ANNUAL REPORT

2012

CYFROWY POLSAT GROUP

CYFROWY POLSAT

TELEWIZJA INTERNET TELEFON

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KEY FIGURES

(PLN '000)	2012	2011	Change (%)
Financial highlights			
Revenue	2,778,215	2,365,925	17.4%
EBITDA	1,032,245	735,180	40.4%
EBITDA margin	37.2%	31.1%	6.1 pp
Operating profit	789,179	560,300	40.8%
Net profit	598,298	160,190	273.5%
Capital expenditure[1]	91,177	65,674	38.8%
Capital expenditure as % of revenue	3.3%	2.8%	0.5 pp
Average headcount	1,454	1,267	14.8%
Consolidated statement of cash flows			
Net cash from operating activities	781,367	347,046	125.1%
Net cash from investing activities	(133,431)	(2,426,751)	- 94.5%
Net cash from financing activities	(653,347)	2,327,429	-
Change in cash and cash equivalents	(5,411)	247,724	-

[1] Capital expenditure includes our investments in property, plant and equipment and intangible assets, but does not include expenditure on purchases of reception equipment to be leased to our subscribers, which is reflected in cash flows from operating activities.

	2012	2011	Change (%)
Stock-exchange highlights			
Basic and diluted earnings per share (PLN)	1.72	0.49	251.0%
Trading price at end of period (PLN)	16.41	13.50	21.6%
Number of shares outstanding at end of period	348,352,836	348,352,836	0.0%
Free float	168,935,335	168,935,335	0.0%
Capitalisation at end of period (PLN '000)	5,716,470	4,702,763	21.6%
KPI			
Retail business segment			
Number of pay TV subscribers at end of period	3,566,144	3,551,671	0.4%
Churn rate	8.6%	9.8%	-1.2 pp
Monthly ARPU (PLN)	39.3	37.3	5.4%
Number of mobile phone users at end of period	144,887	142,651	1.6%
Number of Internet subscribers at end of period	150,199	73,190	105.2%
TV broadcasting and production segment			
Audience share of the Telewizja Polsat Group	20.5%	20.8%	-1.3%
Share of the TV advertising market	23.2%	22.6%	2.8%

MISSION, VISION, STRATEGY

OUR MISSION

Who we are

We are at the forefront of the Polish media market, in both production and delivery of TV content, as well as provision of telecommunications services.

OUR VISION

Who we want to be

We aim to become the entertainment market leader in Poland. We will produce and deliver the most attractive content using the best state-of-the-art technologies to provide high quality multi-play services, while maintaining the highest levels of customer satisfaction.

OUR STRATEGIC OBJECTIVES

Our primary objective is to become the number one player on the Polish entertainment market. We intend to achieve this goal both by providing high quality products and services to retail customers, as well as by acquiring and producing programming content of superior quality and delivering it to Polish households using cutting-edge technologies

KEY ELEMENTS OF OUR STRATEGY

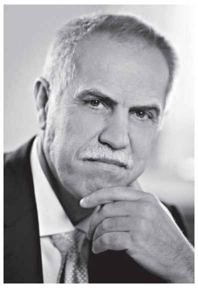
Building the value of our retail customer base by increasing the number of subscribers and average revenue per user (ARPU), and by maintaining high levels of customer satisfaction.

KEY ELEMENTS OF OUR STRATEGY

Building the value of our broadcasting and television production segment by maintaining the audience share of our channels, improving the viewer profile, and through broad distribution of our content.

KEY ELEMENTS OF OUR STRATEGY

Effective **management of the cost base** by exploiting synergies across our integrated media group.



LETTER FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

It gives me great pleasure to declare that 2012 was another year which Cyfrowy Polsat and its shareholders may consider successful. Despite the difficult economic conditions and challenging macroeconomic environment, the Group was able to deliver excellent financial and operating performance. By consistently and effectively pursuing its development strategy, Cyfrowy Polsat has been consolidating its leading position on the media market in Poland.

I am proud to see the growth of Cyfrowy Polsat in all of its key operating segments – both in its pay TV and broadband Internet, and its innovative online services.

The Group was a successful competitor among TV broadcasters, securing satisfying viewership figures and increasing its share in the TV advertising and sponsorship market.

The expansion of Cyfrowy Polsat's data transmission offer and the rising number of broadband Internet users are also important developments. The Group offers the world's fastest and most advanced mobile LTE-based Internet service, and last year even increased the speed to 150 Mbps. Access to high-speed LTE Internet is already being provided to over 50% of Poland, while HSPA/HSPA+ coverage is more than 93%.

Cyfrowy Polsat bolstered its presence in the segment of state-of-the-art online services, expanding its offer to include ipla, Poland's leading online video service, and launching the muzo service, which gives access to the best music online. Introduction of the DVB-T mobile TV standard further enhanced the range of comprehensive services available to Cyfrowy Polsat subscribers.

Last year's novelty was the beginning of an agreement between Cyfrowy Polsat and Polkomtel, which brings improved attractiveness to both companies' offers and additional benefits for their customers.

In conclusion, I would like to thank our Shareholders, as well as the Subscribers and Customers of the Cyfrowy Polsat Group, for the confidence they have placed in us.I would like to offer particular thanks to the Group's Management Board and Employees for their effective work and commitment, which has significantly contributed to the achievement of our goals and objectives. Thanks to their efforts, the Company has been able to deliver sustainable value growth for the benefit of its Shareholders.I am convinced that the Group will continue to successfully implement its strategy and ambitious objectives, ensuring that next year will also be prosperous for Cyfrowy Polsat.

With kindest regards,

ZYGMUNT SOLORZ-ŻAK

Chairman of the Supervisory Board

LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD

Ladies and Gentlemen,

It is with great pleasure that I present to you the 2012 Annual Report of the Cyfrowy Polsat Group.

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

That we turned yet another year of our operations into a success was confirmed by the Group's operating and financial results. Subscriptions to our pay television services grew to 3.57 million, with the number of customers using our broadband Internet and mobile phone services having increased to around 150,000 and 145,000, respectively. Our other business segment also delivered as expected. POLSAT, our flagship station, was a leader in audience ratings, having secured a 15.7% market share, with the audience share of our thematic channels having advanced by 11%, to 4.8%. 2012 also saw our share in the TV advertising and sponsorship market rise to 23.2%, with related revenue, thanks to a well-rounded programme schedule and optimum investments in programme content, markedly outperforming the rest of the market.

We are also very satisfied with the Group's consolidated financial performance. In 2012, our total consolidated revenue grew by 17.4%, to PLN 2.778bn, with net profit standing at PLN 598m.

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

Over the past year, Cyfrowy Polsat also managed to considerably bolster its presence in the market for online services. We acquired a 100% interest in the companies that run ipla, Poland's leading online video service. ipla provides linear access to more than 20 TV channels, HD live broadcasts, and the largest TV-on-demand library in Poland, containing tens of thousands of items, including TV series, films, TV shows, and major sporting events. I pla television services are brought to users of PCs, smartphones, tablets, Smart TV-capable television sets, pay TV, set-top boxes and consoles via dedicated applications. According to recent research, ipla has an average of 2.3 million active users.

Another advance towards growth in the online segment was the launch of muzo, a digital music streaming service. The muzo library is soon to contain five million audio tracks, which will appeal to the musical tastes of some 90% of Poland's population. muzo's current selection features the most popular tracks

across all music genres, licensed from EMI, Magic Records, SONY Music, Universal Music, and many other music publishers. To ensure that our services can be delivered through any new technology and device, we launched the DVB-T-based MOBILE TV. We paved the way for the launch a year earlier when we acquired INFO-TV-FM, a company allocated frequencies that are appropriate to supporting mobile TV services based on terrestrial digital broadcasting technology. The new service is also available to users of traditional set-top boxes and television sets, as well as mobile devices, which are gaining in popularity.
In October last year our LTE-based wireless broadband service, the world's fastest and most advanced technology, was sped up to 150 Mbps. We also managed to extend LTE coverage to 50% of the country's population.

To cater to changing consumer needs and market trends, we broadened our internet offer to include new mobile devices – computers, tablets, modems and routers. We also launched halo, a proprietary web messenger.

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

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

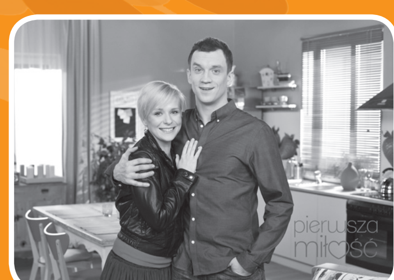
With kindest regards,

Dominik Libicki

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

CYFROWY POLSAT GROUP

PART 1
INTRODUCTION



KEY EVENTS IN 2012

01 January

- We finalise a purchase agreement for shares in INFO-TV-FM Sp. z o.o., under which Polsat Cyfrowy takes over frequencies for mobile TV services using the DVB-T technology (the 470-790 MHz band) along with the related reservation decisions.
- We expand our channel selection with new thematic channels, including three available in high definition: AXN Spin HD, BBC HD, and History HD, and one in standard definition: ID Investigation Discovery. The TTV station is also added to our list of channels.

02 February

- We introduce the possibility of purchasing access to films directly via the Internet, through the VOD Home Video Rental service.

03 March

- We launch the Multiroom service in the HD format, enabling viewers to watch different programmes in high definition concurrently on two TV sets, for a single subscription fee.
- We acquire the companies running ipla, the largest Internet television service in Poland, offering live access to over 20 television channels, live HD transmissions and an extensive TV-on-demand library.
- Our satellite digital television set-top boxes are improved with a new application – ipla television – which, after connecting the set-top box to the Internet, provides subscribers with access to thousands of free video items.

- The ‘Internet for Everyone – SIM Only‘ promotion commences, as part of which clients are offered the choice of buying just a SIM card with one of the three available data packages.
- Together with the Ministry of Infrastructure we participate in the ITU international trade fair in Geneva, presenting the latest developments in mobile Internet technology (LTE).
- Our offer is further expanded to include the first LTE-capable tablet in the world – the Samsung Galaxy tab 8.9 LTE.

04 April

- We introduce cross-promotions and cross-selling of services with the Plus network, offering additional benefits to the clients of both companies.
- We launch muzo, an Internet music service (beta version). muzo’s users have access to a vast library of audio tracks that can be listened to on computers or mobile devices, either free-of-charge or as a premium service.

05 May

- We announce a promotional offer on the muzo service for customers of Cyfrowy Polsat’s Internet services, comprising free and unlimited access to the millions of audio tracks available in the muzo library for a period of three months.

06 June

- We launch the revolutionary MOBILE TV service using DVB-T technology. Thanks to our mobile M-T 5000 and traditional T-HD 1000 set-top boxes, users of smartphones, tablets, notebooks and traditional TV sets can receive 20 encrypted TV and radio channels, as well as the FTA digital terrestrial TV channels.

- We start marketing the T-HD 1000, the first DVB-T set-top box manufactured by our own production plant, which comes with built-in ipla functionality.

- We offer PPV access to a boxing match between Roy Jones Junior, a legendary world champion in four weight categories, and the best Polish middleweight boxer, Dawid Kostecki (nicknamed 'Cygan').

- We switch on two HD channels: TVP 1 HD and TVP 2 HD. Both channels are available to all of our subscribers with HD set-top boxes.

- Standard & Poor's Rating Services (S&P) upgrades our corporate rating to BB with a stable outlook.

- Our television offer is further developed with the addition of new thematic channels – Polsat Sport Extra in the HD version, which enjoys great popularity with viewers, and three channels in the SD version – FightBox, FilmBox Extra and FilmBox Family.

POLSAT SPORT

07 July

- We sign an agreement for distribution of Telewizja Polsat channels by Vectra, a cable TV provider.

- We add to our hardware range another set-top box for receiving satellite TV signals in high definition, also featuring the ipla application. The HD 3000 is a successor to the Mini HD 2000 set-top box manufactured by our own production plant.

- Moody's Investors Service upgrades our corporate rating to Ba2 with a stable outlook.

08 August

- We sign an agreement with Eutelsat for a new transponder, thus obtaining additional capacity for another five HD channels.

- Under a letter of intent signed with Polkomtel, we started providing Internet access over Polkomtel's 3G and 2G radio networks, expanding the reach of our HSPA+ broadband Internet and obtaining nationwide coverage for our EDGE/GPRS Internet service.

- Our subscribers are offered PPV access to the KSW20 gala fight between Mariusz Pudzianowski, five-time winner of the champion title in the Strongman competition, and Christos Piliafas, a King Of The Cage champion.

- As part of a summer promotional campaign, we provide free-access hot spots in four cities, located at selected cafés, restaurants, transport hubs and shopping centres, giving consumers free access to our Internet services.

- We pre-pay PLN 200m under a term loan facility, which will allow us to reduce related debt service costs.

09 September

- We sign a new agreement with Mobyland for data transmission over HSPA+ and LTE networks, thus reducing the effective cost of a gigabyte of data and securing the resources necessary to implement our strategy.
- We offer our subscribers PPV access to two matches played by the Polish national team as part of the 2014 World Cup qualifiers.
- Our range of Internet-related products is expanded with the new ZTE MF669 modem, which uses HSPA+ MIMO technology to download data at speeds of up to 28.8 Mbps.
- Telewizja Polsat acquires the rights to transmit the Polish national football team's 2014 World Cup qualifying matches.

10 October

- By adding the Huawei E3276 – the first 4G modem in the world – to our portfolio, we increase the speed of our fastest LTE-based mobile Internet service to 150 Mbps.
- Our selection of Internet access equipment is expanded to include the new ZTE MF60 mobile router.
- We start to offer another USB modem supporting LTE technology – the ZTE MF821 – which enables data transfer at speeds of up to 100 Mbps.
- We launch the halo web messenger, which gives all of our subscribers free voice and text communication with the use of fixed-line and mobile devices.

11 November

- New additions to our channel selection: 20 new channels (including four BBC Worldwide Channels, three Universal Networks channels, three Viasat Broadcasting channels, and two new Telewizja Polsat channels), new packages (including Familijny Max HD, an attractive package dedicated to the whole family, at PLN 49.90), and new service bundles including online services (ipla, HBO GO), MOBILE TV, LTE Internet and telephony on the Plus network.

- The Polsat Media advertising bureau enters into an agreement with BBC Worldwide Channels and Viasat Broadcasting with respect to sale of advertising time.

- A new model of HD set-top box, the HD 6000, manufactured by our own production plant, is launched.

- The range of online services we offer at www.cyfrowypolsat.pl is developed to include the Online Entertainment zone, with live access to channels, a catch-up TV service, and an extensive VOD library.

- The first of our transponders is switched over to the MPEG-4 standard, allowing us to make more effective use of its satellite transmission capacities.

- By expanding the broadcasting centre we gain the potential to broadcast up to 100 television channels.

- We provide PPV access to the boxing match between Vladimir Kliczko, an IBF, WBA, WBO and IBO heavyweight champion, and Mariusz Wach, a WBC International and WBC Baltic heavyweight champion.

12 December

- We present a new version of the ipla and muzo services – offering new content (also from the Hollywood studios), with new interfaces, functional improvements and new applications for new mobile devices.

- The number of satellite channels available through our VOD Home Video Rental service grows to 20.

- New devices are added to our Internet services offers, including the Acer Aspire E1 notebook, the Manta MID9701 9.7" Wi-Fi tablet and the Ferguson S3 7" Wi-Fi DVB-T tablet.

CYFROWY POLSAT IN 2012

In 2012, the Cyfrowy Polsat Group focused on consistent implementation of its strategy, both in services to retail customers and in the TV broadcasting and production segment.

The first event of key importance to our digital platform was the finalisation of the acquisition of INFO-TV-FM in January 2012. The INFO-TV-FM assets were used in June to launch a mobile pay TV product based on DVB-T technology (MOBILE TV), which was a ground-breaking project on the Polish market. With MOBILE TV, we were prepared for the completion of the digital switchover of terrestrial television in Poland by offering our existing and potential customers an additional product which fully meets their expectations.

In our other business segment, we steadily pursued a strategy of competing effectively on the advertising market and maintaining our channels' audience shares at 20%-21% in the target group. To this end, we reorganised the operations of our sports channels, making them more attractive to our viewers and advertisers, and launched new thematic channels, thereby increasing the total number of channels offered under the Telewizja Polsat brand.

The strategic purchase of the companies behind the ipla service was the highlight of the year. ipla is the leader of the Polish online video market, both in terms of the size of its user base and the number of devices and operating systems supporting the service. Being aware of the changes taking place in the content consumption market, we believe that ipla will play a key role for our Group in the future as an effective tool for increasing the satisfaction of our customers and viewers, and as an additional source of revenue and profits.

As the first operator in Poland to launch the world's fastest and most advanced mobile LTE-based Internet, in 2012 we offered our customers many new reception devices, including the world's first modem enabling data transfer at speeds of up to 150 Mbps (the Huawei E3276).

The end of the year is when pay TV operators prepare to launch their best and most attractive offers. With our existing and future subscribers in mind, we expanded our channel selection with 20 new thematic channels and introduced attractive packages, once again standing out on the Polish market by offering the best value for money.

The effectiveness of our strategy and operations can be seen in the consistent improvement of our operating performance, which translated directly into the Group's best ever financial results and an increase in the Company's shareholder value.

RETAIL BUSINESS SEGMENT

- The number of subscribers to pay TV services increased by 14,000 year on year, to 3.57 million, representing 32% of the Polish market for pay TV.
- The number of Internet subscribers increased by 77,000 year on year, to 150,000.
- The number of mobile telephone users increased by 2,000 year on year, to 145,000.
- High definition set-top boxes are used by almost 70% of subscribers.
- The Multiroom service is used by approximately 12% of subscribers.
- The ARPU of the Family Package increased by 5.4% year on year, to PLN 46.6, while the ARPU of the Mini Package went up by 5.5%, to PLN 13.4.
- The churn rate was 8.6%.

TV BROADCASTING AND PRODUCTION SEGMENT

- The audience share of the Telewizja Polsat Group channels stood at 20.5%.

- POLSAT, our flagship channel, was at the top of the ratings with a 15.7% audience share.
- Polsat's share of the thematic channels audience grew to 4.8%.
- According to our estimates, in 2012 we had a 23.2% share of the Polish TV advertising market, valued at approximately PLN 3.7bn.
- It is worth noting that thanks to our well-designed programme schedule and expanded distribution of thematic channels, we outperformed the market with a -3.0% drop in advertising and sponsorship revenue, while the market as a whole saw a decrease of -5.6% year on year.

KPI	2012	2011	Change (%)
Retail business segment			
Number of pay TV subscribers at end of period	3,566,144	3,551,671	0.4%
Churn rate	8.6%	9.8%	-1.2 pp
Monthly ARPU (PLN)	39.3	37.3	5.4%
Number of mobile phone users at end of period	144,887	142,651	1.6%
Number if Internet subscribers at end of period	150,199	73,190	105.2%
TV broadcasting and production segment			
Audience share of the Telewizja Polsat Group	20.5%	20.8%	-1.3%
■ our main channel	15.7%	16.5%	-4.5%
■ thematic channels	4.8%	4.4%	11.0%
Share of the TV advertising market	23.2%	22.6%	2.8%

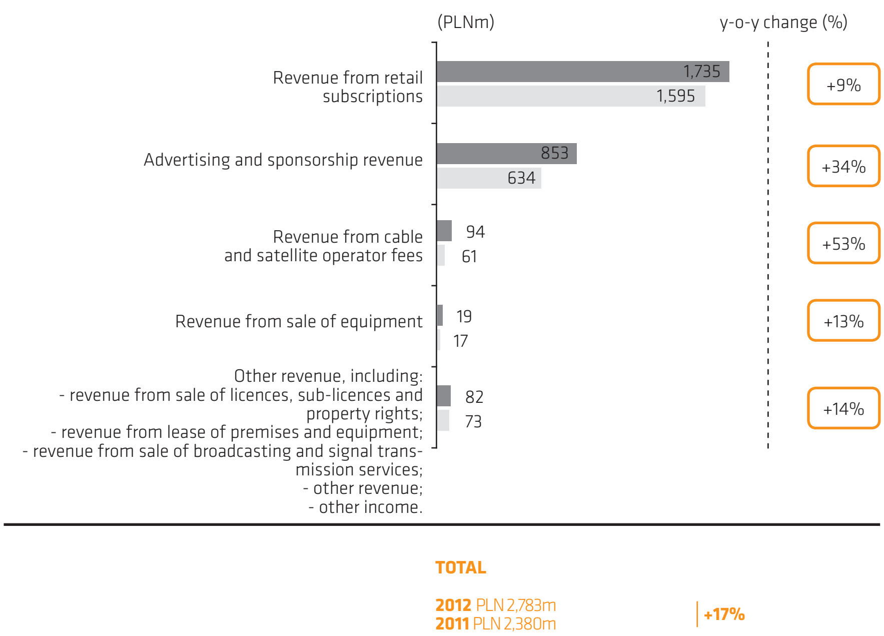
POLSAT

EFFECT OF ACQUISITIONS ON THE GROUP'S FINANCIAL PERFORMANCE

Because in 2011 the Telewizja Polsat Group's accounts were consolidated from April 20th, and in 2012 we included in the consolidation newly acquired companies (INFO-TV-FM Sp. z o.o., Grupa Redefine Sp. z o.o., Netshare Sp. z o.o., Frazpc.pl Sp. z o.o. and Gery.pl Sp. z o.o.), our 2012 results are not fully comparable with the 2011 figures. To ensure data comparability, we eliminated the effect of consolidation of the newly acquired companies and the Telewizja Polsat Group when comparing the 2012 and 2011 results.

REVENUE OF THE CYFROWY POLSAT GROUP

Revenue: 2012 vs 2011

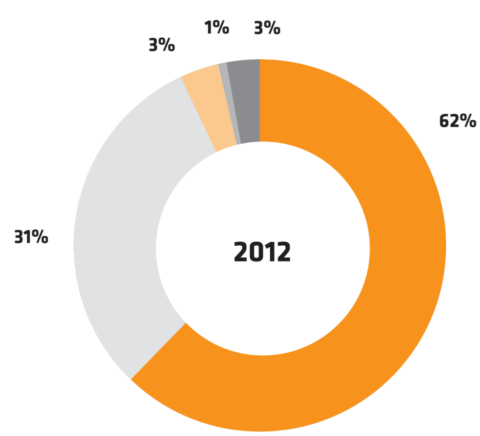


Source: Consolidated financial statements for the financial year ended December 31st 2012 and in-house analyses.

2012

2011

Revenue structure



Revenue from retail subscriptions

Advertising and sponsorship revenue

Revenue from cable and satellite operator fees

Revenue from sale of equipment

Other revenue

The Group's revenue improved on the back of the factors presented below.

Revenue from retail subscriptions (all figures in PLN '000)

Revenue from retail subscriptions went up by PLN 139,926, or 8.8%, from PLN 1,594,872 in 2011 to PLN 1,734,798 in 2012. Consolidation of the Telewizja Polsat Group had no effect on revenue from retail subscriptions. Net of the effect of consolidation of the newly acquired companies, revenue from retail subscription grew by PLN 137,905, or 8.6%, to PLN 1,732,777 in 2012. This increase was mostly due to higher revenue from subscription fees for DTH services (attributable to improved ARPU and a higher year-on-year average number of subscribers) and improved revenue from telecommunication services.

Advertising and sponsorship revenue (all figures in PLN '000)

Advertising and sponsorship revenue increased by PLN 218,376, or 34.4%, from 634,204 in 2011 to PLN 852,580 in 2012. Excluding the effect of consolidation of the Telewizja Polsat Group and the newly acquired companies, advertising and sponsorship revenue fell by PLN 1,087, or 25.0%, from PLN 4,341 in 2011 to PLN 3,254 in 2012.

Revenue from cable and satellite operator fees (all figures in PLN '000)

Revenue from cable and satellite operator fees grew by PLN 32,571, or 53.3%, from PLN 61,089 in 2011 to PLN 93,660 in 2012. This increase resulted from the fact that in 2012 the Telewizja Polsat Group's revenue was consolidated for the full twelve months, while in 2011 it was consolidated only for nine months (starting from April 20th 2011). Another driver of revenue growth was the expanded distribution of Telewizja Polsat channels following their launch on the 'n' platform in May 2011.

Revenue from sale of equipment (all figures in PLN '000)

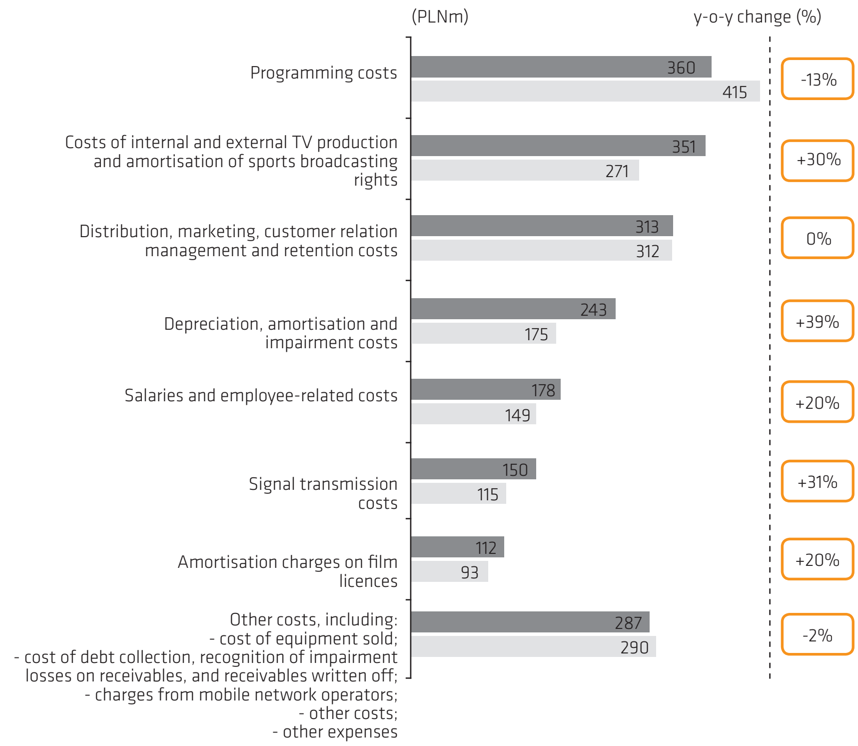
Revenue from sale of equipment went up by PLN 2,224, or 13.4%, from PLN 16,546 in 2011 to PLN 18,770 in 2012. Excluding the effect of consolidation of the Telewizja Polsat Group and the newly acquired companies, revenue from sale of equipment grew by PLN 2,545, or 15.2%, from PLN 16,695 in 2011 to PLN 19,240 in 2012. The increase was attributable to a number of factors, notably: (i) sales of set-top boxes for receiving digital terrestrial television; (ii) changes in the presentation of revenue and costs of Cyfrowy Polsat Technology (CPT) relating to sale of components for the manufacture of proprietary set-top boxes and modems to third parties (currently, the revenue and costs are presented on a net basis, while sales are made on a margin-free basis), and (iii) lower revenue from sale of DTH dishes.

Other revenue (all figures in PLN '000)

Other revenue went up by PLN 19,193, or 32.4%, from PLN 59,214 in 2011 to PLN 78,407 in 2012. Net of the effect of consolidation of the figures of the Telewizja Polsat Group (mainly revenue from sale of broadcasting and signal transmission services and sale of licenses, sub-licenses and property rights) and the newly acquired companies, other revenue grew by PLN 6,018, or 22.6%, from PLN 26,600 in 2011 to PLN 32,618 in 2012, mainly on the back of improved revenue from sale of broadcasting and signal transmission services.

OPERATING COSTS

Costs: 2012 vs 2011



TOTAL

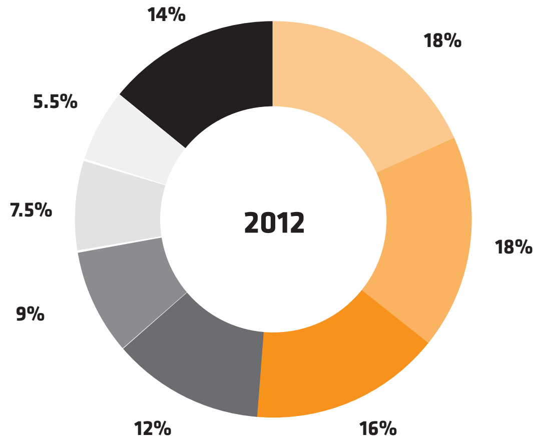
2012 PLN 1,994m
2011 PLN 1,820m
+10%

Source: Consolidated financial statements for the financial year ended December 31st 2012 and in-house analyses.

2012

2011

Cost structure



Programming costs

Costs of internal and external TV production and amortisation of sports broadcasting rights

Distribution, marketing, customer relation management and retention costs

Depreciation, amortisation and impairment costs

Salaries and employee-related costs

Signal transmission costs

Amortisation charges on film licenses

Other costs

The changes in the Group's operating costs were driven by the factors presented below (all figures in PLN '000).

Programming costs

Programming costs fell by PLN 54,431, or 13.1%, from PLN 414,742 in 2011 to PLN 360,311 in 2012. Excluding the effect of consolidation of the Telewizja Polsat Group and the newly acquired companies, programming costs declined by PLN 9,430, or 2.2%, from PLN 434,480 in 2011 to PLN 425,050 in 2012. This decrease was mainly the result of better content acquisition rates negotiated by the Group, and was achieved despite the effect of exchange rate fluctuations and a higher average number of subscribers based on which licensing fees are calculated.

Costs of internal and external TV production and amortisation of sports broadcasting rights

Costs of internal and external TV production and amortisation of sports broadcasting rights increased by PLN 80,922, or 29.9%, from PLN 270,567 in 2011 to PLN 351,489 in 2012. This increase was due primarily to the fact that in 2012 the results of Telewizja Polsat were consolidated for the full twelve months.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs were PLN 312,723 in 2012, and remained practically unchanged from PLN 312,018 in 2011 (up by 0.2%). Net of the effect of consolidation of the Telewizja Polsat Group and the newly acquired companies, the costs amounted to PLN 312,400 in 2012, having increased by PLN 5,239, or 1.7%, from PLN 307,161 in 2011.

Depreciation, amortisation and impairment costs

Depreciation, amortisation and impairment costs grew by PLN 68,186, or 39.0%, from PLN 174,880 in 2011 to PLN 243,066 in 2012.

Net of the effect of consolidation of the Telewizja Polsat Group and the newly acquired companies, the costs were up by PLN 57,914, or 41.6%, from PLN 139,175 in 2011 to PLN 197,089 in 2012. The increase in depreciation, amortisation and impairment costs was primarily attributable to a sharp growth in the number of set-top boxes, modems, hard drives for set-top boxes and routers provided to subscribers (recognised as property, plant and equipment).

Salaries and employee-related costs

Salaries and employee-related costs grew by PLN 29,562, or 19.9%, from PLN 148,811 in 2011 to PLN 178,373 in 2012. Excluding the effect of consolidation of the Telewizja Polsat Group and the newly acquired companies, salaries and employee-related costs amounted to PLN 102,783 in 2012, having increased by PLN 3,030, or 3.0%, from PLN 99,753 in 2011, mainly due to higher average headcount in 2012.

Signal transmission costs

Signal transmission costs increased by PLN 34,995, or 30.5%, from PLN 114,736 in 2011 to PLN 149,731 in 2012. Excluding the effect of consolidation of the Telewizja Polsat Group and the newly acquired companies, signal transmission costs were up by PLN 5,036, or 5.8%, from PLN 86,736 in 2011 to PLN 91,772 in 2012, mainly owing to the adverse effect of exchange rate fluctuations and the cost of lease of additional transponder capacities from Eutelsat (from May and August 2012).

