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

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

Content of the annual report:

Ladies and Gentlemen,

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

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

The stable growth of our business is best demonstrated by the Group's improved operating and financial performance. The pay TV subscriber base grew to 3.55 million, which represents an over 30% share in the market, whereas the number of broadband Internet and mobile phone users was 73 thousand and 143 thousand, respectively. In our second business segment, we proved to be the fastest growing broadcaster. Our main TV channel – POLSAT – enjoyed the largest audience share, with a 16.45% share in the market, while the thematic channels in our portfolio jointly accounted for 4.35% audience share. We estimate that in 2011 we gained a 22.6% share in the Polish TV advertising market worth approximately PLN 3.9 billion. Please note that thanks to our carefully planned programming and the expanded distribution of thematic channels, we outperformed the market in terms of advertising revenue. Another source of satisfaction is the Group's robust financial performance. Total consolidated revenue from sales of products, services, goods and materials in 2011 grew by 60%, to PLN 2.37 billion, while net profit came in at PLN 160 million.

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

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

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

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

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

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

Yours sincerely

Dominik Libicki

President of the Management Board,

Cyfrowy Polsat S.A.

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

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Item 1. Introduction

Cyfrowy Polsat is a leading media group in Poland, composed of Cyfrowy Polsat – the largest in Poland and the fourth largest DTH platform in Europe, and Telewizja Polsat – the leading commercial TV broadcaster in Poland offering 15 popular TV channels, including two HD channels (Polsat, Polsat HD, Polsat 2, Polsat Sport, Polsat Sport HD, Polsat Sport Extra, Polsat Futbol, Polsat Sport News, Polsat News, Polsat Play, Polsat Cafe, Polsat Film, Polsat Crime & Investigation, Polsat Jim Jam, TV Biznes). Cyfrowy Polsat platform has 3.6 million subscribers. It offers access to over 90 Polish-language TV channels, including 25 HD channels. All subscribers of the platform may use PPV/VOD Home Video Rental and catch-up TV services, we also provide Multiroom service. The platform has its own set-top-boxes factory. From September 2008, Cyfrowy Polsat offers mobile telephony services in MVNO model. From February 2010, it provides broadband Internet access in mobile HSPA+ technology, and from August 30, 2011 –in the latest LTE technology. In June 2010, it introduced multi-play offer – television, Internet and mobile telephony under one agreement, subscription fee and invoice. From May 2008, Cyfrowy Polsat is listed on the Warsaw Stock Exchange.

We operate through two business segments: our Retail business segment, comprising DTH, broadband Internet and mobile telephony services and Broadcasting and television production segment. Our two business segments produce revenue streams with distinct characteristics: retail subscription and related revenue (through our Retail business segment), and TV broadcasting advertising revenue (through our Broadcasting and television production segment).

Our consolidated revenue from services, products, goods and materials sold in 2011 increased by 60% to PLN 2,365,925 from PLN 1,482,463 in 2010. Our net profit amounted to PLN 160,190 compared to PLN 258,470 in the previous year.

We sell our services on the entire territory of Poland.

Our offices are in Warsaw at 4a Łubinowa Street.

In Management Board's report on activities of the Capital Group references to the Company apply to Cyfrowy Polsat S.A. and all references to the Group or Polsat Group apply to Cyfrowy Polsat S.A. and its consolidated subsidiaries. Expressions such as "we", "us", "our" and similar apply generally to the Group, unless from the context it is clear that they apply to the Company; „**DTH**" relates to digital satellite platform services which we provide in Poland from 2011; "**SD**" relates to the television signal in the standard definition technology (Standard Definition); „**HD**" relates to the television signal in the high definition technology (High Definition); „**DVR**" relates to set-top boxes with hard disk used to record television channels (Digital Video Recorder); "**Family Package**", "**Family HD Package**", "**Mini Package**" and "**Mini HD Package**" relate to our starting packages available within our DTH services; "**Subscriber**" relates to a person who signed an agreement for subscription to television services and who is obligated, under the terms of agreement, to make payments to access a package or packages of television channels or who has access to such packages after making required payments but without having signed such an agreement; „**ARPU**" relates to average net revenue per subscriber to whom we rendered services calculated as a sum of fees paid by our subscribers for our DTH services divided by the average number of subscribers to whom we rendered services in the reporting period; „**ARPU Family Package**" and „**ARPU Mini Package**" relate to average revenue per subscriber to the Family Package and Mini Package, respectively; „**churn**" relates to the churn rate, defined as the ratio of the number of contracts terminated during a 12-month period to the average number of contracts during such 12-month period. The number of terminated contracts is net of churning subscribers entering into a new contract with us no later than the end of the same 12-month period; „**churn Family Package**" and „**churn Mini Package**" relates to churn rate calculated for the Family Package and Mini Package, respectively; „**SAC**" relates to the sum of cost of commissions payable to distributors per each attracted customer; "**Audience share**" relates to percentage of television viewers tuned to a particular channel during a given period, expressed as a percentage of the total number of people watching TV, we present data after Nielsen Audience Measurement (NAM), 16-49, all day; "**Advertising market share**" relates to the share of Cyfrowy Polsat Capital Group revenues from advertising and sponsoring in the total revenues from TV advertising in Poland, the source of our data is Starlink; "**Power ratio**" relates to a ratio of advertising market share to audience share in the group All 4+; "**GRP**" relates to gross rating point, defined as the number of people watching a particular TV program at a specific time, expressed as a percentage of the entire population. One GRP, as applied to Poland, is equal to 0.2 million inhabitants in the basic commercial target group (16-49 years old).; "**Technical reach**" or "**Technical Coverage**" relates to the percentage of households in Poland which have the technical ability to receive a channel broadcasted by Telewizja Polsat Sp. z o.o.; "**VoD**" or "**VOD - Home Movie Rental**" relates in general to our services from the video on demand category, while "**nVoD**" relates to our service "VoD Home Movie Rental" - on TV; "**PPV**" relates to pay-per-view, pay access to chosen programming content; "**Catch-up TV**" relates to services enabling access to chosen programming content for a certain period of time after the original broadcast on TV channel; „**MVNO**" relates to mobile virtual network operator services; "**Internet access services**" relates to broadband Internet access services; "**HSPA+**" relates to radio data transfer technology in mobile networks (High Speed Packet Access Plus); "**LTE**" relates to radio data transfer technology in mobile networks (Long Term Evolution), characterized by much higher data transfer speed, greater capacity and lower network latency; „**Integrated services**" relates to services of pay DTH services, mobile services and Internet access services provided under one agreement and one subscription fee; "**M.Punkt**" relates to M.Punkt Holdings Ltd.; "**mPunkt**" relates to mPunkt Polska S.A.; "**mTel**" relates to mTel Sp. z o.o.; "**CPT**" relates to Cyfrowy Polsat Technology Sp. z o.o.; "**CPTM**" relates to Cyfrowy Polsat Trade Marks Sp. z o.o.; "**Cyfrowy Polsat Finance**", "**CP Finance**" relate to Cyfrowy Polsat Finance AB (publ), Cyfrowy Polsat subsidiary registered in Sweden; "**CP**" relates to Cyfrowy Polsat S.A.; "**Telewizja Polsat**" or "**TV Polsat**" relates to Telewizja Polsat S.A., transformed to Telewizja Polsat Sp. z o.o. on June 15, 2011; "**TV Polsat Group**" relates to Telewizja Polsat Sp. z o.o. and its consolidated subsidiaries; "**POLSAT**" relates to our main FTA channel; "**Polsat HD**" relates to our channel on which we broadcast the content of our main channel in HD technology; "**Polsat Sport**" relates to our sport channel dedicated to Polish sports and major sports events; "**Polsat Sport Extra**" relates to our sport channel broadcasting premium sport events; "**Polsat Futbol**" relates to our sport channel dedicated to football games; "**Polsat Sport HD**" relates to our sport channel in HD technology; "**Polsat Sport News**" relates to our sport channel dedicated to sport news, that was launched on May 30, 2011; "**Polsat Film**" relates to our movie channel; "**Polsat Café**" relates to our lifestyle channel dedicated to women; "**Polsat Play**" relates to our lifestyle channel dedicated to men; "**Polsat 2**" relates to our channel broadcasting mainly reruns of programs that premiered on our other channels; "**Polsat News**" relates to our 24-hour news channel; "**TV Biznes**" relates to our channel dedicated to the latest news on the economy and financial markets; "**Polsat Jim Jam**" relates to children's channel based mainly on programs by Hit Entertainment, the channel is a joint venture launched by TV Polsat and ChelloZone; "**Polsat Crime & Investigation**" relates to the criminal channel, that enriched our thematic channels portfolio in November 2011; „**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; "**Senior Notes**" or "**Notes**" relates to 7.125% senior secured notes of EUR 350,000,000 (not in thousands) issued by Cyfrowy Polsat Finance AB on May 20, 2011; "**Indenture**" relates to the indenture dated May 20, 2011 governing the 7.125% Senior Notes; "**PLN**" or "**zloty**" refers to the lawful currency of Poland; "**USD**" or "**dollars**" refers to the lawful currency of the United States of America; and "**EUR**" or "**euro**" refers to the single currency of the participating Member States in the Third Stage of European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time.

Presentation of financial information

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

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

Industry and market data

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

- Eurostat;
- European Commission;
- Polish Central Statistical Office;
- Polish Chamber of Electronic Communication;

- Office of Electronic Communications;
- Ofcom;
- Nielsen Audience Measurement;
- ZenithOptimedia;
- Starlink;
- PMR;
- Informa Telecoms and Media;
- Operators functioning on the Polish market and
- GFK Polonia, for data on brand name recognition.

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

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

Forward looking statements

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

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

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

Item 2. Currency presentation and exchange rate information

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

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

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

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

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

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

Month (zloty per 1.00 euro)	Highest exchange rate during the month	Lowest exchange rate during the month
September 2010	4.4900	4.1452
October 2010	4.4370	4.2716
November 2010	4.5494	4.3464
December 2010	4.5642	3.3914
January 2011	4.5135	4.2223
February 2011	4.2276	4.1365

Item 3. Selected financial data

The following tables set forth our selected historical financial data for the 3 and 12 month periods ended December 31, 2011 and December 31, 2010. The historical financial data should be read in conjunction with Item 6. "Presentation of operating and financial results" and the consolidated financial statements for the fiscal year ended December 31, 2011 (including the notes thereto) and condensed interim consolidated financial statements for 3 and 12 month periods ended December 31, 2011 attached to this Report. We have derived the financial data presented in accordance with IFRS from the audited consolidated financial statements for the fiscal year ended December 31, 2011 and unaudited condensed interim consolidated financial statements for 3 and 12 month periods ended December 31, 2011.

Selected financial data

- from the consolidated profit and loss statement for the periods of three months ended December 31, 2011 and December 31, 2010 have been converted into euro at the rate of PLN 4.4189 per 1 euro, (being the average of exchange rates announced by the NBP in the reporting period i.e. from 1 October to December 31, 2011),

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

- from the consolidated balance sheet as at December 31, 2011 and December 31, 2010 have been converted into euro at the rate of PLN 4.4168 per 1 euro (average NBP exchange rate on December 31, 2011).

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

	For the three-month period ended December 31,				For the twelve-month period ended December 31,			
	2011		2010		2011		2010	
(in thousands)	**PLN**	**EUR**	**PLN**	**EUR**	**PLN**	**EUR**	**PLN**	**EUR**
Consolidated Income Statement								
Retail subscribtion	415,523	94,033	361,409	81,787	1,594,872	387,124	1,416,919	343,929
Advertising and sponsorship revenue	256,425	58,029	1,952	442	634,204	153,940	4,630	1,124
Revenue from cable and sattellite operator fees	22,885	5,179	-	-	61,089	14,828	-	-
Sale of equipment	4,668	1,056	7,259	1,643	16,546	4,016	35,707	8,667
Other revenue	19,728	4,464	6,013	1,361	59,214	14,373	25,207	6,119
Revenue	**719,229**	**162,762**	**376,633**	**85,232**	**2,365,925**	**574,282**	**1,482,463**	**359,839**
Cost of services, products, goods and materials sold	(428,527)	(96,976)	(208,472)	(47,177)	(1,330,952)	(323,062)	(788,496)	(191,392)
Selling expenses	(72,068)	(16,309)	(77,883)	(17,625)	(243,493)	(59,103)	(232,973)	(56,550)
General and administrative expenses	(52,082)	(11,786)	(31,259)	(7,074)	(159,891)	(38,810)	(100,783)	(24,463)
Total operating costs	**(552,677)**	**(125,071)**	**(317,614)**	**(71,876)**	**(1,734,336)**	**(420,976)**	**(1,122,252)**	**(272,404)**
Other operating income	6,202	1,404	2,000	453	14,332	3,479	13,970	3,391
Other operating costs	(29,173)	(6,602)	(13,403)	(3,033)	(85,621)	(20,783)	(48,427)	(11,755)
Profit from operating activities	**143,581**	**32,492**	**47,616**	**10,776**	**560,300**	**136,002**	**325,754**	**79,070**
Finance income	4,022	910	1,012	229	10,765	2,613	1,288	313
Finance costs	(71,271)	(16,129)	(1,034)	(234)	(381,163)	(92,520)	(5,760)	(1,398)
Share in net income of associates	677	153	-	-	2,164	525	-	-
Gross profit	**77,009**	**17,427**	**47,594**	**10,771**	**192,066**	**46,620**	**321,282**	**77,985**
Income tax	(712)	(161)	(10,645)	(2,409)	(31,876)	(7,737)	(62,812)	(15,246)
Net profit / (loss)	**76,297**	**17,266**	**36,949**	**8,362**	**160,190**	**38,883**	**258,470**	**62,738**
Basic and diluted earnings per share (not in thousands)	0.22	0.05	0.14	0.03	0.49	0.12	0.96	0.23
Weighted average number of issued ordinary shares (not in thousands)	348,352,836		268,325,000		324,234,858		268,325,000	
Consolidated Cash Flow Statement								
Cash flow from operating activities					347,046	84,239	197,534	47,947
Cash flow from investing activities					(2,426,751)	(589,046)	(77,419)	(18,792)
Cash flow from financing activities					2,327,429	564,937	(191,769)	(46,548)
Net change in cash and cash equipments					247,724	60,130	(71,654)	(17,393)
Other consolidated financial data								
Depreciation and amortization and impairment allowance	53,531	12,114	24,174	5,471	174,880	42,449	81,190	19,707
EBITDA[1]	197,112	44,607	71,790	16,246	735,180	178,450	406,944	98,778
EBITDA margin	27.4%	27.4%	19.1%	19.1%	31.1%	31.1%	27.5%	27.5%
Operating margin	20.0%	20.0%	12.6%	12.6%	23.7%	23.7%	22.0%	22.0%
Capital expenditures[2]	23,736	5,371	7,003	1,585	65,674	15,941	45,593	11,067

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

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

	As at			
	December 31, 2011		December 31, 2010	
(in thousands)	PLN	EUR	PLN	EUR
Consolidated balance sheet				
Cash and cash equivalents	277,534	62,836	27,615	6,252
Assets	5,325,168	1,205,662	1,015,195	229,849
Non-current liabilities	2,476,485	560,697	68,817	15,581
Current liabilities	952,640	215,686	518,440	117,379
Equity	1,896,043	429,280	427,938	96,889
Share capital	13,934	3,155	10,733	2,430

Item 4. Presentation of our Capital Group

Item 4.1. General information about our Capital Group

We are a leading integrated multimedia group in Poland with the number one position in subscriber based pay TV through Cyfrowy Polsat, and a leading position in TV broadcasting through TV Polsat, the first private TV group in Poland with a nationwide broadcasting license. Additionally to DTH offer, we provide to our subscribers broadband Internet and mobile telephony services.

We operate through two business segments: our Retail business segment, comprising DTH, broadband Internet and mobile telephony services and our recently acquired Broadcasting and television production segment. Our two business segments produce revenue streams with distinct characteristics: retail subscription and related revenue (through our Retail business segment), and TV broadcasting advertising revenue (through our Broadcasting and television production segment).

Retail business segment

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

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

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

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

Broadcasting and television production segment

In TV broadcasting, we are one of the two leading private TV groups in Poland in terms of revenue and advertising market share and the third largest broadcaster in Poland, which is the second largest TV advertising market in Central Europe. Our main channel, POLSAT, is number one in terms of audience share with a 16.45% share in 2011. We also broadcast thematic channels, which have a 4.35% combined audience share, and sell advertising on our channels and certain third-party channels. We are a licensed broadcaster of 13 TV channels consisting of general entertainment, sports, news, business, lifestyle, movie and children's channels. Based on data from Starlink, we estimate that we captured a 22.6% share of the approximately PLN 3.9 billion (not in thousands) Polish TV advertising market in 2011.

Our television channels include: POLSAT, Polsat HD, Polsat Sport, Polsat Sport Extra, Polsat Futbol, Polsat Sport HD, Polsat Film, Polsat Café, Polsat Play, Polsat 2, Polsat News, Polsat Crime & Investigation, TV Biznes, Polsat Jim Jam, Polsat Sport News. POLSAT, our main channel, was the first commercial channel in Poland, that received a nationwide analog license and broadcasts 24 hours a day, seven days a week. It is the number one private FTA channel in Poland in terms of audience share. POLSAT airs a broad variety of movies (most of them created in the major US studios), lifestyle programs, news and feature programs, Polish and foreign series as well as popular sport events.

Our thematic channels are distributed via majority of cable networks in Poland including such operators as UPC, and acquired in 2011 Aster, Multimedia and via all major satellite platforms, excluding our sport channels to which Cyfrowy Polsat platform has exclusive rights.

Polsat Sport is a sports channel broadcasting Polish sports and major sports events which are mostly broadcasted live (volleyball, athletics, football, handball, world class boxing and MMA contests). Polsat Sport Extra is a sport channel broadcasting premium sport events, primarily Formula One and the largest international tennis tournaments such as Wimbledon and handball Champions League. Polsat Futbol is our sport channel addressed to up-market football fans and dedicated to prestige football games of the UEFA Europa League, Polish top league T-Mobile Ekstraklasa, qualifying matches for the FIFA World Cup and the UEFA European Football Championship, foreign football leagues with Polish players and programs from football clubs. Polsat Sport HD airs a selection of sport events available in HD technology, including live broadcasts of some of the major sport events. Polsat Sport News is our new sport channel dedicated to sport news, launched on May 30, 2011, it is an FTA channel broadcasted within DTT technology. Polsat Film broadcasts hit movies, top box-office productions and non mainstream movies from a library of major US movie studios. Polsat Café is our channel dedicated to women, that focuses on lifestyle, fashion and gossip programs as well as talk-shows. Polsat Play is dedicated to men, its core programming concerns consumer gadgets, the automotive industry, angling and cult series. Polsat 2 broadcasts reruns of programs that premiered on our other channels, it is also broadcasted to Polish communities abroad (mainly in USA). Polsat News is a 24-hour news channel broadcasting live and covering primarily news from Poland and key international events. Polsat Crime & Investigation is our criminal channel, that takes its viewers to the world of crime, providing the insight to criminal laboratories, police archives and courtrooms. This channel enriched our thematic channels portfolio in November 2011. TV Biznes covers the latest news on the economy and financial markets. Polsat Jim Jam is a children's channel based exclusively on programs by Hit Entertainment, the channel is a joint venture launched by TV Polsat and ChelloZone.

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

Item 4.2. Organizational structure of the Capital Group

The following table presents the companies included in the organizational structure of Cyfrowy Polsat Capital Group as at December 31, 2011 together with the consolidation method:

	Entity's registered office	Activity	Share in voting rights (%) 31 December 2011	Share in voting rights (%) 31 December 2010
Parent Company				
Cyfrowy Polsat S.A.	Łubinowa 4a, Warsaw	radio, TV and telecommunication activities	n/a	n/a
Subsidiaries				
Cyfrowy Polsat Technology Sp. z o.o.*	Łubinowa 4a, Warsaw	production of set-top boxes	100%	100%
Cyfrowy Polsat Trade Marks Sp. z o.o.*	Łubinowa 4a, Warsaw	non-current assets and intellectual property rights management	100%	100%
Cyfrowy Polsat Finance AB*	Stureplan 4C, 4 TR 114 35 Stockholm, Sweden	financial transactions	100%	n/d
Telewizja Polsat Sp. z o.o.*	Ostrobramska 77, Warsaw	television and advertising activities	100%	n/d
RS TV S.A.*	Chorzewska 15, Radom	terrestrial transmission	100%	n/d
Polsat Media Sp. z o.o.*	Ostrobramska 77, Warsaw	advertising activities	100%	n/d
Media-Biznes Sp. z o.o.*	Stanów Zjednoczonych 53, Warsaw	television activities	100%	n/d
Polsat Futbol Ltd.*	Office 1D 238-246 King Street London W6 0RF UK	television activities	100%	n/d
Nord License AS*	Vollsvseien 13B Lysaker Norway	trade of programming licences	100%	n/d
Polsat License Ltd.*	Poststrasse 9 6300 Zug Switzerland	trade of programming licences	100%	n/d

* consolidation using full method

Investments accounted for under the equity method:

	Entity's registered office	Activity	Share in voting rights (%) 31 December 2011	31 December 2010
Polsat Jim Jam Ltd.	105-109 Salusbury Road London NW6 6RG UK	television activities	50%	n/d
Polski Operator Telewizyjny Sp. z o.o.*	Huculska 6, Warsaw	radio communications and radio diffusion	50%	n/d

* the company has suspended operations

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

	Entity's registered office	Activity	Share in voting rights (%) 31 December 2011	31 December 2010
Karpacka Telewizja Kablowa Sp. z o.o.*	ul. Chorzowska 3, Radom	dormant	85%	85%

* Investment accounted for at cost less any accumulated impairment losses

As at December 31, 2011 Karpacka Telewizja Kablowa Sp. z o.o. was not consolidated due to insignificant size of that company from the Group perspective and the fact that it is dormant.

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

Acquisition of Cyfrowy Polsat Finance AB

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

Completion of the acquisition of Telewizja Polsat

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

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

We consolidate the financial results of Telewizja Polsat Group beginning from the date of the completion of the transaction, i.e. April 20, 2011.

Cross-border merger with M.Punkt Holdings Ltd.

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

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

Merger with mPunkt Polska S.A.

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

Merger with mTel Sp. z o.o.

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

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

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

Item 4.4. Strategy, market opportunities and comparative advantage of the Capital Group

Item 4.4.1. Group strategy

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

The key elements of our strategy include:

- Building value of our individual customer base by increasing the number of subscribers, increasing the average revenue per user (ARPU), as well as by maintaining high levels of customer satisfaction
- Creating value of our Broadcasting and television production segment by keeping high audience shares of our channels, upgrading the viewers profile, as well as by widespread distribution of our content
- Effective management of our cost base by making use of synergy effects achieved across our integrated media group

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

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

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

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

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

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

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

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

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

Item 4.4.2. Market opportunities

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

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

Penetration rate of pay television in Poland. According to consumer research conducted on the order of the Office of Electronic Communications, excluding households that use more than one pay-TV offer, the market penetration rate at the end of 2011 amounted to approximately 68% - as we cannot estimate the penetration rate based on available market data we resort to consumer research (source: "Telecommunications market in Poland in 2011. Retail clients.", December 2011). Pay-TV market penetration rate in Poland is considerably lower than the penetration rate of 90% in the most developed pay TV markets. We believe that the further growth of penetration rate of pay television services is possible, including services that we offer.

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

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

Development of advertising market in Poland. According to ZenithOptimedia estimates, 2012 will see 3.8% growth of Polish advertising market. Based on Zenith's data, we estimate that TV advertising in Poland will have a 3.6% CAGR between 2011 and 2014, driven by the expected sustained GDP growth in Poland. We believe TV is a highly effective advertising medium. Moreover given the level of advertising expenditures in Poland as a percentage of GDP, we see a substantial growth potential. In comparison to other European markets, this ration in Poland (0.47%) is substantially lower than in Great Britain (0.77%), Germany (0.7%) and the Czech Republic (0.68%). Similarly, according to ZenithOptimedia, advertising expenditures per capita in 2011 reached approximately USD 62.5 in Poland, in comparison to approximately USD 294 in the United Kingdom, approximately USD 298 in Germany and approximately USD 130 in the Czech Republic in the same period.

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

High Average Television Viewing Time. According to Nielsen Audience Measurement the average daily television viewing time in Poland was approximately 242 minutes in 2011. Ofcom report indicates that this is more than the world average, that amounted to 207 minutes per day in 2009. In 2009, in terms of time spent in front of TV, Poland was first in Europe and second in the world, only Americans were ahead of us (according to Ofcom). We believe that the high average daily television viewing rates contribute to development of our business.

Growing importance of thematic channels. A key trend to emerge on TV market in Poland over the past several years is the increasing importance of thematic TV channels. Thematic channels are TV channels (distributed mainly through cable and satellite) specializing in a particular genre of programming, such as children's programming, films, sports, lifestyle, news or weather. Non-FTA channels market segment in Poland reached 35.03% audience share in 2011 compared to 31.67% in 2010. Broadcasters with access to thematic channels and integrated media platforms can potentially leverage the niche programming content with targeted and optimized advertising.

Item 4.4.3. Competitive advantage

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

In 2011, we were one of the two leading private TV broadcasters in Poland in terms of revenue and TV advertising market share and the third largest broadcaster in Poland in terms of audience share.

We have strong brand recognition and enjoy good reputation among our customers. Cyfrowy Polsat and Telewizja Polsat brands are 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 GFK Polonia, we have the highest brand recognition (90%) of the three pay DTH satellite operators in Poland (Source: "Brand image study", May 2011, GFK Polonia, N=1400 people).

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

We provide integrated services. Since June 2010, we provide multi-play services combining pay DTH offer, Internet and telecommunication services. Of the three leading pay DTH providers in Poland, we are the only operator that provides own full multi-play services, that is a significant competitive advantage on pay DTH market in Poland. We believe that, similarly to highly developed European countries, preferences of the Polish population will go into integrated services direction, which will strengthen our competitive advantage. We believe we will also be able to use cross-promotion of our services through our various media platforms, including pay TV, VoD, broadband Internet and mobile telephony, to drive future audience share and advertising revenue, to further expand our library of content and to optimize our cost base, including reducing content acquisition costs and other costs common to both our business segments.

We operate in one of Europe's most favorable markets and are well-positioned to capitalize on growth opportunities. As a leading TV broadcaster, we believe we are in a strong position to capitalize on the expected growth in the Polish TV advertising market resulting from GDP growth and growing disposable income of Polish consumers over the medium to long term. According to initial estimations of Central Statistical Office, Polish GDP increased by 4.3% in 2011 compared to a growth rate of 1.5% for all 27 members of the European Union (according to Eurostat). According to forecasts of the European Commission ("European Economic Forecast – Autumn 2011") the average private consumption expenditures in Poland increased by 0.6% in 2011. According to ZenithOptimedia, we estimate, that TV advertising market value will grow in 2011-2014 at CAGR of 3.6%.

We believe there is still growth potential in the Polish pay TV market, which in 2010 had an estimated pay TV penetration rate of approximately 68% (according to consumer research ordered by the Office of Electronic Communications), lower than in the most developed markets such as Belgium, the Netherlands, Norway and Denmark where the penetration rate is above 90%. Through our satellite TV transmission, wireless broadband Internet services and delivery of mobile telephony services as an MVNO, we are able to access less-densely populated and rural areas of Poland at a significantly lower cost than cable TV and other fixed line providers. Of the three leading DTH providers in Poland, we are the only DTH operator that provides own full multi-play offer. We believe that offering DTH packages, broadband Internet and mobile telephony services under a multi-play offer strengthens our position to capitalize on further growth of Polish pay-TV market. We believe that we will be able to leverage the strength of the Cyfrowy Polsat brand name and our 3.6 million existing DTH subscriber base to expand the sales of our broadband Internet and mobile telephony services through our multi-play offer.

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

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

We built our own set-top boxes factory. As the only operator on the Polish market we produce our own set-top boxes. In November 2007, we launched own production of SD set-top boxes and in April 2010 we began to produce HD set-top boxes. More than three million high technology equipment left our production line, out of which over 1.5 million of HD set-top boxes. Running our own factory enables us to produce high quality set-top boxes while incurring manufacturing costs which are far lower than the price of purchasing such equipment from third-party providers. The functionalities of our set-top boxes are designed in line with the customers' expectations as analyzed by surveys, so that we can be sure the equipment is going to meet their needs. The software installed on our set-top boxes is developed by in-house engineers, enabling us to rapidly respond to emerging customer needs. In this area we are completely independent and flexible, which translates into better service for our customers.

We have strong, stable and diversified cash flows. We generate revenue through two distinct revenue streams: (i) Retail business segment and (ii) Broadcasting and television production segment. In Retail business segment, our large subscriber base, monthly subscription revenue and relatively low churn rates provide us with significant predictability of future revenue and strong recurring cash flows, which have historically proven to be resilient, even during periods of challenging economic conditions. Our Retail business segment generated EBITDA margins of 25.1%, 27.5% and 29.3% in 2009, 2010 and 2011, respectively, and retail subscription revenue grew at a CAGR of 13.9% over the last three years. Our Broadcasting and television production segment generated EBITDA margins of 26.4%, 30.7% and 30.9% in 2009, 2010 and 2011, respectively, and the revenue in this segment grew at a CAGR of 5.9% over the last three years. In our Broadcasting and television production segment, where TV advertising revenue generally fluctuates depending on the strength of the Polish economy, we have observed recent growth in the advertising market and expect this growth to continue in the near future. ZenithOptimedia forecasts ("Advertising Expenditure Forecasts", December 2011) that TV advertising revenue in Poland will grow at a 3.6% CAGR between 2011 and 2014.

We focus on our cost base and initiatives to develop in-house services and systems in order to improve quality and efficiency. We believe that we are able to provide our set-top boxes at an approximately 20% lower cost than if we were to purchase them from third parties.

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 in both business segments 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. Retail business segment

Through Cyfrowy Polsat, we provide subscriber based pay TV via DTH technology, broadband Internet services and mobile telephony. In 2011, DTH subscription fees represented 94% of the total revenue generated in our Retail Customers business segment. We also provide our customers with an Internet offer and multi-play offer, which combines pay TV, broadband Internet and mobile telephony services in one offer, contract, subscription fee and invoice.

Item 4.5.1. Market overview

Item 4.5.1.1. Pay-TV market

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

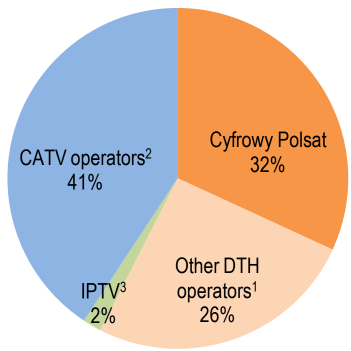
In 2011, according to our estimates, pay-TV services were provided to approximately 11 million Polish subscribers. According to consumer research conducted on the order of the Office of Electronic Communications, excluding households that use more than one pay-TV offer, the market penetration rate at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

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

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

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

Pay-TV market in Poland



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

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

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

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

DTH

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

Cable TV

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

IPTV

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

Item 4.5.1.2. Internet market

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

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

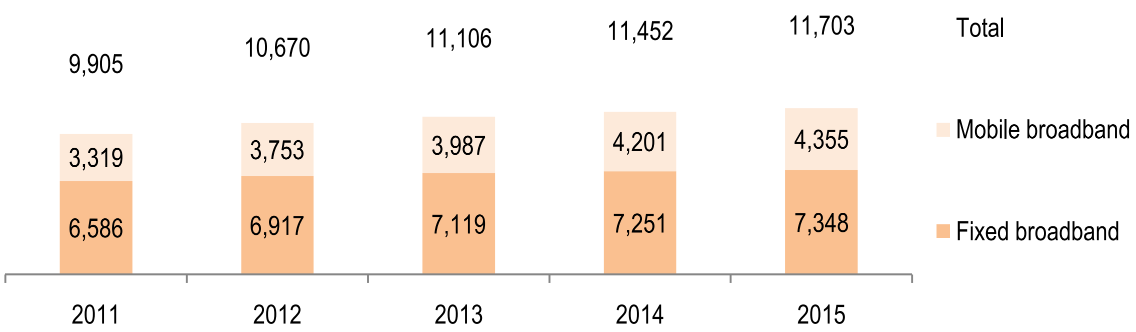
According to UKE (Report on telecommunications market in Poland 2010, June 2011) , in 2010, 72.02% of households in Poland had access to broadband Internet, while the penetration rate for 100 inhabitants was 25.02%.

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

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

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

According to PMR estimates, the total number of broadband subscribers in Poland (both enterprises and households) amounted to 8.9 million in 2010, out of which 2.7 million used mobile connections. PMR forecasts that in 2011 the number of broadband users increased to 9.9 million, including 3.3 mobile broadband users. The chart below presents development forecasts of the market in 2011-2015:



Source: PMR Report

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

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

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

Source: PMR Report

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

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

Source: UKE Report

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

Item 4.5.1.3. Mobile telephony market

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

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

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

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

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

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

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

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

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

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

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

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

Item 4.5.1.4. Multi-play services market

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

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

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

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

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

Item 4.5.2. Offer

Item 4.5.2.1. DTH offer

Promotional offer

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

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

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

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

Family HD Package

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

Mini HD Package

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

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

Additional packages and services

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

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

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

Premium Offer

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

Flexibility

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

Multiroom

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

Free-to-air channels

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

Digital TV offer with no fees and liabilities

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

VoD Home Movie Rental

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

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

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

TV Online (catch-up TV)

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

Item 4.5.2.2. Internet offer

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

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

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

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

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

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

Once a package is used up, the subscriber can still profit from Internet access with unchanged parameters – both during the day and at night – on attractive terms, either paying for each MB, according to the price list, or buying additional one-time data package.

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

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

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

Item 4.5.2.3. Mobile telephony offer

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

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

We offer two additional packages of minutes:

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

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

Item 4.5.2.4. Multi-play offer

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

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

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

Item 4.5.3. Marketing and sales, customer service and maintenance

Item 4.5.3.1. Marketing

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

Item 4.5.3.2. Sales

DTH products and services sales network

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

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

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

Sales of broadband Internet services

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

Sales of mobile telephony services

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

Call center

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

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

Online

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

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

Central warehouse

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

Item 4.5.3.3. 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 4.5.4. Technology and infrastructure

Item 4.5.4.1. Technology and infrastructure – DTH

Conditional access system

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

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

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

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

Satellite

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

Broadcasting center

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

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

Services for television and radio broadcasters

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

Set-top boxes

To reduce our costs, 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.

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

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

Item 4.5.4.2. Technology and infrastructure – Internet service

Network

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

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

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

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

In January, International Telecommunication Union (ITU) has approved a new standard of mobile technology. ITU decided, that "LTE-Advanced" and "WirelessMAN-Advances" solutions will be commonly named IMT-Advanced. In the future, IMT-Advanced will replace, developed since 2000, IMT-2000 standard popularly known as 3G. The target speed offered by technologies compatible with IMT-Advanced standard will be 100 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.

Modems

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

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

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

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

Item 4.5.4.3. Technology and infrastructure – MVNO

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

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

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

Item 4.6. Broadcasting and television production segment

Item 4.6.1. Market overview

The Polish TV broadcasting market consists of state-owned and private commercial broadcasters airing both at the regional and national levels, significant number of stations offer pay-channels (through cable and DTH platforms).

TV broadcasting in Poland was started in the 1950s by the state-owned TV broadcaster TVP, which was the sole Polish TV broadcaster until 1992. Since the opening of the Polish TV market to private commercial broadcasters in 1992, the number of TV channels has increased substantially. Today, the Polish TV broadcasting market has five national or pan-regional terrestrial broadcasters (TVP, TVN, TV Polsat, Polskie Media and Telewizja Puls), a number of smaller regional broadcasters of satellite and cable TV channels and broadcasters distributing Polish versions of international channels as well as foreign language (predominantly German and English) channels. Currently, digital terrestrial television is being implemented in Poland. Now it includes seven channels available to over 90% of Polish households.

As of February 2012, there were no new analog frequencies available in Poland. However, Poland is currently in the process of converting from analog terrestrial broadcasting TV to DTT (Digital Terrestrial TV). Potential entrants, who want to apply for broadcasting licenses, must meet license requirement related to the content of channels as well as ownership structure of the companies. In addition, potential entrants to the TV broadcasting industry would incur high costs in order to create a proper technical facilities, programming library, to establish and expand a distribution network and to establish efficient advertising sales team. Due to high level of competencies of the professionals working for the broadcasters already present on the Polish market and thus highly competitive sales teams, barriers to entry into the Polish broadcasting market by new participants are very difficult to overcome in the short term.

The Polish TV broadcasting market is supervised by the KRRiT (the National Broadcasting Council) which grants broadcasting licenses and supervises the operations of Polish TV broadcasters (such as checking compliance with license terms for specific channels).

Polish TV advertising market

According to ZenithOptimedia estimates, in 2011 Poland was the third largest advertising market in Central-Eastern Europe (after Russia and Turkey) with a total net advertising expenditure of PLN 7.1 billion (after discounts or rebates) with a 2.4% growth rate in 2011. The value of TV advertising amounted to nearly PLN 3.8 billion (with a year-on-year growth of 2.6%). ZenithOptimedia forecasts increases in the value of TV advertising market by 3.7% in 2012, 2.9% in 2013 and 4.3% in 2014.

In 2011, TV was the dominant advertising medium in Poland. Historically, TV's share of total advertising expenditure has been ranging from 50% in 2007 to 53% in 2011. According to ZenithOptimedia forecasts, this share is expected to remain stable in the upcoming years. The recent growth of the Internet as an advertising medium has not resulted in a substantial change in TV's share of advertising spending but it has had a significant adverse impact on print advertising.

Advertising expenditure by medium from 2007 to 2014

	2007	2008	2009	2010	2011	2012E	2013E	2014E
TV	50%	52%	52%	53%	53%	53%	52%	52%
Print	24%	22%	20%	18%	16%	15%	13%	12%
Outdoor	10%	9%	9%	8%	8%	7%	7%	6%
Radio	7%	7%	7%	7%	7%	7%	6%	6%
Internet	8%	10%	12%	14%	16%	17%	19%	22%
Cinema	1%	1%	1%	1%	2%	2%	2%	1%

Source: ZenithOptimedia, *Advertising Expenditure Forecasts - December 2011*

The Polish TV market is characterized by high average daily TV viewing time, which was approximately 242 minutes in 2011, a decrease of three minutes compared to 2010. The high average TV viewing time and the stability of the TV advertising market in Poland are likely to translate into higher revenue in the Polish TV broadcasting market.

Based on data from Starlink, we estimate that in 2011, Polsat Group had a 22.6% share of the PLN 3.9 billion Polish TV advertising market and an advertising power ratio, which is a ratio of advertising market share to total individual audience share in the group All 4+, of 1.2.

ZenithOptimedia forecasts that in 2012, total net advertising expenditure in Poland will grow by 3.8%. Based on ZenithOptimedia's data, we estimate that TV advertising in Poland will have a 3.6% CAGR between 2011 and 2014, driven by the assumed sustained GDP growth in Poland. We believe TV is a highly effective advertising medium, and given the relatively low level of advertising expenditures in Poland as a percentage of GDP and per capita in comparison to other European markets that there is substantial growth potential for TV advertising in Poland. The Polish advertising market constitutes 0.47% of GDP, representing a substantially lower value as a percentage of GDP than in certain other European markets such as the United Kingdom (0.77%), Germany (0.7%) and the Czech Republic (0.68%) in the same period. Similarly, based on ZenithOptimedia data, advertising expenditures per capita in 2011 reached USD 62.5 in Poland, in comparison to USD 294 in the United Kingdom, approximately USD 298 in Germany and approximately USD 130 in the Czech Republic in the same period.

Key TV channels

The Polish TV market is dominated by the four largest terrestrial channels: TVP1, TVP2, TVN and POLSAT, which collectively had 58% of the aggregate audience share in the commercial group in 2011. However, the increasing success in Poland of non-FTA channels and channels distributed in digital multiplex will likely result in the increasing fragmentation of Polish TV viewing audiences.

In 2011, our main channel, POLSAT, had 16.5% all day audience share, which was the highest result on the market. Average annual technical coverage was nearly 98%. Our thematic channels had a 4.4% combined audience share. We broadcast 13 thematic channels with competitive offers on each important market segment (including sport, information, and channels dedicated to female and male audience). These channels are distributed by cable and satellite networks. POLSAT competes for audiences and advertising primarily with the nationwide channels: TVN,TVP1 and TVP2.

In 2011, our main competitor, TVN achieved a 16.1% all day audience share and had approximately 92% average annual technical coverage. The TVN channel, launched in 1997, is transmitted by TVN, which is controlled by ITI Group. TVN Group thematic channels achieved a 5.9% combined all day audience share in 2011.

TVP broadcasts nine channels, including two nationwide: TVP1 and TVP2, and is one of the main players on the Polish TV advertising market. In 2011, the main channels of TVP Group had 13.6% (TVP1) and 11.9% (TVP2) all day audience share. The technical reach of both channels reaches almost 100% of households in Poland. TVP's non-FTA channels had 3.9% audience share, including TVO Info (previously TVP3) with 2.2% audience share. Except advertising revenue, as the national state-owned broadcaster, TVP receives additional revenue from license fees mandatorily charged to Polish citizens owning TV or radio sets under the License Fees Act of 2005 (Dz.U. of 2005 No. 85 Item 728). Despite regulation preventing TVP from interrupting programs to broadcast advertising, which lessens its advertising inventory, in 2010, TVP generated only approximately 12% of its income from license fees.

According to Nielsen Audience Measurement (NAM), except the four largest channels, no other TV channel in Poland held an audience share higher than 3%.

Digital Terrestrial TV

Poland is currently in the process of converting from analog terrestrial broadcasting TV to DTT based on Digital Video Broadcasting—Terrestrial ("DVB-T") standards. The switch to digital broadcasting is an opportunity to improve picture and sound quality and eliminate the interference that currently accompanies analog broadcasting. Digital TV systems use an electronic program guide, which enables viewers to compile their own sets of favorite programs and exercise parental control. Digital TV systems also allow broadcasters to introduce additional multimedia services such as additional soundtracks for individual channels (ex. additional narratives) as well as the ability to view programs with subtitles in various languages. DVB-T will provide users with a new option of recording programs (PVR).

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

Digital transmission systems differ from analog systems in their bandwidth requirements. DTT requires TV-sets equipped with a tuner or a special additional adapter for older devices. By using the DVB-T broadcasting standard and with MPEG-4 compression and encryption, it is estimated that viewers will be able to view up to seven to eight channels in one multiplex.

The switch-off of the analog signal has been divided into stages. The final switch to digital broadcasting is planned for the end of July 2013. It is expected that the process of digitalization in Poland may involve six multiplexes. A multiplex ("MUX") is a term used to describe the package of radio and TV channels, possibly enriched by additional services, transmitted digitally on a specific band.

