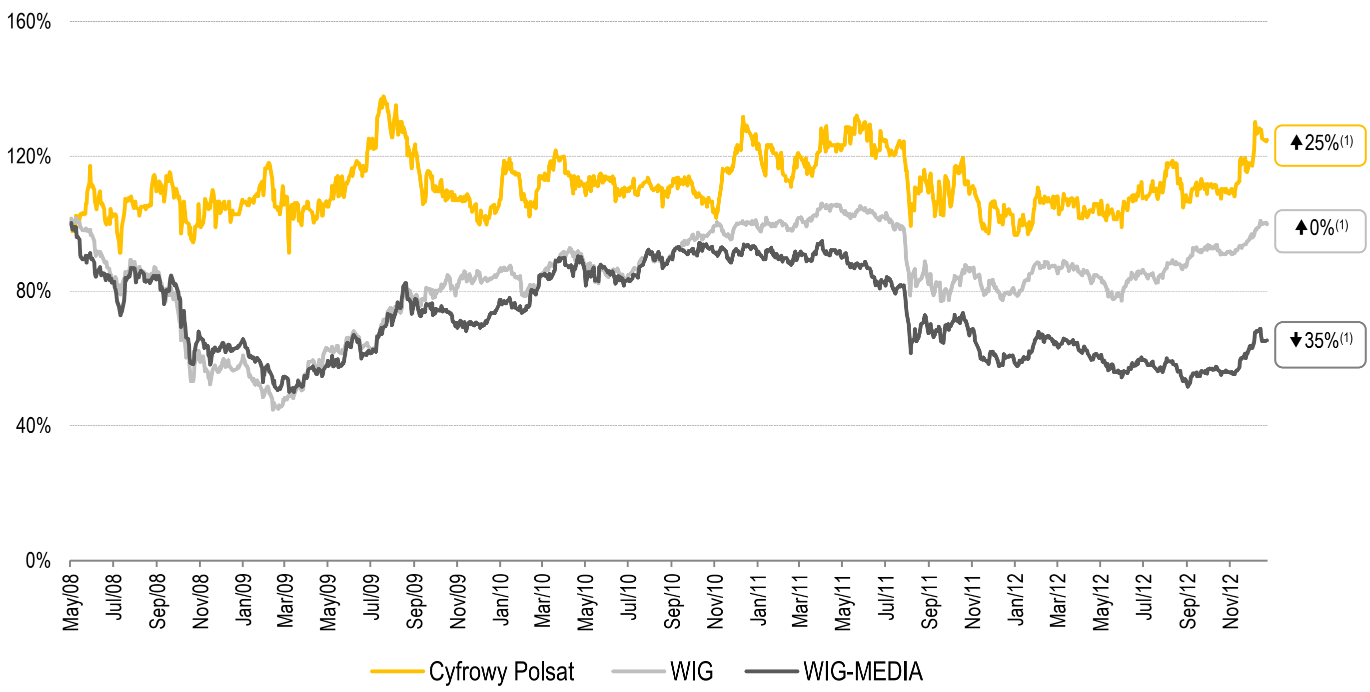
(indexed; 100 = closing price on December 31, 2011)



(1) change: Dec. 28, 2012 vs. Dec. 30, 2011

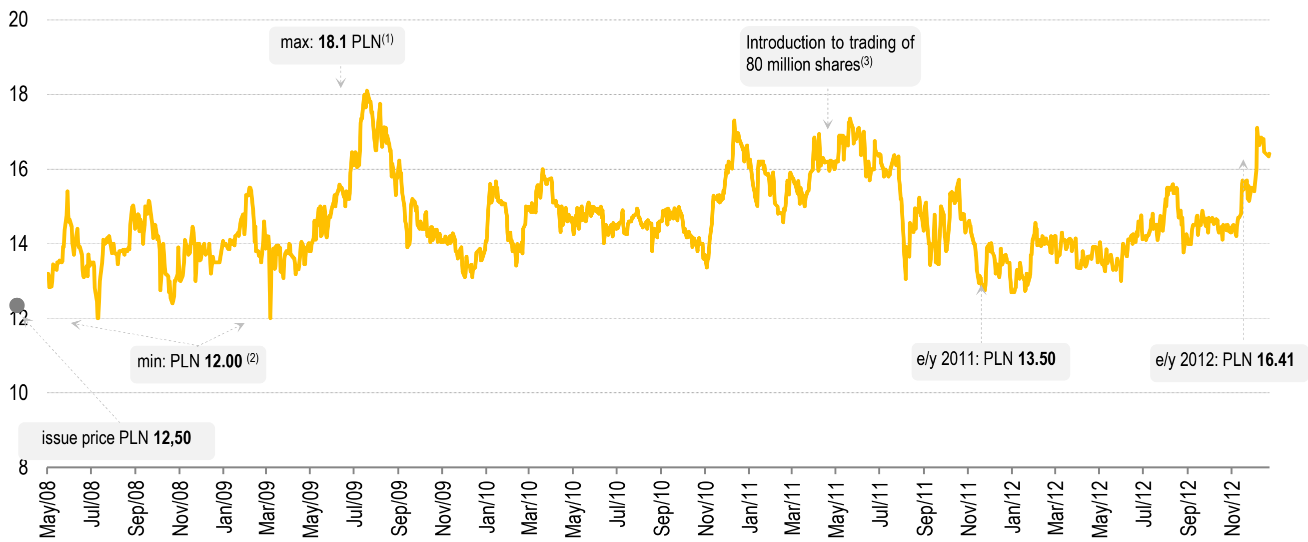
Performance of Cyfrowy Polsat shares since the debut on the WSE in May 2008 till the end of 2012 compared to WSE indexes

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



(1) change: Dec. 28, 2012 vs. Dec. 30, 2011

Performance of Cyfrowy Polsat shares since the debut on the WSE (PLN)



(1) share price on July 24, 2009

(2) share price on July 15-16, 2008, March 12, 2009

(3) 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. 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.

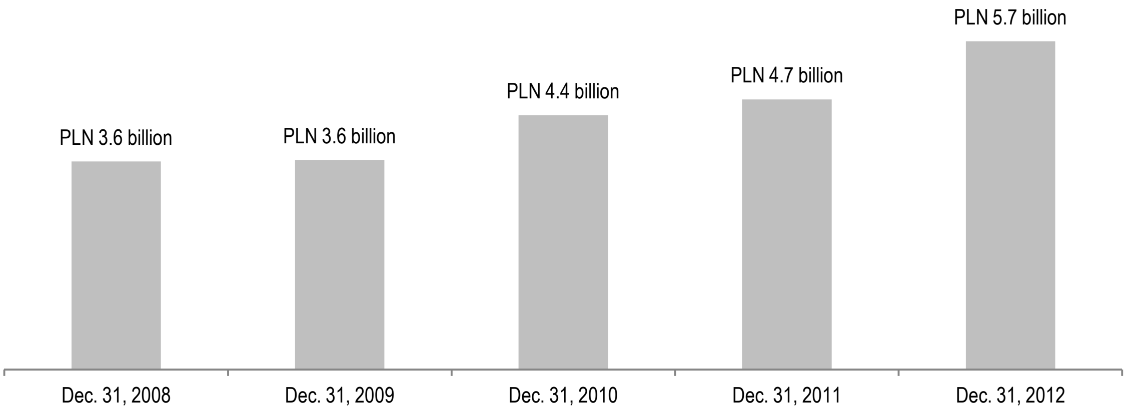
Cyfrowy Polsat shares on the stock exchange in 2012

		2012	2011
Year-end price	PLN	16.41	13.50
High for the year	PLN	17.10	17.35
Low for the year	PLN	12.70	12.75
Average for the year	PLN	14.29	15.26
Average daily turnover	PLN '000	3,434	5,891
Average daily trading volume	shares	240,021	392,209
Number of shares as of the end of the year	shares	348,352,836	348,352,836
Bearer shares	shares	168,935,335	168,935,335
Market capitalization as of the end of the year	PLN '000	5,716,470	4,702,763

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

Market capitalization of Cyfrowy Polsat since its debut on the WSE

In terms of market capitalization, that amounted to PLN 5.7 billion as of the end of 2012, Cyfrowy Polsat is the largest media company quoted on the Warsaw Stock Exchange.



Item 9.4. Analysts coverage and recommendations

Brokers covering the Company:

Local

- Dom Inwestycyjny BRE Banku S.A.
- Dom Maklerski AmerBrokers S.A.
- Dom Maklerski BDM S.A.
- Dom Maklerski IDM S.A.
- Dom Maklerski PKO BP S.A.
- IPOPEMA Securities S.A.
- Trigon Dom Maklerski S.A.

International

- Banco Espírito Santo de Investimento, S.A.
- Deutsche Bank Securities S.A.
- ERSTE Group Research
- ING Securities S.A.
- KBC Securities N.V
- Raiffeisen Centrobank AG
- Société Générale
- UBS Investment Bank
- UniCredit CAIB Poland S.A.
- Wood & Company Financial Services, a.s.

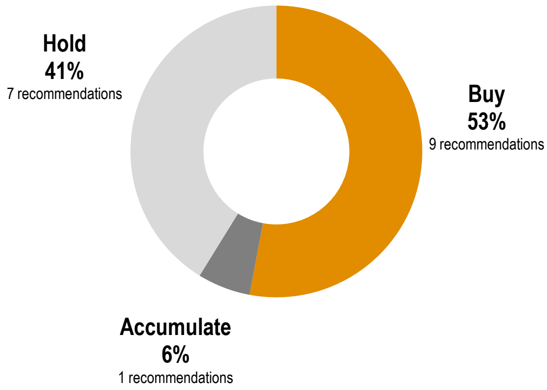
Recommendations for the shares of Cyfrowy Polsat published in 2012

Date	Company	Target price	Recommendation (PLN)
1 January	DM IDM S.A.	— Hold	14.50
9 January	DM BDM S.A.	↑ Accumulate	13.44
11 January	Raiffeisen Centrobank AG	— Hold	14.60
18 January	IPOPEMA Securities S.A.	— Hold	15.10
27 January	ING Securities S.A.	↑ Buy	17.00
13 February	KBC Securities N.V	↑ Buy	16.30
12 March	IPOPEMA Securities S.A.	↓ Sell	12.80
16 March	UBS Investment Bank	↑ Buy	17.00

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

21 March	Deutsche Bank Securities S.A.	↑	Buy	16.40
22 March	Raiffeisen Centrobank AG	↑	Buy	16.20
13 June	Société Générale	—	Hold	14.58
23 July	ING Securities S.A.	↑	Buy	18.00
3 August	Société Générale	—	Hold	15.45
3 August	DI BRE Banku S.A.	↓	Reduce	13.20
6 August	Raiffeisen Centrobank AG	↑	Buy	16.80
10 August	UBS Investment Bank	—	Neutral	17.00
20 August	Banco Espírito Santo de Investimento. S.A.	—	Neutral	16.70
3 September	IPOPEMA Securities S.A.	↓	Sell	13.50
4 September	UniCredit CAIB Poland S.A.	↑	Buy	16.60
12 September	UBS Investment Bank	↑	Buy	18.00
18 September	KBC Securities N.V	↑	Buy	17.40
25 September	DM BDM S.A.	—	Hold	15.15
1 October	Trigon Dom Maklerski S.A.	↑	Buy	17.10
2 October	DM IDM S.A.	—	Hold	15.30
22 October	Société Générale	—	Hold	15.70
15 November	Société Générale	↑	Buy	16.80
16 November	Deutsche Bank Securities S.A.	↑	Buy	18.50
19 November	KBC Securities N.V	↑	Buy	18.00
21 November	Raiffeisen Centrobank AG	—	Hold	17.50
26 November	Banco Espírito Santo de Investimento. S.A.	↑	Buy	17.90
10 December	DI BRE Banku S.A.	—	Hold	15.60
12 December	Wood & Company Financial Services. a.s.	↑	Buy	19.60
13 December	DM IDM S.A.	—	Hold	16.50
14 December	DM PKO BP S.A.	—	Hold	17.80
27 December	DM AmerBrokres S.A.	—	Hold	17.34
Recommendations issued in 2013 roku after the balance date				
9 January	IPOPEMA Securities S.A.	—	Hold	17.00
25 January	ING Securities S.A.	—	Hold	19.00
30 January	DM BDM S.A.	—	Accumulate	18.70
11 February	KBC Securities N.V	—	Buy	18.90
12 February	Société Générale	—	Hold	18.20
18 February	Raiffeisen Centrobank AG	—	Buy	18.50

Recommendations structure as of March 6, 2013



Target price as of March 6, 2013 (PLN)

minimum	15.60
maximum	19.60
average	**17.90**

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 road-shows 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 2012, we participated in approximately 160 meetings with 200 representatives of the capital market.

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.

Our efforts in the field of investor relations were appreciated by the participants of the capital market as evidenced by awards granted to the Company in 2012:

- 2nd place in "Puls Biznesu" journal's annual ranking "Listed company of the year" in the category of best investor relations (Cyfrowy Polsat got the highest rating by the analysts)

- distinction for the best report on the activities in the seventh edition of "The Best Annual Report 2011" organized by the Institute of Accounting and Taxation,
- distinction in the ranking of investor relations by TREND monthly magazine, that concerned the treatment of individual investors by the listed companies.