Amortisation charges on film licenses

Amortisation charges on film licenses were up by PLN 18,881, or 20.3%, from PLN 93,226 in 2011 to PLN 112,107 in 2012. This increase was due primarily to the fact that in 2012 the figures of Telewizja Polsat were consolidated for the full twelve months, while in 2011 they were consolidated from April 20th.

Charges from mobile network operators

Charges from mobile network operators grew by PLN 18,736, or 73.8%, from 25,374 in 2011 to 44,110 in 2012. The increase was mainly attributable to the growth in the number of customers using our Internet access service and higher average usage of data packages. Consolidation of the Telewizja Polsat Group and the newly acquired companies had no effect on the amount of charges from mobile network operators.

Cost of equipment sold

Cost of equipment sold increased by PLN 2,604, or 7.8%, from PLN 33,548 in 2011 to PLN 36,152 in 2012. Excluding the effect of consolidation of the Telewizja Polsat Group, the cost was up by PLN 2,975, or 8.8%, from PLN 33,694 in 2011 to PLN 36,669 in 2012. The increase was the net result of a number of factors, including in particular: (i) recognition in 2012 of the cost of sales of devices for receiving terrestrial television signals, such as laptops and tablets (no such items were recognised in the comparative period); (ii) the lower cost of sales of hard drives for set-top boxes, due to the fact that in 2012 hard drives were mainly provided to subscribers; (iii) changes in the presentation of CPT's revenue and costs related to sale of components for the manufacture of proprietary set-top boxes and modems to third parties (currently, revenue and costs are presented on a net basis), (iv) lower sale of DTH dishes, and (v) the lower unit cost of modems sold.

Costs of debt collection, recognition of impairment losses on receivables and receivables written off

Costs of debt collection, recognition of impairment losses on receivables and receivables written off fell by PLN 46,797, or 63.0%, from PLN 74,254 in 2011 to PLN 27,457 in 2012. Net of the effect of consolidation of the Telewizja Polsat Group, the costs were down by PLN 43,795, or 61.6%, from PLN 71,110 in 2011 to PLN 27,315 in 2012. The decrease was driven mainly by the lower amount of impairment losses and receivables written off. Consolidation of the newly acquired companies had no material effect on the amount of the costs.

Other costs

Other costs grew by PLN 18,679, or 13.6%, from PLN 137,465 in

2011 to PLN 156,144 in 2012. Excluding the effect of consolidation of the Telewizja Polsat Group and the newly acquired companies, other costs fell by PLN 11,829, or 12.1%, from PLN 97,490 to PLN 85,661 in 2012. The decrease was due primarily to lower costs of legal, advisory and consulting services, property maintenance costs and costs of SMART and SIM cards provided to customers.

EBITDA AND EBITDA MARGIN

(all figures in PLN '000)

eBITDA improved by PLN 297,065, or 40.4%, from PLN 735,180 in 2011 to PLN 1,032,245 in 2012. EBITDA margin increased from PLN 31.1% in 2011 to 37.2% in 2012. Net of the effect of a one-off decrease in costs paid by Telewizja Polsat to organisations for collective administration of copyrights, EBITDA amounted to PLN 1,006,852, with the EBITDA margin at 36.2%, in 2012.

Excluding the effect of consolidation of the Telewizja Polsat Group and the newly acquired companies, EBITDA grew by PLN 164,454, or 34.1%, from PLN 481,967 in 2011 to PLN 646,421 in 2012, while EBITDA margin was up from 29.3% in 2011 to 36.1% in 2012.

NET PROFIT (all figures in PLN '000)

Net profit grew by PLN 438,108, or 273.5%, from PLN 160,190 in 2011 to PLN 598,298 in 2012.

CAPITAL EXPENDITURE (all figures in in PLN '000)

Our capital expenditure amounted to PLN 91,177 in 2012 and PLN 65,674 in 2011. The capital expenditure to revenue ratio was 3.3% in 2012 and 2.8% in 2011. In 2012, capital expenditure related chiefly to the settlement of liabilities under purchases of property, plant and equipment and intangible assets recognised as at December 31st 2011, as well as purchases of broadcasting equipment, technical equipment, equipment used to manufacture set-top boxes, computer hardware, equipment for IT systems and IT system upgrades, modernisation projects and payments to the National Broadcasting Council (KRRiT) for the licence to broadcast the Polsat Sport News channel.

Cash flows

Consolidated statement of cash flows (PLN '000)	2012	2011	Change (%)
Net cash from operating activities	781,367	347,046	125.1%
Net cash from investing activities	(133,431)	(2,426,751)	-94.5%
Net cash from financing activities	(653,347)	2,327,429	-
Change in cash and cash equivalents	(5,411)	247,724	-

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Cash flows from operating activities (all figures in PLN '000)

Net cash from operating activities reached PLN 781,367 in 2012, mainly on the back of net profit of PLN 598,298, adjusted for a number of factors, the most important being: (i) amortisation, depreciation and impairment losses, interest expense and income tax; (ii) amortisation of film licences and sport broadcasting rights; (iii) payments for film licences and sport broadcasting rights; (iv) higher net value of reception equipment under operating lease; (v) net foreign exchange gains; (vi) increases in receivables and other assets, and (vii) change in liabilities, provisions and deferred income.

In 2011, cash flows from operating activities totalled PLN 347,046, driven mainly by net profit of PLN 160,190, adjusted for a number of factors, including in particular: (i) amortisation, depreciation and impairment losses, interest expense and income tax; (ii) higher value of reception equipment under operating lease; (iii) payments for film licences and sport broadcasting rights; (iv) net foreign exchange losses; (v) amortisation of film licences and sport broadcasting rights; (vi) increase in receivables and other assets, and (vii) change in liabilities, provisions and deferred income.

Cash flows from investing activities (all figures in PLN '000)

In 2012, net cash used in investing activities totalled PLN 133,431. The amount was chiefly attributable to acquisition of property, plant and equipment, intangible assets and shares in subsidiaries (net of cash acquired). In 2011, cash used in investing activities amounted to PLN 2,426,751, and included spending on the acquisition of a 100% equity interest in Telewizja Polsat, as well as other expenses, including expenses on acquisition of property, plant and equipment and intangible assets.

Cash flows from financing activities (all figures in PLN '000)

In 2012, net cash used in financing activities stood at PLN 653,347, mostly attributable to voluntary prepayment and scheduled repayments of principal under a credit facility, and repayment of a credit facility taken over upon the acquisition of companies of the Redefine Group, in the aggregate amount of PLN 453,324, as well as payment of commission fees and interest on credit facilities, loans, bonds and finance leases, totalling PLN 195,934. In 2011, net cash from financing activities of PLN 2,327,429 consisted mainly of PLN 2,800,000 proceeds under a term loan facility and a bridge loan facility, and PLN 1,372,245 under notes in issue. The figure was partially offset by repayment of credit facilities in the amount of PLN 1,538,844, payment of interest on credit facilities, loans and finance leases of PLN 289,899, as well as repayment of an overdraft facility of PLN 18,041.

BALANCE SHEET

The table below presents key changes in the balance sheet structure in 2012.

CONSOLIDATED BALANCE SHEET (PLN '000)	Dec 31 2012	Dec 31 2011	Change (%)
Assets			
NON-CURRENT ASSETS	**4,476,148**	**4,278,148**	**4.6%**
Goodwill	2,568,033	2,412,285	6.5%
Other intangible assets	81,380	54,194	50.2%
Non-current programming assets	97,988	131,141	-25.3%
Other non-current assets	109,642	69,447	57.9%
Deferred tax assets	31,356	55,726	-43.7%
CURRENT ASSETS	**1,085,197**	**1,070,400**	**1.4%**
Trade and other receivables	375,659	320,542	17.2%
TOTAL ASSETS	**5,561,345**	**5,348,548**	**4.0%**
Equity and liabilities			
EQUITY	**2,468,403**	**1,896,043**	**30.2%**
Other capital reserves	-16,327	9,611	-269.9%
Retained earnings	1,175,693	577,395	103.6%
NON-CURRENT LIABILITIES	**2,026,162**	**2,484,080**	**-18.4%**
Liabilities under loans and borrowings	592,003	958,407	-38.2%
Liabilities under senior notes	1,316,479	1,417,525	-7.1%
CURRENT LIABILITIES	**1,066,780**	**968,425**	**10.2%**
Liabilities under loans and borrowings	275,608	246,778	11.7%
Trade and other payables	472,094	374,955	25.9%
TOTAL EQUITY AND LIABILITIES	**5,561,345**	**5,348,548**	**4.0%**

POLSAT PLAY

DISCOVERY CHANNEL

All figures discussed below are presented in PLN `000.

Our balance-sheet total stood at PLN 5,561,345 and PLN 5,348,548 as at December 31st 2012 and December 31st 2011, respectively. Net of the effect of consolidation of the companies acquired in 2012 (INFO-TV-FM Sp. z o.o., the Redefine Group, Netshare Sp. z o.o., Frazpc.pl Sp. z o.o. and Gery.pl Sp. z o.o., referred to as the 'newly acquired companies'), our balance-sheet total was PLN 5,574,015 as at December 31st 2012.

Non-current assets totalled PLN 4,476,148 and PLN 4,278,148, and represented 80.5% and 80.0% of total assets, as at December 31st 2012 and December 31st 2011, respectively. Excluding the effect of consolidation of the newly acquired companies, our non-current assets stood at PLN 4,360,557 and accounted for 78.2% of total assets as at December 31st 2012.

The value of reception equipment grew by PLN 11,450, or 2.8%, to PLN 420,060 as at December 31st 2012, from PLN 408,610 as at December 31st 2011, driven by an increase in the number of pay TV reception sets and Internet sets made available to our subscribers. Consolidation of the newly acquired companies had no effect on the balance of reception equipment.

Other property, plant and equipment increased by PLN 13,130, or 5.0%, to PLN 276,407 as at December 31st 2012, from PLN 263,277 as at December 31st 2011. Excluding the effect of consolidation of the newly acquired companies, other property, plant and equipment went up by PLN 8,232, or 3.1%, to PLN 271,509 as at December 31st 2012. The growth is attributable to the net effect of a few factors, primarily including an increase in tangible assets under construction, purchase of equipment used to manufacture set-top boxes, expenditure on buildings and structures, and depreciation charges for the period.

Goodwill grew by PLN 155,748, or 6.5%, from PLN 2,412,285 as at December 31st 2011 to PLN 2,568,033 as at December 31st 2012. This growth resulted from the initial measurement of goodwill from the acquisition of INFO-TV-FM, Redefine Group companies, Netshare Sp. z o.o., Frazpc.pl Sp. z o.o. and Gery Sp. z o.o.

As at December 31st 2012, the value of the brand was PLN 847,800, up by PLN 7,800 from PLN 840,000 as at December 31st 2011. The increase is attributable to the recognition of the ipla brand's value.

Other intangible assets grew by PLN 27,186, or 50.2%, from PLN 54,194 as at December 31st 2011 to PLN 81,380 as at December 31st 2012. Net of the effect of consolidation of the newly acquired companies, other intangible assets went up by PLN 10,487, or 19.4%, to PLN 64,681 as at December 31st 2012, chiefly owing to the upgrade of systems and development work.

The value of non-current and current programming assets went down by PLN 28,930, or 10.8%, from PLN 268,570 as at December 31st 2011 to PLN 239,640 as at December 31st 2012. This decrease was the net effect of a number of factors, including in particular the purchase of film licenses and sport broadcasting rights, as well as amortisation. Consolidation of the newly acquired companies had no material effect on this item.

Investment property stood at PLN 8,357 as at December 31st 2012, almost unchanged (down by 1.0%) when compared with December 31st 2011. The item refers to the Telewizja Polsat Group and comprises land and buildings for lease.

Non-current commissions to distributors amortised over time amounted to PLN 35,125 as at December 31st 2012, practically unchanged from PLN 35,028 as at December 31st 2011. Current commissions to distributors amortised over time decreased by PLN 2,265, or 3.8%, from PLN 59,361 as at December 31st 2011 to PLN 57,096 as at December 31st 2012. Consolidation of the newly acquired companies had no effect on this item.

Other non-current assets totalled PLN 109,642 as at December 31st 2012, up by PLN 40,195, or 57.9%, from PLN 69,447 as at December 31st 2011. Net of the effect of consolidation of the newly acquired companies, other non-current assets went up by PLN 112,102, or 161.6%, to PLN 181,649 as at December 31st 2012. This increase is chiefly attributable to growth of non-current prepayments and accrued income (primarily related to placement of the second and third orders for data transmission services with Mobyland).

Current assets totalled PLN 1,085,197 and PLN 1,070,400, and represented 19.5% and 20.0% of total assets, respectively, as at December 31st 2012 and December 31st 2011, respectively.

Excluding the effect of consolidation of the newly acquired companies, our current assets stood at PLN 1,213,458 and accounted for 21.8% of total assets as at December 31st 2012.

Inventories stood at PLN 161,974 as at December 31st 2012, having dropped by PLN 16,153, or 9.1%, from PLN 178,127 as at December 31st 2011. Excluding the effect of consolidation of the newly acquired companies, inventories were PLN 161,934 as at December 31st 2012. The drop was a net effect of a number of factors, including primarily: (i) decreases in the value of DTH set-top boxes and hard drives for set-top boxes, and (ii) recognition of inventories of end equipment for receiving digital terrestrial television signals.

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Receivables under notes and bonds stood at PLN 0 as at December 31st 2012, compared with PLN 14,854 as at December 31st 2011. The value as at the end of 2011 represented unsecured interest-bearing notes with total nominal value of PLN 14,000, issued by NFI Magna Polonia S.A.

Trade and other receivables went up by PLN 55,117, or 17.2%, from PLN 320,542 as at December 31st 2011 to PLN 375,659 as at December 31st 2012. Excluding the effect of consolidation of the newly acquired companies, trade and other receivables increased by PLN 56,392, to PLN 376,934 as at the end of December 2012. The increase followed mainly from an increase in trade receivables from non-related entities, which was partially offset, primarily by a decline in receivables from the government.

Cash and cash equivalents went down by PLN 7,180, or 2.6%, from PLN 277,534 as at December 31st 2011 to PLN 270,354 as at December 31st 2012. Net of the effect of consolidation of the newly acquired companies, cash increased by PLN 119,802, or 43.2%, to PLN 397,336 as at December 31st 2012. The increase, chiefly attributable to a higher amount of net cash from operating activities, was partially offset, primarily by repayment of principal (including a prepayment of PLN 200,000) and interest under the SFA loan facility, payment of interest under Senior Notes, and capital expenditure.

Other current assets totalled PLN 71,968 as at December 31st 2012, close to their value of PLN 72,467 as at December 31st 2011. Consolidation of the newly acquired companies had no material effect on this item.

Equity grew by PLN 572,360, or 30.2%, from PLN 1,896,043 as at December 31st 2011 to PLN 2,468,403 as at December 31st 2012. Net of the effect of consolidation of the newly acquired companies, equity went up by PLN 592,103, or 31.2%, to PLN 2,448,146 as at December 31st 2012. The key driver of the equity increase was the 2012 profit.

Liabilities (current and non-current) under loans and borrowings decreased by PLN 337,574, or 28.0%, from PLN 1,205,185 as at December 31st 2011 to PLN 867,611 as at December 31st 2012. This change is mainly attributable to a prepayment of PLN 200,000 and scheduled repayments under a term loan facility. Consolidation of the newly acquired companies had no effect on liabilities under loans and borrowings.

Liabilities (current and non-current) under notes and bonds declined by PLN 108,842, or 7.1%, from PLN 1,522,577 as at December 31st 2011 to PLN 1,413,735 as at December 31st 2012, which was mainly due to a decrease in the EUR/PLN exchange rate used to measure the carrying amount of notes. Consolidation of the newly acquired companies had no effect on liabilities under notes and bonds.

Non-current and current deferred income totalled PLN 206,419 as at December 31st 2012, practically unchanged from PLN 207,013 as at December 31st 2011. Consolidation of the newly acquired companies had no material effect on this item.

Other non-current liabilities and provisions went up by PLN 5,193, or 41.5%, from PLN 12,497 as at December 31st 2011 to PLN 17,690 as at December 31st 2012, chiefly as a result of recognising long-term security deposits for delivered equipment and an increase in liabilities under financial instruments. The effect of consolidation of the newly acquired companies on other non-current liabilities and provisions was immaterial.

Trade and other payables went up by PLN 97,139, or 25.9%, from PLN 374,955 as at December 31st 2011 to PLN 472,094 as at December 31st 2012. Net of the effect of consolidation of the newly acquired companies, trade and other payables increased by PLN 91,550, or 24.4%, to PLN 466,505 as at December 31st 2012, mainly owing to an increase in trade payables and purchase of property, plant and equipment and intangible assets. The increase was partially offset, primarily by a decline in current provisions.

Security deposits for delivered equipment grew by PLN 515, or 4.0%, from PLN 12,744 as at December 31st 2011 to PLN 13,259 as at December 31st 2012, which was mainly driven by an increase in security deposits received from distributors. Consolidation of the newly acquired companies had no effect on security deposits received for delivered equipment.

DISCOVERY CHANNEL

AWARDS AND DISTINCTIONS IN 2012

February

Forbes Diamonds 2012

1st place on the list of companies from the region of Mazovia and 3rd place in the nationwide ranking, from the prestigious economic magazine 'Forbes'.

Golden Bell 2011

Award in the 'Mobile Internet of the Year' category for our LTE Internet, from new technology magazine 'Mobility'.

'Company Supporting Mobile Technology Development'

The prestigious title and statuette in the first edition of the Mobile Trends Awards, in the 'Company Supporting Mobile Technology Development' category, for our LTE Internet.

Listed Company of the Year

2nd place in the 13th edition of the general ranking prepared by the 'Puls Biznesu' daily, 2nd place in the 'Investor Relations' and 'Quality of Products and Services' categories, and 5th place in the 'Management Expertise' category.

Virtual Telephone

The main award from the 'Mobile Internet' magazine, in the 'Service of the Year' category, for introduction and launch of Poland's first commercial offer of Internet access in the LTE technology.

March

The Golden Aerial for LTE

The Golden Aerial of the Telecommunication World (Złota Antena Świata Telekomunikacji) in the 'Service of the Year' category, from the Board of the Telecommunication and Media World Symposium, for the implementation of LTE 1800, the most advanced data transmission technology.

Company of the Year

Distinction for Cyfrowy Polsat in the 'Company of the Year' category, from the Board of the Telecommunication and Media World Symposium, as part of the Golden Aerial of the Telecommunication World competition.

'Manager of the Year' title for Dominik Libicki, President of the Management Board of Cyfrowy Polsat

Distinction for the President of the Management Board of Cyfrowy Polsat in the 'Manager of the Year' category, from the Board of the Telecommunication and Media World Symposium, as part of the Golden Aerial of the Telecommunication World competition.

VIRTUAL TELEPHONE 2011
Photo: Mobile Internet

April

Digital Super Product 2012

Award for the mobile M-T 5000 set-top box for digital terrestrial television (Digital Video Broadcasting – Terrestrial (DVB-T)), from the Board of Poznań Media Expo.

Distinction for Beata Białkowska, Head of Marketing and Sales, in a special report on the telecommunication market

Distinction in a special report on the telecommunication market, prepared by specialist magazine 'Media & Marketing Polska'.

'Man of the Year' title for Zygmunt Solorz-Żak

Zygmunt Solorz-Żak, Chairman of the Supervisory Board of Cyfrowy Polsat, received the 'Man of the Year' title from 'Media & Marketing Polska' magazine.

May

'CFO of the Year' title for Tomasz Szeląg

Tomasz Szeląg, the Management Board Member and CFO of Cyfrowy Polsat, received the main award in the 'CFO of the Year' competition, from Euler Hermes and and 'Forbes' magazine.

Distinction for Investor Relations

Distinction for effective investor relations and their overall quality from 'Trend' magazine.

July

Dominik Libicki, President of the Management Board, among 20 best managers in Poland

Distinction in the 'Top 20 of the Best Managers in Poland in Times of Crisis' from the 'Bloomberg Businessweek Polska' magazine.

THE GOLDEN ANTENNA OF THE TELECOMMUNICATION WORLD
Photo: MMC

September

Sat Kurier Awards 2012

Awards from the 'Sat Kurier' magazine, in the 'Best DVB-T/MPEG-4 Tuner' category for the T-HD 1000 set-top box, and in the 'Innovation of the Year' category, where our MOBILE TV won the top place.

October

The Best Annual Report

Distinction for 'The Best Directors' Report' in the 'Enterprise' category, in the seventh edition of the 'Best Annual Report 2011' competition, organised by the Tax and Accounting Institute (Instytut Rachunkowości i Podatków).

November

Aneta Jaskólska, Member of the Management Board of Cyfrowy Polsat, among the 50 best women managers in 2012

The ranking of the 'Best Women Managers in Poland in 2012' was prepared by the 'Wprost' weekly.

December

Champion of the WSE

2nd place in the Internet poll for 'Stock Exchange Champion of the Year', run by the 'Puls Biznesu' daily.

Company with the best ESG reporting

Distinction from SEG, GES and Accreo Taxand for the best transparency in disclosure of non-financial data (information on environmental protection, corporate social responsibility and corporate governance).

Title of 'Most Valuable Personality' in Polish Business for Dominik Libicki

Dominik Libicki, President of the Management Board of Cyfrowy Polsat S.A., was pronounced one of the '50 Most Valuable Personalities in Polish Business' in a ranking compiled by the 'Home & Market' magazine.

GOLDEN BELL 2011 FOR CYFROWY POLSAT
Photo: Mobility

GET TO KNOW CYFROWY POLSAT

We are a leading media group in Poland, comprising the following companies:

Cyfrowy Polsat – Poland's largest pay TV operator and the fourth largest satellite platform in Europe,
Telewizja Polsat – leading commercial broadcaster in Poland,
Redefine – creator of the ipla online service, the leader of the online video market in Poland.

THE TELEWIZJA POLSAT GROUP HAS:

- 20 popular TV channels, four of which are available in high definition, including entertainment, sports, news, business, lifestyle, film, documentary and children's channels,
- 20.5% audience share (16–49 age group),
- 23.2% share of the TV advertising market.

THE CYFROWY POLSAT PLATFORM HAS:

- 3.57 million subscribers,
- Over 120 Polish-language channels, including 34 HD channels
- PPV, VOD Home Video Rental, catch-up TV, Multiroom HD, MOBILE TV.

We also have a set-top box manufacturing plant.

We provide telecommunication services. Since September 2008, we have provided mobile telephony services as an infrastructural MVNO. In April 2012, together with Polkomtel, we began to offer Polkomtel's mobile telephony services (Plus network).

We sell broadband Internet access in HSPA+ and LTE wireless technologies.

In April 2012, we acquired Redefine Sp. z o.o., which created the ipla Internet TV. ipla is the leader of the Polish video online streaming market, both in terms of its compatibility with electronic devices (computers/notebooks, tablets, smartphones, TV sets with internet connections, set-top boxes, game consoles) and in terms of content volume. ipla is also the leader in terms of the number of users and the average time spent by a single user on watching streamed content. Another advance towards growth in the online segment was the launch of muzo, a digital music streaming service. Our ultimate goal is to have a library of five million audio tracks, which will appeal to the music tastes of some 90% of Poland's population.

As the only operator on the market we offer a unique product – MOBILE TV, based on the terrestrial digital technology (DVB-T). Cyfrowy Polsat's mobile TV is available for viewing on the most popular portable devices, and can be accessed using the newest DVB-T set-top box manufactured by our plant.

In May 2008, Cyfrowy Polsat floated its shares on the Warsaw Stock Exchange.

We operate in two business segments: the retail business segment, which provides digital TV, broadband Internet, mobile telephony, and online entertainment services, and the TV broadcasting and production segment.

GOVERNING BODIES

MANAGEMENT BOARD OF CYFROWY POLSAT

Our Management Board currently consists of four Members. There were no changes to the composition of the Management Board in 2012. The members of the Management Board were appointed for a three-year term of office in 2010.

Composition of the Management Board

The table below presents names, surnames, positions, year of appointment and year of expiry of the current term of office of each Management Board member.

Name and surname	Position	Year of first appointment	Year of appointment for the current term of office	Year of expiry of the current term of office
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

As at December 31st 2012.

Dominik Libicki

Mr Libicki has been President of the Management Board of Cyfrowy Polsat S.A. since March 2001. He also sits on the Supervisory Board of Telewizja Polsat Sp. z o.o., and is President of the Management Board of INFO-TV-FM Sp. z o.o. He has served as Vice-President of the Management Board of the Union of Private Media Employers of the Polish Confederation of Private Employers 'Lewiatan' since February 2005. His previous career was mainly in the television production industry. He was Managing Director at PAI Film. He also ran his own company, Studio Meg, which produced television advertising spots and television programmes. In 2005-2006, Mr Libicki served as Member, and in 2006-2008 as Vice-Chairman of the Supervisory Board of Polska Telefonia Cyfrowa Sp. z o.o., the operator of the Era mobile telephony network (presently T-Mobile). From May 1999 to March 2011, he sat on the Supervisory Board of Polskie Media S.A. Mr Libicki graduated from the Faculty of Environmental Engineering of the Wrocław University of Technology. He completed a training course for members of supervisory boards of state-owned companies, organised by the Polish Ministry of Economy.

Dariusz Działkowski

Mr Działkowski has been Member of the Management Board in charge of Technology since August 2007. He has served as Technical Director of Cyfrowy Polsat S.A. since November 2001. He is also Member of the Management Boards of INFO-TV-FM Sp. z o.o., Redefine Sp. z o.o., Netshare Sp. z o.o., Gery.pl Sp. z o.o. and Frazpc.pl Sp. z o.o. Mr Działkowski's career included the positions of Technical Director at Canal+ and Services Sales Department Manager at Ericsson. He is one of the founders of Centrum Telemarketingowe Sp. z o.o. Mr Działkowski graduated from the Faculty of Electronics of the Warsaw University of Technology with a degree in radio and television broadcasting technology. He also holds an MBA degree from the University of Maryland.

Aneta Jaskólska

Ms Jaskólska has been Member of the Management Board of Cyfrowy Polsat S.A. since July 2010. As Member of the Management Board she is responsible for the Legal Department, Administration Department, Human Resources Department and Information Protection and Security Department. Ms Jaskólska is also Member of the Management Boards of Cyfrowy Polsat Trade Marks Sp. z o.o., INFO-TV-FM Sp. z o.o., Redefine Sp. z o.o., Netshare Sp. z o.o., Gery.pl Sp. z o.o. and Frazpc.pl Sp. z o.o. She has been Director of the Legal and Regulatory Department of Cyfrowy Polsat S.A. since 2007. Between 2004 and 2007, she served as Commercial Proxy and Director of Legal Department of UPC Polska Sp. z o.o. Ms Jaskólska has more than ten years of experience in the provision of advisory and legal services to large corporate clients. She graduated from the Faculty of Law and Administration of the University of Warsaw and completed legal counsel training with the District Chamber of Legal Counsels in Warsaw, receiving the licence to practice as a legal counsel. Ms Jaskólska also holds a degree in Copyright, Publishing and Press Law from the Faculty of Management and Social Communication of the Jagiellonian University.

Tomasz Szeląg

Mr Szeląg has been Member of the Management Board in charge of Finance since May 2009. Mr Szeląg is also Member of the Management Board of Telewizja Polsat Sp. z o.o., President of the Management Board of Cyfrowy Polsat Trade Marks Sp. z o.o., as well as Member of the Management Boards of Cyfrowy Polsat Finance AB, INFO-TV-FM Sp. z o.o., Redefine Sp. z o.o., Netshare Sp. z o.o., Gery.pl Sp. z o.o. and Frazpc.pl Sp. z o.o. Before joining Cyfrowy Polsat, Mr Szeląg was Vice-President of the Management Board in charge of Finance at Telefonia Dialog S.A. Before that, he served as Director of the Wrocław Branch of Société Générale Bank, Director of the Security Department and Director of the Research and Market Risk Department of KGHM Polska Miedź S.A. He graduated from the Faculty of National Economy of the Wrocław University of Economics, with a degree in International Economic and Political Relations, specialisation in Foreign Trade. He holds a PhD degree in Economics.

SUPERVISORY BOARD OF CYFROWY POLSAT

The Supervisory Board consists of five Members. The composition of the Supervisory Board remained unchanged throughout 2012. On June 5th 2012, the General Meeting reappointed all the existing Members of the Supervisory Board for another three-year term of office.

Name and surname	Position	Year of first appointment	Year of appointment for the current term of office	Year of expiry of the current term of office
Zygmunt Solorz-Żak	Chairman of the Supervisory Board Member of the Remuneration Committee	2008	2012	2015
Robert Gwiazdowski	Independent[1] Member of the Supervisory Board Member of the Audit Committee	2008	2012	2015
Andrzej Papis	Member of the Supervisory Board	2007	2012	2015
Leszek Reksa	Independent[1] Member of the Supervisory Board Member of the Audit Committee	2008	2012	2015
Heronim Ruta	Member of the Supervisory Board Member of the Audit Committee Member of the Remuneration Committee	2001	2012	2015

[1] Meets the independence criteria as defined in Section III.6 the Code of Best Practice for WSE Listed Companies.

Zygmunt Solorz-Żak

Mr Solorz-Żak is one of the most prominent private entrepreneurs in Poland, active in various business sectors of Poland's economy. At the end of the 1980s, he founded Przedsiębiorstwo Zagraniczne SOLPOL, a foreign trade enterprise. At the beginning of the 1990s, Mr Solorz-Żak entered the media sector by investing in 'Kurier Polski', a daily newspaper. In 1993, Mr Solorz-Żak launched Polsat, the first private satellite television station in Poland, which was later that year awarded a broadcasting licence and transformed into a nationwide television channel. Within the first few years of its operations, Telewizja Polsat became one of the leaders of the TV broadcasting market in Poland. Currently, Mr Solorz-Żak focuses his business activities on the media and telecommunication sectors, where he operates mainly through such companies as Cyfrowy Polsat S.A. (being also its founder), Telewizja Polsat Sp. z o.o., Polkomtel Sp. z o.o. (in which he is the President of the Management Board) and the Midas Group. Mr Solorz-Żak's investment interests also extend to companies from the sectors of energy (ZE PAK S.A), banking and finance (Invest-Bank S.A.), property development (Port Praski Sp. z o.o.) and sports (WKS Śląsk Wrocław S.A.). Mr Solorz-Żak has many years' experience in serving on the governing bodies of commercial-law companies, which includes positions of chairman or member of the supervisory boards of such companies as Telewizja Polsat Sp. z o.o., Midas S.A., Invest Bank S.A. and ZE PAK S.A.

Robert Gwiazdowski

Mr Gwiazdowski holds a post-doctoral degree of Habilitated Doctor (doctor habilitatus) in law. He has been a licenced investment adviser since 1997. Mr Gwiazdowski is also an arbiter in arbitration proceedings and a judge of the Stock Exchange Court at the Warsaw Stock Exchange. He is the President of Adam Smith Centre. From 1985 to 2006, he was a faculty member at the University of Warsaw (research assistant and then assistant professor at the Faculty of Law and Administration). In 1992-2002, he was a partner in the legal firm Smoktunowicz & Falandysz. In 1994-2004, he was Head of Tax Commission of the Adam Smith Centre. Since 2002, he has provided legal/tax and financial/economic advisory services as a sole trader, operating under the name of Gwiazdowski Consulting. Mr Gwiazdowski appears on Polish television and radio as a commentator on tax and economic issues and is also the author of numerous research publications and articles. He serves as Member of the Supervisory Board of Gemius S.A., MNI S.A. (an independent member of the Supervisory Board) and DGA S.A.