MUX-1 is shared between the public TV broadcasters' core channels: TVP1, TVP2, TVP Info and four commercial channels. The reach of MUX-1 will be expanded till the end of September 2012. MUX-2 is reserved for the commercial broadcasters including TV Polsat. Regular digital transmissions of POLSAT started on September 30, 2010. The last stage of expanding its reach is planned at the end of 2013. MUX-3 is reserved solely for the public TV broadcaster and the finalization of its expansion is scheduled by the end of April 2014. MUX-4 is currently reserved for INFO-TV-FM to provide mobile TV. The other multiplex: MUX-5 and MUX-6 are still in the design phase without specific plans as to which broadcasters will be participating.

Item 4.6.2. Offer

Item 4.6.2.1. Channels

We believe we have a portfolio of channels that appeals to the important audience segments and that we will keep a leadership position in sports programming and we will strengthen our position in news programming. Our portfolio of channels addresses the entire family.

Channels portfolio of Polsat Group

Channel	Start date	Thematic group	Signal distribution	Availability	Household coverage(1)
POLSAT	December 5, 1992	General interest	Terrestrial/DTT/cable/satellite	FTA	97.5%
Polsat Sport	August 11, 2000	Sport	Cable/satellite	non-FTA	42.4%
Polsat Sport Extra	October 15, 2005	Sport	Cable/satellite	non-FTA	30.0%
Polsat Futbol	September 17, 2009	Sport	Cable/satellite	non-FTA	15.2%
Polsat Sport HD	October 12, 2007	Sport	Cable/satellite	non-FTA	3.6%
Polsat Film	October 2, 2009	Movie	Cable/satellite	non-FTA	34.4%
Polsat Café	October 6, 2008	Lifestyle	Cable/satellite	non-FTA	45.8%
Polsat Play	October 6, 2008	Lifestyle	Cable/satellite	non-FTA	36.6%
Polsat 2	March 1, 1997	General interest	Cable/satellite	non-FTA	55.8%
Polsat News	June 7, 2008	News	Cable/satellite	non-FTA	46.3%
TV Biznes	February 8, 2007	Business	Cable/satellite	non-FTA	49.9%
Polsat Jim Jam	August 2, 2010	Children	Cable/satellite	non-FTA	35.4%
Polsat Sport News	June 1, 2011(2)	Sport	DTT/satellite	FTA	19.4%
Polsat Crime & Investigation(2)	November 24, 2011	Criminal	Cable/satellite	non-FTA	25.8%

(1) NAM, average household coverage, arithmetic average of monthly coverage in 2011.
(2) The channel is included in Polsat Group portfolio since November 2011.

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

POLSAT

POLSAT, our main channel, is the only commercial channel with a nationwide terrestrial broadcasting license. The channel broadcasts 24 hours a day, seven days a week. It is the number one private FTA channel in Poland in terms of audience share in the commercial group (all 16-49). The channel is broadcast via the analog terrestrial signal using the broadcasting infrastructure owned and leased by us or from a third party, EmiTel. The terrestrial broadcasting provides good quality reception of POLSAT for approximately 70-80% of viewers in approximately 65-70% of the territory of Poland. Apart from analog terrestrial broadcasting, POLSAT is also provided in SD and HD by all the major Polish cable TV operators as well as DTH platforms. Approximately 33% of POLSAT viewers receive the channel via terrestrial analog signal, 35% via DTH. POLSAT airs a broad variety of movies, Polish and foreign series as well as talent shows realized based on license agreements. Sports offer has also an important place in our programming. As mentioned before, in 2011, the channel recorded the highest on the market audience share in the commercial group.

The strongest programming offer is aired in autumn, from September to November, in prime time (from 6:30pm to 11:00pm). It is the key period for advertisers throughout the year. That is when we broadcast the premiere episodes of series, new movies (mainly from Sony Pictures Television International and 20th Century Fox, reaching the audience share of 26% and 24% respectively, with the strongest positions reaching over 30%). In off-prime time, POLSAT aires series, movies or transmissions from sport events taking almost 30% audience share.

Non-FTA channels of the Group

Channel	Target audience segment	Average audience share in the target audience segment in 2011	Core programming	Additional information
Polsat Sport	Men Age 16-59	1.0%	The first sport channel in the Group's offer. It airs sports events and thematic programs. The sports are: (i) volleyball (World Championships, World League, World Grand Prix, Plus League), (ii) athletics (e.g. Diamond League), (iii) football, (iv) handball, (v) world class boxing and (vi) MMA (Mixed Martial Arts) contests.	The number one sports channel in Poland in 2011, both in commercial group and its target group.
Polsat Sport Extra......	Men Age 16-44	0.3%	Premium sport events, primarily Formula One (full coverage together with training) and the largest international tennis tournaments such as Wimbledon and handball Champions League.	The number five sports channel in Poland in the "Men Age 16-44" audience segment and in commercial group.
Polsat Futbol.............	Men Age 16-59	0.1%	Prestige football games of the UEFA Europe League, UEFA European Football Championship, foreign football leagues with Polish players.	Channel addressed to up-market football fans.
Polsat Sport HD.........	Men Age 16-59	n/a	A selection of sport events available in HD technology, including live broadcasts of some of the major sports events, such as the UEFA Europa League, volleyball, boxing and MMA.	

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

Polsat Film	All Age 16-49 cable TV/satellite viewer	0.5%	Wide offer of movies. Hit movies, top box-office productions and non mainstream movies. The offer based to a large extent on productions of Sony Pictures Television International and 20th Century Fox TV.	
Polsat Café	Women Age 16-44	0.4%	Lifestyle, fashion, health and beauty, foreign editions of shows such as Moment of truth, You Can Dance.	
Polsat Play	Men Age 16-44	0.4%	Male hobbies, including fishing, automotive industry, and trendy consumer gadgets.	
Polsat 2	All Age 16-49	1.5%	Reruns of programs that premiered on our other channels.	Ranked eighth in terms of audience share in Poland. The channel is also available via satellite in other countries (ex. USA).
Polsat News	All Age 16-49	0.7%	24-hour news channel mainly broadcasting live and covering primarily news from Poland and key international events.	
TV Biznes	n/a	n/a	The latest news on the economy and financial markets.	Channel acquired by TV Polsat in February 2007.
Polsat Jim Jam	Children Age 4-6	2.5%	Entertainment for children.	Polsat Jim Jam is a joint venture launched by TV Polsat and ChelloZone.
Polsat Crime & Investigation	n/a	n/a	Criminal programs based on true stories. Documentaries presenting the work of police, detectives and criminal laboratories.	Joint project of Polsat Group and A+E Networks UK. The channel is aired since the end of November 2011. It was including to telemetric panel on January 1, 2012.

Polsat Sport News

Polsat Sport News is our channel with sports news profile, that was launched on May 30, 2011. It is a FTA channel broadcasted in DTT technology. The programming of the channel includes sports news, as well as coverage of sports events and journalistic formats.

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

Audience share for our channels standardized to the "All Day 16-49" audience segment for 2009-2011:

	Audience share (%)		
Channel	**2009**	**2010**	**2011**
POLSAT	17.38	16.03	16.45
Polsat 2	0.90	0.97	1.45
Polsat Café	0.14	0.22	0.33
Polsat Film	0.08	0.29	0.39
Polsat Futbol	—	0.02	0.03
Polsat JimJam	0.02	0.21	0.30
Polsat News	0.25	0.52	0.66
Polsat Play	0.20	0.23	0.33
Polsat Sport	0.72	0.56	0.65
Polsat Sport Extra	0.18	0.18	0.17
TV Biznes	0.06	0.04	0.02

Source: NAM, target All Day 16-49

Item 4.6.2.2. Scheduling

We tailor our programs and programming schedules to the interests of the group, that considering its demographic characteristics, we believe is most attractive to advertisers. We analyze data relating to our audience share in detail, and, by identifying audience interests and general market trends we attempt to ensure that our programming remains responsive to the expectations of the target audience and advertisers.

Our scheduling is based on two key commercial schedules (advertising revenue): the spring (March-May) and autumn (September-November) schedules. Then we broadcasts premieres. In the summer and winter, we schedule mainly re-runs of the content premiering in the high season.

Our programming schedule is designed to maintain viewer loyalty so that the attractive programming keeps the viewer watching the specific channel. It is especially important in the time slot between early afternoon and "prime time". To achieve this goal, each day (from Monday to Tuesday) we plan stable slots so that the viewer can remember the programming scheme of the channel. This strategy is implemented between 4pm and 8pm. From 8pm, the channel proposes a strong offer including movies (ex. Monday, Tuesday), talent shows (Saturday, Sunday) and popular series (Thursday).

Sources of programming

Polish programming

We aim at having diversified sources of Polish content, enabling us to efficiently manage production costs. We are able to choose from a wide offering to select attractive and cost-effective programs to fit successful scheduling. In addition, for formats owned by us, we organize pitches in order to select the most cost-effective producers that ensure high quality. Polish programs are primarily commissioned to independent external producers. However, we also create programs in-house. Approximately 56% of our programming hours consists of Polish content (data for the following channels: Polsat, Polsat HD, Polsat 2, Polsat Play, Polsat Cafe, Polsat Film, Polsat News, Polsat Sport, Polsat Sport Extra, Polsat Sport HD, Polsat Sport News).

Commissioned programs are sub-contracted to third-party production companies that provide us with additional production capacity when needed, thereby reducing overhead costs related to production employees, facilities and equipment. Our external producers include approximately 20 Polish and foreign producers such as: ATM Group, Bogota Film, Intergalactic, Akson Studio, PAISA FILM, Tako Media and Constantin Entertainment Polska. To provide content for Polsat Play and Polsat Café, we use the services of smaller local production companies. Polsat News relies mainly on its own production resources. Sport channels rely mainly on acquired transmissions licenses supported by strong in-house production focused on Polish sports.

In most cases, we use a standard template for all production contracts we enter into. When the production of TV programs is commissioned to external producers, the contracts generally provide that the producer transfers to us all the copyrights and related intellectual property rights of the covered programs with the exclusive right to exercise the derivative copyright. The producer's fees include production fees as well as fees for the transfer of copyrights, related intellectual property rights to the program (or, alternatively, for granting the license) and for granted authorizations and consents. All production agreements have definite terms, typically covering the time of production with the possibility for extensions.

Programs produced in-house include sports and information programs, journalism and special events.

Foreign programming

We purchase programming licenses from foreign providers primarily for films, series and sports.

Our key partners for movie and series licenses are major US movie studios such as Sony Pictures TV International, 20th Century Fox TV and CBS. Usually, these contracts have terms of two to three years and are denominated in U.S. dollars. We generally acquire broadcasting rights under one of three types of contractual arrangements: (i) output contracts, which involve the acquisition of the right to broadcast all current and future releases of a particular movie studio, (ii) volume contracts, which involve the acquisition of a specified volume of films or series or (iii) spot contracts, which involve the acquisition of the right to broadcast individual series or films.

Purchase of rights to broadcast sports

Sports strategic programming licenses are required for Formula One and FIVB Volleyball (World League, World Grand Prix, World Cup). These contracts usually relate to playing seasons and have terms of three to five years. These contracts are generally denominated in euro. Once we have obtained the required programming licenses for certain sports events, we provide our viewers with locally-customized programming either in the form of complete productions or studio commentary.

Item 4.6.2.3. Sale of advertising and sponsoring

Advertising options

There are two main forms of advertising in the TV market: (a) advertisements broadcast in advertising breaks and (b) sponsoring broadcast before and after selected programs and trailers or, according to amendments to Broadcasting Act, in advertising breaks in-between sponsored programs.

Advertising

Broadcasters use two forms of sale of advertising time in advertising breaks: (i) GRP sales and (ii) monthly rate-card sales.

GRP sales are based on audience ratings and a specified price per rating point delivered. The valuation of the service is based on fixed price of one rating point.

Rate-card sales are based on a broadcaster's official rate-card for individual advertising breaks. Customers purchase specific advertising breaks at a price determined by the given rate-card.

GRP prices for specific months and rate-card discounts applied as well as annual minimum purchase commitments are set out in annual contracts negotiated with media agencies and customers. Pricing and discounts depend on the level of the annual minimum purchase commitment.

Sponsoring

Sponsor projects are sold throughout the year (usually sold on the basis of a project). Prices and discount conditions are negotiated individually for each customer and each sponsor campaign.

Pricing

Pricing of commercials

We set the prices for commercials with the objective of maximizing revenue from the commercial time available (according to law) and based on estimated level of attractiveness of specific programming content next to which the advertising breaks are located. on demand forecasts for TV commercials. Forecasts of advertising break audience are prepared for each month based on the overall TV audience, the channel's share in the overall audience and seasonality (prices of commercials are highest from October to November, before Christmas season, and lowest from January to February and from July to August).

In order to provide flexibility to advertising customers, we offer advertising priced on (i) a rate card basis and (ii) cost per GRP.

Rate-card prices of commercials are set and published each month by Polsat Media's advertising sales team. Advertisers select commercial breaks based on their assessment of which programs target the audience demographic they wish to reach (the channel is not accountable for the audience actually generated by the program).

GRP prices are established for the channel or group of channels each month during a calendar year by Polsat Media's advertising sales team and GRP delivery is guaranteed. Advertising sold on a cost per GRP basis is scheduled by Polsat Media on the basis of available resources after the booking of sales based on rate-cards. We believe this sales model to be the most profitable way to sell our advertising breaks. In 2011, rate-card sales accounted for more than 44.5% of all advertising sales on our main channel, POLSAT.

Pricing of sponsoring

We set the prices of sponsoring with the objective of maximizing our revenue taking into account the programming offer and legal regulations regarding sponsoring limits. Our pricing is based on the relevance of the subject matter of the program to the sponsor's needs and the target group, the quality of our programs, recognition of brands and the attractiveness of the broadcast slot. In order to provide flexibility to advertising customers, we negotiate sponsoring contracts on a case-by-case basis, taking into account all the factors mentioned above.

Sponsoring revenue is primarily dependent on programming quality and marketing attractiveness for the product and its target audience. As a result, sponsoring is not as dependent on the strength of the economy as advertising.

Item 4.6.3. Sales

The key source of revenue for our Broadcasting and television production segment is advertising revenue. Advertising revenue has comprised at least 80% of total revenue of TV Polsat Group since 2006. Almost all of our advertising revenue is collected through our wholly owned subsidiary, Polsat Media, which acts as an advertising agent (sales house) for us under the terms of a Framework Agreement, dated December 27, 2003. Polsat Media is responsible for the sale of advertisements, sponsoring services and contracts connected therewith. Polsat Media is responsible for the sale of advertising services (advertising time) for all our channels (with the only exception of Polsat Jim Jam).

In 2011, Polsat Media carried out the sale of advertising time for eleven of our TV channels and three other broadcasters outside our Group. Polsat Media often works with international media buying agencies that operate as intermediaries, negotiating purchase conditions and conducting campaigns for their customers. The sale of advertising time is carried out both through annual contracts entered into with media buying agencies, as well as individual direct customers. In 2011, our ten largest media buying agencies collectively accounted for approximately 77.0% of our net advertising and sponsorship revenue with no single advertiser accounting for more than 1.0% of our net advertising and sponsorship revenue. Like the other nationwide broadcasters in Poland, we have a relatively stable group of advertisers that we work with.

According to the Media & Marketing Polska report, Polsat Media was the highest-rated nation-wide TV advertising sales office in Poland in 2009 and 2010. In 2011, the advertising sales office was evaluated higher that in the prior year. Very high notes were given in the category of transparency of pricing policy and it was significantly higher that the notes of other TV advertising sales offices.

The second largest source of our revenue in our Broadcasting and television production segment after commercials and sponsoring, are agreements with cable TV networks and satellite TV operators, which comprised 15% of total revenue in this business segment in 2011. Our agreements with cable TV networks and satellite TV operators are generally non-exclusive licenses for the broadcasting of our channels. Under typical licenses, operators agree to pay us a monthly license fee, the amount of which generally depends on the number of subscribers to individual packages and set rates for the package or channel subscribers.

Sale of content via Internet

Sale of rights to broadcast programming content of the Group on selected Internet platforms becomes a growing source of revenue of TV Polsat Group. Our main partner in this field is Redefine Sp. z o.o., the operator of IPLA platform. Standard agreements concerning online broadcasting of our programming are based on two settling models. In the first model, there is a fixed monthly fee for the broadcasting right to a specified programming. The second model is based on the share in revenue generated from advertisement placed next to transmitted material.

Sales team

Polsat Media is responsible for sales of our advertising time, sponsorship, campaign planning, after-sales analysis, market research and analysis, development of new products and, most importantly, enhancing relationships with existing and potential advertisers. In addition to providing advice on the scheduling of advertisements on our channels, Polsat Media's sales force cooperates closely with advertisers to design special campaigns, including the sponsorship of particular programs and related cross-promotional opportunities. Together with the programming department, Polsat Media's advertising sales department obtains TV audience ratings data from NAM on a daily basis. They analyze this data and compare it with audience ratings of our competitors to determine the most effective strategy for scheduling advertising slots to reach advertising clients' preferred audience in the most efficient manner. The department is also responsible for ensuring that advertising slots are allocated in accordance with client specifications regarding context and timing.

In 2009, Polsat Media implemented PROVYS Sales, a new sales and optimization software compatible with our fully-integrated ERP system, PROVYS TV Office, used by the Group to manage i.a. programming broadcasting. PROVYS Sales enables to simultaneously sell airtime on 15 channels serviced by Polsat Media with fully automated broadcasts of commercial airtime as well as campaign results verification based on daily uploaded NAM data.

In addition, Polsat Media's advertising sales department conducts a wide range of market analyses based on external independent industry reports, including research conducted by Starlink, ZenithOptimedia and Informa.

Polsat Media also uses data from TGI consumer research held by the Polish branch of Millward Brown, that is a standard reference on the Polish market. We are also a member of EGTA (international trade association of TV and radio sales houses), which gives us a unique opportunity to interact and cooperate with sales houses from most European countries.

Item 4.6.4. Technology and infrastructure

Broadcasting of TV channels

We broadcast TV channels by terrestrial analog and digital transmitters, cable TV and digital satellite platforms.

Terrestrial transmission

POLSAT, our main channel, is broadcast via a nation-wide network of terrestrial transmitters operated by RS TV, our wholly owned subsidiary and by a third-party entity, EmiTel. We have an agreement with EmiTel for: (i) the operation of broadcasting stations and the satellite receiving stations operating with them, used for the terrestrial analog transmission of POLSAT's signal; (ii) the provision of communication services consisting of the terrestrial transmission of POLSAT's signal;

(iii) DTT signal transmission for the terrestrial broadcasting of POLSAT and Polsat Sport News and (iv) the lease of TV equipment and for the provision of comprehensive technical services for the equipment operating in EmiTel's broadcasting facilities.

Our remaining channels are broadcast exclusively via cable TV networks and satellite TV.

Satellite transmission

We have entered into several agreements for the use of satellite transponders to distribute our TV channels. We have executed: (i) two 3-year agreements, entered into in 2009, providing the right to use two slots on the Atlantic Bird 1 satellite, (ii) a 5-year agreement, entered into in 2007, with Space-Communication for access to Amos satellite transmission capacity and (iii) one seven-year agreement, entered into in 2010, with Eutelsat to provide us with the right to use Eutelsat's transponders until the end of 2017 with the right to extend the agreement for additional successive seven-year periods. The contracts involve three transponders all together. In addition, through Cyfrowy Polsat, TV Polsat has access to four other Eutelsat transponders.

Technology and infrastructure

Our core technical infrastructure is comprised of: (i) four digital TV studios, including one used by the Polsat News channel and the main information program - "Wydarzenia", and other studios designated for short-form TV shows, with modern, or recently modernized, equipment; the studios are either fully HD-compliant or HD-ready; (ii) five digital outside broadcast vans, including three modern HD vans, one HD-ready van with core upgraded systems and a small SD van for the rapid production of short programs; (iii) 13 digital satellite news gathering trucks ensuring on-site signal feed; five of which are HD-capable, the rest operate in SD; (iv) a recently replaced multiplexer system ensuring the effective transmission of ten of our channels; (v) a fixed satellite transmitter for the stream of our digital channels that will be run by our Retail business segment beginning in 2012; (vi) a multi-channel automatic TV broadcasting system; (vii) a digital audio visual routing system; (viii) an IT network capable of handling technological tasks; (ix) network production systems; (x) more than 80 HD and SD camera units; (xi) program archive (presently being digitalized); and (xii) telecommunications systems, including optical systems.

In 2012, we plan to continue developing a tapeless production and broadcasting system based on a central digital archive. A central digital archive has a number of advantages, including the ability to create a searchable index and to provide quick access to archived data. The goal is to create a rapid data exchange system between the production units and implement long-term audio visual content storage in the form of digital files, which we expect will lead to shorter production time and greater production flexibility.

Item 4.7. Development prospects

Item 4.7.1. Retail business segment development prospects

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

In March 2011, we began testing commercial broadband Internet access based on the LTE technology, which we believe will be an important technology for the future of mobile broadband Internet and the successor to the commonly used UMTS standard. An LTE mobile connection can offer a maximum speed of up to 150 Mb/s. In August 2011, upon satisfactory test results, we launched commercial sale of LTE services, which makes us the first Internet provider to offer this technology in Poland. We believe, that it will provide us with a significant competitive advantage over our competitors. That is why we plan to use the growth potential of the Internet market and offer innovative solutions for Internet access in increasingly wider area of Poland. Telecommunications infrastructure of Mobyland and CenterNet (subsidiaries of NFI Midas), based on which we provide our services, currently has over 1,000 base stations for HSPA+ and over 600 base stations for LTE services and the number is constantly growing. In total, our Internet service is available in 24,000 locations (including nearly 1,600 covered by LTE network), that means the coverage of 70.4% of the population of Poland.

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

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

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

Item 4.7.2. Broadcasting and television production segment development prospects

As a leading TV broadcaster, we believe we are in a strong position to capitalize on the expected growth in the Polish TV advertising market resulting from GDP growth and forecasted growth in disposable income of Polish consumers over the medium to long term.

In TV broadcasting, we are one of the two leading private TV groups in Poland in terms of audience share, one of the two leading private TV broadcasters in terms of revenue and advertising market share and the third largest broadcaster in Poland in terms of audience share. Based on data from Starlink, we estimate that in 2011, we captured a 22.6% share of the approximately PLN 3.9 billion Polish TV advertising market and had the second highest power ratio (calculated as advertising market share to audience share) among our key competitors.

As the audience share of thematic channels has been continually growing in Poland, we have focused on launching thematic channels in order to maintain total audience share and ensure continued sufficient growth in advertising revenue. We have launched 13 thematic channels (eight in the past four years), which have been growing rapidly in audience share. We believe that our thematic channels still have significant growth potential as the average subscription portfolio of our thematic channels is available in only approximately 50% of pay TV subscriber households in Poland. We believe the low penetration rate is due to the relatively recent launch of the vast majority of our thematic channels. We believe that the cooperation with cable TV operators as well as DTH providers will increase the availability of our channels. We believe also that the customers' satisfaction with our offer of channels is high and will be growing.

We expect, that in the future Polish TV market will become increasingly fragmented. We believe that we can profit from this fragmentation by strengthening our wide portfolio of channels targeted to entire family, creating a strong distribution network through cable and satellite networks by our Retail segment, within which we manage the largest DTH platform in Poland. We believe that our presence on all significant satellite platforms and our distribution by cable TV operators will result in further increase in the audience share of our thematic channels, and, consequently, give us the opportunity to grow at least in line with the TV advertising market, and increase subscription fee revenue.

Following the global trends of changes in media consumption and development of mobile devices, we want to monetize our content through sale of rights to broadcast the programming of the Group on selected Internet platforms. In this area, Redefine SP. z o.o., operator of IPLA, is the main partner of TV Polsat. Interactive Internet TV – IPLA enables access to online live broadcast. Through IPLA, the users may follow the largest cultural, sport, entertainment and music events, such as Polish Volleyball League – "PlusLiga", Sopot TOPtrendy Festival, pop-stars concerts and back-stage records of TV shows. In IPLA's VoD library, users can find i.a. our popular series (including "Hotel52", "Szpilki na Giewoncie", "Tylko Miłość"), biggest sport events (such as KSW, "Plusliga", Handball) and music events (Sopot TOPtrendy Festival, "Podziel się posiłkiem" concert). Currently, IPLA is available on mobile devices, computers and TV-sets.

Item 4.8. 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 4.9. 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. In our Retail business segment, we have developed several technology systems which enable us to effectively and efficiently manage our subscriber base. Those systems include, among others, a customer relationship management system, a sales services system, an Internet customer service center and a transactions system using n-layer technology. We own all of these systems and the related intellectual property rights. We also use systems licensed from third parties such as our conditional access system. In addition, we conduct development work with regard to the set-top boxes we manufacture in our factory. Additionally, we have contracted for the development of modems to enable us to provide wireless data transmission services using the LTE technology.

In our Broadcasting and television production segment, we rely on a number of IT systems to assist us with the management of news production, file storage, generation transmission graphics, our program library and licenses. We rely on licenses with third-party suppliers for all the systems we use.

Trademarks

In our Retail business segment, 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, to which we also hold the economic copyrights.

In our Broadcasting and television production segment, we hold protection rights to 19 trademarks (including the word and device "POLSAT" trademark). Currently, registration proceedings are underway with respect to several additional trademarks.

License for wireless distribution of TV and radio channels

In our Retail business segment, 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.

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

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.

Broadcasting licenses

In our Broadcasting and television production segment we currently hold 20 broadcasting licenses, including three universal broadcasting licenses and 17 broadcasting licenses for thematic TV channels. Two broadcasting licenses are for terrestrial broadcasting (i.e., POLSAT and Polsat Sport News), while the remaining 18 broadcasting licenses are for satellite broadcast. Our current broadcasting licenses were granted by the KRRiT and Ofcom.

We are currently in the process of converting our FTA channels, POLSAT and Polsat Sport News, from analog terrestrial and satellite broadcasting to digital terrestrial broadcasting in connection with the process of digitizing terrestrial TV in Poland. Pursuant to the 2010 decisions of the President of the KRRiT, our broadcasting licenses for POLSAT and Polsat Sport News channels were expanded by adding the right to distribute the channels through terrestrial digital broadcasting within the MUX-2.

The schedule of launching transmitting stations and subsequently broadcasting the channels in Poland, is determined in the agreement with the operator of MUX-2, EmiTel. Although the entire digitalization process must be finalized by December 2013, regulatory decisions contemplate an earlier, October 2012 deadline for the launch of broadcasting of the channels. There is the possibility that all users of MUX-2 could therefore breach such regulatory decisions if the digitalization process is not complete by October 2012, which could theoretically result in the revocation of broadcasting licenses. EmiTel has presented a new launch schedule to the President of the UKE, which sets December 31, 2013 as the deadline for completion.

The table below sets out the broadcasting licenses currently held by the Group:

Channel	License holder	Type of license	Licensing body	Date of expiration[1]
POLSAT	TV Polsat	Terrestrial broadcast license (analog/digital)	KRRiT	March 2, 2014
Polsat Sport News	TV Polsat	Satellite broadcast license /Terrestrial broadcast license (digital)	KRRiT	August 29, 2020
Polsat 2	TV Polsat	Satellite broadcast license	KRRiT	January 18, 2014
Polsat Sport	TV Polsat	Satellite broadcast license	KRRiT	January 18, 2014
Polsat Café	TV Polsat	Satellite broadcast license	KRRiT	July 28, 2014
Polsat Sport Extra	TV Polsat	Satellite broadcast license	KRRiT	October 26, 2015
Polsat Play	TV Polsat	Satellite broadcast license	KRRiT	November 15, 2015
Polsat HD	TV Polsat	Satellite broadcast license	KRRiT	May 18, 2018
Polsat Sport HD	TV Polsat	Satellite broadcast license	KRRiT	May 18, 2018
Polsat News	TV Polsat	Satellite broadcast license	KRRiT	May 18, 2018
Polsat Film	TV Polsat	Satellite broadcast license	KRRiT	June 4, 2019
Polsat dla Dzieci	TV Polsat	Satellite broadcast license	KRRiT	June 4, 2019
TV Biznes	Media-Biznes	Satellite broadcast license	KRRiT	October 5, 2014
Polsat Futbol	Polsat Futbol	Satellite broadcast license	Ofcom	Not specified
Polsat Futbol 2	Polsat Futbol	Satellite broadcast license	Ofcom	Not specified
Polsat Futbol 3	Polsat Futbol	Satellite broadcast license	Ofcom	Not specified
Polsat Futbol 4	Polsat Futbol	Satellite broadcast license	Ofcom	Not specified
Polsat Futbol 5	Polsat Futbol	Satellite broadcast license	Ofcom	Not specified
Polsat Jim Jam	Polsat Jim Jam	Satellite broadcast license	Ofcom	Not specified

Source: TV Polsat and Cyfrowy Polsat

(1) Under the Broadcasting Act, we are entitled to renew our broadcasting licenses issued by the KRRiT provided we file a renewal application with the KRRiT no later than 12 months before their respective expiry dates. The KRRiT may reject our renewal application for limited reasons, including: (i) we have grossly breached the terms of our existing licenses; (ii) if broadcasting threatens the interests of national culture or state security; and (iii) a change of control (other than the Acquisition) occurs.

Restrictions on programming and advertising

In addition to regulating broadcasting time and the content of programming aired by Polish TV broadcasters, the Broadcasting Act also imposes certain restrictions on advertising. All of these restrictions are usually described in detail in the broadcasting licenses granted by the KRRiT. Each of our broadcasting licenses is subject to restrictions related to:

- minimum daily TV program broadcasting time;
- minimum percentage share of individual categories of programs in the monthly and daily broadcasting time;
- minimum requirements for the broadcast of programming originally produced in the Polish language and programming of European origin and the requirement to ensure that at least 10% of the broadcaster's programming is obtained from independent producers;
- the maximum percentage share of the daily and weekly broadcasting time of shows and other transmissions produced exclusively by the broadcaster or ordered from independent producers, and
- the obligations to ensure that minor viewers do not have access to transmissions containing acts of violence and to encrypt programs broadcast at specified times or to ensure that previews of transmissions containing erotic content will not be broadcast during certain hours.

Additionally, the Amendment imposes on us strict advertising requirements including the following:

- TV advertising and teleshopping spots must be readily recognizable and distinguishable from editorial content;
- advertising and teleshopping spots shall not exceed 12 minutes in any given clock hour, however, this limitation does not apply to announcements made by the broadcaster in connection with its own programs and ancillary products directly derived from those programs (these announcements are not to exceed two minutes in any given clock hour) as well as to announcements required by the provisions of law (in particular, the sponsorship announcements);
- broadcasts of advertising and teleshopping spots shall be inserted between programs, however, transmission of movies made for TV (excluding series, serials and documentaries) as well as cinematographic works may be interrupted by advertising and/or teleshopping spots only once for each period of full 45 minutes of the program and provided that at least 20 minutes in a TV program service, has elapsed between each successive break in the program; with respect to transmission of sport events, which by their nature, are interrupted by breaks, advertising and teleshopping spots can only be transmitted during such natural breaks; news and current affairs programs, programs with religious content, commentaries and documentaries, the duration of which is less than 30 minutes, and programs intended for children, cannot be interrupted with advertising spots at any time;
- teleshopping spots must contain explicit visual and audio disclaimers and must be broadcasted continuously for at least 15 minutes; and
- product-specific advertising restrictions including restrictions related to:
    - alcohol, which as a general rule is prohibited with the exception of beer, the advertising of which is allowed between 8 p.m. and 6 a.m.;
    - tobacco and gambling, the advertising of which is strictly prohibited at all times;
    - pharmaceutical products, the advertising of which must meet certain strict requirements (in particular it must not be misleading and it must inform the recipients of the reasonable use of the medication);
    - medical services, the advertising of which cannot solicit recipients, and which should only take the form of information;
    - psychotropic substances and/or intoxicating substances as well as foodstuff and other products, within the scope regulated by Act of July 29, 2005 on prevention of drug abuse (Dz.U.Nr 179, poz. 1485, as amended) (the "Anti-drug Abuse Act").

Moreover, the Amendment, imposes on broadcasters the duty to ensure that their media services are accessible to people with visual or hearing disabilities, in particular, by introducing appropriate amenities (such as audio description, subtitles for the hearing-impaired and sign language translation), so that at least 5% of the quarterly broadcasting time (excluding advertising and teleshopping spots) contained such amenities.

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

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

In our Television and broadcasting business segment, our basic production and TV broadcasting operations are carried out in leased premises in the office-industrial building located at ul. Ostrobramska 77 in Warsaw, owned by Inwestycje Polskie.

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 and TV broadcasting industries. 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 and professional liability insurance on broadcasting activity. We also have directors' and officers' liability insurance.

Item 5. Material agreements

Acquisition of 100% shares of Telewizja Polsat

1. Completion of the acquisition

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

2. Issue of shares for TV Polsat shareholders

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

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

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

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

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

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

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

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

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

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

3. Debt Financing of the transaction

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

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

4. Issue and listing of Senior Notes

On May 20, 2011, our wholly owned subsidiary Cyfrowy Polsat Finance AB (publ) (the "Issuer"), issued Senior Notes due May 20, 2018 of the aggregate principal amount of EUR 350 million (not in thousands). The Notes were rated Ba3/BB- by Moody's Investor Service Inc. and Standard & Poor's Rating Services, respectively.

Interest on the 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 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 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.

The Notes are senior obligations of the Issuer, ranking pari passu in right of payment to all existing and future senior indebtedness of the Issuer and are senior in right of payment to all existing and future indebtedness of the Issuer that is expressly subordinated to the Notes. For further details on the Notes, please refer to the section *6.9. Liquidity and capital resources*.

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

On June 28, 2011, the Notes of a total nominal value of EUR 350 million: EUR 340 million coded ISIN XS0626064017 and EUR 10 million coded ISIN XS0626064363, were approved and listed on the Luxembourg Stock Exchange (the "LuxSE"). That day was the first day of trading of the Notes on the LuxSE.

Conclusion of significant agreements with TVN S.A. Group

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

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

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

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

Signing an addendum to the licensing agreement with Sony Pictures Entertainment Inc.

On June 17, 2011 the Group signed an addendum to the licensing agreement ("Addendum") with Sony Pictures Entertainment Inc. ("Licensor"). Under the Addendum, the Licensor agreed to extend the license to broadcast films and TV series from the Licensor's programming collection as well as some of its future productions in the territory of Poland for a further period of 3 years.

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

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

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

On October 28, 2011, Cyfrowy Polsat signed a conditional agreement with NFI Magna Polonia S.A. and Evotec Management Limited concerning acquisition of INFO-TV-FM Sp. z o.o. Following the fulfillment of all the conditions precedent, on January 30, 2012, the Company acquired 100% shares in the share capital of INFO-TV-FM Sp. z o.o. for the total price of PLN 29,033,202.19 (not in thousands). Upon the acquisition of INFO-TV-FM Sp. z o.o., the Company acquired frequencies on

470-790 MHz and reservation agreements related to them. These frequencies may be used to provide mobile television services. Based on these assets, we plan to expand our business by services provided through mobile devices, which fits well with both our business plans, market development trends and customers' expectations. Additionally, upon the "Agreement on the provision of multiplex signal broadcasting service for the wholesale of audiovisual media services, including distribution of radio and television programs" concluded with INFO-TV-FM Sp. z o.o. (after the division of this company, the rights and obligations under this agreement were transferred to INFO-TV-OPERATOR Sp. z o.o.).

Insurance agreements

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

In 2011 Cyfrowy Polsat Technology Sp z o.o. signed following insurances agreements with PZU S.A. in co-insurance of STU Ergo Hestia S.A.: third-party liability insurance, insuring assets against all risks, insuring the electronic equipment against all risks, insuring assets in domestic transport (cargo) and insuring assets in international transport (cargo), insuring the loss of profit on the basis of possessions against all risks and insuring machines against damages.

Moreover, in 2011 Cyfrowy Polsat S.A. and Cyfrowy Polsat Technology Sp z o.o. signed motor insurance agreements with STU Ergo Hestia S.A.

Moreover, in 2011 Cyfrowy Polsat with its subsidiaries signed agreements with Chartis Europe S.A. branch in Poland in respect to third-party liability insurance for directors and members of the Management Board. Apart from that, the agreement concluded in 2008 with Chartis Europe S.A. branch in Poland (at that time AIG Europe S.A. branch in Poland) for the period of 6 years of third-party liability insurance relating to public securities offering was still in force.

In 2011, TV Polsat signed the following insurances agreements with PZU S.A. in co-insurance of STU Ergo Hestia S.A.: third-party liability insurance, insuring assets against all risks, insuring the electronic equipment against all risks and insuring assets in international transport (cargo). In addition, Polsat Media Sp. z o.o., subsidiary of TV Polsat, signed the following agreements: third party liability insurance, insuring assets against all risks and insuring the electronic equipment. RSTV S.A. concluded with STU Ergo Hestia S.A. third-party liability insurance.

Moreover in 2011 Telewizja Polsat, RSTV S.A. and Polsat Media Sp. z o.o. signed motor insurance agreements with PZU S.A.

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) television advertising and sponsorship, (iii) fees from cable TV and satellite operators, (iv) sale of equipment and (v) other revenue sources.

Retail sales

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

Sales of advertising and sponsorship

Approximately 99% of revenues from advertising and sponsorship is generated by TV Polsat Group (the rest relates to revenues related to sale of marketing and advertising services, previously presented in other revenues from sale). We sell advertising on our channels either on a rate-card basis, which reflects the timing and duration of an advertisement, or on a cost per gross rating point, or GRP, basis. A GRP is defined as the number of people watching a particular TV program at a specific time. Unlike audience share, which is defined as the number of people watching a particular program at a particular time and is expressed as a percentage of the total number of people watching TV, GRP is expressed as a percentage of the target group. We set and publish rate-card prices on monthly basis. Rate-card pricing is, on average, higher than GRP pricing, as advertisers select the specific advertising breaks, which they believe best meet their marketing objectives. We determine the placement of advertising breaks sold on a GRP basis based on the availability of airtime after the booking of rate-card sales, and advertisers only pay for the actual number of rating points delivered in the relevant commercial breaks.

Revenue from cable TV and satellite operators

Revenue from cable TV and satellite operators consists solely of revenue generated by TV Polsat Group and includes fees from satellite platforms and cable TV networks operators for rebroadcasting our channels.

Sale of equipment

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

Other revenue

Other revenue sources consist primarily of revenue from:

- (i) the lease of premises and facilities;
- (ii) transmission services;
- (iii) sales of licenses, sublicenses and property rights;
- (iv) revenue from phone calls to call center;
- (v) 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) reversal of inventory impairment write-downs,
- (iii) 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) costs of internal and external TV production and amortization of sport rights, (iv) depreciation and amortization and impairment allowance, (v) salaries and employee-related costs, (vi) broadcasting and signal transmission costs, (vii) amortization of purchased film licenses, (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 to collective copyright management organizations and the Polish Film Institute.

Distribution, marketing, customer relation management and retention cost

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

Costs of internal and external TV production and amortization of sport rights

These costs include production costs for TV programs specifically produced by or for us, either under licenses from third parties or under our own licenses. This costs include also amortization of sports broadcasting rights. Amortization is based on the estimated number of showings and type of programming content.

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, depreciation of TV and broadcasting 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 set-top boxes and salaries and social security contributions relating to employees directly involved in production of TV programmes which are presented as part of 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 the Nagravision conditional access system based on the number of access cards;
(iii) TV broadcasting costs, which mainly consist of analogue terrestrial transmission signal, and
(iv) other signal transmission costs.

Amortization of purchased film licenses

These costs include amortization of rights to TV programming content produced by third parties and licensed to us. Amortization is based on the estimated number of showings and type of programming content.

Cost of equipment sold

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

Other costs

Key items of other costs include:

(i) infrastructure rental and network maintenance,
(ii) the cost of SMART and SIM cards provided to customers,
(iii) IT services,
(iv) property maintenance costs,
(v) guarantee services costs,
(vi) legal, advisory and consulting costs,
(vii) charges from mobile network operators,
(viii) taxes and other charges,
(ix) the cost of licenses and other current assets sold,
(x) technical and production costs, such as costs of costumes, set design, staging services, other cost which cannot be directly attributable to production and
(xi) other costs.

Item 6.4. Sources of other operating costs

Other operating costs consist of:

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

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

Macroeconomic environment

In 2011, once again Polish economy proved resistant to negative events in the world and in Europe, which was economic instability of many countries and crisis in the Euro zone. According to initial estimates of Central Statistical Office, in 2011, Polish GDP increased by 4.3%, while GDP in the European Union increased on average by 1.5% (according to Eurostat). In addition, an increase in salaries and private consumption was observed. For us it translated into our customers being more willing to choose additional packages and services offered by our Retail business segment. The increase in GDP, corporate investments and consumption had a positive impact on TV advertising market, which is highly correlated with the state of the economy. However, in the second half of 2011, a decline of TV advertising market was observed as a result of world economic downturn. According to Starlink, in 2011, expenditures on TV advertising in Poland increased by 0.6% to PLN 3.9 billion.

These factors had a positive effect on our revenues.

Exchange rates fluctuations

Our functional and reporting currency is zloty. Our revenues are expressed in zloty, while approximately 35% of our operating expenses (in 2011) were denominated in currencies other than zloty, mainly US dollars and euro.

Foreign exchange rate movements impact our finance income and finance costs through our programming costs, signal transmission costs, payment obligations toward international movie studios and sports federations for programming, 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 2011 Zloty strengthened towards the US dollar by 2% and weakened towards the euro by 3% (based on annual average exchange rates announced by the National Bank of Poland). Significant fluctuations of both currencies exchange rates occurred mainly in the second half of 2011. In the second half of 2011, Zloty weakened year-on-year towards the US dollar and the Euro by 3% and 7%, respectively (based on arithmetic average of monthly average exchange rates announced by the National Bank of Poland for the second half of 2010 and 2011), which had a negative impact on our operating and finance costs.

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

Acquisition and Consolidation with TV Polsat

On April 20, 2011, Cyfrowy Polsat completed the acquisition of TV Polsat. Following the acquisition, the results of operations of Cyfrowy Polsat and TV Polsat Group are consolidated from April 20, 2011 going forward. Therefore, the financial results are not comparable with analogical periods of 2010. As a result of the acquisition of TV Polsat, we achieved the effect of diversification of revenue sources (new revenue sources: advertising and sponsoring, revenue from cable TV satellite operator fees) as well as the potential to profit from synergies.

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

Expansion of technical reach of TV Polsat channels

Telewizja Polsat's revenue from cable TV and satellite operator fees is dependent upon the number of our paying subscribers and the rates negotiated with cable TV and satellite operators. The average number of paying subscribers to our basic channels, Polsat Sport, Polsat Sports Extra, Polsat News, Polsat Play, Polsat Café and Polsat Film, increased significantly mainly as a result of entering on Cyfra+ platform in September 2010, introduction of our channels to the offer of Multimedia cable operator in January 2011 and launching Polsat channels on "n" platform from May 2011.

Launch of LTE Internet

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

Competition

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

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

Rising share of leased television receiving equipment

Due to increased share of leased set-top boxes in the new contracts signed, our cost of equipment sold and the revenue from sale of equipment are respectively lower. However, the capital expenditure for purchase and production of set-top boxes and the value of set-top boxes on our balance sheet grows resulting also in higher amortization charge.