Item 10. Dividend policy

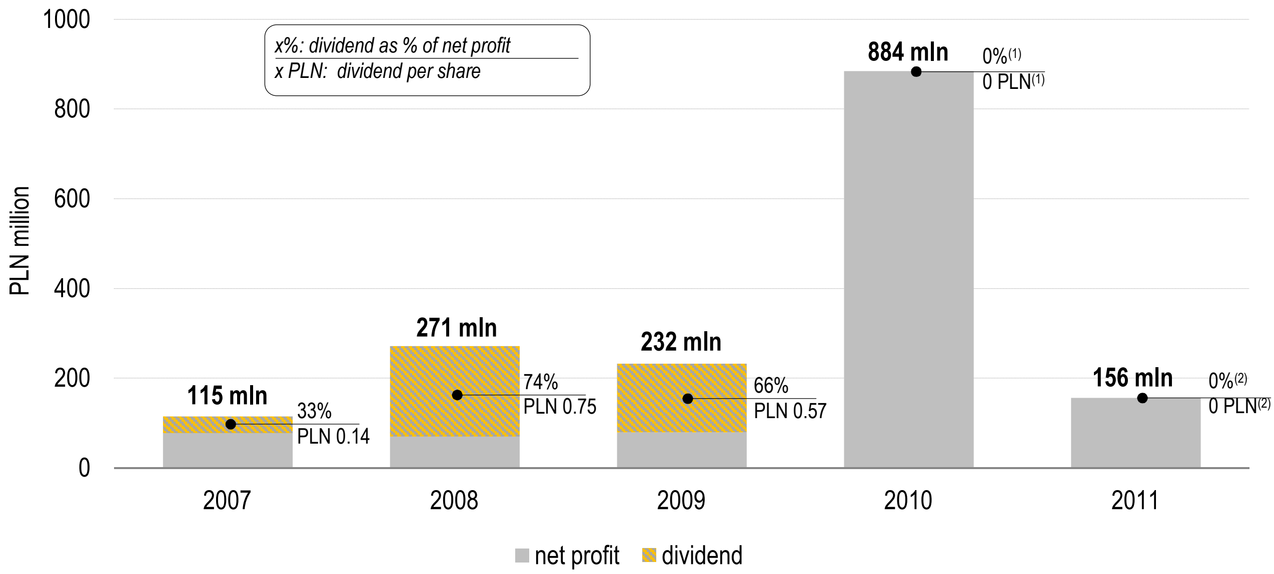
Our Ordinary Annual Shareholders' Meeting, held on July 4, 2008, approved a resolution on the dividend policy, stating that it is our intention to pay a dividend of 33% to 66% of the net profit for the year. The dividend payment which will depend on the achieved profits, financial situation, existing 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 June 5, 2012, the General Meeting, taking into consideration the recommendation of the Management Board and the economic situation of the Company, decided to distribute the profit for the year 2011 in the amount of PLN 156,092,789.88 as follows: PLN 140,979,430.60 for the reserve capital and PLN 15,113,359.28 to cover losses from previous years, being losses of the companies acquired by the Company, i.e. M.Punkt Holdings Ltd., mPunkt Polska S.A. and mTel Sp. z o.o.

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.

The history of profit sharing



(1) net profit allocated entirely to reserve capital according to the resolution of the General Meeting on May 19, 2011 taken based on the recommendation of the Management Board, justified by the need of future service of the debt incurred by the Company to purchase 100% shares of Telewizja Polsat.

(2) net profit distributed in total to reserve capital and to cover losses from previous years according to the resolution of the General Meeting on June 5, 2012.

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, 2013:

	No. of shares	Nominal value of shares (not in thousands)
Dominik Libicki	1,497	59.88
Dariusz Działkowski	-	-
Aneta Jaskólska	-	-
Tomasz Szeląg	-	-
Razem	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, 2013:

	No. of shares	Nominal value of shares (not in thousands)
Zygmunt Solorz-Żak(1)	-	-
Robert Gwiazdowski	-	-
Andrzej Papis	-	-
Leszek Reksa	-	-
Heronim Ruta(2)	25,341,272	1,013,650.88
Razem	**25,341,272**	**1,013,650.88**

(1) On February 18, 2013, the Company received from Mr. Zygmunt Solorz-Żak an information, regarding the transfer of ownership of shares in Pola Investments Ltd. seated in Nicosia, Cyprus, the Company's shareholder and entity controlled by Mr. Zygmunt Solorz-Żak, to the family foundation (trust) TiVi Foundation seated in Vaduz, Lichtenstein.

(2) Mr. Heronim Ruta controls indirectly through Sensor Overseas Ltd. 25,341,272 of the Company's shares constituting 7.27% of the Company's share capital and representing 50,382,647 votes at the General Meeting of the Company, which constitutes 9.55% of total number of votes in the Company.

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, 2012 is included in Note 42 (Members of the Management Board) and Note 43 (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 month 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 14, 2012, the Company entered into an agreement with PricewaterhouseCoopers Sp. z o.o., with registered office in Warsaw at 14 Al. Armii Ludowej, 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, 2012.

The following summary presents a list of services provided by a certified auditor and remuneration for the services in the period of 12 months ended on December 31, 2012 and December 31, 2011 (in 2011 it was KPMG Audyt Sp. z ograniczoną odpowiedzialnością s.k.).

	for year ended	
	December 31, 2012	**December 31, 2011**
Remuneration for audit of the financial statements for the year and other certifying services, including the review of financial statements	434	767
Other services	-	2,737
Total	**434**	**3,504**

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, no. 20/1287/2011 dated October 19, 2011 and no. 19/1307/2012 dated November 21, 2012 (amendments introduced in 2012 came into force on January 1, 2013).

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 2012, as a principle, we employed all the rules in force included in Parts: II, III and IV, to which the principle "comply or explain" applies.

However, the Company has violated the principle set out in Part II, section 1, point 5) recommending, where members of the company's governing body are elected by the General Meeting, publishing on the corporate website the basis for proposed candidates for the company's Management Board and Supervisory Board available to the company, together with the professional CVs of the candidates within a timeframe enabling a review of the documents and an informed decision on a resolution.

The Company has not complied with the rule quoted above, on the occasion of the election of members of the Supervisory Board for a new term at the General Meeting held on June 5, 2012. According to hitherto practice, and By-laws of the General Meeting, the candidates to the Supervisory Board were presented directly at the General Meeting. As a result, the Company has not received from the shareholders the information on the candidacies and their justification prior to the date of the General Meeting.

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 well as recommended in the rule I.12 enabling shareholders to participate in a General Meeting using electronic communication means, as it involves additional costs that in our opinion, are not effective and given the legal questions concerning exercising the voting right by means of electronic communication.

Although the recommendations concerning direct transmission and providing two-way communication as well as publication of audio or video recording of the General Meeting on the Company website, previously included in Part I, from January 2013 have been transferred to the principles laid down in Part IV and II, respectively, at the moment, the Management Board does not plan to make changes to the organization of the General Meeting. Ensuring the smooth running and the validity of the resolutions adopted by the General Meeting, as well as cost optimization are the priorities of the Management Board. Considering the small spread of the practice of conducting General Meetings using electronic means of communication and incomplete readiness of the market, and thus an increased risk of organizational and technical disturbances, the Management Board decided to postpone the consideration of the implementation of the rules in question.

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 the Capital Group with respect to the process of preparing financial statements and consolidated financial statements

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

The budgetary control system is based on monthly and annual financial and operational plans and 6-year business projections. Both financial and operating 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 standalone and consolidated financial statements and audit of annual standalone and consolidated financial statements.

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

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. 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 on activities 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:	154,204,296	44.27%	306,709,172*	58.11%*
- Privileged registered shares	152,504,876	43.78%	305,009,752*	57.79%*
- Ordinary bearer shares	1,699,420	0.49%	1,699,420	0.32%
Sensor Overseas Ltd. (2), including:	25,341,272	7.27%	50,382,647	9.55%
- Privileged registered shares	25,041,375	7.19%	50,082,750	9.49%
- Ordinary bearer shares	299,897	0.09%	299,897	0.06%
Others	168,807,268	48.46%	170,678,518	32.34%
Total	348,352,836	100.00%	527,770,337	100.00%

1 Pola Investments Ltd. is controlled by family foundation (trust) TiVi Foundation
2 Sensor Overseas Ltd. is controlled by Mr. Heronim Ruta.

* On February 12, 2013, the Company was informed that on February 7, 2013, Pola Investments Ltd. ("Pola") received from Sensor Overseas Limited the proxy to exercise voting rights from 20,791,375 privileged registered shares of the Company, constituting 5.97% of the Company's share capital and representing 41,582,750 votes at the general meeting of the Company, which is 7.88% of the total number of votes (the "Proxy"). After receiving the Proxy, Pola holds and is entitled to exercise voting rights from 174,995,671 shares of the Company, that constitute 50.24% of the Company's share capital. The shares held by Pola and included in the Proxy represent 348,291,922 votes at the general meeting of the Company, which is 65.99% of the total number of votes in the Company.

The abovementioned package includes:

a) 173,296,251 privileged registered shares constituting 49.75% of the Company's share capital and representing 346,592,502 votes at the general meeting of the Company, which constitutes 65.67% of the total number of votes in the Company, and

b) 1,699,420 bearer shares constituting 0.49% of the Company's share capital and representing 1,699,420 votes at the general meeting of the Company, which constitutes 0.32% 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, 2012 the shares of the A through D series are shares preferential as to the voting rights in the way that:

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

(ii) Series B shares totaling 2,500,000 have preferential voting rights entitling their holder to two voting rights per share;

(iii) Series C shares totaling 7,500,000 have preferential voting rights entitling their holder to two voting rights per share;

(iv) 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. (152,504,876 shares giving 305,009,752 voting rights on General Shareholders Meeting), Sensor Overseas Ltd. (25.041.375 shares giving 50.082.750 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). Based on the abovementioned Proxy from Sensor Overseas Ltd., Pola Investments Ltd. holds and is entitled to exercise voting rights from 173,296,251 privileged registered shares, representing 346,592,502 votes at General 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.

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, the General Meeting shall be valid if attended by shareholders representing jointly more than 50% of the total number of votes in the Company. Resolutions are adopted by a majority of votes.

As at December 31, 2012 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.

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

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.

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, 2012.

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 a member of the Supervisory Board of Telewizja Polsat Sp. z o.o. He is also the President of Management Board of INFO-TV-FM 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. From November 2001 Mr. Działkowski was the Technical Director of Cyfrowy Polsat S.A. He is also a Member of Management Boards of INFO-TV-FM Sp. z o.o., Redefine Sp. z o.o., Netshare Sp. z o.o., Gery.pl Sp. z o.o. and Frazpc.pl Sp. z o.o. 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 Boards of Cyfrowy Polsat Trade Marks Sp. z o.o., INFO-TV-FM Sp. z o.o., Redefine Sp. z o.o., Netshare Sp. z o.o., Gery.pl Sp. z o.o. and Frazpc.pl Sp. z o.o. 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. She 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.

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 Telewizja Polsat Sp. z o.o., President of the Management Board of Cyfrowy Polsat Trade Marks Sp. z o.o., as well as Member of the Management Boards of Cyfrowy Polsat Finance AB, INFO-TV-FM Sp. z o.o., Redefine Sp. z o.o., Netshare Sp. z o.o., Gery.pl Sp. z o.o. and Frazpc.pl Sp. z o.o. Before joining Cyfrowy Polsat, he was Vice-President for Finance at Telefonia Dialog S.A. His previous experience included positions of: Director of the Branch of Société Générale Bank in Wroclaw, Director of the Hedging Department and Director of Analysis and Market Risk at KGHM. He graduated from Wroclaw University of Economics in the Faculty of National Economy, department of International Economic and Political Relations, specialization in Foreign Trade. He holds a doctorate in economics.

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 thousands, unless otherwise stated)

The Supervisory Board

The Supervisory Board comprises five members. The Supervisory Board has acted in a stable composition throughout 2012. On June 5, 2012, the General Meeting appointed all the members of the Supervisory Board for another three-year term.

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	2012	2015
Robert Gwiazdowski.....	Independent[1] Member of the Supervisory Board Member of the Audit Committee	2008	2012	2015
Andrzej Papis………....	Member of the Supervisory Board	2007	2012	2015
Leszek Reksa..............	Independent[1] Member of the Supervisory Board Member of the Audit Committee	2008	2012	2015
Heronim Ruta..............	Member of the Supervisory Board Member of the Audit Committee Member of the Remuneration Committee	2001	2012	2015

[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 Sp. z o.o. (in which he is President of the Management Board) 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.), 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 Sp. z o.o., 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. and since

2001 Inwestycje Polskie S.A. 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 Sp. z o.o.

Leszek Reksa is a graduate of the Foreign Trade Faculty of the School of Planning and Statistics (currently 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 until 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 Sp. z o.o.

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, 2012 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, 2012, 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 11, 2013

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 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

Warsaw, 11 March 2013

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Independent Auditor's Report

To the Shareholders and the Supervisory Board of Cyfrowy Polsat S.A.

We have audited the accompanying financial statements of Cyfrowy Polsat S.A., which comprise the balance sheet as at December 31, 2012 and the income statement, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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 are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, the auditor considers 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Cyfrowy Polsat S.A. as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

PricewaterhouseCoopers Sp. z o.o.

PricewaterhouseCoopers Sp. z o. o.
March 11, 2013
Warsaw, Poland

CYFROWY POLSAT S.A.