Andrzej Papis

Mr Papis is a legal counsel. He graduated from the Faculty of Law and Administration of the University of Warsaw and completed legal counsel training with the District Chamber of Legal Counsels in Warsaw. From 1998 to 1999, he was an assistant in the team of Prof. M. Kulesza in charge of Poland's administration reform and then an associate of the Government Plenipotentiary Office for Implementation of the General Health Insurance Programme. He has worked as a lawyer for Telewizja Polsat Sp. z o.o. since 2000 and for Inwestycje Polskie Sp. z o.o. since 2001. He has served as Member of the Management Board of TFP Sp. z o.o. since 2003, Member of the Supervisory Board of Elektrim S.A. since 2004, and Member of the Supervisory Board of Cyfrowy Polsat S.A. since 2007. In 2007-2010, he sat on the Supervisory Board of Media-Biznes Sp. z o.o. In 2011, Mr Papis was appointed to the Supervisory Board of Polkomtel Sp. z o.o.

Leszek Reksa

Mr Reksa graduated from the Foreign Trade Faculty of the Central School of Planning and Statistics in Warsaw (currently Warsaw School of Economics). He has many years' professional experience in managerial positions at various companies. He has worked in managerial positions in the banking sector for almost 15 years (at a large banking institution). He also has many years' experience in serving on the governing bodies of commercial-law companies, which includes the positions of 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 Zakłady Azotowe Kędzierzyn S.A.

Heronim Ruta

Mr Ruta graduated from the Faculty of Electrical Engineering 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. In 1973-1978, he was a trainee and then an electrical technology specialist at Zakłady Tworzyw Sztucznych Pronit Erg (a plastics processing plant). From 1978 to 1979, he was a specialist supervising the development of an experimental car for ultrasonic detection of cracks in rail tracks at the National Railway Technology Research Centre. In 1980, Mr Ruta worked for Cementation International Limited, designing the electrical layout for the Marriott Hotel in Warsaw. In 1980-1987, he was head of Wytwórczo-Usługowa Spółdzielnia Pracy (a production and services cooperative). In 1987, he founded Herom Sp. z o.o., where he was President until 1992. From 1992 to 1994, he was President of Ster Sp. z o.o. In 1991-1998, Mr Ruta ran his own business as a sole trader, which involved trading in electronic equipment and development of a network of television broadcasting transmitters for Telewizja Polsat S.A. In 2002-2005, he was Member of the Management Board of Polaris Finance B.V. From 2002 to 2004, he was Member of the Supervisory Board of Uzdaroji Akcine Bendrove 'Baltijos Televizija'. Since November 2011, he has been Chairman of the Supervisory Board of Polkomtel Sp. z o.o.

CORPORATE GOVERNANCE

Corporate governance refers to the overall management and supervision of our business, including its organisation, as well as to the values, principles and business guidelines, and to all the internal and external regulations and monitoring of mechanisms in place at the Group.

Effective and transparent corporate governance guarantees that Cyfrowy Polsat is managed and controlled in a responsible manner, focused on value creation. It fosters confidence among our Polish and foreign investors, financial markets, customers and business partners, as well as Group employees.

In Poland, the principles of corporate governance have been compiled in the Code of Best Practice for WSE Listed Companies. Its objective is to enhance the transparency of listed companies, improve the quality of their communication with investors and strengthen the protection of shareholder rights, also in areas which are not regulated by law. The Code of Best Practice relates to areas in which its application may have a positive effect on the market valuation of companies and, consequently, reduce costs of raising capital. More information on corporate governance can be found on the dedicated web page at **www.corp-gov.gpw.pl.**

Each year, we publish a statement of compliance with corporate governance rules in a given year together with the annual report. Moreover, should we fail to comply with any of the principles of the Code of Best Practice, we release a current report concerning such non-compliance. The statement of compliance with the Code of Best Practice in 2012 was published on March 12th 2013 together with the annual report, and can be found in the Corporate governance section of our website at **www.cyfrowypolsat.pl/inwestor.**

MANNER OF OPERATION AND KEY POWERS OF THE GOVERNING BODIES OF CYFROWY POLSAT

General Meeting

The General Meeting (GM) is the Company's supreme governing body, empowered to make decisions on the most important matters related to the Company's existence and operation. The powers and responsibilities and the manner of operation of the General Meeting are defined in the Polish Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure for the General Meeting. The powers and responsibilities of the General Meeting include: review and approval of the Directors' Report on the Company's Operations, Report of the Supervisory Board and financial statements for the previous financial year, decisions on profit distribution or coverage of loss, appointment and removal from office of Members of the Supervisory Board and determining their remuneration, amendments to the Company's Articles of Association and change of the Company's business profile, increase or reduction of the Company's share capital, merger, transformation, dissolution or liquidation of the Company, issue of bonds/notes, as well as other matters stipulated in the Polish Commercial Companies Code.

The General Meeting may be held as an annual or extraordinary meeting. The Annual General Meeting is held within six months of the end of each financial year, while the Extraordinary General Shareholders Meeting is convened in circumstances specified in the Company's Articles of Association and whenever the authorised persons deem it advisable.

Supervisory Board

The Supervisory Board exercises ongoing supervision over all aspects of the Company's operations. The exclusive powers of the Supervisory Board of Cyfrowy Polsat S.A. include appointment and removal from office of the Management Board Members and determination of their remuneration, appointment of the auditor and approval of the terms and conditions of material related-party transactions. The Supervisory Board of the Company meets at least once a quarter.

The Supervisory Board of Cyfrowy Polsat S.A. may consist of five to nine members (currently it has five members). The manner of operation of the Supervisory Board is regulated in detail in the Company's Articles of Association and the Rules of Procedure for the Supervisory Board. Pursuant to the Company's Articles of Association, two Supervisory Board Members may meet the independence criteria as defined in the corporate governance rules set out in the Code of Best Practice for WSE Listed Companies. Currently, two Supervisory Board Members meet the criteria. The following committees operate within the Supervisory Board: Audit Committee and Remuneration Committee.

Composition of the Audit Committee:

- Heronim Ruta;
- Robert Gwiazdowski, Independent Supervisory Board Member;
- Leszek Reksa, Independent Supervisory Board Member.

Composition of the Remuneration Committee:

- Zygmunt Solorz-Żak,
- Heronim Ruta.

Management Board

As the executive body of the Cyfrowy Polsat Group, the Management Board of the Company is obliged to serve the interests of the entire Group, seeking to achieve sustainable growth of the Group value. The Management Board operates in accordance with applicable laws and regulations, including in particular the Polish Commercial Companies Code, as well as the Company's Articles of Association and Rules of Procedure for the Management Board and other internal Company regulations.

The Management Board manages the Company's affairs collectively, while its members personally manage individual areas of the Company's operations. Meetings of the Management Board are held as frequently as needed to ensure proper operation of the Company.

The remuneration of Management Board Members comprises a fixed component and an annual cash incentive bonus, which is awarded by the Supervisory Board. Members of the Management Board of Cyfrowy Polsat also receive remuneration for performing management functions at other Group companies.

POLSAT NATURE

Currently, one member of the Management Board of Cyfrowy Polsat holds shares in the Company.

THE COMPANY'S HISTORY

Cyfrowy Polsat is the largest media group in Poland today. Satellite dishes with the easily-recognisable Cyfrowy Polsat logotype have for years been a constant feature of the landscape of Polish cities, suburbs and villages – commonly seen on blocks of flats, houses and properties. Today, thanks to the trust of our subscribers, viewers and users, we have become the largest Polish media group, offering not only satellite pay TV services, but also HSPA+ and LTE mobile broadband access and online services, PPV, VOD, and many other services. However, before we got where we are now, we went through a dynamic growth period, which began 17 years ago.

1996–1999

The history of our operations dates back to 1996, when a joint-stock company under the name of Market S.A. is incorporated. Three years later, in December 1999, we start delivering the satellite signal. At that time, we use Telewizja Polsat's logotype, i.e. the sun graphic widely recognised by Polish viewers, reflecting our close cooperation with Telewizja Polsat, which has been broadcasting since 1992.

2000–2001

During this period we change our company name to Polsat Cyfrowy S.A. and introduce our own logotype. The sun featured in our logotype is replaced by a sphere, which has been a constant and recognisable element of our visual identity ever since. During this period we enter into a crucial agreement with Telewizja Polsat S.A. concerning the operation of the digital satellite pay TV platform.

2003–2004

In 2003, we are awarded a licence for wireless distribution of satellite TV and radio channels. As a result, we become a full-fledged independent digital satellite TV platform operator. In 2004, the company name is changed to Cyfrowy Polsat S.A. We grow at a fast rate and our channel selection is very popular with Polish households. At the end of 2004, Cyfrowy Polsat satellite TV services have 393,200 subscribers.

2005–2006

In 2005, Cyfrowy Polsat S.A. merges with Polsat Sp. z o.o., its wholly-owned subsidiary. As a result of the merger, we take over such assets as most of the set-top boxes previously leased from Polsat Sp. z o.o. Our subscriber base grows rapidly – as at the end of 2005, we already have 656,700 subscribers, while after a year the number of our subscribers grows to 1.3 million. Thus we become the largest digital TV operator in Poland.

In 2006, we set up a new company, Cyfrowy Polsat Technology, which is to manufacture our set-top boxes. 2006 is a very important year in the history of our brand – to keep pace with the times and technological progress, we decide to adopt a new visual identity. As from now on, orange, which is a warm, familial and optimistic colour associated with determination and resourcefulness, is the dominant colour of Cyfrowy Polsat. Our logo becomes more modern and dynamic, better suited to the technological profile of the brand and our development vision.

2007–2008

In 2007, Cyfrowy Polsat Technology launches production of set-top boxes. We continue to grow at a very strong rate – as at the end of the year, we already have approximately 2.1 million subscribers, or over 60% more than a year earlier.

On May 6th 2008, our shares are listed for the first time on the Warsaw Stock Exchange – it is one of the milestones in the history of our company. We also launch the MVNO mobile telephony service and constantly develop our pay TV service – as at the end of the year, we already have over 2.7 million subscribers. The character of the changes we have gone through and our development is reflected visually with the addition to our existing logotype, which was created two years earlier, of additional icons identifying each of our services: television and mobile telephony.

2009–2010

In 2010, we launch a new service, HSPA+ broadband Internet access, and offer the first HD set-top box manufactured by our own plant. The millionth set-top box rolls down the production line at the Cyfrowy Polsat's plant.

In 2010, we also offer our subscribers the ability to use all three services, television, Internet and mobile telephony, under a single subscription agreement and a single invoice. As a result of that change, our logotype is again modified by, with the addition of the words Telewizja, Internet, Telefon (Television, Internet, Telephone). From then onwards, we use graphic icons which characterise all three services from our portfolio, which consistently positions our multi-play offer.

2011–2012

In 2011, we become the first company in Poland to sell LTE broadband services, the fastest and most advanced mobile Internet services in the world. We also expand our offer by adding Multiroom and catch-up TV services.

In January 2012, we sign an agreement for the purchase of a 100% interest in INFO-TV-FM, which enables us to launch a new service, MOBILE TV, based on the terrestrial digital broadcasting technology (DVB-T).

In 2012, we also purchase a 100% interest in Redefine, the company that created ipla (the leading online video service in Poland) and muzo (an online music service). We also initiate cooperation with Polkomtel Sp. z o.o. to introduce a multi-play offer and cross-sale of standard products. Our LTE Internet speeds up to 150 Mbps, and its availability increases – at the beginning of 2013 its geographical coverage is 50% of Poland.

CYFROWY POLSAT TELEWIZJA INTERNET TELEFON

CYFROWY POLSAT

POLSAT

CYFROWY POLSAT ON THE CAPITAL MARKET

The objective behind our corporate strategy is to build sustainable Company value. The strategy is supported by regular and open communication with all participants of the capital market.

In order to ensure ongoing access to information, we take part in conferences with investors, and organise one-on-one meetings and roadshows across Europe and in the US. Moreover, after the publication of quarterly financial results, we hold regular meetings with investors and sell-side analysts, as well as conference calls with the Company's management. Both the meetings and conference calls are open events.

In 2012, we held about 160 meetings with 200 capital market participants.

In our communication with capital markets, we are guided by the overriding principles of transparency and equal access to information. To comply with those principles, we have adopted the rule of limited communication before financial results are reported. In accordance with that rule, the Company's officials do not talk to or participate in any meetings with analysts and investors for two weeks before quarterly figures are reported. The objective of the rule is to increase the transparency and ensure equal access to information on the Company before our financial results are announced.

Moreover, in our communication efforts, we use such tools as our web page dedicated to investors (www.cyfrowypolsat.pl/inwestor), electronic newsletters, regular bulletins reporting the latest developments at the Company and in the industry (press reviews), and reminding readers of key events at the Company. Our investor relations efforts were appreciated by capital market participants and recognised with distinctions and awards won by the Company in 2012, including:

- 2nd place in the 'Investor Relations' category of the listed-company-of-the-year ranking run annually by 'Puls Biznesu' (Cyfrowy Polsat scored the highest with analysts).
- Distinction for the best Directors' Report in the 7th edition of 'The Best Annual Report 2011' competition organised by the Tax and Accounting Institute,
- Distinction in an investor relations ranking compiled by the 'Trend' monthly, evaluating the quality of treatment received from listed companies by retail investors.

KEY INFORMATION ABOUT OUR FREE FLOAT

Cyfrowy Polsat shares are listed on the Warsaw Stock Exchange.

Date first listed	May 6th 2008
Included in the indices	WIG, mWIG40, WIG MEDIIA
Market	Main
Trading system	Continuous
Sector	Media
International Securities Identification Number (ISIN)	PLCFRPT00013
Warsaw Stock Exchange	CPS
Reuters	CYFWF.PK
Bloomberg	CPS:PW

Overview of shares outstanding as at December 31st 2012

Series	Number of shares	Type	Number of votes at GM	Par value/PLN (not in thousands)
A	2,500,000	Registered preferred	5,000,000	100,000.00
B	2,500,000	Registered preferred	5,000,000	100,000.00
C	7,500,000	Registered preferred	15,000,000	300,000.00
D	166,917,501	Registered preferred	333,835,002	6,676,700.04
D	8,082,499	Ordinary bearer	8,082,499	323,299.96
E	75,000,000	Ordinary bearer	75,000,000	3,000,000.00
F	5,825,000	Ordinary bearer	5,825,000	233,000.00
H	80,027,836	Ordinary bearer	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	Free float	168,935,335	6,757,413.40

The Company's share capital currently amounts to PLN 13,934,113.44 (not in thousands) and comprises 348,352,836 shares. The total number of votes at the Company's General Meeting is 527,770,337.

SHAREHOLDER STRUCTURE

The table below presents the shareholders of Cyfrowy Polsat S.A. who, to the best of our knowledge, held 5% or more of the total vote at the Company's General Meeting as at the date of this report. The data in the table is sourced from notifications submitted by shareholders under Art. 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, dated July 29th 2005.

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

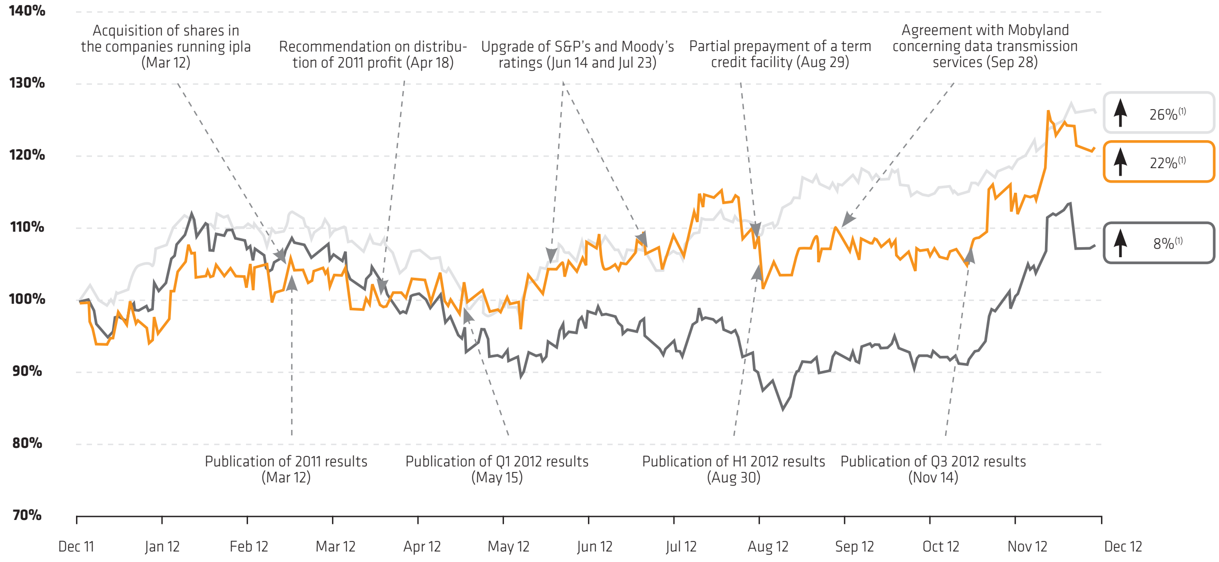
[1] Pola Investments Ltd. is controlled by a family foundation, the TiVi Foundation.
[2] Sensor Overseas Ltd. is controlled by Heronim Ruta.
* On February 12th 2013, the Company was notified that on February 7th 2013 Pola Investments Ltd. ('Pola') received power of proxy from Sensor Overseas Ltd. to exercise voting rights attached to 20,791,375 registered preferred shares in the Company, accounting for 5.97% of the Company's share capital and carrying the right to 41,582,750 votes, or 7.88% of the total vote, at the Company's General Meeting ('Power of Proxy'). Following the receipt of the Power of Proxy, Pola holds, and is entitled to exercise voting rights attached to, 174,995,671 shares in the Company, accounting for 50.24% of the Company's share capital. The shares held by Pola and the shares covered by the Power of Proxy carry the right to a total of 348,291,922 votes, or 65.99% of the total vote at the Company's General Meeting. The shareholding comprises:

a) 173,296,251 registered preferred shares, accounting for 49.75% of the Company's share capital and carrying the right to 346,592,502 votes, or 65.67% of the total vote, at the Company's General Meeting, and
b) 1,699,420 shares in book-entry form, accounting for 0.49% of the Company's share capital and carrying the right to 1,699.420 votes, or 0.32% of the total vote, at the Company's General Meeting.

POLSAT

CYFROWY POLSAT SHARE PRICE IN 2012

(rebased to 100, where 100 is the closing price on December 30th 2011)



(1) Change: December 28th 2012 vs. December 30th 2011.

Cyfrowy Polsat

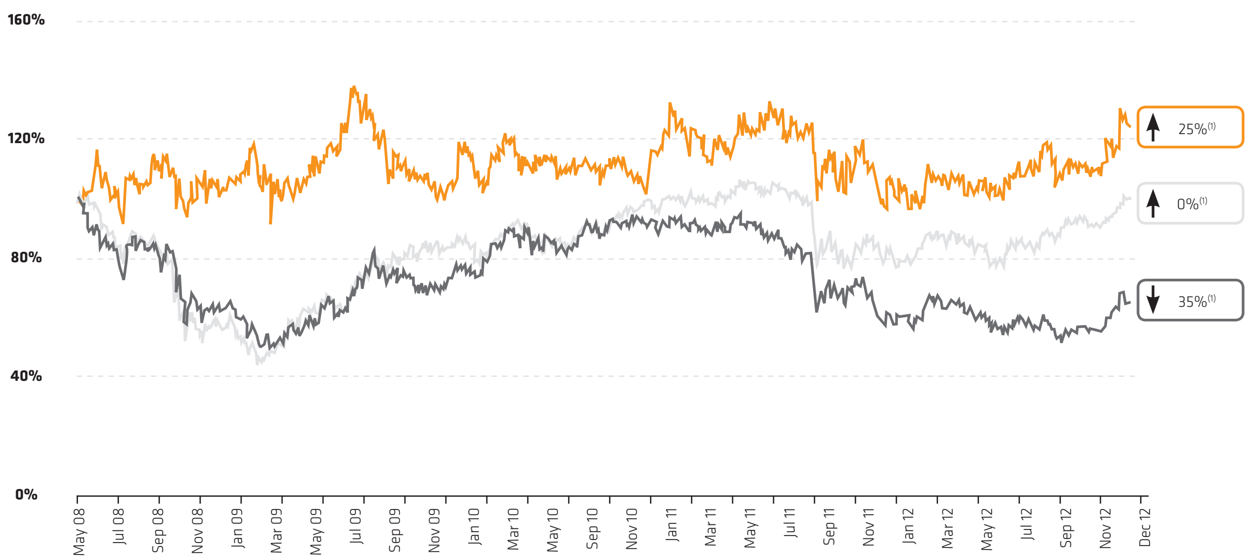
WIG

WIG MEDIA

POLSAT SPORT EXTRA

CYFROWY POLSAT SHARE PRICE PERFORMANCE SINCE LISTING ON THE WSE IN MAY 2008 UNTIL THE END OF 2012, SHOWN AGAINST STOCK INDICES

(rebased to 100, where 100 is the closing price on May 6th 2008)



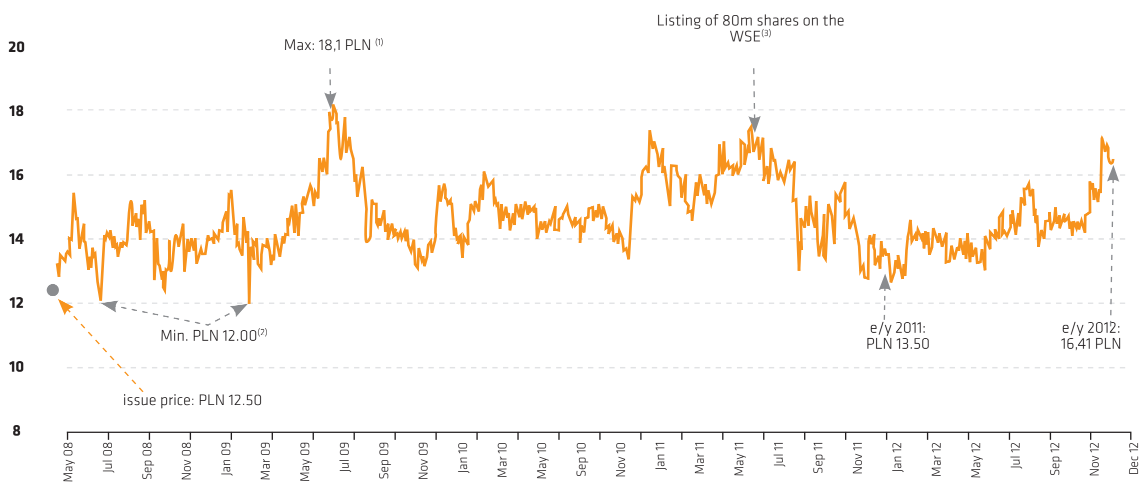
[1] Change: December 28th 2012 vs. May 6th 2008.

Cyfrowy Polsat

WIG

WIG MEDIA

CYFROWY POLSAT SHARE PRICE SINCE LISTING ON THE WSE (PLN)



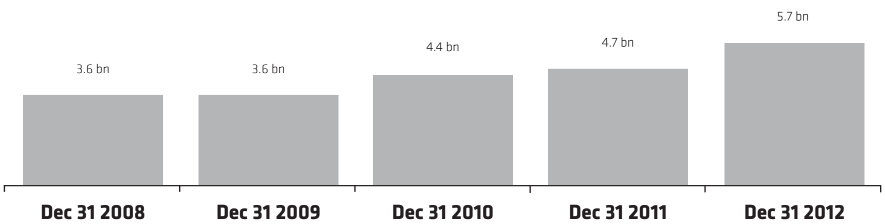
[1] Share price on July 24th 2009.
[2] Share price on July 15th-16th 2008, March 12th 2009.
[3] On April 20th 2011, the Company issued 80,027,836 Series H ordinary bearer shares with a par value of PLN 0.04 per share. On May 30th 2011, the shares were registered with the National Depository for Securities under ISIN code PLCFRPT00013, and admitted to trading on the main market of the stock exchange, pursuant to Resolution No. 666/2011 of the Warsaw Stock Exchange Management Board. The issue of Series H shares was one of the sources of financing for the acquisition of Telewizja Polsat. All issued Series H shares were subscribed to by the shareholders of Telewizja Polsat.

PERFORMANCE OF CYFROWY POLSAT SHARES IN 2012

		2012	2011
Share price at end of the year	PLN	16.41	13.50
Year's high	PLN	17.10	17.35
Year's low	PLN	12.70	12.75
Average share price during the period	PLN	14.29	15.26
Average daily trading value	PLN '000	3,434	5,891
Average daily trading volume	number of shares	240,021	392,209
Number of shares at end of the year	number of shares	348,352,836	348,352,836
Free float	number of shares	168,935,335	168,935,335
Capitalisation at end of the year	PLN '000	5,716,470	4,702,763

CYFROWY POLSAT CAPITALISATION SINCE LISTING ON THE WSE (PLN)

With the market capitalisation of PLN 5.7bn as at the end of 2012, Cyfrowy Polsat is the largest media company listed on the Warsaw Stock Exchange.



BROKERAGE FIRMS COVERING THE COMPANY

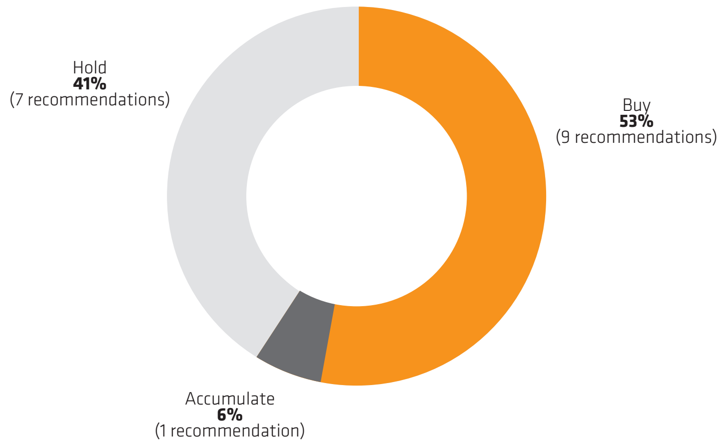
Domestic

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

Foreign

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

RECOMMENDATIONS AS AT MARCH 6TH 2013



PRICE TARGET AS AT MARCH 6TH 2013 (PLN)

Minimum	15.60
Maximum	19.60
Average	17.90

DIVIDEND POLICY

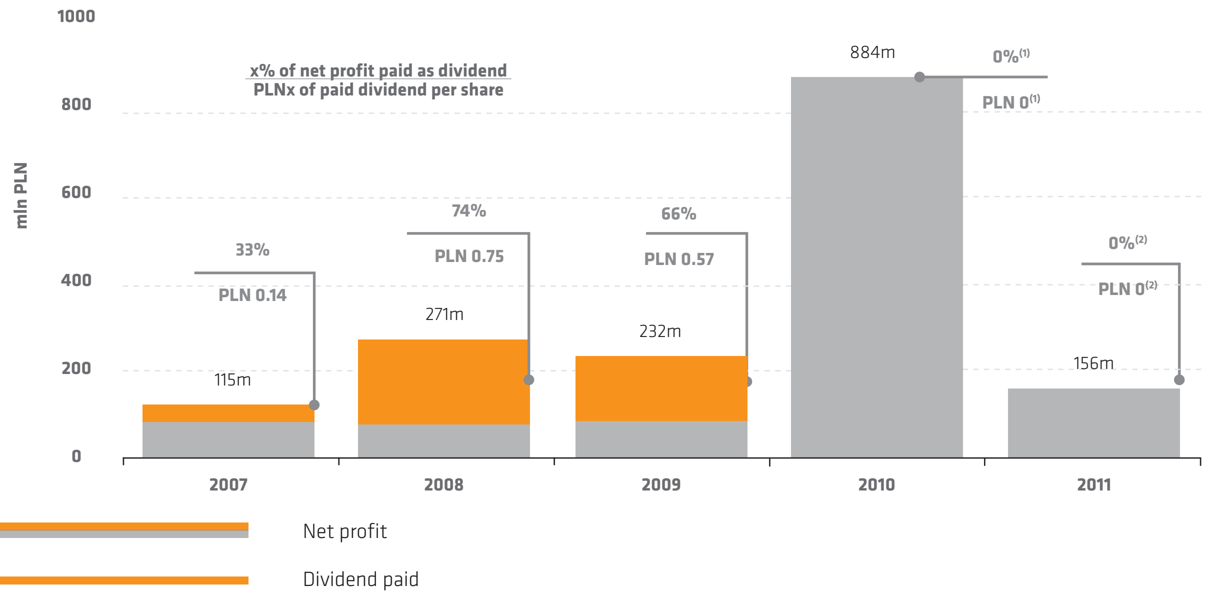
On July 4th 2008, the General Meeting adopted a resolution on dividend policy which states that we intend to distribute from 33% to 66% of our annual net profit as dividend, depending on the amount of net profit earned, our financial position, outstanding obligations (including possible restrictions arising under financing agreements), ability to use capital reserves, and the Company's prospects in the current market environment as determined by the Management and Supervisory Boards, and taking into account the need to incur the necessary expenditure in pursuit of the Company's primary goal, which is continued growth achieved mainly through acquisitions and new projects.

Having considered the Management Board's recommendation and the Company's economic position, on June 5th 2012 the General Meeting resolved to allocate the 2011 net profit of PLN 156,092,789.88 as follows: PLN 140,979,430.60 to statutory reserve funds, and PLN 15,113,359.28 to cover retained losses, comprising losses of companies acquired by the Company, that is of M.Punkt Holdings Ltd., mPunkt Polska S.A. and mTel Sp. z o.o.

The Management Board cited the need to service debt contracted to finance the purchase of a 100% equity interest in Telewizja Polsat in the grounds for its recommendation. Successful implementation of the Management Board's plan to reduce the Company's debt, and to lower the net debt/EBITDA ratio, will ease the burden of interest payable under our credit facility agreements and thus will have a positive effect on the Company's financial position.

Part of our strategy is to reduce the Company's debt as soon as practicable. To attain that goal and to ensure compliance with our credit facility agreements, the Management Board may only consider distribution of dividend after the net debt/EBITDA ratio falls below 2x.

HISTORICAL PROFIT DISTRIBUTIONS



[1] The full amount of the profit was allocated to statutory reserve funds, pursuant to the resolution of the General Meeting dated May 19th 2011, adopted on the Management Board's recommendation. The Management Board cited the future need to service debt contracted by the Company to finance the purchase of a 100% equity interest in Telewizja Polsat in the grounds for its recommendation.
[2] The full amount of the profit was allocated to statutory reserve funds and to cover retained losses, pursuant to the resolution of the General Meeting dated June 5th 2012.