Item 6.6. Trend information

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

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

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

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

4. Development of TV advertising market.

5. Fluctuations in exchange rates of zloty against the euro and the USD. We are exposed to fluctuations in the exchange rates of zloty to both euro and USD. Our 7.125% Senior Notes are denominated in euro and a large proportion of our cost of operating activities is denominated in euro or USD (in 2011 it was approximately 35%). In the second half of 2011, zloty weakened compared to USD and euro. Weakening of PLN against these currencies has an adverse influence on our financial results (you will find more information regarding currency risk in the Item 6.13. Information on market risks / Currency risk).

6. In March 2011 the inflation rate was 4.3%, in June 2011 – 4.2%, in September 2011 – 3.9% and in December 2011 – 4.6%. In 2012, experts forecast a decreasing inflationary trend. We do not believe that the current inflationary trends will have a material impact on our business in the future.

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

Item 6.7. Major investments

Telewizja Polsat

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

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

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

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

NFI Magna Polonia S.A. bonds

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

Item 6.8. Review of operating and financial situation

Item 6.8.1. Operating results

Retail business segment

We consider the number of subscribers, churn rate, ARPU and subscriber acquisition cost 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.

	Three months ended December 31,			Twelve months ended December 31,		
	2011	**2010**	**Change / %**	**2011**	**2010**	**Change / %**
Number of subscribers at end of period, of which:	**3,551,671**	**3,436,231**	**3.4%**	**3,551,671**	**3,436,231**	**3.4%**
Family Package	2,785,016	2,720,154	2.4%	2,785,016	2,720,154	2.4%
Mini Package	766,655	716,077	7.1%	766,655	716,077	7.1%
Average number of subscribers[1], of which:	**3,523,203**	**3,314,877**	**6.3%**	**3,488,784**	**3,263,905**	**6.9%**
Family Package	2,757,194	2,619,636	5.3%	2,734,951	2,606,082	4.9%
Mini Package	766,009	695,241	10.2%	753,834	657,823	14.6%
Churn rate of which:	**9.8%**	**10.3%**	**-0.5 p.p.**	**9.8%**	**10.3%**	**-0.5 p.p.**
Family Package	10.6%	11.8%	-1.2 p.p.	10.6%	11.8%	-1.2 p.p.
Mini Package	7.0%	4.6%	2.4 p.p.	7.0%	4.6%	2.4 p.p.
Average revenue per user (ARPU) (PLN), of which:	**38.3**	**36.0**	**6.4%**	**37.3**	**35.9**	**3.9%**
Family Package (PLN)	45.2	42.5	6.4%	44.2	42.1	5.0%
Mini Package (PLN)	13.9	11.8	17.8%	12.7	11.1	14.4%
Subscriber average cost (SAC) (PLN)	**143.4**	**123.2**	**16.4%**	**123.2**	**128.1**	**-3.8%**

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

Subscribers

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

Churn rate

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

ARPU

We define "ARPU" as the average net revenue per subscriber to whom we rendered services calculated as a sum of fees payable by our subscribers for our services divided by the average number of subscribers to whom we rendered services in the reporting period. Family Package ARPU increased by 6.4%, from PLN 42.5 in the fourth quarter of 2010 to PLN 45.2 in the fourth quarter of 2011. Mini Package ARPU increased by 17.8%, from PLN 11.8 in the fourth quarter of 2010 to PLN 13.9 in the fourth quarter of 2011. ARPU increased by 3.9% from PLN 35.9 in 2010 to PLN 37.3 in 2011. Family Package ARPU increased by 5.0%, from PLN 42.1 in 2010 to PLN 44.2 in 2011. Mini Package ARPU increased by 14.4%, from PLN 11.1 in 2010 to PLN 12.7 in 2011. We achieved the growth in ARPU i.a. thanks to our flexible offer and revenues from additional services (nVoD).

Subscriber Acquisition Cost

We define subscriber acquisition cost ("SAC") as commission payable to distributors per customer acquired. Our SAC increased by 16.4% from PLN 123.2 in the three-month period ended December 31, 2010 to PLN 143.4 in the three-month period ended December 31, 2011. Our SAC decreased by 3.8% from PLN 128.1 in 2010 to PLN 123.2 in 2011.

Broadcasting and television production segment

We consider audience share by channel, advertising market share and technical reach when analyzing and evaluating our Broadcasting and television production segment. The tables below set forth these key performance indicators for the relevant periods and are followed by a detailed explanation of each key performance indicator.

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

	Three months ended December 31			Tvelwe months ended December 31		
	2011	**2010**	***Change / %***	**2011**	**2010**	***Change / %***
Audience share[1]	**21.33%**	**20.16%**	***5.80%***	**20.80%**	**19.27%**	***7.94%***
POLSAT	**17.01%**	**16.73%**	***1.67%***	**16.45%**	**16.03%**	***2.62%***
Aggregate thematic channel audience share	**4.32%**	**3.43%**	***25.95%***	**4.35%**	**3.24%**	***34.26%***
Polsat2	1.44%	1.06%	*35.85%*	1.45%	0.97%	*49.48%*
Polsat Sport	0.67%	0.51%	*31.37%*	0.65%	0.56%	*16.07%*
Polsat News	0.62%	0.50%	*24.00%*	0.66%	0.52%	*26.92%*
Polsat Film	0.37%	0.38%	*-2.63%*	0.39%	0.29%	*34.48%*
Polsat Play	0.37%	0.24%	*54.17%*	0.33%	0.23%	*43.48%*
Polsat JimJam [JimJam]	0.33%	0.27%	*22.22%*	0.30%	0.21%	*42.86%*
Polsat Cafe	0.30%	0.26%	*15.38%*	0.33%	0.22%	*50.00%*
Polsat Sport Extra	0.16%	0.17%	*-5.88%*	0.17%	0.18%	*-5.56%*
Polsat Futbol	0.03%	0.03%	*0.00%*	0.03%	0.02%	*50.00%*
TV Biznes	0.02%	0.02%	*0.00%*	0.02%	0.04%	*-50.00%*
Advertising market share[2]	**22.3%**	**21.8%**	***2.3%***	**22.6%**	**21.9%**	***3.2%***

[1] NAM, All day 16-49 audience share
Polsat Crime & Investigation, the new channel of the Group, was included in the telemetric panel from January 1, 2012.
[2] Our estimates based on Starlink data

Polsat channels; technical reach[1]

	Three months ended December 31			Tvelwe months ended December 31		
	2011	**2010**	***Change / %***	**2011**	**2010**	***Change / %***
Polsat	97.8	96.9	1.0%	97.5	95.3	2.3%
Polsat 2	57.6	48.0	20.1%	55.8	41.7	34.0%
TV Biznes	51.0	45.6	11.9%	49.9	44.2	13.0%
Polsat Cafe	47.6	39.5	20.4%	45.8	33.3	37.6%
Polsat News	48.9	37.0	32.3%	46.3	29.9	54.9%
Polsat Sport	43.7	36.9	18.5%	42.4	35.9	18.0%
Polsat Play	38.3	29.6	29.5%	36.6	23.0	59.1%
Polsat JimJam[2]	36.7	29.3	25.3%	35.4	23.2	52.7%
Polsat Film	35.8	28.9	23.9%	34.4	22.2	55.0%
Polsat Sport Extra	30.8	27.9	10.5%	30.0	27.2	10.1%
Polsat Sport News[3]	27.3		n/a	19.4	0.0	n/a
Polsat Futbol	15.8	12.0	n/a	15.2	11.2	n/a
Polsat Sport HD[4]	4.7		n/a	3.6	0.0	n/a
Polsat Crime & Investigation[5]	25.8		n/a	25.8		n/a

[1] NAM, percentage of households which have a possibility to watch pointed channel; arithmetical average of monthly technical reach
[2] Data for 12M 2010 include the period May-December (not monitored before)
[3] Data for 12M 2011 include the period June-December (not monitored before)
[4] Data for 12M 2011 include the period February-December (not monitored before)
[5] Data include the period November-December (not monitored before)

Audience share

Our aggregated audience share increased from 20.2% in the fourth quarter of 2010 to 21.3% in the fourth quarter of 2011. The increase was mainly due to both the improved audience share of our main channel and to the very dynamic growth in audience share of our thematic channels. POLSAT's audience share increased by 1.7% from 16.7% in the fourth quarter of 2010 to 17.0% in the fourth quarter of 2011. POLSAT was the only channel among the "top four" to report the year-on-year growth. Our main channel strengthened its position in the fourth quarter of 2011 thanks to the programming formats well-known from previous seasons, including: our flagship talent show *Must be the Music – Tylko muzyka,* whose second edition appeared early September in the new time slot on Sundays at 8pm and went straight to number 1 in this slot (with the average audience share in 16-49 group of 26.8% for six episodes aired in the fourth quarter of 2011), scripted-reality series *Trudne sprawy* and *Dlaczego ja?*, that worked extremely well both in case of premiere episodes as well as re-runs (premiere episodes and re-runs aired since November gained on average the audience share of 28.3% and 26.7% respectively), new seasons of our series *Pierwsza miłość* (audience share in four quarter – 27.1%), *Hotel 52* (19.0%), *Szpilki na Giewoncie* (21.9%), daily docu-crime *Malanowski i partnerzy* (26.6%). Moreover, feature films played an important role in building market position of our main channel - especially those in the oldest film slot on the Polish market: Monday *Mega Hit*, with average audience share of 26.5% in the fourth quarter 2011 (with the record scores of *Day After Tomorrow* – 31.4%, Kingdom of Heaven – 31.25%, *The Transporter* – 30.5%).

Over the same period, our thematic channels' audience share, in the aggregate, amounted to 4.3% and increased by 26.0% compared to the analogical period of the previous year. Such a high growth rate implies that in the fourth quarter, Polsat thematic channels gained market faster than the entire non-FTA channels segment, that noted 18.4% growth in the fourth quarter of 2011 (as thematic channels – both of Polsat Group and of other broadcasters – are distributed mainly by cable and DTH operators, we compare them with non-FTA channels segment). The share of Polsat thematic channels in the dynamically increasing segment of non-FTA channels grew up from 11.5% in the fourth quarter of 2010 to 12.2% in the fourth quarter of 2011, that is almost 6% improvement.

The development of our thematic channels derived from the growing technical reach as well as increasing audience' interest in these channels expressed in longer average time spent (ATS) on viewing them. This indicator increased by nearly 5% year-on-year – from 39 minutes 58 seconds in the fourth quarter of 2010 to 41 minutes 49 seconds in the fourth quarter of 2011. In particular, it is worth to mention the growth in ATS of the following channels: Polsat 2 (+23.4% y-o-y), Polsat Play (+20.2%), Polsat Futbol (+17.5%) and Polsat Sport (+11.4%).

Our aggregate audience share in 2011 amounted to 20.8% which is by 7.9% higher as compared to 2010. Our main channel is the leader among television channels with 16.5% share and the only one among the major TV stations to record the growth compared to the previous year (+2.6%). Our thematic channels with the aggregated share of 4.4% and 34.3% growth rate constitute 12.4% of the non-FTA channels market segment. Our main channel strengthened its position thanks to: two editions of our talent show *Must be the Music – Tylko muzyka,* widely appreciated by the viewers, aired in spring (Saturday, 8pm) and in autumn (Sunday, 8pm) that both gained the average audience share of 27.4%, scripted-reality series *Dlaczego ja?* (audience share in spring: 25.6%, in autumn: 27.9%) and *Trudne sprawy* (spring: 27.3%, autumn: 28.6%), docu-crime *Malanowski i partnerzy* (spring: 24.9%, autumn: 26.5%), and new seasons of our series aired late evening on Thursdays: *Hotel 52* (19.2%, 18.7%) and *Szpilki na Giewoncie* (23.8%, 21.4%) as well as our series *Pierwsza miłość,* whose premiere episodes gained on average the audience share of 25.8%. The position of our main channel was also strengthen by the oldest film slot on the Polish market: Monday *Mega Hit*, with average audience share of 24.5% in 2011 (with the record scores of *Die Hard 4.0* – 32.8%, *Day After Tomorrow* – 31.4%, Kingdom of Heaven – 31.25%, *The Transporter* – 30.5%).

Our thematic channels' audience share, in the aggregate, amounted to 4.4% and increased by 34.3% compared to 2010. If compared to the entire segment of thematic channels, whose aggregate audience share increased by 10.6%, the shares of our channels increased 3 times faster than the entire segment. We took 12.4% of this market, that translates to 21% growth compared to 2010. The growth is explained by both increasing technical reach of our channels and increasing audience' interest proved by an increase in average time spent (ATS) by 4% compared to 2010. The growth in ATS was the most significant in case of the following channels: Polsat 2 (+21.5%), Polsat Café (+12.6%), Polsat Futbol (+16.5%) Polsat Jim Jam (+13.0%) and Polsat Sport (+11.6%).

Advertising market share

According to Starlink media house estimates, expenditures on TV advertising and sponsoring in the fourth quarter of 2011 amounted to PLN 1.2 billion and decreased year-on-year by 4.2%. In 2011 expenditures on TV advertising and sponsoring amounted to PLN 3.9 billion (not in thousands) and increased year-on-year by 0.6%. Based on this data, we estimate that our share in TV advertising market in the fourth quarter of 2011 increased year-on-year to 22.3% from 21.8%, while in entire 2011 it increased year-on-year to 22.6% from 21,9%. The increase was mainly due to our strong performance in terms of audience share that improved for both our main channel POLSAT and our thematic channels as well as the ability to generate more Gross Rating Points (advertising, sponsorship and paid announcements audience). In total, in 2011 we generated 9.4% more GRPs than in 2010.

Distribution and technical reach

The expansion of our distribution network, that resulted in the increase in technical reach of all our channels, was achieved thanks to the distribution agreements signed in the second half of 2010 and in the first half of 2011, including the agreement with Cyfra+ (September 2010) and two agreements introducing our selected thematic channels to "n" platform (May 2011) and Multimetdia cable network (January 2011). Our growing distribution is a particularly important determinant of audience share growth. We believe that the growth in the technical reach will result in further increase in our audience share in the future. Moreover, the new agreements generate additional revenue from subscription (presented in Revenue from cable and satellite operator fees).

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

The company did not present forecasts for 2011.

Item 6.8.3 Review of the financial situation

The following review of results for the three month period ended December 31, 2011 was prepared based on interim condensed consolidated financial statements for the three and twelve month periods ended December 31, 2011 prepared in accordance with International Accounting Standards approved for use in the European Union as at January 1, 2011.

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

All financial data is expressed in thousands.

Comparison of financial results for the three month period ended December 31, 2011 with the results achieved in the corresponding period of 2010

Revenue

Our total revenue increased by PLN 342,596, or 91.0%, to PLN 719,229 for the three-month period ended December 31, 2011 from PLN 376,633 for the three-month period ended December 31, 2010. Excluding the effect of consolidation of TV Polsat Group, our total revenue increased by PLN 51,537, or 13.7%, to PLN 428,170 for the three-month period ended December 31, 2011 from PLN 376,633 for the three-month period ended December 31, 2010. Revenue grew for the reasons set forth below.

Retail sales

Revenue from retail sales increased by PLN 54,114, or 15.0%, to PLN 415,523 for the three-month period ended December 31, 2011 from PLN 361,409 for the three-month period ended December 31, 2010. This increase primarily resulted from the increase in DTH subscription fee revenue (attributable to a higher average number of subscribers in the fourth quarter of

2011 compared to the fourth quarter of 2010 and an increase in ARPU) and the increase in revenue from telecommunication services. The acquisition of TV Polsat Group did not impact the retail subscription revenue.

Advertising and sponsorship revenue

Advertising and sponsorship revenue increased by PLN 254,473 to PLN 256,425 for the three-month period ended December 31, 2010 from PLN 1,952 for the three-month period ended December 31, 2011. This increase is primarily an effect of advertising and sponsorship revenue of TV Polsat Group in the amount of PLN 261,589 (before consolidation adjustments). Excluding the effect of consolidation of TV Polsat Group, the revenue from advertising (previously presented in the other revenue from sales) decreased by PLN 385, or 19.7%, to PLN 1,567 for the three-month period ended December 31, 2011 from PLN 1,952 for the three-month period ended December 31, 2010.

Revenue from cable and satellite operator fees

Revenue from cable and satellite operator fees relates in total to revenue of TV Polsat Group. This revenue was consolidated in the fourth quarter of 2011 in the amount of PLN 22,885.

Sale of equipment

Revenue from the sale of equipment decreased by PLN 2,591, or 35.7%, to PLN 4,668 for the three-month period ended December 31, 2011 from PLN 7,259 for the three-month period ended December 31, 2010. This decrease was a net effect of several factors, out of which the most significant was significantly lower revenues from sale of DTH antennas and sale of set-top boxes, resulting from the fact that the majority of our new subscribers prefer to lease rather than purchase set-top-boxes. Consolidation of TV Polsat Group did not significantly impact revenue from sale of equipment.

Other revenue

Other revenue increased by PLN 13,715, or 228.1%, to PLN 19,728 for the three-month period ended December 31, 2011 from PLN 6,013 for the three-month period ended December 31, 2010. This increase is primarily an effect of consolidation of revenues recognized by TV Polsat Group, including mainly revenue from broadcasting and signal transmission services and revenue from sale of licenses, sub-licenses and property rights. Excluding the effect of consolidation of TV Polsat Group, other revenue increased by PLN 302, or 5,0%, to PLN 6,315 for the three-month period ended December 31, 2011 from PLN 6,013 for the three-month period ended December 31, 2010 (the figures do not include revenues from advertising and marketing, now presented in Advertising and sponsorship revenue).

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

Total operating costs

	For the three-month period ended December 31,		
	2011	**2010**	**Change / %**
Programming costs	109,366	99,896	9.5%
Distribution, marketing, customer relation management and retention costs	94,579	93,243	1.4%
Cost of internal and external TV production and amortization of sport rigths	113,201	-	n/a
Depreciation, amortization and impairment	53,531	24,174	121.4%
Salaries and employee-related costs	51,293	28,413	80.5%
Broadcasting and signal transmission costs	34,433	17,998	91.3%
Amortization of purchased film licenses	36,700	-	n/a
Cost of equipment sold	8,838	17,894	-50.6%
Other costs	50,736	35,996	40.9%
Total operating costs	**552,677**	**317,614**	**74.0%**

Total operating costs increased by PLN 235,063, or 74.0%, to PLN 552,677 for the three-month period ended December 31, 2011 from PLN 317,614 for the three-month period ended December 31, 2010. Excluding the effect of consolidation of TV Polsat Group, our total operating costs increased by PLN 36,035, or 11.3%, to PLN 353,649 for the three-month period ended December 31, 2011 to PLN 317,614 for the three-month period ended December 31, 2010. Costs grew for the reasons set forth below.

Programming costs

Programming costs increased by PLN 9,470, or 9.5%, to PLN 109,366 for the three-month period ended December 31, 2011 from PLN 99,896 for the three-month period ended December 31, 2010. Excluding the consolidation of TV Polsat Group, programming costs increased by PLN 16,212, or 16.2%, to PLN 116,108 for the three-month period ended December 31, 2011 from PLN 99,896 for the three-month period ended December 31, 2010. This increase is a net effect of currency fluctuations (increase in costs) and other factors such as the increase in the average number of our DTH subscribers and lower costs of programming content.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs increased by PLN 1,336, or 1.4%, to PLN 94,579 for the three-month period ended December 31, 2011 from PLN 93,243 for the three-month period ended December 31, 2010. Excluding the effect of consolidation of TV Polsat Group, these costs increased by PLN 2,195, or 2.4%, to PLN 95,438 for the three-month period ended December 31, 2011 from PLN 93,243 for the three-month period ended December 31, 2010. This increase resulted primarily from an increase in subscriber base and consequently an increase in costs of customer relation management and customer retention programs.

Cost of internal and external TV production and amortization of sport rights

The cost of internal and external production and amortization of sport rights relates in total to costs of TV Polsat Group. These costs were consolidated in the fourth quarter of 2011 in the amount of PLN 113,201.

Depreciation, amortization and impairment

Depreciation, amortization and impairment cost increased by PLN 29.357, or 121.4%, to PLN 53,531 for the three-month period ended December 31, 2011 from PLN 24,174 for the three-month period ended December 31, 2010. Excluding the effect of consolidation of TV Polsat Group, these costs increased by PLN 16,293, or 67.4%, to PLN 40,467 for the three-month period ended December 31, 2011 from PLN 24,174 for the three-month period ended December 31, 2010. The increase in depreciation, amortization and impairment was caused primarily by an increase in depreciation of set-top boxes leased to our subscribers, which we account for as fixed assets, resulting from the higher number of leased set-top boxes.

Salaries and employee-related costs

Salaries and employee-related costs increased by PLN 22,880, or 80.5%, to PLN 51,293 for the three-month period ended December 31, 2011 from PLN 28,413 for the three-month period ended December 31, 2010. Excluding the effect of consolidation of TV Polsat Group, these costs increased by PLN 4,539, or 16.0%, to PLN 32,952 for the three-month period ended December 31, 2011 from PLN 28,413 for the three-month period ended December 31, 2010. 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 16,435, or 91.3%, to PLN 34,433 for the three-month period ended December 31, 2011 from PLN 17,998 for the three-month period ended December 31, 2010. This increase is primarily an effect of consolidation of broadcasting and signal transmission costs of Broadcasting and television production segment (TV broadcasting costs, including mainly rental costs of transponder capacity and analogue terrestrial transmission signal). Excluding the effect of consolidation of TV Polsat Group, signal transmission costs increased by PLN 5,747, or 31.9%, to PLN 23,745 for the three-month period ended December 31, 2011 from PLN 17,998 for the three-month period ended December 31, 2010, mainly due to currency fluctuations (weakening of the Polish currency).

Amortization of purchased film licenses

The cost of amortization of purchased film licenses relates in total to costs of Broadcasting and television production segment. These costs were consolidated in the fourth quarter of 2011 in the amount of PLN 36,700.

Cost of equipment sold

Cost of equipment sold decreased by PLN 9,056, or 50.6%, to PLN 8,838 for the three-month period ended December 31, 2011 from PLN 17,894 for the three-month period ended December 31, 2010. This decrease was a net effect of several factors, out of which the most significant was significantly lower cost of sales of set-top boxes and hard discs for set-top boxes, resulting from the fact that the majority of our new subscribers prefer to lease rather than purchase set-top-boxes from us. Consolidation of TV Polsat Group did not have a significant effect on cost of equipment sold.

Other costs

Other costs increased by PLN 14,740, or 40.9%, to PLN 50,736 for the three-month period ended December 31, 2011 from PLN 35,996 for the three-month period ended December 31, 2010. Excluding the consolidation of TV Polsat Group, other costs remained almost unchanged compared to the fourth quarter of 2010 and amounted to PLN 36,005 in the fourth quarter of 2011 (an increase of PLN 9).

Other operating income

Other operating income increased by PLN 4,202, or 210.1%, to PLN 6,202 for the three-month period ended December 31, 2011 from PLN 2,000 for the three-month period ended December 31, 2010. Excluding the effect of consolidation of TV Polsat Group, other operating income increased by PLN 3,238, or 161.9%, to PLN 5,238 for the three-month period ended December 31, 2011 from PLN 2,000 for the three-month period ended December 31, 2010. The increase relates mainly to an increase in the net income recognized from reversal of inventory impairment write-downs and the value of clients security deposits written off and recognition of.

Other operating costs

Other operating costs increased by PLN 15,770, or 117.7%, to PLN 29,173 for the three-month period ended December 31, 2011 from PLN 13,403 for the three-month period ended December 31, 2010. Excluding the effect of consolidation of TV Polsat Group, other operating costs increased by PLN 11,359, or 84.7%, to PLN 24,762 for the three-month period ended December 31, 2011 from PLN 13,403 for the three-month period ended December 31, 2010. The increase was a net effect of several factors, including: (i) higher bad debt allowance and receivables written off, (ii) an increase in other costs.

Finance income

Finance income increased by PLN 3,010, to PLN 4,022 for the three-month period ended December 31, 2011 from PLN 1,012 for the three-month period ended December 31, 2010. Excluding the effect of consolidation of TV Polsat Group, finance income increased by PLN 447, or 44.2%, to 1,459 for the three-month period ended December 31, 2011. The increase is explained by the net effect of several factors, including primarily: (i) increase income in interest in the fourth quarter of 2011, and (ii) recognized gains on valuation of foreign exchange call options in the fourth quarter of 2010 (no such item in the fourth quarter of 2011).

Finance costs

Finance costs increased by PLN 70,237 to PLN 71,271 for the three-month period ended December 31, 2011 from PLN 1,034 for the three-month period ended December 31, 2010. Excluding the effect of consolidation of TV Polsat Group, finance costs increased by PLN 64,335, to PLN 65,369 for the three-month period ended December 31, 2011 from PLN 1,034 for the three-month period ended December 31, 2010. The increase was primarily due to the service costs relating to the debt financing of acquisition of TV Polsat (interest costs on Term Facility Loan and Senior Notes) and recognized losses on foreign exchange fluctuations.

Net profit

Net profit for the fourth quarter of 2011 increased by PLN 39,348, or by 106.5%, to PLN 76,297 from PLN 36,949 in the fourth quarter of 2010. Excluding the effect of consolidation of TV Polsat Group, net profit decreased by PLN 35,428, or by 95.9%, to PLN 1,521 in the fourth quarter of 2011 from PLN 36,949 in the fourth quarter of 2010 due to high finance costs related to the financing of acquisition of TV Polsat.

Other information

EBITDA & EBITDA margin

EBITDA increased by PLN 125,322, or 174.6%, to PLN 197,112 in the fourth quarter of 2011 from PLN 71,790 for the fourth quarter 2010. EBITDA margin increased to 27.4% for the fourth quarter of 2011 from 19.1% for the fourth quarter of 2010. Excluding the impact of TV Polsat Group, EBITDA increased by PLN 23,673, or 33.0%, to PLN 95,463 for the fourth quarter of 2011. Excluding the effect of consolidation of TV Polsat Group, EBITDA margin increased to 22.1% for the fourth quarter of 2011 from 19.1% for the fourth quarter of 2010.

Employment

Average number of employees in Cyfrowy Polsat Group was 1,430 in the three-month period ended December 31, 2011 (excluding production employees whose salaries are included in the costs of production of set-top-boxes and costs of own television production), as compared to 780 in the corresponding period of 2010. The increase in the average number of employees resulted from our organic growth and acquisition of TV Polsat - we include the employees of TV Polsat Group from the day of the finalization of the acquisition, i.e. April 20, 2011.

Comparison of financial results in 2011 with the result in 2010

Revenue

Our total revenue increased by PLN 883,462, or 59.6%, to PLN 2,365,925 in 2011 from PLN 1,482,463 in 2010. Excluding the impact of Broadcasting and television production segment, our total revenue increased by PLN 160,044, or 10.8%, to PLN 1,642,507 in 2011 from PLN 1,482,463 in 2010. Revenue increased for the reasons set forth below.

Retail sales

Revenue from retail sales increased by PLN 177,953, or 12.6%, to PLN 1,594,872 in 2011 from PLN 1,416,919 in 2010. This increase primarily resulted from an increase in DTH subscription fee revenue (attributable to a higher average number of subscribers in 2011 compared to 2010 and an increase in ARPU) and an increase in telecommunications revenue. The acquisition of TV Polsat Group did not have a significant impact on the retail subscription revenue.

Advertising and sponsorship revenue

Advertising and sponsorship revenue increased by PLN 629,574 to PLN 634,204 in 2011 from PLN 4,630 in 2010. This increase is primarily an effect of advertising and sponsorship revenue of TV Polsat Group in the amount of PLN 629,997. Excluding the effect of consolidation of TV Polsat Group, the revenue from advertising (previously presented in the other revenue from sales) decreased by PLN 289, or 6.2%, to PLN 4,341 in 2011 from PLN 4,630 in 2010 .

Revenue from cable and satellite operator fees

Revenue from cable and satellite operator fees relates in total to revenue of TV Polsat Group. This revenue was consolidated in 2011 in the amount of PLN 61,089.

Sale of equipment

Revenue from the sale of equipment decreased by PLN 19,161, or 53.7%, to PLN 16,546 in 2011 from PLN 35,707 in 2010. This decrease was a net effect of several factors, out of which the most significant was significantly lower revenues from sale of set-top boxes, resulting from the fact that the majority of our new subscribers prefer to lease rather than purchase set-top-boxes. Consolidation of TV Polsat Group did not have a significant effect on revenue from the sale of equipment.

Other revenue

Other revenue increased by PLN 34,007, or 134.9%, to PLN 59,214 in 2011 from PLN 25,207 in 2010. This increase is primarily an effect of consolidation of revenues recognized by TV Polsat Group, including mainly revenue from broadcasting and signal transmission and revenue from sale of licenses, sub-licenses and property rights. Excluding the effect of consolidation of TV Polsat Group, other revenue increased by PLN 1,393, or 5.5%, to PLN 26,600 in 2011 from PLN 25,207 in 2010 (the figures do not include revenues from advertising and marketing, now presented in Advertising and sponsorship revenue), mainly due to an increase in revenue from sales of broadcasting services.

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

Total operating costs

	For the year ended December 31,		
	2011	**2010**	**Change / %**
Programming costs	414,742	392,035	5.8%
Distribution, marketing, customer relation management and retention costs	320,987	297,319	8.0%
Cost of internal and external TV production and amortization of sport rigths	270,567	-	n/a
Depreciation, amortization and impairment	174,880	81,190	115.4%
Salaries and employee-related costs	148,811	88,348	68.4%
Broadcasting and signal transmission costs	114,736	79,855	43.7%
Amortization of purchased film licenses	93,226	-	n/a
Cost of equipment sold	33,548	59,546	-43.7%
Other costs	162,839	123,959	31.4%
Total operating costs	**1,734,336**	**1,122,252**	**54.5%**

Total operating costs increased by PLN 612,084, or 54.5%, to PLN 1,734,336 in 2011 from PLN 1,122,252 in 2010. Excluding the effect of consolidation of TV Polsat Group, our total operating costs increased by PLN 110,580, or 9.9%, to PLN 1,232,832 in 2011, from PLN 1,122,252 in 2010. Costs grew for the reasons set forth below.

Programming costs

Programming costs increased by PLN 22,707, or 5.8%, to PLN 414,742 in 2011 from PLN 392,035 in 2010. Excluding the effect of consolidation of TV Polsat Group, programming costs increased by PLN 42,445, or 10.8%, to PLN 434,480 in 2011 from PLN 392,035 in 2010. This increase was a net effect of several factors such as the increase in the average number of our DTH subscribers and lower costs of programming content.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs increased by PLN 23,668, or 8.0%, to PLN 320,987 in 2011 from PLN 297,319 in 2010. Excluding the effect of consolidation of TV Polsat Group, these costs increased by PLN 18,812, or 6.3%, to PLN 316,130 in 2011 from PLN 297,318 in 2010. This increase resulted primarily from an increase in subscriber base and consequently an increase in customer relation management costs and introduction of customer retention programs.

Cost of internal and external TV production and amortization of sport rights

The cost of internal and external production and amortization of sport rights relates in total to costs of TV Polsat Group. This costs were consolidated in 2011 in the amount of PLN 270,567.

Depreciation, amortization and impairment

Depreciation, amortization and impairment cost increased by PLN 93,690, or 115.4%, to PLN 174,880 in 2011 from PLN 81,190 in 2010. Excluding the effect of consolidation of TV Polsat Group, these costs increased by PLN 57,985, or 71.4%, to PLN 139,175 in 2011 from PLN 81,190 in 2010. The increase in depreciation, amortization and impairment was caused by (i) an increase in depreciation of set-top boxes leased to our subscribers, which we account for as fixed assets, resulting from the higher number of leased set-top boxes and (ii) recognition of non-current assets' impairment allowance (concerning primarily impairment of set-top boxes) in 2011.

Salaries and employee-related costs

Salaries and employee-related costs increased by PLN 60,463, or 68.4%, to PLN 148,811 in 2011 from PLN 88,348 in 2010.

Excluding the effect of consolidation of TV Polsat Group, these costs increased by PLN 11,405, or 12.9%, to PLN 99,753 in 2011 from PLN 88,348 in 2010. The increase was mainly due to a higher number of employees resulting from the growth of our business and to the merger with mPunkt.

Broadcasting and signal transmission costs

Broadcasting and signal transmission costs increased by PLN 34,881, or 43.7%, to PLN 114,736 in 2011 from PLN 79,855 in 2010. This increase is primarily an effect of consolidation of broadcasting and signal transmission costs of TV Polsat Group (TV broadcasting costs, including mainly rental costs of transponder capacity and analogue terrestrial transmission signal). Excluding the effect of consolidation of TV Polsat Group, signal transmission costs increased by PLN 6,881, or 8.6%, to PLN 86,736 in 2011 from PLN 79,855 in 2010, mainly due to currency fluctuations (weakening of the Polish currency).

Amortization of purchased film licenses

The cost of amortization of purchased film licenses relates in total to costs of TV Polsat Group. This costs were consolidated in 2011 in the amount of PLN 93,226.

Cost of equipment sold

Cost of equipment sold decreased by PLN 25,998, or 43.7%, to PLN 33,548 in 2011 from PLN 59,546 in 2010. This decrease was a net effect of several factors, mainly relating to significantly lower costs of sales of set-top boxes, resulting from the fact that the majority of our new subscribers prefer to lease rather than purchase set-top-boxes from us. Consolidation of TV Polsat Group did not have a significant effect on cost of equipment sold.

Other costs

Other costs increased by PLN 38,880, or 31.4%, to PLN 162,839 in 2011 from PLN 123,959 in 2010. Excluding the effect of consolidation of TV Polsat Group, other costs decreased by PLN 1,096, or 0.9%, to PLN 122,863 in 2011 from PLN 123,959 in 2010. This decrease was a net effect of several factors, out of which the most significant was a decrease in the costs of infrastructure rental and network maintenance costs partially offset by higher costs of realized traffic and fees to mobile operators resulting from the increase in the number of our mobile telephony and Internet service users.

Other operating income

Other operating income increased by PLN 362, or 2.6%, to PLN 14,332 in 2011 from PLN 13,970 in 2010. Excluding the effect of consolidation of TV Polsat Group, other operating income decreased by PLN 814, or 5.8%, to PLN 13,156 in 2011 from PLN 13,970 in 2010. The decrease was a net effect of several factors, out of which the most significant were: (i) revenue from the cession of tenant agreements of points of sale that was recognized in 2010 by mPunkt (no such revenue in 2011), (ii) sale of equipment for testing modems in 2011 (no such item in 2010).

Other operating costs

Other operating costs increased by PLN 37,194, or 76.8%, to PLN 85,621 in 2011 from PLN 48,427 in 2010. Excluding the effect of consolidation of TV Polsat Group, other operating costs increased by PLN 31,613, or 65.3%, to PLN 80,040 for 2011 from PLN 48,427 for 2010. The increase was a net effect of several factors, including: (i) higher bad debt allowance and receivables written off, (ii) higher other costs mainly including costs of sale of equipment for testing of modems in 2011 (no such item in 2010).

Finance income

Finance income increased by PLN 9,477, to PLN 10,765 in 2011 from PLN 1,288 in 2010. The increase results from the higher interest income (including PLN 5,829 recognized by TV Polsat Group).

Finance costs

Finance costs increased by PLN 375,403 to PLN 381,163 in 2011 from PLN 5,760 in 2010. Excluding the effect of consolidation of TV Polsat Group, finance costs increased by PLN 362,334, to PLN 368,094 in 2011 from PLN 5,760 in 2010. The increase was primarily due to the service costs relating to debt financing of acquisition of TV Polsat (interest costs on Term Facility Loan, Revolving Facility, Bridge Facility Loan and Senior Notes) and unrealized foreign exchange differences related to the valuation of the EUR 350 million (not in thousands) Senior Notes.

Income tax

Income tax expense decreased by PLN 30,936, or 49.3%, to PLN 31,876 in 2011 from PLN 62,812 in 2010.

Net profit

Net profit decreased by PLN 98,280 or 38.0%, to PLN 160,190 in 2011 from PLN 258,470 in 2010, due to high financial costs primarily resulting from significant foreign exchange rates fluctuations (mainly losses on valuation of Senior Notes denominated in euro).

Other information

EBITDA & EBITDA margin

EBITDA increased by PLN 328,236, or 80.7%, to PLN 735,180 in 2011 from PLN 406,944 in 2010. EBITDA margin increased to 31.1% in 2011 from 27.5% in 2010. Excluding the effect of consolidation of TV Polsat Group, EBITDA increased by PLN 75,023, or 18.4%, to PLN 481,967 in 2011 from PLN 406,944 in 2010. Excluding the effect of consolidation of TV Polsat Group, EBITDA margin increased to 29.3% in 2011 from 27.5% in 2010.

Employment

Average number of employees in Cyfrowy Polsat Group was 1,267 in 2011 (excluding production employees whose salaries are included in the costs of production of set-top-boxes and costs of own television production), as compared to 726 in 2010. The increase in the average number of employees resulted from our organic growth and the acquisition of TV Polsat - we include the employees of TV Polsat Group from the day of the finalization of the transaction, i.e. April 20, 2011.

Results by business segments

The Group operates in the following two segments:

1. Retail business segment which relates to the provision of services to the general public, including digital television transmission signal, mobile services, the Internet access services and production of set-top boxes,
2. Broadcasting and television production segment.

The Group conducts its operating activities primarily in Poland.

The activities of the Group are grouped into segment with distinguishable scope of operations where services are rendered and merchandise delivered in a specific economic environment. Activities of defined segments are characterized by different risk levels and different investment returns from those of the Group's other segments.

Retail business segment includes:

- digital satellite pay television services which primarily relate to direct distribution of technologically advanced pay-TV services and revenues are generated mainly by DTH subscription fees;

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

- mobile telecommunication postpaid services which generate revenues mainly from interconnection revenues, settlements with mobile network operators and subscription fees;
- providing access to broadband Internet which generates revenues mainly from traffic and subscription fees;
- production of set-top boxes.

Broadcasting and television production segment consists 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. The revenues generated by the broadcasting and television production segment relate mainly to advertising and sponsorship revenues as well as revenues from cable and satellite operators.

The table below presents a summary of the Group's revenues and expenses by operating segment for the year ended December 31, 2011:

The year ended December 31, 2011	Retail	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	1, 640,252	725,673	-	2,365, 925
Inter-segment revenues	2,255	69,217	(71,472)	-
Revenues	1, 642,507	794,890	(71,472)	2,365, 925
EBITDA	**481,967**	**253,213**	**-**	**735,180**
Profit/(loss) from operating activities	**342,792**	**221,162**	**(3,654)**	**560,300**
Acquisition of property, plant and equipment, reception equipment and intangible assets	282,795*	14,855	-	297,650
Depreciation and amortization	131,023	32,051	3,654	166,728
Impairment	8,152	-	-	8,152
Balance as at 31 December 2011				
Assets, including:	5,178, 577	856,299***	(709,708)**	5, 325,168
Investments in associates	-	2,531	-	2,531

*This item also includes the acquisition of reception equipment for operating lease purposes.
** This item relates primarily to elimination of TV Polsat shares and recognition of goodwill and Polsat brand
*** This item includes non-current assets located outside of Poland in the amount of PLN 97,000

"Retail" segment was the Group's sole operating segment in the period ended December 31, 2010.

Transactions between operating segments are carried at arm's length.

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

Reconciliation of EBITDA and Gross profit for the period:

	for the year ended	
	December 31, 2011	**December 31, 2010**
EBITDA	**735,180**	**406,944**
Depreciation, amortization and impairment	(174,880)	(81,190)
Profit from operating activities	**560,300**	**325,754**
Other foreign exchange rate differences, net	(18,615)	(1,927)
Interest income	10,715	1,256
Share in net income of associates	2,164	-
Interest costs	(183,497)	(2,534)
Foreign exchange differences on Senior Notes	(169,376)	-
Loss on call options	(3,125)	(922)
Other	(6,500)	(345)
Gross profit for the period	**192,066**	**321,282**

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

As of December 31, 2011 and December 31, 2010, our balance sheet amount was PLN 5,325,168 and PLN 1,015,195 respectively.

As of December 31, 2011 and December 31, 2010, our non-current assets were PLN 4,225,320 and PLN 545,224, respectively, and accounted for 79.3% and 53.7% of total assets, respectively. Excluding the effect of consolidation of TV Polsat Group, as of December 31, 2011 our non-current assets were PLN 4,590,710 and accounted for 88.6% of total assets.

The value of reception equipment increased by PLN 133,211 or by 48.4%, to PLN 408,610 as of December 31, 2011 from PLN 275,399 as of December 31, 2010 due to an increase in the number of leased set-top boxes. The consolidation of TV Polsat Group did not have any effect on the value of reception equipment.

The value of other property, plant and equipment increased by PLN 110,420 or by 72.2% to PLN 263,277 as of December 31, 2011 from PLN 152,857 as of December 31, 2010. The increase resulted from the acquisition of TV Polsat, which accounts for PLN 112,910 increase in the balance (relates mainly to TV and broadcasting equipment). Excluding the effect of consolidation of TV Polsat Group, the value of other property, plant and equipment decreased by PLN 2,490, or 1.6%, to PLN 150,367 as of December 31, 2011 primarily due to depreciation charges for the period.

The value of goodwill increased by PLN 2,360,263 to PLN 2,412,285 as of December 31, 2011 from 52,022 as of December 31, 2010. The increase was due to finalization of acquisition of TV Polsat.

Following the acquisition of TV Polsat, the Company recognized the value of "Polsat" brand as a new item of non-current assets. As of December 31, 2011, the value of "Polsat" brand was PLN 840,000.

The value of other intangible assets increased by PLN 31,250, or 136.2%, to PLN 54,194 as of December 31, 2011 from PLN 22,944 as of December 31, 2010. The increase resulted from the acquisition of TV Polsat, which explains PLN 22,553 increase in the balance (mainly relates to concessions to broadcast TV programs). Excluding the effect of consolidation of TV Polsat Group, the value of other intangible assets increased by PLN 8,697, or 37.9%, to PLN 31,641 as of December 31, 2011, due to purchases of intangible assets offset by amortization charges for the period.

The value of non-current programming assets amounted to PLN 131,141 and the value of current programming assets amounted to PLN 137,429 as of December 31, 2011. These are new items in the balance sheet resulting from consolidation of TV Polsat Group, and including acquired film licenses, capitalized costs of external production and sports rights, co-productions and prepayments.

Investment property amounted to PLN 8,440 as of December 31, 2011. Total balance relates to TV Polsat Group and includes land and buildings for lease.

The value of other non-current assets amounted to PLN 51,647 as of December 31, 2011 and increased by PLN 14,103, or 37.6%, compared to PLN 37,544 as of December 31, 2010. This increase was due to recognition of CIRS transactions in 2011, an increase in long-term deferred cost and an increase in long-term deposits paid to contractors and recognition of investments of TV Polsat Group in jointly-controlled entities.

As of December 31, 2011 and December 31, 2010, our current assets were PLN 1,099,848 and PLN 469,971, respectively, and accounted for 20.7% and 46.3% of total assets, respectively. Excluding the effect of consolidation of TV Polsat Group, as of December 31, 2011 our current assets were PLN 587,867 and accounted for 11.4% of total assets.