Financial Statements
for the year ended 31 December 2012

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

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APPROVAL OF THE FINANCIAL STATEMENTS

On 11 March 2013, 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 2012 to 31 December 2012 showing a net profit for the period of:	PLN 529,837
Statement of Comprehensive Income for the period from 1 January 2012 to 31 December 2012 showing a total comprehensive income for the period of:	PLN 504,448
Balance Sheet as at 31 December 2012 showing total assets and total equity and liabilities of:	PLN 5,994,539
Cash Flow Statement for the period from 1 January 2012 to 31 December 2012 showing a net increase in cash and cash equivalents amounting to:	PLN 47,453
Statement of Changes in Equity for the period from 1 January 2012 to 31 December 2012 showing an increase in equity of:	PLN 477,422

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, 11 March 2013

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

Income Statement

		for the year ended	
	Note	**31 December 2012**	**31 December 2011 restated**
Revenue	9	1,783,626	1,631,628
Operating costs	10	(1,375,473)	(1,316,820)
Cost of services, goods and materials sold		(966,132)	(943,652)
Selling expenses		(279,333)	(257,636)
General and administrative expenses		(130,008)	(115,532)
Other operating income/costs		(10,481)	(5,420)
Profit from operating activities		**397,672**	**309,388**
Gains and losses on investment activities	11	315,817	208,560
Finance costs	12	(130,397)	(366,935)
Gross profit for the period		**583,092**	**151,013**
Income tax	13	(53,255)	5,080
Net profit for the period		**529,837**	**156,093**
Basic and diluted earnings per share (in PLN)	15	**1.52**	**0.48**

Statement of Comprehensive Income

		for the year ended	
	Note	**31 December 2012**	**31 December 2011**
Net profit for the period		**529,837**	**156,093**
Hedge valuation		(31,345)	5,874
Income tax relating to hedge valuation	13	5,956	(1,116)
Other comprehensive income, net of tax		**(25,389)**	**4,758**
Total comprehensive income for the period		**504,448**	**160,851**

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

Balance Sheet - Assets

	Note	31 December 2012	31 December 2011 restated	1 January 2011 restated
Reception equipment	16	420,060	434,316	291,208
Other property, plant and equipment	16	172,201	133,841	131,994
Goodwill	17	52,022	52,022	-
Other intangible assets	18	47,821	28,598	20,479
Investment property		-	6,843	6,931
Shares in subsidiaries	19	4,588,928	4,516,033	675,471
Non-current deferred distribution fees	20	35,125	35,028	35,898
Other non-current assets	21	101,604	62,491	-
Total non-current assets		**5,417,761**	**5,269,172**	**1,161,981**
Inventories	22	159,885	159,950	140,165
Bonds		-	14,854	-
Short-term loans granted to related parties		-	-	5,446
Trade and other receivables	23	222,767	201,797	209,707
Income tax receivable		6,458	9,619	6,760
Current deferred distribution fees	20	57,096	59,361	64,722
Other current assets	24	71,256	71,349	12,432
Cash and cash equivalents	25	59,316	11,858	24,195
Total current assets		**576,778**	**528,788**	**463,427**
Total assets		**5,994,539**	**5,797,960**	**1,625,408**

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

Balance Sheet - Equity and Liabilities

	Note	31 December 2012	31 December 2011 restated	1 January 2011 restated
Share capital	26	13,934	13,934	10,733
Share premium	26	1,295,103	1,295,103	-
Hedge valuation reserve	27	(20,631)	4,758	-
Retained earnings		1,692,092	1,189,281	1,048,303
Total equity		**2,980,498**	**2,503,076**	**1,059,036**
Loans and borrowings	28	592,003	958,406	-
Issued bonds	29	1,298,661	1,397,481	-
Finance lease liabilities	30	3,554	934	884
Deferred tax liabilities	13	90,611	65,378	69,986
Deferred income	34	5,181	7,595	16,192
Other non-current liabilities and provisions	31	14,644	5,589	1,900
Total non-current liabilities		**2,004,654**	**2,435,383**	**88,962**
Loans and borrowings	28	311,439	290,617	-
Issued bonds	29	110,610	119,473	-
Finance lease liabilities	30	1,954	252	226
Trade and other payables	32	371,461	239,831	280,411
Deposits for equipment	33	13,259	12,743	15,434
Deferred income	34	200,664	196,585	181,339
Total current liabilities		**1,009,387**	**859,501**	**477,410**
Total liabilities		**3,014,041**	**3,294,884**	**566,372**
Total equity and liabilities		**5,994,539**	**5,797,960**	**1,625,408**

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

Cash Flow Statement

	Note	for the year ended 31 December 2012	31 December 2011
Net profit		**529,837**	**156,093**
Adjustments for:		**(107,371)**	**(82,804)**
Depreciation, amortization and impairment	10	202,783	139,174
Loss on investing activity		492	440
Interest expense		227,979	186,673
Change in inventories		19,149	(19,406)
Change in receivables and other assets		(69,499)	(95,602)
Change in liabilities, provisions and deferred income		76,032	(25,278)
Valuation of hedging instruments		(31,345)	5,874
Foreign exchange (gains)/ losses, net		(111,889)	168,432
Income tax	13	53,255	(5,080)
Net increase in reception equipment provided under operating lease		(179,000)	(244,158)
Dividends income		(297,230)	(197,030)
Other adjustments		1,902	3,157
Cash from operating activities		**422,466**	**73,289**
Income tax paid		(3,544)	(1,485)
Interest received from operating activities		6,170	4,442
Net cash from operating activities		**425,092**	**76,246**
Acquisition of property, plant and equipment		(27,489)	(25,074)
Acquisition of intangible assets		(28,924)	(19,195)
Loans granted		(1,700)	-
Dividends received		297,230	196,817
Acquisition of shares in subsidiaries	19	(45,185)	(2,600,232)
Merger with related entities	35	2,305	1,530
Acquisition of bonds		-	(14,684)
Prepayment for shares		-	(12,000)
Loans repaid - principal		1,700	50
Interest on loans repaid		12	2
Proceeds from sale of property, plant and equipment		208	457
Net cash from/(used in) investing activities		**198,157**	**(2,472,329)**
Term loans received	28	-	2,800,000
Issuance of bonds	29	-	1,372,245
Net cash from Cash Pool		(8,006)	43,839
Proceeds from realization of foreign exchange call options		-	2,480
Payment of interest on loans, borrowings, bonds, finance lease and commissions		(209,803)	(303,547)
Finance lease – principal repayments		(335)	(369)
Repayment of loans and borrowings	28	(357,652)	(1,531,023)
Net cash from/(used in) financing activities		**(575,796)**	**2,383,625**
Net increase/(decrease) in cash and cash equivalents		**47,453**	**(12,458)**
Cash and cash equivalents at the beginning of the year		**11,858**	**24,195**
Effect of exchange rate fluctuations on cash and cash equivalents		5	121
Cash and cash equivalents at the end of the year		**59,316**	**11,858**

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

Statement of Changes in Equity
for the year ended 31 December 2012

	Note	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total equity**
Balance as at 1 January 2012		**13,934**	**1,295,103**	**4,758**	**1,189,281**	**2,503,076**
Total comprehensive income		-	-	(25,389)	529,837	**504,448**
Hedge valuation reserve	*27*	-	-	*(25,389)*	-	***(25,389)***
Net profit for the period		-	-	-	*529,837*	***529,837***
Merger with Cyfrowy Polsat Technology Sp. z o.o.	35	-	-	-	(27,026)	**(27,026)**
Balance as at 31 December 2012		**13,934**	**1,295,103**	**(20,631)**	**1,692,092**	**2,980,498**

* The capital excluded from distribution amounts to PLN 4,645. 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.

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

	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total equity**
Balance as at 1 January 2011	**10,733**	**-**	**-**	**1,048,303**	**1,059,036**
Total comprehensive income	-	-	4,758	156,093	**160,851**
Hedge valuation reserve	-	-	*4,758*	-	***4,758***
Net profit for the period	-	-	-	*156,093*	***156,093***
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)**
Balance as at 31 December 2011	**13,934**	**1,295,103**	**4,758**	**1,189,281**	**2,503,076**

* The capital excluded from distribution amounts to PLN 4,645. 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.

Notes to the Financial Statements

1. The Company

Cyfrowy Polsat S.A. ('the Company', 'Cyfrowy Polsat') was incorporated in Poland as a joint stock company. The Company's shares are traded on the Warsaw Stock Exchange. The Company's registered head 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 paid digital terrestrial television as well as Internet access services provider and a Mobile Virtual Network Operator ('MVNO').

The Company's activities comprise one segment – services rendered to general public.

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

The Company is the Parent Company of Cyfrowy Polsat S.A. Capital Group (Group). The Group encompasses the Company, Cyfrowy Polsat Trade Marks Sp. z o.o., INFO-TV-FM Sp. zo.o., Cyfrowy Polsat Finance AB, Telewizja Polsat Sp. z o.o. and its subsidiaries and investments accounted for under the equity method, Redefine Sp. z o.o. and its subsidiaries, Netshare Sp. z o.o., Gery.pl Sp. z o.o. and Frazpc.pl Sp. z o.o. The Group operates in two segments: (1) retail business which relates to the provision of services to the general public, including digital television transmission signal, Internet access services, mobile TV services, online TV services, mobile services, and production of set-top boxes; (2) broadcasting and television production which consist mainly of production, acquisition and broadcasting of information and entertainment programs as well as TV series and feature films broadcasted on television channel in Poland.

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 2012 have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU (IFRS EU). The Company applied the same accounting policies in the preparation of the financial data for the year ended 31 December 2012 and the financial statements for 2011, 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 2012 and except for the effects of presentation changes as described in note 7.

During the year ended 31 December 2012 the following became effective:

(i) amendments to IFRS 7 – *Financial Instruments: Disclosures – Transfers of Financial Assets*
The amendments specify the scope of disclosures related to transfers of financial assets. The changes have no impact on these financial statements.

Standards published but not yet effective:

(i) amendments to IAS 19 – *Employee Benefits*
The amendments introduce new requirements for the recognition and measurement of the defined benefit plan costs and termination benefits as well as amend disclosure requirements. The changes have no impact on 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, which are valued at fair value.

b) Going concern assumption

These 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 2012.

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 45.

e) Comparative financial information

Comparative data or data presented in previously published financial statements has been restated, if necessary, in order to reflect presentational changes introduced in the current period. For presentation changes see note 7.

Additionally, starting from the year 2012 the Company recognizes lower revenues from penalties for breaching contracts by the clients due to change of accounting estimates regarding recognition and recoverability of these revenues. This change of estimates does not materially influence the Company's operating results as the Company respectively recognizes lower bad debt allowance expense. The Management Board believes that this approach reflects the business standing of the Company more precisely and is more transparent for the market environment.
Had the Company proceeded with this approach in the year 2011, the revenue would have totalled PLN 1,588,781.

The balance sheet data as at 31 December 2012 is not fully comparable with prior-year data as it includes the effect of the merger of Cyfrowy Polsat Technology Sp. z o.o. with the Company. The merger has no effect on the income statement data for the period of 12 months ended 31 December 2012 as the merger was effective on 31 December 2012.

f) Foreign currency

Transactions in foreign currencies are translated to Polish zloty at exchange rates effective on a day of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated in accordance with 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 trade and a part of other receivables, cash and cash equivalents, loans and borrowings, issued bonds, finance lease liabilities, deposits for equipment and trade and a part of other payables.

Non-derivative financial instruments are recognized initially at fair value increased by directly attributable transaction costs.

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 short term deposits (up to 3 months). The cash and cash equivalents balance presented in the cash flow statement comprises the above mentioned cash and cash equivalents.

Principles for recognition of gains and losses on investment activities and finance costs are presented in note 5 (t).

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.

Deposits

Deposits received from subscribers and distributors are valued at amortised costs and are presented as non-current or current liabilities depending on the minimum term of the agreements.

(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 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, the Company's hedges are classified as 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.

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 cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in 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 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 gain or loss is recognized in finance cost or when a forecast sale occurs.

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 and public offer of 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.

Share premium

Share premium includes the excess of issue value over the nominal value of shares issued. For presentation changes see note 7.

Retained earnings

Retained earnings include net result and effect of merger with the Company. Effect of merger is calculated as the difference between assets and liabilities of the merged entity.

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. This capital is excluded from distribution, however, it can be utilised to cover accumulated losses. For presentation changes see note 7.

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) 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. Replaced item is derecognised. Other property, plant and equipment related costs are recognized in profit and loss as incurred.

(iii) 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.

Land is not depreciated.

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

Buildings and structures	60	years
Reception equipment	5	years
Technical equipment and machinery	3-15	years
Vehicles	5	years
Other	3-10	years

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

(iv) Leased assets

Assets used under lease, tenancy, rental or similar contracts which meet finance lease criteria, are classified as non-current assets and 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 (Reception equipment in balance sheet). 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) Goodwill

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

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

(ii) Other intangible assets

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 demonstrate: the technical feasibility of completing the intangible asset so that it will be available for use or sale; its intention to complete the intangible asset and use or sell it; its ability to use or sell the intangible asset; how the intangible asset will generate probable future economic benefits, the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; its ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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.

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.

k) Shares in subsidiaries

Shares in subsidiaries are measured at cost less impairment losses. Accounting principles relating to impairment testing are presented in 5 (n).

l) Inventories

Inventories are measured at the lower of cost or net realizable 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 realizable 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.

m) Prepayments

Prepayments are recognized in the nominal value upon payments made. The costs are recognized in the income statement based on the actual usage of data transmission and contractual fees.

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.

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 cost of debt collection services and bad debt allowance and receivables written off. 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.

The Company considers on annual basis whether there are indicators that investments in subsidiaries suffered any impairment (i.a. value of net assets). If so, then the impairment test is performed and the recoverable amount of the investment is estimated based on value-in-use calculations.

(ii) Non-financial assets

The carrying amounts of non-financial assets, other than 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 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) 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. Actuarial gains and losses are recognized in the income statement in full in the period they originated.

(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 recognizes a liability 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.

p) 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.

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.

q) 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.

r) 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 revenue, including subscription and activation fees for DTH and digital terrestrial television, 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 is recognized as these services are provided. Retail revenue also includes 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.

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 residual method in such a way that the amount recognised for items already received cannot be higher than cash already received.

s) 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 current assets, however, the commissions, which will be settled after the 12-month period from the balance sheet date, are presented as other non-current assets.

t) Gains and losses on investment activities and finance costs

Gains and losses on investment activities income includes interest income on funds invested, interest expenses (other than interest expenses on borrowings), dividends income, results on the disposal of available-for-sale financial instruments, net foreign currency gains/losses, and results on completed forward exchange contracts and call options, impairment losses recognized on financial assets, unwinding of the discount on provisions, dividends from preference shares classified as liabilities. Interest income and expense (other than interest expense on borrowings) is recognized as it accrues in profit or loss using the effective interest method. Dividends income is recognized in profit or loss on the date that the Company's right to receive payment is established.

Finance costs comprise interest expense on borrowings (including bank loans and issued bonds), foreign exchange gains/losses on issued bonds due in 2018, bank and other charges on borrowings as well as guarantee fees resulting from the indebtedness. Borrowing costs are recognized in profit or loss using the effective interest method.

u) 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.

v) 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 other comprehensive income, in which case it is recognized in other comprehensive income.

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. When not recognized deferred tax asset becomes recoverable, it is recognised 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 as criteria for offsetting from IAS 12 are fulfilled.

w) Earnings per share

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

x) 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.

Further information on segments is presented in the consolidated financial statements of the Group.

y) 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 disposals/(additions) 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).

z) Business combinations among entities under common control

In principle, the issues relating to acquisitions and business combinations are regulated by IFRS 3 “Business combinations”. However, transactions under common control are excluded from the scope of this standard. The situation in which a given transaction or business phenomenon that require recognizing in financial statements prepared in accordance with IFRS are not regulated by the provisions of the individual standards is regulated by the provisions of IAS 8, points 10-12. These provisions put an entity which prepares its financial statements in accordance with IFRS under an obligation to determine an accounting policy and to use it on a consistent basis for similar transactions.

The Company decided to apply the predecessor accounting method to account for the combination of entities that are under common control. This method is based on the assumption that the entities combining were, both before and after the transaction, controlled by the same shareholder and, therefore, the financial statements reflect the continuity of joint control and do not reflect changes in net asset values to fair values (or the recognition of new assets) or the valuation of goodwill, because none of the entities combining is not actually being acquired. The predecessor accounting method applied by the Company consists of adding up the carrying values of the items taken from the statements of financial position as at the combination date, as well as the revenues and expenses and gains and losses of the entities combining as from the combination date.