POLSAT NATURE

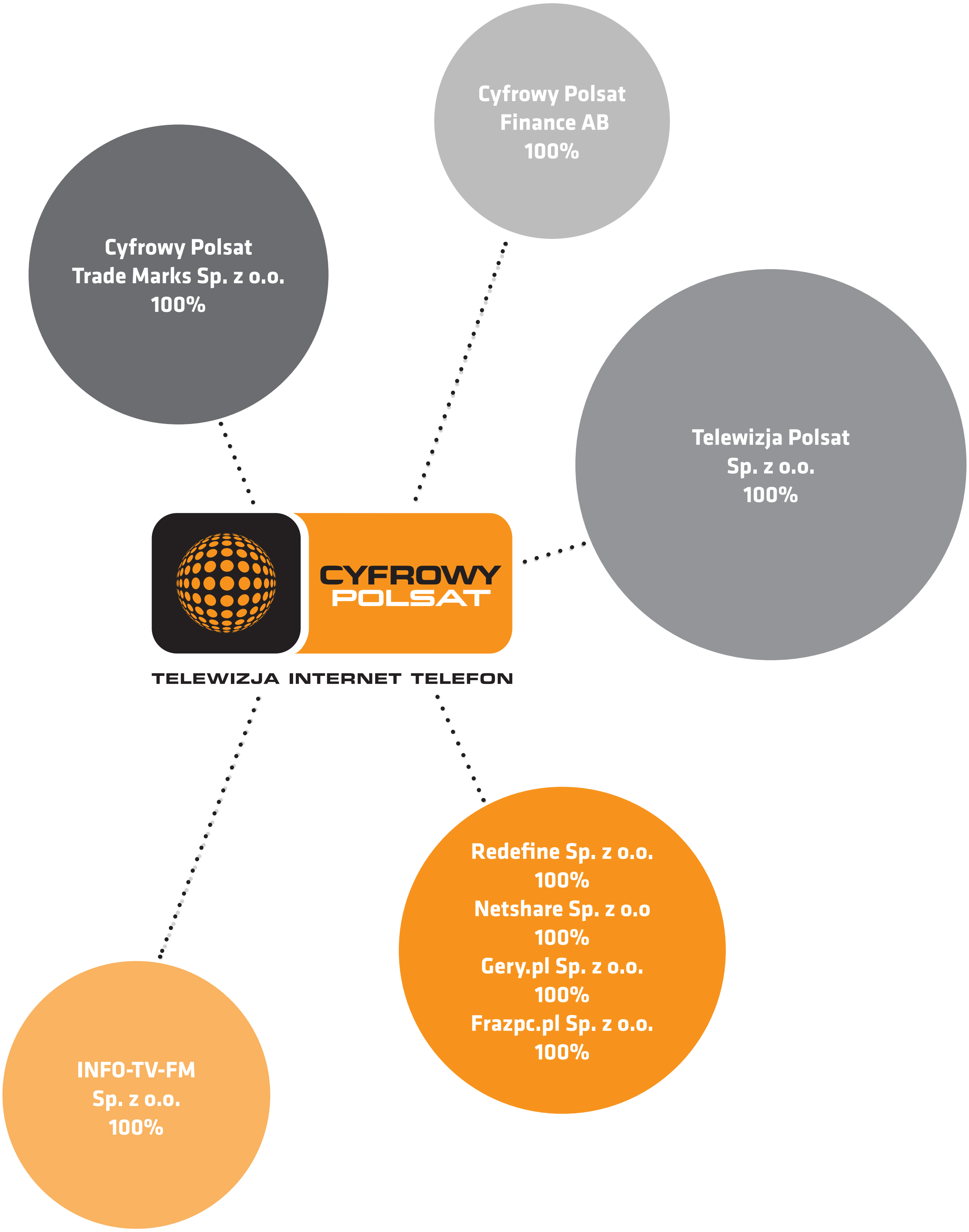
CYFROWY POLSAT GROUP

PART 2
BUSINESS




Photos: Polsat

STRUCTURE OF THE GROUP



PAY TV
MARKET ENVIRONMENT AND COMPETITION

In Poland, pay TV services are offered by DTH operators, cable TV operators and IPTV providers.

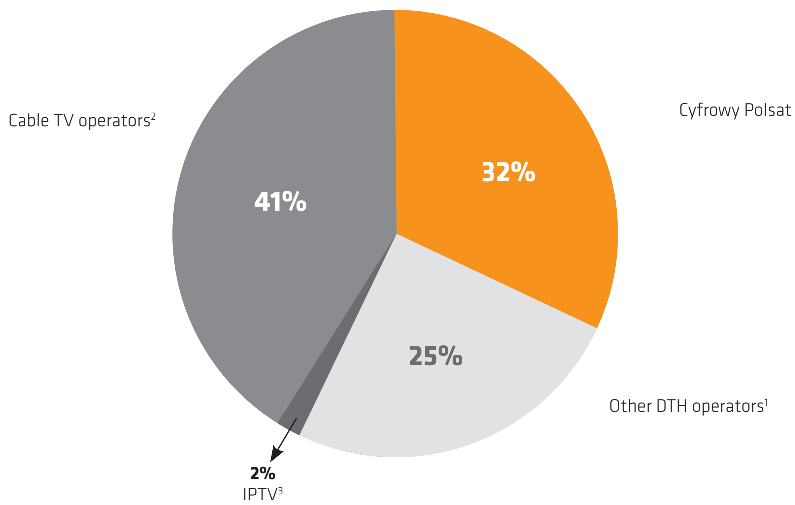
By our estimates, at the end of 2012, Polish operators provided pay TV services to approximately 11 million subscribers.

According to AC Nielsen's data (Establishment Survey 2012), excluding households using more than one pay TV service, the pay TV market saturation in Poland was approximately 66% at the end of 2012.

Cable TV was once the main form of access to pay TV services in Poland. Cable TV operators focus on customers in densely populated areas, where extensive infrastructure already exists or can be developed at a relatively low cost per subscriber. On the other hand, DTH operators are able to offer their services to customers in both urban areas, as well as less densely populated areas with non-existent or poorly developed cable TV infrastructure, without the need to increase costs.

The IPTV market in Poland is growing relatively slowly, mainly due to technological constraints resulting from the lack of modern infrastructure of capacity sufficient to provide high-quality and profitable services.

PAY TV MARKET IN POLAND



[1] Based on own estimates and data published by the operators (annual reports of the TVN Group and the Telekomunikacja Polska Group for 2012).
[2] Based on own estimates and data published by the Polish Chamber for Electronic Communication (PIKE).
[3] Based on own estimates and data published by the operators (annual reports of the Telekomunikacja Polska Group and Netia S.A. for 2012).

Digital satellite pay TV operators

In 2012, there were three main DTH platforms in Poland: Cyfrowy Polsat, Cyfra+ and the 'n' platform.

At the end of 2012, the Canal+ Cyfrowy and TVN Groups announced the execution of strategic partnership agreements and commenced the merger of their Cyfra+ and 'n' platforms into the nc+ platform. According to the information provided by the TVN Group, the new operator, established after the merger, will render services to some 2.5 million customers.

Since 2006, Cyfrowy Polsat has been the leader of the Polish DTH market in terms of subscriber base and market share, with more than 3.5 million subscribers and an approximately 56% share in the domestic market (as at December 31st 2012).

Cable TV operators

According to the Polish Chamber for Electronic Communication (PIKE), the Polish cable TV market is dominated by three major operators, whose combined market share as at the end of Q3 2012 was approximately 67%. PIKE estimates that the overall number of subscribers to domestic cable service providers is approximately 4.6 million.

In 2012, the three major cable TV operators in Poland were UPC Polska, Multimedia Polska and Vectra.

Internet Protocol Television (IPTV)

The leading IPTV provider in Poland is Telekomunikacja Polska, while the second largest IPTV operator is Netia S.A.

PAY TV OFFER

Our programming strategy is to offer a wide range of channels that appeal to the whole family. To increase subscriber loyalty and prevent migration to other operators, we try to ensure high service quality and price our packages at competitive rates. Currently, we provide our subscribers with access to over 120 TV channels, including general, sports, movie, news, education, entertainment and children's channels. We also offer 34 HD channels, VoD/PPV services, an Internet catch-up TV service, and the Multiroom HD service.

Cyfrowy Polsat's current offer for new customers includes three introductory packages: Mini HD, Familijny HD and Familijny Max HD; additional packages: Film HD, Sport HD, HBO HD, Cinemax HD and Entertainment HD, and a promotional Premium package providing access to the full range of TV channels.

Further, we offer access to VOD Home Video Rental on TV or PC, as well as the Entertainment Online service, offering live access to channels and reruns of certain programmes (as part of the catch-up TV service). The novelties in our portfolio include access to the popular HBO GO and ipla online services. Additionally, subscribers who have two TV sets may take advantage of our Multiroom HD service.

Mini HD Package

The Mini HD Package is an introductory package that provides subscribers with access to 32 Polish language channels (including 6 HD channels) and all free-to-air TV and radio channels available via the Hotbird satellite.

Familijny HD Package

Our Familijny HD Package is an introductory package providing subscribers with access to 67 Polish language channels (including 10 HD channels) and all free-to-air TV and radio channels available via the Hotbird satellite (FTA channels).

Familijny Max HD Package

The Familijny Max HD package is an extended package, launched at the end of November 2012, providing subscribers with access to 87 channels (including 16 HD channels) and all free-to-air TV and radio channels available via the Hotbird satellite (FTA channels). Ultimately, Familijny Max HD is to replace Familijny HD as an introductory package.

Additional packages	Number of channels	Price
Film HD package	18*	PLN 10
Sport HD package	10*	PLN 10
Cinemax HD package	4	PLN 15
HBO HD package	6	PLN 25
HBO Cinemax HD package	10	PLN 40
Entertainment package	4	PLN 25

* Including promotional channels.

ADDITIONAL PACKAGES

Premium Offers

For demanding customers, we have prepared a special offer including all linear channels, as well as the Super Premium package (available since November 2012), which is enhanced by the new, very attractive ipla and HBO GO online services.

Multiroom HD

The Multiroom HD service provides access to the same range of TV channels on two televisions in one household, for a single subscription fee.

Free-to-air channels

Our set-top box offers access to over 500 unencrypted TV and radio channels available in Poland via the Hotbird satellite.

VOD Home Video Rental

Our subscribers may also take advantage of the VOD Home Video Rental service (Video On Demand), available on TV and – since February 2012 – on PC.

- **VOD Home Video Rental – on TV** draws from 20 satellite channels, with some 50 movies on rotation per month. Usually, our customers may choose from 20 items in one day.
- **Thanks to 'VOD on PC'** Cyfrowy Polsat subscribers may enjoy access to movies included in our Ipla online television offer on their PCs, at a promotional price.

Online Entertainment

In April 2011, Cyfrowy Polsat was the first satellite platform in Poland to add the catch-up TV service to its offer. Currently, the service is also available under the name. 'Programme Reruns'. The service allows subscribers to watch selected programmes online, from the range of channels included within their TV packages. Currently, subscribers have access to the most popular titles from 27 TV channels. The 'Programme Reruns' service is available as part of their TV subscription package. Additionally, the 'Online Channels' service allows subscribers to watch selected programmes live online as part of their TV subscription fee (five channels are available). Both services are provided based on the ipla technology.

As part of the Online Entertainment service, our customers are granted special terms on using our ipla internet TV resources, while subscribers to the HBO HD Package gain access to the HBO GO service – online video on demand, offering blockbuster movies, as well as HBO productions. We also offer a bonus to all our subscribers, enabling them to use the iplaEXTRA Package as part of their TV subscription fee, while subscribers to the Premium segment packages additionally gain access to the iplaSport and/or iplaPremiery packages.

Pay DVB-T mobile TV standard

In June 2012, we expanded our service portfolio to include an innovative product – MOBILE TV in the DVB-T standard.

As part of the MOBILE TV service we offer the paid Extra Package of 20 encrypted channels – 8 TV and 12 radio channels. It includes channels from four thematic categories, including sports (Polsat Sport and Polsat Sport Extra), movies (Polsat Film, Kino Polska, TVP Seriale, Comedy Central), news (Polsat News), and children (Nickelodeon), as well as radio stations, including Radio Zet, Antyradio, Radio Plus, RMF FM, RMF MAXXX, Radio TOK FM, Radio ROXY FM, Radio Złote Przeboje, Eska Rock, Radio PiN, Radio Bajka, and Moje Polskie Radio. The Extra Package is also available for owners of our T-HD 1000 set-top boxes for receiving digital terrestrial television.

The reception of real-time television as part of the MOBILE TV service on mobile devices is enabled by an M-T 5000 mobile set-top box, connected by WI-FI to a mobile device, such as a smartphone, tablet or notebook.

The service, available in the DVB-T standard, does not require Internet access, which means that it does not generate any data transfer and related payments.

ipla online television

As part of ipla online television, we offer access to more than 2,000 movies, over 20 linear TV stations, live broadcasts in the HD format and Poland's largest authorised base of television content, comprising approximately 48,000 items. Access to ipla TV resources, through the ipla.tv website and dedicated applications, is available to users of Windows-based computers, iOS, Android and Windows Phone-powered smartphones, tablets and TV sets with Internet connections.

Muzo service

Through our subsidiary Redefine we have launched a music website – muzo. It provides legal access to over 1.7 million of the most popular songs published by Universal Music, SONY Music, EMI, Magic Records and many other Polish music companies and artists.

Access to muzo is offered on three levels: muzo, muzo+ and muzoGO.

TV MOBILNA

PAY TV TECHNOLOGY AND INFRASTRUCTURE

BROADCASTING CENTRE

Our broadcasting centre, located in Warsaw, allows us to transmit TV signals to our transponders on the HotBird satellite. The centre, built in 2006 and extended in 2009, is one of the largest facilities of this kind in Poland. In 2012, we once again upgraded the transmission system, which will facilitate playout of as many as 100 TV channels.

SET-TOP BOXES

In order to reduce costs, we launched production of our own SD and HD set-top boxes in November 2007 and in April 2010, respectively.

So far, nine different models have left our production lines:

- Four SD receivers (MINI, Familijny, F300 and M100),
- Four HD receivers (HD 5000, HD 6000, MINI HD 2000 and HD 3000),
- a T-HD 1000 receiver, supporting the DVB-T standard, and
- a 320 GB USB hard drive (DTU 320).

In 2012, we equipped selected models of company-manufactured set-top boxes with the ipla application, which allows the subscriber to access our Internet TV resources after connecting the set-top box to the Internet.

In 2012, our set-top boxes accounted for over 85% of all set-top boxes sold or leased by us. As at the end of December 2012, over 4m set-top boxes had been produced in our manufacturing plant, of which over 2.5m were HD-ready. Our subscribers can either buy or lease their set-top boxes. To ensure higher customer satisfaction, we also provide a warranty service for the equipment.

INTERNET CONTENT DISTRIBUTION

To provide the ipla online television service we utilise our own technology, tailored to the requirements of the major operating systems. Unlike our competitors, we apply proprietary solutions, which enable us to provide services optimally adjusted to the Internet infrastructure in Poland and the capacities of external systems with which our applications are integrated.

TELEWIZJA INTERNET TELEFON

SET-TOP BOX
T-HD 210

INTERNET

MARKET ENVIRONMENT AND COMPETITION

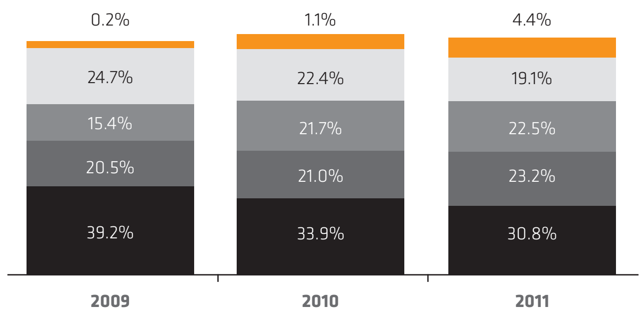
Broadband Internet access in Poland is provided through fixed-line and wireless networks. The market's relatively low saturation and strong growth potential make it an attractive area for operators. In addition, mobile data transfer is the fastest-growing segment of the telecommunications market. As the number of mobile devices such as smartphones and tablets increases, wireless Internet services are becoming increasingly popular.

Given that the report of the Office of Electronic Communications (UKE) on the telecommunications market is usually published in the second half of the subsequent year, the data presented below is from 2011.

According to the data published by the UKE ('Report on the condition of the Polish telecommunications market in 2011', June 2012), 74.4% of Polish households had access to broadband Internet. The penetration rate was 26% per 100 inhabitants. Nearly 6.7m Polish residents had access to fixed-line Internet and over 3.3m used mobile Internet services. One million new Internet users were recorded, of which more than half had subscribed to mobile services. According to the data presented by the European Commission in the 'Digital Agenda Scoreboard 2011', Poland was 9th in the EU in terms of mobile Internet penetration per 100 inhabitants, with a rate of 8.3%, 0.2 ppt above the EU average of 8.1%. As regards fixed-line broadband Internet access, the penetration rate for this service was 17.3%, 10.4 ppt below the EU average of 27.7%.

According to the Office of Electronic Communications, the mobile Internet access market in 2011 was still dominated by the four MNOs (jointly controlling 95.6% of the customer base). However, other operators recorded a considerable increase in competitiveness, with a nearly four-fold growth of their market share (including mainly the share of Cyfrowy Polsat).

Operators' share of the total number of users of 2G/3G modems



Source: Office of Electronic Communications

Others

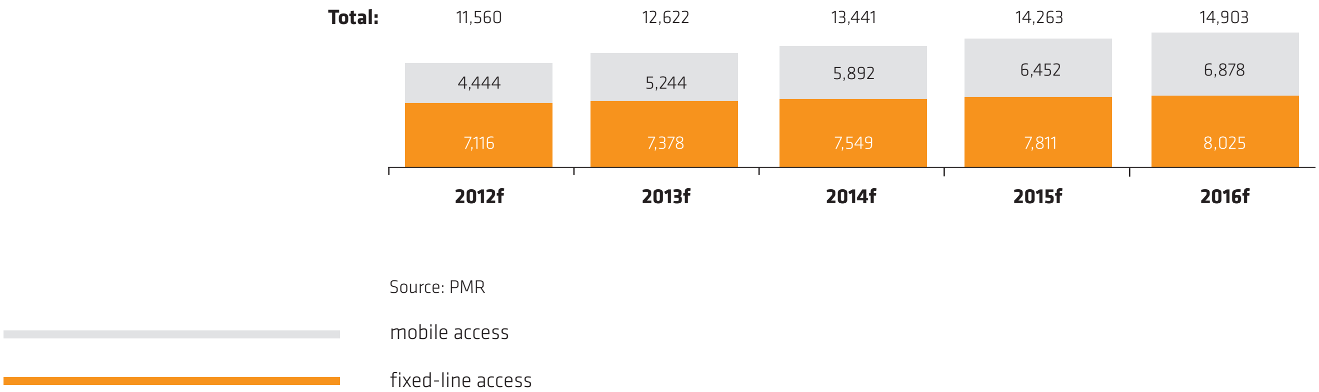
PTC

P4

PTK Centertel

Polkomtel

Growth forecasts for the broadband Internet access market (by number of subscribers) in 2012–2016 (in thousands)



According to PMR's estimates, the number of mobile broadband Internet users will increase at a faster rate than the number of fixed-line users in the coming four years. The expected growth is 11.5% and 3.1% (CAGR), respectively.

INTERNET ACCESS SERVICES

Since 2011, we have been providing mobile broadband Internet services using LTE – the most advanced Internet technology in the world. We also offer HSPA+ and MIMO-based Internet access.

When launching our LTE services, we prepared a universal offer for the use of both LTE and HSPA+ technologies under a single monthly subscription plan, combining the advantages of LTE's high bandwidth with HSPA+'s wide coverage to maximise benefits for customers. LTE has lower coverage than HSPA+, but the network is steadily expanding and at present more than 50% of Poles are within its range.

We offer several data plans tailored to users' individual needs and skills. To use our broadband service offered as part of the 'Internet for everyone' promotion, subscribers can either buy or lease a modem or router device.

Another promotion allows the customer to subscribe for Internet services when purchasing a laptop or a tablet. We are continually expanding the range of devices on offer by cooperating with reputed manufacturers.

Additional benefits are available for both TV and Internet customers. TV subscribers can benefit from the 'More data with TV in Cyfrowy Polsat' promotion and receive an extra data allowance free of charge, as part of their TV subscription package.

INTERNET ACCESS TECHNOLOGY AND INFRASTRUCTURE

NETWORK

Wireless broadband Internet services are provided using the radio infrastructure of the Midas S.A. Group (Mobyland, CenterNet and Aero2) and Polkomtel. Following an agreement executed with Mobyland, we gained access to LTE and HSPA+ data transfer at 1800 MHz and 900 MHz, whereas the trilateral agreement with Mobyland and Polkomtel Sp. z o.o. provided for the use of EDGE/GPRS and HSPA wireless data transfer at frequencies in the 900 MHz and 2100 MHz range.

In January 2012, the International Telecommunication Union (ITU) defined another mobile standard and decided that both "LTE-Advanced" and 'WirelessMAN-Advanced' technologies will operate under the name IMT-Advanced. In the future, IMT-Advanced will substitute the IMT-2000 standard, in development since 2000 and commonly known as 3G. The target speed of technologies compliant with the IMT-Advanced standard will be 100 Mbps in movement (when travelling by car) and 1 Gbps when stationary (through the mobile network). 4G is still an undefined standard, but the term is employed by operators using LTE, HSPA+ and WiMax solutions.

INTERNET EQUIPMENT

In order to provide LTE-based broadband Internet access, we use the most advanced modems, which are also compliant with HSPA/HSPA+ and EDGE/GPRS technologies. Thanks to this solution, the customers of Cyfrowy Polsat can use a single modem to access the Internet through LTE or HSPA/HSPA+ services, as well as the EDGE/GPRS network, which covers the entire territory of Poland.

At present, we offer three such modems:

- Huawei E3276 – enabling data transfer with speeds of up to 150 Mbps;
- Huawei E398 – enabling data transfer with speeds of up to 100 Mbps;
- ZTE MF821 – enabling data transfer with speeds of up to 100 Mbps.

Other HSPA-ready modems include Cyfrowy Polsat B150, ZTE MF668, ZTE MF669, Huawei E367, and Huawei E182E/Huawei E182E MIMO.

Our subscribers may also choose Samsung Galaxy tab 8.9 LTE – the first tablet on the market which supports LTE Internet with transfer speed of up to 100 Mbps. The device is also compatible with the HSPA+ standard. Our offer includes two other tablets: the Manta MID9701 9.7'' Wi-Fi and the Ferguson S3 7'' Wi-FI DVB-T (with a built-in DVB-T tuner and GPS), as well as the Acer Aspire E1, a Windows 8 laptop providing a quick and easy Internet connection through a modem.

Furthermore, we offer several types of router devices, including ZTE MF60, the first mobile router to support HSPA+, HSPA, UMTS, EDGE and GPRS technologies.

TELEPHONY

MARKET ENVIRONMENT AND COMPETITION

The Polish mobile telephony market is a mature one.

According to the data published by the Office of Electronic Communication, in 2011 the market's saturation measured with reference to the number of SIM cards increased by 8.4 ppt, to 131.6%, or 50.1m active SIM cards.

In 2011, the estimated value of the Polish mobile telephony market, calculated as total revenue on provision of retail services generated by all operators, slightly exceeded PLN 19bn and was up ca. 0.6% on 2010 (source: Office of Electronic Communication's data).

The Polish mobile telephony market is highly competitive and relatively polarised. It is served by MNO and MVNO operators. Under the MVNO business model, existing MNOs provide virtual operators with licensed frequency allocation and the necessary infrastructure.

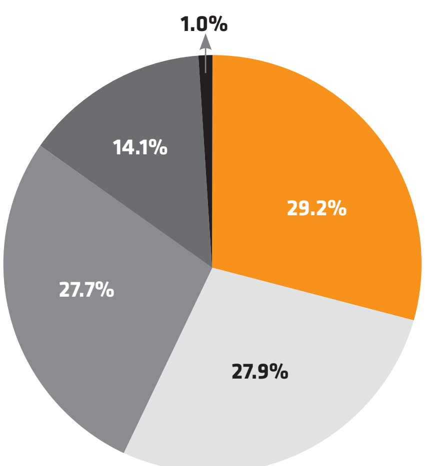
There are three leading MNOs in Poland:

- Polkomtel Sp. z o.o. (Plus);
- PTK Centertel Sp. z o.o. (Orange);
- PTC Sp. z o.o. (T-Mobile).

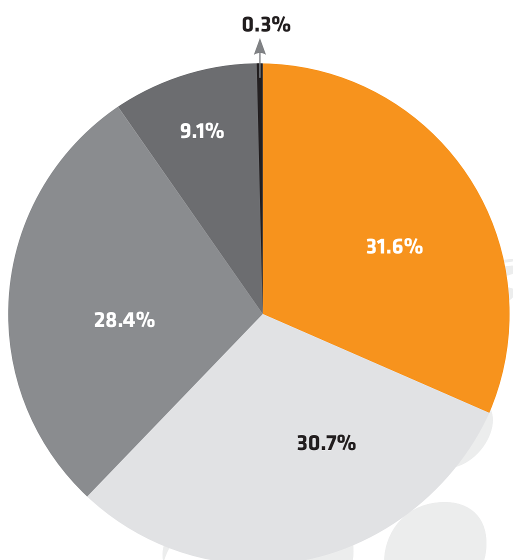
as well as four minor operators:

- P4 Sp. z o.o. (sieć Play);
- CenterNet;
- Mobyland;
- Aero2.

Operators' market share by number of users



Operators' market share by revenue



PTK Centertel
Polkomtel
PTC
P4
Others

Source: Office of Electronic Communications, 'Report on the condition of the Polish telecommunication market in 2011'

MOBILE TELEPHONY SERVICES

We have been a provider of MVNO mobile telephony services since 2008. As of April 2012, our subscribers may take advantage of a special offer from the Plus network, while Plus network subscribers may benefit from a dedicated TV services offer. Better terms are offered to subscribers choosing both services.

MULTI-PLAY OPERATOR
MARKET ENVIRONMENT AND COMPETITION

The media and telecommunications market in Poland is adjusting to the changing preferences of customers, who are increasingly looking to receive all media and communications services from a single provider. In response, providers are integrating their pay TV, broadband Internet, and telephony services into packages, thus enabling their subscribers to purchase all of these services under a single agreement, subscription fee and invoice.

The multi-play services market in Poland is underdeveloped in lesser populated areas, and therefore has significant growth potential in suburban areas, in small towns and in villages, where such services are now virtually unavailable. Apart from the low penetration rate of multi-play services in less densely populated areas, the quality of Internet services provided by cable operators is usually poor. It is therefore a chance for DTH operators (including Cyfrowy Polsat), who are not as limited by the geographical reach and lack of fixed-line infrastructure as cable TV operators and telecommunications services providers. They can thus become the leading providers of high quality multi-play services to customers in suburbs, in small towns, and in rural areas of Poland.

According to the European Commission's E-Communications Household Survey of June 2012, the saturation level of the multi-play services market (defined as more than one service being delivered by a single provider) in Poland amounted to 28%, versus 43% in the European Union, and over 60% in the Netherlands and in Belgium (64% and 61%, respectively).

At present, triple-play services, comprising TV, Internet and telephony services are offered by cable TV operators, such as UPC, Multimedia Polska S.A. and Vectra S.A., by telecommunications operators, such as the Orange Group (Telekomunikacja Polska S.A.), Netia S.A. and Telefonia Dialog S.A. (acquired by Netia in 2011), and by DTH operators, for instance Cyfrowy Polsat.

The consolidation trends manifest on the media and telecommunications market spell the emergence of powerful provider groups, offering bundled services and contributing to the multi-play market's development.

Since 2011, TVN S.A. and Telekomunikacja Polska S.A. (TP) have partnered to offer joint services – Internet (TP) and TV packages (the 'n' platform).

In the middle of 2012, Cyfra+ started selling Play's Internet access services in cooperation with the Play network operator.

At the end of 2012, the TVN Group and Canal+ Cyfrowy Sp. z o.o. finalised an agreement providing for the merger of their DTH platforms. The cooperation with TP will be maintained and transferred to the joint nc+platform.

The multi-play services market is also propelled by the inceasingly stronger group of companies controlled by Zygmunt Solorz-Żak, who, besides having control over the Cyfrowy Polsat Group, has been controlling Polkomtel Sp. z o.o. since 2011. In 2012, both companies announced a partnership and started cross-selling their services.

MULTI-PLAY SERVICES

The multi-play offer is designed for new and existing subscribers, who can add broadband Internet to their TV package at any time during the term of their agreement. As part of the multi-play service, our subscribers may also benefit from a dedicated Plus mobile telephony offer.

We see the multi-play offer as a tool for expanding our subscriber base and thus increasing revenue streams, as well as for improving subscriber satisfaction and loyalty.

SALES AND MARKETING

SERVICES MARKETING

We primarily use TV commercials, but also online, press, radio, and outdoor advertisements to promote our services, as well as various special campaigns and events. Our website is an important channel of communication with new customers.

To contact our existing subscribers we use the subscriber channel, telemarketing, post, special events, competitions, Facebook profile, and information printed on letters/envelopes, as well as the Internet Customer Service Centre.

SALES

DIGITAL TV PRODUCTS AND SERVICES SALES NETWORK

We offer our services through a sales network covering the entire territory of Poland.

We distribute our products and services using two main channels:

- Retail sales,
- Direct (door-to-door) sales.

As at December 31st 2012, our sales network comprised 827 points of sale. In April 2012, we began cross-selling services with Polkomtel Sp. z o.o., the operator of the Plus network. In this way, at the end of 2012 our standard offers were additionally available at Polkomtel's nearly 800 points of sale.

SALES OF INTERNET ACCESS SERVICES

As at December 31st 2012, customers could gain access to broadband Internet services at 780 authorised points of sale located within the technical range of the HSPA and LTE networks, or by contacting a direct sales representative at one of the 18 regional offices.

SALES OF MOBILE TELEPHONY SERVICES

Customers can gain access to mobile telephony services at almost all of our authorised points of sale. As at December 31st 2012, Plus network mobile telephony services were available at more than 700 points of sale in our sales network.

CALL CENTRE

The Centre comprises 600 operator desks and approximately 150 back-office desks to process written requests (including requests submitted by e-mail or fax). Call Centre operators provide customers with information about our services, facilitate signing of subscription agreements, receive customer complaints, provide information about payments, and offer other customer support.

SUNDANCE CHANNEL

ONLINE

Our website is an important information outlet for the growing number of subscribers and potential customers. Customers may use the website to learn about our channel, multimedia, and telecommunication offers, order reception equipment together with the selected media package, find the nearest point of sale, or order VOD content.

Our website also provides access to the Online Entertainment zone, where subscribers may watch re-runs of TV programmes and view select channels live online, as well as use the ipla online TV packages at special lower prices, while HBO HD subscribers may access the paid HBO GO service.

The Internet Customer Service Centre is an advanced tool providing customers with secure and free access to back-office resources and online technical assistance. Subscribers can use the website to:

- Check their payment balances,
- Print out money transfer forms or payment orders for the bank,
- Check the technical specifications of their set-top boxes,
- Print out relevant manuals,
- Restore satellite connection,
- Restore the factory PIN settings of their set-top boxes,
- Pay for services using an electronic payments system,
- Contact us via a contact form.

CENTRAL WAREHOUSE

To support all of our distribution channels, we have set up our own central warehouse and logistics system. The central warehouse has a total area of approximately 9,500 m^2 and stores set-top boxes, modems, accessories, parts and other materials necessary to ensure efficient logistics and sales operations, including packaging and promotional materials. Our logistics system and warehouse allow us to prepare 15,000 pre-activated set-top boxes for dispatch per day, and store up to 700,000 units.

CUSTOMER SERVICE AND RETENTION

CUSTOMER SERVICE

We are constantly improving the quality of our customer service, using the latest technologies. Our strong points include highly committed and experienced management staff, and considerable operational flexibility, supported by fast decision-making processes.

We use an advanced customer relationship management system (CRM), which was developed by our experts based on an integrated platform supporting communication with the customer by telephone, fax, e-mail, SMS, TTS, as well as standard mail. Our customer relationship management system enables us to handle all customer requests in a comprehensive, timely and efficient manner.

At our Call Centre, some of the employees are dedicated exclusively to handling customer requests concerning our mobile telephony and broadband Internet access services.