The value of inventories increased by PLN 4,973, or 2.9%, to PLN 178,127 as of December 31, 2011 from PLN 173,154 as of December 31, 2010. This change was primarily due to an increase in stock of removable STB hard disk drives, antennas and Internet modems, as well as recognition of stock owned by TV Polsat Group in the amount of PLN 1,642. The increases were partially offset primarily by a decrease in the number of set-top boxes in stock, a decrease in the stock of materials owned by CPT, and a decrease in the value of SMART and SIM cards.

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

The value of trade and other receivables increased by PLN 112,864, or 61.2%, to PLN 297,162 as of December 31, 2011 from PLN 184,298 as of December 31, 2010. The increase resulted mainly from consolidation of trade and other receivables of TV Polsat Group (explains PLN 115,622 of the increase). Excluding the effect of consolidation of TV Polsat Group, the balance decreased by PLN 725, due to a decrease in trade and other receivables partially netted by an increase in tax and social security receivables.

The value of cash and cash equivalents increased by PLN 249,919, to PLN 277,534 as of December 31, 2011, from PLN 27,615 as of December 31, 2010. This increase resulted from recognition of cash and cash equivalents of TV Polsat Group in the amount of PLN 257,225. Excluding the effect of consolidation of TV Polsat Group, the value of cash and cash equivalents decreased by PLN 7,306, or by 26.5%, to PLN 20,309 as of December 31, 2011.

The value of other current assets increased by PLN 107,294, or 138.7%, to PLN 184,656 as of December 31, 2011, from PLN 77,362 as of December 31, 2010. This increase resulted primarily from higher short-term deferred costs (including TV Polsat Group short term deferred costs in the amount of PLN 2,097), mainly related to the agreement with Mobyland, and recognition of CIRS transactions in 2011.

Equity increased by PLN 1,468,105 to PLN 1,896,043 as of December 31, 2011 from PLN 427,938 as of December 31, 2010, primarily as a result of: (i) increase in share capital by PLN 3,201 through issue of H Series shares, (ii) recognition of the excess of consideration transferred over the nominal value of the acquired shares of TV Polsat in the amount of PLN 1,146,799 net of transaction costs of PLN 548 in Other reserves, (iii) fair value measurement of consideration transferred for shares in TV Polsat in Other reserves (PLN 148,852), (iv) recognition of hedging instruments valuation (PLN 4,758) and (v) PLN 160,190 profit we generated in 2011.

The loans and borrowings liabilities (long and short term) increased by PLN 1,187,144 to PLN 1,205,185 as of December 31, 2011, from PLN 18,041 as of December 31, 2010. The increase resulted from Term Loan incurred to finance the acquisition of TV Polsat.

The Senior Notes liabilities (long and short-term) amounted to PLN 1,522,577 as of December 31, 2011 and resulted from the issue of EUR 350 million (not in thousands) Senior Notes maturing in 2018. The proceeds from the issue of the Notes were used to refinance the Bridge Loan that was used as part of financing of acquisition of TV Polsat.

The value of other non-current liabilities and provisions increased by PLN 10,113 to PLN 12,497 as of December 31, 2011 from PLN 2,384 as of December 31, 2010, primarily due to recognition of balance related to TV Polsat Group in the amount of PLN 6,081. The remaining increase is explained by the recognition of liabilities from the valuation of financial instruments (IRS and CIRS).

The value of trade and other payables increased by PLN 57,002, or 17.9%, to PLN 374,955 as of December 31, 2011 from PLN 317,953 as of December 31, 2010. Consolidation of TV Polsat Group explains increase of PLN 157,116 (mainly trade payables, payables for purchase of programming assets, tax payables and short-term provisions). Excluding the effect of consolidation of TV Polsat Group, the value of trade and other payables decreased by PLN 82,257, or 25.9%, mainly as a result of a decrease in trade payables.

The value of deposits for equipment decreased by PLN 2,779, or 17.9%, to PLN 12,744 as of December 31, 2011 from PLN 15,523 as of December 31, 2010 due to a decrease in deposits from retail clients partially compensated by an increase in deposits from distributors.

Deferred income increased by PLN 17,201, or 10.3%, to PLN 183,633 as of December 31, 2011 from PLN 166,432 as of December 31, 2010 as a result of recognition of deferred income of TV Polsat Group of PLN 2,835 (prepayments for advertising broadcasts) and an increase in subscription fees paid in advance by our subscribers.

Item 6.9. Liquidity and capital resources

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

While we hold cash primarily in 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, payments to be made pursuant to agreements with international movie studios and sports federations for programming as well as payments related to service of Senior Notes denominated in euro.

Our non-current liabilities amounted to PLN 2,476,485 as at December 31, 2011 as compared to PLN 68,817 as at December 31, 2010. Our current liabilities amounted to PLN 952,640 as at December 31, 2011 as compared to PLN 518,440 as at December 31, 2010.

Our total debt from long- and short-term loans and borrowings and notes as at December 31, 2011 was PLN 2,727,762 compared to PLN 18,041 as at December 31, 2010.

Our cash and cash equivalents amounted to PLN 277,534 as at December 31, 2011 as compared to PLN 27,615 as at December 31, 2010.

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

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

Item 6.9.1. External sources of funding, financing and indebtedness

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

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

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

We use interest rate swaps to hedge our exposure to volatility in the Term Loan interest payments. These transactions were described in the Note no. 32 of the consolidated financial statements for the year ended December 31, 2011.

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

Summary of significant provisions of the agreements

Mandatory prepayments

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

Mandatory prepayments are also required in the following amounts:

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

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

Financial covenants

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

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

- restrictions relating to mergers, acquisitions, joint venture transactions
- restrictions related to disposal of assets and substantial change of business

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

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

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

On August 19, 2011 the Group's subsidiary signed an agreement with Bank Pekao S.A. defining rights and obligations of the parties should the subsidiary order the bank to issue a guarantee or a letter of credit. Bank's total commitment regarding the issued guarantees and letters of credit may not exceed PLN 4,000. The facility was secured by the subsidiary's declaration on submission to enforcement of up to PLN 6,000.

In April 2011, we paid and closed overdraft facilities, summing up to total of PLN 166,000 and including:

- credit line for Cyfrowy Polsat at Bank Polska Kasa Opieki S.A. of up to PLN 139,000, floating interest rate (WIBOR O/N + bank margin);

- credit line for mPunkt Polska S.A. at BRE Bank S.A. of up to PLN 12,000, floating interest rate (WIBOR O/N + bank margin);

- credit line for Cyfrowy Polsat Technology Sp. z o.o. at Bank Polska Kasa Opieki S.A. of up to PLN 15,000, floating interest rate (WIBOR 1M + bank margin).

In 2011, Telewizja Polsat repaid the bank loan that was incurred in 2008 at BRE Bank S.A. (the capital of the loan was 30,000 euro and the interest rate was EURIBOR +0,85%).

Item 6.9.1.2. Issue of Senior Notes

On May 20, 2011, our solely owned subsidiary Cyfrowy Polsat Finance AB (publ) (the "Issuer"), the Bank of New York Mellon, London Branch (the "Trustee"), the Bank of New York Mellon Luxembourg S.A., and the Initial Guarantors, as defined below, entered into an indenture (the "Indenture") regarding the issuance by the Issuer of EUR 350 million (not in thousands) aggregate principal amount of Senior Notes due 2018 (the "Notes"). The closing of the sale of the Notes and the issue of the Notes occurred on May 20, 2011 (the "Issue Date"). The Notes were rated Ba3/BB- by Moody's Investor Service Inc. and Standard & Poor's Rating Services, respectively.

Pursuant to the Indenture, interest on the 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 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 Notes were issued in minimum denominations of EUR 100,000 (not in thousands) and integral multiples of EUR 1,000 (not in thousands) in excess thereof.

For the purpose of hedging future cash flows regarding Senior Notes interest payments, denominated in euro, the Group concluded CIRS (cross-currency interest rate swap) transaction. These transactions were described in the Note no. 32 of the consolidated financial statements for the year ended December 31, 2011.

The Notes are senior obligations of the Issuer, ranking pari passu in right of payment to all existing and future senior indebtedness of the Issuer and are senior in right of payment to all existing and future indebtedness of the Issuer that is expressly subordinated to the Notes.

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. The Indenture is governed by, and construed in accordance with, the laws of the state of New York. The Issuer is a wholly-owned subsidiary of the Company and a special-purpose vehicle whose purpose is to issue the Notes.

Optional redemption of the Notes

At any time prior to May 20, 2014, the Issuer may on any one or more occasions redeem up to 35% of the aggregate principal amount of the Notes at a redemption price of 107.125% of the principal amount plus accrued and unpaid interest, if any, to the redemption date with the net cash proceeds of one or more equity offerings, provided that: (1) at least 65% of the aggregate principal amount of the Notes remains outstanding after each such redemption; and (2) the redemption occurs within 90 days of the date of the closing of an equity offering.

At any time prior to May 20, 2014, the Issuer may at its own discretion redeem the Notes in whole at any time or in part from time to time, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the applicable premium as of, plus accrued and unpaid interest to, the date of redemption (subject to the rights of the holders of the Notes on the relevant record date to receive the interest due on the relevant interest payment date).

On or after May 20, 2014, the Issuer may redeem all or a part of the Notes at the redemption price (expressed as percentages of principal amount) set out below plus accrued and unpaid interest on the Notes redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on May 20 of the years indicated below, subject to the rights of holders of Notes on the relevant record date to receive interest on the relevant interest payment date: (i) in 2014 the redemption price is 105.344%, (ii) in 2015 the redemption price is 103.563%, (iii) in 2016 the redemption price is 101.781%, and (iv) thereafter the redemption price is 100.000%. Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on the Notes (or portions thereof) called for redemption on the applicable redemption date.

Change of control

If a change of control (as defined in the Indenture) occurs, the Issuer must offer to repurchase all the Notes on the terms set forth in the Indenture. Under the offer resulting from the change of control, the Issuer will offer a payment in cash equal to 101% of the aggregate principal amount of Notes repurchased plus accrued and unpaid interest on the Notes repurchased to the date of purchase (subject to the rights of holders of Notes on the relevant record date to receive interest due on the relevant interest payment date).

The following table presents the summary of financial indebtedness of the Group as of December 31, 2011:

	December 31, 2011 in PLN million	Maturity
Senior facility[1]	1,205	2015
Revolving Facility[1]	0	2015
Eurobonds	1,523	2018
Leasing	1	2016
Cash and Cash equivalents	278	-
Net Debt	**2,451**	
Comparable 12M EBITDA[2]	822	
Net Debt / 12M EBITDA	**2.98**	

[1] Balance sheet value of debt
[2] EBITDA including Telewizja Polsat Group

Item 6.9.2. Cash flows

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

	For the nine months ended December 31,	
	2011	**2010**
Net cash flow from operating activities	347,046	197,534
Net cash flow used in investing activities	(2,426,751)	(77,419)
Net cash flow from financing activities	2,327,429	(191,769)
Net increase/(decrease) in cash and cash equivalents	247,724	(71,654)

Net cash flow from operating activities

Net cash from operating activities amounted PLN 347,046 in 2011 resulting mainly from the net profit of PLN 160,190 adjusted by various elements including primarily: (i) depreciation, amortization and impairment, interest expense and income tax, (ii) a net increase in reception equipment provided under operating lease, (iii) foreign exchange losses, (iv) change in liabilities, provisions and deferred income, (v) an increase in receivables and other assets, (vi) payments for film licenses and sport broadcasting rights, (vii) amortization of film licenses and sport rights. Net cash from operating activities in 2010 amounted PLN 197,534 and it resulted from the net profit amounting to PLN 258,470 adjusted by depreciation, amortization and impairment, interest expense and income tax and partially offset primarily by (i) a net increase in reception equipment provided under operating lease, (ii) change in liabilities, provisions and deferred income, (iii) increase in receivables and other assets and (iii) increase in stock.

Net cash flow used in investing activities

Net cash used in investing activities amounted PLN 2,426,751 in 2011 and consisted primarily of the acquisition of 100% shares in TV Polsat, the other payments included: purchase of property, plant and equipment, and intangible assets as well as purchase of bonds from NFI Magna Polonia S.A. and advances for purchase of shares in INFO-TV-FM Sp. z o.o. Net cash used in investing activities amounted PLN 77,419 in 2010 and consisted primarily of purchase of shares in M.Punkt, acquisition of property, plant and equipment and acquisition of intangible assets.

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

Net cash flow from financing activities

Net cash from financing activities amounted PLN 2,327,429 in 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 Senior Notes, which was partially offset by repayment of bank loans in the amount or PLN 1,538,844, repayment of interests on loans, borrowings and finance lease in the amount of PLN 289,899 and repayment of bank overdraft of PLN 18,041. Net cash used in financing activities amounted PLN 191,769 in 2010 and consisted primarily of dividends paid and repayment of loans and borrowings, compensated by net cash from bank overdraft.

Item 6.9.3. Capital expenditures

We incurred capital expenditures of PLN 65,674 and PLN 45,593 in 2011 and 2010, respectively. Capital expenditures to revenue from sales ratio amounted 2.8% and 3.1% in 2011 and 2010, respectively. Capital expenditures in 2011 concerned primarily the payments of investment liabilities presented in the financial statement as of December 31, 2010 and the purchase of transmission and compression equipment, vehicles, computers and other equipment as well as modernization of our property and improvements in our IT systems.

Item 6.9.4. Contractual Obligations

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

	Total	Less than 1 year	1 to 5 years	Over 5 years
Contractual liabilities				
Loans and borrowings	1,523,993	264,147	1,259,846	-
Senior Notes liabilities	2,261,816	110,144	440,576	1,711,096
Commitments to purchase programming asstes	358,879	155,502	203,377	-
Financial leases liabilities	1,186	252	934	-
Operating leases liabilities	798,734	159,689	486,722	152,323
Total contractual liabilities	**4,944,608**	**689,734**	**2,391,455**	**1,863,419**

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

Item 6.9.5. Off-Balance Sheet Arrangements

Commitments to purchase programming assets

As of December 31, 2011 the Group had outstanding contractual payment commitments in relation to programming assets in the amount of PLN 358,879.

The table below presents commitments to purchase programming assets from related parties not included in the consolidated financial statement:

	31 December 2011	**31 December 2010**
within one year	6,702	-
Total	**6,702**	**-**

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 10,613 as of December 31, 2011 (PLN 12,595 as of December 31, 2010). Total amount of capital commitments resulting from agreements on property improvements was PLN 3,906 as of December 31, 2011 (PLN 75 as of December 31, 2010). Additionally the amount of deliveries and services committed to under agreements for the purchases of licenses and software as of December 31, 2011 was PLN 946 (PLN 344 as of December 31, 2010).

Contingent liabilities relating to promissory notes

As at December 31, 2011, the Group had contingent liabilities relating to promissory notes in the total amount of PLN 22 (excluding blank promissory notes).

Furthermore, as at December 31, 2011, the Group had blank promissory notes (good performance bonds under the agreements with mobile network operators as well as rental, loan and lease agreements).

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

In 2011, the Parent Company did not grant any loans.

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

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

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

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

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

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

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

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

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

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

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

On June 17 and June 20, 2011, Telewizja Polsat Sp. z o.o. and its subsidiaries: RS TV S.A., Polsat Media Sp. z o.o., Media-Biznes Sp. z o.o., Nord License AS with its registered office in Norway, Polsat License Ltd. with its registered office in Switzerland and Polsat Futbol Ltd. with its registered office in the United Kingdom entered into agreements and other documents for the establishment in particular of the following security in respect to the repayment of the term and revolving facility loans granted under the Senior Facilities Agreement and the repayment (redemption) of the High Yield Notes (i.e. Senior Notes):

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

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

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

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

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

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

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

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

Aside from securities presented above, pursuant to the Indenture, the Senior Notes (for details refer to the part *6.9.1. Extenal sources of financing*) are guaranteed by each of the Initial Guarantors (the Company, Cyfrowy Polsat Technology Sp. z o.o., Cyfrowy Polsat Trade Marks Sp. z o.o.).

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

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

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

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

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

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

The Parent received UOKiK's decision No. 11/2009 dated December 31, 2009 whereby the President of UOKiK confirmed that certain statements included in the Company's service delivery regulations in force prior to November 1, 2009, were breaching the collective interests of consumers. At the same time, the President of UOKiK acknowledged that these unlawful provisions were eliminated from the amended regulations.

The President of UOKiK also ordered, once the above decision becomes legally binding, that it is published on the company's website (www.cyfrowypolsat.pl), and also in a daily nationwide newspaper. Moreover, pursuant to Article 106, Clause 1, Point 4 of the Competition and Consumers Protection Act dated February 16, 2007 UOKiK imposed a cash fine of PLN 994,000 (not in thousands), representing 0.09% of the Company's 2008 revenue, payable to the state budget, due to the breach of the interdiction set out in Article 24, Clause 1 and 2, Point 1 of the Competition and Consumers Protection Act dated February 16, 2007, within the scope of the above decision.

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

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

On October 10, 2011 the Parent filed an appeal to the Polish Competition and Consumer Protection Court.

Action brought by SkyMedia Sp. z o.o.

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

Disputes with the unions of authors, artists and professionals in the entertainment industry

Legal regulations in Poland require broadcasters to pay various royalties to the organizations of authors, artists and professionals in the entertainment industry ("OZZPA") for the use of content produced by third parties. As at December 31, 2011, the Company's subsidiary, Telelewizja Polsat Sp. z o.o., was in a dispute with some of the OZZPA in respect of the validity, nature and the amount of the royalty fees for the rights belonging to the authors represented by such organizations. As at December 31, 2011, OZZPA filed claims against Telewizja Polsat Sp. z o.o. for the principal amount of PLN 10,560,000 (not in thousands) plus interest.

Item 6.13. Information on market risks

The Group 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 Group 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 Group 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 Group, 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 Group 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 Group 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 that the Group is exposed to is currency risk resulting from fluctuations in exchange rate of the Polish zloty against other currencies. Revenues generated by the Group are denominated primarily in the Polish zloty, while a significant portion of operating costs and capital expenditures are incurred in foreign currencies. The Group's currency risk is associated mainly to royalties to TV and radio broadcasters (USD and EUR), transponder capacity leases (EUR), fees for conditional access system (EUR) and purchases of reception equipment and accessories for reception equipment (USD and EUR). In 2011 the level of currency risk exposure has increased because of new financing denominated in EUR obtained to purchase Telewizja Polsat Sp. z o.o. After this purchase currency risk exposure is also associated to purchases of foreign programming licences.

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

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

On August 10, 2010 the Parent purchased foreign exchange call options for a total value of EUR 12,000 and USD 18,000. On November 4, 2010 the Company purchased foreign exchange call options for a total value of USD 18,000. The foreign exchange call options were purchased in order to limit the impact of foreign exchange rates fluctuations on net profit of the Company. The Company did not apply hedge accounting in respect to these options. As at December 31, 2010 the fair value of unrealized foreign exchange call options amounted to PLN 5,604 and was presented in 'Other current assets'. In 2011 the Company recognized financial expenses resulting from valuation and realization of options in income statement totaling 3,125 and between August 10, and December 31, 2010 PLN 922.

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

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

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

	31 December 2011							
	EUR	**USD**	**GBP**	**CHF**	**SEK**	**NOK**	**AUD**	**CAD**
Trade receivables	1,859	1,251	-	-	-	-	29	15
Cash and cash equivalents	1,583	4,500	26	486	505	1,378	-	-
Senior Notes	(344,724)	-	-	-	-	-	-	-
Trade payables	(1,835)	(8,150)	-	(43)	-	-	-	-
Gross balance sheet exposure	**(343,117)**	**(2,399)**	**26**	**443**	**505**	**1,378**	**29**	**15**
CIRS	43,641	-	-	-	-	-	-	-
Net exposure	**(299,476)**	**(2,399)**	**26**	**443**	**505**	**1,378**	**29**	**15**

	31 December 2010	
	EUR	**USD**
Trade receivables	2,123	28
Cash and cash equivalents	1,469	932
Trade payables	(7,373)	(8,915)
Gross balance sheet exposure	**(3,781)**	**(7,955)**
Foreign exchange call options	7,000	27,000
Net exposure	**(3,219)**	**(19,045)**

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

	Average rate		Rates at the reporting date	
(in PLN)	**2011**	**2010**	**31 December 2011**	**31 December 2010**
1 EUR	4.1198	3.9946	4.4168	3.9603
1 USD	2.9634	3.0157	3.4174	2.9641
1 GBP	4.7470	4.6587	5.2691	4.5938
1 CHF	3.3481	2.8983	3.6333	3.1639
1 SEK	0.4561	0.4190	0.4950	0.4415
1 NOK	0.5284	0.4988	0.5676	0.5071
1 AUD	3.0549	2.7716	3.4670	3.0177
1 CAD	2.9929	2.9295	3.3440	2.9691

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

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

	2011					2010				
	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	As at December 31, 2010 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	1,859	8,211	5%	411	-	2,123	8,407	5%	420	-
USD	1,251	4,276	5%	214	-	28	83	5%	4	-
GBP	-	2	5%	-	-	-	-	5%	-	-
AUD	29	99	5%	5	-	-	-	5%	-	-
CAD	15	50	5%	3	-	-	-	5%	-	-
Cash and cash equivalents										
EUR	1,583	6,993	5%	350	-	1,469	5,816	5%	291	-
USD	4,500	15,380	5%	769	-	932	2,763	5%	138	-
CHF	486	1,765	5%	88	-	-	-	5%	-	-
GBP	26	137	5%	7	-	-	-	5%	-	-
SEK	505	250	5%	13	-	-	-	5%	-	-
NOK	1,378	782	5%	39	-	-	-	5%	-	-
Senior Notes										
EUR	(344,724)	(1,522,577)	5%	(76,129)	-	-	-	5%	-	-
Trade payables										
EUR	(1,835)	(8,106)	5%	(405)	-	(7,373)	(29,200)	5%	(1,460)	-
USD	(8,150)	(27,853)	5%	(1,393)	-	(8,915)	(26,426)	5%	(1,321)	-
CHF	(43)	(157)	5%	(8)	-	-	-	5%	-	-
Change in operating profit				(76,036)	-				(1,928)	
Foreign exchange call options										
EUR	-	-	5%	-	-	7,000	27,722	5%	923	-
USD	-	-	5%	-	-	27,000	80,031	5%	3,040	-
CIRS										
EUR	43,641	192,754	5%	612	8,861	-	-	5%	-	-
Income tax				(14.331)	1.684				387	-
Change in net profit				(61.093)	7.177				1.648	-

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

	2011					2010				
	As at December 31, 2011					**As at December 31, 2010**				
	in currency	**in PLN**	**Estimated change in exchange rate in %**	**Estimated change in profit in PLN**	**Estimated change in other comprehensive income in PLN**	**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	1,859	8,211	-5%	(411)	-	2,123	8,407	-5%	(420)	-
USD	1,251	4,276	-5%	(214)	-	28	83	-5%	(4)	-
GBP	-	2	-5%	-	-	-	-	-5%	-	-
AUD	29	99	-5%	(5)	-	-	-	-5%	-	-
CAD	15	50	-5%	(3)	-	-	-	-5%	-	-
Cash and cash equivalents										
EUR	1,583	6,993	-5%	(350)	-	1,469	5,816	-5%	(291)	-
USD	4,500	15,380	-5%	(769)	-	932	2,763	-5%	(138)	-
CHF	486	1,765	-5%	(88)	-	-	-	-5%	-	-
GBP	26	137	-5%	(7)	-	-	-	-5%	-	-
SEK	505	250	-5%	(13)	-	-	-	-5%	-	-
NOK	1,378	782	-5%	(39)	-	-	-	-5%	-	-
Senior Notes										
EUR	(344,724)	(1,522,577)	-5%	76,129	-	-	-	-5%	-	-
Trade payables										
EUR	(1,835)	(8,106)	-5%	405	-	(7,373)	(29,200)	-5%	1,460	-
USD	(8,150)	(27,853)	-5%	1,393	-	(8,915)	(26,426)	-5%	1,321	-
CHF	(43)	(157)	-5%	8	-	-	-	-5%	-	-
Change in operating profit				76,036	-				1.928	-
CIRS										
EUR	43,641	192,754	-5%	(612)	(8,853)	-	-	-5%	-	-
Foreign exchange call options										
EUR	-	-	-5%	-	-	7,000	27,722	-5%	(421)	-
USD	-	-	-5%	-	-	27,000	80,031	-5%	(2,344)	-
Income tax				14,331	1,682				(159)	-
Change in net profit				61,093	(7,171)				(678)	-

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

	2011		2010	
	Estimated change in profit in PLN	**Estimated change in other comprehensive income in PLN**	**Estimated change in profit in PLN**	**Estimated change in other comprehensive income in PLN**
Estimated change in exchange rate by 5 %				
EUR	(60,881)	7,177	141	-
USD	(332)	-	1,507	-
CHF	65	-	-	-
GBP	6	-	-	-
SEK	11	-	-	-
CAD	2	-	-	-
AUD	4	-	-	-
NOK	32	-	-	-
Estimated change in exchange rate by -5 %				
EUR	60,881	(7,171)	266	-
USD	332	-	(944)	-
CHF	(65)	-	-	-
GBP	(6)	-	-	-
SEK	(11)	-	-	-
CAD	(2)	-	-	-
AUD	(4)	-	-	-
NOK	(32)	-	-	-

Had there been a 5% weakening of the Polish zloty against the basket of currencies as at December 31, 2011 and December 31, 2010, the Group's net profit would have decreased by PLN 61,093 and increased by PLN 1,648, respectively and other comprehensive income would have increased by PLN 7,177 in 2011 (no effect on other comprehensive income in 2010). Had there been a 5% strengthening, the Group's net profit would have correspondingly increased by PLN 61,093 and decreased by PLN 678 and other comprehensive income would have decreased by PLN 7,171 in 2011 (no effect on other comprehensive income in 2010), assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

Interest rate risk

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

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

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

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

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

	Carrying amount	
	31 December 2011	31 December 2010
Fixed rate instruments		
Financial assets	124	-
Financial liabilities	(1,545,880)	(477)
Variable rate instruments		
Financial assets	292,058	32,289
Financial liabilities	(1,281,000)	(18,041)
Net interest exposure	**(988,942)**	**14,248**
Notional of interest rate hedges		
Interest rate risk profile of interest-bearing financial instruments including effect of interest rate hedges		
Fixed rate instruments		
Financial assets	124	-
Financial liabilities	(1,545,880)	(477)
Variable rate instruments		
Financial assets	292,058	32,289
Financial liabilities	(640,500)	(18,041)
Net interest exposure after hedges	**(348,442)**	**14,248**

Cash flow sensitivity analysis for variable rate instruments:

	Income statement		Other comprehensive income	
	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp
31 December 2011				
Variable rate instruments*	(9,889)	9,889	11,160	(11,160)
Cash flow sensitivity (net)	(9,889)	9,889	11,160	(11,160)
31 December 2010				
Variable rate instruments*	325	(318)	-	-
Cash flow sensitivity (net)	325	(318)	-	-

* - include sensitivity in fair value changes of hedging instruments (interest rate swaps) due to changes in interest rates

The Group 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 consolidated financial statements for the financial year ended December 31, 2011 in Note 44 *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 is derived from TV advertisers and DTH subscribers in Poland. In our Broadcasting and television production segment, a decrease in advertising spending in Poland would significantly harm our revenue and prospects. Typically, a decrease in Poland's GDP growth results in significant decreases in advertising spending in Poland. Since many of the customers in our Broadcasting and television production segment are global companies, a global economic downturn, even if Poland is not directly or as significantly affected as other countries, could result in customers deciding to reduce their advertising budgets in Poland. Further, if any of these customers perceive there to be weakness in the Polish economy, there may be a reduction in demand for advertising in Poland. Any decrease in our advertising revenue may result in a decreased quality of programming or force us to reduce the quantity of programs that we make available either through direct production or acquisition. A decrease in program quality or a reduction in program quantity could cause us to lose audience share either to our competitors or to alternative entertainment and leisure activities, which would make us less attractive to potential advertisers and sponsors.

In our Retail business segment, any reduction or shift in consumer spending in Poland could adversely affect our subscriber base or the rate of subscriber growth, or the amount that our subscribers spend on our services. Revenue in our Retail business segment 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 mainly in zloty, approximately 35% of our operating expenses (in 2011) are denominated in other currencies. We have trade receivables and trade liabilities (including liabilities from purchasing access to TV channels and TV programming from major studios and other content providers, 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 7.125% Senior Notes issued are denominated in euro, which significantly increases our exposure to foreign currency fluctuations as movements in the exchange rate of the euro to zloty could therefore increase the amount of cash, in zloty, that must be generated in order to pay principal and interest on the Notes.

Our success is dependent upon customer satisfaction with and audience acceptance of our programs and our ability to profitably produce or obtain rights to such programs.

We operate in markets where commercial success depends primarily on the satisfaction and acceptance of programming content, which is difficult to predict. Our ability to generate advertising revenue is almost entirely contingent on audience demand for the TV programs we broadcast. Audience share for the programs we broadcast directly affects both the attractiveness of our channels to existing and potential advertisers as well as the price that we can charge for advertising airtime. We attempt to attract and retain DTH subscribers by providing access to a broad array of channels, including sports, music, entertainment, news/information, children, education, movie channels and all major terrestrial channels in Poland, as well as high definition channels and FTA TV and radio channels. Subscriber satisfaction with our program offerings is essential to our ability to attract and retain subscribers and to generate and grow subscriber revenue. We also generate revenue in our Broadcasting and television production segment through the production and sale of TV programs to third parties both within Poland and to a lesser extent, internationally. The price that we are able to charge potential purchasers of the programs we produce in-house directly correlates with audience acceptance of these programs, as such third-party purchasers will rely on audience acceptance of programming content in their efforts to generate advertising 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 are constantly faced with the challenge of anticipating what programs and formats will be successful and at what times. We may be unable to attract and retain subscribers for our DTH services if we are not able to successfully anticipate program demand or changes in programming tastes, or if our competitors anticipate such demand or changes in tastes more effectively than we do. This would increase our churn rate, and make us unable to attract advertisers for advertising airtime for our Broadcasting and television production segment.

Our profitability depends in part on our ability to produce or obtain rights to the most attractive programs in a cost-efficient manner. While the production of local content is typically more expensive than acquiring programming content from external sources, we believe that increasing the amount of Polish programming on the channels we broadcast will increase audience demand and, therefore, advertiser demand. We cannot guarantee that we will recover the investments that we have already made or will make in the future to produce local programming content or that we will be able to generate sufficient revenue to offset such costs.

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. In our Retail business segment, we rely entirely on licenses with TV broadcasters in order to provide subscribers with access to TV channels. In our Broadcasting and television production segment, we produce certain TV programs ourselves and rely on license agreements to obtain the right to broadcast other TV programs and content. Our license agreements typically have limited terms, generally from two to three years for movie and series licenses and three to five years for sports licenses, and, in some instances, may be terminated prior to the expiration of the term by the licensor without our consent, in particular if we default on our obligations including our obligations to pay fees under the relevant license. Attractive TV programming is essential to our ability to attract and retain subscribers and advertisers. 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. An inability to enter into or extend important licenses to programming content would hinder our ability to continue to provide and to introduce new channels and programs that are attractive to TV audiences. Failure to attract and retain subscribers and advertisers would have a material adverse effect on our business, financial condition and results of operation.

The operating results of our Broadcasting and television production segment are dependent on the importance of TV as advertising media.

The majority of the revenue that we generate in our Broadcasting and television production segment comes from the sale of advertising airtime and sponsoring slots on TV channels. In the Polish advertising market, TV competes with various other advertising media, such as Internet, newspapers, magazines, radio and outdoor advertising. However, we cannot assure that the TV advertising market will maintain its current position in the Polish advertising market or that changes in the regulatory environment will not favor other advertising media or other TV broadcasters. A further increase in competition among advertising media arising from the growth of online advertising in Poland, a significant increase of expenditures in thematic channels and the development of new forms of advertising media could have an adverse effect on the advertising revenue we generate in our Broadcasting and television production segment and, consequently, on our business, financial condition, results of operations and cash flow.

Our ability to generate advertising revenue depends, among other things, on the demand for and pricing of advertising time. We cannot assure that we will be able to respond successfully to changes in audience preferences, and as a consequence, we may lose audience share, which would negatively impact demand for advertising breaks and therefore have an adverse effect on advertising revenue. Any decline in the appeal of TV generally, or our channels specifically, whether as a result of an increase in the acceptance of other forms of entertainment or a decline in its appeal as an advertising medium could have an adverse effect on our business, financial condition, results of operations and cash flow.

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

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

Our primary competitors for TV advertising revenue are the other TV broadcasters, TVN and TVP. TVN is the major commercial broadcaster in Poland. TVP is a state-owned broadcaster, which is financed partially from public funds and which fulfils a public service broadcasting mandate. As a result of this public service broadcasting mandate, TVP is not permitted to interrupt individual programs with commercial spots. Any change to this restriction on TVP's ability to broadcast advertising could increase the competition we face from TVP and reduce our advertising revenue. Further, we compete with existing TV broadcasters and potential new entrants for the grant of terrestrial broadcasting and satellite broadcasting licenses in Poland, and many of these competitors may be larger broadcasters with better brand recognition and resources than us, particularly those competitors from other member states of the European Union. Also, new entrants may be attracted to the Polish TV market for several reasons, including changes in laws and regulations. For example, the Broadcasting Act has been amended to allow for greater product placement in TV programs and movies broadcast in Poland as well as expand other permitted advertising activities. Regulatory changes such as these proposed amendments could attract additional TV broadcasters to the Polish TV broadcasting market. Finally, the increasing success in Poland of satellite, cable TV and DTT providers will likely result in the increasing fragmentation of Polish TV viewing audiences, which may make it more difficult for us to persuade advertisers to purchase airtime on our channels. Loss of subscribers and advertisers to our competitors would have a material adverse effect on our business, financial condition and results of operations.

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

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

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

We are reliant on third parties to provide support, equipment and facilities for our operations. We have limited or no control over how and when these third parties perform their obligations to us. We depend on third parties to provide our DTH, broadband Internet and mobile telephony services. In providing DTH services to our subscribers, we depend on third parties for the proper functioning of certain facilities and equipment. In providing broadband Internet and mobile telephony services, we depend on the quality of a third party's broadband Internet infrastructure and other third parties' mobile networks. We also rely on numerous third parties to assist us in providing our broadcasting services. We also outsource certain non-broadcasting aspects of our operations including certain administrative, financial, IT and information systems functions. 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" and "Telewizja Polsat" brands will not materialize. 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.

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

The technology used in the DTH, TV broadcasting, 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 DTH services we provide, and we may lose subscribers to competitors who have successfully replaced such obsolete technology. As we continue to expand the mobile telephony and broadband Internet services we offer, including our multi-play package, we may experience technical and logistical difficulties. In addition, we currently intend to capitalize on the lack of developed Internet infrastructure throughout Poland, especially in suburban and rural areas of Poland, to promote and sell our multi-play services and DTH services. If the fixed line Internet infrastructure in Poland improves, we may lose a competitive advantage that we have due to our current reliance on wireless technology rather than the Internet infrastructure to deliver our services.

We face constant pressure to adapt to changes in the way programming content is distributed and viewed. New technologies, including new video formats, IPTV, streaming and downloading capabilities via the Internet, VoD, mobile TV, digital video recorders and other devices and technologies are increasing the number of media and entertainment options available to audiences and are changing the way in which viewers consume content. Some of these devices and technologies allow users to view TV from a remote location or on a time-delayed basis and provide users with the ability to skip advertising and 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 mobile telephony and broadband Internet could significantly increase our average SAC. Our efforts to increase penetration in the pay TV services market could also significantly increase our average SAC. In addition, our average SAC may rise as a result of an increase in commissions we have to pay to our distributors. We cannot guarantee that we will recover the investments that we have already made or will make in the future to expand the services we provide or that we will be able to generate sufficient revenue to offset the costs of our expansion efforts.

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

We rely heavily on our information and telecommunications technology systems and a failure in one or more of these systems could significantly harm our results of operations and prospects. Our IT systems are vulnerable to damage and destruction from natural disasters (such as earthquakes, floods, hurricanes, fires, severe storms and other phenomena), power loss, telecommunications failures, network software flaws, satellite or transponder failure, acts of terrorism, sabotage, riots, civil disturbances, strikes and other industrial action and other catastrophic events. In our Retail business segment, 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. In our Broadcasting and television production segment, we rely heavily on IT systems to manage advertising airtime, program broadcasting and relationships with our advertising customers. 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 advertising customers and subscribers for any disruptions or suspensions resulting from any failures in our information technology systems.

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

The brand names "Cyfrowy Polsat" and "Telewizja Polsat" are important assets to our Group. It is vital to our continued ability to retain and attract subscribers and advertisers to maintain the reputation of, and value associated with, the "Cyfrowy Polsat" and "Telewizja Polsat" names. 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" and "Telewizja Polsat" brands will not materialize. 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.

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

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

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

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

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

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

We are a highly leveraged company, and we have significant debt service obligations under the Senior Facilities and under the Senior Notes .

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 two business segments. There is intense competition for skilled personnel in the Polish and the global TV broadcasting, mobile telephony and Internet industries. We cannot guarantee that we will be able to attract and retain such members of management or skilled employees in the future. The loss of any of our key managers, or the inability to attract and appropriately train, motivate and retain qualified professionals, or any delay in doing so, could have a material adverse effect on our business, financial results, results of operations and prospects.

An increase in available FTA terrestrial channels which could result from the switch in Poland from analog to digital terrestrial TV could decrease demand for our DTH services, which would also lead to a decrease in our audience share, 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. It is also possible that current limitations on the granting of broadcasting licenses for digital terrestrial TV broadcasting frequencies could be removed. This would likely result in an increase in the number of digital channels available in the Polish TV market, which could lead to a corresponding decrease in our audience share. We believe that as a result of the switch from analog to digital terrestrial TV, the number of FTA terrestrial channels may significantly increase and FTA TV programming in Poland may become more attractive, which could result in decreased demand for our DTH services and loss of existing subscribers and could have a materially adverse effect on our business, financial results, results of operations and prospects.

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

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

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

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

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

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

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

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

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

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

Even if our intellectual property rights remain intact, we cannot assure that security and anti-piracy measures will prevent unauthorized access to our services and piracy of our content. Further, third parties may be able to copy, infringe or otherwise profit from our proprietary and licensed content, without our, or the respective right holders' authorization. The risk of piracy is especially acute in our Broadcasting and television production segment. Media piracy occurs in many parts of the world, including Poland, and is facilitated by technological advances and the conversion of media content into digital formats, which makes it easier to create, transmit and share high quality unauthorized copies, on videotapes and DVDs, from pay-per-view through set-top boxes and through unlicensed broadcasts on free-to-air TV and the Internet. 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, broadcasting, advertising and sponsoring 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.

The UKE regulates both of our business segments. Through our Retail business segment, we operate as an MVNO provider in Poland. MVNO providers in Poland are subject to extensive legal and administrative requirements regulating, among other things, the setting of maximum rates for telecommunications services. In our Broadcasting and television production segment, we are regularly reviewed by the UKE to ensure that we have complied with the terms of the radio licenses and frequency reservations granted to us by the UKE in order for us to provide our TV broadcasting 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 and the broadcasting licenses we use. 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.

While the KRRiT regulates both of our business segments, its regulations impact our Broadcasting and television production segment more significantly. As a TV broadcaster in Poland we are subject to extensive legal and administrative requirements regulating, among other things, broadcasting time, programming content and advertising. In addition, the KRRiT regularly monitors our compliance with the broadcasting licenses that we hold as well as with the provisions of the Broadcasting Act and the KRRiT's internal guidance. We cannot assure that we will be able to satisfy the extensive regulations imposed on our Broadcasting and television production segment through our broadcasting licenses, the Broadcasting Act and other regulations, in particular those regulating program content. If the KRRiT were to determine that we breached any applicable provisions of these regulations, we could be forced to pay a fine of up to 50% of the annual fee we pay for use of the frequency.

Broadcasting regulations are generally subject to periodic and on-going governmental review and we cannot guarantee that future changes in Polish broadcasting regulations will not negatively affect the nature of the programming we are able to offer or the manner in which we operate. For example, we may experience a decrease in sponsorship revenue due to new restrictions on the duration and content of sponsorship spots that became effective in Poland in April 2011. These new restrictions may make sponsorship spots less attractive for advertisers in Poland and, as a result, would decrease the revenue that we can generate from sponsorship activities.

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.

We are also subject to UK laws and regulations that restrict the manner in which we operate our businesses. Ofcom ensures compliance with the extensive legal and administrative requirements primarily imposed by the U.K. Communications Act 2003 (the "Communications Act"). Ofcom can impose sanctions on a licensee for breaches of the license conditions, including the requirements for the content of the licensed service. The sanctions available to Ofcom range from the broadcasting of Ofcom's findings to the imposition of a fine on the licensee and revocation of the license.

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.

Our broadcasting licenses may be revoked or may not be renewed when their terms expire.

We depend on our broadcasting licenses issued by Ofcom or the KRRiT to operate our businesses, and these licenses may be revoked or may not be renewed upon their expiration. It is unclear whether we are required to obtain a distribution license for the business we conduct in our Retail business segment. We have nonetheless obtained a license to distribute some of the TV programs we currently offer to our subscribers via satellite. This broadcasting license is scheduled to expire in 2013. We also hold two terrestrial broadcasting licenses and several satellite broadcasting licenses. All TV broadcasting licenses issued by the KRRiT have fixed terms. Our terrestrial analog TV broadcasting license will expire in 2014, and our satellite licenses will expire at various times between 2014 and 2020.

In order to maintain our broadcasting licenses, we must comply with the relevant laws, regulations established by the KRRiT and Ofcom, and the terms and conditions of the broadcasting licenses themselves. Failure to comply with the applicable laws and the terms of our broadcasting licenses, especially with respect to timeframe to commence broadcasting of a channel, could lead to such licenses being revoked as well as the imposition of certain fines. Our broadcasting licenses are also subject to revocation in the event that we are found to have conducted activities that conflict with the relevant laws, or the terms and conditions of our broadcasting licenses and we fail to remedy such conflict within the applicable grace period. In particular, there is a risk that the KRRiT may determine that we are indeed required to obtain a license for the business conducted by our Retail business segment and that the distribution license we have obtained is insufficient in that as it does not list many of the channels that we currently offer. Ofcom can revoke the license for a number of reasons, including breaches of the license conditions, failure to comply with a direction, and as a result of a sanction.

In addition to revocation, there is a risk that our broadcasting licenses issued by the KRRiT will not be renewed prior to or upon expiration. The Broadcasting Law is unclear as to whether broadcasting licenses will be automatically renewed upon expiration. We cannot assure that we will be able to extend our existing broadcasting licenses on the same terms or at all upon their expiration.

If any of our broadcasting licenses are revoked or not extended, we may be forced temporarily or permanently to discontinue those of our operations that are governed by that license.

We may not complete the switch of POLSAT from analog to digital in a timely manner or at all and such a failure could result in the loss of our TV broadcasting license or substantial fines.