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) Derivatives

The fair value of derivatives is calculated based on their quoted closing bid price at the balance sheet date or, in the lack thereof, other inputs that are observable for the asset or liability, either directly (i. e. as prices) or indirectly (i. e. derived from prices).

(ii) Non-derivative financial assets

The fair value of non-derivative financial asset for disclosure purposes is estimated as the present value of future cash flows discounted using a market interest rate as at the balance sheet date.

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

(iii) 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.

7. Change in presentation

The Company has changed its income statement presentation to present cost of debt collection services together with bad debt allowance expenses and income resulting from reversal of bad debt allowance in the operating costs. None of the introduced changes affected the previously reported amounts of net profit for the period, EBITDA, or equity.

Cost of debt collection services were previously presented within Costs of services, goods and materials sold (Distribution, marketing, customer relation management and retention costs in costs by kind – see note 10) while bad debt allowance was presented within Other operating income/costs.

The Company changed its income statement presentation to present gains and losses on investment activities and finance costs in respect to Company's indebtedness separately. None of the introduced changes affected the previously reported amounts of net profit, EBITDA, or equity.

Comparable results for the period ended 31 December 2011 have been reclassified to conform to the current period presentation as presented in the table below. Reclassifications are presented in the table below. Reclassifications have also been made in the notes to these financial statements.

	for the year ended		
	31 December 2011 *(reported)*	**Change**	**31 December 2011** *(restated)*
Revenue	1,631,628		1,631,628
Operating costs	(1,254,692)	(62,128)	(1,316,820)
Cost of services, goods and materials sold	(881,524)	(62,128)	(943,652)
Selling expenses	(257,636)		(257,636)
General and administrative expenses	(115,532)		(115,532)
Other operating income/costs	(67,548)	62,128	(5,420)
Profit from operating activities	**309,388**	**-**	**309,388**
Gains and losses on investment activities	213,018	(4,458)	208,560
Finance costs	(371,393)	4,458	(366,935)
Gross profit for the period	**151,013**	**-**	**151,013**
Income tax	5,080		5,080
Net profit for the period	**156,093**	**-**	**156,093**

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

The Company has changed its balance sheet presentation to present long term portion of the data transfer order in Other non-current assets (reclassification from Other current assets). The Company also reclassified and presented Non-current deferred distribution fees and Current deferred distribution fees separately from Other non-current assets and Other current assets, respectively. The Company reclassified receivables and deferred income.

The Company has also changed its Total equity presentation to present aggregated amounts of Reserve capital and Other reserves together with Retained earnings while at the same time presenting Share premium in a separate line.

None of the introduced changes affected the previously reported amounts of net profit for the period, EBITDA, or equity.

	31 December 2011 *(reported)*	**Change**	**31 December 2011** *(restated)*
Reception equipment	434,316		434,316
Other property, plant and equipment	133,841		133,841
Goodwill	52,022		52,022
Other intangible assets	28,598		28,598
Investment property	6,843		6,843
Shares in subsidiaries	4,516,033		4,516,033
Non-current deferred distribution fees	-	35,028	35,028
Other non-current assets	44,691	17,800	62,491
Total non-current assets	**5,216,344**	**52,828**	**5,269,172**
Inventories	159,950		159,950
Bonds	14,854		14,854
Trade and other receivables	178,417	23,380	201,797
Income tax receivable	9,619		9,619
Current deferred distribution fees	-	59,361	59,361
Other current assets	183,538	(112,189)	71,349
Cash and cash equivalents	11,858		11,858
Total current assets	**558,236**	**(29,448)**	**528,788**
Total assets	**5,774,580**	**23,380**	**5,797,960**

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

	31 December 2011 *(reported)*	Change	31 December 2011 *(restated)*
Share capital	13,934		13,934
Reserve capital	1,037,258	(1,037,258)	-
Other reserves	1,305,277	(1,305,277)	-
Share premium	-	1,295,103	1,295,103
Hedge valuation reserve	4,758		4,758
Retained earnings	141,849	1,047,432	1,189,281
Total equity	**2,503,076**	**-**	**2,503,076**
Loans and borrowings	958,406		958,406
Issued bonds	1,397,481		1,397,481
Finance lease liabilities	934		934
Deferred tax liabilities	65,378		65,378
Deferred income	-	7,595	7,595
Other non-current liabilities and provisions	5,589		5,589
Total non-current liabilities	**2,427,788**	**7,595**	**2,435,383**
Loans and borrowings	290,617		290,617
Issued bonds	119,473		119,473
Finance lease liabilities	252		252
Trade and other payables	239,831		239,831
Deposits for equipment	12,743		12,743
Deferred income	180,800	15,785	196,585
Total current liabilities	**843,716**	**15,785**	**859,501**
Total liabilities	**3,271,504**	**23,380**	**3,294,884**
Total equity and liabilities	**5,774,580**	**23,380**	**5,797,960**

8. Approval of the Financial Statements

These financial statements were approved for publication by the Management Board on 11 March 2013.

9. Revenue

	for the year ended	
	31 December 2012	**31 December 2011**
Retail revenue	1,732,787	1,594,880
Sale of equipment	18,965	12,224
Other revenue	31,874	24,524
Total	**1,783,626**	**1,631,628**

Retail revenue consists of pay-TV 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.

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10. Operating costs

		for the year ended	
	Note	31 December 2012	31 December 2011 restated
Programming costs		425,050	434.480
Distribution, marketing, customer relation management and retention costs		312,400	311.443
Depreciation, amortization and impairment		202,783	139.174
Salaries and employee-related costs	a	98,406	94.041
Broadcasting and signal transmission costs		91,772	86.736
Cost of settlements with mobile network operators and interconnection charges		44,110	25.374
Cost of debt collection services and bad debt allowance and receivables written off		27,315	71,097
Cost of equipment sold		36,173	29,800
Other costs		137,464	124.675
Total costs by kind		**1,375,473**	**1,316,820**

	for the year ended	
	31 December 2012	31 December 2011 restated
Cost of services, goods and materials sold	966,132	943,652
Selling expenses	279,333	257,636
General and administrative expenses	130,008	115,532
Total costs by function	**1,375,473**	**1,316,820**

a) Salaries and employee-related costs

	for the year ended	
	31 December 2012	31 December 2011
Salaries	83,826	81,595
Social security contributions	11,381	9,417
Other employee-related costs	3,199	3,029
Total	**98,406**	**94,041**

Average headcount

	for the year ended	
	31 December 2012	31 December 2011
Number of employees – employment contracts	704	669

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

11. Gains and losses on investment activities

	for the year ended	
	31 December 2012	31 December 2011 restated
Dividends received	297,230	197,030
Guarantee fees from related parties	9,499	11,302
Interest income	6,302	4,686
Results on call options:	-	(3,125)
Foreign currency options not designated as hedging instruments	-	*580*
Foreign currency options – settlement of instruments	-	*(3,705)*
Other foreign exchange gains/(losses)	2,318	(1,167)
Other gains and losses on investment activities, net	468	(166)
Total	**315,817**	**208,560**

12. Finance costs

	for the year ended	
	31 December 2012	31 December 2011 restated
Interest expense on loans and borrowings	109,331	115,471
Realization of hedging instruments (IRS)	1,107	696
Interest expense on issued bonds	125,270	80,374
Impact of hedging instruments valuation on interest expense on issued bonds	1,694	(1,144)
Realization of hedging instruments (CIRS)	(3,428)	(4,190)
Foreign exchange differences on issued bonds	(111,884)	168,553
Guarantee fees	3,922	3,723
Bank and other charges	4,385	3,452
Total	**130,397**	**366,935**

13. Income tax

(i) Income tax in the income statement

	for the year ended	
	31 December 2012	31 December 2011
Corporate income tax	6,402	-
Change in deferred income tax in the income statement	46,853	(4,667)
Correction of income tax statements for previous years	-	(413)
Income tax expense in the income statement	**53,255**	**(5,080)**

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

	for the year ended	
Change in deferred income tax	**31 December 2012**	**31 December 2011**
Receivables and other assets	17,365	70
Liabilities	16,312	(18,133)
Hedge valuation	(322)	218
Deferred distribution fees	(412)	(1,184)
Tangible and intangible non-current assets	5,310	31,561
Tax loss	8,600	(17,199)
Change in deferred income tax – total	**46,853**	**(4,667)**

(ii) Income tax recognized in other comprehensive income

	for the year ended	
	31 December 2012	**31 December 2011**
Change in deferred income tax on hedge valuation	(5,956)	1,116
Income tax expense recognized in other comprehensive income - total	**(5,956)**	**1,116**

(iii) Effective tax rate reconciliation

	for the year ended	
	31 December 2012	**31 December 2011**
Profit before income tax	583,092	151,013
Profit before tax multiplied by the statutory tax rate in Poland of 19%	110,787	28,692
Dividend received from subsidiaries	(56,474)	(37,436)
Receivables written off	(2,665)	3,797
Other non-taxable revenue and non-tax deductible costs, net at 19% tax rate	1,607	(133)
Tax charge for the year	**53,255**	**(5,080)**
Effective tax rate	**9.1%**	**(3.4%)**

(iv) Deferred tax assets

	31 December 2012	**31 December 2011**
Liabilities	33,420	41,847
Hedge valuation	5,035	1,320
Tangible non-current assets	5,537	2,562
Receivables and other assets	10,227	17,502
Tax loss	8,599	17,199
Total deferred tax assets	**62,818**	**80,430**
Offsetting of deferred tax liabilities and deferred tax assets	(62,818)	(80,430)
Deferred tax assets in the balance sheet	**-**	**-**

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(v) Tax losses recognized and carried forward

	31 December 2012	31 December 2011
2011 tax loss carried forward	45,259	90,518
Tax losses carried forward – total	**45,259**	**90,518**

As at 31 December 2011 the Company incurred tax losses amounting to 90,518 zloty 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 2012	31 December 2011
Receivables and other assets	50,819	41,731
Hedge valuation	91	2,654
Liabilities	26	-
Deferred distribution fees	17,522	17,934
Tangible non-current assets	84,971	83,489
Total deferred tax liabilities	**153,429**	**145,808**
Offsetting of deferred tax liabilities and deferred tax assets	(62,818)	(80,430)
Deferred tax liabilities in the balance sheet	**90,611**	**65,378**

14. EBITDA

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

	for the year ended	
	31 December 2012	31 December 2011
Net profit for the period	529,837	156,093
Income tax (see note 13)	53,255	(5,080)
Gains and losses on investment activities (see note 11)	(315,817)	(208,560)
Finance costs (see note 12)	130,397	366,935
Depreciation, amortization and impairment* (see note 10)	202,783	139,174
EBITDA	**600,455**	**448,562**

* includes impairment of property, plant and equipment and intangible assets

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15. Basic and diluted earnings per share

As at the balance sheet date, the Company did not have financial instruments that could have a dilutive effect, therefore the Company's diluted earnings per share are equal to basic earnings per share.

	for the year ended	
	31 December 2012	**31 December 2011**
Net profit for the period	529,837	156,093
Weighted average number of ordinary and preference shares in the year	348,352,836	324,234,858
Earnings per share in PLN	**1.52**	**0.48**

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16. Property, plant and equipment

	Reception equipment	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Tangible assets under construction	**Other property, plant and equipment**
Cost								
Cost as at 1 January 2012	**598,441**	**6,005**	**75,433**	**115,933**	**11,383**	**19,092**	**4,170**	**232,016**
Merger with subsidiary (see note 35)	(48,709)	-	333	7,420	144	743	296	8,936
Additions	184,533	-	8,380	14,919	166	3,061	20,469	46,995
Transfer from assets under construction	28	-	362	2,621	65	366	(3,442)	(28)
Transfer from investment property	-	860	6,688	-	-	-	-	7,548
Disposals	(16,984)	-	(389)	(4,101)	(638)	(1,545)	-	(6,673)
Cost as at 31 December 2012	**717,309**	**6,865**	**90,807**	**136,792**	**11,120**	**21,717**	**21,493**	**288,794**
Accumulated impairment losses as at 1 January 2012	**(11,684)**	**-**	**(63)**	**(1,109)**	**-**	**(231)**	**-**	**(1,403)**
Recognition	(17,840)	-	-	(9)	-	(13)	-	(22)
Reversal	565	-	43	317	-	119	-	479
Utilisation	975	-	-	-	-	-	-	-
Accumulated impairment losses as at 31 December 2012	**(27,984)**	**-**	**(20)**	**(801)**	**-**	**(125)**	**-**	**(946)**
Accumulated depreciation								
Accumulated depreciation as at 1 January 2012	**152,441**	**-**	**15,813**	**64,435**	**4,754**	**11,770**	**-**	**96,772**
Merger with subsidiary (see note 35)	(16,536)	-	-	-	-	-	-	-
Additions	143,728	-	4,624	14,525	1,980	3,023	-	24,152
Transfer from investment property	-	-	580	-	-	-	-	580
Disposals	(10,368)	-	(265)	(3,779)	(476)	(1,337)	-	(5,857)
Accumulated depreciation as at 31 December 2012	**269,265**	**-**	**20,752**	**75,181**	**6,258**	**13,456**	**-**	**115,647**
Carrying amount								
As at 1 January 2012	**434,316**	**6,005**	**59,557**	**50,389**	**6,629**	**7,091**	**4,170**	**133,841**
As at 31 December 2012	**420,060**	**6,865**	**70,035**	**60,810**	**4,862**	**8,136**	**21,493**	**172,201**

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 cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

	Reception equipment	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Tangible assets under construction	**Other property, plant and equipment**
Cost								
Cost as at 1 January 2011	**357,135**	**6,005**	**70,481**	**98,042**	**7,941**	**15,669**	**6,839**	**204,977**
Merger with subsidiaries	-	-	2,576	1,777	539	1,696	-	6,588
Additions	246,779	-	1,994	12,266	4,008	2,778	2,851	23,897
Transfer from assets under construction	-	-	839	4,032	-	384	(5,255)	-
Disposals	(5,473)	-	(457)	(184)	(1,105)	(1,435)	(265)	(3,446)
Cost as at 31 December 2011	**598,441**	**6,005**	**75,433**	**115,933**	**11,383**	**19,092**	**4,170**	**232,016**
Accumulated impairment losses as at 1 January 2011	**(3,707)**	**-**	**(8)**	**(999)**	**-**	**(30)**	**-**	**(1,037)**
Merger with subsidiaries	-	-	(55)	(112)	-	(212)	-	(379)
Recognition	(7,977)	-	-	-	-	-	-	-
Utilisation	-	-	-	2	-	11	-	13
Accumulated impairment losses as at 31 December 2011	**(11,684)**	**-**	**(63)**	**(1,109)**	**-**	**(231)**	**-**	**(1,403)**
Accumulated depreciation								
Accumulated depreciation as at 1 January 2011	**62,220**	**-**	**10,839**	**48,494**	**3,403**	**9,210**	**-**	**71,946**
Merger with subsidiaries	-	-	625	399	187	570	-	1,781
Additions	92,903	-	4,483	15,718	1,977	3,221	-	25,399
Disposals	(2,682)	-	(134)	(176)	(813)	(1,231)	-	(2,354)
Accumulated depreciation as at 31 December 2011	**152,441**	**-**	**15,813**	**64,435**	**4,754**	**11,770**	**-**	**96,772**
Carrying amount								
As at 1 January 2011	**291,208**	**6,005**	**59,634**	**48,549**	**4,538**	**6,429**	**6,839**	**131,994**
As at 31 December 2011	**434,316**	**6,005**	**59,557**	**50,389**	**6,629**	**7,091**	**4,170**	**133,841**

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’.