CUSTOMER RETENTION

In 2009, we introduced a new customer retention programme in order to reduce churn rates, improve subscriber satisfaction and increase revenues. We are continuously working on our customer retention programmes so as to present to our subscribers a service offer that meets their needs. Within our corporate structure, we have set up a separate department dedicated to customer retention, and have allocated to it considerable resources.

SciFi UNIVERSAL

FALLING SKIES
TM &

MARKET ENVIRONMENT AND COMPETITION

The television station market in Poland comprises public and commercial broadcasters broadcasting channels of nationwide or regional reach. A significant number of the stations are subscription only (cable and satellite).

The first television programmes were broadcast in Poland in the 1950s by TVP ('Polish Television'). TVP was the only television broadcaster on the Polish market until 1992, when as a result of the political transformation in Poland the TV broadcasting market was opened up to commercial operators. Since that time, the number of television stations has been steadily growing.

Currently, on the Polish market there are seven broadcasters transmitting a terrestrial signal (analogue or digital), several regional broadcasters operating through cable and satellite networks, as well as several broadcasters offering Polish editions of international channels and channels in original language versions.

Currently, Digital Terrestrial TV (DTT) is being rolled out in Poland. The first analogue signal switch-offs took place on November 7th 2012. The analogue signal is planned to be switched off throughout the country by the end of July 2013.

Digital terrestrial TV currently comprises three multiplexes, offering 20 free-to-air TV channels. Furthermore, a tender has been announced with a view to allocating another four channels.

To obtain a license, broadcasters must comply with licensing requirements concerning their corporate ownership structures, as well as the content of their channels, which is regulated by law. In addition, future broadcasters must take into consideration the need for substantial expenditure in order to ensure the necessary infrastructure, purchase a programme library, secure proper distribution of programmes, and assemble a professional team to sell advertising airtime.

Bearing in mind that the sales teams working for broadcasters already present on the Polish market are highly competent and that the teams are highly competitive, the entry barrier for new players is rather difficult to overcome in a short time.

POLISH TV ADVERTISING MARKET

According to estimates by ZenithOptimedia, in 2012 Polish advertising spending was the third largest in Central and Eastern Europe (after Russia and Turkey), having exceeded PLN 6.7bn (after discounts), down by 5.5% year on year. Poland's TV advertising market was worth nearly PLN 3.5bn (6.3% less than in 2011). The agency forecasts that in 2013 the TV advertising market will shrink by about 5.7%. However, the decreases in the market's value will be lower in the years to come: 1.7% in 2014 and 0.6% in 2015.

In 2012, the televisio n continued to be the dominant advertising means accounting for 52% of the total amount spent on advertising. According to ZenithOptimedia, this figure will remain relatively flat in the years to come. TV advertising has not been affected by the significant expansion of Internet advertising as lower spending has been recorded in the printed media segment.

Structure of advertising spending in 2008–2015

	2008	2009	2010	2011	2012	2013f	2014f	2015f
TV	52%	52%	53%	52%	52%	52%	51%	51%
Press	22%	20%	18%	16%	14%	12%	10%	9%
Outdoor advertising	9%	9%	8%	8%	7%	7%	7%	7%
Radio	7%	7%	7%	7%	7%	7%	7%	7%
Internet	10%	12%	14%	16%	18%	20%	22%	24%
Cinemas	1%	1%	1%	2%	2%	2%	2%	2%

Source: ZenithOptimedia, 'Advertising Expenditure Forecasts – December 2012'.

MAIN TELEVISION STATIONS

The Polish TV market is dominated by the four largest broadcasters transmitting terrestrial (analogue or digital) signals, namely TVP1, TVP2, TVN, and POLSAT, jointly holding a 53% audience share in the commercial group in 2012.

In 2012, in connection with the roll-out of digital terrestial television (DTT), we witnessed a significant increase in the fragmentation of the TV market. Smaller TV stations available on the multiplexes gained in importance, mainly at the expense of the above-mentioned four largest TV channels, previously available in the analogue terrestrial TV system.

The daily audience share of POLSAT, the Group's main channel, reached 15.7% in 2012, which was the top result in the market. The station's average annual broadcast coverage was over 98%. The Group's thematic channels had a 4.8% audience share; they include 18 stations competing in different market segments (including sports, news, and women's or men's interest channels). The thematic stations are available via cable or satellite broadcasting networks, with one channel available via terrestrial broadcasting (MUX-2). POLSAT, the Group's main TV station, competes with other channels with nationwide coverage (TVN, TVP1, and TVP2) and also with smaller channels available in the DTT system.

In 2012, POLSAT's main competitor TVN had a 14.8% daily audience share and the station's average annual broadcast coverage was close to 94%. The thematic channels of the TVN Group had a 7.2% daily audience share throughout 2012.

The TVP Group consists of nine TV stations, including two with nationwide coverage – TVP1 and TVP2. The TVP Group is one of the major players on the Polish advertising market. In 2012, its key channels had 12.1% (TVP1) and 10.8% (TVP2) daily audience shares. The broadcast coverage of both stations is close to 100% of all TV-connected households. TVP's thematic channels had a 4.4% audience share, including a 2% share by TVP Info (formerly TVP3).

Apart from advertising fees, TVP as the public broadcaster gains additional revenues from television licences paid by TV users pursuant to the Television Licensing Act of April 21st 2005. Despite certain restrictions that prevent TVP from interrupting programmes with commercials, revenues from television licences represented only 12% of TVP's total revenue in 2011.

DIGITAL TERRESTRIAL TELEVISION (DTT)

Poland is currently in the midst of the digital switchover – moving from analogue to digital terrestrial television broadcasting based on the Digital Video Broadcasting-Terrestrial (DVB-T) technology. The change in technology will, among other things, increase the number of channels, improve sound and image quality, and eliminate signal interference.

The digital TV service is currently offered on three multiplexes on a free-to-air basis and on one multiplex offering pay-TV access on mobile devices. It is estimated that the number of multiplexes will ultimately increase to six.

OUR CHANNELS

Our portfolio includes channels targeting all key audience segments. The 'Polsat' brand covers 20 stations, including four in the HD format.

POLSAT

Our leading channel, POLSAT, has the largest commercial audience share in the 16-49 age group, capturing a 15.7% audience share throughout 2012. The channel is also available in High Definition.

The station broadcasts TV programmes on a 24/7 basis. It is offered via DTT on multiplex 2 (MUX-2). In addition, it is still available in the analogue terrestrial television system.

Apart from analogue terrestrial broadcasting, POLSAT programmes are also available in the SD and HD formats on most cable networks and on satellite platforms.

POLSAT GROUP'S PORTFOLIO OF CHANNELS

Channel	Target group	Audience share in the station's target group in 2012	Channel content	Additional information
Polsat Sport	men age 16–59	0.9%	The Group's first-ever sports channel. It offers coverage of sports events and thematic programmes. The key disciplines include: (i) volleyball (World Championships, World League, World Grand Prix, Plus Liga), (ii) athletics (e.g. Diamond League), iii) football, (iv) handball, (v) boxing, (vi) MMA.	The most popular sports channel in 2012, both in the commercial and the target group. Available in the SD and HD formats.
Polsat Sport Extra	men age 16–44	0.3%	Coverage of other interesting sports events, including Formula One races (full coverage, including qualifying), major tennis tournaments (e.g. Wimbledon), and the European Handball Federation Champions League.	Poland's 5th most popular sports channel in the 'men, age 16–44' group and also in the commercial group. Available in the SD and HD formats.
Polsat Sport News	men age 16–44	0.4%	FTA channel offered via DTT broadcasting technology. The schedule includes sports news, coverage of sports events, and reportage programmes.	Broadcast since May 2011, data on the audience share available since November 2012.
Polsat Film	age 16–49, cable and satellite TV users	0.5%	A broad selection of films, including world-famous blockbusters, box-office hits, and independent productions. To a great extent, the selection is based on Sony Pictures Television International and 20th Century Fox TV productions.	Available in the SD and HD formats.
Polsat Café	women age 16–44	0.5%	Lifestyle, guidance, fashion, beauty and style television shows. The channel also offers foreign editions of various TV formats ('The Moment of Truth', 'You Can Dance').	
Polsat Play	men age 16–44	0.5%	Programmes dedicated to various male interests and hobbies, such as fishing, cars, and the latest gadgets and gimmicks.	
Polsat 2	everyone age 16–49	1.5%	Re-runs of TV programmes and shows that premiered on other Group channels.	Poland's 9th most popular TV channel. Also available via satellite in other countries (e.g. the US).
Polsat News	everyone age 16–49	0.7%	24/7 news channel, broadcast live in a large part, dedicated to latest events in Poland and around the world.	
Polsat Biznes	top management	0.05%	Latest news and commentary on major market events.	Acquired by the Polsat Group in February 2007. Broadcasting under the name of TV Biznes until February 2013.
Polsat JimJam	children age 4–6	4.4%	Children's entertainment programmes.	Broadcasting under a joint-venture agreement between the Polsat Group and ChelloZone.
Polsat Crime & Investigation Network	age 16–49 cable and satellite TV users	0.15%	Reality crime programmes. Documentaries presenting the work of the police, detectives, and crime labs.	Joint project of the Polsat Group and A+E Networks UK. Broadcasting since the end of November 2011.
Polsat Food	women age 16–49	0.13%	Food channel based on Food Network programmes.	Joint project of the Polsat Group and Scripps Networks Interactive. Broadcasting since November 22nd 2012
Polsat Viasat Explorer*	men age 16–49	data not available	Men's interest channel, offering programmes dedicated to extreme challenges and sports, adventure and travels to remote corners of the world.	Joint project of the Polsat Group and Viasat Broadcasting.
Polsat Viasat Nature*	everyone age 16–49	data not available	Nature and wildlife channel offering documentaries for the entire family.	Joint project of the Polsat Group and Viasat Broadcasting.
Polsat Viasat History*	everyone age 16–49	data not available	A range of factual programmes focusing on different historical periods.	Joint project of the Polsat Group and Viasat Broadcasting.

* Channels covered by TV-audience research since January 2013.

POLSAT NEWS

AUDIENCE SHARES CLAIMED BY POLSAT GROUP CHANNELS IN 2010–2012 (%):

	audience share (%)		
Channel	**2010**	**2011**	**2012**
POLSAT	16.03	16.45	15.71
Polsat 2	0.97	1.45	1.49
Polsat News	0.52	0.66	0.74
Polsat Sport	0.56	0.65	0.67
Polsat Film	0.29	0.39	0.42
Polsat Play	0.23	0.33	0.39
Polsat JimJam [JimJam]	0.21	0.30	0.38
Polsat Café	0.22	0.33	0.36
Polsat Sport Extra	0.18	0.17	0.17
Polsat Crime & Investigation Network(1)			0.12
Polsat Sport News(2)			0.28
Polsat Biznes(3)	0.04	0.02	0.02
Polsat Futbol(4)	0.02	0.03	0.01

Source: NAM, target group: everyone, age 16–49, daily.
[1] Covered by TV-audience research since January 2012.
[2] Covered by telemetric TV-audience research since November 2012 (data for that period).
[3] Broadcasting under the name of TV Biznes until February 2013.
[4] Broadcasting until the end of May 2012 (data for the period until May 2012).

SCHEDULE AND PROGRAMMING

Programmes are selected and assigned to specific time slots in such a way as to create an audience which, due to its demographic characteristics, would be attractive to advertisers. Data on audience share is studied in detail during the planning process to determine which programmes attract viewers and to predict market trends. In this way, the Group can be certain that its programming fully meets the expectations of both the audience and advertisers.

Maintaining customer loyalty is crucial when preparing a new schedule. Successive programmes must appeal to viewers and positively influence their decisions to watch a channel.

DISTRIBUTION AND COVERAGE

Portfolio of Polsat Group channels

Channel	Broadcasting since	Category	Signal broadcasting	Availability	Broadcast coverage[1]
POLSAT	05/12/1992	general interest	DTT/cable/satellite	FTA	98.5%
Polsat Sport	11/08/2000	sports	cable/satellite	non-FTA	44.0%
Polsat Sport Extra	15/10/2005	sports	cable/satellite	non-FTA	30.7%
Polsat Futbol[2]	17/09/2009	sports	cable/satellite	non-FTA	15.0%
Polsat Film	02/10/2009	film	cable/satellite	non-FTA	37.3%
Polsat Café	06/10/2008	lifestyle	cable/satellite	non-FTA	48.7%
Polsat Play	06/10/2008	lifestyle	cable/satellite	non-FTA	39.0%
Polsat 2	01/03/1997	general interest	cable/satellite	non-FTA	58.0%
Polsat News	07/06/2008	news	cable/satellite	non-FTA	49.7%
Polsat Biznes[3]	08/02/2007	business	cable/satellite	non-FTA	52.4%
Polsat JimJam	02/08/2010	children	cable/satellite	non-FTA	37.4%
Polsat Sport News	01/06/2011	sports	terrestrial/DTT/cable/ satellite	FTA	43.4%
Polsat Crime & Investigation[4]	24/11/2011	crime	cable/satellite	non-FTA	31.2%
Polsat Food[5]	22/11/2012	lifestyle	cable/satellite	non-FTA	19.3%
Polsat Viasat Explorer[6]	01/03/2013	lifestyle	cable/satellite	non-FTA	10.1%
Polsat Viasat Nature[6][7]	01/03/2013	nature and wildlife	cable/satellite	non-FTA	9.8%
Polsat Viasat History[6]	01/03/2013	history	cable/satellite	non-FTA	17.6%

[1] NAM, the percentage of TV-connected households that can receive a given channel;arithmetic mean of the monthly coverage data in 2012.
[2] Polsat Futbol broadcast until May 2012.
[3] Broadcast under the name of TV Biznes until February 2013.
[4] In the Polsat Group portfolio since November 2011.
[5] In the Polsat Group portfolio since November 2012.
[6] In the Polsat Group portfolio since March 2013; information given in the 'Broadcasting since' column refers to the first broadcast under the 'Polsat' brand, and information on the broadcast coverage relates to the period preceding the co-operation with Telewizja Polsat.
[7] Viasat Nature – information on the broadcast coverage since August 2012.

BBC lifestyle

BBC

NATIONAL GEOGRAPHIC CHANNEL

SALES AND SOURCES OF REVENUE

ADVERTISING AND SPONSORING

In the TV broadcasting and production segment, advertising and sponsoring are a key revenue source, accounting for about 80% of total revenue in 2012.

This revenue is almost entirely generated by the Group's advertising bureau, Polsat Media, which operates on the market as the Group's advertising agent (sales house) under a cooperation agreement of December 27th 2003.

Polsat Media is responsible for sales of all forms of advertising: commercial spots, sponsorship and other related contracts. Polsat Media provides advertising support to all the Group's channels with the exception of Polsat JimJam.

Polsat Media's main trading partners are international media houses, which act as intermediaries, negotiating contract terms and running advertising campaigns for their customers. Advertising time is sold under both year-long contracts with media houses and direct orders from customers.

CONTENT DISTRIBUTION VIA THE INTERNET

Distribution of programming content via the Internet is another source of revenue to the Telewizja Polsat Group. In this area, Polsat Group's partner is Redefine Sp. z o.o., a subsidiary of Cyfrowy Polsat and operator of ipla online television, which is the leading player on the online video market in Poland, both with respect to availability for reception via various devices, as well as with respect to the content offered. Broadcasting of programming content over the Internet is based on two settlement models. The first consists in payment of a fixed monthly amount for the right to broadcast a given programme; the second, in obtaining a percentage share in the advertising revenue generated by advertisements broadcast in proximity to the material.

In the case of the ipla service, about 85% of total revenue is generated by sales of advertisements, and about 15% derives from content purchases by service users.

SALES TEAM

Polsat Media is responsible for sale of advertisements and sponsorship packages, planning of campaigns, post-sales analyses, market surveys and other research, new product development, and - last but not least - improving relationships with current and potential advertisers.

Additionally, in order to guarantee an adequate level of support in planning advertising campaigns for the Group's stations, the Polsat Media team works closely with clients and media houses on non-standard activities, such as sponsorship campaigns and other related cross-promotions.

The advertising bureau is also responsible for allocating commercial spots in line with customers' expectations as to the programming context and the broadcast time of individual campaigns.

SALES OF BROADCASTING RIGHTS TO THE GROUP'S CHANNELS TO CABLE AND SATELLITE NETWORKS

In 2012, this revenue source represented around 15% of the segment's total revenue. Standard distribution agreements stipulate monthly fees for delivering the signal of the Group's channels to subscribers of a given network. The fee rates depend on the number of subscribers reached by our channels.

TECHNOLOGY AND INFRASTRUCTURE

Our basic technical infrastructure comprises:

- Four digital TV studios,
- Five digital Outside Broadcasting vans, including three modern HD vans, one van which is currently in the process of being upgraded to the HD standard, and one small SD van for quick production of short programmes,
- 13 digital satellite Outside Broadcasting vans capable of sending TV signals from any location,
- A multiplexer system supporting effective transmission of eleven Polsat channels,
- A fixed satellite transmitter for the Polsat digital channels (transferred to Cyfrowy Polsat in 2012),
- A multi-channel automatic broadcasting system,
- Digital audio visual routing systems,
- IT networks designed to support technological processes,
- IT network-based editing systems,
- Over 80 SD and HD cameras.
- Programme archives (currently undergoing digitisation),
- Technological systems for signal exchange between central and regional offices, including an optical system.

PART 3
STAKEHOLDERS AND ENVIRONMENT




As a public company, Cyfrowy Polsat is required to meet the most demanding management standards. Therefore, our objective is to manage the Company in a transparent and predictable manner, focused on value creation. This fosters confidence among our Polish and foreign investors, financial markets, customers and business partners, as well as Group employees.

SHAREHOLDERS AND INVESTORS

Cyfrowy Polsat, whose market capitalisation reached PLN 5.7 billion as at the end of 2012, is the largest media company listed on the Warsaw Stock Exchange. Cyfrowy Polsat's shares were first listed on the WSE on May 6th 2008.

The Company's share capital amounts to PLN 13,934,113.44 and is divided into:

- 168,935,335 ordinary bearer shares with a par value of PLN 0.04 per share, and
- 179,417,501 registered preference shares with a par value of PLN 0.04 per share.

The objective behind our corporate strategy is to build sustained Company value. The strategy is supported by regular and open communication with all participants of the capital market. In order to ensure ongoing access to information, we take part in conferences with investors, and organise numerous one-on-one meetings and roadshows across Europe and the US. Moreover, after the publication of quarterly financial results, we hold regular meetings with investors and sell-side analysts, as well as conference calls with the Company's management. Both the meetings and conference calls are open events. In our communication efforts, we also use such tools as our dedicated investors website (www.cyfrowypolsat.pl/inwestor/), electronic newsletters, and information bulletins.

For more information on our shares and their price, as well as our shareholder structure and dividend policy, see the 'Cyfrowy Polsat on the Capital Market' section of the website.

OUR VIEWERS AND CUSTOMERS

We offer our viewers and customers entertainment, which is particularly important to Poles. Polish viewers spend over four hours a day in front of a TV screen, more than any other nation in Europe. Globally, Poland ranks second behind the United States. Recent years have seen a significant rise in viewers' – and therefore our customers' – awareness. They know their rights and are familiar with the TV products and offers available on the market. The constantly growing number of TV channels also affects the market, making it more fragmented and highly competitive. Considering these conditions, we make every effort to ensure the high quality of our products and services, including customer service. We readily embrace the latest technologies, constantly improve our channel selection and take care to maintain good relations with our subscribers and ensure high viewer satisfaction, which translates into a growing audience share.

The Cyfrowy Polsat and Telewizja Polsat brands are recognisable, popular, and appreciated by Polish consumers. We believe that they are associated with high quality services offered at attractive prices, addressed to entire families. According to TNS, we can boast the highest (75%) spontaneous brand awareness among digital satellite TV operators in Poland (percentage of the target group that can name the brand without any prompt from the surveyor, according to TNS's study entitled 'The World of Pay TV and Mobile Internet', August 2012).

What also confirms the excellent quality of our products and services is our second place in the 'Quality of Products and Services' category of the 'Listed Company of the Year' ranking organised annually by 'Puls Biznesu'. Moreover, in 2012 our main TV channel, POLSAT, was the most frequently chosen channel among viewers aged 16-49. Our advertising bureau, Polsat Media, was once more recognised as the best TV advertising bureau in 2012 among the largest Polish media groups – nationwide broadcasters. Polsat Media received the distinction in the 'Media & Marketing Polska' report from surveyed employees of media houses and from advertising agencies working with the media. Polsat's advertising bureau was recognised for its service level and relations with its business partners, which were viewed as first rate.

PROFESSIONAL CUSTOMER SERVICE IS ENSURED WITH THE USE OF THE FOLLOWING TOOLS:

An advanced CRM system

A customer relationship management (CRM) system developed by our experts, based on an integrated platform supporting telephone, fax, e-mail, SMS/TTS combined with IVR (interactive voice response) and CTI (platform for integrating telephone functionalities with CRM), as well as standard post. The CRM provides for comprehensive execution and documentation of all submitted requests via a voice recording system, digital archives and an integrated communications system for subscribers (which comprises our website, the Internet Customer Service Center, text messages displayed on the TV screen and an interactive voice response system). We have also implemented a modern system for customer retention and payment monitoring.

Call Centre

The Call Centre consists of 600 telephone stations and approximately 150 back-office stations for the processing of written requests. The Call Centre operates on a 24/7 basis. Individual customer service units and teams have been designed to assist our subscribers, providing them with comprehensive and professional service.

Internet Customer Service Centre (ICSC)

The Internet Customer Service Centre (ICSC) is an advanced IT solution which uses the Internet to ensure secure and free access to our resources and on-line technical support. Our customers can use the website to check their payment balances, print payment orders or pay on-line, check the technical specifications of their set-top boxes, restore their satellite connection, and restore the PIN factory settings of their set-top boxes.

For more information on customer service tools, see the Sales and Marketing section on p. 67.

OUR TEAM

GOOD EMPLOYER

We are a stable organisation, which nevertheless boasts dynamic growth. Our success stems from the knowledge, skills and commitment of our employees. The employees are our principal asset, therefore our HR policy focuses on creating an attractive workplace for existing and future staff. Our goal is to create conditions fostering the development of our employees' potential and their constant improvement.

We select our future employees very carefully, choosing those who are effective and highly motivated. The knowledge and experience of potential employees is important, but not necessarily decisive. By using advanced recruitment tools, such as the Assessment Center and competency tests, we search for people who have great potential and fit well with our team.

We seek to provide our existing employees with extensive growth and promotion opportunities. Many managers currently responsible for key aspects of the organisation are people who have worked their way up from low-level jobs.

COMPANY VALUES

By acting in compliance with our Four Values, we effectively pursue our mission, vision and strategic objectives. The Four Values we have identified as key to our development are as follows:

Competitive advantage

In our day-to-day operations, competitive advantage means constant pursuit of excellence through identification of areas that can be changed and improved.

Priorities

Priorities require a strong goal-oriented approach and consistency in their implementation.

Teamwork

Teamwork means good information flow, friendly relations in the workplace and mutual support.

Owner's perspective

We understand the owner's perspective as responsibility for the Company, commitment and a constant eye for the effects of our work.

DEVELOPMENT AND TRAINING

One of the objectives of Cyfrowy Polsat's HR policy is the development of individual employees' potential. We invest in enhancing employees' competencies as mastery of new skills by individual employees is the key driver behind the Company's growth. Depending on the scope of duties, our employees may participate in various professional training courses and industry conferences. They may also obtain co-financing for university studies and specialist multi-stage courses and participate in training enhancing their personal skills, such as communication and team management skills. Additionally, we subsidise English courses organised for our staff in the workplace.

INITIATIVES SUPPORTING HR POLICY MANAGEMENT

In 2012, we engaged an external company to conduct a survey of commitment among our employees. The results of an anonymous questionnaire gave us a wide view of our organisation through the eyes of the workforce. Such a detailed analysis helps to precisely plan further HR measures designed to increase work satisfaction and commitment.

Last year also saw the implementation of a management by objectives system and a periodic assessment system, covering all employees of Cyfrowy Polsat. Under these systems, strategic goals of the organisation are cascaded into goals achievable by individual units and departments as well as tasks assigned to all employees. Thanks to such an approach, each staff member knows how to contribute towards the achievement of the goals set in the Company's strategy. The systems also facilitate objective evaluation of the employees' competencies used in their everyday work. The competencies subject to evaluation are those directly related to the Four Values.

INTERNSHIPS AND WORK PLACEMENTS

We help young and inexperienced persons find their way to future careers. In 2010, we launched the 'Summer Internship Programme' designed for university students from all faculties. We address the programme to students who are in their third or later year of study and wish to raise their qualifications and gain experience over the summer. In addition to helping with current tasks, our interns can participate in projects under way.

A six-month-long internship programme called 'Digital Career' has been launched for fourth- and fifth-year students and young graduates. Each intern will manage a project for which he or she will be fully responsible.

Tutors are appointed to help their younger colleagues to fulfil their tasks and gain practical knowledge and professional skills. Many of the interns taking part in the programme have joined our team as employees.

EMPLOYEE BENEFITS

We provide our staff with numerous social benefits, including non-refundable cash allowances and non-cash benefits, as well as repayable housing loans. Furthermore, our employees receive additional incentives, such as:

- Access to private healthcare through one of the largest Polish networks of private clinics,
- Comprehensive life and health group insurance for employees and their families,
- Co-financing of gym membership, attractively priced Cyfrowy Polsat TV and Internet packages and,
- Plus mobile telephony tariff plans.

POLSAT CAFE

EMPLOYMENT IN THE CYFROWY POLSAT GROUP BY AGE AND SEX

Age	< 31	[31-40>	[40-50>	[50-60>	=>60
Woman	248	264	97	50	9
Man	332	452	210	119	34
TOTAL	**580**	**716**	**307**	**169**	**43**

SAFE WORKPLACE

As an employer, we are obliged, both legally and morally, to guarantee our staff safety, health protection and comfort in the workplace. For this reason, in line with our work safety policy, we seek to mitigate risks and prevent accidents and occupational diseases. We aim to create a friendly and efficient working. environment. We want to achieve this by creating a workplace with transparent procedures, fostering mutual respect, tolerance, cooperation and involvement.

EQUAL OPPORTUNITIES

We treat all of our employees with due regard, irrespective of their sex or political and religious beliefs. Each is viewed as an individual deserving fair treatment and equal rights. Our workforce comprises disabled people, as well as people of different race or religion.

INTERNAL COMMUNICATION AND COOPERATION BETWEEN TEAMS

For internal communications, we mostly rely on the newsletter and Intranet, where issues of importance to our employees are discussed. They are used to convey information about current events at the company, key personnel changes, new initiatives and competitions with an educational or motivational agenda.

In 2011, we introduced a new form of communication – an annual strategic meeting between the Management Board and management personnel. In addition to presenting exhaustive information on the company's strategy, its current standing and our competitors' achievements, the purpose of the meeting is to commit our staff to implementing our strategy by enhancing internal communication between departments and raising the awareness of their role in achieving our common goals.

TEAM BUILDING

Our employees are offered numerous opportunities aimed at promoting team building, an active lifestyle and healthy competition, stimulating their interests and leisure activities, and strengthening their relations with the Company.

We provide our staff with opportunities to practise various sporting activities as this builds character, teaches self-discipline and persistence of goal-directed effort, and helps employees achieve personal fulfilment in non-business areas, thus reinforcing their sense of being part of the organisation. The 'POLSAT Biega' team of runners was also active in the past year, participating in a number of running events, including the Wiązowski Half Marathon, Warsaw Half Marathon, and the 34th Warsaw Marathon, which they finished in a very good 19th place. In their preparations to represent the Group during marathons, the team is coached by a professional instructor.

Volleyball fans are able to pursue their favourite discipline during regular training sessions of the volleyball team, which qualified for the Play Volley corporate volleyball league in 2012. The 2012 season was very successful as it landed the team in the Play Volley first division. In addition to that, a football team was also assembled and began training in 2012.

In all our sporting efforts, we never forget about the youngest. Our corporate event calendar provides for special events for employees' children, always involving great educational surprises. In 2012, our employees and their families were invited to take part in the Extreme Children's Day (Extremalny Dzień Dziecka) event, an off-site open air event held at the Conference and Recreation Centre in Białobrzegi on the Zegrzyński Lake. Parents and their children spent family time in an active way, participating in various sports and other activities, including MMA training sessions, dance lessons, shooting range sessions, fitness games, water games, quad bike rides, and playground games.

BUSINESS PARTNERS

To successfully implement our strategy, we need to establish and maintain positive and lasting relations with all of our business partners.

We work with a number of reliable business partners with whom we have developed lasting relations. Mutual trust is one of our principal values, which is why we base our cooperation on open dialogue and exchange of opinions and experiences. We are open to feedback from the market, unbiased and valuable comments on our products and services, and inspiring ideas that have the potential to improve cooperation with our partners in a given area. We share our history of positive experiences from previous projects with many of our partners. We strongly believe that trust-based relations with them are a building block of the competitive advantage enjoyed by the Group.

Our aim is to treat our suppliers and business partners fairly. We select new partners in a tender procedure based on objective criteria, such as quality, reliability, integrity, execution time, references from other customers, and price.

Good relations between the company and its suppliers reduce transaction costs as a loyal, regular supplier is predictable in terms of product quality, timeliness, flexibility, and pricing.

THE MEDIA

Cooperating with the media is one of the key elements of our communication with the market. We therefore focus our strategy on long-term partnership-based cooperation with journalists, establishing positive relations and an open dialogue, which allows both parties to pursue their goals efficiently.

Our Media Relations efforts include:

- Assembling a team (Press Office) dedicated to implementing the strategy of consistent, open and transparent communications with the media and other stakeholders interested in receiving updates on the Company's activities;
- Regularly updating the national and local media on important and interesting initiatives and plans by means of press releases, statements, subject matter reports, expert briefings, reports, presentations, data sheets, information graphics, on-demand summaries prepared for journalists, etc;
- Organising special media events to acquaint the media with a given area of the Company's operations or inform them about new portfolio products; such events include press conferences, briefings, press breakfasts, open door events, meetings with market experts, special occasion events and themed events;
- Arranging interviews and individual meetings with members of the Management Board, executives, and experts;
- Providing journalists with our equipment and services for testing in order to receive in-depth professional feedback on the new solutions and technologies implemented by the Company;
- Accepting invitations to appear on radio and TV programmes, or to sit on the discussion panels of industry conferences and congresses;
- Disseminating specialist knowledge on new technologies among journalists.

REGULATORS AND INDUSTRY ORGANISATIONS

We would like to effectively shape the environment in which we operate. To that end, we have become a member of or a partner to various organisations that work to promote the industry's and the market's development and that bring together experts in the areas important to our business.

- We support the advancement of technology and related legislative processes. We have established cooperation with many partners, including the Polish Chamber of Information Technology and Telecommunications (Polska Izba Informatyki i Telekomunikacji, PIIT), the Polish Chamber of Commerce for Electronics and Telecommunications (Krajowa Izba Gospodarcza Elektroniki i Telekomunikacji, KIGEiT), the Polish Chamber of Digital Broadcasting (Polska Izba Radiodyfuzji Cyfrowej, PIRC), the Polish Chamber for Electronic Communication (Polska Izba Komunikacji Elektronicznej, PIKE), the Polish Information Processing Society (Polskie Towarzystwo Informatyczne, PTI), and the Polish Confederation of Private Employers Lewiatan (PKPP Lewiatan). All these organisations support the industry's development, promote initiatives driving technological progress, make efforts to ensure friendly legal and regulatory frameworks that are conducive to development of the entire industry, the market and - in the case of PKPP Lewiatan - individual companies, while protecting consumer rights. They are also engaged in educational efforts in modern electronic communication. A recent outcome of the work of the organisations, and the Polish Chamber of Digital Broadcasting in particular, was the amended regulation on technical requirements applicable to buildings and their location, effective since February 23rd 2013. It sets out the obligation to install a system for receiving digital TV and radio channels broadcast via terrestrial or satellite means. This allows building residents to freely choose between digital reception technologies.