We are required to switch our main channel, POLSAT, from analog terrestrial broadcasting to digital broadcasting via MUX-2. While we have begun to cover particular areas of Poland on the dates set forth in our broadcasting license (September 2010), the technical schedule with the operator of the MUX-2 for completing the process is currently not fully aligned with the schedule set forth in the regulatory decisions. Although regulatory authorities are aware of the delay and the issue of inconsistency between the schedules in the broadcasting license and the agreement with the MUX-2 operator affects all private broadcasters relying on MUX-2, if we have not completed the switch by the required date, the KRRiT has the power to revoke our TV broadcasting license. Without a broadcasting license, we would be forced to suspend the broadcasting of POLSAT. Even if the KRRiT does not revoke our broadcasting license, the failure to timely convert from analog to digital could subject us to fines of up to 50% of the annual license fee that we pay per channel.

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

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

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

Risks Related to the 7.125% Senior Notes ("Notes") and Senior Facilities Agreement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- make acquisitions or investments;
- make loans or otherwise extend credit to others;
- incur indebtedness or issue guarantees;
- create security;
- sell, lease, transfer or dispose of assets;

- merge or consolidate with other companies;
- make a substantial change to the general nature of our business;
- pay dividends, redeem share capital, pay intercompany indebtedness or redeem or reduce subordinated indebtedness;
- repay the principal of certain indebtedness, including the Notes;
- issue shares;
- enter into joint venture transactions;
- pay certain investors and creditors;
- make certain derivative transactions;
- enter into transactions other than at arm's length;
- enter into sale and leaseback transactions; and
- modify certain agreements, including agreements governing the Notes.

In addition, the Senior Facilities Agreement will require us to comply with certain affirmative covenants and certain specified financial covenants which require us to ensure that our leverage ratio (calculated as the ratio of total net debt on the last day of that relevant period to 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 voting power or beneficial ownership or, even if they do, may not constitute a "Change of Control" as defined in the Indenture. With certain exceptions the Indenture does not contain provisions that require us to offer to repurchase or redeem the Notes in the event of a reorganization, restructuring, merger, recapitalization or similar transaction.

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

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

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

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

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

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

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

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

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

- interest rates and inflation expectations;

- foreign currency exchange rates;

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

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

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

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

Item 9. Information on shares and shareholders

Item 9.1. Cyfrowy Polsat shares

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

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

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

Changes in 2011

Issue of H Series shares

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

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

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

Basic data on the Cyfrowy Polsat shares in trading

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

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

International Securities Identification Number (ISIN)	PLCFRPT00013

Cyfrowy Polsat's identification codes

GPW	CPS
Reuters	CYFWF.PK
Bloomberg	CPS:PW

Item 9.2. Shareholders structure

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

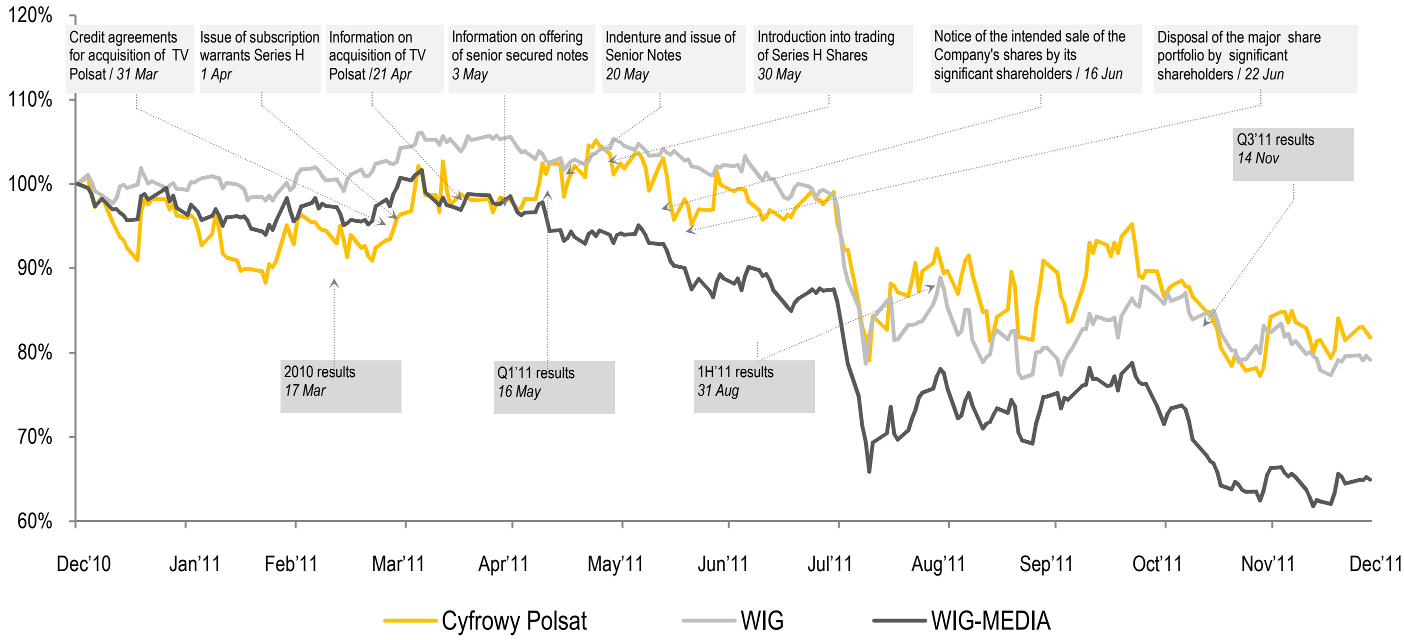
Shareholder	Number of shares	% of share	Number of votes	% of votes
Pola Investments Ltd. (1), including:	168,941,818	48.50%	335,884,319	63.64%
- Privileged registered shares	166,942,501	47.92%	333,885,002	63.26%
- Ordinary bearer shares	1,999,317	0.57%	1,999,317	0.38%
Others	179,411,018	51.50%	191,886,018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

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

Item 9.3. Shares quotes

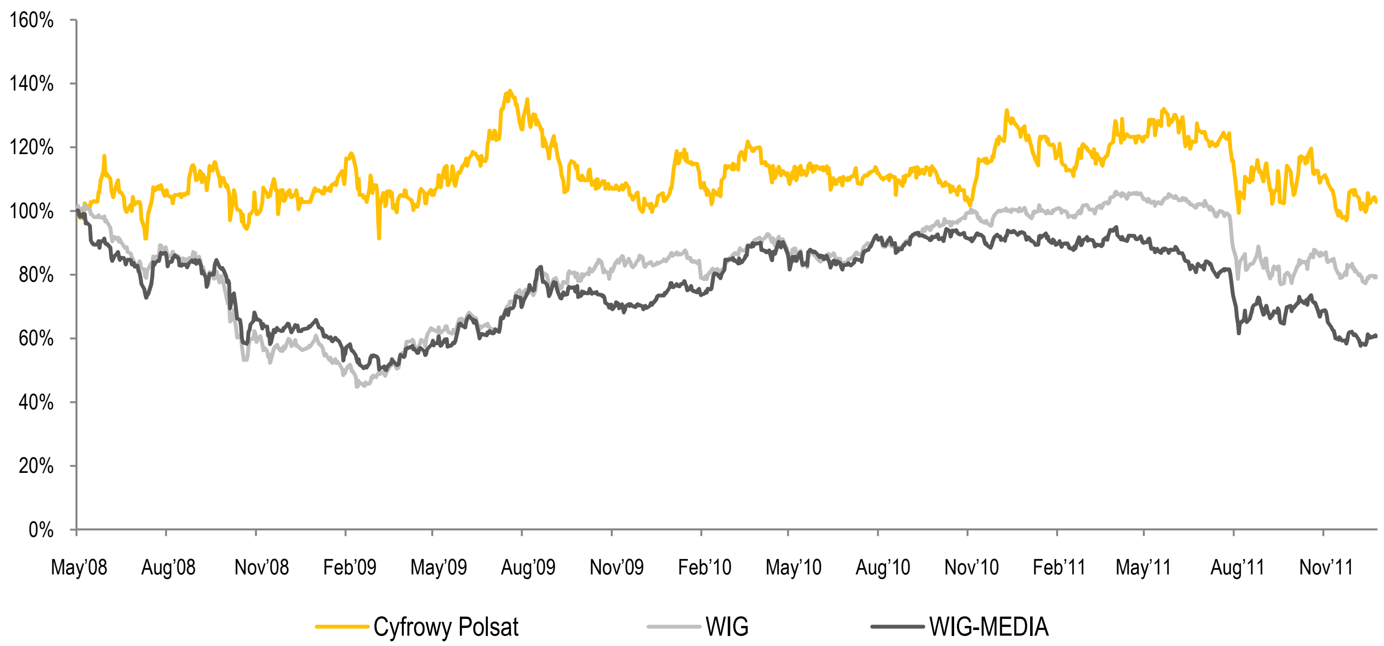
Performance of Cyfrowy Polsat shares in 2011

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



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

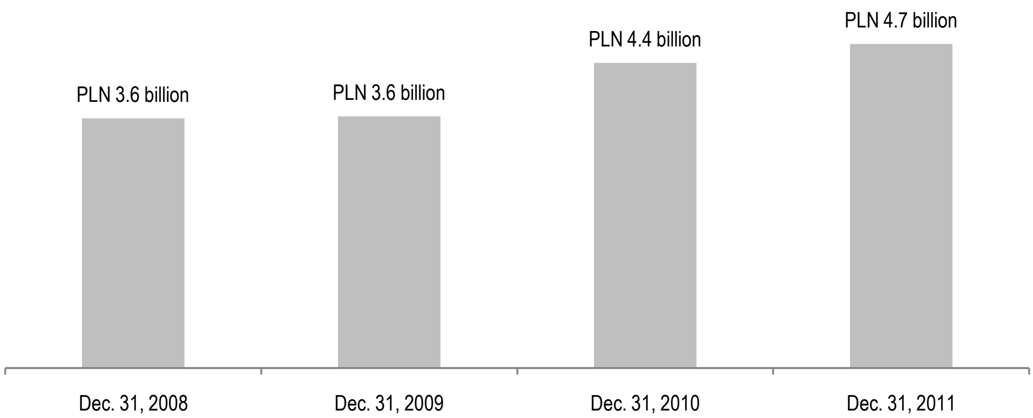
(indexed; 100 = closing price on May 6, 2008)



Cyfrowy Polsat shares on the stock exchange in 2011

		2011	2010
Year-end price	PLN	13.50	16.50
High for the year	PLN	17.35	17.30
Low for the year	PLN	12.75	13.36
Average for the year	PLN	15.26	14.82
Average daily turnover	PLN '000	5,891	4,408
Average daily trading volume	shares	392,209	297,830
Number of shares (as of Dec. 31, 2011)	shares	348,352,836	268,325,000
Bearer shares	shares	168,935,335	88,907,499
Market capitalization (as of Dec. 31, 2011)	PLN '000	4,702,763	4,427,363
P/E ratio max		37.7	18.0
P/E ratio min		27.7	13.9
P/E ratio at the end of period		29.4	17.1

Market capitalization of Cyfrowy Polsat since its debut on the WSE



Item 9.4. Analysts coverage and recommendations

Brokers covering the Company:

Local

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

International

- Deutsche Bank Securities S.A.
- Citi Investment Research
- ERSTE Group Research
- Banco Espírito Santo de Investimento, S.A.
- ING Securities S.A.

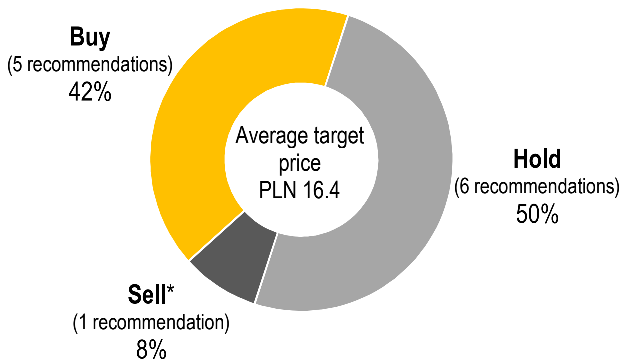
(all financial data presented in PLN thousand, unless otherwise stated)

- KBC Securities N.V
- Raiffeisen Centrobank AG
- UBS Investment Bank
- UniCredit CAIB Poland S.A.

Recommendations for the shares of Cyfrowy Polsat published in 2011

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

Recommendations structure at the end of 2011



* upgraded on January 9, 2012 to "Accumulate"

Close dialogue with the capital market

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

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

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

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

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

Item 10. Dividend policy

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

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

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

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

Item 11. Shares of Cyfrowy Polsat held by members of the Management Board and the Supervisory Board

Shares held by members of the Management Board

The following table presents information relating shares held directly and indirectly by particular members of the Management Board as at the day of the publication of this Report, ie. 12 March 2012:

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

Shares held by members of the Supervisory Board

The following table present information relating to shares held directly and indirectly by particular members of the Supervisory Board as at day of the publication of this Report, ie. 12 March 2012:

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

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

Item 12. Remuneration of the Members of the Management Board and the Members of the Supervisory Board

Information regarding remuneration of members of the Management Board and the Supervisory Board for the financial year ended December 31, 2011 is included in Note 48 (Members of the Management Board) and Note 49 (Members of the Supervisory Board) of consolidated 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 29, 2011 the Company entered into an agreement with KPMG Audyt Spółka z ograniczoną odpowiedzialnością s.k., with registered office in Warsaw at 51 Chlodna Street, for the performance of an audit of standalone financial statements of Cyfrowy Polsat S.A. and the consolidated financial statements of Cyfrowy Polsat Group for the financial year ended December 31, 2010.

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

	for year ended	
	December 31, 2011	**December 31, 2010**
Remuneration for audit of the financial statements for the year and other certifying services, including the review of financial statements	1,983	848
Other services	2,828	-
Total	**4,811**	**848**

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

Item 15.1. Specification of the principles of corporate governance which the issuer is subject to and the location of the set of principles where they are publicly available

The Company is subject to the set of principles of the corporate governance for joint-stock companies issuing shares, convertible bonds, or senior bonds that are admitted to trade on the stock exchange. The principles of corporate governance in the form of the Best Practices of WSE Listed Companies, constitute an appendix to the Resolution No. 12/1170/2007 of the Council of GPW of July 4, 2007, amended by the following resolutions of GPW Council: no. 17/1249/2010 dated May 19, 2010, no. 15/1282/2011 dated August 31, 2011 and no. 20/1287/2011 dated October 19, 2011 (amendments introduced in 2011 came into force on January 1, 2012).

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

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

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

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

Recommendation I.1. In order to implement a transparent and effective information policy we provide fast and safe access to information to shareholders, analysts and investors employing, both traditional and modern, technologies of publishing information about the Company to the greatest possible extent. However, we have waived the recommendation of direct broadcasting, recording and publishing the records from the general meetings on our website, as it involves additional costs that in our opinion, are not effective.

Recommendation I.5. The Company does not comply with the recommendation in relation to setting policy of remuneration of members of managing and supervising bodies. The rules of remuneration of the members of managing and supervising bodies were not developed based on provisions of directives of the European Commission and thus, not all the recommendations are applied. In accordance with article 24 d) of the Company's Articles of Association, the remuneration of the members of the Supervisory Board requires a resolution of the General Meeting, except for the members of the Supervisory Board delegated to temporarily perform functions of a members of the Management Board, pursuant to article 19 2d) of the Articles of Association, when the decision is taken by the Supervisory Board. The remuneration relates to the scope of tasks and responsibilities related to the function performed, reflects the size of the Company and keeps a healthy relation to its financial results. The remuneration of the Management Board members is set by the Supervisory Board and reflects the duties and responsibilities appointed to them.

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

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

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

In order to ensure the accuracy and reliability of the accounts of the parent and subsidiary companies, we apply Accounting Policies for Cyfrowy Polsat S.A. Group and various of internal procedures relating to transaction control systems and processes resulting from the activities of the Company and the Group.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 15.5. Presentation of holders of securities with special controlling rights

Current shareholders do not have any other rights in the General Meeting of Shareholders than those resulting from holding our shares. As at December 31, 2011 the shares of the A through D series are shares preferential as to the voting rights in the way that:

(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. (166.942.501 shares giving 333.885.002 voting rights on General Shareholders Meeting), Zygmunt Solorz-Żak (10.603.750 shares giving 21.207.500 voting rights on General Shareholders Meeting) and Koma Fundusz Inwestycyjny Zamknięty (1.871.250 shares giving 3.742.500 voting rights on General Shareholders Meeting).

8,082,499 shares of D Series, numbered 166,917,502 -175,000,000; 75,000,000 shares of E Series; 5,825,000 F Series shares and 80,027,836 shares of H Series are ordinary bearer shares.

Item 15.6. Specification of limitations in exercising voting rights

There are no limitations to exercise of the voting rights.

Item 15.7. Specification of ownership rights transfer limitations relating to the Company's securities

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

Item 15.8. Description of rules regarding appointment and dismissal of the management and their rights, in particular the right to issue or buy back shares

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

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

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

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

Item 15.9. Description of rules or amending the Articles of Association

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

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

Item 15.10. The Bylaws of the General Shareholders' Meeting and its principal rights and description of rights of shareholders and their exercise, in particular the rules resulting from the Bylaws of the General Shareholders' Meeting, unless information on that scope results directly from the provisions of law

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

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

a. discussion and approval of Reports on the Management Board's activity and the Supervisory Board's activity, and the financial statements for the previous year,
b. decision about distribution of profits, or covering losses.
c. signing off for the Supervisory Board's and the Management Board's performance of duties,
d. appointment and dismissal of members of the Supervisory Board and determination of their compensation,
e. amendments to the Articles of Association of the Company,
f. amendments to the business activity of the Company,
g. increase or decrease in the share capital,
h. merger or transformation of the Company,

i. dissolution or liquidation of the Company,

j. issue of bonds,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Subject to mandatory provisions of law, resolutions taken by the General Meeting are legally effective regardless of the number of shareholders and the number of shares they represent present in the Meeting and are adopted by a majority of votes.

As at December 31, 2011 the shareholders participating in the General Meeting have the number of votes corresponding to the number of shares held, observing the fact that the registered shares Series A through C and in part Series D are preferential in such a way that each of them entitles to casting two votes at the General Meeting.

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

Item 15.11. Personnel composition and changes in the previous business year and description of the functioning of the management, supervisory, or administrative bodies of the Company and its committees.

The Management Board

Currently, our Management Board has four members. The composition of the Board did not change during 2011. The members of the Management Board were appointed in 2010 for three years term.

Composition of the Management Board

The following table presents names, surnames, functions, date of appointment and date of expiry of the current term of particular members of the Management Board as at December 31, 2011.

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

Dominik Libicki has been the President and Chief Executive Officer of Cyfrowy Polsat S.A. since March 2001. Mr. Libicki is also the President of the Management Board of Cyfrowy Polsat Technology Sp. z o.o. and a member of the Supervisory Board of Telewizja Polsat Sp. z o.o. Since February 2005, Mr. Libicki has also been Vice President of the Union of Private Media Employers of the Polish Confederation of Private Employers "Lewiatan" (Zwiazek Mediow przy Polskiej Konfederacji Pracodawcow Prywatnych Lewiatan). His previous professional experience is related mainly to the television production industry. He was the Managing Director of PAI Film. He also ran his own company Studio Meg which produced television advertising spots and television programs. Between 2005 and 2006 he was a member and between 2006 and 2008 the Vice-Chairman of the Supervisory Board of Polska Telefonia Cyfrowa Sp. z o.o., the largest mobile network in Poland. From May 1999 to March 2011, Mr Libicki was member of the Supervisory Board of Polskie Media S.A. Mr. Libicki graduated from the Department of Environmental Studies at the Wroclaw Technical University and completed a training course for supervisory board members organized by the Polish Ministry of Economy.

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

Aneta Jaskólska has been a Member of the Management Board of Cyfrowy Polsat S.A since July 2010. She is responsible for Legal Department, Administration Department, Personal Department and Safety Department. Mrs. Jaskólska is also a Member of the Management Board of Cyfrowy Polsat Technology Sp. z o.o. and a Member of the Management Board of Cyfrowy Polsat Trade Marks Sp. z o.o. Aneta Jaskólska graduated from the Faculty of Law and Administration of Warsaw University and completed legal internship with the District Chamber of Legal Advisers in Warsaw, receiving the title of a solicitor. She also graduated from Copyright, Publishing and Press Law Faculty at the Department of Management and Social Communication of Jagiellonian University. Since 2007 Mrs. Jaskólska has been Director of Legal and Regulatory Department of Cyfrowy Polsat S.A. Between 2004 and 2007 Aneta Jaskólska held the position of Proxy and Director of Legal Department of UPC Polska Sp. z o.o. Mrs. Jaskólska has 14 years of experience in the legal advisory and services to large business entities.

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

Bylaws of the Management Board

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

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

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

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

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

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

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

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

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

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

The Supervisory Board

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

The Composition of the Supervisory Board

The following persons were Members of the Supervisory Board:

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

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

Zygmunt Solorz-Żak is one of the greatest private entrepreneurs in Poland, conducting business in various areas of the Polish economy. At the end of the 1980s, he set up Foreign Enterprise SOLPOL. At the beginning of the 1990s Mr. Solorz-Żak took interest in the media sector investing in the Kurier Polski. In 1993 Mr. Solorz-Żak launched the first private satellite television in Poland – Polsat which, by receiving a broadcasting license, transformed into a nationwide television. Within a few years Telewizja Polsat became one of the leaders of the television market in Poland. Currently, Mr. Solorz-Żak focuses his business activities in the media and telecommunications sector, in particular through entities like Cyfrowy Polsat S.A. (being also its founder), Telewizja Polsat Sp. z o.o., Polkomtel S.A. and Midas Group. Mr. Solorz-Żak's investment interest also includes companies from the following sectors: energy (ZE PAK S.A), finance and banking (Invest-Bank S.A., PTE Polsat S.A.), project development and construction (Port Praski Sp. z o.o.) and sports (WKS Śląsk Wrocław S.A.). Mr. Solorz-Żak has a great work experience in statutory bodies of commercial code companies being a member or president of Supervisory Boards of companies such as Telewizja Polsat Sp. z o.o., Polkomtel S.A., NFI Midas S.A., Invest Bank S.A. and ZE PAK S.A.

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

Andrzej Papis is a Legal Advisor. Mr. Papis graduated from the Law and Administration Faculty of the University of Warsaw and completed his legal apprenticeship in the Local BAR Chamber in Warsaw. From 1998 till 1999 he was an assistant in the team of professor M. Kulesza for administrational reform of the country, then a co-worker of the Government Proxy Office for Implementation of the General Health Insurance. Since 2000 he has been the lawyer of Telewizja Polsat Sp. z o.o. He has been a member of the Board of TFP Sp. z o.o. since 2003, a member of the Supervisory Board of Elektrim S.A. since 2004 and a member of the Supervisory Board of Cyfrowy Polsat S.A. since 2007. In 2007-2010 Mr. Papis has been a member of the Supervisory Board of Media-Biznes Sp. z o.o. In 2011, he was appointed to the Supervisory Board of Polkomtel S.A.

Leszek Reksa is a graduate of the Foreign Trade Faculty of the School of Planning and Statistics (now the Warsaw School of Economics). He has extensive professional experience on managerial positions in various companies. For over 15 years he has been employed on managerial positions in the banking sector (large banking institution). He also has a great work experience in statutory bodies of commercial code companies – he was President of the Management Board of PHU BIMOT S.A., member of the Supervisory Board of Bankowy Fundusz Leasingowy S.A. and member of the Supervisory Board of Zaklady Azotowe Kedzierzyn S.A.

Heronim Ruta graduated from the Electrical Faculty of the Warsaw University of Technology. He is employed by Ster Sp. z o.o. and sits on the Supervisory Boards of Invest Bank S.A., PAI Media S.A., Gurex S.A., and Telewizja Polsat Sp. z o.o., and also on the Management Board of Diasen Ltd. From 1973 to 1978 Mr. Ruta was a trainee and then an electrical technology specialist at Zaklady Tworzyw Sztucznych Pronit Erg (plastics processing plant), from 1978 till 1979 he was a specialist supervising development of an experimental car for detection of cracks in rail tracks in Centralny Ośrodek Badań Techniki Kolejnictwa. In 1980, Mr. Ruta worked for Cementation International Limited, London, designing the electrical layout for the Marriott Hotel in Warsaw. From 1980 till 1987 he was the head of Wytworczo-Uslugowa Spoldzielnia Pracy. In 1987 he founded Herom Sp. z o.o., where he was President until 1992. From 1992 till 1994 he was President of Ster Sp. z o.o., and from 1991 till 1998 he ran his own business within trade and services in the field of electronics goods and establishment of television broadcasting transmitters for Telewizja Polsat S.A. From 2002 till 2005 Mr. Ruta was member of the Management Board of Polaris Finance B.V. and between 2002 and 2004 he was member of the Supervisory Board of Uzddaroji Akcine Bendrove „Baltijos Televizija". Since November 2011 he has been the President of the Supervisory Board of Polkomtel S.A.

Description of operations of the Supervisory Board

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

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

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

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

a. audit of the financial statements both as to their compliance with books and documents and also the factual state, audit of the interim and annual reports of the Management Board, or Management Board's motions regarding allocation of profit or covering debts and presenting written reports with results of the audits before the General Shareholders Meeting,
b. once a year, prepare and present a concise evaluation of the situation of the Company to the General Meeting, considering the evaluation of the internal control system and the management system of risks that are important for the Company,
c. appointment of members of the Management Board,
d. delegation of members of the Supervisory Board to temporary performance of duties of members of the Management Board who are unable to perform their duties,
e. suspending particular or all members of the Management Board for material reasons,
f. approval of the Bylaws of the Management Board,
g. determination of remuneration of the members of the Management Board,
h. appointment of a certified auditor to examine financial statements of the Company.
i. granting consent for disbursement of a down payment toward the anticipated dividend.

Moreover, the competencies of the Supervisory Board include:

a. creation and presentation of an evaluation of the Management Board's performance before the General Shareholders' Meeting,
b. analysis and issuing of an opinion on matters that may be the subject of a resolution of the General Meeting,
c. approval of one-year and long-term programs for the Company developed by the Management Board,
d. determination of the remuneration level of the Supervisory Board delegated to temporary performance of duties of a member of the Management Board,
e. granting consent for participation in other companies,
f. granting consent for appointing, dismissing and suspending members of authorities of the subsidiaries,
g. granting consent for entering into a material agreement with a related entity,
h. granting consent for performance of activities resulting in the Company incurring a liability, with the exception of:
    - activities projected or set out in the annual program for the Company approved by the Supervisory Board, or
    - activities resulting in incurring a liability of the value up to PLN 10,000,000 (ten million zlotys, not in thousands), including guarantees or issuing or guaranteeing bills of exchange done in the scope of daily business, in particular the business of pay digital television, Internet service or the business of MVNO.
i. issuing, upon the Management Board's request, opinion on all issues material for the Company.

The Supervisory Board consists of five to nine members including the Chairman of the Supervisory Board, appointed by the General Shareholders' Meeting. The General Shareholders' Meeting, prior to appointment of members of the Supervisory

Board for a new term, determines the number of members of the Supervisory Board. The term of office of the Supervisory Board is three years and is a joint one.

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

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

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

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

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

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

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

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

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

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

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

Committees of the Supervisory Board

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

The Audit Committee, as at December 31, 2011 comprised the following members of the Supervisory Board:

- Heronim Ruta
- Robert Gwiazdowski, an independent member of the Supervisory Board,
- Leszek Reksa, an independent member of the Supervisory Board.

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

The Remuneration Committee, as at December 31, 2011, comprised the following members of the Supervisory Board:

- Zygmunt Solorz – Żak,
- Heronim Ruta.

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

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

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

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

Warsaw, March 9, 2012

Management Board's representations

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

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

hereby represents that:

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

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

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

Warsaw, 9 March 2012

KPMG Audyt
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OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting Cyfrowy Polsat S.A.

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

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

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

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements of Cyfrowy Polsat S.A. Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2011 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Other Matters

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

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

K. Kuśmierski

....
Certified Auditor No. 90106
Krzysztof Kuśmierski

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

9 March 2012
Warsaw

CYFROWY POLSAT S.A. GROUP

Consolidated Financial Statements
for the year ended 31 December 2011

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

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APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

Consolidated Income Statement for the period from 1 January 2011 to 31 December 2011 showing a net profit of:	PLN 160,190 thousand
Consolidated Statement of Comprehensive Income for the period from 1 January 2011 to 31 December 2011 showing a total comprehensive income of:	PLN 169,801 thousand
Consolidated Balance Sheet as at 31 December 2011 showing total assets and total equity and liabilities of:	PLN 5,325,168 thousand
Consolidated Cash Flow Statement for the period from 1 January 2011 to 31 December 2011 showing a net increase in cash and cash equivalents amounting to:	PLN 247,724 thousand
Consolidated Statement of Changes in Equity for the period from 1 January 2011 to 31 December 2011 showing an increase in equity of:	PLN 1,468,105 thousand

Supplementary Information to the Consolidated Financial Statements

The consolidated financial statements have been prepared in thousands of Polish zloty ("PLN") except where otherwise indicated.

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

Warsaw, 9 March 2012

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

Consolidated Income Statement

	Note	for the year ended 31 December 2011	31 December 2010
Continuing operations			
Revenue	10	2,365,925	1,482,463
Operating costs		(1,734,336)	(1,122,252)
Cost of services, products, goods and materials sold	11	(1,330,952)	(788,496)
Selling expenses	11	(243,493)	(232,973)
General and administrative expenses	11	(159,891)	(100,783)
Other operating income	12	14,332	13,970
Other operating costs	13	(85,621)	(48,427)
Profit from operating activities		**560,300**	**325,754**
Finance income	14	10,765	1,288
Finance costs	15	(381,163)	(5,760)
Share in net income of investments accounted for under the equity method		2,164	-
Gross profit for the period		**192,066**	**321,282**
Income tax	16	(31,876)	(62,812)
Net profit for the period		**160,190**	**258,470**
Net profit attributable to:			
Equity holders of the Parent		160,190	258,447
Non-controlling interests		-	23
Basic and diluted earnings per share (in PLN)	18	**0.49**	**0.96**

Consolidated Statement of Comprehensive Income

	for the year ended 31 December 2011	31 December 2010
Net profit for the period	**160,190**	**258,470**
Hedge valuation	5,874	-
Income tax relating to hedge valuation	(1,116)	-
Currency translation adjustment	6,018	-
Income tax relating to currency translation adjustment	(1,165)	-
Other comprehensive income, net of tax	**9,611**	**-**
Total comprehensive income for the period	**169,801**	**258,470**
Total comprehensive income attributable to:		
Equity holders of the Parent	169,801	258,447
Non-controlling interests	-	23

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

Consolidated Balance Sheet - Assets

	Note	31 December 2011	31 December 2010
Reception equipment	19	408,610	275,399
Other property, plant and equipment	19	263,277	152,857
Goodwill	20	2,412,285	52,022
Brands	21	840,000	300
Other intangible assets	22	54,194	22,944
Non-current programming assets	23	131,141	-
Investment property	24	8,440	-
Other non-current assets	25	51,647	37,544
Deferred tax assets	16	55,726	4,158
Total non-current assets		**4,225,320**	**545,224**
Current programming assets	23	137,429	-
Inventories	26	178,127	173,154
Bonds	27	14,854	-
Trade and other receivables	28	297,162	184,298
Income tax receivable		10,086	7,542
Other current assets	29	184,656	77,362
Cash and cash equivalents	30	277,534	27,615
Total current assets		**1,099,848**	**469,971**
Total assets		**5,325,168**	**1,015,195**

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

Consolidated Balance Sheet - Equity and Liabilities

	Note	31 December 2011	31 December 2010
Share capital	31	13,934	10,733
Reserve capital	31	432,265	156,534
Other reserves	31	1,305,277	10,174
Hedge valuation reserve	32	4,758	-
Currency translation adjustment	31	4,853	-
Retained earnings	31	134,956	250,497
Total equity		**1,896,043**	**427,938**
Loans and borrowings	33	958,407	-
Senior Notes payable	34	1,417,525	-
Finance lease liabilities	35	934	1,095
Deferred tax liabilities	16	87,122	65,338
Other non-current liabilities and provisions	36	12,497	2,384
Total non-current liabilities		**2,476,485**	**68,817**
Loans and borrowings	33	246,778	18,041
Senior Notes payable	34	105,052	-
Finance lease liabilities	35	252	491
Trade and other payables	37	374,955	317,953
Income tax liability		29,226	-
Deposits for equipment	38	12,744	15,523
Deferred income	39	183,633	166,432
Total current liabilities		**952,640**	**518,440**
Total liabilities		**3,429,125**	**587,257**
Total equity and liabilities		**5,325,168**	**1,015,195**

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

Consolidated Cash Flow Statement

		for the year ended	
	Note	31 December 2011	31 December 2010
Net profit for the period		**160,190**	**258,470**
Adjustments for:		**210,727**	**(50,158)**
Depreciation, amortization and impairment	11	174,880	81,190
Payments for film licences and sports rights		(177,241)	-
Amortization of film licences and sports rights		169,455	-
Loss on investing activity		1,187	2,040
Cost of programming rights sold		3,747	-
Interest expense		171,811	1,278
Change in inventories		(3,433)	(47,977)
Change in receivables and other assets		(63,732)	(54,577)
Change in liabilities, provisions and deferred income		(59,031)	97,990
Change in internal production and advance payments		6,513	-
Valuation of hedging instruments		5,874	-
Share in net income of associates accounted for under equity method		(2,164)	-
Foreign exchange losses, net		170,382	121
Set-off of income tax receivables with VAT liabilities		6,264	-
Income tax	16	31,876	62,812
Net increase in reception equipment provided under operating lease		(229,353)	(195,403)
Other adjustments		3,692	2,368
Cash flows from operations before income taxes and interest		**370,917**	**208,312**
Income tax paid		(34,222)	(11,974)
Interest received from operating activities		10,351	1,196
Net cash from operating activities		**347,046**	**197,534**
Acquisition of property, plant and equipment		(39,241)	(28,713)
Acquisition of intangible assets		(26,433)	(16,880)
Acquisition of subsidiaries, net of cash acquired	40	(2,336,698)	(33,271)
Proceeds from sale of property, plant and equipment		999	1,387
Acquisition of bonds	27	(14,684)	-
Prepayment for shares	29	(12,000)	-
Loans granted		-	(3,536)
Repayment of loans granted		-	3,536
Proceeds from interest on loans granted		1	58
Other proceeds		1,305	-
Net cash used in investing activities		**(2,426,751)**	**(77,419)**

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

Dividends paid		-	(152,945)
Net cash from bank overdraft		(18,041)	18,041
Term loans received	33	2,800,000	-
Issuance of *Senior Notes*	34	1,372,245	-
Payments for currency options		-	(7,320)
Proceeds from realization of foreign exchange call options		2,480	794
Repayment of loans and borrowings	33	(1,538,844)	(47,277)
Finance lease – principal repayments		(512)	(864)
Payment of interest on loans, borrowings, finance lease and commissions		(289,899)	(2,198)
Net cash from/(used in) financing activities		**2,327,429**	**(191,769)**
Net increase/(decrease) in cash and cash equivalents		**247,724**	**(71,654)**
Cash and cash equivalents at the beginning of the period*		**27,615**	**99,390**
Effect of exchange rate fluctuations on cash and cash equivalents		2,195	(121)
Cash and cash equivalents at the end of the period		**277,534**	**27,615**

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

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

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

	Note	Share capital	Reserve capital	Other reserves	Hedge valuation reserve	Currency translation adjustment	Retained earnings	**Total equity**
Balance as at 1 January 2011		10,733	156,534	10,174	-	-	250,497	**427,938**
Share issue	31	3,201	-	1,295,103	-	-	-	**1,298,304**
Hedge valuation reserve		-	-	-	4,758	-	-	**4,758**
Currency translation adjustment		-	-	-	-	4,853	-	**4,853**
Net profit for the period		-	-	-	-	-	160,190	**160,190**
Appropriation of 2010 profit – transfer to reserve capital	31	-	275,731	-	-	-	(275,731)	**-**
Balance as at 31 December 2011		**13,934**	**432,265**	**1,305,277**	**4,758**	**4,853**	**134,956**	**1,896,043**

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

	Share capital	Reserve capital	Other reserves	Retained earnings	Non-controlling interests	**Total equity**
Balance as at 1 January 2010	10,733	73,997	10,174	227,509	-	**322,413**
Acquisition of 100% shares of M.Punkt Holdings Ltd.	-	-	-	23	(23)	**-**
Net profit for the period	-	-	-	258,447	23	**258,470**
Dividends approved	-	-	-	(152,945)	-	**(152,945)**
Appropriation of 2009 profit – transfer to reserve capital	-	82,537	-	(82,537)	-	**-**
Balance as at 31 December 2010	**10,733**	**156,534**	**10,174**	**250,497**	**-**	**427,938**

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

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

1. The Parent Company

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

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

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

The consolidated financial statements comprise the Parent and its subsidiaries (together with the Parent referred to as "the Group" and individually as "Group entities"), and the Group's interest in associates and jointly controlled entities.

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 consolidated financial statements

Statement of compliance

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

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

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

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

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

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

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

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

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

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

In preparing these consolidated financial statements, the Company did not early adopt the new Standards which have already been published and adopted by the European Union and which should be applied for annual periods beginning after 1 January 2011 (presented below).

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

(i) amendments to IFRS 7 – *Transfers of Financial Assets*
The amendments relate to transfers of financial assets. They apply for annual periods beginning on or after 1 July 2011. They have no impact on these financial statements.

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

- IFRS 9 *Financial Instruments*;
- IFRS 10 *Consolidated financial statements*;
- IFRS 11 *Joint Arrangements*;
- IFRS 12 *Disclosures of Interests in Other Entities*;
- IFRS 13 *Fair Value Measurement*;
- IAS 27 *Separate Financial Statements*;
- IAS 28 *Investments in Associates and Joint Ventures*;
- amendments to IAS *12 Deferred tax* - Recovery of underlying assets;
- amendments to IFRS 1 *First-time adoption of International Financial Reporting Standards* – Hyperinflation and removal of fixed dates for first-time adopters;
- amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*;
- amendments to IAS 19 *Employee Benefits*;
- amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities*;
- amendments to IAS 32 *Presentation – Offsetting Financial Assets and Financial Liabilities*;
- amendments to IFRS 9 *Financial Instruments* (issued in 2010);
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*.

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

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

5. Group of consolidated companies

These consolidated financial statements for 2011 include the following entities:

	Entity's registered office	Activity	Share in voting rights (%) 31 December 2011	31 December 2010
Parent Company				
Cyfrowy Polsat S.A.	Łubinowa 4a, Warsaw	radio, TV and telecommunication activities	n/a	n/a
Subsidiaries				
Cyfrowy Polsat Technology Sp. z o.o.*	Łubinowa 4a, Warsaw	production of set-top boxes	100%	100%
Cyfrowy Polsat Trade Marks Sp. z o.o.*	Łubinowa 4a, Warsaw	non-current assets and intellectual property rights management	100%	100%
Cyfrowy Polsat Finance AB*	Stureplan 4C, 4 TR 114 35 Stockholm, Sweden	financial transactions	100%	n/a
Telewizja Polsat Sp. z o.o.*	Ostrobramska 77, Warsaw	television broadcasting and production	100%	n/a
RS TV S.A.*	Chorzewska 15, Radom	terrestrial transmission	100%	n/a
Polsat Media Sp. z o.o.*	Ostrobramska 77, Warsaw	advertising activities	100%	n/a
Media-Biznes Sp. z o.o.*	Stanów Zjednoczonych 53, Warsaw	television activities	100%	n/a
Polsat Futbol Ltd.*	Office 1D 238-246 King Street London W6 0RF UK	television activities	100%	n/a
Nord License AS*	Vollsvseien 13B Lysaker Norway	trade of programming licences	100%	n/a
Polsat License Ltd.*	Poststrasse 9 6300 Zug Switzerland	trade of programming licences	100%	n/a

* consolidation using full method

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

Investments accounted for under the equity method:

	Entity's registered office	Activity	Share in voting rights (%) 31 December 2011	31 December 2010
Polsat JimJam Ltd.	105-109 Salusbury Road London NW6 6RG UK	television activities	50%	n/a
Polski Operator Telewizyjny Sp. z o.o.*	Huculska 6, Warsaw	radio communications and radio diffusion	50%	n/a

* the company has suspended operations

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

	Entity's registered office	Activity	Share in voting rights (%) 31 December 2011	31 December 2010
Karpacka Telewizja Kablowa Sp. z o.o.*	ul. Chorzowska 3, Radom	dormant	85%	85%

* Investment accounted for at cost less any accumulated impairment losses

6. Accounting and consolidation policies

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

Certain disclosures may not be included in these consolidated financial statements as they relate to sensitive information.

a) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments and financial assets classified as available-for-sale, which are stated at fair value, as well as financial liabilities (loans and Senior Notes payable), which are valued at amortized costs.

b) Going concern

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

c) Functional and presentation currency

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

d) Use of estimates and judgments

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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 51.

e) Comparative financial information

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

f) Basis of consolidation

(i) Subsidiaries

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

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

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

(ii) Associates

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

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

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

(iii) Jointly controlled operations

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

(iv) Transactions eliminated on consolidation

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

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

g) Foreign currency transactions

(i) Foreign currency transactions

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

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to PLN at the average NBP foreign exchange rate at the reporting date.

The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to PLN at the exchange rate being an average of NBP foreign exchange rates at the end of each month in the period.

Foreign currency differences are recognized in other comprehensive income, and presented in the currency translation adjustment (translation reserve) in equity. When a foreign operation is disposed of, such that control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

h) Financial instruments

(i) Non-derivative financial instruments

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

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

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

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

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

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 non-derivative financial liabilities are measured at amortized cost using the effective interest method.

Available-for-sale financial assets

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

(ii) Derivative financial instruments

Hedge accounting

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

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

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

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

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

For cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the hedge valuation reserve, while any ineffective portion is recognized immediately in the income statement.

The amounts recognized within other comprehensive income are transferred from equity to the income statement when the hedged transaction affects profit or loss, such as when the related finance income or expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as other comprehensive income are included in the initial carrying amount of such asset or liability.

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

Other derivatives not designated for hedge accounting

Derivative instruments that are not designated for hedge accounting are recognized initially at fair value, attributable transaction costs are recognized in the profit or loss as incurred. Subsequent to initial recognition, the Group 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 Group 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.

i) Equity

Ordinary shares

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

Preference share capital

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

Costs attributable to issue and public offering 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.

Reserve capital

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

Other reserves

Other reserves include the excess of acquisition price over the nominal value of shares of Telewizja Polsat S.A. and the fair value measurement of consideration transferred.

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

j) Property, plant and equipment

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

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

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

The cost of self-constructed assets and assets under construction includes all costs incurred for their construction, installation, adoption, and improvement as well as borrowing costs incurred until the date they are accepted for use (or until the reporting date for an asset not yet accepted for use). The above cost also may include, if necessary, the estimated cost of dismantling and removing the asset and restoring the site. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

(ii) External financing costs

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

(iii) Subsequent costs

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

(iv) Depreciation

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

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

Land is not depreciated.