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17. Impairment test on goodwill allocated to the “Retail” cash-generating unit

The Company recognized goodwill in the amount of PLN 52,022 on the acquisition of mPunkt in the financial statements and allocated it to the “Retail” cash-generating unit. “Retail” cash-generating unit is equivalent to the Company. Upon merger of mPunkt with the Company the amount of goodwill recognized in consolidated financial statements was transferred to these financial statements (see accounting policy 5z)

Goodwill was tested for impairment as at 31 December 2012. The impairment test did not indicate impairment.

The impairment test was 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. The Company tests the total carrying amount of the cash-generating unit and any impairment identified is recognized in the profit or loss immediately with respect to goodwill first and is not subsequently reversed. If goodwill is fully impaired the remaining amount of the impairment loss is allocated to the brand and other assets of the cash-generating unit on a pro rata basis.

In the annual impairment test performed by the Company as at 31 December 2012 the calculation of value-in-use was based on discounted free cash flows and involved the use of estimates related to cash flow projections based on actual financial business plans covering the period until 2017.

<u>The key financial assumptions</u>
The most sensitive key financial assumptions used in the value-in-use calculations of the “Retail” cash-generating unit were as follows:
- discount rate
- terminal growth rate used for estimating fee cash flows beyond the period of financial plans

	Retail	
	2012	2011
Terminal growth	3%	3%
Discount rate before tax	10.3%	11.6%

Discount rate – the discount rate reflects the estimate made by the management of the risks specific to each cash-generating unit, taking into account the time value of money and risks specific to the asset. The discount rate was estimated on the basis of weighted average cost of capital method (WACC) and considered Company’s and its operating segments’ business environment. WACC considers both debt and equity. Cost of equity is based on the return on investment excepted by the Company’s investors while cost of debt is based on the interest bearing debt instruments. Operating segment- specific risk is considered by the estimation of beta. Beta is estimated annually and is based on the market data.

Terminal growth rate – growth rates are based on widely available published market data such as International Monetary Fund publications.

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Sensitivity analysis of key financial assumptions

The Company believes that the key assumptions made in testing for impairment of the "Retail" cash-generating unit as at 31 December 2012 are reasonable and are based on our experience and market forecasts that are published by the industry experts. Management believes that any reasonably possible change in the key assumptions on which the cash-generating unit's recoverable amount is based would not cause the impairment charge to be recognized.

18. Other intangible assets

	Software and licences	**Other**	**Under development**	**Total**
Cost				
Cost as at 1 January 2012	**64,135**	**399**	**10,804**	**75,338**
Additions	20,450	1,876	12,150	34,476
Merger with subsidiary (see note 35)	150	883	1,610	2,643
Transfer from intangible assets under development	8,676	-	(8,676)	-
Disposals	(16)	-	-	(16)
Cost as at 31 December 2012	**93,395**	**3,158**	**15,888**	**112,441**
Accumulated impairment losses as at 1 January 2012	**-**	**(18)**	**-**	**(18)**
Accumulated impairment losses as at 31 December 2012	**-**	**(18)**	**-**	**(18)**
Accumulated amortization				
Accumulated amortization as at 1 January 2012	**46,358**	**364**	**-**	**46,722**
Additions	17,466	518	-	17,984
Merger with subsidiary (see note 35)	-	(88)	-	(88)
Disposals	(16)	-	-	(16)
Accumulated amortization as at 31 December 2012	**63,808**	**794**	**-**	**64,602**
Carrying amounts				
As at 1 January 2012	**17,777**	**17**	**10,804**	**28,598**
As at 31 December 2012	**29,587**	**2,346**	**15,888**	**47,821**

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

	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**
Accumulated impairment losses as at 1 January 2011	**-**	**(18)**	**-**	**(18)**
Recognition	-	(175)	-	(175)
Reversal	-	175	-	175
Accumulated impairment losses 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 cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

19. Shares in subsidiaries

Shares in subsidiaries as at 31 December 2012

	Company's registered office	Activity	Voting rights percentage	Cost and carrying amount
Telewizja Polsat Sp. z o.o.	ul. Ostrobramska 77, Warszawa	broadcasting and television production	100%	3,898,852
Cyfrowy Polsat Trade Marks Sp. z o.o.	ul. Łubinowa 4a, Warszawa	non-current assets and intellectual property rights management	100%	615,445
Cyfrowy Polsat Finance AB	Stureplan 4C, 4 TR 114 35 Stockholm, Szwecja	financial transactions	100%	232
INFO-TV-FM Sp. z o.o.	ul. Łubinowa 4a, Warszawa	radio and TV activities	100%	29,313
Redefine Sp. z o.o.	al. Stanów Zjednoczonych 61 A, Warszawa	web portals activities	100%	31,228
Gery.pl Sp. z o.o.	al. Stanów Zjednoczonych 61 A, Warszawa	web portals activities	100%	340
Frazpc.pl Sp. z o.o.	al. Stanów Zjednoczonych 61 A, Warszawa	web portals activities	100%	977
Netshare Sp. z o.o.	al. Stanów Zjednoczonych 61 A, Warszawa	electronic media (Internet) advertising broker	100%	10,310
Karpacka Telewizja Kablowa Sp. z o.o.	ul. Chorzowska 3, Radom	dormant	85%	2,231
			Total	**4,588,928**

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	Note	1 January 2012	Additions	Decreases	31 December 2012
Telewizja Polsat Sp. z o.o.		3,898,852	-	-	3,898,852
Cyfrowy Polsat Technology Sp. z o.o.	35	50	-	(50)	-
Cyfrowy Polsat Trade Marks Sp. z o.o.		615,445	-	-	615,445
Cyfrowy Polsat Finance AB		232	-	-	232
INFO-TV-FM Sp. z o.o.		-	29,313	-	29,313
Redefine Sp. z o.o.		-	31,228	-	31,228
Gery.pl Sp. z o.o.		-	340	-	340
Frazpc.pl Sp. z o.o.		-	977	-	977
Netshare Sp. z o.o.		-	10,310	-	10,310
Karpacka Telewizja Kablowa Sp. z o.o.		1,454	777*	-	2,231
Total		**4,516,033**	**72,945**	**(50)**	**4,588,928**

*In 2012 write-downs of the shares in Karpacka Telewizja Kablowa Sp. z o.o. in the amount of PLN 777 were reversed since the conditions ceased.

Changes in the value of shares

Changes in book values of shares in subsidiaries

	2012	2011
Purchase price		
As at 1 January	**4,516,810**	**676,248**
Increase	72,168	3,962,706
Decrease	(50)	(122,144)
As at 31 December	**4,588,928**	**4,516,810**
Accumulated impairment losses		
As at 1 January	**777**	**777**
Decrease	(777)	**-**
As at 31 December	**-**	**777**
Carrying amounts		
As at 1 January	**4,516,033**	**675,471**
As at 31 December	**4,588,928**	**4,516,033**

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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. In 2012 Cyfrowy Polsat S.A. purchased 100% of shares in: INFO-TV-FM Sp. z o.o., Redefine Sp. z o.o., Gery.pl Sp z o.o. in liquidation, Frazpc.pl Sp. z o.o. and Netshare Sp. z o.o. Moreover in 2012 merger with Cyfrowy Polsat Technology Sp. z o.o (CPT) took place. Details of the effects of merger with CPT are presented in note 35.

20. Deferred distribution fees

	31 December 2012	31 December 2011
Deferred distribution fees	92,221	94,389
Of which: Current	*57,096*	*59,361*
Non-current	*35,125*	*35,028*

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

As at 31 December 2012, the balance of distribution fees relating to twelve-month agreements as at the date of signing was PLN 91,958.

21. Other non-current assets

	31 December 2012	31 December 2011
Financial instruments (IRS/CIRS) (see note 27)	-	3,140
Other deferred costs	101,323	59,077
Deposits paid	281	274
Total	**101,604**	**62,491**

Deferred costs relate mainly to settlements with Mobyland for the data transmission service (see note 39).

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

22. Inventories

Types of inventories	31 December 2012	31 December 2011
Set-top boxes and disc drives – merchandise	45,862	118,720
Set-top boxes and disc drives – finished goods	32,405	-
Digital Video Broadcasting – Terrestrial units – merchandise	3,034	-
Digital Video Broadcasting – Terrestrial units – finished goods	17.485	-
SMART and SIM cards	4,454	6,921
Telephones, modems and tablets	20,432	21,170
Antennas and converters	3,479	6,135
Materials used in production of reception equipment	26,694	-
Other inventories	9,083	10,181
Total gross value	**162,928**	**163,127**
Write-down of inventories	(3,043)	(3,177)
Total net value	**159,885**	**159,950**

Write-downs of inventories	31 December 2012	31 December 2011
Opening balance	**3,177**	**3,396**
Increase	2,109	1,139
Utilisation	(1,917)	-
Decrease	(326)	(1,358)
Closing balance	**3,043**	**3,177**

23. Trade and other receivables

	31 December 2012	31 December 2011 restated
Trade receivables from related entities (see note 39)	10,739	4,320
Trade receivables from non-related entities	178,722	156,172
Tax and social security receivables	32,399	40,359
Other receivables	907	946
Total	**222,767**	**201,797**

Trade receivables from non-related entities include receivables from individual clients, distributors and others.

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

Trade receivables in currency

Currency	31 December 2012	31 December 2011 restated
PLN	175,835	152,658
EUR	13,032	7,669
USD	594	165
Total	**189,461**	**160,492**

Movements in bad debt allowance

	31 December 2012	31 December 2011
Opening balance	**85,434**	**111,504**
Increase	20,962	65,208
Reversal	(7,209)	(3,177)
Utilisation	(57,030)	(88,101)
Closing balance	**42,157**	**85,434**

24. Other current assets

	31 December 2012	31 December 2011 restated
Prepayment for INFO-TV-FM Sp. z o.o. shares	-	12,000
Financial instruments (IRS/CIRS) (see note 27)	478	10,828
Other deferred costs	67,495	45,584
Other deferred income	3,283	2,937
Total	**71,256**	**71,349**

Other deferred costs comprise mainly deferred costs related to the agreement with Mobyland Sp. z o.o. (see note 39).

25. Cash and cash equivalents

	31 December 2012	31 December 2011
Cash on hand	127	102
Current accounts	33,628	3,127
Deposits	25,561	8,629
Total	**59,316**	**11,858**

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

Currency	31 December 2012	31 December 2011
PLN	42,350	10,369
EUR	10,645	1,356
USD	6,316	124
GBP	2	5
CHF	3	4
Total	**59,316**	**11,858**

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

26. Equity

(i) Share capital

Presented below is the structure of the Company's share capital as at 31 December 2012 and 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 2012 was as follows:

	31 December 2012				
	Number of shares	Nominal value of shares	% of share capital held	Number of votes	% of voting rights
Pola Investments Ltd. [1]	154,204,296	6,168	44.27%	306,709,172	58.11%
Sensor Overseas Ltd. [2]	25,341,272	1,014	7.27%	50,382,647	9.55%
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] Pola Investments Ltd. is controlled by Mr. Zygmunt Solorz-Żak

[2] Sensor Overseas Ltd. is controlled by Mr. Heronim Ruta

The Company received from Mr. Zygmunt Solorz-Żak and from the family foundation (trust) TiVi Foundation the information regarding the transfer of ownership of shares in Pola Investments Ltd. to the family foundation (trust) TiVi Foundation seated in Vaduz, Lichtenstein ("TiVi Foundation"), based on the agreement dated 13 February 2013.

The shares held by Pola and included in the proxy given to Pola by Sensor Overseas Ltd. seated in Nicosia, Cyprus (the company controlled by Mr. Heronim Ruta), represent jointly more than 50% of votes at the general meeting of the Company.

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.

(ii) Share premium

Share premium includes the excess of issue value over the nominal value of shares issued.

27. Hedge valuation reserve

Purchase of hedging instruments

In 2012, the Company concluded two CIRS (cross-currency interest rate swap) transactions for the purpose of hedging future cash flows regarding interest payments on bonds, denominated in euro.

The Company concluded the following IRS agreements in 2012:

On 28 June 2012 the Company concluded IRS (interest rate swap) transaction for the purpose of hedging future cash flows regarding term loan interest payments (Senior Facilities Agreement). The Senior Facility Agreement was concluded to finance acquisition of Telewizja Polsat S.A. According to the agreement the Company is a fixed rate payer and the floating rate payer is bank. The termination date of the hedge relationship was agreed at 31 December 2014. The notional amount is equal to PLN 362,869,769 (not in thousands).

On 21 December 2012 the Company concluded IRS (interest rate swap) transaction for the purpose of hedging future cash flows regarding term loan interest payments (Senior Facilities Agreement). The Senior Facility Agreement was concluded to finance acquisition of Telewizja Polsat S.A. According to the agreement the Company is a fixed rate payer and the floating rate payers are banks. The termination date of the hedge relationship was agreed at 31 March 2015. The notional amount is equal to PLN 191,638,245 (not in thousands).