We are consistent in our efforts to encourage legal use of television signals and to protect related consumer rights as a partner of the Sygnał Association since 2004. To this end, we pursue two primary goals: we want to prevent television signal theft (including online signal theft, streaming theft in particular), production of counterfeit equipment, obtaining equipment under false pretences, and marketing counterfeit cards and set-top boxes, and to encourage a change in the public mindset by promoting a clearly disapproving approach to television piracy, which should be seen as a legally punishable offence. We have collaborated with the Sygnał Association in setting up various events, including training for law enforcement officers (the police and prosecutors), seminars, conferences, and educational campaigns. One such event held in 2012 was the future without piracy? Piracy without a future? National and international experience in counteracting television piracy, conference organised to mark the World Intellectual Property Day and the tenth anniversary of the Sygnał Association, under the auspices of the Ministry of Culture and National Heritage and PKPP Lewiatan.

As a listed company, we constantly cooperate with the regulator and other capital market institutions, such as the Polish Financial Supervision Authority (KNF), the Warsaw Stock Exchange, the Polish National Depository for Securities (KDPW), the Polish Association of Listed Companies (SEG), the Polish Association of Individual Investors (SII) and the Polish Association of Brokers and Investment Advisers (ZMiD). Pursuing an active investor relations policy, we maintain constant contact with our shareholders (Investment Fund Management Companies, Open-ended Pension Funds), as well as independent brokerage houses.

As Poland's pioneering provider of ultrafast LTE broadband and a company offering a broad array of online services, we make an effort to actively participate in the progress of the interactive services market and in the process of formulating the standards that describe it. We are a member of IAB Polska, aiding the processes of educating the market and setting quality standards, and offering our support to efforts aimed at promoting the Internet as an effective advertising medium. Moreover, we are the co-owner of Polskie Badania Internetu, a company established to set a standard for Polish surveying of the Internet.

Our station's audience is measured telemetrically by Nielsen Audience Measurement, whose surveys provide a benchmark for all TV stations, media planners and advertisers present on the Polish market. We are also a member of the EGTA association of television and radio sales houses.

DISCOVERY SCIENCE

DISCOVERY

- We take care to ensure secure and high-quality internal and external audit processes. Our employees follow procedural guidelines issued by the ISACA and the IIA Polska Internal Auditor Association (Stowarzyszenie Audytorów Wewnętrznych IIA Polska). We also seek to raise the internal awareness of the role of audits, and to disseminate knowledge of audit processes and standards for their efficient and reliable performance.

Under the current legal framework in Poland, our operating markets are regulated by the following entities:

- Telecommunications market (the Internet and mobile telephony): the Office for Electronic Communications (UKE),
- Radio and television: the Office for Electronic Communications and the National Broadcasting Council (KRRiT).

Digital terrestrial frequencies are allocated by the UKE, whereas the KRRiT grants rights to broadcast content.

Important links:

KNF: www.knf.gov.pl
KDPW: www.kdpw.pl
GPW: www.gpw.pl
UKE: www.uke.gov.pl
KRRiT: www.krrit.gov.pl

NON-GOVERNMENTAL ORGANISATIONS AND LOCAL COMMUNITIES

We strive to make our employees sensitive to social issues, and our efforts have proved highly successful. Cyfrowy Polsat is full of generous people willing to devote their free time to help people in need and engage in activities benefiting local communities.

Although employee volunteer work is not formally regulated by our internal procedures, we pursue charity work in many areas:

- As part of the 'Bottle Cap' programme, we provide continuous support for the DOM RODZINA CZŁOWIEK (HOME, FAMILY, HUMAN) association from the Żoliborz district in Warsaw. Thousands of plastic bottle caps collected by our employees, their families and friends are helping to finance the purchase of wheelchairs for disabled children.

- Since 2010, in the Christmas period, our employees have been turning into Santa Clauses. In 2012, as part of the 'Santa's Messenger' programme implemented together with the Przyjaciółka Foundation, we succeeded in making as many as 179 children's dreams come true. As many as 267 of our employees joined the initiative and gave gifts to children, fulfilling the wishes they had described in letters to Santa Claus. By combining our efforts, we spent over PLN 17,900 fulfilling the children's dreams, with the gifts arriving at day care centres in the villages of Suchacz, Gronowo, Łojdy, Krasnołąka and Pasłęka.

In 2012, to celebrate Children's Day, we organised a charity collection among our employees, with the needs of the poorest families in mind. Collected items were donated to the day care centre in Sępopol, from which they were distributed to specific families and children. We collected over 100 parcels full of toys, cuddly toys, games, books and stationery.

In summer 2012, we participated in the 'Let's air our wardrobes' initiative, in which clothing was collected for youngsters and adults covered by the 'Active and Self-Reliant' programme, run by the Bene Vobis Foundation.

Since 2011, we have been supporting the 'Your 1% has great value' campaign organised jointly by Telewizja Polsat and the Polsat Foundation. We believe that encouraging people to donate 1% of their tax to a public benefit organisation of their choice is a highly praiseworthy initiative, as not all tax-payers take advantage of their statutory right to give some of their tax to the needy. Thus, by showing our employees and their families how easy it is to use this mechanism, we hope not only to increase charitable organisations' proceeds from the 1% tax donation, but also to expand the capabilities of public benefit organisations to work for the benefit of local communities.

We work with the Polsat Foundation and encourage our employees and clients to support the children that the Foundation looks after. We show them that if we unite our efforts we can measurably help the children in need. In 2012, for the fourth consecutive year, Cyfrowy Polsat's funds earmarked for traditional Christmas gifts were donated to a girl placed under the Foundation's care. The funds were assigned to cover the cost of treatment and rehabilitation of 12-year old Weronika from Gdańsk, who as a result of diabetic coma and heart arrest had cerebral edema and hypoxia, and developed quadriparesis. Additionally, customers using Cyfrowy Polsat's mobile telephony services may support the Foundation's activities by sending special text messages.

Since 2004, we have been working with the Association of Television Programme Distributors SYGNAŁ, jointly organising social campaigns aimed at building the awareness that stealing television signals is an offence, and fostering legal use of television signals and respect for copyright holders.

ANIMAL PLANET

PHOTO: TELEWIZJA POLSAT

THE POLSAT FOUNDATION

Telewizja Polsat was the first commercial TV station in Poland to engage in charity work. The Polsat Foundation was established in 1996, and has been helping to finance the treatment of seriously ill children for 16 years now. 'Wystarczy chcieć' (Just Do It) was the motto adopted at the time of the Foundation's inception.

The Foundation's staff are aware that a child's illness is a tragedy that has two dimensions – not only emotional, but also financial, since specialist treatment, innovative pharmaceuticals or expensive rehabilitation are well beyond most parents' financial capacity. That is why, over the 16 years of its operations, the Foundation has been incessantly helping specific children, and saving the lives of the youngest who would not otherwise be able to recover. The Foundation tries to respond as fast as possible and to consider all the help requests it receives. So far, it has helped over 20,000 small patients and provided support to over a thousand hospitals and other medical facilities. Altogether, the Foundation has spent PLN 187.3m on the objectives laid down in its charter.

The Foundation's most recognisable projects include:

'Podaruj Dzieciom Słońce' (Let the Sun Shine for the Children)

This is an annual, nationwide campaign carried out by the Polsat Foundation together with Procter&Gamble and Telewizja Polsat. Some of the income from sale of products bearing the sun logo has been assigned to address specific problems at Polish paediatric clinics and to support the treatment and rehabilitation of children under the Foundation's care. Thanks to the campaign, in 1999–2007 equipment was purchased for 232 children's wards and other specialised medical facilities dedicated to children. In 2008–2011, the collected funds were allocated to finance treatment and rehabilitation of 7,277 children with serious illnesses, as well as to purchase associated medical and rehabilitation equipment. Over the 14 years during which the programme has been run, more than PLN 65.6m has been donated for financing the treatment of children.

'Jesteśmy dla dzieci' (We Are for the Children)

This campaign features the children under the Foundation's care in advertising spots in which they appeal for help, not only for themselves, but also for other sick children. Thanks to this campaign, the Foundation has collected PLN 53m, which was assigned in whole to finance the treatment and rehabilitation of children.

'Mikołajkowy Blok Reklamowy' (Santa's Day Commercial Break)

This is an exceptional campaign, uniting large corporations and Telewizja Polsat viewers to jointly help sick children. On December 6th at 6.45pm, a special commercial break is broadcast by Telewizja Polsat, which is watched by millions of viewers. The proceeds from this special broadcast, calculated on the basis of the audience share, are donated every year for financing the treatment and rehabilitation of the children under the Polsat Foundation's care. On December 6th 2012, the Santa's Day Commercial Break attracted over 8.8 million viewers (i.e. 54.4% of viewers in the 16-49 age group), thanks to which over PLN 2m was collected. In 2012, the Santa's Day Commercial Break could for the first time be watched on the Internet via the ipla application – 4,200 Internet users took advantage of that opportunity. The nine Santa's Day Commercial Breaks broadcast so far have brought almost PLN 10.5m for the children the Polsat Foundation looks after.

'Rodzina – Dom Budowany Miłością' (Family – A Home Built by Love)

This is a social initiative run by the Polsat Foundation together with the Przyjaciółka Foundation, the purpose of which is to support private homes of state-certified caregivers and foster families, and to promote family-based forms of foster care. When it joined in the programme, the Foundation set itself the goal of giving each child the chance to be brought up in a family. If a child cannot be raised by its biological parents, the most desirable alternatives are a foster family or a private home of state-certified caregivers. For the six years that the programme has been run, over PLN 1.8m has been donated by the Foundation to support the programme.

The Foundation carries out global initiatives as well – in 2005 money was raised for child tsunami victims in Asia, and more than PLN 1.2m was given to the Polska Akcja Humanitarna Foundation to help children from Sri Lanka, one of the regions hit the hardest by the disaster.

Thanks to Telewizja Polsat, the Foundation can reach the people, sponsors, and volunteers without whom it would not be able to work. The Foundation's operations are financed by funds collected in nationwide campaigns, by donations, and by numerous private and corporate grants.

All our efforts prove that we can truly help children only by joining forces. Saving children's health and life is the Foundation's primary mission. During the 16 years of its existence it has managed to directly help 20,341 children affected by serious illness, and thus also their families.

For more information on the Polsat Foundation, see

www.FundacjaPolsat.pl

Polsat Foundation's account number:

Invest-Bank S.A. O/Warszawa

21 1680 1248 0000 3333 4444 5555

FUNDACJA POLSAT

PHOTO BY TELEWIZJA POLSAT

NAT GEO WILD

THE ENVIRONMENT

Concern for the natural environment is not part of our corporate social responsibility, but also what we strive for in an effort to secure a brighter future for us and for the generations to come.

We operate in accordance with the provisions of the following Polish laws: the Environmental Protection Law of April 27th 2001, the Waste Act of December 14th 2012, the Act on Waste Electrical and Electronic Equipment of July 29th 2005, the Act on Packaging and Packaging Waste of May 11th 2001, and the Act on Batteries of April 24th 2009.

We have implemented and are continuously upgrading the Integrated Quality, Environment and Occupational Health & Safety Management System, in accordance with the following standards: PN-EN ISO 9001:2009, PN-EN ISO 14001:2005, and PN-N-18001:2004 for design and manufacture of electronic equipment.

In our everyday work, we are doing our utmost to follow best practices, encourage pro-environmental attitudes among our employees, and take responsibility for the immediate environmental impact of our operations. To that end:

- As of last year, most of our DTH equipment comes in special environmentally-friendly packaging. The amount of paper used in the production of packaging materials has been reduced and we have switched to using brown, environmentally-friendly paper;

- The waste we produce is collected by specialised waste collection and recycling companies having appropriate certificates and infrastructure ensuring proper waste management;

- We collect waste paper on the company's premises and we sort waste such as batteries and ink cartridges;

- In September last year, in co-operation with Biosystem S.A., we implemented our own internal collection process for retrieval of electrical and electronic waste from Group employees' households. The Company provides space on its premises for two waste containers from Biosystem S.A., and all employees can now use them to get rid of their waste equipment, which is then processed to the extent necessary to minimise the negative environmental impact of the harmful substances contained within. Since the launch of the project, we have collected and handed over to Biosystem S.A. about 800 kilograms of electrical and electronic waste, including CRT and LCD TV sets, computer hardware, printers, radio equipment, and smaller home appliances and consumer electronics;

- We find it important to ensure the optimum loading of our trucks used for transporting set-top boxes to our distribution networks throughout Poland;

- As a part of the 'Go green with Cyfrowy Polsat!' initiative, our clients are offered the possibility of receiving electronic invoices directly to their e-mail boxes;

- In order to improve the environmental awareness of our employees, we promote an environmentally responsible approach in our internal bulletin and the Intranet;

- Together with our employees, we have established 10 ecological rules, which do not require great effort to be applied on a regular basis, but still contribute to the protection of the natural environment. We try to promote these rules and keep them in mind in our everyday work at the office. They include, among other things, using environmentally-friendly bags and containers, reducing excessive use of the air-conditioning systems, printing only those documents that are really necessary, saving energy, sorting waste, and travelling in an environmentally-friendly manner;

- We hold environmental awareness competitions on Earth Day.

CYFROWY POLSAT GROUP

PART 4
FINANCIAL STATEMENTS

Photos: Polsat

CYFROWY POLSAT S.A. GROUP

Consolidated Financial Statements for the year ended 31 December 2012

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

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

On 11 March 2013, 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 2012 to 31 December 2012 showing a net profit for the period of: PLN 598,298
- Consolidated Statement of Comprehensive Income for the period from 1 January 2012 to 31 December 2012 showing a total comprehensive income for the period of: PLN 572,360
- Consolidated Balance Sheet as at 31 December 2012 showing total assets and total equity and liabilities of: PLN 5,561,345
- Consolidated Cash Flow Statement for the period from 1 January 2012 to 31 December 2012 showing a net decrease in cash and cash equivalents amounting to: PLN 5,411
- Consolidated Statement of Changes in Equity for the period from 1 January 2012 to 31 December 2012 showing an increase in equity of: PLN 572,360
- Notes to the Consolidated Financial Statements

The consolidated financial statements have been prepared in thousands of Polish zloty ('PLN') except where otherwise indicated.

DOMINIK LIBICKI President of the Management Board
TOMASZ SZELĄG Member of the Management Board
DARIUSZ DZIAŁKOWSKI Member of the Management Board
ANETA JASKÓLSKA Member of the Management Board

Warsaw, 11 March 2013

CONSOLIDATED INCOME STATEMENT

	Note	for the year ended 31 December 2012	31 December 2011 restated
CONTINUING OPERATIONS			
Revenue	10	2,778,215	2,365,925
Operating costs	11	(1,971,663)	(1,799,621)
■ Cost of services, products, goods and materials sold		(1,530,301)	(1,396,237)
■ Selling expenses		(247,073)	(243,493)
■ General and administrative expenses		(194,289)	(159,891)
Other operating income/costs		(17,373)	(6,004)
PROFIT FROM OPERATING ACTIVITIES		**789,179**	**560,300**
Gains and losses on investment activities	12	14,353	(15,006)
Finance costs	13	(110,782)	(355,392)
Share of the profit of jointly controlled entity accounted for using the equity method		2,897	2,164
GROSS PROFIT FOR THE PERIOD		**695,647**	**192,066**
Income tax	14	(97,349)	(31,876)
NET PROFIT FOR THE PERIOD		**598,298**	**160,190**
Net profit attributable to equity holders of the Parent		598,298	160,190
BASIC AND DILUTED EARNINGS PER SHARE (IN PLN)	16	**1.72**	**0.49**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		for the year ended	
	Note	31 December 2012	31 December 2011
NET PROFIT FOR THE PERIOD		**598,298**	**160,190**
Hedge valuation	30	(31,345)	5,874
Income tax relating to hedge valuation	30	5,955	(1,116)
Currency translation adjustment		(703)	6,018
Income tax relating to currency translation adjustment		155	(1,165)
OTHER COMPREHENSIVE INCOME, NET OF TAX		**(25,938)**	**9,611**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**572,360**	**169,801**
Total comprehensive income attributable to equity holders of the Parent		572,360	169,801

CONSOLIDATED BALANCE SHEET - ASSETS

	Note	31 December 2012	31 December 2011 restated	1 January 2011 restated
Reception equipment	17	420,060	408,610	275,399
Other property, plant and equipment	17	276,407	263,277	152,857
Goodwill	18	2,568,033	2,412,285	52,022
Brands	19	847,800	840,000	300
Other intangible assets	21	81,380	54,194	22,944
Non-current programming assets	22	97,988	131,141	-
Investment property		8,357	8,440	-
Non-current deferred distribution fees	23	35,125	35,028	35,258
Other non-current assets	24	109,642	69,447	2,286
Deferred tax assets	14	31,356	55,726	4,158
TOTAL NON-CURRENT ASSETS		**4,476,148**	**4,278,148**	**545,224**
Current programming assets	22	141,652	137,429	-
Inventories	25	161,974	178,127	173,154
Bonds		-	14,854	-
Trade and other receivables	26	375,659	320,542	215,417
Income tax receivable		6,494	10,086	7,542
Current deferred distribution fees	23	57,096	59,361	63,914
Other current assets	27	71,968	72,467	13,448
Cash and cash equivalents	28	270,354	277,534	27,615
TOTAL CURRENT ASSETS		**1,085,197**	**1,070,400**	**501,090**
TOTAL ASSETS		**5,561,345**	**5,348,548**	**1,046,314**

CONSOLIDATED BALANCE SHEET - EQUITY AND LIABILITIES

	Note	31 December 2012	31 December 2011 restated	1 January 2011 restated
Share capital	29	13,934	13,934	10,733
Retained earnings	29	1,295,103	1,295,103	-
Other reserves	29	(16,327)	9,611	-
Retained earnings		1,175,693	577,395	417,205
TOTAL EQUITY		**2,468,403**	**1,896,043**	**427,938**
Loans and borrowings	31	592,003	958,407	-
Senior Notes payable	32	1,316,479	1,417,525	-
Finance lease liabilities	33	551	934	1,095
Deferred tax liabilities	14	94,258	87,122	65,338
Deferred income	37	5,181	7,595	16,192
Other non-current liabilities and provisions	34	17,690	12,497	2,384
TOTAL NON-CURRENT LIABILITIES		**2,026,162**	**2,484,080**	**85,009**
Loans and borrowings	31	275,608	246,778	18,041
Senior Notes payable	32	97,256	105,052	-
Finance lease liabilities	33	233	252	491
Trade and other payables	35	472,094	374,955	317,953
Income tax liability		7,092	29,226	-
Deposits for equipment	36	13,259	12,744	15,523
Deferred income	37	201,238	199,418	181,359
TOTAL CURRENT LIABILITIES		**1,066,780**	**968,425**	**533,367**
TOTAL LIABILITIES		**3,092,942**	**3,452,505**	**618,376**
TOTAL EQUITY AND LIABILITIES		**5,561,345**	**5,348,548**	**1,046,314**

CONSOLIDATED CASH FLOW STATEMENT

	Note	for the year ended 31 December 2012	31 December 2011
NET PROFIT FOR THE PERIOD		**598,298**	**160,190**
ADJUSTMENTS FOR:		**244,920**	**210,727**
Depreciation, amortization and impairment	11	243,066	174,880
Payments for film licenses and sports rights		(177,868)	(177,241)
Amortization of film licenses and sports rights		194,521	169,455
Loss/(gain) on investing activity		(111)	1,187
Cost of programming rights sold		9,244	3,747
Interest expense		205,185	171,811
Change in inventories		16,173	(3,433)
Change in receivables and other assets		(106,816)	(63,732)
Change in liabilities, provisions and deferred income		67,872	(59,031)
Change in internal production and advance payments		2,093	6,513
Valuation of hedging instruments		(31,345)	5,874
Share of the profit of jointly controlled entity accounted for using the equity method		(2,897)	(2,164)
Foreign exchange losses/(gains), net		(111,076)	170,382
Compensation of income tax receivables with VAT liabilities		-	6,264
Income tax	14	97,349	31,876
Net additions of reception equipment provided under operating lease		(164,008)	(229,353)
Other adjustments		3,538	3,692
CASH FROM OPERATING ACTIVITIES		**843,218**	**370,917**
Income tax paid		(78,733)	(34,222)
Interest received from operating activities		16,882	10,351
NET CASH FROM OPERATING ACTIVITIES		**781,367**	**347,046**
Acquisition of property, plant and equipment		(54,937)	(39,241)
Acquisition of intangible assets		(36,240)	(26,433)
Acquisition of subsidiaries, net of cash acquired	38	(45,711)	(2,336,698)
Proceeds from sale of property, plant and equipment		751	999
Acquisition of bonds		-	(14,684)
Prepayment for shares	27	-	(12,000)
Loans granted		(1,100)	-
Repayment of loans granted		1,100	-
Proceeds from interest on loans granted		-	1
Dividends received		2,706	1,305
NET CASH USED IN INVESTING ACTIVITIES		**(133,431)**	**(2,426,751)**

	Note	for the year ended 31 December 2012	31 December 2011
Net cash from bank overdraft		-	(18,041)
Term loans received	31	-	2,800,000
Issuance of Senior Notes	32	-	1,372,245
Proceeds from realization of foreign exchange call options		-	2,480
Repayment of loans and borrowings	31	(453,324)	(1,538,844)
Repayment of interest on Cash Pool		(3,683)	-
Finance lease – principal repayments		(335)	(512)
Payment of interest on loans, borrowings, bonds, finance lease and commissions		(195,934)	(289,899)
Other net financing outflows		(71)	-
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		**(653,347)**	**2,327,429**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(5,411)**	**247,724**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**277,534**	**27,615**
Effect of exchange rate fluctuations on cash and cash equivalents		(1,769)	2,195
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**270,354**	**277,534**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital	Share premium	Other reserves	Retained earnings*	Total equity
BALANCE AS AT 1 JANUARY 2012	**13,934**	**1,295,103**	**9,611**	**577,395**	**1,896,043**
Total comprehensive income	-	-	(25,938)	598,298	572,360
Hedge valuation reserve (Note 30)	-	-	(25,390)	-	(25,390)
Currency translation adjustment	-	-	(548)	-	(548)
Net profit for the period	-	-	-	598,298	598,298
BALANCE AS AT 31 DECEMBER 2012	**13,934**	**1,295,103**	**(16,327)**	**1,175,693**	**2,468,403**

* The capital excluded from distribution amounts to PLN 4,645. In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital	Share premium	Other reserves	Retained earnings*	Total equity
BALANCE AS AT 1 JANUARY 2011	**10,733**	**-**	**-**	**417,205**	**427,938**
Total comprehensive income	-	-	9,611	160,190	169,801
Hedge valuation reserve	-	-	4,758	-	4,758
Currency translation adjustment	-	-	4,853	-	4,853
Net profit for the period	-	-	-	160,190	160,190
Share issue	3,201	1,295,103	-	-	1,298,304
BALANCE AS AT 31 DECEMBER 2011	**13,934**	**1,295,103**	**9,611**	**577,395**	**1,896,043**

* The capital excluded from distribution amounts to PLN 4,645. In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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 associate. The Group operates in two segments: (1) retail business which relates to the provision of services to the general public, including digital television transmission signal, Internet access services, mobile TV services, online TV services, mobile services, and production of set-top boxes; (2) broadcasting and television production which consist mainly of production, acquisition and broadcasting of information and entertainment programs as well as TV series and feature films broadcasted on television channel in Poland.

2. COMPOSITION OF THE MANAGEMENT BOARD OF THE COMPANY

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

3. COMPOSITION OF THE SUPERVISORY BOARD OF THE COMPANY

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

4. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF COMPLIANCE

These consolidated financial statements for the year ended 31 December 2012 have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU (IFRS EU). The Group applied the same accounting policies in the preparation of the financial data for the year ended 31 December 2012 and the consolidated financial statements for the year 2011, 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 2012 and except for the effects of presentation changes as described in note 8.

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

(i) amendments to IFRS 7 – Transfers of Financial Assets

The amendments specify the scope of disclosures related to transfers of financial assets. The changes have no impact on these consolidated financial statements.

Standards published but not yet effective:

(i) amendments to IAS 19 – Employee Benefits

The amendments introduce new requirements for the recognition and measurement of the defined benefit plan costs and termination benefits as well as amend disclosure requirements. The changes have no impact on these financial statements.

5. GROUP OF CONSOLIDATED COMPANIES

These consolidated financial statements for 2012 include the following entities::

	Entity's registered office	Activity	Share in voting rights (%) 31 December 2012	31 December 2011
PARENT COMPANY				
Cyfrowy Polsat S.A.	Łubinowa 4a, Warsaw	radio, TV and telecommunication activities	n/a	n/a
SUBSIDIARIES ACCOUNTED FOR USING FULL METHOD:				
Cyfrowy Polsat Technology Sp. z o.o.*	Łubinowa 4a, Warsaw	production of set-top boxes	n/a	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%	100%
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, Warsaw	television broadcasting and production	100%	100%
RS TV S.A.	Chorzowska 15, Radom	terrestrial transmission	100%	100%
Polsat Media Sp. z o.o.	Ostrobramska 77, Warsaw	advertising activities	100%	100%
Media-Biznes Sp. z o.o.	Stanów Zjednoczonych 53, Warsaw	television activities	100%	100%
Polsat Futball Ltd.	Office 1D 238-246 King Street London W6 0RF UK	television activities	100%	100%
Nord License AS	Vollsvseien 13B Lysaker Norway	trade of programming licences	100%	100%
Polsat License Ltd.	Poststrasse 9 6300 Zug Switzerland	trade of programming licences	100%	100%
Telewizja Polsat Holdings Sp. z o.o.	Ostrobramska 77, Warsaw	broadcasting and TV production	100%	n/a
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, Warsaw	radio and TV activities	100%	n/a
Redefine Sp. z o.o.	Stanów Zjednoczonych 61A, Warsaw	web portals activities	100%	n/a
Poszkole.pl Sp. z o.o.	Stanów Zjednoczonych 61A, Warsaw	web portals activities	100%	n/a
Stat24 Sp. z o.o.**	Stanów Zjednoczonych 61A, Warsaw	market research	100%	n/a
Gery.pl Sp. z o.o.	Stanów Zjednoczonych 61A, Warsaw	web portals activities	100%	n/a
Frazpc.pl Sp. z o.o.	Stanów Zjednoczonych 61A, Warsaw	web portals activities	100%	n/a
Netshare Sp. z o.o.	Stanów Zjednoczonych 61A, Warsaw	Electronic media (Internet) advertising broker	100%	n/a

* On Decemer 31, 2012, Cyfrowy Polsat Technology merged with Cyfrowy Polsat S.A. The surviving entity was Cyfrowy Polsat S.A.

** Stat24 sp. z o.o. was acquired on 1 April 2012 (see note 38) and merged with Redefine sp. z o.o. on 30 November 2012. The surviving entity was Redefine Sp. z o.o.

Investments accounted for under the equity method:

	Entity's registered office	Activity	Share in voting rights (%) 31 December 2012	31 December 2011
Polsat JimJam Ltd.	105-109 Salusbury Road London NW6 6RG UK	television activities	50%	50%
Polski Operator Telewizyjny Sp. z o.o.*	Huculska 6, Warsaw	radio communications and radio diffusion	50%	50%

* 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 2012	31 December 2011
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.

a) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments, which are stated at fair value.

b) Going concern

These 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 2012.

c) Functional and presentation currency

These consolidated financial statements are presented in the Polish zloty, rounded to the nearest thousand. The functional currency of the Company and all its subsidiaries is the Polish zloty. From 1 January 2012 Nord Licence AS (one of the subsidiaries) has changed its functional currency from USD to PLN due to significant decrease in volume of USD-nominated transactions.

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 judgments in applying accounting policies is included in note 49.

e) Comparative financial information

Comparative financial information or financial information included in previously published financial statements have been restated, if necessary, so that they reflect the presentation changes introduced in the current period. For presentation changes see note 8.

Additionally, starting from the year 2012 the Group recognizes lower revenues from penalties for breaching contracts by the clients due to change of accounting estimates regarding recognition and recoverability of these revenues. This change of estimates does not materially influence the Group's operating results as the Group respectively recognizes lower bad debt allowance expense. The Management Board believes that this approach reflects the business standing of the Group more precisely and is more transparent for the market environment.

Had the Group proceeded with this approach in the year 2011, the revenue would have totalled PLN 2,323,078.

It should be noted that the year ended 31 December 2012 is not comparable to the year ended 31 December 2011 as Telewizja Polsat Sp. z o.o. was acquired on 20 April 2011, and INFO-TV-FM was acquired on 30 January 2012 and ipla platform was acquired on 2 April 2012.

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) Jointly controlled entity

Jointly controlled entity is any entity where the Group usually has 50% of the voting rights. Investment in a jointly controlled entity is accounted for under the equity method and are initially recognized at cost. The Group's investment in jointly controlled entity includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of an jointly controlled entity'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 a jointly controlled entity are also made for changes in the Group's proportionate interest in the jointly controlled entity 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 jointly controlled entity equals or exceeds its interest in that entity, 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 jointly controlled entity. Unrealised gains on transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the assets transferred.

(iii) Transactions eliminated on consolidation

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

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

g) Foreign currency transactions

(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 initial recognition. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated at the average NBP foreign exchange rate in effect at the date the fair value was determined.

h) Financial instruments

(i) Non-derivative financial instruments

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

Non-derivative financial instruments, other than investments 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.

Principles for recognition of gains and losses on investment activities and costs are presented in note 6w.

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.

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.

(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 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, the Group's hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, the 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 cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

For cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the hedge valuation reserve, while any ineffective portion is recognized immediately in the income statement.

The amounts recognized within other comprehensive income are transferred from equity to the income statement when the hedged transaction affects profit or loss, such as when the related gain or loss is recognized in finance costs or when a forecast sale occurs.

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

Other derivatives not designated for hedge accounting

Derivative instruments that are not designated for hedge accounting are recognized initially at fair value, attributable transaction costs are recognized in the profit or loss as incurred. Subsequent to initial recognition, the 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 intends to 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.

Share premium

Share premium includes the excess of the issue value over the nominal value of shares issued. For presentation changes see note 8.

Retained earnings

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

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

(iii) 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.

Land is not depreciated.

The following are estimated useful lives of respective group of property, plant and equipment:

Reception equipment	5 years
Buildings and structures	2–61 years
Technical equipment and machinery	2–58 years
Vehicles	2–16 years
Other	2–26 years

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

(iv) Leased assets

Assets used under lease, tenancy, rental or similar contracts which meet finance lease criteria, are classified as non-current assets and measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Set-top boxes that are provided to customers under operating lease agreements are recognized within property, plant and equipment (Reception equipment in the 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

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

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

(ii) Other intangible assets

The 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.

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

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

Amortization 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.

l) 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 licence begin date, are recognized as prepayments for programming assets.

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 expected 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 licenses acquired within their estimated useful lives limited by the term of the respective license 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 on next page:

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 on each license in case of withdrawal from broadcasting an item in the expected future (resulting from changes in strategic program scheduling, changing audience tastes, media law restrictions on the usability of films) 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. The reversals are recorded as cost of sales reductions.

m) Inventories

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

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

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

n) Prepayments

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

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.