The following are estimated useful lives of respective group of property, plant and equipment:

Buildings	2 - 61	years
Reception equipment	5	years
Civil and water engineering structures	3 - 58	years
Television and broadcasting equipment	2 - 26	years
Vehicles	2 - 16	years
Fixtures and fittings	2 - 26	years

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

(v) Leased assets

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

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

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

k) Intangible assets

(i) Goodwill

Initial recognition

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

Subsequent measurement

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

(ii) Internally developed software

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

(iii) Other intangible assets

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

(iv) Subsequent expenditure

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

(v) Amortization

Amortization expense 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 lives for respective intangible assets groups are as follows:

- Computer software: 2 – 15 years,
- Concessions: period resulting from an administrative decision,
- Other: 2 – 7 years.

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

l) Investment property

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

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

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

Land classified as an investment property is not depreciated, whereas the estimated useful live of buildings classified as an investment property was estimated at between 17 and 97 years.

m) Programming assets

Programming assets comprise acquired formats, licences and copyrights for broadcasting feature films, series, news and shows, capitalised costs of commissioned external productions ordered by the Group, capitalised sports rights and advance payments made (including advance payments for sports rights).

(i) Initial recognition

Programming rights, other than sports rights, are recognized at cost as programming assets when the legally enforceable licence period begins and all of the following conditions have been met:

- the cost of each program is known or reasonably determinable,
- the program material has been accepted by the Group in accordance with the conditions of the licence agreement,
- the program is available for its first showing.

Capitalised costs of productions include costs of programs ordered by the Group, including productions made based on licences purchased from third parties. Capitalised costs of productions are measured individually for each program at their respective production or acquisition costs, not to exceed their recoverable amounts.

Sports rights are recognized at cost at broadcast date. The rights to broadcast seasonal sports events are capitalised at cost and recognized as programming assets on the first day of the season.

Advance payments for acquired programming assets, prior to meeting recognition criteria for programming assets, are recognized as prepayments for programming assets.

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

Signed and binding contracts for purchase of programming, which do not meet recognition criteria for programming assets are not recognized in the balance sheet and are instead disclosed as contractual commitments in the amount of the outstanding contract liability at the reporting date.

Programming assets are classified as non-current or current based on the estimate timing of the broadcast. A programming asset is recognized as current when the broadcast falls within 1 year from the reporting date. Sport rights and prepayments for sport rights are classified as current or non-current based on dates of related sport events.

(ii) Amortization

Programming assets are amortized using the method reflecting the manner of consuming the economic benefits embodied in the licences acquired within their estimated useful lives limited by the term of the respective licence agreements. Amortization method and rates applied depend on the category of programming assets and the number of broadcasts permitted:

- Feature films and series – amortization starts at the first broadcast. Consumption of the economic benefits is measured using a declining balance method according to a standardised rate matrix and depends on the number of showings permitted or planned, primarily as described below:

	Feature films		
Number of depreciable runs	**Rate per run**		
	I	II	III
1	100%		
2	80%	20%	
3	60%	20%	20%

	TV series		
Number of depreciable runs	**Rate per run**		
	I	II	III
1	100%		
2	80%	20%	

- Sport rights – 100% of the cost is recognized in profit or loss on the first broadcast or, where seasonal rights or rights for multiple seasons or competitions are acquired, such rights are principally amortized on a straight-line basis over the seasons or competitions.
- Commissioned external productions intended for only one run are fully amortized on their first broadcast.
- News programming is fully amortized at its first broadcast.
- General entertainment shows are fully amortized at their first broadcast.

(iii) Impairment

Programming assets are reviewed for impairment at least annually and whenever there is any indication that the carrying amount may not be recoverable. Impairment losses are recognized when the carrying amount of the asset exceeds its estimated recoverable amount. Such assessment can be based on changes in the advertising environment, changing audience tastes, changes in strategic program scheduling, media law restrictions on the usability of films, withdrawal from broadcasting of an item and expected future losses anticipated on disposal of the rights.

Impairment write downs on programming assets are recognized as part of the cost of sales. Impairment of programming assets is reversed if the reason for the original impairment ceases to exist, and thus a higher recoverable amount is expected. The reversals are recorded as cost of sales reductions.

n) Inventories

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

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

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

o) Impairment of assets

(i) Financial assets

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

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

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

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

All impairment losses are recognized in profit or loss.

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

(ii) Non-financial assets

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

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

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

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

p) Non-current assets held for sale

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

q) Restricted cash

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

r) Employee benefits

(i) Defined contribution plan

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

(ii) Defined benefit plan – retirement benefits

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

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

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

(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.

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

s) Provisions

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

(i) Warranties

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

(ii) Provision for dismantling costs

Under the lease/rental agreements for transmitter space and other space leased in connection with the Group's business operations, the Group is obliged to incur costs connected with dismantling of equipment and bringing the subject of the agreement to its original condition upon termination of the lease/rental agreement. Those costs were recognized upon putting equipment into use at the amount of discounted estimated dismantling costs and costs of restoring the assets to their original condition. In subsequent years, the amount of the provision for dismantling costs is increased by the unwinding of the discount in a given reporting period.

A provision for dismantling costs is recognized until the related asset is dismantled or until it is released as excessive. If a new lease agreement is concluded to replace an expiring agreement, the provision is not derecognized and is reviewed in line with terms of the new agreement and the Group's obligations resulting therefrom.

(iii) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of fulfilling the contract. Before a provision is established, the Group recognises any impairment loss on the assets dedicated to that contract.

Provisions for future losses in programming assets are recognized as provisions for onerous contracts in respect of programming acquisition contracts (including sports rights) concluded before the reporting date for which, based on current programming analyses, an indication exists that they will not generate revenues in excess of their acquisition cost. Recording of additional provisions for future losses in programming assets is recognized as part of cost of sales.

t) Contingent liabilities

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

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

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

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

u) Deposits

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

v) Revenue

Revenue is measured at the fair value of the consideration received or receivable, representing the gross inflow of economic benefit from Group's operating activities, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists that recovery of the consideration is probable, the associated costs can be estimated reliably and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then such discounts are recognized as a reduction of revenue when it is recognized.
The Group's main sources of revenue are recognized as follows:

(a) Retail sales, including subscription and activation fees for DTH, Near Video on Demand (nVoD), MVNO and the Internet access, interconnection revenue, settlements with mobile network operators and revenue from the rental of reception equipment, are recognized as these services are provided. Retail sales also include contractual penalties related to terminated agreements which are recognized when the contract is terminated.

Services revenues are recognized in profit and loss in the period when related services are rendered.

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

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

(b) Advertising and sponsorship revenue is derived primarily from broadcasting of advertising content and is recognized in the period when the advertising is broadcast. Revenue is recognized in profit or loss in the amount due from customers net of value added tax, taxes on revenue from advertising of alcohol beverages and any rebates granted. Advertising and sponsorship revenue also comprises revenue on commissions on sales of commercial airtime when the Group acts as an agent on behalf of third parties. The commissions are recognized at amounts due from the buyers of advertising airtime or sponsorship services, net of value added tax and rebates and less of any amounts due to television broadcasters, net of value added tax and rebates. Revenue from commissions on sales of commercial airtime and from sponsorship is recognized in the consolidated income statement when these services are rendered.

(c) 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.

(d) Revenue from charges made to cable and satellite operators includes fees from cable and satellite operators for reemission (rebroadcasting) of programs produced by the Group. Revenue is recognized when the related programs are broadcast.

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

Other revenue includes: sales of broadcasting services, sales of audiotext and sms services, sales of programming licences, sales of sub-licences and broadcasting rights related to films and programs, rental revenue, production and technical services as well as sales of merchandise and material.

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

w) Distribution fees

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

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

x) Barter revenue and cost

Barter revenue is recognized when the services are rendered or goods delivered. Programming licences, products and services received are expensed or capitalised when received or used. The Group recognises barter transactions at the estimated fair value of the programming licences, products or services received. When products or services are received before related advertising is broadcast, a liability is recognized by the Group. Conversely, when advertising is broadcast before products or services are received, a receivable is recognized by the Group.

y) Finance income and costs

Finance income includes interest income on funds invested, dividends income, gains on the disposal of available-for-sale financial instruments, fair value gains on financial instruments at fair value through profit or loss, net foreign currency gains, and gains on completed forward exchange contracts and call options. Interest income is 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 Group's right to receive payment is established.

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

z) Lease payments

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

aa) Income tax

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

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

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

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

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

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

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

bb) Earnings per share

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

cc) Segment reporting

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

The Group presents operating segments according to its internal management accounting principles applied in the preparation of periodical management reports which are regularly analysed by the Management Board of Cyfrowy Polsat S.A. These reports are analyzed on regular basis by management which was identified as the chief operating decision maker.

dd) Cash flows statement

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

Purchases of set-top boxes to be provided to customers under operating lease contracts are classified in the cash flows statement within operating activities. The purchases and disposals of these set-top boxes are classified in the cash flows statement within operating activities and presented as "Net increase in reception equipment provided under operating lease".

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

Payments for film licences and sport rights are presented on a net basis (net of related value added tax) within operating activities. Expenditures on the acquisition of programming assets also include the amount of withholding tax paid to the relevant tax authorities.

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

7. Determination of fair values

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

(i) Property, plant and equipment and investment property

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

(ii) Intangible assets

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

(iii) Inventories

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

(iv) Equity and debt securities

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

(v) Trade and other receivables

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

(vi) Non-derivative financial liabilities

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

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

(vii) Derivatives

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

8. Approval of the Consolidated Financial Statements

These consolidated financial statements were approved for publication by the Management Board of Cyfrowy Polsat S.A. on 9 March 2012.

9. Information on Seasonality in the Group's Operations

In 2011, the Group's Retail segment was not subject to seasonality. Historically, revenues from sales of equipment were subject to seasonality. The seasonality of sales of equipment was due to the increased number of new subscribers in the fourth quarter of the year (i.e. before Christmas holidays) and important sporting events which were not covered by terrestrial channels. Advertising and sponsoring revenue tends to be lowest during the third quarter of each calendar year due to the summer holiday period and highest during the second and fourth quarter of each calendar year due to the introduction of a new programming offer. Revenue from subscription fees is not directly subject to any seasonal trend.

10. Revenue

	for the year ended	
	31 December 2011	**31 December 2010**
Retail sales	1,594,872	1,416,919
Advertising and sponsorship revenue	634,204	4,630
Revenue from cable and satellite operator fees	61,089	-
Sale of equipment	16,546	35,707
Other revenue	59,214	25,207
Total	**2,365,925**	**1,482,463**

Retail revenue consists of DTH subscription fees, MVNO and Internet subscription fees, interconnection revenues and settlements with mobile network operators, revenue from rental of reception equipment and contractual penalties related to terminated agreements.

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

11. Operating costs

		for the year ended	
	Nota	**31 December 2011**	**31 December 2010**
Programming costs		414,742	392,035
Distribution, marketing, customer relation management and retention costs		320,987	297,319
Cost of internal and external TV production and amortization of sport rights		270,567	-
Depreciation, amortization and impairment		174,880	81,190
Salaries and employee-related costs	a	148,811	88,348
Broadcasting and signal transmission costs		114,736	79,855
Amortization of purchased film licenses		93,226	-
Cost of equipment sold		33,548	59,546
Other costs		162,839	123,959
Total costs by kind		**1,734,336**	**1,122,252**

	for the year ended	
	31 December 2011	**31 December 2010**
Cost of services, products, goods and materials sold	1,330,952	788,496
Selling expenses	243,493	232,973
General and administrative expenses	159,891	100,783
Total costs by function	**1,734,336**	**1,122,252**

a) Salaries and employee-related costs

	for the year ended	
	31 December 2011	**31 December 2010**
Salaries	128,638	76,508
Social security contributions	14,531	8,828
Other employee-related costs	5,642	3,012
Total	**148,811**	**88,348**

Salaries and social security contributions relating to employees directly involved in the production of set-top boxes are included in the cost of equipment sold. Salaries and social security contributions relating to employees directly involved in the production of television programmes are presented as part of cost of internal TV production.

Average headcount

	for the year ended	
	31 December 2011	**31 December 2010**
Number of employees – employment contracts*	1,267	726

*Excluding employees directly involved in set-top boxes manufacturing and tv production whose salaries are presented respectively in cost of equipment sold and cost of internal TV production.

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

12. Other operating income

	for the year ended	
	31 December 2011	31 December 2010
Compensation	3,961	2,144
Reversal of inventory impairment losses	699	-
Proceeds from disposal of Points of Sale	-	7,858
Other	9,672	3,968
Total	**14,332**	**13,970**

Other operating income consists primarily of income from the sale of equipment for testing modems.

13. Other operating costs

	for the year ended	
	31 December 2011	31 December 2010
Bad debt allowance and receivables written off	65,285	36,541
Inventory impairment write-downs	-	5,145
Other	20,336	6,741
Total	**85,621**	**48,427**

Other operating costs consist primarily of costs of disposed equipment for testing modems.

14. Finance income

	for the year ended	
	31 December 2011	31 December 2010
Interest	10,715	1,256
Other	50	32
Total	**10,765**	**1,288**

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

15. Finance costs

	za rok zakończony	
	31 grudnia 2011	**31 grudnia 2010**
Interest expense on loans and borrowings	117,035	2,044
Interest expense on *Senior Notes*	65,246	-
Other interest	1,216	490
Results on call options:	3,125	922
Foreign currency options not designated as hedging instruments	*(580)*	*580*
Foreign currency options – settlement of instruments	*3,705*	*342*
Foreign exchange losses on *Senior Notes* due in 2018	169,376	-
Other foreign exchange losses, net	18,615	1,927
Guarantee fees	227	-
Bank and other charges	3,509	377
Other	2,814	-
Total	**381,163**	**5,760**

16. Income tax

(i) Income tax expense

	for the year ended	
	31 December 2011	**31 December 2010**
Current tax expense	54,326	25,728
Change in deferred tax	(21,633)	37,286
Correction of income tax returns of previous years	(817)	(202)
Income tax expense in the income statement	**31,876**	**62,812**

	for the year ended	
Change in deferred income tax	**31 December 2011**	**31 December 2010**
Tax losses carried forward	(26,728)	(359)
Receivables and other assets	(736)	3,198
Liabilities	(42,360)	(3,300)
Hedge valuation	218	-
Deferred distribution fees	(1,184)	2,830
Tangible and intangible assets	38,150	34,941
Programming assets	1,739	-
Acquisition of subsidiary	9,268	(24)
Change in deferred tax – total	**(21,633)**	**37,286**

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

(ii) Income tax recognized in other comprehensive income

	for the year ended	
	31 December 2011	**31 December 2010**
Change in deferred income tax on hedge valuation	1,116	-
Change in deferred income tax recognized on currency translation adjustment – foreign operations	155	-
Acquisition of subsidiary	1,010	
Income tax expense recognized in other comprehensive income - Total	**2,281**	**-**

(iii) Effective tax rate reconciliation

	for the year ended	
	31 December 2011	**31 December 2010**
Gross profit for the year	192,065	321,282
Income tax at applicable statutory tax rate in Poland of 19%	**36,492**	**61,044**
Tax amortization of trade mark	(14,582)	-
Receivables written off	3,797	233
Effect of tax rates in foreign jurisdictions (*)	5,363	-
Unrecognized deferred tax asset on tax losses	1,261	-
Deferred tax unrecognized in previous periods	(3,168)	-
Deferred tax recognized on temporary differences on investment in subsidiaries	1,442	-
Other non-taxable revenue and non-tax deductible costs, net, at 19% tax	1,271	1,535
Tax expense for the year	**31,876**	**62,812**
Effective tax rate	**16.6%**	**19.6%**

(*) The Group's entities measure current and deferred income tax applying tax rates enacted in countries in which they are domiciled:

- 9.5% for entities domiciled in Switzerland,
- 19% for entities domiciled in the Republic of Poland,
- 28% for entities domiciled in the United Kingdom,
- 28% for entities domiciled in Norway
- 26% for entities domiciled in Sweden.

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

(iv) Deferred tax assets

	31 December 2011	31 December 2010
Tax losses carried forward	27,086	359
Liabilities	75,095	27,825
Hedge valuation	1,320	-
Tangible assets	2,681	1,071
Programming assets	4,942	-
Receivables and other assets	36,386	23,313
Total deferred tax assets	**147,510**	**52,568**
Set off of deferred tax assets and liabilities	(91,784)	(48,410)
Deferred tax assets in the balance sheet	**55,726**	**4,158**

(v) Tax loss

	31 December 2011	31 December 2010
2011 tax loss carried forward	173,341	-
2010 tax loss carried forward	37,042	1,889
2009 tax loss carried forward	7,183	-
2008 tax loss carried forward	5,335	-
2007 tax loss carried forward	7,050	-
Tax losses carried forward – total	**229,951**	**1,889**

(vi) Tax losses recognized

	31 December 2011	31 December 2010
2011 tax loss carried forward	165,476	-
2010 tax loss carried forward	-	1,889
Tax losses carried forward – total	**165,476**	**1,889**

As at 31 December 2011 the Group recognized deferred tax asset on tax losses to the extent that it was probable that they would be utilised 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 utilised in the subsequent five fiscal years. However, no more than 50% of a tax loss for any given year can be utilised in a single subsequent fiscal year.

(vii) Deferred tax liabilities

	31 December 2011	31 December 2010
Receivables and other assets	55,366	43,029
Hedge valuation	2,654	-
Liabilities	4,934	24
Deferred distribution fees	17,934	19,118
Tangible and intangible assets	91,337	51,577
Programming assets	6,681	-
Total deferred tax liabilities	**178,906**	**113,748**
Set off of deferred tax assets and liabilities	(91,784)	(48,410)
Deferred tax liabilities in the balance sheet	**87,122**	**65,338**

17. EBITDA

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

	for the year ended	
	31 December 2011	31 December 2010
Profit from operating activities	560,300	325,754
Depreciation, amortization and impairment*	174,880	81,190
EBITDA	**735.180**	**406,944**

* includes impairment of fixed assets and intangible assets other than programming assets

18. Basic and diluted earnings per share

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

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

	for the year ended	
	31 December 2011	31 December 2010
Net profit for the year (in PLN thousand)	160.190	258,470
Weighted average number of ordinary shares in the period	324,234,858	268,325,000
Earnings per share in PLN	**0.49**	**0.96**

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

19. Property, plant and equipment

	Land	Buildings, premises and civil engineering structures	Technical equipment and machinery	Reception equipment	Vehicles	Other tangible assets	Total	Tangible assets under construction	Prepay-ments for assets under construction
Cost									
Cost as at 1 January 2011	**6,866**	**79,669**	**111,859**	**338,223**	**8,531**	**20,244**	**565,392**	**7,088**	**21**
Additions	-	2,718	19,390	231,974	4,189	3,514	**261,785**	8,631	1,970
Acquisition of subsidiary	2,046	6,157	85,284	-	34,201	3,637	**131,325**	1,308	-
Transfer from tangible assets under construction	-	882	7,564	-	-	510	**8,956**	(8,935)	(21)
Transfer between groups	-	-	52	-	-	-	**52**	44	-
Disposals	-	(771)	(5,940)	(5,473)	(4,528)	(2,117)	**(18,829)**	(581)	-
Transfer to investment properties	(703)	-	-	-	-	-	**(703)**	-	-
Cost as at 31 December 2011	**8,209**	**88,655**	**218,209**	**564,724**	**42,393**	**25,788**	**947,978**	**7,555**	**1,970**
Impairment losses as at 1 January 2011	**-**	**(64)**	**(1,141)**	**(3,707)**	**-**	**(380)**	**(5,292)**	**-**	**-**
Additions	-	-	-	(7,977)	-	-	(7,977)	-	-
Disposals	-	2	-	-	-	139	**141**	482	-
Utilisation	-	-	32	-	-	10	**42**	-	-
Impairment losses as at 31 December 2011	**-**	**(62)**	**(1,109)**	**(11,684)**	**-**	**(231)**	**(13,086)**	**482**	**-**
Accumulated depreciation									
Accumulated depreciation as at 1 January 2011	**-**	**11,640**	**53,828**	**59,117**	**3,536**	**10,832**	**138,953**	**-**	**-**
Additions	-	5,502	42,005	87,995	7,031	4,995	**147,528**	-	-
Transfer between groups	-	-	52	-	-	-	**52**	-	
Disposals	-	(199)	(5,276)	(2,682)	(3,725)	(1,639)	**(13,521)**	-	-
Accumulated depreciation as at 31 December 2011	**-**	**16,943**	**90,609**	**144,430**	**6,842**	**14,188**	**273,012**	**-**	**-**
Carrying amount									
As at 1 January 2011	**6,866**	**67,965**	**56,890**	**275,399**	**4,995**	**9,032**	**421,147**	**7,088**	**21**
As at 31 December 2011	**8,209**	**71,650**	**126,491**	**408,610**	**35,551**	**11,369**	**661,880**	**8,037**	**1,970**

The Group recognized an impairment loss on items of property, plant and equipment whose carrying amounts exceeded their recoverable amounts. The impairment increase for reception equipment relates to the equipment that is under vindication. The impairment provision is recognized in ‘depreciation, amortization and impairment allowance’.

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

	Land	Buildings, premises and civil engineering structures	Technical equipment and machinery	Reception equipment	Vehicles	Other tangible assets	Total	Tangible assets under construction	Prepay-ments for assets under construction
Cost									
Cost as at 1 January 2010	**6,866**	**70,116**	**100,901**	**221,560**	**6,604**	**15,594**	**421,641**	**4,653**	**77**
Additions	-	4,794	12,436	198,512	1,778	3,143	**220,663**	6,264	21
Acquisition of subsidiary	-	3,405	2,436	-	1,216	3,054	**10,111**	121	-
Transfer from tangible assets under construction	-	2,807	941	-	-	202	**3,950**	(3,950)	-
Disposals	-	(1,453)	(4,855)	(81,849)	(1,067)	(1,749)	**(90,973)**	-	(77)
Cost as at 31 December 2010	**6,866**	**79,669**	**111,859**	**338,223**	**8,531**	**20,244**	**565,392**	**7,088**	**21**
Impairment losses as at 1 January 2010	**-**	**(8)**	**(1,075)**	**(1,050)**	**-**	**(56)**	**(2,189)**	**-**	**-**
Additions	-	(563)	(151)	(2,657)	(9)	(736)	**(4,116)**	-	-
Disposals	-	-	75	-	-	27	**102**	-	-
Utilisation	-	507	10	-	9	385	**911**	-	-
Impairment losses as at 31 December 2010	**-**	**(64)**	**(1,141)**	**(3,707)**	**-**	**(380)**	**(5,292)**	**-**	**-**
Accumulated depreciation									
Accumulated depreciation as at 1 January 2010	**-**	**7,290**	**40,937**	**98,053**	**2,208**	**7,009**	**155,497**	**-**	**-**
Additions	-	4,428	17,249	42,300	1,604	4,255	**69,836**	-	-
Disposals	-	(78)	(4,358)	(81,236)	(276)	(432)	**(86,380)**	-	-
Accumulated depreciation as at 31 December 2010	**-**	**11,640**	**53,828**	**59,117**	**3,536**	**10,832**	**138,953**	**-**	**-**
Carrying amount									
As at 1 January 2010	**6,866**	**62,818**	**58,889**	**122,457**	**4,396**	**8,529**	**263,955**	**4,653**	**77**
As at 31 December 2010	**6,866**	**67,965**	**56,890**	**275,399**	**4,995**	**9,032**	**421,147**	**7,088**	**21**

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

20. Goodwill

	2011
Balance as at 1 January	**52,022**
Acquisition of 100% shares of Telewizja Polsat S.A. (accounting of goodwill - see note 40)	2,360,263
Balance as at 31 December	**2,412,285**

The increase in goodwill was allocated to ”Broadcasting and television production” cash-generating unit (see note 42).

Goodwill is not expected to be deductible for tax purposes.

Goodwill and brand allocated to “Broadcasting and television production” cash-generating unit and “Retail” cash-generating units were tested for 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 Group 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 Group as at 31 December 2011 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 2016.

The key financial assumptions used for discounting free cash flows were as follows:

	Broadcasting and television production	Retail
Terminal growth	3%	3%
Discount rate before tax	13.1%	11.6%

Impairment reviews performed on goodwill balances as at 31 December 2011 did not indicate impairment.

The Group believes that the key assumptions made in testing for impairment of cash generating units as at 31 December 2011 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 cash-generating units recoverable amounts are based would not cause the impairment charge to be recognized.

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

21. Brands

	2011
Balance as at 1 January	**300**
Amortization and impairment	(300)
Acquisition of subsidiary – accounting for Polsat brand (see note 40)	840,000
Balance as at 31 December	**840,000**

The value of the Polsat brand is recognized following the acquisition of Telewizja Polsat S.A. (see note 40).

The carrying amount of the brand was allocated to "Broadcasting and television production" cash-generating unit (see note 42).

The fair value of the brand was estimated on the basis of relief from royalty method. The method is based on the assumption that the benefits of owning a brand are equivalent to the hypothetical costs the owner of the brand would have to incur, should the brand be licensed from another entity based on market rates.

The Polsat brand was valued based on the revenues from advertising and sponsorship stream for Polsat and thematic channels. Different levels of market rates of royalties for the media and television sector have been considered in the calculation of these cash flows due to the varying strength of the Polsat brand and the trademarks related to thematic channels. Due to the fact that distribution revenues are generated in cooperation with cable television stations and digital satellite platforms, the calculation of cash flows associated with these revenues was based on the market level of license fees for the cable television and digital platforms sector.

The discount rate which reflects the time value of money and the risks associated with anticipated future cash flows was established at 13.1%.

The Polsat brand is not amortized as it is considered to have an indefinite useful life.

Impairment reviews performed on Polsat brand balance as at 31 December 2011 did not indicate impairment (see note 20 for impairment test assumptions).

<u>mPunkt brand</u>

In the purchase price allocation process relating to the acquisition of M.Punkt Holdings the Group identified and fair valued the mPunkt brand. The fair value of the trademark was estimated based on the relief from royalty method. The mPunkt brand had no book value as at 31 December 2011.

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

22. Other intangible assets

	31 December 2011	31 December 2010
Software and licences	25,760	12,870
Concessions for broadcasting television programs	14,331	-
Other	1,408	1,474
Under development	12,472	8,600
Prepayments	223	-
Total	**54,194**	**22,944**

Concessions for broadcasting television programs were recognized in the balance sheets following the acquisition of Telewizja Polsat S.A. based on the Group's acquisition accounting (see note 40). The carrying amount of the concessions was allocated to "Broadcasting and television production" cash-generating unit (see note 42).

The Group holds the following concessions:
- concession for analogue, free-to-air broadcasting of „Polsat" channel valid through 2 March 2014,
- concession for digital, free-to-air broadcasting of „Polsat Sport News" channel valid through 29 August 2020 and
- concessions for satellite broadcasting of paid channels.

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

	Software and licences	Concessions for broadcasting television programs	Other	Under development	Prepay-ments	Total
Cost						
Cost as at 1 January 2011	**46,036**	**-**	**3,002**	**8,600**	**-**	**57,638**
Additions	12,295	-	925	10,346	199	23,765
Acquisition of subsidiary	9,882	16,636	40	-	24	26,582
Transfer from intangible assets under development	6,286	-	188	(6,474)	-	-
Disposals	(554)	-	-	-	-	(554)
Cost as at 31 December 2011	**73,945**	**16,636**	**4,155**	**12,472**	**223**	**107,431**
Impairment losses as at 1 January 2011	**-**	**-**	**(18)**	**-**	**-**	**(18)**
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Impairment losses as at 31 December 2011	**-**	**-**	**(18)**	**-**	**-**	**(18)**
Accumulated amortization as at 1 January 2011	**33,166**	**-**	**1,510**	**-**	**-**	**34,676**
Additions	15,544	2,305	1,219	-	-	19,068
Disposals	(525)	-	-	-	-	(525)
Accumulated amortization as at 31 December 2011	**48,185**	**2,305**	**2,729**	**-**	**-**	**53,219**
Carrying amounts						
As at 1 January 2011	**12,870**	**-**	**1,474**	**8,600**	**-**	**22,944**
As at 31 December 2011	**25,760**	**14,331**	**1,408**	**12,472**	**223**	**54,194**

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

	Software and licences	Concessions for broadcasting television programs	Other	Under development	Total
Cost					
Cost as at 1 January 2010	**34,072**	**-**	**1,080**	**5,108**	**40,260**
Additions	9,845	-	1,416	7,332	18,593
Acquisition of subsidiary	1,209	-	143	-	1,352
Transfer from intangible assets under development	3,441	-	399	(3,840)	-
Disposals	(2,531)	-	(36)	-	(2,567)
Cost as at 31 December 2010	**46,036**	**-**	**3,002**	**8,600**	**57,638**
Impairment losses as at 1 January 2010	**-**	**-**	**(18)**	**-**	**(18)**
Additions	(4)	-	-	-	(4)
Disposals	4	-	-	-	4
Impairment losses as at 31 December 2010	**-**	**-**	**(18)**	**-**	**(18)**
Accumulated amortization as at 1 January 2010	**25,446**	**-**	**631**	**-**	**26,077**
Additions	10,246	-	908	-	11,154
Disposals	(2,526)	-	(29)	-	(2,555)
Accumulated amortization as at 31 December 2010	**33,166**	**-**	**1,510**	**-**	**34,676**
Carrying amounts					
As at 1 January 2010	**8,626**	**-**	**431**	**5,108**	**14,165**
As at 31 December 2010	**12,870**	**-**	**1,474**	**8,600**	**22,944**

23. Programming assets

	31 December 2011	31 December 2010
Acquired film licenses	178,039	-
Capitalised cost of external production and sports rights	34,238	-
Co-productions	4,595	-
Prepayments	51,698	-
Total	**268,570**	**-**
Current programming assets	*137,429*	-
Non-current programming assets	*131,141*	-

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

Change in programmins assets

	2011
Net carrying amount as at 20 April 2011*	**298,793**
Increase:	153,116
Acquisition of film licences	*71,362*
Capitalised costs of sports rights	*81,754*
Change in prepayments	-
Change in impairment losses:	(841)
Film licences	*(3,555)*
Capitalised cost of external production and sports rights	*2,714*
Change in internal production	(6,514)
Amortization of film licences	(89,510)
Amortization of capitalised cost of sports rights	(79,104)
Disposals:	(3,747)
Sale of film licences	*(3,747)*
Currency translation adjustment	(3,272)
Other	(351)
Net carrying amount as at 31 December 2011	**268,570**

* based on fair values as at 20 April 2011

In 2011 impairment losses were recognized on programming assets, to the extent carrying amounts of these assets exceeded their expected discounted recoverable amounts.

Commitments related to acquisition of programming assets by the Group are presented in note 47.

24. Investment property

Cost	
Cost as at 1 January 2011	**-**
Additions	120
Acquisition of subsidiary	7,677
Transfers from property, plant and equipment	703
Cost as at 31 December 2011	**8,500**
Accumulated depreciation	
Accumulated depreciation as at 1 January 2011	**-**
Additions	60
Accumulated depreciation as at 31 December 2011	**60**
Carrying amounts	
As at 1 January 2011	**-**
As at 31 December 2011	**8,440**

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

The Group owns the following investment properties:

- residential buildings located in Warsaw,
- buildings and structures and land in Radom.

Revenues from the rental of investment property amounted to PLN 186 thousand in 2011. The related costs amounted to PLN 405 thousand. In 2010 the Group did not have investment property and did not recognize revenue from rental and costs of investment property rental.

The carrying amount of investment property as at 31 December 2011 does not significantly differ from fair value.

25. Other non-current assets

	31 December 2011	31 December 2010
Shares	1,454	1,454
Investment in jointly-controlled entities	2,531	-
Deferred distribution fees	35,028	35,258
Financial instruments (IRS/CIRS) (see note 32)	3,140	-
Deposits paid	2,959	638
Other non-current receivables	6,535	194
Total	**51,647**	**37,544**

As at 31 December 2011 and 31 December 2010 85% shares in KTK Sp. z o.o. were included in "Shares".

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

Investment in jointly-controlled entities

Following the acquisition of Telewizja Polsat S.A. (see note 40), the Group accounted for the following investments in jointly-controlled entities using the equity method:

Entity	Carrying amount	Country	Assets	Liabilities	Revenues	Profit / loss for the period	Share in voting rights
Polsat JimJam Ltd.	2,531	UK	5,207	3,849	13,303	5,897	50%
Razem	**2,531**		**5,207**	**3,849**	**13,303**	**5,897**	

In 2011, the Group has received from Polsat JimJam a dividend in the amount of EUR 300 thousand (equivalent of PLN 1,304,550).

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

26. Inventories

Types of inventories	31 December 2011	31 December 2010
Set-top boxes and removable STB hard disk drives – finished goods	68,736	41,182
Set-top boxes and hard disc drives - merchandise	43,965	68,492
SMART and SIM cards	6,921	10,239
Telephones and modems	21,170	9,661
Antennas and converters	6,134	3,287
Other inventories	34,741	45,642
Prepayments for inventories	1,031	-
Total gross book value	**182,698**	**178,503**
Write-down of inventories	(4,571)	(5,349)
Total net book value	**178,127**	**173,154**

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

Write-downs of inventories	31 December 2011	31 December 2010
Opening balance	**5,349**	**4,783**
Increase	1,211	884
Decrease	(1,989)	(318)
Closing balance	**4,571**	**5,349**

In 2011, the Group reversed write-downs of inventories due to change in estimates with reference to the set-top-boxes.

27. Bonds

On 10 November 2011, the Company acquired unsecured interest-bearing Series C bonds of NFI Magna Polonia S.A. with nominal value of PLN 14 million and a maturity date set at 13 January 2013. The interest rate applicable to the bonds will accrue at the rate of WIBOR 3M plus margin. The carrying amount of these bonds in the amount of PLN 14,854 thousand as at 31 December 2011 includes interest accrued from the purchase date.

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

28. Trade and other receivables

	31 December 2011	31 December 2010
Trade receivables from related parties	13,385	2,991
Trade receivables from third parties	234,370	145,154
Receivables due from sale of tangible assets from related parties	171	-
Receivables due from sale of programming assets	1,940	-
Tax and social security receivables	45,157	33,740
Loans granted	225	1
Other receivables	1,914	2,412
Total	**297,162**	**184,298**

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

Trade receivables, by currency

Currency	31 December 2011	31 December 2010
PLN	235,117	139,655
EUR	8,211	8,407
USD	4,276	83
GBP	2	-
AUD	99	-
CAD	50	-
Total	**247,755**	**148,145**

Movements in the allowance for impairment of accounts receivable

	31 December 2011	31 December 2010
Opening balance	**112,092**	**76,777**
Increase	71,478	35,561
Reversal	(3,714)	(100)
Utilisation	(88,227)	(146)
Closing balance	**91,629**	**112,092**

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

29. Other current assets

	31 December 2011	31 December 2010
Deferred distribution fees	59,361	63,914
Prepayment for INFO-TV-FM shares (see note 46)	12,000	-
Financial instruments (IRS/CIRS) (see note 32)	10,828	-
Foreign exchange call options	-	5,604
Other deferred income	1,768	4,185
Other deferred costs	100,699	3,659
Total	**184,656**	**77,362**

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

Other deferred costs comprise primarily deferred costs related to the agreement with Mobyland Sp. z o.o. (see note 44).

30. Cash and cash equivalents

	31 December 2011	31 December 2010
Cash on hand	326	109
Current accounts	42,037	4,458
Deposits	235,171	23,048
Total	**277,534**	**27,615**

Currency	**31 December 2011**	**31 December 2010**
PLN	252,227	19,036
EUR	6,993	5,816
USD	15,380	2,763
CHF	1,765	-
GBP	137	-
SEK	250	-
NOK	782	-
Total	**277,534**	**27,615**

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

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

31. Equity

(i) Share capital

Presented below is the structure of the Company's share capital as at 31 December 2011:

Share series	Number of shares	Nominal value of shares	Type
Series A	2,500,000	100	preference shares (2 voting rights)
Series B	2,500,000	100	preference shares (2 voting rights)
Series C	7,500,000	300	preference shares (2 voting rights)
Series D	166,917,501	6,677	preference shares (2 voting rights)
Series D	8,082,499	323	ordinary bearer shares
Series E	75,000,000	3,000	ordinary bearer shares
Series F	5,825,000	233	ordinary bearer shares
Series H	80,027,836	3,201	ordinary bearer shares
Total	**348,352,836**	**13,934**	

The shareholders' structure as at 31 December 2011 was as follows:

	31 December 2011				
	Number of shares	Nominal value of shares	% of share capital held	Number of votes	% of voting rights
Delas Holdings Limited[1]	168,941,818	6,758	48.50%	335,884,319	63.64%
Zygmunt Solorz-Żak	10,603,750	424	3.04%	21,207,500	4.02%
Other	168,807,268	6,752	48.46%	170,678,518	32.34%
Total	**348,352,836**	**13,934**	**100%**	**527,770,337**	**100%**

[1]Mr. Zygmunt Solorz-Żak held 85% shares and Mr Heronim Ruta held 15% shares in the share capital of Delas Holdings Limited.

Issue of subscription warrants

In relation to the acquisition of Telewizja Polsat S.A., on 1 April 2011 the Company entered into four subscription agreements with: (i) MAT Fundusz Inwestycyjny Zamknięty ("Seller I"), (ii) KOMA Fundusz Inwestycyjny Zamknięty ("Seller II"), (iii) Karswell Limited ("Seller III"), and (iv) Sensor Overseas Limited ("Seller IV") (jointly: "the Sellers"), relating to the issuance of 80,027,836 registered Series H subscription warrants ("subscription warrants"). The subscription warrants authorise their holders to acquire Series H ordinary bearer shares with a nominal value of four groszy (PLN 0.04) per share issued by the Company pursuant to the Company's General Shareholders Meeting's resolution dated 17 December 2010.

Based on the subscription agreements, the Company offered the warrants for no consideration, and each of the Sellers accepted the offer to acquire the subscription warrants offered thereto, as a result of which:
(i) Seller I took up 14,135,690 subscription warrants, authorising it to assume a total of 14,135,690,
(ii) Seller II took up 2,494,526 subscription warrants, authorising it to assume a total of 2,494,526,
(iii) Seller III took up 53,887,972 subscription warrants, authorising it to assume a total of 53,887,972,
(iv) Seller IV took up 9,509,648 subscription warrants, authorising it to assume a total of 9,509,648

ordinary Series H bearer shares in the share capital of the Company respectively, on or before 30 September 2011, in exchange for a cash contribution of PLN 14.37 per share. On 20 April 2011 the holders of registered subscription warrants exercised their rights under these subscription warrants. The Company issued to the Sellers the certificates for the Shares acquired and, as a result, the Company's share capital was increased by PLN 3,201 thousand and the other reserve capital was increased by PLN 1,295,103 thousand. As at 31 December 2011 other reserve capital amounted to PLN 1,305,277 thousand.

Share disposal

On 22 June 2011 Sensor Overseas Limited, 100% owned by Mr. Heronim Ruta, sold 12,004,174 of his shares in the Company.

On 22 June 2011 Mr Zygmunt Solorz-Żak reduced his share in the total number of votes in the Company following:
- the sale of 6,083,182 shares of the Company by Polaris Finance B.V. (Polaris)
- the sale of 68,023,662 shares of the Company by Karswell Limited (Karswell).

On 13 and 14 December 2011 Delas Holdings Limited (the sole shareholder of Polaris), acquired the total of 168,941,818 of the Company's shares in course of liquidation of Polaris Finance B.V. in liquidation.

On 13 January 2012 Pola Investments Ltd. acquired the total of 168,941,818 of the Company's shares through donation received from its sole shareholder, Delas Holdings Limited.

As at the date of the approval of these financial statements, Pola Investments Ltd. directly held 168,941,818 shares in the Company (48.5% ownership interest), representing 335,884,319 votes at the Company's General Shareholders' Meeting, i.e. 63.64% of the total number of votes in the Company. Mr. Zygmunt Solorz-Żak held 85% shares in the share capital of Pola Investments Ltd.

As at the date of the approval of these financial statements, Karswell did not hold either directly or indirectly any shares in the Company. Mr. Zygmunt Solorz-Żak held 100% of the share capital of Karswell.

As at the date of approval of these financial statements, Mr. Zygmunt Solorz-Żak controlled (directly and indirectly through Pola Investments Ltd.) 179,545,568 shares in the Company (collectively representing 51.54% ownership interest and 357,091,819 or 67.66% votes at the Company's General Shareholders' Meeting).

As at the date of approval of these financial statements, Sensor did not hold either directly or indirectly any shares in the Company. Mr. Heronim Ruta held 100% of the share capital of Sensor.

As at the date of approval of these financial statements, Polaris did not hold any shares in the Company. Mr. Zygmunt Solorz-Żak held 85% of the share in the share capital of Polaris.

As at the date of approval of these financial statements, Delas Holdings did not hold any shares in the Company. Mr. Zygmunt Solorz-Żak held 85% of the share in the share capital of Delas Holdings.

(ii) Reserve capital

In accordance with the provisions of Art. 396 of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital. Reserve capital is excluded from distribution.

On 19 May 2011 the Annual General Meeting of Cyfrowy Polsat S.A. transferred part of net income for the financial year 2010 of PLN 884,165 thousand to reserve capital.

(iii) Other reserves

Other reserves in the amount of PLN 1,305,277 thousand include the difference between the consideration transferred and the nominal value of shares of Telewizja Polsat S.A. (PLN 1,146,799 thousand) less transaction costs (PLN 548 thousand) as well as fair value measurement of consideration transferred (PLN 148,852 thousand). Other reserves also include the difference between the fair value of shares assumed by the members of the Management Board in 2007 and their issue price.

(iv) Currency translation adjustment

Foreign currency translation adjustment is recognized on translation of the foreign financial statements of the subsidiary, Nord License AS.

(v) Retained earnings

The net profit for the year is presented within retained earnings.

32. Hedge valuation reserve

Purchase of hedging instruments

On 29 June 2011 the Group concluded an IRS (interest rate swap) transaction for the purpose of hedging its future cash flows associated with interest payments on term loan (Senior Facilities Agreement – see note 33). The Senior Facilities Agreement was concluded to finance the acquisition of Telewizja Polsat S.A. According to the agreement the Group is a fixed rate payer and the floating rate payers are banks. 30 June 2014 was agreed to be the termination date of the hedge relationship and the total notional amount is PLN 332,150,000.

On 6 July 2011 the Group concluded a CIRS (cross-currency interest rate swap) transaction for the purpose of hedging its future cash flows regarding Senior Notes interest payments, denominated in euro. According to the agreement Group is a PLN fixed rate payer and the EUR fixed rate payers are the banks. 20 May 2013 was agreed to be the termination date of the hedge relationship. The total EUR notional amount equals to EUR 175,000,000 and the PLN notional amount totals PLN 691,950,000.

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

On 7 July 2011 the Group concluded a CIRS transaction for the purpose of hedging its future cash flows regarding Senior Notes interest payments, denominated in euro. According to the agreement the Group is a PLN fixed rate payer and the EUR fixed rate payers are the banks. The termination date of the hedge relationship was agreed to be 20 May 2013. The total EUR notional amount is EUR 175,000,000 and the PLN notional amount totals PLN 691,425,000.