Impact of hedging instruments valuation on assets and liabilities as at 31 December 2012

	IRS	**CIRS**	**Total**
Assets			
Non-current	-	-	-
Current	-	478	478
Liabilities			
Long-term	(6,073)	(3,083)	(9,156)
Short-term	(9,248)	(8,095)	(17,343)
Total	**(15,321)**	**(10,700)**	**(26,021)**

Impact of hedging instruments valuation on assets and liabilities as at 31 December 2011

	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 2012	**4,758**
Valuation of cash flow hedges	(33,040)
Amount transferred to income statement	1,695
Deferred tax	5,956
Change for the year	**(25,389)**
Balance as at 31 December 2012	**(20,631)**

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

	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**

In 2012 the hedge was valued at PLN 33,040 (negative), including PLN 1,695 recognized in the profit and loss account in correspondence with finance costs. Since the hedge was determined to be effective, the remaining amount of PLN 31,345 was recognized within the hedge valuation reserve. The total effect of the hedge valuation on the hedge valuation reserve in 2012 amounts to PLN 25,389, representing the amount of the valuation, net of related deferred tax.

As at 31 December 2011 the hedge was valued at PLN 7,019, including PLN 1,145 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 was recognized within the hedge valuation reserve. The total effect of the hedge valuation on the hedge valuation reserve amounts to PLN 4,758, representing the amount of the valuation, net of related deferred tax.

28. Loans and borrowings

Loans and borrowings	**31 December 2012**	**31 December 2011**
Short-term liabilities	311,439	290,617
Long-term liabilities	592,003	958,406
Total	**903,442**	**1,249,023**

Change in loans and borrowings liabilities

	for the year ended	
	31 December 2012	**31 December 2011**
Loans and borrowings as at 1 January	**1,249,023**	**-**
Merger with mPunkt	-	12,101
Term loans received	-	2,800,000
Repayment of capital	(357,652)	(1,531,023)
Repayment of interest and commissions	(89,254)	(191,365)
Net cash from Cash Pool	(8,006)	43,839
Interest accrued	109,331	115,471
Loans and borrowings as at 31 December	**903,442**	**1,249,023**

On 29 August 2012 the Company has partly re-paid a principal of its Term Facility Loan in the amount of PLN 200,000. The repayment was executed using the cash generated from operations.

Cash pool liability amounted to PLN 35,831 and PLN 43,839 as at 31 December 2012 and 31 December 2011, respectively.

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 and a revolving facility loan of up to PLN 200,000. 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 2012 the revolving facility was not used.

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 1.5 for a given Period. The Interest Cover shall be at least 3.0 for a given Period. The Total leverage shall not exceed 3.5 for a given Period. Financial covenants shall be tested on each quarter date and shall be reported on by an auditor on annual basis. Financial covenants were maintained in years 2011 and 2012.

Further, restrictions which are imposed on the Company include the following:
- restrictions relating to mergers, acquisitions, joint venture transactions

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

- 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.

29. Issued bonds

	31 December 2012	31 December 2011
Short-term liabilities	110,610	119,473
Long-term liabilities	1,298,661	1,397,481
Total	**1,409,271**	**1,516,954**

Change in issued bonds payable

	for the year ended	
	31 December 2012	31 December 2011
Issued bonds payable as at 1 January	**1,516,954**	**-**
Issuance of bonds	-	1,372,245
Repayment of interest and commission	(121,069)	(97,658)
Unrealized foreign exchange (gains)/losses	(111,884)	168,553
Unpaid commissions included in the amortised cost valuation	-	(6,559)
Interest accrued	125,270	80,373
Issued bonds payable as at 31 December	**1,409,271**	**1,516,954**

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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 fixed 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.

30. 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.

Future minimum lease payments concerning set-top boxes under operating lease are as follows:

	31 December 2012	31 December 2011
within 1 year	11,960	14,605
between 1 and 5 years	6,677	17,268
in more than 5 years	-	-
Total	**18,637**	**31,873**

b) Company as a lessee

Operating leases

The Company entered into agreements, which are classified as operating lease contracts based on their economic substance. Assets leased under these contracts are not recorded in the financial statements. The contracts comprise leases of office, commercial and technical (roofs, chimneys) premises, lease of satellite transponders capacity, vehicles and other equipment.

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

Future minimum lease payments under operating leases are as follows:

	31 December 2012	31 December 2011
within 1 year	98,312	106,500
between 1 and 5 years	172,867	394,420
in more than 5 years	67,881	101,292
Total	**339,060**	**602,212**

In 2012 the Company incurred costs related to operating lease agreements amounting to PLN 99,192 and in 2011 the costs of the Company amounted to PLN 97,696.

Finance leases

The carrying value of devices used on the basis of finance lease contracts amounted to PLN 1,131 as at 31 December 2012 and PLN 1,567 as at 31 December 2011. The lease period is 10 years.

Future minimum lease payments under finance leases are as follows:

	31 December 2012	31 December 2011
within 1 year	2,282	252
between 1 and 5 years	3,798	934
in more than 5 years	-	-
Total	**6,080**	**1,186**

The present value of minimum lease payments amounted to PLN 5,508 as at 31 December 2012 and PLN 1,186 as at 31 December 2011.

31. Other non-current liabilities and provisions

	31 December 2012	31 December 2011
Financial instruments liabilities (see note 27)	9,156	4,850
Deposits	4,135	-
Other	1,353	739
Total	**14,644**	**5,589**

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

32. Trade and other payables

	31 December 2012	31 December 2011
Trade payables to related parties (see note 39)	49,384	69,026
Trade payables to non-related parties	86,071	14,601
Taxation and social security payables	12,367	11,337
Payables relating to purchases of non-current assets	14,463	3,057
Accruals	148,875	131,547
Short term provisions	35,103	3,933
Financial instruments liabilities (see note 27)	17,343	2,099
Other	7,855	4,231
Total	**371,461**	**239,831**

Accruals

	31 December 2012	31 December 2011
Salaries	20,623	18,924
Royalties for copyright management organisations	4,501	1,802
Licence fees	65,353	67,799
Distribution costs	13,527	13,979
Other	44,871	29,043
Total	**148,875**	**131,547**

Short-term and long-term provisions

	2012
Opening balance as at 1 January 2012	**4,561**
Merger with subsidiary (see note 35)	34,553
Increases	45
Reversal	(2,261)
Utilisation	(500)
Closing balance as at 31 December 2012	**36,398**
Of which:	
Short-term	*35,103*
Long-term	*1,295*

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

Trade payables and payables relating to purchases of non-current assets by currency

Currency	31 December 2012	31 December 2011
PLN	113,189	76,898
EUR	16,959	2,287
USD	19,529	7,499
CHF	241	-
Total	**149,918**	**86,684**

Accruals by currency

Currency	31 December 2012	31 December 2011
PLN	119,665	98,973
EUR	26,311	23,706
USD	2,899	8,868
Total	**148,875**	**131,547**

33. Deposits for equipment

	31 December 2012	31 December 2011
Subscribers	4,326	4,325
Distributors	8,915	8,400
Other	18	18
Total	**13,259**	**12,743**

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 cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

34. Deferred income

	31 December 2012	31 December 2011 restated
Deferred income	**205,845**	**204,180**
Of which: Short-term	*200,664*	*196,585*
Long-term	*5,181*	*7,595*

Deferred income comprises mainly subscription fees paid in advance and rental fees for set-top boxes.

35. The impact of merger with Cyfrowy Polsat Technology Sp. z o.o. on assets, equity and liabilities

On 31 December 2012 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 Cyfrowy Polsat Technology Sp. z o.o. ('CPT') seated in Warsaw.

The merger was effected by:

i. transferring to the Company all the assets of CPT by the way of universal succession and
ii. termination of CPT without liquidation.

As a result of the merger, Cyfrowy Polsat assumed all rights and obligations of CPT, effective on the date of the merger.
Given that the Company held all the shares of CPT, the merger was effected without increasing the share capital of the Company.

The detailed terms of the merger, were specified in the Merger Plan prepared on October 19, 2012 and published on October 25, 2012 in the Court and Commercial Gazette (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.

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

The merger's effects on the Company's assets, equity and liabilities were as follows:

	Change resulting from the merger as at 31 December 2012
Reception equipmet	(32,173)*
Shares in CPT (see note 19)	(50)
Other property, plant and equipment	8,936
Other intangible assets	2,731
Inventories	19,085
Receivables	887
Other current assets	137
Cash and cash equivalents	2,305
Non-current liabilities	12,661
Current liabilities	(6,993)
Provisions	(34,553)
Total	**(27,027)**

* relates to unrealized margin

As a result of the merger, net assets of Cyfrowy Polsat decreased by PLN 27,027, which was reflected in a decrease in retained earnings.

36. 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.

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 market and credit risks.

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

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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, with the intention of securing the financing for the Company's activities. The Company also holds other financial instruments such as trade receivables and payables and payables relating to purchases of tangible and intangible assets which arise in the course of its business activities.

Financial assets	Carrying amount	
	31 December 2012	**31 December 2011**
Loans and receivables, including:	**249,684**	**173,296**
Trade and other receivables from related parties	10,739	4,320
Trade and other receivables from non-related parties	179,629	157,118
Cash and cash equivalents	59,316	11,858
Financial assets available for sale	**-**	**14,854**
Hedging derivative instruments:	**478**	**13,968**
Cross-currency interest rate swaps	478	13,968

Financial liabilities	Carrying amount	
	31 December 2012	**31 December 2011**
Other financial liabilities valued at amortised cost, including:	**2,642,263**	**3,002,368**
Financial lease liabilities	5,508	1,186
Borrowings and loans	903,442	1,249,023
Issued bonds	1,409,271	1,516,954
Trade payables and other payables to third parties and deposits	124,830	33,156
Trade and other payables to related parties	50,337	70,502
Accruals	148,875	131,547
Hedging derivative instruments:	**26,499**	**6,949**
Interest rate swaps	15,321	6,687
Cross-currency interest rate swaps	11,178	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,

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- 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 2012, 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 pursues a credit policy under which credit risk exposure is constantly monitored.

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:

Maximum exposure to credit risk

	Carrying amount	
	31 December 2012	**31 December 2011**
Trade and other receivables from non-related parties	179,629	157,118
Trade and other receivables from related parties	10,739	4,320
Bonds	-	14,854
CIRS	478	13,968
Cash and cash equivalents	59,316	11,858
Total	**250,162**	**202,118**

The maximum exposure to credit risk for trade and other receivables, by type of customer, was:

	Carrying amount	
	31 December 2012	**31 December 2011**
Receivables from subscribers	154,362	141,108
Receivables from distributors	5,548	4,313
Receivables from media companies	13,524	7,668
Receivables and loans granted to related parties	10,739	4,320
Receivables from DTH and cable TV operators	107	195
Receivables and loans granted to non-related parties	6,088	3,834
Total	**190,368**	**161,438**

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

The ageing of trade and other receivables at the reporting date was:

	31 December 2012			31 December 2011		
	Gross	**Impairment**	**Net**	**Gross**	**Impairment**	**Net**
Not past due	159,547	5,126	154,421	138,568	8,389	130,179
Past due 0-30 days	16,608	1,829	14,779	21,756	8,362	13,394
Past due 31-60 days	5,163	1,565	3,598	5,375	2,010	3,365
Past due more than 60 days	51,207	33,637	17,570	81,173	66,673	14,500
Total	**232,525**	**42,157**	**190,368**	**246,872**	**85,434**	**161,438**

Credit quality of such not overdue receivables that are not impaired is very good.

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 2012						
	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	903,442	1,062,912	156,864	175,404	343,519	387,125	-
Issued bonds	1,409,271	2,073,044	58,379	58,379	116,759	350,277	1,489,250
Finance lease liabilities	5,508	6,080	1,141	1,141	2,158	1,640	-
Trade and other payables to non-related parties and deposits	124,830	124,830	124,830	-	-	-	-
Trade and other payables to related parties	50,337	50,337	50,337	-	-	-	-
Accruals	148,875	148,875	148,875	-	-	-	-
IRS*	15,321	8,356	2,830	2,659	2,711	156	-
CIRS	11,178						
– inflows		(127,437)	(25,487)	(50,975)	(50,975)	-	-
– outflows		142,639	28,800	57,614	56,225	-	-
	2,668,762	**3,489,636**	**546,569**	**244,222**	**470,397**	**739,198**	**1,489,250**

*Pursuant to the agreements settlements shall be on a net basis

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

	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 and deposits	33,156	33,156	33,156	-	-	-	-
Trade and other payables to related parties	70,502	70,502	70,502	-	-	-	-
Accruals	131,547	131,547	131,547	-	-	-	-
IRS*	6,687	2,566	603	580	993	390	-
CIRS	262						
– inflows		(55,072)	-	-	(55,072)	-	-
– outflows		57,599	-	-	57,599	-	-
	3,009,317	**4,175,131**	**442,360**	**228,410**	**471,747**	**1,297,518**	**1,735,096**

*Pursuant to the agreements settlements shall be on a net basis

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.

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

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). Since 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.

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 currency amounts:

	31 December 2012				**31 December 2011**			
	EUR	**USD**	**GBP**	**CHF**	**EUR**	**USD**	**GBP**	**CHF**
Trade receivables	3,188	192	-	-	1,736	48	-	-
Cash and cash equivalents	2,604	2,038	-	1	307	36	1	1
Issued bonds	(344,717)	-	-	-	(343,451)	-	-	-
Trade payables	(4,148)	(6,300)	-	(71)	(518)	(2,194)	-	-
Gross balance sheet exposure	**(343,073)**	**(4,070)**	**-**	**(70)**	**(341,926)**	**(2,110)**	**1**	**1**
CIRS	37,406	-	-	-	43,641	-	-	-
Net exposure	**(305,667)**	**(4,070)**	**-**	**(70)**	**(298,285)**	**(2,110)**	**1**	**1**

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

Following foreign exchange rates were applied in the presented periods:

	Average rate		Rates at the balance sheet date	
(in PLN)	**2012**	**2011**	**31 December 2012**	**31 December 2011**
1 EUR	4.1850	4.1198	4.0882	4.4168
1 USD	3.2570	2.9634	3.0996	3.4174

For the purposes of exchange rate volatility sensitivity analysis as at 31 December 2012 and 31 December 2011 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 2011.