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 the cost of debt collection services and bad debt allowance and receivables written off. An allowance for receivables from individuals is estimated based on the historical 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 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. The recoverable amount of intangible assets which are not yet available for use 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) Restricted cash

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

q) Employee benefits

(i) Defined contribution plan

All Group entities that act as employers have an obligation, under applicable legislation, to collect and remit contributions to the state pension fund. 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 liability are recognized in the income statement. Actuarial gains and losses are recognized in the income statement in full in the period they originated.

(iii) Short-term employee benefits

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

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.

r) 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.

Certain disclosures may not be included in these consolidated financial statements as they relate to sensitive information.

(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 in the equipment carrying amount upon initial recognition 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 or changes in estimates. Changes in estimates of dismantling costs is recognized in the carrying amount of the asset.

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.

s) Contingent liabilities

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

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

Unless the possibility of any outflow in settlement is remote, the Group discloses for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:

- an estimate of its financial effect;
- an indication of the uncertainties relating to the amount or timing of any outflow; and
- the possibility of any reimbursement.

t) 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 revenue, including subscription and activation fees for DTH, mobile TV, 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 revenue 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.

(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, less of any amounts due to television broadcasters. 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 residual method in such a way that the amount recognised for items already received cannot be higher than cash already received.

u) 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.

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 non-current assets.

v) 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.

w) Gains and losses on investment activities and finance costs

Gains and losses on investment activities include interest income on funds invested, interest expenses (other than interest expenses on borrowings), dividends income, results on the disposal of available-for-sale financial instruments, fair value gains/losses on financial instruments at fair value through profit or loss, net foreign currency gains/losses, and results on completed forward exchange contracts and call options, impairment losses recognized on financial assets, unwinding of the discount on provisions.

Interest income and expense (other than interest expense on borrowings) is recognized as it accrues in profit or loss using the effective interest method. Dividends income is recognized in profit or loss on the date that the Group's right to receive payment is established.

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

x) 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.

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

Current tax is the tax payable on the taxable income for the year, using tax rates enacted at the 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. When not recognized deferred tax asset becomes recoverable, it is recognized 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.

z) Earnings per share

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

aa) 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.

bb) 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 disposals/(additions) 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.

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) Derivatives

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

(ii) Non-derivative financial assetsi

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

(iii) 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.

8. CHANGE IN PRESENTATION

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

Cost of debt collection services were previously presented within Costs of services, products, goods and materials sold (Distribution, marketing, customer relation management and retention costs in costs by kind – see note 11) while bad debt allowance was presented within Other operating income/costs.

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

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

for the year ended

	31 December 2011 (reported)	Change	31 December 2011 (restated)
Revenue	2,365,925		2,365,925
Operating costs	(1,734,336)	(65,285)	(1,799,621)
■ Cost of services, products, goods and materials sold	(1,330,952)	(65,285)	(1,396,237)
■ Selling expenses	(243,493)		(243,493)
■ General and administrative expenses	(159,891)		(159,891)
Other operating income/costs	(71,289)	65,285	(6,004)
PROFIT FROM OPERATING ACTIVITIES	**560,300**	**-**	**560,300**
Gains and losses on investment activities	10,765	(25,771)	(15,006)
Finance costs	(381,163)	25,771	(355,392)
Share of the profit or loss of associate accounted for using the equity method	2,164		2,164
GROSS PROFIT FOR THE PERIOD	**192,066**	**-**	**192,066**
Income tax	(31,876)		(31,876)
NET PROFIT FOR THE PERIOD	**160,190**	**-**	**160,190**

The Group changed its consolidated balance sheet presentation to present long term portion of the data transfer order in Other non-current assets (reclassification from Other current assets). The Group also reclassified and presented Non-current deferred distribution fees and Current deferred distribution fees separately from Other non-current assets and Other current assets, respectively. The Group reclassified receivables and deferred income. None of the introduced changes affected the previously reported amounts of net profit for the period, EBITDA, or equity.

	31 December 2011 (reported)	Change	31 December 2011 (restated)
Reception equipment	408,610		408,610
Other property, plant and equipment	263,277		263,277
Goodwill	2,412,285		2,412,285
Brands	840,000		840,000
Other intangible assets	54,194		54,194
Non-current programming assets	131,141		131,141
Investment property	8,440		8,440
Non-current deferred distribution fees	-	35,028	35,028
Other non-current assets	51,647	17,800	69,447
Deferred tax assets	55,726		55,726
TOTAL NON-CURRENT ASSETS	**4,225,320**	**52,828**	**4,278,148**
Current programming assets	137,429		137,429
Inventories	178,127		178,127
Bonds	14,854		14,854
Trade and other receivables	297,162	23,380	320,542
Income tax receivable	10,086		10,086
Current deferred distribution fees	-	59,361	59,361
Other current assets	184,656	(112,189)	72,467
Cash and cash equivalents	277,534		277,534
TOTAL CURRENT ASSETS	**1,099,848**	**(29,448)**	**1,070,400**
TOTAL ASSETS	**5,325,168**	**23,380**	**5,348,548**

	31 December 2011 (reported)	Change	31 December 2011 (restated)
Share capital	13,934		13,934
Reserve capital	432,265	(432,265)	-
Other reserves	1,305,277	(1,305,277)	-
Share premium	-	1,295,103	1,295,103
Hedge valuation reserve	4,758	(4,758)	-
Currency translation adjustment	4,853	(4,853)	-
Other reserves	-	9,611	9,611
Retained earnings	134,956	442,439	577,395
TOTAL EQUITY	**1,896,043**	**-**	**1,896,043**
Loans and borrowings	958,407		958,407
Senior Notes payable	1,417,525		1,417,525
Finance lease liabilities	934		934
Deferred tax liabilities	87,122		87,122
Deferred income	-	7,595	7,595
Other non-current liabilities and provisions	12,497		12,497
TOTAL NON-CURRENT LIABILITIES	**2,476,485**	**7,595**	**2,484,080**
Loans and borrowings	246,778		246,778
Senior Notes payable	105,052		105,052
Finance lease liabilities	252		252
Trade and other payables	374,955		374,955
Income tax liability	29,226		29,226
Deposits for equipment	12,744		12,744
Deferred income	183,633	15,785	199,418
TOTAL CURRENT LIABILITIES	**952,640**	**15,785**	**968,425**
TOTAL LIABILITIES	**3,429,125**	**23,380**	**3,452,505**
TOTAL EQUITY AND LIABILITIES	**5,325,168**	**23,380**	**5,348,548**

9. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved for publication by the Management Board of Cyfrowy Polsat S.A. on 11 March 2013.

10. REVENUE

		for the year ended
	31 December 2012	31 December 2011
Retail revenue	1,734,798	1,594,872
Advertising and sponsorship revenue	852,580	634,204
Revenue from cable and satellite operator fees	93,660	61,089
Sale of equipment	18,770	16,546
Other revenue	78,407	59,214
TOTAL	**2,778,215**	**2,365,925**

Retail revenue consists of pay-TV, Internet access and MVNO subscription fees, interconnection revenues and settlements with mobile network operators, revenue from rental of reception equipment and contractual penalties related to terminated agreements.

11. OPERATING COSTS

	Nota	for the year ended 31 December 2012	31 December 2011 (restated)
Programming costs		360,311	414,742
Distribution, marketing, customer relation management and retention costs		312,723	312,018
Cost of internal and external TV production and amortization of sport rights		351,489	270,567
Depreciation, amortization and impairment		243,066	174,880
Salaries and employee-related costs	a	178,373	148,811
Broadcasting and signal transmission costs		149,731	114,736
Amortization of purchased film licenses		112,107	93,226
Cost of equipment sold		36,152	33,548
Cost of settlements with mobile network operators and interconnection charges		44,110	25,374
Cost of debt collection services and bad debt allowance and receivables written off		27,457	74,254
Other costs		156,144	137,465
TOTAL COSTS BY KIND		**1,971,663**	**1,799,621**

	for the year ended 31 December 2012	31 December 2011 (restated)
Cost of services, products, goods and materials sold	1,530,301	1,396,237
Selling expenses	247,073	243,493
General and administrative expenses	194,289	159,891
TOTAL COSTS BY FUNCTION	**1,971,663**	**1,799,621**

a) Salaries and employee-related costs

	31 December 2012	for the year ended 31 December 2011
Salaries	151,880	128,638
Social security contributions	19,667	14,531
Other employee-related costs	6,826	5,642
TOTAL	**178,373**	**148,811**

Average headcount

	31 December 2012	for the year ended 31 December 2011
Number of employees – employment contracts	1,454	1,267

12. GAINS AND LOSSES ON INVESTMENT ACTIVITIES

	31 December 2012	for the year ended 31 December 2011
Interest income	18,006	10,715
Other interest	(5,084)	(1,216)
Results on call options:	-	(3,125)
■ Foreign currency options not designated as hedging instruments	-	580
■ Foreign currency options – settlement of instruments	-	(3,705)
Other foreign exchange gains/(losses)	999	(18,615)
Other investment income	796	49
Other finance costs	(364)	(2,814)
TOTAL	**14,353**	**(15,006)**

13. FINANCE COSTS

	31 December 2012	for the year ended 31 December 2011 (restated)
Interest expense on loans and borrowings	109,760	116,339
Realization of hedging instruments (IRS)	1,107	696
Interest expense on issued bonds	108,926	70,580
Impact of hedging instruments valuation on interest expense on issued bonds	1,694	(1,144)
Realization of hedging instruments (CIRS)	(3,428)	(4,190)
Foreign exchange differences on issued bonds	(112,143)	169,376
Guarantee fees	366	226
Bank and other charges	4,500	3,509
TOTAL	**110,782**	**355,392**

14. INCOME TAX

(i) Income tax expense

	31 December 2012	for the year ended 31 December 2011
Current tax expense	61,099	54,326
Change in deferred tax	35,980	(21,633)
Correction of income tax returns of previous years	270	(817)
INCOME TAX EXPENSE IN THE INCOME STATEMENT	**97,349**	**31,876**

	31 December 2012	for the year ended 31 December 2011
CHANGE IN DEFERRED INCOME TAX		
Tax losses carried forward	7,307	(26,728)
Receivables and other assets	22,223	4,691
Liabilities	23,642	(41,190)
Hedge valuation	(322)	218
Deferred distribution fees	(412)	(1,184)
Tangible and intangible assets	(19,284)	43,043
Programming assets	2,826	(483)
CHANGE IN DEFERRED TAX RECOGNIZED IN INCOME STATEMENT – TOTAL	**35,980**	**(21,633)**

(ii) Income tax recognized in other comprehensive income

	31 December 2012	for the year ended 31 December 2011
Change in deferred income tax on hedge valuation	(5,955)	1,116
Change in deferred income tax recognized on currency translation adjustment – foreign operations	(155)	155
Acquisition of subsidiary	-	1,010
INCOME TAX EXPENSE RECOGNIZED IN OTHER COMPREHENSIVE INCOME - TOTAL	**(6,110)**	**2,281**

(iii) Effective tax rate reconciliation

	for the year ended	
	31 December 2012	**31 December 2011**
Gross profit for the year	695,647	192,066
INCOME TAX AT APPLICABLE STATUTORY TAX RATE IN POLAND OF 19%	**132,173**	**36,492**
Tax amortization of trade mark	(29,165)	(14,582)
Receivables written off	(2,665)	3,797
Effect of tax rates in foreign jurisdictions (*)	107	5,363
Unrecognized deferred tax asset on tax losses	-	1,261
Deferred tax unrecognized in previous periods	(3,462)	(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	361	1,271
TAX EXPENSE FOR THE YEAR	**97,349**	**31,876**
EFFECTIVE TAX RATE	**14.0%**	**16.6%**

(*) The Group's entities measure current and deferred income tax applying tax rates enacted in countries in which they are domiciled:
- 9.56% for entities domiciled in Switzerland,
- 19% for entities domiciled in the Republic of Poland,
- 26% for entities domiciled in Sweden
- 26% in the period of January – March 2012 and 24% in the period of April – December 2012 for entities domiciled in the United Kingdom,
- 28% for entities domiciled in Norway

(iv) Deferred tax assets

	31 December 2012	**31 December 2011**
Tax losses carried forward	19,779	27,086
Liabilities	50,036	75,095
Hedge valuation	5,035	1,320
Tangible assets	21,052	2,681
Programming assets	981	4,942
Receivables and other assets	26,558	36,386
TOTAL DEFERRED TAX ASSETS	**123,441**	**147,510**
Set off of deferred tax assets and liabilities	**(92,085)**	**(91,784)**
DEFERRED TAX ASSETS IN THE BALANCE SHEET	**31,356**	**55,726**

(v) Tax loss

	31 December 2012	**31 December 2011**
2012 tax loss carried forward	11,769	-
2011 tax loss carried forward	105,624	173,341
2010 tax loss carried forward	34,879	37,042
2009 tax loss carried forward	7,183	7,183
2008 tax loss carried forward	5,335	5,335
2007 tax loss carried forward	-	7,050
TAX LOSSES CARRIED FORWARD – TOTAL	**164,790**	**229,951**

(vi) Tax losses recognized

	31 December 2012	31 December 2011
2012 tax loss carried forward	11,553	-
2011 tax loss carried forward	91,631	165,476
2010 tax loss carried forward	-	-
TAX LOSSES CARRIED FORWARD – TOTAL	**103,184**	**165,476**

As at 31 December 2012 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 2012	31 December 2011
Receivables and other assets	67,761	55,366
Hedge valuation	91	2,654
Liabilities	3,517	4,934
Deferred distribution fees	17,522	17,934
Tangible and intangible assets	91,906	91,337
Programming assets	5,546	6,681
TOTAL DEFERRED TAX LIABILITIES	**186,343**	**178,906**
Set off of deferred tax assets and liabilities	(92,085)	(91,784)
DEFERRED TAX LIABILITIES IN THE BALANCE SHEET	**94,258**	**87,122**

15. EBITDA

EBITDA (earnings before interest, taxes, depreciation, amortization and impairment) 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 IFRS EU measure, and as such can be calculated differently by other entities.

		for the year ended
	31 December 2012	31 December 2011
Net profit for the period	598,298	160,190
Income tax	97,349	31,876
Gains and losses on investment activities	(14,353)	15,006
Finance costs	110,782	355,392
Share of the profit of associate accounted for using the equity method	(2,897)	(2,164)
Depreciation, amortization and impairment*	243,066	174,880
EBITDA	**1,032,245**	**735,180**

* Includes impairment of property, plant and equipment and intangible assets.

16. BASIC AND DILUTED EARNINGS PER SHARE

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

	for the year ended	
	31 December 2012	**31 December 2011**
Net profit for the year	598,298	160,190
Weighted average number of ordinary and preference shares in the period	348,352,836	324,234,858
EARNINGS PER SHARE IN PLN (NOT IN THOUSAND)	**1.72**	**0.49**

17. PROPERTY, PLANT AND EQUIPMENT

	RECEPTION EQUIPMENT	**Land**	**Buildings and structures**	**Technical equipment and machinery**	**Vehicles**	**Other**	**Tangible assets under construction**	**OTHER PROPERTY, PLANT AND EQUIPMENT**
Cost								
COST AS AT 1 JANUARY 2012	**564,724**	**8,209**	**88,655**	**218,209**	**42,393**	**25,788**	**9,525**	**392,779**
Additions	**169,541**	-	8,811	28,384	680	3,661	34,050	**75,586**
Acquisition of subsidiary	**-**	-	130	2,721	-	2	-	**2,853**
Transfer from assets under construction	**28**	-	616	8,074	65	432	(9,215)	**(28)**
Disposals	**(16,984)**	-	(389)	(19,059)	(1,934)	(1,854)	(244)	**(23,480)**
COST AS AT 31 DECEMBER 2012	**717,309**	**8,209**	**97,823**	**238,329**	**41,204**	**28,029**	**34,116**	**447,710**
ACCUMULATED IMPAIRMENT LOSSES AS AT 1 JANUARY 2012	**(11,684)**	**-**	**(62)**	**(1,109)**	**-**	**(231)**	**482**	**(920)**
Recognition	**(17,840)**	-	-	(1,287)	-	(206)	-	**(1,493)**
Reversal	**565**	-	43	317	-	119	-	**479**
Utilisation	**975**	-	-	-	-	-	-	**-**
ACCUMULATED IMPAIRMENT LOSSES AS AT 31 DECEMBER 2012	**(27,984)**	-	**(19)**	**(2,079)**	**-**	**(318)**	**482**	**(1,934)**
ACCUMULATED DEPRECIATION AS AT 1 JANUARY 2012	**144,430**	**-**	**16,943**	**90,609**	**6,842**	**14,188**	**-**	**128,582**
Additions	**135,203**	-	5,947	43,867	7,051	4,591	-	**61,456**
Additions (depreciation in the value of produced equipment)	**-**	-	15	763	2	51	-	**831**
Disposals	**(10,368)**	-	(265)	(18,028)	(1,569)	(1,638)	-	**(21,500)**
ACCUMULATED DEPRECIATION AS AT 31 DECEMBER 2012	**269,265**	**-**	**22,640**	**117,211**	**12,326**	**17,192**	**-**	**169,369**
Carrying amount								
AS AT 1 JANUARY 2012	**408,610**	**8,209**	**71,650**	**126,491**	**35,551**	**11,369**	**10,007**	**263,277**
AS AT 31 DECEMBER 2012	**420,060**	**8,209**	**75,164**	**119,039**	**28,878**	**10,519**	**34,598**	**276,407**

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'.

	RECEPTION EQUIPMENT	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Othe	Tangible assets under construction	OTHER PROPERTY, PLANT AND EQUIPMENT
Cost								
COST AS AT 1 JANUARY 2011	338,223	6,866	79,669	111,859	8,531	20,244	7,109	234,278
Additions	231,974	-	2,718	19,390	4,189	3,514	10,601	40,412
Acquisition of subsidiary	-	2,046	6,157	85,284	34,201	3,637	1,308	132,633
Transfer from tangible assets under construction	-	-	882	7,564	-	510	(8,956)	-
Transfer between groups	-	-	-	52	-	-	44	96
Disposals	(5,473)	-	(771)	(5,940)	(4,528)	(2,117)	(581)	(13,937)
Transfer to investment properties	-	(703)	-	-	-	-	-	(703)
COST AS AT 31 DECEMBER 2011	564,724	8,209	88,655	218,209	42,393	25,788	9,525	392,779
ACCUMULATED IMPAIRMENT LOSSES AS AT 1 JANUARY 2011	(3,707)	-	(64)	(1,141)	-	(380)	-	(1,585)
Recognition	(7,977)	-	-	-	-	-	-	-
Reversal	-	-	2	-	-	139	482	623
Utilisation	-	-	-	32	-	10	-	42
IMPAIRMENT LOSSES AS AT 31 DECEMBER 2011	(11,684)	-	(62)	(1,109)	-	(231)	482	(920)
ACCUMULATED DEPRECIATION AS AT 1 JANUARY 2011	59,117	-	11,640	53,828	3,536	10,832	-	79,836
Additions	87,995	-	5,502	42,005	7,031	4,995	-	59,533
Transfer between groups	-	-	-	52	-	-	-	52
Disposals	(2,682)	-	(199)	(5,276)	(3,725)	(1,639)	-	(10,839)
ACCUMULATED DEPRECIATION AS AT 31 DECEMBER 2011	144,430	-	16,943	90,609	6,842	14,188	-	128,582
Carrying amount								
AS AT 1 JANUARY 2011	275,399	6,866	67,965	56,890	4,995	9,032	7,109	152,857
AS AT 31 DECEMBER 2011	408,610	8,209	71,650	126,491	35,551	11,369	10,007	263,277

18. GOODWILL

	2012	2011
BALANCE AS AT 1 JANUARY	2,412,285	52,022
Acquisition of 100% shares of Telewizja Polsat S.A	-	2,360,263
Acquisition of 100% shares of INFO-TV-FM (see note38)	10,704	-
Acquisition of 100% shares of entities comprising IPLA platform (see note 38)	145,044	-
BALANCE AS AT 31 DECEMBER	2,568,033	2,412,285

The goodwill relating to the acquisition of Telewizja Polsat S.A. (currently Telewizja Polsat Sp. z o.o.) is allocated to 'Broadcasting and television production' cash-generating unit.

The goodwill relating to the acquisition of INFO-TV-FM Sp. z o.o. and entities comprising IPLA platform (including Redefine Sp. z o.o.) is allocated to 'Retail' cash-generating unit (see note 38).

Impairment tests performed on goodwill balances as at 31 December 2012 did not indicate impairment (see note 20 for impairment test assumptions).

19. BRANDS

	2012	2011
BALANCE AS AT 1 JANUARY	**840,000**	**300**
Acquisition of subsidiary – accounting for Ipla brand (see note 38)	7,800	-
Acquisition of subsidiary – accounting for Polsat brand	-	840,000
Amortization and impairment	-	(300)
BALANCE AS AT 31 DECEMBER	**847,800**	**840,000**

	2012	2011
Polsat	840,000	840,000
Ipla	7,800	-
BALANCE AS AT 31 DECEMBER	**847,800**	**840,000**

The value of the Polsat brand is recognized following the acquisition of Telewizja Polsat S.A.. (currently Telewizja Polsat Sp. z o.o.) The carrying amount of the brand was allocated to 'Broadcasting and television production' cash-generating unit (see note 20).

The Polsat brand is not amortized as it is considered to have an indefinite useful life. Impairment test performed on Polsat brand balance as at 31 December 2012 did not indicate impairment (see note 20 for impairment test assumptions).

The value of the Ipla brand is recognized following the acquisition of entities comprising IPLA platform (including Redefine Sp. z o.o.) (see note 38). The carrying amount of the brand was allocated to 'Retail' cash-generating unit (see note 20).

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 IPLA brand was valued based on the revenues from advertising and subscription fees.

The royalty fee rate used in the valuation of the Ipla brand was estimated based on the license agreements concluded by the companies with comparable business profile. The analysis included agreements were the licensee's revenue is mainly generated from internet and/or television services.

The discount rate which reflects the time value of money and the risks associated with anticipated future cash flows was established at 11.7%.

The Ipla brand is not amortized as it is considered to have an indefinite useful life.

20. GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

The Group recognized goodwill and brands with indefinite useful life in the consolidated financial statements. Their carrying amounts were allocated to the following cash-generating units which also represent the Group's operating segments:

- 'Retail' cash-generating unit:

– Goodwill recognized on the acquisition of INFO-TV-FM Sp. z o.o.

– Goodwill and brand recognized on the acquisition of entities comprising Ipla platform

- 'Broadcasting and television production' cash-generating unit.

Goodwill and brand recognized on the acquisition of Telewizja Polsat S.A. (currently Telewizja Polsat Sp. z o.o.).

Goodwill:

	2012	2011
BALANCE AS AT 1 JANUARY	**2,412,285**	**52,022**
Acquisition of 100% shares of Telewizja Polsat S.A.	-	2,360,263
Acquisition of 100% shares of INFO-TV-FM Sp. z o.o.	10,704	-
Acquisition of 100% shares of entities comprising Ipla platform	145,044	-
BALANCE AS AT 31 DECEMBER	**2,568,033**	**2,412,285**
Including:		
■ 'Retail' cash-generating unit	207,770	52,022
■ 'Broadcasting and television production' cash-generating unit	2,360,263	2,360,263

Brands:

	2012	2011
BALANCE AS AT 1 JANUARY	**840,000**	**-**
Recognition of Polsat brand	-	840,000
Recognition of Ipla brand	7,800	-
BALANCE AS AT 31 DECEMBER	**847,800**	**840,000**
Including:		
■ 'Retail' cash-generating unit	7,800	-
■ 'Broadcasting and television production' cash-generating unit	840,000	840,000

IMPAIRMENT TEST ON POLSAT BRAND

Polsat brand allocated to 'Broadcasting and television production' cash-generating unit was tested for impairment as at 31 December 2012. The impairment test did not indicate impairment.

The impairment test was based on the recoverable amounts of the cash generating unit to which the Polsat brand 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 2012 the calculation of value-in-use was based on discounted free cash flows and involved the use of estimates related to cash flow projections based on actual financial business plans covering the period until 2017.

The key financial assumptions

The most sensitive key financial assumptions used in the value-in-use calculations of the 'Broadcasting and television production' cash-generating unit were as follows:

- discount rate
- terminal growth rate used for estimating fee cash flows beyond the period of financial plans.

	Broadcasting and television production	
	2012	**2011**
Terminal growth	3%	3%
Discount rate before tax	10.2%	13.1%

Sensitivity analysis of key financial assumptions

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

IMPAIRMENT TEST ON IPLA BRAND

Ipla brand allocated to 'Retail' cash-generating unit was tested for impairment as at 31 December 2012. The impairment test did not indicate impairment.

The impairment test was based on the recoverable amounts of the cash generating unit to which the Ipla brand 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 2012 the calculation of value-in-use was based on discounted free cash flows and involved the use of estimates related to cash flow projections based on actual financial business plans covering the period until 2017.

The key financial assumptions

The most sensitive key financial assumptions used in the value-in-use calculations of the 'Retail' cash-generating unit were as follows:

- discount rate;
- terminal growth rate used for estimating fee cash flows beyond the period of financial plans.

	Retail	
	2012	**2011**
Terminal growth	2.1%	n.a.
Discount rate before tax	8.8%	n.a.

Sensitivity analysis of key financial assumptions

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

IMPAIRMENT TEST ON GOODWILL ALLOCATED TO THE 'BROADCASTING AND TELEVISION PRODUCTION' CASH-GENERATING UNIT

Goodwill allocated to 'Broadcasting and television production' cash-generating unit was tested for impairment as at 31 December 2012. The impairment test did not indicate impairment.

The impairment test was based on the recoverable amounts of the cash generating unit to which the goodwill has been allocated. The recoverable amount of the cash-generating unit is determined based on the value-in-use calculations. The 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 2012 the calculation of value-in-use was based on discounted free cash flows and involved the use of estimates related to cash flow projections based on actual financial business plans covering the period until 2017.

The key financial assumptions

The most sensitive key financial assumptions used in the value-in-use calculations of the 'Broadcasting and television production' cash-generating unit were as follows:

- discount rate;
- terminal growth rate used for estimating fee cash flows beyond the period of financial plans.

	Broadcasting and television production	
	2012	**2011**
Terminal growth	3%	3%
Discount rate before tax	10.2%	13.1%

Sensitivity analysis of key financial assumptions

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

IMPAIRMENT TEST ON GOODWILL ALLOCATED TO THE 'RETAIL' CASH-GENERATING UNIT

Goodwill allocated to "Retail" cash-generating unit was tested for impairment as at 31 December 2012. The impairment test did not indicate impairment.

The impairment test was based on the recoverable amounts of the cash generating unit to which the goodwill has been allocated. The recoverable amount of the cash-generating unit is determined based on the value-in-use calculations. The 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 2012 the calculation of value-in-use was based on discounted free cash flows and involved the use of estimates related to cash flow projections based on actual financial business plans covering the period until 2017.

THE KEY FINANCIAL ASSUMPTIONS

The most sensitive key financial assumptions used in the value-in-use calculations of the 'Retail' cash-generating unit were as follows:

- discount rate;
- terminal growth rate used for estimating fee cash flows beyond the period of financial plans.

	Retail	
	2012	**2011**
Terminal growth	3%	3%
Discount rate before tax	8.8%	11.6%

Sensitivity analysis of key financial assumptions

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

THE KEY FINANCIAL ASSUMPTIONS USED IN THE VALUE-IN-USE CALCULATIONS

The most sensitive key financial assumptions used in the value-in-use calculations of 'Broadcasting and television production' cash-generating unit and 'Retail' cash-generating unit were as follows:

- discount rate;
- terminal growth rate used for estimating fee cash flows beyond the period of financial plans.

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

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

21. OTHER INTANGIBLE ASSETS

	31 December 2012	31 December 2011
Software and licenses	37,258	25,760
Concessions for broadcasting television programs	11,013	14,331
Other	17,221	1,408
Other intangible assets under development	15,888	12,695
TOTAL	**81,380**	**54,194**

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. The carrying amount of the concessions was allocated to 'Broadcasting and television production' cash-generating unit (see note 20).

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.

	Software and licenses	Concessions for broadcasting television programs	Other	Other intangible assets under development	TOTAL
Cost					
COST AS AT 1 JANUARY 2012	**73,945**	**16,636**	**4,155**	**12,695**	**107,431**
Additions	23,221	-	1,741	13,546	38,508
Acquisition of subsidiary	1,046	-	12,414	4,516	17,976
Transfer from intangible assets under development	8,676	-	5,598	(14,274)	-
Disposals	(126)	-	-	(595)	(721)
COST AS AT 31 DECEMBER 2012	**106,762**	**16,636**	**23,908**	**15,888**	**163,194**
IMPAIRMENT LOSSES AS AT 1 JANUARY 2012	**-**	**-**	**(18)**	**-**	**(18)**
IMPAIRMENT LOSSES AS AT 31 DECEMBER 2012	**-**	**-**	**(18)**	**-**	**(18)**
ACCUMULATED AMORTIZATION AS AT 1 JANUARY 2012	**48,185**	**2,305**	**2,729**	**-**	**53,219**
Additions	21,416	3,318	3,326	-	28,060
Additions (amortization included in the value of produced equipment)	1	-	614	-	615
Disposals	(98)	-	-	-	(98)
ACCUMULATED AMORTIZATION AS AT 31 DECEMBER 2012	**69,504**	**5,623**	**6,669**	**-**	**81,796**
Carrying amounts					
AS AT 1 JANUARY 2012	**25,760**	**14,331**	**1,408**	**12,695**	**54,194**
AS AT 31 DECEMBER 2012	**37,258**	**11,013**	**17,221**	**15,888**	**81,380**

	Software and licenses	Concessions for broadcasting television programs	Other	Other intangible assets under development	TOTAL
Cost					
COST AS AT 1 JANUARY 2011	**46,036**	**-**	**3,002**	**8,600**	**57,638**
Additions	12,295	-	925	10,545	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**	**12,695**	**107,431**
IMPAIRMENT LOSSES AS AT 1 JANUARY 2011	**-**	**-**	**(18)**	**-**	**(18)**
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**	**12,695**	**54,194**

22. PROGRAMMING ASSETS

	31 December 2012	31 December 2011
Acquired film licenses	140,647	178,039
Capitalised cost of external production and sports rights	27,024	34,238
Co-productions	1,264	4,595
Prepayments	70,705	51,698
TOTAL	**239,640**	**268,570**
■ *Current programming assets*	141,652	137,429
■ *Non-current programming assets*	97,988	131,141

Change in programming assets

	2012	2011
NET CARRYING AMOUNT AS AT 1 JANUARY	**268,570**	**-**
Increase:	177,197	451,909
■ *Acquisition of Telewizja Polsat S.A.**	-	*298,793*
■ *Acquisition of entities comprising IPLA platform*	*330*	-
■ *Acquisition of film licenses*	*97,623*	*71,362*
■ *Capitalized costs of sports rights*	*79,244*	*81,754*
Change in prepayments	-	-
Change in impairment losses:	5,247	(841)
■ *Film licenses*	*8,596*	*(3,555)*
■ *Capitalized cost of external production and sports rights*	*(3,349)*	*2,714*
Change in internal production	1,256	(6,514)
Amortization of film licenses	(120,948)	(89,510)
Amortization of capitalized cost of sports rights	(82,414)	(79,104)
Disposals:	(9,244)	(3,747)
■ *Sale of film licenses*	*(9,244)*	*(3,747)*
Currency translation adjustment	-	(3,272)
Other	(24)	(351)
NET CARRYING AMOUNT AS AT 31 DECEMBER	**239,640**	**268,570**

* based on fair values as at 20 April 2011

In 2012 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 45.