On 8 July 2011 the Group concluded an IRS transaction for the purpose of hedging its future cash flows associated with interest payments on term loan (Senior Facilities Agreement – see note 33). The Senior Facilities Agreement was concluded to finance the acquisition of Telewizja Polsat Sp. z o.o. According to the agreement the Group is a fixed rate payer and the floating rate payer is the bank. 30 June 2014 was agreed to be the termination date of the hedge relationship at. The total notional amount equals PLN 332,150,000.

On 18 November 2011 the Group concluded a CIRS transaction for the purpose of hedging its future cash flows associated with Senior Notes interest payments, denominated in euro. According to the agreement the Group is a PLN fixed rate payer and the banks are the EUR fixed rate payers. The termination date of the hedge relationship was agreed to be 20 November 2013. The total EUR notional amount equals EUR 175,000,000 and the PLN notional amount totals PLN 772,625,000.

Impact of hedging instruments valuation on assets and liabilities

	IRS	**CIRS**	**Total**
Assets			
Non-current	-	3,140	3,140
Current	-	10,828	10.,828
Liabilities			
Long-term	(4,588)	(262)	(4,850)
Short-term	(2,099)	-	(2,099)
Total	**(6,687)**	**13,706**	**7,019**

Impact of hedging instruments valuation on hedge valuation reserve

	Hedge valuation reserve
Balance as at 1January 2011	**-**
Valuation of cash flow hedges	7,019
Amount transferred to income statement	(1,145)
Deferred tax	(1,116)
Change for the period	**4,758**
Balance as at 31 December 2011	**4,758**

As at 31 December 2011 the hedge was valued at PLN 7,019 thousand, including PLN 1,145 thousand recognized in the profit and loss account in correspondence with intercompany bond's finance costs. Since the hedge was determined to be effective, the remaining gain in the amount of PLN 5,874 thousand was recognized within the hedge valuation reserve. The total effect of the hedge valuation on the hedge valuation reserve amounts to PLN 4,758 thousand, representing the amount of the valuation, net of related deferred tax.

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

In 2010 the Group did not have hedging instruments accounted for under hedge accounting.

33. Loans and borrowings

Loans and borrowings	31 December 2011	31 December 2010
Short-term liabilities	246,778	18,041
Long-term liabilities	958,407	-
Total	**1,205,185**	**18,041**

Conclusion of a Senior Facilities Agreement and Bridge Facility Agreement

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

The Senior Facilities Agreement provided for a term facility loan of up to PLN 1,400,000 thousand and a revolving facility loan of up to PLN 200,000 thousand. The interest rate applicable 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 will be repaid in quarterly instalments in varying amounts commencing 30 June 2011. Both facilities expire on 31 December 2015. As 31 December 2011 the revolving facility was not used.

In addition, on 31 March 2011, the Group concluded a Bridge Facility Agreement with the Bookrunners. This agreement provided for a bridge loan facility in EUR of up to the amount equivalent of PLN 1,400,000 thousand which, as of the day of the execution of this agreement, equalled approximately EUR 350,000 thousand. The interest rate applicable for the bridge facility loan was agreed as EURIBOR, for the relevant interest periods, plus the applicable margin, which increases as the term of the facility increases. The bridge facility was repaid on 20 May 2011.

Summary of significant provisions of the agreements

Mandatory prepayments

The facilities will be cancelled and the outstanding balance, together with accrued interest, shall become immediately due and payable upon loss of control by Mr Zygmunt Solorz-Żak (or party related with him) over the Company or loss of control by the Company over Telewizja Polsat. The facilities shall 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 cashflow 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 in respect of any one disposal or PLN 40 million 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 High Yield Notes (i.e. Senior Notes) repayment is allowable only if accompanied by a repayment of term and revolving facilities.

Financial covenants

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

Further, 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 *inter alia* has the following obligations:
- 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 notes payable
- all bank accounts shall be opened and maintained with the lending banks
- use, for the purpose of financial statements' audit, only the services of the auditors specified in the agreement or the services of other auditors if approved by the banks.

Establishment of security for loan facilities

On 14 April 2011 the Group entered into agreements for the establishment of the following security in respect to the Senior Facilities Agreements and the Bridge Facility Agreements entered into on 31 March 2011:
(i) Registered pledge on tangible assets and intangible rights comprising the business of the Company, Cyfrowy Polsat Technology Sp. z o.o., Cyfrowy Polsat Trade Marks Sp. z o.o.;
(ii) Financial and registered pledges on all shares in Cyfrowy Polsat Technology Sp. z o.o. and Cyfrowy Polsat Trade Marks Sp. z o.o., held by the Company;
(iii) Transfer of receivables for security, due to Cyfrowy Polsat Technology Sp. z o.o., Cyfrowy Polsat Trade Marks Sp. z o.o. from various debtors;
(iv) Contractual mortgage on real estate owned by the Company;
(v) Statement of the Company, Cyfrowy Polsat Technology Sp. z o.o., Cyfrowy Polsat Trade Marks Sp. z o.o. on submission to the enforcement procedure as stipulated by the notary deed.

On 18 April 2011 the Group entered into agreements for the establishment of security, *inter alia* transfers of receivables due to the Company from various debtors, in respect to the Senior Facilities Agreement and the Bridge Facility Agreement.

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

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

On 17 June and 20 June 2011, Telewizja Polsat Sp. z o.o. and its subsidiaries: RS TV S.A., Polsat Media Sp. z o.o., Media-Biznes Sp. z o.o., Nord License AS with its registered office in Norway, Polsat License Ltd. with its registered office in Switzerland and Polsat Futbol Ltd. with its registered office in the United Kingdom entered into agreements and other documents for the establishment in particular of the following security in respect to the repayment of the term and revolving facility loans granted under the Senior Facilities Agreement and the repayment (redemption) of the High Yield Notes (i.e. Senior Notes):
(i) Registered pledge on tangible assets and intangible rights of Telewizja Polsat Sp. z o.o., RS TV S.A., Polsat Media Sp. z o.o., Media-Biznes Sp. z o.o.;
(ii) Security established on the assets of Nord License AS, Polsat Futbol Ltd., Polsat License Ltd.;
(iii) Financial and registered pledge on all shares in RS TV S.A., Polsat Media Sp. z o.o., Media-Biznes Sp. z o.o., held by Telewizja Polsat Sp. z o.o.;
(iv) Pledge on shares in Nord License AS., Polsat License Ltd. and Polsat Futbol Ltd. held by Telewizja Polsat Sp. z o.o.;
(v) Transfer of receivables for security, due to Telewizja Polsat Sp. z o.o., RS TV S.A., Polsat Media Sp. z o.o. and Media-Biznes Sp. z o.o., Nord License AS, Polsat License Ltd. and Polsat Futbol Ltd. from various debtors;
(vi) Mortgage on real estate owned by Telewizja Polsat Sp. z o.o.;
(vii) Mortgage on real estate owned by RS TV S.A.;
(viii) Statement of Telewizja Polsat Sp. z o.o., RS TV S.A., Polsat Media Sp. z o.o. and Media-Biznes Sp. z o.o. on submission to the enforcement procedure as stipulated by the notary deed.

Repayments of loans and borrowings in 2011 were equal to PLN 1,538,844 thousand.

Agreement with Bank Pekao S.A.

On 19 August 2011 the Group's subsidiary signed an agreement with Bank Pekao S.A. defining rights and obligations of the parties should the subsidiary order the bank to issue a guarantee or a letter of credit. Bank's total commitment regarding the issued gurantees and letters of credit may not exceed PLN 4,000 thousand. The facility was secured by the subsidiary's declaration on submission to enforcement of up to PLN 6,000 thousand.

34. Senior Notes

On 20 May 2011 the Company, the Company's subsidiary Cyfrowy Polsat Finance AB (the "Issuer"), the Bank of New York Mellon, London Branch, the Bank of New York Mellon Luxembourg S.A., and the Initial Guarantors (the Company, CPT, CPTM) entered into an indenture (the "Indenture") for the issuance of senior notes due in 2018 with aggregate principal amount of EUR 350 million (PLN 1,372,245 thousand) (the "Notes").

Interest on the Notes will accrue at the rate of 7.125% per annum and will be payable semiannually in arrears on 20 May and 20 November, commencing on 20 November 2011. Interest accrued as at 31 December 2011 amounts to PLN 65,246 thousand (including effect of hedging instruments).

On 20 May 2011, the net proceeds from the Notes offering, together with EUR 14,897,339.53 of cash on hand, were used to repay in full the indebtedness outstanding under the Company's senior secured bridge facility (the "Bridge Facility Loan") (see note 33).

Summary of significant provisions of the agreements

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.

At any date prior to 20 May 2014, the Issuer may on any one or more occasions redeem up to 35% of the aggregate principal amount of the Notes at a redemption price of 107.125% of the principal amount plus accrued and unpaid interest, if any, to the redemption date with the net cash proceeds of one or more equity offerings. At any date prior to 20 May 2014, the Issuer may at its own discretion redeem the Notes in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the applicable premium as at the redemption date and plus accrued and unpaid interest.

If a change of control (as defined in the Indenture) occurs, the Issuer must offer to repurchase all the Notes on the terms set forth in the Indenture.

Establishment of securities

Aside from securities presented in note 33, pursuant to the Indenture, the Notes are guaranteed by each of the Initial Guarantors (the Company, CPT, CPTM).

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

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

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

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

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

On 10 June 2011, Cyfrowy Polsat Finance AB ("Cyfrowy Polsat Finance") entered into a pledge agreement with Citicorp Trustee Company Limited. Pursuant to the agreement Cyfrowy Polsat Finance established in favor of Citicorp a registered and financial pledge over 10 registered Series A bonds issued by the Company on 20 May 2011 with the total nominal value of EUR 350 million maturing in 2018 (the "Bonds"). The aforementioned pledges secure the senior secured bonds with the total nominal value of EUR 350 million maturing in 2018 issued by Cyfrowy Polsat Finance as well as liabilities of the Company and other debtors under the loan agreements.

As at 31 December 2011 the outstanding obligations on the Senior Notes amounted to PLN 1,522,577 thousand (of which PLN 1,417,525 thousand was non-current and PLN 105,052 thousand current).

35. Group as a lessor and as a lessee

a) Group as a lessor

Operating lease

The Group entered into contracts with third parties, which are classified as operating leases based on their economic substance. The contracts relate to the rental of reception equipment. Assets connected with such contracts are presented as part of property, plant and equipment.

Lease contracts for set-top boxes are concluded for a base contractual period ranging from 12 to 36 months. After each base period, the contracts are converted into contracts with either indefinite or definite terms, unless terminated by the subscribers.

The Group rents equipment to third parties and concludes rental agreements.

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

	31 December 2011	**31 December 2010**
less than 1 year	21,214	19,589
between 1 and 5 years	44,105	60,961
more than 5 years	-	1,701
Total	**65,319**	**82,251**

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

Finance lease

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

	31 December 2011	31 December 2010
less than 1 year	83	-
between 1 and 5 years	34	-
Total	**117**	**-**

The present value of minimum lease payments amounted to PLN 117 thousand as at 31 December 2011. The whole amount related to leased cars.

b) Group as a lessee

Operating leases

The Group 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 studio, office, warehouse, commercial and technical (roofs, chimneys) premises, lease of satellite transponders capacity, telecom infrastructure and terrestrial transmitters as well as reception equipment, vehicles and other equipment.

The table below presents a maturity analysis for such commitments:

	31 December 2011	31 December 2010
within one year	159,689	93,637
between 1 to 5 years	486,722	365,433
more than 5 years	152,323	158,290
Total	**798,734**	**617,360**

The table below presents future minimum payments relating to operating lease agreements to related parties:

	31 December 2011	31 December 2010
within one year	17,248	4,377
between 1 to 5 years	35,463	16,494
more than 5 years	313	-
Total	**53,024**	**20,871**

In 2011 the Group incurred costs related to operating lease agreements amounting to PLN 142,344 thousand and in 2010 PLN 95,298 thousand.

Finance leases

The total carrying amount of equipment used under finance lease contracts amounted to PLN 1,567 thousand as at 31 December 2011 and PLN 1,984 thousand as at 31 December 2010.

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

The lease term is 10 years with respect to conditional access equipment and 5 years with respect to vehicles and other equipment.

Future minimum lease payments under finance leases are as follows:

	31 December 2011	31 December 2010
less than 1 year	252	491
between 1 and 5 years	934	1,095
more than 5 years	-	-
Total	**1,186**	**1,586**

The present value of minimum lease payments amounted to PLN 1,048 thousand as at 31 December 2011 and PLN 1,446 thousand as at 31 December 2010.

36. Other non-current liabilities and provisions

	31 December 2011	31 December 2010
Financial instruments liabilities	4,850	-
Concession liabilities	3,202	-
Other	4,445	2,384
Total	**12,497**	**2,384**

37. Trade and other payables

	31 December 2011	31 December 2010
Trade payables to related parties	3,111	7,137
Trade payables to third parties	62,676	146,986
Taxation and social security payables	31,435	11,399
Payables relating to purchase of programming rights to related parties	4,527	-
Payables relating to purchase of programming rights to third parties	27,592	-
Payables relating to purchases of tangible and intangible assets	10,063	5,873
Accruals	131,167	113,133
Short-term provisions	94,650	22,166
Other	9,734	11,259
Total	**374,955**	**317,953**

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

Accruals

	31 December 2011	31 December 2010
Salaries	26,263	16,113
Royalties for copyright management organisations	1,802	2,844
Licence fees	58,565	50,041
Distribution costs	13,979	22,812
Other	30,558	21,323
Total	**131,167**	**113,133**

Short-term and long-term provisions

	2011
Opening balance as at 1 January 2011	**24,380**
Acquisition of related entity	37,902
Increases	38,957
Reversal	(2,449)
Utilisation	(31)
Closing balance as at 31 December 2011	**98,759**
Of which:	
Short-term	*94,650*
Long-term	*4,109*

Provisions comprise *inter alia* of provision for litigation (see note 45), licence fees, decommissioning of equipment, warranty provision, retirement provision and onerous contracts.

Provisions for employee benefits amounted to PLN 756 thousand as at 31 December 2011.

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

Currency	31 December 2011	31 December 2010
PLN	71,853	104,370
EUR	8,106	29,200
USD	27,853	26,426
CHF	157	-
Total	**107,969**	**159,996**

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

Accruals, by currency

Currency	31 December 2011	31 December 2010
PLN	102,457	73,131
EUR	21,961	15,779
USD	6,749	24,223
Total	**131,167**	**113,133**

38. Deposits for equipment

	31 December 2011	31 December 2010
Subscribers	4,326	7,969
Distributors	8,400	7,538
Other	18	16
Total	**12,744**	**15,523**

Deposits received comprise amounts paid by subscribers under agreements for rental of reception equipment and deposits paid by distributors for reception equipment and mobile phones.

Deposits are returned to customers or offset against receivables from subscribers upon contract termination. All deposits are presented as current liabilities as the notice period is less than 12 months.

39. Deferred income

	31 December 2011	31 December 2010
Deferred income	183,633	166,432

Deferred income comprises mainly subscription fees paid in advance and rental fees for set-top boxes. These fees relate primarily to services to be rendered within 12 months from the reporting date.
Deferred income also include prepaid advertising broadcasts.

40. Acquisition of subsidiaries

Acquisition of 100% of shares of Cyfrowy Polsat Finance AB

On 10 March 2011 the Company acquired 100% shares of Goldcup 100051 AB ("Goldcup"), an entity registered in Sweden, for the total consideration of SEK 500 thousand (PLN 232 thousand). The consideration transferred for the Swedish entity was equal to the value of the entity's share capital as at the acquisition date. The entity's balance sheet included solely receivables from the seller of SEK 500 thousand and the corresponding amount of the entity's share capital of SEK 500 thousand.

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

Goldcup was acquired *inter alia* in order to perform issuance of bonds. On 18 March 2011 Goldcup changed its name into Cyfrowy Polsat Finance AB ("Cyfrowy Polsat Finance").

The loss included in the consolidated income statement for the reporting period since 10 March 2011 contributed by Cyfrowy Polsat Finance was PLN 71.2 million. Had Cyfrowy Polsat Finance been consolidated from 1 January 2011 the loss included in the consolidated income statement would not differ significantly.

Acquisition of 100% shares of Telewizja Polsat S.A.

On 20 April 2011 Cyfrowy Polsat S.A. pursuant to the investment agreement dated 15 November 2010 assumed control over 100% shares of Telewizja Polsat S.A. (Telewizja Polsat). Following the transaction the Company also assumed control over the following subsidiaries: RS TV S.A., Polsat Media Sp. z o.o., Media-Biznes Sp. z o.o., Polsat Futbol Ltd., Nord Licence AS, Polsat Licence Ltd., and obtained joint control over: Polski Operator Telewizyjny Sp. z o.o. and Polsat Jim Jam Ltd.

The Company acquired 100% of the share capital of Telewizja Polsat representing 100% votes at the Telewizja Polsat's shareholders' meetings, for the total purchase consideration of PLN 3,750,000 thousand. PLN 2,600,000 thousand was paid in the form of cash transfer on 28 April 2011 and the remaining PLN 1,150,000 thousand through the subscription warrants issued by the Company on 20 April 2011 (see note 31).

As a result of fair value measurement of consideration paid on 20 April 2011 the cost of the shares of Telewizja Polsat S.A. held by the Company was adjusted by PLN 148,852 thousand (the value of Telewizja Polsat S.A. shares amounted to PLN 3,893,266 thousand).

On 15 June 2011 a transformation of Telewizja Polsat S.A. into a limited liability company (Sp. z o.o.) was registered.

Telewizja Polsat operates in broadcasting and TV production industry.

Telewizja Polsat and its subsidiaries comprise separate operating segment "Broadcasting and television production" (see note 42).

The Group uses the purchase accounting method for entities acquired under common control.

a) Purchase price of shares

	31 December 2011
Cash consideration	2,600,000
Shares H series issued on 20 April 2011	1,298,852
Net trade settlements between Telewizja Polsat Group and the Company	(5,586)
Shares in Telewizja Polsat	**3,893,266**

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

The fair value of shares issued was established based on the closing price of PLN 16.23 as per the stock exchange quotation as at 20 April 2011.

b) Reconciliation of transactional cash flow

Cash transferred on acquisition	(2,600,000)
Cash and cash equivalents received	263,534
Cash outflow in the year ended 31 December 2011	**2,336,466**

c) Fair value valuation of net assets as at the acquisition date

	fair value as at 20 April 2011
Property, plant and equipment:	
Land	2,046
Buildings	6,157
Television and broadcasting equipment	85,284
Vehicles	34,201
Other fixed assets	3,637
Assets under construction	1,308
Polsat brand (see note 21)	840,000
Other intangible assets	26,582
Non-current programming assets	62,561
Investment property	7,677
Other non-current assets	4,738
Deferred tax assets	16,649
Current programming assets	236,232
Inventory	1,540
Trade receivables and other receivables	148,459
Other current assets	5,280
Cash and cash equivalents*	263,534
Deferred tax liabilities	(6,180)
Non-current liabilities and accruals	(8,548)
Loans and borrowings	(20,121)
Trade liabilities and other liabilities	(171,974)
Income tax liabilities	(1,228)
Deferred income	(4,831)
Value of net assets	**1,533,003**

* includes restricted cash in the amount of PLN 42 thousand

During the acquisition accounting the Group identified and fair valued the Polsat brand based on the relief from royalty method (see note 21).

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

Assuming the acquisition of Telewizja Polsat occurred on 1 January 2011, the Group's consolidated revenues would have amounted to PLN 2,646 million and the consolidated net profit would have amounted to PLN 194 million for the year ended 31 December 2011.

d) Accounting for goodwill

	20 April 2011
Purchase price of 100% shares	**3,893,266**
Fair value of net assets	(1,533,003)
Goodwill	**2,360,263**

The Company's management believes that the acquisition of Telewizja Polsat will enable the Group to strengthen its competitive advantages and achieve the position of the undisputable leader on the Polish media market. The investment in Telewizja Polsat provides diversification of revenues and sets a clear perspective for development. Additionally, the Company's management believes that the investment indicates the Group's preparation for the changing environment and will enable it to benefit from short-term effects of synergy, as well as medium- and long-term strategic advantages.

41. Financial instruments

Overview

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

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

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

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

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

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

Financial assets	Carrying amount	
	31 December 2011	**31 December 2010**
Financial assets at fair value through profit or loss, including:	**-**	**5,604**
Foreign exchange call options	-	5,604
Loans and receivables, including:	**252,005**	**150,558**
Loans granted to third parties	225	1
Trade and other receivables from related parties	13,556	2,991
Trade and other receivables from third parties	238,224	147,566
Held-to-maturity financial assets	**-**	**-**
Available-for-sale financial assets	**14,854**	**-**
Hedging derivative instruments	**13,968**	**-**
Interest rate swaps	-	-
Cross-currency interest rate swaps	13,968	-
Cash and cash equivalents	**277,534**	**27,615**

Financial liabilities	Carrying amount	
	31 December 2011	**31 December 2010**
Financial liabilities at fair value through profit or loss	**-**	**-**
Other financial liabilities measured at amortized cost, including:	**2,860,742**	**206,405**
Finance lease liabilities	1,186	1,586
Loans and borrowings	1,205,185	18,041
Senior Notes	1,522,577	-
Trade and other payables to third parties	124,156	179,641
Trade and other payables to related parties	7,638	7,137
Hedging derivative instruments	**6,949**	**-**
Interest rate swaps	6,687	-
Cross-currency interest rate swaps	262	-

Credit risk

Credit risk is defined as the risk that counterparties of the Group will not be able to meet their contractual obligations. Exposure to credit risk is related to three main areas:

- the creditworthiness of the customers with whom physical sale transactions are undertaken,
- the creditworthiness of the financial institutions (banks/brokers) with whom, or through whom, hedging or other derivative transactions are undertaken,
- the creditworthiness of the entities in which investments are made, or whose securities are purchased.

The Group's exposure to credit risk is associated primarily with trade receivables. The Parent's customer base includes a large number of individual subscribers who are dispersed geographically over the entire country, and who are required to prepay their subscription fees. Receivables from subscribers are continuously monitored and recovery actions are taken, including blocking of the signal transferred to subscribers or termination of services to a MVNO client and Internet customer. Telewizja Polsat and their subsidiaries provide services with deferred payment which may cause the risk of delays. Assessment of the creditworthiness of the counterparties is regularly carried out and in principle the company does not require security in relation to the financial assets.

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

The Group pursues a credit policy under which credit risk exposure is constantly monitored.

Due to diversification of risk in terms both of the nature of individual entities as well as of their geographical location as well as to cooperation with highly-rated financial institutions, and also taking into consideration the fair value of liabilities arising from derivative transactions, the Group 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 2011	**31 December 2010**
Foreign exchange call options	-	5,604
Loans granted to third parties	225	1
Trade and other receivables from third parties	238,224	147,566
Trade and other receivables from related parties	13,556	2,991
Bonds	14,854	-
CIRS	13,968	-
Cash and cash equivalents	277,534	27,615
Total	**558,361**	**183,777**

The concentration of credit risk for trade and other receivables is presented in the tables below:

	Carrying amount	
	31 December 2011	**31 December 2010**
Receivables from subscribers	117,728	122,682
Receivables from media companies	78,663	7,716
Receivables from satellite and cable operators	14,453	221
Receivables from distributors	4,313	9,080
Receivables from related parties	13,556	2,991
Receivables and loans granted to third parties	23,292	7,868
Total	**252,005**	**150,558**

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

	Carrying amount
	31 December 2011
Company A	18,599
Company B	12,922
Company C	8,318
Company D	7,598
Company E	4,701
Other	199,867
Total	**252,005**

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

	31 December 2011			31 December 2010		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	151,179	8,393	142,786	116,116	3,657	112,459
Past due 0-30 days	79,530	8,369	71,161	17,673	3,098	14,575
Past due 31-60 days	14,882	2,017	12,865	5,976	2,463	3,513
Past due more than 60 days	94,173	68,980	25,193	122,885	102,874	20,011
Total	**339,764**	**87,759**	**252,005**	**262,650**	**112,092**	**150,558**

Liquidity risk

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

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

The Group prepares, on an ongoing basis, analyses and forecasts of its cash requirements based on projected cash flows. The following are the contractual maturities of the Group's financial liabilities.

	31 December 2011						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	Over 5 years
Loans and borrowings	1,205,185	1,523,993	99,515	164,632	341,732	918,114	-
Senior Notes	1,522,577	2,261,816	55,072	55,072	110,144	330,432	1,711,096
Finance lease liabilities	1,186	1,186	126	126	351	583	-
Trade and other payables to third parties	124,156	124,156	117,296	3,658	3,202	-	-
Trade and other payables to related parties	7,638	7,638	7,638	-	-	-	-
IRS*	6,687	2,566	603	580	993	390	-
CIRS	262						
– inflows		(55,072)	-	-	(55,072)	-	-
– outflows		57,599	-	-	57,599	-	-
	2,867,691	**3,923,882**	**280,250**	**224,068**	**458,949**	**1,249,519**	**1,711,096**

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

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

Market risk

The Group 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 Group 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 Group 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 Group, 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 Group 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 Group 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 that the Group is exposed to is currency risk resulting from fluctuations in exchange rate of the Polish zloty against other currencies. Revenues generated by the Group are denominated primarily in the Polish zloty, while a significant portion of operating costs and capital expenditures are incurred in foreign currencies. The Group's currency risk is associated mainly to royalties to TV and radio broadcasters (USD and EUR), transponder capacity leases (EUR), fees for conditional access system (EUR) and purchases of reception equipment and accessories for reception equipment (USD and EUR). In 2011 the level of currency risk exposure has increased because of new financing denominated in EUR obtained to purchase Telewizja Polsat Sp. z o.o. After this purchase currency risk exposure is also associated to purchases of foreign programming licences.

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

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

On 10 August 2010 the Parent purchased foreign exchange call options for a total value of EUR 12,000 thousand and USD 18,000 thousand. On 4 November 2010 the Company purchased foreign exchange call options for a total value of USD 18,000 thousand. The foreign exchange call options were purchased in order to limit the impact of foreign exchange rates fluctuations on net profit of the Company. The Company did not apply hedge accounting in respect to these options. As at 31 December 2010 the fair value of unrealized foreign exchange call options amounted to PLN 5,604 thousand and was presented in 'Other current assets'. In 2011 the Company recognized financial expenses resulting from valuation and realization of options in income statement totaling 3,125 thousand and between 10 August and 31 December 2010 PLN 922 thousand (see note 15).

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

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

	31 December 2011							
(in thousands)	EUR	USD	GBP	CHF	SEK	NOK	AUD	CAD
Trade receivables	1,859	1,251	-	-	-	-	29	15
Cash and cash equivalents	1,583	4,500	26	486	505	1,378	-	-
Senior Notes	(344,724)	-	-	-	-	-	-	-
Trade payables	(1,835)	(8,150)	-	(43)	-	-	-	-
Gross balance sheet exposure	**(343,117)**	**(2,399)**	**26**	**443**	**505**	**1,378**	**29**	**15**
CIRS	43,641	-	-	-	-	-	-	-
Net exposure	**(299,476)**	**(2,399)**	**26**	**443**	**505**	**1,378**	**29**	**15**

	31 December 2010	
(in thousands)	EUR	USD
Trade receivables	2,123	28
Cash and cash equivalents	1,469	932
Trade payables	(7,373)	(8,915)
Gross balance sheet exposure	**(3,781)**	**(7,955)**
Foreign exchange call options	7,000	27,000
Net exposure	**(3,219)**	**(19,045)**

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

	Average rate		Rates at the reporting date	
(in PLN)	2011	2010	31 December 2011	31 December 2010
1 EUR	4.1198	3.9946	4.4168	3.9603
1 USD	2.9634	3.0157	3.4174	2.9641
1 GBP	4.7470	4.6587	5.2691	4.5938
1 CHF	3.3481	2.8983	3.6333	3.1639
1 SEK	0.4561	0.4190	0.4950	0.4415
1 NOK	0.5284	0.4988	0.5676	0.5071
1 AUD	3.0549	2.7716	3.4670	3.0177
1 CAD	2.9929	2.9295	3.3440	2.9691

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

	2011					2010				
	As at 31 December 2011		Estimated change in exchange rate in %	Estimated change in profit in PLN (in thousand)	Estimated change in other comprehensive income in PLN (in thousand)	As at 31 December 2010		Estimated change in exchange rate in %	Estimated change in profit in PLN (in thousand)	Estimated change in other comprehensive income in PLN (in thousand)
	in currency (in thousand)	in PLN (in thousand)				in currency (in thousand)	in PLN (in thousand)			
Trade receivables										
EUR	1,859	8,211	5%	411	-	2,123	8,407	5%	420	-
USD	1,251	4,276	5%	214	-	28	83	5%	4	-
GBP	-	2	5%	-	-	-	-	5%	-	-
AUD	29	99	5%	5	-	-	-	5%	-	-
CAD	15	50	5%	3	-	-	-	5%	-	-
Cash and cash equivalents										
EUR	1,583	6,993	5%	350	-	1,469	5,816	5%	291	-
USD	4,500	15,380	5%	769	-	932	2,763	5%	138	-
CHF	486	1,765	5%	88	-	-	-	5%	-	-
GBP	26	137	5%	7	-	-	-	5%	-	-
SEK	505	250	5%	13	-	-	-	5%	-	-
NOK	1,378	782	5%	39	-	-	-	5%	-	-
Senior Notes										
EUR	(344,724)	(1,522,577)	5%	(76,129)	-	-	-	5%	-	-
Trade payables										
EUR	(1,835)	(8,106)	5%	(405)	-	(7,373)	(29,200)	5%	(1,460)	-
USD	(8,150)	(27,853)	5%	(1,393)	-	(8,915)	(26,426)	5%	(1,321)	-
CHF	(43)	(157)	5%	(8)	-	-	-		-	-
Change in operating profit				**(76,036)**	**-**				**(1,928)**	**-**

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

Foreign exchange call options										
EUR	-	-	5%	-	-	7,000	27,722	5%	923	-
USD	-	-	5%	-	-	27,000	80,031	5%	3,040	-
CIRS										
EUR	43,641	192,754	5%	612	8,861	-	-	5%	-	-
Income tax				(14,331)	1,684				387	-
Change in net profit				**(61,093)**	**7,177**				**1,648**	**-**

	2011					2010				
	As at 31 December 2011		Estimated change in exchange rate in %	Estimated change in profit in PLN (in thousand)	Estimated change in other comprehensive income in PLN (in thousand)	As at 31 December 2010		Estimated change in exchange rate in %	Estimated change in profit in PLN (in thousand)	Estimated change in other comprehensive income in PLN (in thousand)
	in currency (in thousand)	in PLN (in thousand)				in currency (in thousand)	in PLN (in thousand)			
Trade receivables										
EUR	1,859	8,211	-5%	(411)	-	2,123	8,407	-5%	(420)	-
USD	1,251	4,276	-5%	(214)	-	28	83	-5%	(4)	-
GBP	-	2	-5%	-	-	-	-	-5%	-	-
AUD	29	99	-5%	(5)	-	-	-	-5%	-	-
CAD	15	50	-5%	(3)	-	-	-	-5%	-	-
Cash and cash equivalents										
EUR	1,583	6,993	-5%	(350)	-	1,469	5,816	-5%	(291)	-
USD	4,500	15,380	-5%	(769)	-	932	2,763	-5%	(138)	-
CHF	486	1,765	-5%	(88)	-	-	-	-5%	-	-
GBP	26	137	-5%	(7)	-	-	-	-5%	-	-
SEK	505	250	-5%	(13)	-	-	-	-5%	-	-
NOK	1,378	782	-5%	(39)	-	-	-	-5%	-	-
Senior Notes										
EUR	(344,724)	(1,522,577)	-5%	76,129	-	-	-	-5%	-	-
Trade payables										
EUR	(1,835)	(8,106)	-5%	405	-	(7,373)	(29,200)	-5%	1,460	-
USD	(8,150)	(27,853)	-5%	1,393	-	(8,915)	(26,426)	-5%	1,321	-
CHF	(43)	(157)	-5%	8	-	-	-	-5%	-	-
Change in operating profit				**76,036**	**-**				**1,928**	**-**

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

CIRS										
EUR	43,641	192,754	-5%	(612)	(8,853)	-	-	-5%	-	-
Foreign exchange call options										
EUR	-	-	-5%	-	-	7,000	27,722	-5%	(421)	-
USD	-	-	-5%	-	-	27,000	80,031	-5%	(2,344)	-
Income tax				14,331	1,682				(159)	-
Change in net profit				**61,093**	**(7,171)**				**(678)**	**-**

	2011		2010	
	Estimated change in profit in PLN (in thousand)	Estimated change in other comprehensive income in PLN (in thousand)	Estimated change in profit in PLN (in thousand)	Estimated change in other comprehensive income in PLN (in thousand)
Estimated change in exchange rate by 5 %				
EUR	(60,881)	7,177	141	-
USD	(332)	-	1,507	-
CHF	65	-	-	-
GBP	6	-	-	-
SEK	11	-	-	-
CAD	2	-	-	-
AUD	4	-	-	-
NOK	32	-	-	-
Estimated change in exchange rate by -5 %				
EUR	60,881	(7,171)	266	-
USD	332	-	(944)	-
CHF	(65)	-	-	-
GBP	(6)	-	-	-
SEK	(11)	-	-	-
CAD	(2)	-	-	-
AUD	(4)	-	-	-
NOK	(32)	-	-	-

Had there been a 5% weakening of the Polish zloty against the basket of currencies as at 31 December 2011 and 31 December 2010, the Group's net profit would have decreased by PLN 61,093 thousand and increased by PLN 1,648 thousand, respectively and other comprehensive income would have increased by PLN 7,177 thousand in 2011 (no effect on other comprehensive income in 2010). Had there been a 5% strengthening, the Group's net profit would have correspondingly increased by PLN 61,093 thousand and decreased by PLN 678 thousand and other comprehensive income would have decreased by PLN 7,171 thousand in 2011 (no effect on other comprehensive income in 2010), assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

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

Interest rate risk

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

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

In order to reduce interest rate risk exposure resulting from interest payments on floating rate senior facility, the Company stipulated interest rate swaps (see note 32).

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

	Carrying amount	
	31 December 2011	**31 December 2010**
Fixed rate instruments		
Financial assets	124	-
Financial liabilities	(1,545,880)	(477)
Variable rate instruments		
Financial assets	292,058	32,289
Financial liabilities	(1,281,000)	(18,041)
Net interest exposure	**(988,942)**	**14,248**
Notional of interest rate hedges		
Interest rate risk profile of interest-bearing financial instruments including effect of interest rate hedges		
Fixed rate instruments		
Financial assets	124	-
Financial liabilities	(1,545,880)	(477)
Variable rate instruments		
Financial assets	292,058	32,289
Financial liabilities	(640,500)	(18,041)
Net interest exposure after hedges	**(348,442)**	**14,248**

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

Cash flow sensitivity analysis for variable rate instruments:

	Income statement		Other comprehensive income	
	Increase by 100 bp	**Decrease by 100 bp**	**Increase by 100 bp**	**Decrease by 100 bp**
31 December 2011				
Variable rate instruments*	(9,889)	9,889	11,160	(11,160)
Cash flow sensitivity (net)	(9,889)	9,889	11,160	(11,160)
31 December 2010				
Variable rate instruments*	325	(318)	-	-
Cash flow sensitivity (net)	325	(318)	-	-

* - include sensitivity in fair value changes of hedging instruments (interest rate swaps) due to changes in interest rates

The Group 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.

Fair value vs. carrying amount

Presented below are fair values and carrying amounts of financial assets and liabilities.

	Category according to IAS 39	**31 December 2011**		**31 December 2010**	
		Fair value	**Carrying amount**	**Fair value**	**Carrying amount**
Loans granted to third parties	L&R	225	225	1	1
Trade and other receivables	L&R	251,780	251,780	150,557	150,557
Bonds	AFS	14,854	14,854	-	-
Foreign exchange call options	FVPL	-	-	5,604	5,604
Interest rate swaps	Hedges	(6,687)	(6,687)	-	-
Cross-currency interest rate swaps	Hedges	13,706	13,706	-	-
Cash and cash equivalents	L&R	277,534	277,534	27,615	27,615
Loans and borrowings	Other	(1,304,235)	(1,205,185)	(18,041)	(18,041)
Senior notes	Other	(1,599,961)	(1,522,577)	-	-
Finance lease liabilities	Other	(1,048)	(1,186)	(1,446)	(1,586)
Trade and other payables	Other	(131,794)	(131,794)	(186,778)	(186,778)
Total		**(2,485,626)**	**(2,309,330)**	**(22,489)**	**(22,628)**
Unrecognized gain/(loss)			(176,296)		139

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.

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

When determining the fair value of finance lease liabilities, forecasted cash flows from the reporting date to November 2015 (assumed date of lease agreements termination) were analysed. The discount rate for each month was calculated as a WIBOR interest rate plus a margin regarding the Group's credit risk.

Trade and other receivables, and trade and other payables, comprise mainly receivables and payables which will be settled no later than at the end of the first month after the reporting date. It was therefore assumed that the effect of their valuation, taking into account the time value of money, would approximately be equal to their nominal value. Evaluation methods used to calculate fair values of loans granted to related and non-related parties are based on observable market data – WIBOR interest rates.

As at 31 December 2011 loans and borrowings comprised senior facility. When determining 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 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 Parent concluded agreements.

When determining the fair value of bonds, forecasted cash flows from the reporting date to 20 May 2018 (assumed maturity date of the bonds) were analyzed. EURIBOR interest rate plus margin was applied as a discount rate.

The fair value of bonds (bonds issued by NFI Magna Polonia S.A.) is set as the carrying amount, since the estimated difference between the carrying amount and the fair value was insignificant.

As at 31 December 2011, the Group held the following financial instruments carried at fair value on the statement of financial position. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

Assets and liabilities measured at fair value				
	31 December 2011	**Level 1**	**Level 2**	**Level3**
Bonds			14,854	
Interest rate swaps			(6,687)	
Cross-currency interest rate swaps			13,706	
Total		**-**	**21,873**	**-**

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

As at 31 December 2010, the Group held the following financial instruments measured at fair value:

Assets and liabilities measured at fair value	**31 December 2010**	**Level 1**	**Level 2**	**Level3**
Foreign exchange call options			5,604	
Total		**-**	**5,604**	**-**

Items of income, costs, profit and losses recognized in profit or loss generated by loans and Senior Notes (including hedging transactions)

For the period from 1 January 2011 to 31 December 2011	Loans and borrowings	Senior Notes	Hedging instruments	**Total**
Interest expense on loans and borrowings	(116,339)	-	(696)	**(117,035)**
Interest expense on Senior Notes	-	(70,579)	5,333	**(65,246)**
Foreign exchange rate differences	-	(169,376)	-	**(169,376)**
Total finance costs	(116,339)	(239,955)	4,637	**(351,657)**
Total gross profit/(loss)	**(116,339)**	**(239,955)**	**4,637**	**(351,657)**
Hedge valuation reserve	**-**	**-**	**5,874**	**5,874**

For the period from 1 January 2010 to 31 December 2010	Loans and borrowings	**Total**
Interest expense on loans and borrowings	(2,044)	**(2,044)**
Total finance costs	(2,044)	**(2,044)**
Total gross loss	**(2,044)**	**(2,044)**
Hedge valuation reserve	**-**	**-**

Capital management

The Group's capital management's goal is to maintain its ability to operate as a going concern, in order to ensure proper return on the shareholders' investment as well as benefits for other stakeholders. The Group might issue shares, increase debt or sell assets in order to maintain or improve the equity structure.

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

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

	Carrying amount	
	31 December 2011	**31 December 2010**
Loans and borrowings	1,205,185	18,041
Senior Notes	1,522,577	-
Cash and cash equivalents	(277,534)	(27,615)
Net debt	**2,450,228**	**(9,574)**
Equity	1,896,043	427,938
Equity and net debt	**4,346,271**	**418,364**
Leverage ratio	**0.56**	**<0***

*Ratio is negative due to negative net debt.

Hedge accounting and derivatives

Cash Flow Hedge of interest rate risk of interest payments

At 31 December 2011, the Group 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 Group's floating rate financing in PLN.

The terms of the interest rate swaps have been negotiated to match the terms of the floating rate financing in PLN. There were no highly probable transactions for which hedge accounting has been claimed that have not occurred and no significant element of hedge ineffectiveness requiring recognition in the income statement.

Table below presents the basic parameters of IRS designed as hedging instrument, including the periods in which cash flows occur due to cash flow hedges, periods they will affect the financial results and their fair value in PLN of hedging instruments as at 31 December 2011.

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

Change in fair value of cash flow hedges is presented below:

	For the period from 1 January 2011 to 31 December 2011
Opening Balance	**-**
Effective part of gains or losses on the hedging instrument	(6,687)
Amounts recognized in the profit and loss statement, of which:	-
- adjustment of interest costs	-
- adjustment due to inefficiency of the hedge relationships	-
Closing Balance	**(6,687)**

Cash Flow Hedge of foreign exchange risk of interest payments

At 31 December 2011, the Group 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 Group's financing denominated in euro.

The terms of the cross-currency interest rate swaps have been negotiated to match the terms of the financing in euro. There were no highly probable transactions for which hedge accounting has been claimed that have not occurred and no significant element of hedge ineffectiveness requiring recognition in the income statement.

Table below presents the basic parameters of CIRS designed as hedging instrument, including the periods in which cash flows occur due to cash flow hedges, periods they will affect the financial results and their fair value in PLN of hedging instruments as at 31 December 2011.

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

Change in fair value of cash flow hedges is presented below:

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

42. Operating segments

The Group operates in the following two segments:

1. retail business segment which relates to the provision of services to the general public, including digital television transmission signal, mobile services, the Internet access services and production of set-top boxes,
2. broadcasting and television production segment.

The Group conducts its operating activities primarily in Poland.

The activities of the Group are grouped into segment with distinguishable scope of operations where services are rendered and merchandise delivered in a specific economic environment. Activities of defined segments are characterized by different risk levels and different investment returns from those of the Group's other segments.

Retail business segment includes:

- digital satellite pay television services which primarily relate to direct distribution of technologically advanced pay-TV services and revenues are generated mainly by DTH subscription fees;
- mobile telecommunication postpaid services which generate revenues mainly from interconnection revenues, settlements with mobile network operators and subscription fees;
- providing access to broadband Internet which generates revenues mainly from traffic and subscription fees;
- production of set-top boxes.

Broadcasting and television production segment consists 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. The revenues generated by the broadcasting and television production segment relate mainly to advertising and sponsorship revenues as well as revenues from cable and satellite operators.

Management evaluates the operating segments' results based on EBITDA. The EBITDA reflects the Group's ability to generate cash in a stable environment. The Group defines EBITDA as profit from operating activities increased by depreciation, amortization and impairment allowance. The EBITDA is not an EU IFRS measure and thus its calculations may differ among the entities.