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

	2012					2011				
	As at 31 December 2012		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at 31 December 2011		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	3,188	13,032	5%	652	-	1,736	7,669	5%	383	-
USD	192	594	5%	30	-	48	165	5%	8	-
Cash and cash equivalents										
EUR	2,604	10,645	5%	532	-	307	1,356	5%	68	-
USD	2,038	6,316	5%	316	-	36	124	5%	6	-
GBP	-	2	5%	-	-	1	5	5%	-	-
CHF	1	3	5%	-	-	1	4	5%	-	-
Issued bonds						-	-	-	-	-
EUR	(344,717)	(1,409,271)	5%	(70,464)	-	(343,451)	(1,516,954)	5%	(75,848)	-
Trade payables										
EUR	(4,148)	(16,959)	5%	(848)	-	(518)	(2,287)	5%	(114)	-
USD	(6,300)	(19,529)	5%	(976)	-	(2,194)	(7,499)	5%	(375)	-
CHF	(71)	(241)	5%	(12)	-	-	-	5%	-	-
Change in operating profit				(70,770)	-				(75,872)	-
CIRS										
EUR	37,406	152,923	5%	581	6,841	43,641	192,754	5%	612	8,861
Income tax				13,336	(1,300)				14,299	(1,684)
Change in net profit				(56,853)	5,541				(60,961)	7,177

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

	2012					2011				
	As at 31 December 2012		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at 31 December 2011		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	3,188	13,032	-5%	(652)	-	1,736	7,669	-5%	(383)	-
USD	192	594	-5%	(30)	-	48	165	-5%	(8)	-
Cash and cash equivalents										
EUR	2,604	10,645	-5%	(532)	-	307	1,356	-5%	(68)	-
USD	2,038	6,316	-5%	(316)	-	36	124	-5%	(6)	-
GBP	-	2	-5%	-	-	1	5	-5%	-	-
CHF	1	3	-5%	-	-	1	4	-5%	-	-
Issued bonds						-	-	-	-	-
EUR	(344,717)	(1,409,271)	-5%	70,464	-	(343,451)	(1,516,954)	-5%	75,848	-
Trade payables										
EUR	(4,148)	(16,959)	-5%	848	-	(518)	(2,287)	-5%	114	-
USD	(6,300)	(19,529)	-5%	976	-	(2,194)	(7,499)	-5%	375	-
CHF	(71)	(241)	-5%	12	-	-	-	-5%	-	-
Change in operating profit				70,770	-				75,872	-
CIRS										
EUR	37,406	152,923	-5%	(581)	(6,819)	43,641	192,754	-5%	(612)	(8,853)
Income tax				(13,336)	1,296				(14,299)	1,682
Change in net profit				56,853	(5,523)				60,961	(7,171)

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

	2012		2011	
	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	(56,333)	5,541	(60,668)	7,177
USD	(510)	-	(293)	-
GBP	-	-	-	-
CHF	(10)	-	-	-
Estimated change in exchange rate by -5 %				
EUR	56,333	(5,523)	60,668	(7,171)
USD	510	-	293	-
GBP	-	-	-	-
CHF	10	-	-	-

Had the Polish zloty weakened 5% against the basket of currencies as at 31 December 2012 and 31 December 2011, the Company's net profit would have decreased by PLN 56,853 and decreased by PLN 60,961, respectively and other comprehensive income would have increased by PLN 5,541 in 2012 and PLN 7,177 in 2011. Had the Polish zloty strengthened 5%, the Company's net profit would have correspondingly increased by PLN 56,853 in 2012 and increased by PLN 60,961 in 2011 and other comprehensive income would have decreased by PLN 5,523 in 2012 and decreased by PLN 7,171 in 2011, 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 cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are 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 2012	**31 December 2011**
Fixed rate instruments		
Financial assets	1	-
Financial liabilities	(1,430,870)	(1,545,880)
Variable rate instruments		
Financial assets	59,188	26,610
Financial liabilities	(963,904)	(1,324,839)
Net interest exposure	**(904,716)**	**(1,298,229)**

Cash flow sensitivity analysis for variable rate instruments (pre-tax effect):

	Income statement		Other comprehensive income		Equity	
	Increase by 100 bp	**Decrease by 100 bp**	**Increase by 100 bp**	**Decrease by 100 bp**	**Increase by 100 bp**	**Decrease by 100 bp**
31 December 2012						
Variable rate instruments*	(9,047)	9,047	7,787	(7,787)	(1,260)	1,260
Cash flow sensitivity (net)	**(9,047)**	**9,047**	**7,787**	**(7,787)**	**(1,260)**	**1,260**
31 December 2011						
Variable rate instruments*	(12,982)	12,982	11,160	(11,160)	(1,822)	1,822
Cash flow sensitivity (net)	**(12,982)**	**12,982**	**11,160**	**(11,160)**	**(1,822)**	**1,822**

* - 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 cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are 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 2012		31 December 2011	
		Fair value	Carrying amount	Fair value	Carrying amount
Bonds	AFS	-	-	14,854	14,854
Trade and other receivables	L&R	190,368	190,368	161,438	161,438
IRS	Hedges	(15,321)	(15,321)	(6,687)	(6,687)
CIRS	Hedges	(10,700)	(10,700)	13,706	13,706
Cash and cash equivalents	L&R	59,316	59,316	11,858	11,858
Loans and borrowings	Other	(972,022)	(903,442)	(1,348,074)	(1,249,023)
Issued bonds	Other	(1,489,990)	(1,409,271)	(1,603,761)	(1,516,954)
Finance lease liabilities	Other	(5,616)	(5,508)	(1,048)	(1,186)
Accruals	Other	(148,875)	(148,875)	(131,547)	(131,547)
Trade and other payables and deposits	Other	(175,167)	(175,167)	(103,658)	(103,658)
Total		**(2,568,007)**	**(2,418,600)**	**(2,992,919)**	**(2,807,199)**
Unrecognized gain/(loss)			(149,407)		(185,720)

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 June 2017 (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, accruals and trade and other payables and deposits 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 2012 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.

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.

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

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 2012, 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 measured at fair value	**31 December 2012**	**Level 1**	**Level 2**	**Level3**
CIRS			478	
Total		**-**	**478**	**-**

Liabilities measured at fair value	**31 December 2012**	**Level 1**	**Level 2**	**Level3**
IRS			(15,321)	
CIRS			(11,178)	
Total		**-**	**(26,499)**	**-**

As at 31 December 2011, the Company held the following financial instruments measured at fair value:

Assets measured at fair value	**31 December 2011**	**Level 1**	**Level 2**	**Level3**
IRS			14,854	
CIRS			13,968	
Total		**-**	**28,822**	**-**

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

Liabilities measured at fair value	**31 December 2011**	**Level 1**	**Level 2**	**Level3**
IRS			(6,687)	
CIRS			(262)	
Total		**-**	**(6,949)**	**-**

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 2012 to 31 December 2012	Loans and borrowings	Issued bonds	Hedging instruments	**Total**
Interest expense on loans and borrowings	(109,331)	-	(1,107)	**(110,438)**
Interest expense on issued bonds	-	(125,270)	1,734	**(123,536)**
Foreign exchange rate differences	-	111,884	-	**111,884**
Total finance costs	(109,331)	(13,386)	627	**(122,090)**
Total gross profit/(loss)	**(109,331)**	**(13,386)**	**627**	**(122,090)**
Hedge valuation reserve	**-**	**-**	**(31,345)**	**(31,345)**

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**

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.

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

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 2012.

	31 December 2012	**31 December 2011**
Type of instrument	Interest rate swap	Interest rate swap
Exposure	Floating rate interest payments in PLN	Floating rate interest payments in PLN
Hedged risk	Interest rate risk	Interest rate risk
Notional value of hedging instrument (PLN)	1,111,008	640,500
Fair value of hedging instruments	(15,321)	(6,687)
Hedge accounting approach	Cash Flow Hedge	Cash Flow Hedge
Expected period the hedge item affect income statement	Until 31 March 2015	Until 30 June 2014

Change in fair value of cash flow hedges recognized in equity is presented below (pre-tax):

	2012	**2011**
Opening Balance	**(6,687)**	**-**
Effective part of gains or losses on the hedging instrument	(8,634)	(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	**(15,321)**	**(6,687)**

Cash Flow Hedge of foreign exchange risk of interest payments

At 31 December 2012, 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.

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

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 2012.

	31 December 2011	**31 December 2011**
Type of instrument	Cross-currency interest rate swap	Cross-currency interest rate swap
Exposure	Interest payments in euro	Interest payments in euro
Hedged risk	Foreign exchange risk	Foreign exchange risk
Notional value of hedging instrument (EUR)	700,000	525,000
Fair value of hedging instruments	(10,700)	13,706
Hedge accounting approach	Cash Flow Hedge	Cash Flow Hedge
Expected period the hedge item affect income statement	Until 20 May 2014	Until 20 November 2013

Change in fair value of cash flow hedges recognized in equity is presented below (pre-tax):

	2012	**2011**
Opening Balance	**13,706**	**-**
Effective part of gains or losses on the hedging instrument	(22,712)	12,561
Amounts recognized in the profit and loss statement, of which:	(1,694)	1,145
- adjustment of interest costs	(1,694)	1,145
- adjustment due to inefficiency of the hedge relationships	-	-
Closing Balance	**(10,700)**	**13,706**

37. Capital management

This note presents information about the Company’s management of capital. Further quantitative disclosures are also included throughout these financial statements.

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.

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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 2012	**31 December 2011**
Loans	903,442	1,249,023
Issued bonds	1,409,271	1,516,954
Cash and cash equivalents	(59,316)	(11.858)
Net debt	**2,253,397**	**2,754,119**
Equity	2,980,498	2,503,076
Equity and net debt	**5,233,895**	**5,257,195**
Leverage ratio	**0.43**	**0.52**

38. 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 2012	**31 December 2011**
Revenues from barter transactions	8,356	3,611
Cost of barter transactions	5,992	3,097

	31 December 2012	**31 December 2011**
Barter receivables	1,518	1,162
Barter payables	536	88

39. Transactions with related parties

Receivables

	31 December 2012	**31 December 2011**
Subsidiaries	1,906	2,696
Jointly controlled entities	432	466
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	8,401	1,158
Total	**10,739**	**4,320**

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Other assets

	31 December 2012	31 December 2011
Subsidiaries	1,195	1,169
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	160,172	94,281
Total	**161,367**	**95,450**

Other current assets comprise mainly of deferred costs related to the agreement with Mobyland Sp. z o.o.

On 28 September 2012 the Company signed a memorandum of understanding to the data transfer services agreement dated 15 December 2010 and placed an order for the purchase of 31 million GB. According to the agreement, Mobyland provides the access to wireless data transfer services, based on 1800 MHz and 900 MHz bands in LTE and HSPA+ technologies.

Liabilites

	31 December 2012	31 December 2011
Subsidiaries	48,243	70,481
Jointly controlled entities	375	-
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	10,743	21
Total	**59,361**	**70,502**

Receivables due from related parties and liabilities due to related parties are unsecured and have not been pledged as security.

Liabilities due comprise mainly liabilities resulting from using “Cyfrowy Polsat” trade mark. In 2011 liabilities due comprised mainly liabilities resulting from using “Cyfrowy Polsat” trade mark and liabilities resulting from purchases of set-top boxes and set-top boxes’ accessories.

Bond liabilities

	31 December 2012	31 December 2011
Subsidiaries	1,409,271	1,516,954
Total	**1,409,271**	**1,516,954**

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

Revenues

	for the year ended	
	31 December 2012	31 December 2011
Subsidiaries	9,792	8,652
Jointly controlled entities	10	9
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	11,278	2,107
Total	**21,080**	**10,768**

The most significant transactions include revenues for sale of equipment and interconnect services, guarantee services, property rental and signal broadcast services.

Expenses

	for the year ended	
	31 December 2012	31 December 2011
Subsidiaries*	169,817	130,669
Jointly controlled entities	2,865	4,090
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	60,220	27,575
Total	**232,902**	**162,334**

*Includes donation forwarded to Fundacja Polsat

The most significant transactions include license fees for broadcasting programs: Polsat Sport, Polsat Sport Extra, Polsat Sport Extra HD, Polsat Film, Polsat Futbol, Polsat News, Polsat Play, Polsat Cafe, Polsat Sport HD and Polsat Jim Jam.

The Company also incurs expenses for using 'Cyfrowy Polsat' trade mark, data transfer services (Mobyland), purchasing advertising time, telecommunication services with respect to the Company's customer call center and commissions for subscribers' acquisitions.

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

Gains and losses on investment activities

	for the year ended	
	31 December 2012	31 December 2011
Subsidiaries	306,741	208,398
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	-	3
Total	**306,741**	**208,401**

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

Gains and losses on investment activities comprises chiefly dividends and also income from 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 2012	**31 December 2011**
Subsidiaries	128,501	83,872
Total	**128,501**	**83,872**

Finance costs comprise chiefly interest on bonds and also guarantee fees in respect to settlement of Senior Facility loan.

40. Litigations

Management believes that the provisions as at 31 December 2012 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Company'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

In 2009 the Company received UOKiK's decision 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 and imposed a cash fine of PLN 994. At the same time, the President of UOKiK acknowledged that these unlawful provisions were eliminated from the amended regulations.

On 26 April 2012 the Court of Appeals has ruled to reduce the penalty imposed on the Company by UOKiK to PLN 500 which was paid by the Company on 6 June 2012.

On 24 August 2012 the Company appealed against the decision to the Supreme Court.

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

41. Off-balance sheet liabilities

Security relating to loans and borrowings

Establishment of collateral 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 concluded 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.

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.

On 18 April 2012 the Company entered into agreements for the establishment 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) financial and registered pledges on all shares in Gery.pl Sp. z o.o.;
(ii) financial and registered pledges on all shares in Frazpc.pl Sp. z o.o.;
(iii) financial and registered pledges on all shares in Redefine Sp. z o.o.;
(iv) financial and registered pledges on all shares in Netshare Sp. z o.o.

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 66 as at 31 December 2012 (PLN 1,527 as at 31 December 2011). Total amount of capital commitments resulting from agreements on property improvements was PLN 5,878 as at 31 December 2012 (PLN 3,906 as at 31 December 2011). Additionally the amount of deliveries and services committed to under agreements for the purchases of licences and software as at 31 December 2012 was PLN 405 (PLN 431 as at 31 December 2011).

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

42. 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	2012	2011
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	624
Total		**2,892**	**2,892**

The bonuses and additional remuneration payable to each member of the Management Board for years 2012 and 2011 are presented below:

Name	Function	2012	2011
Dominik Libicki	President of the Management Board	3,200	4,100
Dariusz Działkowski	Member of the Management Board	700	1,000
Aneta Jaskólska	Member of the Management Board	900	1,400
Tomasz Szeląg	Member of the Management Board	1,800	2,700
Total		**6,600**	**9,200**

The table below presents the remuneration of the Management Board of Cyfrowy Polsat S.A. in 2012 and 2011 from other related companies:

Name	Function	2012	2011
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	36
Total		**168**	**168**

43. 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.