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

The table below presents a summary of the Group's revenues and expenses by operating segment for the year ended 31 December 2011:

The year ended 31 December 2011	Retail	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	1, 640,252	725,673	-	2,365, 925
Inter-segment revenues	2,255	69,217	(71,472)	-
Revenues	1, 642,507	794,890	(71,472)	2,365, 925
EBITDA	**481,967**	**253,213**	**-**	**735,180**
Profit/(loss) from operating activities	**342,792**	**221,162**	**(3,654)**	**560,300**
Acquisition of property, plant and equipment, reception equipment and intangible assets	282,795*	14,855	-	297,650
Depreciation and amortization	131,023	32,051	3,654	166,728
Impairment	8,152	-	-	8,152
Balance as at 31 December 2011				
Assets, including:	5,178, 577	856,299***	(709,708)**	5, 325,168
Investments in associates	-	2,531	-	2,531

*This item also includes the acquisition of reception equipment for operating lease purposes.

** This item relates primarily to elimination of TV Polsat shares and recognition of goodwill and Polsat brand

*** includes non-current assets located outside of Poland in the amount of PLN 97 million

"Retail" segment was the Group's sole operating segment in the period ended 31 December 2010.

Transactions between operating segments are carried at arm's length. The accounting policies applied to both operating segments are described in note 6.

Reconciliation of EBITDA and Gross profit for the period:

	for the year ended	
	31 December 2011	**31 December 2010**
EBITDA	**735,180**	**406,944**
Depreciation, amortization and impairment	(174,880)	(81,190)
Profit from operating activities	**560,300**	**325,754**
Other foreign exchange rate differences, net (note 15)	(18,615)	(1,927)
Interest income (note 14)	10,715	1,256
Share in net income of associates	2,164	-
Interest costs (note 15)	(183,497)	(2,534)
Foreign exchange differences on bonds (note 15)	(169,376)	-
Loss on call options (note 15)	(3,125)	(922)
Other	(6,500)	(345)
Gross profit for the period	**192,066**	**321,282**

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

43. Barter transactions

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

	for the year ended	
	31 December 2011	**31 December 2010**
Revenues from barter transactions	15,942	2,226
Cost of barter transactions	13,891	2,356

	31 December 2011	**31 December 2010**
Barter receivables	3,175	660
Barter payables	3,045	190

44. Transactions with related parties

Receivables

	31 December 2011	**31 December 2010**
Teleaudio DWA Sp. z o.o.	5,059	108
Redefine Sp. z o.o.	3,239	-
Polkomtel S.A.	1,181	-
Superstacja Sp. z o.o.	969	347
Polsat Jim Jam Ltd.	848	326
Inwestycje Polskie Sp. z o.o.*	333	-
PRN Polska Sp. z o.o.	268	-
Invest Bank S.A.*	128	9
Sferia S.A.	201	7
Radio PIN S.A.	106	-
TFP Sp. z o.o.	24	-
Ster Sp. z o.o.	17	-
Aero 2 Sp. z o.o.	16	-
ATM Grupa S.A.	12	-
Polsat Futbol Ltd.**	-	1,200
Telewizja Polsat Sp. z o.o.**	-	674
Polskie Media S.A.***	-	152
Dom Sprzedaży Radia PIN Sp. z o.o.	-	108
Media-Biznes Sp. z o.o.**	-	59
Other	9	1
Total	**12,410**	**2,991**

*Amounts presented above do not include deposits paid to Inwestycje Polskie, Invest Bank and Polsat Nieruchomości (PLN 2,033 thousand, PLN 92 thousand and PLN 15 thousand, respectively)
**The company is consolidated from 20 April 2011
***The company was related until 8 July 2011

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

Liabilities

	31 December 2011	31 December 2010
ATM Grupa S.A.	4,114	-
Polkomtel S.A.	1,001	-
PRN Polska Sp. z o.o.	654	-
Polsat Jim Jam Ltd.	594	353
TFP Sp. z o.o.	507	-
PAI Media S.A.	170	-
Inwestycje Polskie Sp. z o.o.	166	-
Redefine Sp. z o.o.	164	-
Superstacja Sp. z o.o.	102	-
Invest Bank S.A.	94	-
Centernet S.A.	21	-
Telewizja Polsat Sp. z o.o.*	-	6,760
Polsat Media Sp. z o.o.*	-	24
Other	65	-
Total	**7,652**	**7,137**

* the company is consolidated from 20 April 2011

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

The amounts presented above "Liabilities" do not include accruals.

Other current assets

	31 December 2011	31 December 2010
Mobyland Sp. z o.o.	94,281	-
Total	**94,281**	**-**

Other current assets include deferred expenses relating to an agreement with Mobyland Sp. z o.o.

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

Revenues

	for the year ended	
	31 December 2011	31 December 2010
Teleaudio DWA Sp. z o.o.	5,429	501
Polskie Media S.A.*	4,603	150
Redefine Sp. z o.o.	1,970	-
Invest Bank S.A.	1,414	54
Polkomtel S.A.**	885	-
Radio PIN S.A.	559	-
Polsat Jim Jam Ltd.	537	3
Sferia S.A.	536	-
Telewizja Polsat Sp. z o.o.***	484	796
Polsat Futbol Ltd.***	364	1,200
PRN Polska Sp. z o.o.	250	-
ATM System Sp. z o.o.	174	-
Ster Sp. z o.o.	108	-
Dom Sprzedaży Radia PIN Sp. z o.o.	63	138
TFP Sp. z o.o.	62	-
Superstacja Sp. z o.o.	60	59
Media-Biznes Sp. z o.o.***	59	192
Aero 2 Sp. z o.o.****	20	-
ATM Grupa S.A.	14	-
Centernet S.A.	13	-
Other	41	-
Total	**17,645**	**3,093**

*Revenues cover the 1 January-8 July 2011 period (the company was related until 8 July 2011)
**Revenues cover the period from 9 November 2011 (the company is related from 9 November 2011)
***Revenues cover the 1 January-19 April 2011 period (the company is consolidated from 20 April 2011)
****Revenues cover the period from 13 May 2011 (the company is related from 13 May 2011)

The most significant transactions include revenue from licence fees on programming assets from Polskie Media S.A. and Redefine Sp. z o.o., transponder rental fees from Polskie Media S.A., audiotext services rendered to Teleaudio DWA Sp. z o.o. and transmission services rendered to Telewizja Polsat Sp. z o.o. and Polsat Futbol Ltd.

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

Expenses and purchases of programming assets

	for the year ended	
	31 December 2011	**31 December 2010**
ATM Grupa S.A.	23,525	-
Telewizja Polsat Sp. z o.o.*	22,497	74,254
Inwestycje Polskie Sp. z o.o.	12,302	-
Mobyland Sp. z o.o.**	12,278	-
Teleaudio DWA Sp. z o.o.	9,465	9,731
Studio A Sp. z o.o.	6,801	-
Polsat Jim Jam Ltd.	6,735	1,047
Redefine Sp. z o.o.	2,776	-
Elektrim S.A.	2,031	1,764
Fundacja Polsat***	2,001	-
Polkomtel S.A.	1,755	-
ATM System Sp. z o.o.	1,635	-
TFP Sp. z o.o.	1,486	-
PAI Media S.A.	1,347	82
Invest Bank S.A.	773	5
Baltmedia Sp. z o.o.	590	-
Polskie Media S.A.****	435	150
Polsat Nieruchomości Sp. z o.o.	404	-
Superstacja Sp. z o.o.	401	6
IT Polpager S.A.	300	-
Sferia S.A.	242	161
Radio PIN S.A.	187	-
Dom Sprzedaży Radia PIN Sp. z o.o.	164	99
Polsat Media Sp. z o.o.*	78	638
Ster Sp. z o.o.	78	-
Centernet S.A.	59	-
PRN Polska Sp. z o.o.	47	-
Tower Service Sp. z o.o.*****	34	-
Media-Biznes Sp. z o.o.*	22	192
Telewizja Dolnośląska Sp. z o.o.	19	-
Aero 2 Sp. z o.o.**	18	-
Polskie Nieruchomości Sp. z o.o.	17	-
Other	818	-
Total	**111,320**	**88,129**

*Expenses cover the 1 January-19 April 2011 period (the company is consolidated from 20 April 2011)
**Expenses cover the period from 13 May 2011 (the company is related from 13 May 2011)
***Donation
****Expenses cover the 1 January-8 July 2011 period (the company is related until 8 July 2011)
*****Expenses cover the period from 20 April 2011 (the company is related from 20 April 2011)

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

The most significant transactions include license fees to Telewizja Polsat Sp. z o.o. for broadcasting programs: Polsat Sport, Polsat Sport Extra, Polsat Film, Polsat Futbol, Polsat News, Polsat Play, Polsat Cafe and Polsat Sport HD until the date of takeover of control and to Polsat Jim Jam Ltd. for broadcasting Polsat Jim Jam.

The Group purchases programming assets from ATM Grupa S.A., Studio A Sp. z o.o. and TFP SP. z o.o. Teleaudio DWA Sp. z o.o. provides mainly telecommunication services with respect to the Group's customer call center. The Group rents property and advertising space from Inwestycje Polskie S.A. Mobyland Sp. z o.o. provides data transfer services. The Group rents filming and lighting equipment from ATM System Sp. z o.o. Redefine Sp. z o.o. provides advertising and IT services. Elektrim S.A. provides some office space lease to the Group.

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

Financial income

	for the year ended	
	31 December 2011	**31 December 2010**
Inwestycje Polskie Sp. z o.o.	56	-
Sferia S.A.	16	-
Inne	3	-
Razem	**75**	**-**

45. Litigations

Management believes that the provisions as at 31 December 2011 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

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

The Parent received UOKiK's decision No. 11/2009 dated 31 December 2009 whereby the President of UOKiK confirmed that certain statements included in the Company's service delivery regulations in force prior to 1 November 2009, were breaching the collective interests of consumers. At the same time, the President of UOKiK acknowledged that these unlawful provisions were eliminated from the amended regulations.

The President of UOKiK also ordered, once the above decision becomes legally binding, that it is published on the company's website (www.cyfrowypolsat.pl), and also in a daily nationwide newspaper. Moreover, pursuant to Article 106, Clause 1, Point 4 of the Competition and Consumers Protection Act dated 16 February 2007UOKiK imposed a cash fine of PLN 994 thousand, representing 0.09% of the Company's 2008 revenue, payable to the state budget, due to the breach of the interdiction set out in Article 24, Clause 1 and 2, Point 1 of the Competition and Consumers Protection Act dated 16 February 2007, within the scope of the above decision.

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

On 12 August 2011 the Polish Competition and Consumer Protection Court announced a verdict which supports the decision of the President of UOKiK in respect of practices breaching a collective interests of consumers. The Court also agreed with the amount of penalty imposed by UOKiK in the amount of PLN 994 thousand.

On 10 October 2011 the Parent filed an appeal to the Polish Competition and Consumer Protection Court.

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

Action brought by SkyMedia Sp. z o.o.

A lawsuit filed by Skymedia Sp. z o.o. with its registered office in Katowice, for compensation and indemnity. On 2 April 2010, the Praga District Court X Commercial Department, in Warsaw announced the verdict, according to which, the Company is ordered to pay in favour of SkyMedia Sp. z o.o. an amount of PLN 545 thousand plus legal interest accrued from 28 August 2007, and also PLN 30 thousand of legal costs reimbursement. On 22 September 2010 the Court of Appeals in Warsaw upheld the verdict. On 26 January 2012, the Supreme Court has cancelled the judgement in full and turned the matter back for reappraisal.

Disputes with the unions of authors, artists and professionals in the entertainment industry

Legal regulations in Poland require broadcasters to pay various royalties to the organizations of authors, artists and professionals in the entertainment industry ("OZZPA") for the use of content produced by third parties. As at 31 December 2011, the Company's subsidiary, Telelewizja Polsat Sp. z o.o., was in a dispute with some of the OZZPA in respect of the validity, nature and the amount of the royalty fees for the rights belonging to the authors represented by such organizations. As at 31 December 2011, OZZPA filed claims against Telewizja Polsat Sp. z o.o. for the principal amount of PLN 10,560 thousand plus interest.

46. Important agreements and events

Acquisition of 100% shares of INFO-TV-FM Sp. z o.o.

On 28 October 2011 Cyfrowy Polsat entered into an agreement with Narodowy Fundusz Inwestycyjny Magna Polonia S.A. and Evotec Management Limited for the acquisition of 100% shares of INFO-TV-FM Sp. z o.o. for the amount of PLN 28,962,542.46.

The ownership of shares of INFO-TV-FM Sp. z o.o. was transferred to the Group on 30 January 2012 following fulfillment of the conditions precedent. The total final purchase price was equal to PLN 29,033,202.19.

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

The conditions precedent include separation of some INFO-TV-FM assets and activities, signing of the guarantee agreement by INFO Operator (spin-off company) for the benefit of the Company and entering into a guarantee agreement by INFO-TV-FM and INFO Operator.

The acquisition agreement was concluded in order to continue realization of Group's strategy aiming at wide distribution of content using all modern technologies.

As at the date of approval of these financial statements, the estimation of fair value of acquired assets and liabilities has not been completed.

47. Off-balance sheet liabilities

Security relating to loans and borrowings

Security relating to loans and borrowings is described in note 33.

Commitments to purchase programming assets

As at 31 December 2011 the Group had outstanding contractual commitments in relation to purchases of programming assets. The table below presents a maturity analysis for such commitments:

	31 December 2011	31 December 2010
within one year	155,502	-
between 1 to 5 years	203,377	-
Total	**358,879**	**-**

The table below presents commitments to purchase programming assets from related parties not included in the consolidated financial statements:

	31 December 2011	31 December 2010
within one year	6,702	-
Total	**6,702**	**-**

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 10,613 thousand as at 31 December 2011 (PLN 12,595 thousand as at 31 December 2010). Total amount of capital commitments resulting from agreements on property improvements was PLN 3,906 thousand as at 31 December 2011 (PLN 75 thousand as at 31 December 2010). Additionally the amount of deliveries and services committed to under agreements for the purchases of licences and software as at 31 December 2011 was PLN 946 thousand (PLN 344 thousand as at 31 December 2010).

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

Contingent liabilities relating to promissory notes

As at 31 December 2011, the Group had contingent liabilities relating to promissory notes in the total amount of PLN 22 thousand (excluding blank promissory notes).

Furthermore, as at 31 December 2011 the Group had blank promissory notes (good performance bonds under the agreements with mobile network operators as well as rental, loan and lease agreements).

48. Remuneration of the Management Board

The table below presents the Management Board's remuneration.

Name	Function	2011	2010
Dominik Libicki	President of the Management Board	1,080	1,080
Dariusz Działkowski	Member of the Management Board	660	660
Tomasz Szeląg	Member of the Management Board	660	660
Aneta Jaskólska	Member of the Management Board	660	309
Andrzej Matuszyński	Member of the Management Board	-	53
Total		**3,060**	**2,762**

The amounts of bonuses and other remuneration payable to each member of the Management Board for 2011 and 2010 are presented below:

Name	Function	2011	2010
Dominik Libicki	President of the Management Board	4,100	2,200
Dariusz Działkowski	Member of the Management Board	1,000	500
Tomasz Szeląg	Member of the Management Board	2,700	1,000
Aneta Jaskólska	Member of the Management Board	1,400	300
Total		**9,200**	**4,000**

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

49. Remuneration of the Supervisory Board

The Supervisory Board members receive remuneration based on the resolution of the Extraordinary General Shareholders' Meeting of Cyfrowy Polsat S.A. dated 5 September 2007.

Presented below total remuneration payable to the Supervisory Board members in 2011 and 2010:

Name	Function	2011	2010
Zygmunt Solorz-Żak	President of the Supervisory Board	180	180
Heronim Ruta	Member of the Supervisory Board	120	120
Andrzej Papis	Member of the Supervisory Board	120	120
Robert Gwiazdowski	Independent Member of the Supervisory Board	120	120
Leszek Reksa	Independent Member of the Supervisory Board	120	120
Total		**660**	**660**

50. Subsequent events

Changes in shareholders

On 13 January 2012 Pola Investments Ltd. acquired the total of 168,941,818 of the Company's shares through donation received from its sole shareholder, Delas Holdings Limited.

As at the date of the approval of these financial statements, Pola Investments Ltd. directly held 168,941,818 shares in the Company (48.5% ownership interest), representing 335,884,319 votes at the Company's General Shareholders' Meeting, i.e. or 63.64% votes at the Company's General Shareholdrs' Meeting. Mr. Zygmunt Solorz-Żak held 85% of the share capital of Pola Investments Ltd.

Acquisition of 100% shares of INFO-TV-FM Sp. z o.o.

The ownership of shares of INFO-TV-FM Sp. z o.o. was transferred to the Company on 30 January 2012 following fulfilment of the conditions precedent (see note 46).

Order for data transfer services

On 23 January 2012 the Group placed an order with Mobyland Sp. z o.o. for data transfer services. The order was placed pursuant to the provisions of the agreement dated 15 December 2010. According to the agreement, Mobyland provides the access to wireless data transfer services, based on 1800MHz and 900MHz bands in LTE and HSPA+ technologies.

The order is for the purchase of 13 million GB of data transfer service with the guaranteed utilization period until 31 December 2015, with a possible extension of the term as stipulated by the agreement. The net price of 1 MB is PLN 0.00774. The payment for the order will be performed in 12 equal monthly installments, starting from January 2012.

51. Accounting estimates and assumptions

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The key accounting estimates and assumptions applied in preparation of these consolidated financial statements were the same as those adopted in the preparation of consolidated financial statements for the year ended 31 December 2010, except for the estimates and assumptions associated with the provisional purchase price allocation relating to the acquisition of Telewizja Polsat.

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

- Economic useful lives of reception equipment rented to customers under an operating lease agreements
  The estimates are made by the Group's internal experts at least at initial recognition of an asset and at the balance sheet date. For further details refer to note 6j and note 19.

- Economic useful lives of property, plant and equipment and their residual values, economic useful lives of other intangible assets
  The assessment of the useful economic lives of these assets requires judgment. Depreciation and amortization is charged to the income statement based on the useful economic life selected. This assessment requires estimation of the period over which the Group will benefit from the assets. The estimates regarding property, plant and equipment, programming assets and other intangible assets are made by the Group's internal experts at least at initial recognition of an asset and at the balance sheet date. For further details refer to note 6j and 6k and notes 19 and 22.

- Economic useful lives of programming assets
  The cost of acquired sport and news rights is recognized in the income statement on first broadcast or, where sports rights are for multiple seasons or competitions, sports rights are amortized on a straight-line basis across the seasons or competitions. Amortization of feature films and series starts at the first broadcast. Consumption of the economic benefits is measured using a declining balance method. These treatments best represent our estimate of the benefits received from the acquired rights. For further details refer to note 6m and note 23.

- Measurement of programming assets as at the reporting date
  The estimates future revenues applied as the basis for assessing the valuation of programming assets are made by the Group's internal experts at least at the balance sheet date. For further details refer to note 6m and note 23.

- Measurement of goodwill as at the reporting date
  Judgment is required in evaluating whether any impairment loss has arisen against the carrying amount of goodwill. This may require calculation of the recoverable amount of cash generating units to which the goodwill is associated. Such a calculation may involve estimates of the net present value of future forecasted cash flows and selecting an

appropriate discount rate. Alternatively, it may involve a calculation of the fair value less costs to sell of the applicable cash generating unit. For further details refer to note 6k and note 20.

- Impairment of reception equipment, property, plant and equipment, trademark
  Determining whether the carrying amount of these assets has any indication of impairment also requires judgment. The carrying amount is tested for impairment as least as at the reporting date. The impairment test requires judgment in terms of cash flow projections and selecting the appropriate discount rate. In the event impairment indicators exist the Group estimates the recoverable amount of the individual assets. For further details refer to note 6j, 6k and 6o and 19, 20 and 21 of these financial statements.

- Impairment of receivables
  Judgment is required in evaluating the likelihood of collection of customer debt after revenue has been recognized. This evaluation requires estimates to be made including the level of bad debt allowance made for amounts with uncertain recovery profiles. Allowances are based on the probability of receivables collection, and on more detailed reviews of individually significant balances. For further details refer to note 7h and note 28 and 41 of these financial statements.

- Provisions relating to pending litigation
  Provisions are raised based on court documentation and on opinions of lawyers participating in the proceedings who estimate the Group's probable obligations based on the progress of litigation proceedings. For further details refer to note 6s and 45.

- 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 6aa and 16.

- Purchase price allocation process relating to acquisition of Telewizja Polsat
  The most significant assumptions and estimates performed by Management of the Parent under the purchase price allocation process include the following:
  - Economic useful lives of Polsat brand: the Group concluded that there is no foreseeable time limit in which the Polsat brand will bring net cash inflows to the Group, therefore an indefinite ecomonic useful live has been adopted. The Group reviews at least as at the balance sheet date whether events and circumstances continue to justify the indefinite useful live of the Polsat brand.
  - Estimation of the discount rate, which takes into account the risks specific to the valued trademark: due to the nature of the valued asset the discount rate applied is the cost of capital.
  - Estimation of the adequate level of license fees for the purpose of Polsat brand valuation on the basis of relief from royalty method. For further details refer to note 21.
  - Estimation of fair value of assumed assets – see note 40.

Cyfrowy Polsat S.A. Group

Report supplementing the auditor's opinion on the consolidated financial statements Financial Year ended 31 December 2011

The report supplementing the auditor's opinion
contains 12 pages
Report supplementing the auditor's opinion
on the consolidated financial statements
for the financial year ended
31 December 2011

Contents

1. General

1.1 Identification of the Group

1.1.1 Name of the Group

Cyfrowy Polsat S.A. Group

1.1.2 Registered office of the Parent Company of the Group

ul. Łubinowa 4a
03-878 Warsaw

1.1.3 Registration of the Parent Company in the National Court Register

Registration court:	District Court for the Capital City Warsaw in Warsaw XIII Commercial Department of the National Court Register
Date:	21 June 2001
Registration number:	KRS 0000010078
Share capital as at balance sheet date:	13,934,113

1.1.4. Management of the Parent Company

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

At 31 December 2011, the Management Board of the Parent Company was comprised of the following members:

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

1.2 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2011, the following companies were consolidated by the Group:

Parent Company:

- Cyfrowy Polsat S.A.

Subsidiaries consolidated on the full consolidation basis:

- Cyfrowy Polsat Technology Sp. z o.o.,
- Cyfrowy Polsat Trade Marks Sp. z o.o.,
- Cyfrowy Polsat Finance AB,
- Telewizja Polsat Sp. z o.o.,

- RS TV S.A.,
- Polsat Media Sp. z o.o.,
- Media-Biznes Sp. z o.o.,
- Polsat Futbol Ltd.,
- Nord License AS,
- Polsat License Ltd.

The following subsidiaries were consolidated for the first time during the year ended 31 December 2011, as a result of the Parent Company acquiring a controlling interest:

- Cyfrowy Polsat Finance AB – subject to consolidation for the period from 10 March 2011 to 31 December 2011,
- Telewizja Polsat Sp. z o.o. – subject to consolidation for the period from 20 April 2011 to 31 December 2011,
- RS TV S.A. - subject to consolidation for the period from 20 April 2011 to 31 December 2011,
- Polsat Media Sp. z o.o. - subject to consolidation for the period from 20 April 2011 to 31 December 2011,
- Media-Biznes Sp. z o.o. - subject to consolidation for the period from 20 April 2011 to 31 December 2011,
- Polsat Futbol Ltd. - subject to consolidation for the period from 20 April 2011 to 31 December 2011,
- Nord License AS - subject to consolidation for the period from 20 April 2011 to 31 December 2011,
- Polsat License Ltd. - subject to consolidation for the period from 20 April 2011 to 31 December 2011.

1.2.2 Entities excluded from consolidation

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

1.3 Auditor information

1.3.1 Key certified auditor information

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

1.3.2 Audit auditor information

Name:	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Address:	ul. Chłodna 51, 00-867 Warsaw
Registration number:	KRS 0000339379
Registration court:	District Court for the Capital City Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number:	527-26-15-362

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. is entered in the register of audit firms under number 3546.

1.4 Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2010 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. and received an unqualified opinion

The consolidated financial statements were approved at the General Meeting on 19 May 2011.

The consolidated financial statements were submitted to the Registry Court on 31 May 2011 and were published in Monitor Polski B No. 1421on 29 August 2011.

1.5 Audit scope and responsibilities

This report was prepared for the General Meeting of Cyfrowy Polsat S.A. seated in Warsaw, ul. Łubinowa 4a, and relates to the consolidated financial statements comprising: the consolidated balance sheet as at 31 December 2011, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information.

The Parent Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of General Meeting dated 4 December 2007.

The consolidated financial statements have been audited in accordance with the contract dated 29 December 2011, concluded on the basis of the resolution of Supervisory Board dated 5 July 2011on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act, national standards on auditing issued by the Polish National Council of Certified Auditors and International Standards on Auditing.

We audited the consolidated financial statements in the Parent Company's head office during the period from 6 February to 9 March 2012.

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the Report on the Company's activities.

Our responsibility is to express an opinion and to prepare a supplementing report on the financial statements.

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

All required statements, explanations and information and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

Key certified auditors and KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. fulfill independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and Their Government, Audit Firms and Public Oversight dated 7 May 2009 (Official Journal from 2009, No. 77, item 649).

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k.

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

1.6.1 Parent Company

The financial statements of the Parent Company for the year ended 31 December 2011 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k., certified auditor number 3546, and received an unqualified opinion.

1.6.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Cyfrowy Polsat Technology Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2011	Unqualified opinion
Cyfrowy Polsat Trade Marks Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	30 November 2011	Unqualified opinion
Cyfrowy Polsat Finance AB	KPMG AB	31 December 2011	Audit not yet completed
Telewizja Polsat Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2011	Unqualified opinion
RS TV S.A.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2011	Unqualified opinion
Polsat Media Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2011	Unqualified opinion
Media-Biznes Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2011	Audit not yet completed
Polsat Futbol Ltd.	KPMG LLP	31 December 2011	Unqualified opinion
Nord License AS	KPMG AS	31 December 2011	Unqualified opinion
Polsat License Ltd.	KPMG AG Zurich	31 December 2011	Unqualified opinion

2 Financial analysis of the Group

2.1 Summary of the consolidated financial statements

2.1.1 Consolidated balance sheet

ASSETS	31.12.2011 PLN '000	% of total	31.12.2010 PLN '000	% of total
Non-current assets				
Reception equipment	408,610	7.7	275,399	27.1
Other property, plant and equipment	263,277	4.9	152,857	15.1
Goodwill	2,412,285	45.3	52,022	5.1
Brands	840,000	15.8	300	0.0
Other intangible assets	54,194	1.0	22,944	2.3
Non-current programming assets	131,141	2.5	-	-
Investment property	8,440	0.2	-	-
Other non-current assets	51,647	1.0	37,544	3.7
Deferred tax assets	55,726	1.0	4,158	0.4
Total non-current assets	4,225,320	79.3	545,224	53.7
Current assets				
Current programming assets	137,429	2.6	-	-
Inventories	178,127	3.3	173,154	17.1
Bonds	14,854	0.3	-	-
Trade and other receivables	297,162	5.6	184,298	18.2
Income tax receivable	10,086	0.2	7,542	0.7
Other current assets	184,656	3.5	77,362	7.6
Cash and cash equivalents	277,534	5.2	27,615	2.7
Total current assets	1,099,848	20.7	469,971	46
TOTAL ASSETS	5,325,168	100.0	1,015,195	100.0

EQUITY AND LIABILITIES	31.12.2011 PLN '000	% of total	31.12.2010 PLN '000	% of total
Equity				
Share capital	13,934	0.3	10,733	1.1
Reserve capital	432,265	8.1	156,534	15.4
Other reserves	1,305,277	24.5	10,174	1.0
Hedge valuation reserve	4,758	0.1	-	-
Currency translation adjustment	4,853	0.1	-	-
Retained earnings	134,956	2.5	250,497	24.7
Total equity	1,896,043	35.6	427,938	42.2
Liabilities				
Loans and borrowings	958,407	18.0	-	-
Senior Notes payable	1,417,525	26.6	-	-
Finance lease liabilities	934	0.0	1,095	0.1
Deferred tax liabilities	87,122	1.6	65,338	6.5
Other non-current liabilities and provisions	12,497	0.2	2,384	0.1
Total non-current liabilities	2,476,485	46.5	68,817	6.8
Loans and borrowings	246,778	4.6	18,041	1.8
Senior Notes payable	105,052	2.0	-	-
Finance lease liabilities	252	0.0	491	0.0
Trade and other payables	374,955	7.0	317,953	31.3
Income tax liability	29,226	0.5	-	-
Deposits for equipment	12,744	0.2	15,523	1.5
Deferred income	183,633	3.4	166,432	16.4
Total current liabilities	952,640	17.8	518,440	51.0
Total liabilities	3,429,125	64.4	587,257	57.8
TOTAL EQUITY AND LIABILITIES	5,325,168	100.0	1,015,195	100.0

2.1.2 Consolidated income statement

	1.01.2011 - 31.12.2011 PLN '000	% of total sales	1.01.2010 - 31.12.2010 PLN '000	% of total sales
Revenue	2,365,925	100.0	1,482,463	100.0
Cost of services, products, goods and materials sold	(1,330,952)	56.3	(788,496)	53.2
Selling expenses	(243,493)	10.3	(232,973)	15.7
General and administrative expenses	(159,891)	6.8	(100,783)	6.8
Other operating income	14,332	0.6	13,970	0.9
Other operating costs	(85,621)	3.6	(48,427)	3.3
Profit from operating activities	560,300	23.7	325,754	22.0
Financial income	10,765	0.5	1,288	0.1
Financial costs	(381,163)	16.1	(5,760)	0.4
Share in net income of investments accounted for under the equity method	2,164	0.1	-	-
Gross profit for the period	192,066	8.1	321,282	21.7
Income tax	(31,876)	1.3	(62,812)	4.2
Net profit for the year	160,190	6.8	258,470	17.4
Net profit attributable to:				
Equity holders of the Parent	160,190	6.8	258,447	17.4
Non-controlling interests	-	-	23	-
Net profit for the year	160,190	6.8	258,470	17.4
Basic and diluted earnings per share (PLN)	0.49		0.96	

2.2 Selected financial ratios

	2011	2010	2009
1. Return on sales			
net profit x 100% / Revenue	6.8%	17.1%	18.2%
2. Return on equity			
net profit x 100% / equity - net profit	9.2%	146.0%	284.7%
3. Debtors turnover			
average trade receivables (gross) x 365 days / net revenues	46 days	52 days	45 days
4. Debt ratio			
liabilities x 100% / equity and liabilities	64.4%	57.8%	58.4%
5. Current ratio			
current assets / current liabilities	1.2	0.9	1.0

- Sales revenues are comprised of the revenues from sale of services, merchandise and raw materials.
- Average trade receivables represent the average of trade receivables at the beginning and at the end of the period, excluding allowances for receivables.

3 Detailed report

3.1 Accounting principles

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

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

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

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

3.2 Basis of preparation of the consolidated financial statements

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

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

3.3 Method of consolidation

The method of consolidation is described in note 6f of the notes to the consolidated financial statements.

3.4 Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in note 6k of the notes to the consolidated financial statements.

3.5 Consolidation of equity and calculation of non-controlling interest

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

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

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

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

3.6 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

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

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

3.7 Notes to the consolidated financial statements

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

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

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

3.9 Information on the opinion of the independent auditor

Based on our audit of the consolidated financial statements of the Group as at and for the year ended 31 December 2011, we have issued an unqualified opinion.

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

....
Certified Auditor No. 90106
Krzysztof Kuśmierski

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

9 March 2012
Warsaw

CYFROWY POLSAT S.A. GROUP

Interim Condensed Consolidated Financial Statements
for the 3 and 12 Months Ended 31 December 2011

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

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(all amounts in PLN thousand)

Interim Consolidated Income Statement

	Note	for 3 months ended 31 December 2011 unaudited	for 3 months ended 31 December 2010 unaudited	for 12 months ended 31 December 2011	for 12 months ended 31 December 2010
Revenue	5	719,229	376,633	2,365,925	1,482,463
Operating costs		(552,677)	(317,614)	(1,734,336)	(1,122,252)
Cost of services, products, goods and materials sold	6	(428,527)	(208,472)	(1,330,952)	(788,496)
Selling expenses	6	(72,068)	(77,883)	(243,493)	(232,973)
General and administration costs	6	(52,082)	(31,259)	(159,891)	(100,783)
Other operating income		6,202	2,000	14,332	13,970
Other operating costs		(29,173)	(13,403)	(85,621)	(48,427)
Profit from operating activities		**143,581**	**47,616**	**560,300**	**325,754**
Finance income		4,022	1,012	10,765	1,288
Finance costs		(71,271)	(1,034)	(381,163)	(5,760)
Share in net income of investments accounted for under the equity method		677	-	2,164	-
Gross profit for the period		**77,009**	**47,594**	**192,066**	**321,282**
Income tax		(712)	(10,645)	(31,876)	(62,812)
Net profit for the period		**76,297**	**36,949**	**160,190**	**258,470**
Net profit attributable to:					
Equity holders of the Parent		76,297	36,949	160,190	258,447
Non-controlling interests		-	-	-	23
		76,297	**36,949**	**160,190**	**258,470**
Basic and diluted earnings per share (in PLN)		**0.22**	**0.14**	**0.49**	**0.96**

(all amounts in PLN thousand)

Interim Consolidated Statement of Comprehensive Income

	for 3 months ended		for 12 months ended	
	31 December 2011 unaudited	31 December 2010 unaudited	31 December 2011	31 December 2010
Net profit for the period	**76,297**	**36,949**	**160,190**	**258,470**
Hedge valuation	(583)	-	5,874	-
Income tax relating to hedge valuation	111	-	(1,116)	-
Currency translation adjustment	1,732	-	6,018	-
Income tax relating to currency translation adjustment	(328)	-	(1,165)	-
Other comprehensive income, net of tax	**932**	**-**	**9,611**	**-**
Total comprehensive income for the period	**77,229**	**36,949**	**169,801**	**258,470**
Comprehensive income attributable to:				
Equity holders of the Parent	77,229	36,949	169,801	258,447
Non-controlling interests	-	-	-	23

(all amounts in PLN thousand)

Interim Consolidated Balance Sheet – Assets

	31 December 2011	31 December 2010
Reception equipment	408,610	275,399
Other property, plant and equipment	263,277	152,857
Goodwill	2,412,285	52,022
Brands	840,000	300
Other intangible assets	54,194	22,944
Non-current programming assets	131,141	-
Investment property	8,440	-
Other non-current assets	51,647	37,544
Deferred tax assets	55,726	4,158
Total non-current assets	**4,225,320**	**545,224**
Current programming assets	137,429	-
Inventories	178,127	173,154
Bonds	14,854	-
Trade and other receivables	297,162	184,298
Income tax receivable	10,086	7,542
Other current assets	184,656	77,362
Cash and cash equivalents	277,534	27,615
Total current assets	**1,099,848**	**469,971**
Total assets	**5,325,168**	**1,015,195**

(all amounts in PLN thousand)

Interim Consolidated Balance Sheet – Equity and Liabilities

	31 December 2011	31 December 2010
Share capital	13,934	10,733
Reserve capital	432,265	156,534
Other reserves	1,305,277	10,174
Hedge valuation reserve	4,758	-
Currency translation adjustment	4,853	-
Retained earnings	134,956	250,497
Total equity	**1,896,043**	**427,938**
Loans and borrowings	958,407	-
Senior Notes payable	1,417,525	-
Finance lease liabilities	934	1,095
Deferred tax liabilities	87,122	65,338
Other non-current liabilities and provisions	12,497	2,384
Total non-current liabilities	**2,476,485**	**68,817**
Loans and borrowings	246,778	18,041
Senior Notes payable	105,052	-
Finance lease liabilities	252	491
Trade and other payables	374,955	317,953
Income tax liability	29,226	-
Deposits for equipment	12,744	15,523
Deferred income	183,633	166,432
Total current liabilities	**952,640**	**518,440**
Total liabilities	**3,429,125**	**587,257**
Total equity and liabilities	**5,325,168**	**1,015,195**

(all amounts in PLN thousand)

Interim Consolidated Cash Flow Statement

	for the year ended	
	31 December 2011	**31 December 2010**
Net profit for the period	**160,190**	**258,470**
Adjustments for:	**210,727**	**(50,158)**
Depreciation, amortization and impairment	174,880	81,190
Payments for film licences and sports rights	(177,241)	-
Amortization of film licences and sports rights	169,455	-
Loss on investing activity	1,187	2,040
Cost of programming rights sold	3,747	-
Interest expense	171,811	1,278
Change in inventories	(3,433)	(47,977)
Change in receivables and other assets	(63,732)	(54,577)
Change in liabilities, provisions and deferred income	(59,031)	97,990
Change in internal production and advance payments	6,513	-
Valuation of hedging instruments	5,874	-
Share in net income of associates accounted for under equity method	(2,164)	-
Foreign exchange losses, net	170,382	121
Set-off of income tax receivables with VAT liabilities	6,264	-
Income tax	31,875	62,812
Net increase in reception equipment provided under operating lease	(229,353)	(195,403)
Other adjustments	3,693	2,368
Cash flows from operations before income taxes and interest	**370,917**	**208,312**
Income tax paid	(34,222)	(11,974)
Interest received from operating activities	10,351	1,196
Net cash from operating activities	**347,046**	**197,534**
Acquisition of property, plant and equipment	(39,241)	(28,713)
Acquisition of intangible assets	(26,433)	(16,880)
Acquisition of subsidiaries, net of cash acquired	(2,336,698)	(33,271)
Proceeds from sale of property, plant and equipment	999	1,387
Acquisition of bonds	(14,684)	-
Prepayment for shares	(12,000)	-
Loans granted	-	(3,536)
Repayment of loans granted	-	3,536
Proceeds from interest on loans granted	1	58
Other proceeds	1,305	-
Net cash used in investing activities	**(2,426,751)**	**(77,419)**

(all amounts in PLN thousand)

Dividends paid	-	(152,945)
Net cash from bank overdraft	(18,041)	18,041
Term loans received	2,800,000	-
Issuance of *Senior Notes*	1,372,245	-
Payments for currency options	-	(7,320)
Proceeds from realization of foreign exchange call options	2,480	794
Repayment of loans and borrowings	(1,538,844)	(47,277)
Finance lease – principal repayments	(512)	(864)
Payment of interest on loans, borrowings, finance lease and commissions	(289,899)	(2,198)
Net cash from/(used in) financing activities	**2,327,429**	**(191,769)**
Net increase/(decrease) in cash and cash equivalents	**247,724**	**(71,654)**
Cash and cash equivalents at the beginning of the period*	**27,615**	**99,390**
Effect of exchange rate fluctuations on cash and cash equivalents	2,195	(121)
Cash and cash equivalents at the end of the period	**277,534**	**27,615**

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

(all amounts in PLN thousand)

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

	Share capital	Reserve capital	Other reserves	Hedge valuation reserve	Currency translation adjustment	Retained earnings	**Total equity**
Balance as at 1 January 2011	10,733	156,534	10,174	-	-	250,497	**427,938**
Share issue	3,201	-	1,295,103	-	-	-	**1,298,304**
Hedge valuation reserve	-	-	-	4,758	-	-	**4,758**
Currency translation adjustment	-	-	-	-	4,853	-	**4,853**
Net profit for the period	-	-	-	-	-	160,190	**160,190**
Appropriation of 2010 profit – transfer to reserve capital	-	275,731	-	-	-	(275,731)	**-**
Balance as at 31 December 2011	**13,934**	**432,265**	**1,305,277**	**4,758**	**4,853**	**134,956**	**1,896,043**

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

	Share capital	Reserve capital	Other reserves	Retained earnings	Non-controlling interests	**Total equity**
Balance as at 1 January 2010	10,733	73,997	10,174	227,509	-	**322,413**
Acquisition of 100% shares of M.Punkt Holdings Ltd.	-	-	-	23	(23)	**-**
Net profit for the period	-	-	-	258,447	23	**258,470**
Dividends approved	-	-	-	(152,945)	-	**(152,945)**
Appropriation of 2009 profit – transfer to reserve capital	-	82,537	-	(82,537)	-	**-**
Balance as at 31 December 2010	**10,733**	**156,534**	**10,174**	**250,497**	**-**	**427,938**

Supplementary Information to the Interim Condensed Consolidated Financial Statements for 3 and 12 months ended 31 December 2011

1. Activity of the Parent

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

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

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

The consolidated financial statements comprise the Parent and its subsidiaries (together with the Parent referred to as "the Group" and individually as "Group entities"), and the Group's interest in associates and jointly controlled entities.

2. Composition of the Management Board of the Parent

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

3. Composition of the Supervisory Board of the Parent

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

4. Basis of preparation of the interim condensed consolidated financial statements

Statement of compliance

These interim condensed consolidated financial statements for 3 and 12 months ended 31 December 2011 have been prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting". The Group applied the same accounting policies in the preparation of the financial data for 3 and 12 months ended 31 December 2011 and the consolidated financial statements for the years 2011 and 2010, presented in the consolidated annual report for 2011.

(all amounts in PLN thousand)

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

The most recent published annual consolidated financial statements were prepared and audited for the year ended 31 December 2011. Annual consolidated financial statements fully disclose accounting policies approved by the Group.

5. Revenue

	for 3 months ended		for 12 months ended	
	31 December 2011 unaudited	**31 December 2010 unaudited**	**31 December 2011**	**31 December 2010**
Retail sales	415,523	361,409	1,594,872	1,416,919
Advertising and sponsorship revenue	256,425	1,952	634,204	4,630
Revenue from cable and satellite operator fees	22,885	-	61,089	-
Sale of equipment	4,668	7,259	16,546	35,707
Other revenue	19,728	6,013	59,214	25,207
Total	**719,229**	**376,633**	**2,365,925**	**1,482,463**

6. Operating costs

	for 3 months ended		for 12 months ended	
	31 December 2011 unaudited	**31 December 2010 unaudited**	**31 December 2011**	**31 December 2010**
Programming costs	109,366	99,896	414,742	392,035
Distribution, marketing, customer relation management and retention costs	94,579	93,243	320,987	297,319
Cost of internal and external TV production and amortization of sport rights	113,201	-	270,567	-
Depreciation, amortization and impairment	53,531	24,174	174,880	81,190
Salaries and employee-related costs	51,293	28,413	148,811	88,348
Broadcasting and signal transmission costs	34,433	17,998	114,736	79,855
Amortization of purchased film licenses	36,700	-	93,226	-
Cost of equipment sold	8,838	17,894	33,548	59,546
Other costs	50,736	35,996	162,839	123,959
Total costs by kind	**552,677**	**317,614**	**1,734,336**	**1,122,252**

(all amounts in PLN thousand)

	for 3 months ended		for 12 months ended	
	31 December 2011 unaudited	31 December 2010 unaudited	31 December 2011	31 December 2010
Cost of services, products, goods and materials sold	428,527	208,472	1,330,952	788,496
Selling expenses	72,068	77,883	243,493	232,973
General and administrative expenses	52,082	31,259	159,891	100,783
Total costs by function	**552,677**	**317,614**	**1,734,336**	**1,122,252**