(all cash amounts presented in text are in thousand with currency specification, all amounts presented in tables are in PLN thousand, except where otherwise stated)

The table below presents the total remuneration payable to the Supervisory Board members in 2012 and 2011:

Name	Function	2012	2011
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**

44. Events subsequent to the reporting date

In January 2013 companies listed below issued new shares which were acquired and paid for by the Company:

(i) in Redefine Sp. z o.o. share capital was increased by PLN 488 and share premium amounted to PLN 97,012;
(ii) in Frazpc.pl Sp. z o.o. share capital was increased by PLN 28 and share premium amounted to PLN 5,472;
(iii) in Netshare Sp. z o.o. share capital was increased by PLN 65 and share premium amounted to PLN 12,935;
(iv) in Gery.pl Sp. z o.o. share capital was increased by PLN 75 and share premium amounted to PLN 14,925.

45. Judgments, financial estimates and assumptions

The preparation of financial statements in conformity with IFRS EU 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.

The most significant estimates and assumptions made primarily related to the following:

- *Classification of lease agreements*

The Company classifies leasing agreements as operating or financial based on the assessment as to what extent the risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The assessment is based on the economical substance of each transaction. The Group concludes agreements for the rental of reception equipment to its customers in the course of its business operations including delivery of digital pay television services. These lease agreements are classified as operating leases as the Group holds substantially all the risks and rewards incidental to ownership of the reception equipment.

As a part of its business activities the Group has concluded agreements with Eutelsat for the rental of transponder capacity as well as an agreement with Nagravision for the lease of conditional access system (including SMART cards). These agreements were classified as operating leases as Eutelsat and Nagravision hold substantially all the risks and rewards incidental to the ownership of the transponders and the conditional access system. For more information see note 30.

- *Depreciation rates of property, plant and equipment and intangible assets with definite useful lives*

Depreciation rates are based on the expected economic useful lives of property, plant and equipment (including reception equipment provided to customers under lease agreements) and intangible assets. The expected economic useful lives are reviewed on an annual basis based on the experience of the entity.

The economic useful lives of the reception equipment rented to customers under operating lease agreements are estimated for 5 years. For information on the useful lives of property, plant and equipment, programming assets and other intangible assets with definite useful lives see notes 5i and 5j. For information on the depreciation charge for the period by the category of property, plant and equipment and intangible assets with definite useful lives see notes 16 and 18.

- *The impairment of goodwill*

The Company performed impairment test. The impairment test was based on the value-in-use calculations of the cash-generating unit to which the goodwill has been allocated on the initial recognition. The value-in-use calculations included estimation of discounted cash flows for the given cash-generating unit and the relevant discount rate. The value of goodwill tested at each cash-generating unit, the key assumptions used in the value-in-used calculations for each cash-generating unit, impairment test results and sensitivity analysis of reasonably possible changes in the key assumptions are presented in note 17.

- *The impairment of non-financial non-current assets*

As at the reporting date the Company has assessed whether there are any indications that intangible and tangible assets with definite useful lives may be impaired. No such indicators were found and thus no impairment tests were performed.

- *Revenues from contractual penalties*

The Company recognizes the revenues from contractual penalties in the amount probable to recover. The estimated recoverability of contractual penalties from the customers is 20%.

- *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. Depending on the type of the customer and the source of the receivable, the assessment of the probability of receivable collection is done either based on the analysis of individual balances or based on the statistical probability of recoverability for each receivable's ageing profile. Recoverability rates are defined based on the analysis of the historical recoverability and the customers' behavior as well as other factors that, according to the Management Board, might influence the recoverability of the receivables. For more information see notes 5g, 23 and 36.

- *Provisions for pending litigation*

The provisions are estimated based on the court documentation and the expertise of the Company's lawyers who participate in the current litigations. Group's probable obligations are estimated based on the progress of litigation proceedings. For more information see note 40.

- *Measurement of the provisions for employee benefits*

The provisions for employee benefits were estimated based on the actuarial methods.

- *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 5v and 13.

- *Fair value of financial instruments*

Fair value of financial instruments for which there is no active market is estimated using appropriate techniques of measurements. The techniques are chosen based on the professional judgment. For more information about the method of establishing the fair value of financial instruments and key assumption made see note 5g.

CYFROWY POLSAT S.A.

Interim Condensed Financial Statements
for 3 and 12 Months Ended 31 December 2012

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

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

Interim Income Statement

	Note	for 3 months ended 31 December 2012 unaudited	for 3 months ended 31 December 2011 unaudited	for 12 months ended 31 December 2012	for 12 months ended 31 December 2011
Revenue	**5**	465,483	427,388	1,783,626	1,631,628
Operating costs		(397,130)	(377,605)	(1,375,473)	(1,316,820)
Cost of services, goods and materials sold	**6**	(261,985)	(264,216)	(966,132)	(943,652)
Selling expenses	**6**	(88,096)	(76,499)	(279,333)	(257,636)
General and administrative expenses	**6**	(47,049)	(36,890)	(130,008)	(115,532)
Other operating income/costs		(7,213)	(3,135)	(10,481)	(5,420)
Profit from operating activities		**61,140**	**46,648**	**397,672**	**309,388**
Gains and losses on investment activities		3,543	2,705	315,817	208,560
Finance costs		(47,919)	(66,403)	(130,397)	(366,935)
Gross profit/(loss) for the period		**16,764**	**(17,050)**	**583,092**	**151,013**
Income tax		(5,089)	4,339	(53,255)	5,080
Net profit/(loss) for the period		**11,675**	**(12,711)**	**529,837**	**156,093**
Basic and diluted earnings per share (in PLN)		**0.03**	**(0.04)**	**1.52**	**0.48**

Interim Statement of Comprehensive Income

	for 3 months ended 31 December 2012 unaudited	for 3 months ended 31 December 2011 unaudited	for 12 months ended 31 December 2012	for 12 months ended 31 December 2011
Net profit/(loss) for the period	**11,675**	**(12,711)**	**529,837**	**156,093**
Hedge valuation	(9,367)	(583)	(31,345)	5,874
Income tax relating to hedge valuation	1,780	111	5,956	(1,116)
Other comprehensive income, net of tax	**(7,587)**	**(472)**	**(25,389)**	**4,758**
Total comprehensive income for the period	**4,088**	**(13,183)**	**504,448**	**160,851**

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

Interim Balance Sheet – Assets

	31 December 2012	31 December 2011
Reception equipment	420,060	434,316
Other property, plant and equipment	172,201	133,841
Goodwill	52,022	52,022
Other intangible assets	47,821	28,598
Investment property	-	6,843
Shares in subsidiaries	4,588,928	4,516,033
Non-current deferred distribution fees	35,125	35,028
Other non-current assets	101,604	62,491
Total non-current assets	**5,417,761**	**5,269,172**
Inventories	159,885	159,950
Bonds	-	14,854
Trade and other receivables	222,767	201,797
Income tax receivable	6,458	9,619
Current deferred distribution fees	57,096	59,361
Other current assets	71,256	71,349
Cash and cash equivalents	59,316	11,858
Total current assets	**576,778**	**528,788**
Total assets	**5,994,539**	**5,797,960**

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

Interim Balance Sheet – Equity and Liabilities

	31 December 2012	31 December 2011
Share capital	13,934	13,934
Share premium	1,295,103	1,295,103
Hedge valuation reserve	(20,631)	4,758
Retained earnings	1,692,092	1,189,281
Total equity	**2,980,498**	**2,503,076**
Loans and borrowings	592,003	958,406
Issued bonds	1,298,661	1,397,481
Finance lease liabilities	3,554	934
Deferred tax liabilities	90,611	65,378
Deferred income	5,181	7,595
Other non-current liabilities and provisions	14,644	5,589
Total non-current liabilities	**2,004,654**	**2,435,383**
Loans and borrowings	311,439	290,617
Issued bonds	110,610	119,473
Finance lease liabilities	1,954	252
Trade and other payables	371,461	239,831
Deposits for equipment	13,259	12,743
Deferred income	200,664	196,585
Total current liabilities	**1,009,387**	**859,501**
Total liabilities	**3,014,041**	**3,294,884**
Total equity and liabilities	**5,994,539**	**5,797,960**

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

Interim Cash Flow Statement

	for the year ended	
	31 December 2012	**31 December 2011**
Net profit	**529,837**	**156,093**
Adjustments for:	**(107,371)**	**(82,804)**
Depreciation, amortization and impairment	202,783	139,174
Loss on investing activity	492	440
Interest expense	227,979	186,673
Change in inventories	19,149	(19,406)
Change in receivables and other assets	(69,499)	(95,602)
Change in liabilities, provisions and deferred income	76,032	(25,278)
Valuation of hedging instruments	(31,345)	5,874
Foreign exchange (gains)/ losses, net	(111,889)	168,432
Income tax	53,255	(5,080)
Net increase in reception equipment provided under operating lease	(179,000)	(244,158)
Dividends income	(297,230)	(197,030)
Other adjustments	1,902	3,157
Cash from operations before income taxes and interest	**422,466**	**73,289**
Income tax paid	(3,544)	(1,485)
Interest received from operating activities	6,170	4,442
Net cash from operating activities	**425,092**	**76,246**
Acquisition of property, plant and equipment	(27,489)	(25,074)
Acquisition of intangible assets	(28,924)	(19,195)
Loans granted	(1,700)	-
Dividends received	297,230	196,817
Acquisition of shares in subsidiaries	(45,185)	(2,600,232)
Merger with related parties	2,305	1,530
Acquisition of bonds	-	(14,684)
Prepayment for shares	-	(12,000)
Loans repaid - principal	1,700	50
Interest on loans repaid	12	2
Proceeds from sale of property, plant and equipment	208	457
Net cash from/(used in) investing activities	**198,157**	**(2,472,329)**
Term loans received	-	2,800,000
Issuance of bonds	-	1,372,245
Net cash from Cash Pool	(8,006)	43,839
Proceeds from realization of foreign exchange call options	-	2,480
Payment of interest on loans, borrowings, finance lease and commissions	(209,803)	(303,547)
Finance lease – principal repayments	(335)	(369)
Repayment of loans and borrowings	(357,652)	(1,531,023)
Net cash from/(used in) financing activities	**(575,796)**	**2,383,625**
Net increase/(decrease) in cash and cash equivalents	**47,453**	**(12,458)**
Cash and cash equivalents at the beginning of the year	**11,858**	**24,195**
Effect of exchange rate fluctuations on cash and cash equivalents	5	121
Cash and cash equivalents at the end of the year	**59,316**	**11,858**

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

Interim Statement of Changes in Equity for the year ended 31 December 2012

	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total equity**
Balance as at 1 January 2012	**13,934**	**1,295,103**	**4,758**	**1,189,281**	**2,503,076**
Total comprehensive income	-	-	(25,389)	529,837	**504,448**
Hedge valuation reserve	-	-	*(25,389)*	-	***(25,389)***
Net profit for the period	-	-	-	*529,837*	***529,837***
Merger with Cyfrowy Polsat Technology Sp. z o.o.	-	-	-	(27,026)	**(27,026)**
Balance as at 31 December 2012	**13,934**	**1,295,103**	**(20,631)**	**1,692,092**	**2,980,498**

* The capital excluded from distribution amounts to PLN 4,645. 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.

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

	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total equity**
Balance as at 1 January 2011	**10,733**	**-**	**-**	**1,048,303**	**1,059,036**
Total comprehensive income	-	-	4,758	156,093	**160,851**
Hedge valuation reserve	-	-	*4,758*	-	***4,758***
Net profit for the period	-	-	-	*156,093*	***156,093***
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)**
Balance as at 31 December 2011	**13,934**	**1,295,103**	**4,758**	**1,189,281**	**2,503,076**

*The capital excluded from distribution amounts to PLN 4,645. 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.

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

Notes to the Interim Condensed Financial Statements for 3 and 12 months Ended 31 December 2012

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 paid digital terrestrial television as well as Internet access services provider and a Mobile Virtual Network Operator ('MVNO').

The Company's activities comprise one segment – services rendered to general public.

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 2012 have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting*. These interim condensed financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The Company applied the same accounting policies in the preparation of the financial data for 3 and 12 months ended 31 December 2012 and the financial statements for the year 2011, 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 2012 and except for effects of presentation changes as described in the annual report for 2012.

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

The most recent published annual financial statements were prepared and audited for the year ended 31 December 2012. Annual financial statements fully disclose accounting policies approved by the Company.

5. Revenue

	for 3 months ended		for 12 months ended	
	31 December 2012 unaudited	31 December 2011 unaudited	31 December 2012	31 December 2011
Retail revenue	446,672	415,526	1,732,787	1,594,880
Sale of equipment	7,515	4,746	18,965	12,224
Other revenue	11,296	7,116	31,874	24,524
Total	**465,483**	**427,388**	**1,783,626**	**1,631,628**

6. Operating costs

	for 3 months ended		for 12 months ended	
	31 December 2012 unaudited	31 December 2011 unaudited	31 December 2012	31 December 2011
Programming costs	107,271	116,107	425,050	434,480
Distribution, marketing, customer relation management and retention costs	98,961	92,566	312,400	311,443
Depreciation, amortization and impairment	62,499	40,891	202,783	139,174
Salaries and employee-related costs	33,740	32,030	98,406	94,041
Broadcasting and signal transmission costs	24,126	23,746	91,772	86,736
Cost of settlements with mobile network operators and interconnection charges	11,272	8,474	44,110	25,374
Cost of debt collection services and bad debt allowance and receivables written off	7,781	19,471	27,315	71,097
Cost of equipment sold	16,345	8,431	36,173	29,800
Other costs	35,135	35,889	137,464	124,675
Total costs by kind	**397,130**	**377,605**	**1,375,473**	**1,316,820**

	for 3 months ended		for 12 months ended	
	31 December 2012 unaudited	31 December 2011 unaudited	31 December 2012	31 December 2011
Cost of services, goods and materials sold	261,985	264,216	966,132	943,652
Selling expenses	88,096	76,499	279,333	257,636
General and administrative expenses	47,049	36,890	130,008	115,532
Total costs by function	**397,130**	**377,605**	**1,375,473**	**1,316,820**