23. DEFERRED DISTRIBUTION FEES

	31 December 2012	31 December 2011
DEFERRED DISTRIBUTION FEES	**92,221**	**94,389**
Of which:		
■ *Current*	57,096	59,361
■ *Non-current*	35,125	35,028

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

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

24. OTHER NON-CURRENT ASSETS

	31 December 2012	31 December 2011
Deferred costs	101,324	59,139
Shares	2,231	1,454
Investment in jointly-controlled entity	2,722	2,531
Financial instruments (IRS/CIRS) (see note 30)	-	3,140
Deposits paid	3,055	2,959
Other non-current receivables	310	224
TOTAL	**109,642**	**69,447**

As at 31 December 2012 and 31 December 2011 85% shares in KTK Sp. z o.o. were included in 'Shares'.

Deferred costs relate mainly to settlements with Mobyland for the data transmission service (see note 43).

INVESTMENT IN JOINTLY-CONTROLLED ENTITY

Following the acquisition of Telewizja Polsat S.A., the Group accounted for the following investments in a jointly-controlled entity using the equity method:

As at 31 December 2012

Entity	Carrying amount	Country	Assets	Liabilities	Revenues	Profit / loss for the period	Share in voting rights
Polsat JimJam Ltd.	11,129	Great Britain	9,520	4,222	12,612	349	50%
TOTAL	**11,129**		**9,520**	**4,222**	**12,612**	**349**	

In 2012, the Group has received from Polsat JimJam a dividend in the amount of EUR 650 (equivalent of PLN 2,706).

As at 31 December 2011

Entity	Carrying amount	Country	Assets	Liabilities	Revenues	Profit / loss for the period	Share in voting rights
Polsat JimJam Ltd.	2,531	Great Britain	5,207	3,849	13,303	5,897	50%
TOTAL	**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 (equivalent of PLN 1,305).

25. INVENTORIES

Types of inventories

	31 December 2012	31 December 2011
Set-top boxes and disc drives – merchandise	45,862	43,965
Set-top boxes and disc drives – finished goods	32,805	68,736
Digital Video Broadcasting – Terrestrial units – merchandise	3,034	-
Digital Video Broadcasting – Terrestrial units – finished goods	17,485	-
SMART and SIM cards	4,454	6,921
Telephones and modems	20,432	21,170
Antennas and converters	3,479	6,134
Materials used in production of reception equipment	26,694	21,047
Other inventories	16,072	14,725
TOTAL GROSS BOOK VALUE	**170,317**	**182,698**
Write-down of inventories	(8,343)	(4,571)
TOTAL NET BOOK VALUE	**161,974**	**178,127**

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

Write-downs of inventories	31 December 2012	31 December 2011
OPENING BALANCE	**4,571**	**5,349**
Increase	6,272	1,211
Utilisation	(1,915)	-
Decrease	(585)	(1,989)
CLOSING BALANCE	**8,343**	**4,571**

26. TRADE AND OTHER RECEIVABLES

	31 December 2012	31 December 2011 (restated)
Trade receivables from related parties	14,349	13,385
Trade receivables from third parties	320,381	257,750
Receivables due from sale of tangible assets from related parties	33	171
Receivables due from sale of programming assets	2,048	1,940
Tax and social security receivables	36,884	45,157
Loans granted	228	225
Other receivables	1,736	1,914
TOTAL	**375,659**	**320,542**

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

Trade receivables, by currency

Currency	31 December 2012	31 December 2011 (restated)
PLN	316,611	258,497
EUR	13,228	8,211
USD	4,697	4,276
GBP	2	2
AUD	142	99
CAD	50	50
TOTAL	**334,730**	**271,135**

Movements in the allowance for impairment of accounts receivable

	31 December 2012	31 December 2011
OPENING BALANCE	**91,629**	**112,092**
Increase	24,441	71,478
Reversal	(9,980)	(3,714)
Utilisation	(62,661)	(88,227)
CLOSING BALANCE	**43,429**	**91,629**

27. OTHER CURRENT ASSETS

	31 December 2012	31 December 2011 (restated)
Prepayment for INFO-TV-FM shares	-	12,000
Financial instruments (IRS/CIRS) (see note 30)	478	10,828
Other deferred income	2,088	1,768
Other deferred costs	69,402	47,871
TOTAL	**71,968**	**72,467**

Other deferred costs comprise primarily deferred costs related to the agreement with Mobyland Sp. z o.o. (see note 43).

28. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
Cash on hand	314	326
Current accounts	151,272	42,037
Deposits	118,768	235,171
TOTAL	**270,354**	**277,534**

Currency	31 December 2012	31 December 2011
PLN	228,861	252,227
EUR	19,221	6,993
USD	20,115	15,380
CHF	1,225	1,765
GBP	189	137
SEK	107	250
NOK	636	782
TOTAL	**270,354**	**277,534**

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

29. EQUITY

(i) Share capital

Presented below is the structure of the Company's share capital as at 31 December 2012 and as at 31 December 2011:

Share series	Number of shares	Nominal value of shares	Type
A	2,500,000	100	preference shares (2 voting rights)
B	2,500,000	100	preference shares (2 voting rights)
C	7,500,000	300	preference shares (2 voting rights)
D	166,917,501	6,677	preference shares (2 voting rights)
D	8,082,499	323	ordinary bearer shares
E	75,000,000	3,000	ordinary bearer shares
F	5,825,000	233	ordinary bearer shares
H	80,027,836	3,201	ordinary bearer shares
TOTAL	**348,352,836**	**13,934**	

The shareholders' structure as at 31 December 2012 was as follows:

31 December 2012

	Number of shares	Nominal value of shares	% of share capital held	Number of votes	% of voting rights
Pola Investments Ltd. [1]	154,204,296	6,168	44.27%	306,709,172	58.11%
Sensor Overseas Ltd. [2]	25,341,272	1,014	7.27%	50,382,647	9.55%
Other	168,807,268	6,752	48.46%	170,678,518	32.34%
TOTAL	**348,352,836**	**13,934**	**100%**	**527,770,337**	**100%**

[1] Pola Investments Ltd. is controlled by Mr. Zygmunt Solorz-Żak.
[2] Sensor Overseas Ltd. is controlled by Mr. Heronim Ruta.

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

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

The shareholders' structure as at 31 December 2011 was as follows:

31 December 2011

	Number of shares	Nominal value of shares	% of share capital held	Number of votes	% of voting rights
Delas Holdings Limited [1]	168,941,818	6,758	48.50%	335,884,319	63.64%
Zygmunt Solorz-Żak	10,603,750	424	3.04%	21,207,500	4.02%
Other	168,807,268	6,752	48.46%	170,678,518	32.34%
TOTAL	**348,352,836**	**13,934**	**100%**	**527,770,337**	**100%**

[1]Mr. Zygmunt Solorz-Żak held 85% shares and Mr Heronim Ruta held 15% shares in the share capital of Delas Holdings Limited.

(ii)Share premium

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

(iii) Other reserves

Other reserves include foreign currency translation adjustment recognized on translation of the foreign financial statements of the subsidiary, Nord License AS, until 31 December 2011 (the date of functional currency change) as well as hedge valuation effect.

30. HEDGE VALUATION RESERVE

HEDGING INSTRUMENTS

The Company concluded the following hedge agreements in 2012. On 17 May 2012 the Company concluded CIRS (cross-currency interest rate swap) transaction for the purpose of hedging future cash flows regarding *Senior Notes* interest payments, denominated in euro. The *Senior Notes* were issued by a subsidiary, Cyfrowy Polsat Finance AB. According to the agreement the Company is a PLN fixed rate payer and the EUR fixed rate payer is bank. The termination date of the hedge relationship was agreed at 20 May 2014. The total EUR notional amount is equal to EUR 175,000,000 (not in thousands) and the PLN notional amount totals PLN 760,375,000 (not in thousands).

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

On 16 November 2012 the Company concluded CIRS (cross-currency interest rate swap) transaction for the purpose of hedging future cash flows regarding *Senior Notes* interest payments, denominated in euro. The *Senior Notes* were issued by a subsidiary, Cyfrowy Polsat Finance AB. According to the agreement the Company is a PLN fixed rate payer and the banks are the EUR fixed rate payers. The termination date of the hedge relationship was agreed at 20 May 2014. The total EUR notional amount is equal to EUR 175,000,000 (not in thousands) and the PLN notional amount totals PLN 728,525,000 (not in thousands).

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

IMPACT OF HEDGING INSTRUMENTS VALUATION ON ASSETS AND LIABILITIES AS AT 31 DECEMBER 2012

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

IMPACT OF HEDGING INSTRUMENTS VALUATION ON ASSETS AND LIABILITIES AS AT 31 DECEMBER 2011

	IRS	CIRS	Razem
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 OTHER RESERVES / OTHER COMPREHENSIVE INCOME

		for the year ended
	31 December 2012	**31 December 2011**
BALANCE AS AT 1 JANUARY	**4,758**	**-**
Valuation of cash flow hedges	(33,040)	7,019
Amount transferred to income statement	1,695	(1,145)
Deferred tax	5,955	(1,116)
CHANGE FOR THE PERIOD	**(25,390)**	**4,758**
BALANCE AS AT 31 DECEMBER	**(20,632)**	**4,758**

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

As at 31 December 2011 the hedge was valued at PLN 7,019, including PLN 1,145 recognized in the profit and loss account. Since the hedge was determined to be effective, the remaining gain in the amount of PLN 5,874 was recognized within the hedge valuation reserve. Taking into consideration deferred tax, the total effect of the hedge valuation on the other reserves is positive and amounts to PLN 4,758.

31. LOANS AND BORROWINGS

Loans and borrowings	31 December 2012	31 December 2011
Short-term liabilities	275,608	246,778
Long-term liabilities	592,003	958,407
TOTAL	**867,611**	**1,205,185**

Change in loans and borrowings liabilities

	for the year ended	
	31 December 2012	31 December 2011
LOANS AND BORROWINGS AS AT 1 JANUARY	**1,205,185**	**-**
Term loans received	-	2,800,000
Loans and borrowings assumed through acquisition of entities	96,818	19,978
Repayment of capital	(453,324)	(1,538,844)
Repayment of interest and commissions	(90,828)	(192,983)
Interest accrued	109,760	117,034
LOANS AND BORROWINGS AS AT 31 DECEMBER	**867,611**	**1,205,185**

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

On 27 November 2012 the Company's related entity, Telewizja Polsat Holdings Sp. z o.o., acceded to the Senior Facility Agreement as the guarantor.

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

Summary of significant provisions of the agreements

Mandatory prepayments

The facilities will be cancelled and the outstanding balance, together with accrued interest, shall become immediately due and payable upon loss of control by Mr Zygmunt Solorz-Żak (or party related with him) over the Company or loss of control by the Company over Telewizja Polsat. The facilities shall also become immediately due upon sale of all or substantially all of the 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 for the last day of each of the last two Financial Quarters,
- in the amount of disposal proceeds for transaction exceeding PLN 10 million (not in thousand) in respect of any one disposal or PLN 40 million (not in thousand) 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 for the last day of each of the last two Financial Quarters.

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

Further, restrictions which are imposed on the 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.

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 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.

32. SENIOR NOTES

	31 December 2012	31 December 2011
Short-term liabilities	97,256	105,052
Long-term liabilities	1,316,479	1,417,525
TOTAL	**1,413,735**	**1,522,577**

Change in *Senior Notes* payable

	for the year ended	
	31 December 2012	31 December 2011
***SENIOR NOTES* PAYABLE AS AT 1 JANUARY**	**1,522,577**	**-**
Issuance of *Senior Notes*	-	1,372,245
Unrealized foreign exchange (gains)/losses	(112,143)	169,376
Repayment of interest and commission	(105,625)	(89,624)
Interest accrued	108,926	70,580
***SENIOR NOTES* PAYABLE AS AT 31 DECEMBER**	**1,413,735**	**1,522,577**

CONCLUSION OF AN INDENTURE

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 (not in thousand) (PLN 1,372,245) (the 'Notes').

The interest on the *Senior Notes* will accrue at the fixed rate of 7.125% per annum payable semiannually in arrears on 20 May and 20 November, commencing on 20 November 2011. The *Senior Notes* shall be redeemed on 20 May 2018 by way of a pecuniary payment equal to the face value of the *Senior Notes*.

33. 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 2012	31 December 2011
less than 1 year	13,763	21,214
between 1 and 5 years	6,677	44,105
more than 5 years	-	-
TOTAL	**20,440**	**65,319**

Finance lease

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

	31 December 2012	31 December 2011
less than 1 year	34	83
between 1 and 5 years	-	34
TOTAL	**34**	**117**

The present value of minimum lease payments amounted to PLN 34 as at 31 December 2012 (PLN 117 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, vehicles and other equipment.

The table below presents a maturity analysis for such commitments:

	31 December 2012	31 December 2011
within one year	153,848	159,689
between 1 to 5 years	258,764	486,722
more than 5 years	113,498	152,323
TOTAL	**526,110**	**798,734**

The table below presents future minimum payments relating to operating lease agreements to related parties:

	31 December 2012	31 December 2011
within one year	13,548	17,248
between 1 to 5 years	4,191	35,463
more than 5 years	1,612	313
TOTAL	**19,351**	**53,024**

In 2012 the Group incurred costs related to operating lease agreements amounting to PLN 173,674 and in 2011 PLN 142,344.

Finance leases

The total carrying amount of equipment used under finance lease contracts amounted to PLN 1,131 as at 31 December 2012 and PLN 1,567 as at 31 December 2011.

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 2012	31 December 2011
less than 1 year	233	252
between 1 and 5 years	551	934
more than 5 years	-	-
TOTAL	**784**	**1,186**

The present value of minimum lease payments amounted to PLN 784 as at 31 December 2012 and PLN 1,186 as at 31 December 2011.

34. OTHER NON-CURRENT LIABILITIES AND PROVISIONS

	31 December 2012	31 December 2011
Financial instruments liabilities	9,156	4,850
Concession liabilities	-	3,202
Provisions	4,118	4,109
Other	4,416	336
TOTAL	**17,690**	**12,497**

35. TRADE AND OTHER PAYABLES

	31 December 2012	31 December 2011
Trade payables to related parties	27,995	3,111
Trade payables to third parties	140,998	62,676
Taxation and social security payables	30,065	31,435
Payables relating to purchase of programming rights to related parties	3	4,527
Payables relating to purchase of programming rights to third parties	31,011	27,592
Payables relating to purchases of tangible and intangible assets	20,229	10,063
Accruals	155,426	131,167
Short-term provisions	35,384	94,650
Financial instruments liabilities	17,343	2,099
Other	13,640	7,635
TOTAL	**472,094**	**374,955**

ACCRUALS

	31 December 2012	31 December 2011
Salaries	29,163	26,263
Royalties for copyright management organisations	4,501	1,802
License fees	60,746	58,565
Distribution costs	13,527	13,979
Other	47,489	30,558
TOTAL	**155,426**	**131,167**

SHORT-TERM AND LONG-TERM PROVISIONS

	2012	2011
OPENING BALANCE AS AT 1 JANUARY	**98,759**	**24,380**
Acquisition of related entity	-	37,902
Increases	13,934	38,957
Reversal	(40,177)	(2,449)
Utilisation	(33,014)	(31)
CLOSING BALANCE AS AT 31 DECEMBER	**39,502**	**98,759**
Of which:		
■ Short-term	35,384	94,650
■ Long-term	4,118	4,109

Provisions comprise inter alia of provision for license fees, decommissioning of equipment, litigation, warranty provision and onerous contracts.

TRADE PAYABLES AND PAYABLES RELATING TO PURCHASES OF PROGRAMMING RIGHTS AND NON-CURRENT ASSETS, BY CURRENCY

Currency	31 December 2012	31 December 2011
PLN	161,027	71,853
EUR	28,193	8,106
USD	30,697	27,853
CHF	310	157
GBP	9	-
TOTAL	**220,236**	**107,969**

ACCRUALS, BY CURRENCY

	31 December 2012	31 December 2011
PLN	126,187	102,457
EUR	26,311	21,961
USD	2,899	6,749
SEK	29	-
TOTAL	**155,426**	**131,167**

36. DEPOSITS FOR EQUIPMENT

	31 December 2012	31 December 2011
Subscribers	4,326	4,326
Distributors	8,915	8,400
Other	18	18
TOTAL	**13,259**	**12,744**

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

37. DEFERRED INCOME

	31 December 2012	31 December 2011 (restated)
Deferred income	206,419	207,013
Of which:		
Short-term	201,238	199,418
Long-term	5,181	7,595

Deferred income comprises mainly subscription fees paid in advance and rental fees for set-top boxes. Deferred income also include prepaid advertising broadcasts.

38. ACQUISITION OF SUBSIDIARIES

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 (entity under common control) for the acquisition of 100% shares of INFO-TV-FM Sp. z o.o. ('INFO-TV-FM').

INFO-TV-FM is the only wholesale provider of mobile media services, which includes distribution of radio and television broadcasts in DVB-T.

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 conditions precedent included separation of some INFO-TV-FM assets and activities, signing of the guarantee agreement by INFO-TV-OPERATOR Sp. z o. o. ('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 Group uses the purchase accounting method for entities acquired under common control.

a) Consideration transferred

	31 December 2012
Cash consideration	14,329
Settlement through purchase of Magna NFI bonds	14,984
TOTAL	**29,313**

The fair value of the settlement through purchase of Magna NFI bonds includes the nominal value of the bonds and interest.

b) Reconciliation of transactional cash flow

	31 December 2012
Cash transferred on acquisition	(14,329)
Cash and cash equivalents received	1
CASH OUTFLOW IN THE YEAR ENDED 31 DECEMBER 2012	**14,328**

c) Fair value of net assets as at the acquisition date

The table below presents fair values of identified assets and liabilities of the acquired business, as at the acquisition date.

	fair value as at 30 January 2012
Property, plant and equipment	1,552
Other intangible assets	16,930
Tax and social security receivables	133
Cash and cash equivalents	1
Income tax liabilities	(7)
FAIR VALUE OF NET ASSETS ACQUIRED	**18,609**

The revenue and loss included in the consolidated income statement for the reporting period since 30 January 2012 contributed by INFO-TV-FM amounted to PLN 2,641 and PLN 9,905, respectively. Had INFO-TV-FM been purchased on 1 January 2012 the revenue and loss included in the interim condensed consolidated income statement would not differ significantly.

d) Goodwill

	30 January 2012
Purchase price of 100% shares	29,313
Fair value of net assets acquired	(18,609)
GOODWILL	**10,704**

The acquisition agreement was concluded in order to continue execution of the Group's strategy aiming at wide distribution of content using all modern technologies.

The goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations. The goodwill is allocated to the 'Retail' segment.

Acquisition of ipla

On 12 March 2012 the Company concluded agreements with Bithell Holdings Ltd. (Seller), entity under common control, relating to acquisition of shares in entities running ipla platform. Ipla is the leader in online video distribution in Poland. Agreements comprise acquisition of shares in the following entities:

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

The Seller is controlled by Mr. Zygmunt Solorz-Żak, ultimate controlling party of the Company.

The joint price for the shares, resulting from the above mentioned transactions amounted to PLN 42,856.

As at the date of signing the share purchase agreement, Redefine Sp. z o.o. held 100% of shares in POSZKOLE.pl Sp. z o.o. and 100 % of shares in STAT24 Sp. z o.o.

The acquisition date is 2 April 2012, when the title to the shares of the acquired companies was transferred to Cyfrowy Polsat. The Group uses the purchase accounting method for entities acquired under common control.

a) Consideration transferred

	31 December 2012
Cash consideration	42,856
TOTAL	**42,856**

b) Reconciliation of transactional cash flow

Cash transferred on acquisition	(42,856)
Cash and cash equivalents received	161
CASH OUTFLOW IN THE YEAR ENDED 31 DECEMBER 2012	**(42,695)**

c) Fair value of net assets and goodwill as at the acquisition date

The table below presents fair values of identified assets and liabilities of the acquired companies, as at the acquisition date, and goodwill accounted for an acquisition.

Fair values of assets and liabilities acquired as at 2 April 2012:

	fair value as at the acquisition date (2 April 2012)
NET ASSETS:	
Ipla brand (see note 19)	7,800
Other property, plant and equipment	1,286
Other intangible assets	1,046
Other non-current assets	162
Current programming assets	330
Inventories	20
Trade and other receivables	4,387
Other current assets	14
Cash and cash equivalents	161
Loans and borrowings	(96,818)
Deferred tax liability	(1,482)
Trade and other payables	(19,094)
TOTAL NET ASSETS	**(102,188)**
CONSIDERATION TRANSFERRED:	
Cash consideration	42,856
GOODWILL	**145,044**

The goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations. Goodwill was allocated to the "Retail" operating segment.

The revenue and net loss included in the consolidated income statement for the reporting period since 2 April 2012 contributed by the entities running Ipla platform amounted to PLN 19,887 and PLN 9,840, respectively. Had they been acquired on 1 January 2012 the revenue and loss included in the consolidated income statement would have amounted to PLN 25,337 and PLN 21,824, respectively.

Registration of Telewizja Polsat Holdings Sp. z o.o.

On 7 may 2012, Telewizja Polsat Holdings Sp. z o.o. was registered by the court. As at 31 December 2012 Telewizja Polsat Sp. z o.o. held 100% shares in the share capital of Telewizja Polsat Holdings Sp. z o.o.

39. 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.

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. Therefore, the Management Board has established an overall risk management framework as well as specific risk management policies with respect to market and credit risks.

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. 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.

Financial assets		Carrying amount
	31 December 2012	31 December 2011
LOANS AND RECEIVABLES, INCLUDING:	**609,129**	**552,919**
Loans granted to third parties	228	225
Trade and other receivables from related parties	16,370	13,556
Trade and other receivables from third parties	322,177	261,604
Cash and cash equivalents	270,354	277,534
AVAILABLE-FOR-SALE FINANCIAL ASSETS	**-**	**14,854**
HEDGING DERIVATIVE INSTRUMENTS	**478**	**13,968**
Cross-currency interest rate swaps	**478**	**13,968**

Financial liabilities		Carrying amount
	31 December 2012	31 December 2011
OTHER FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST, INCLUDING:	**2,689,049**	**2,991,909**
Finance lease liabilities	784	1,186
Loans and borrowings	867,611	1,205,185
Senior Notes	1,413,735	1,522,577
Trade and other payables to third parties and deposits	223,001	124,156
Trade and other payables to related parties	28,492	7,638
Accruals	155,426	131,167
HEDGING DERIVATIVE INSTRUMENTS	**26,499**	**6,949**
Interest rate swaps	15,321	6,687
Cross-currency interest rate swaps	11,178	262

CREDIT RISK

Credit risk is defined as the risk that counterparties of the 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.

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 2012	**31 December 2011**
Loans granted to third parties	228	225
Trade and other receivables from third parties	322,177	261,604
Trade and other receivables from related parties	16,370	13,556
Bonds	-	14,854
CIRS	478	13,968
Cash and cash equivalents	270,354	277,534
TOTAL	**609,607**	**581,741**

The concentration of credit risk for trade and other receivables is presented in the tables below:

	Carrying amount	
	31 December 2012	**31 December 2011**
Receivables from subscribers	154,875	141,108
Receivables from media companies	127,195	78,663
Receivables from satellite and cable operators	13,065	14,453
Receivables from distributors	5,548	4,313
Receivables from related parties	16,370	13,556
Receivables and loans granted to third parties	21,722	23,292
TOTAL	**338,775**	**275,385**

	Carrying amount	
	31 December 2012	**31 December 2011**
Company A	30,809	18,599
Company B	17,663	12,922
Company C	17,057	8,318
Company D	13,572	7,598
Company E	9,508	4,701
Other	250,166	223,247
TOTAL	**338,775**	**275,385**

Note: for each year 5 largest debtors are presented, not necessarily the same in both periods.

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

	31 December 2012			31 December 2011		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	215,653	5,125	210,528	174,559	8,393	166,166
Past due 0-30 days	64,890	1,829	63,061	79,530	8,369	71,161
Past due 31-60 days	36,811	1,565	35,246	14,882	2,017	12,865
Past due more than 60 days	64,850	34,910	29,940	94,173	68,980	25,193
TOTAL	**382,204**	**43,429**	**338,775**	**363,144**	**87,759**	**275,385**

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

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.

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 2012	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	Over 5 years
Loans and borrowings	867,611	1,027,081	121,033	175,404	343,519	387,125	-
Senior Notes	1,413,735	1,991,592	50,975	50,975	101,949	305,848	1,481,845
Finance lease liabilities	784	784	117	116	303	248	-
Trade and other payables to third parties and deposits	223,001	223,001	222,783	218	-	-	-
Trade and other payables to related parties	28,492	28,492	28,492	-	-	-	-
Accruals	155,426	155,426	155,426	-	-	-	-
IRS*	15,321	8,356	2,830	2,659	2,711	156	-
CIRS	11,178						
– inflows		(127,437)	(25,487)	(50,975)	(50,975)	-	-
– outflows		142,639	28,800	57,614	56,225	-	-
	2,715,548	**3,449,934**	**584,969**	**236,011**	**453,732**	**693,377**	**1,481,845**

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

	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 and deposits	124,156	124,156	117,296	3,658	3,202	-	-
Trade and other payables to related parties	7,638	7,638	7,638	-	-	-	-
Accruals	131,167	131,167	131,167	-	-	-	-
IRS*	6,687	2,566	603	580	993	390	-
CIRS	262						
– inflows		(55,072)	-	-	(55,072)	-	-
– outflows		57,599	-	-	57,599	-	-
	2,998,858	**4,055,049**	**411,417**	**224,068**	**458,949**	**1,249,519**	**1,711,096**

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

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). Since 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.

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 currency amounts:

31 December 2012

	EUR	USD	CHF	GBP	SEK	NOK	AUD	CAD
Trade receivables	3,236	1,515	-	-	-	-	44	16
Cash and cash equivalents	4,702	6,490	362	38	225	1,146	-	-
Senior Notes	(345,809)	-	-	-	-	-	-	-
Trade payables	(6,896)	(9,904)	(92)	(2)	-	-	-	-
GROSS BALANCE SHEET EXPOSURE	**(344,767)**	**(1,899)**	**270**	**36**	**225**	**1,146**	**44**	**16**
CIRS	37,406	-	-	-	-	-	-	-
NET EXPOSURE	**(307,361)**	**(1,899)**	**270**	**36**	**225**	**1,146**	**44**	**16**

31 December 2011

	EUR	USD	CHF	GBP	SEK	NOK	AUD	CAD
Trade receivables	1,859	1,251	-	-	-	-	29	15
Cash and cash equivalents	1,583	4,500	486	26	505	1,378	-	-
Senior Notes	(344,724)	-	-	-	-	-	-	-
Trade payables	(1,835)	(8,150)	(43)	-	-	-	-	-
GROSS BALANCE SHEET EXPOSURE	**(343,117)**	**2,399**	**443**	**26**	**505**	**1,378**	**29**	**15**
CIRS	43,641	-	-	-	-	-	-	-
NET EXPOSURE	**(299,476)**	**(2,399)**	**443**	**26**	**505**	**1,378**	**29**	**15**

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

	Average rate		Rates at the reporting date	
(in PLN)	**2012**	**2011**	**31 December 2012**	**31 December 2011**
1 EUR	4.1850	4.1198	4.0882	4.4168
1 USD	3.2570	2.9634	3.0996	3.4174
1 GBP	5.1591	4.7470	5.0119	5.2691
1 CHF	3.4722	3.3481	3.3868	3.6333
1 SEK	0.4807	0.4561	0.4757	0.4950
1 NOK	0.5596	0.5284	0.5552	0.5676
1 AUD	3.3711	3.0549	3.2183	3.4670
1 CAD	3.2569	2.9929	3.1172	3.3440

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

	2012									2011
	As at 31 December 2012					As at 31 December 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	in currency	in PLN	Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
Trade receivables										
EUR	3,236	13,228	5%	661	-	1,859	8,211	5%	411	-
USD	1,515	4,697	5%	235	-	1,251	4,276	5%	214	-
GBP	-	2	5%	-	-	-	2	5%	-	-
AUD	44	142	5%	7	-	29	99	5%	5	-
CAD	16	50	5%	3	-	15	50	5%	3	-
Cash and cash equivalents										
EUR	4,702	19,221	5%	961	-	1,583	6,993	5%	350	-
USD	6,490	20,115	5%	1,006	-	4,500	15,380	5%	769	-
CHF	362	1,225	5%	61	-	486	1,765	5%	88	-
GBP	38	189	5%	9	-	26	137	5%	7	-
SEK	225	107	5%	5	-	505	250	5%	13	-
NOK	1,146	636	5%	32	-	1,378	782	5%	39	-
Senior Notes										
EUR	(345,809)	(1,413,735)	5%	(70,687)	-	(344,724)	(1,522,577)	5%	(76,129)	-
Trade payables										
EUR	(6,896)	(28,193)	5%	(1,410)	-	(1,835)	(8,106)	5%	(405)	-
USD	(9,904)	(30,697)	5%	(1,535)	-	(8,150)	(27,853)	5%	(1,393)	-
CHF	(92)	(310)	5%	(16)		(43)	(157)	5%	(8)	-
GBP	(2)	(9)	5%	-	-	-	-	5%	-	-
CHANGE IN OPERATING PROFIT				**(70,668)**					**(76,036)**	**-**
CIRS										
EUR	37,406	152,923	5%	581	6,841	43,641	192,754	5%	612	8,861
Income tax				13,317	(1,300)				14,331	(1,684)
CHANGE IN NET PROFIT				**(56,770)**	**5,541**				**(61,093)**	**7,177**

	2012									2011
	As at 31 December 2012					As at 31 December 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	in currency	in PLN	Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
Trade receivables										
EUR	3,236	13,228	-5%	(661)	-	1,859	8,211	-5%	(411)	-
USD	1,515	4,697	-5%	(235)	-	1,251	4,276	-5%	(214)	-
GBP	-	2	-5%	-	-	-	2	-5%	-	-
AUD	44	142	-5%	(7)	-	29	99	-5%	(5)	-
CAD	16	50	-5%	(3)	-	15	50	-5%	(3)	-
Cash and cash equivalents										
EUR	4,702	19,221	-5%	(961)	-	1,583	6,993	-5%	(350)	-
USD	6,490	20,115	-5%	(1,006)	-	4,500	15,380	-5%	(769)	-
CHF	362	1,225	-5%	(61)	-	486	1,765	-5%	(88)	-
GBP	38	189	-5%	(9)	-	26	137	-5%	(7)	-
SEK	225	107	-5%	(5)	-	505	250	-5%	(13)	-
NOK	1,146	636	-5%	(32)	-	1,378	782	-5%	(39)	-
Senior Notes										
EUR	(345,809)	(1,413,735)	-5%	70,687	-	(344,724)	(1,522,577)	-5%	76,129	-
Trade payables										
EUR	(6,896)	(28,193)	-5%	1,410	-	(1,835)	(8,106)	-5%	405	-
USD	(9,904)	(30,697)	-5%	1,535	-	(8,150)	(27,853)	-5%	1,393	-
CHF	(92)	(310)	-5%	16		(43)	(157)	-5%	8	-
GBP	(2)	(9)	-5%	-	-	-	-	-5%	-	-
CHANGE IN OPERATING PROFIT				**70,668**					**76,036**	**-**
CIRS										
EUR	37,406	152,923	-5%	(581)	(6,819)	43,641	192,754	-5%	(612)	(8,853)
Income tax				(13,317)	1,296				(14,331)	1,682
CHANGE IN NET PROFIT				**56,770**	**(5,523)**				**61,093**	**(7,171)**

	2012			2011
	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
ESTIMATED CHANGE IN EXCHANGE RATE BY 5 %				
EUR	(56,614)	5,541	(60,881)	7,177
USD	(238)	-	(332)	-
CHF	37	-	65	-
GBP	7	-	6	-
SEK	4	-	11	-
CAD	2	-	2	-
AUD	6	-	4	-
NOK	26	-	32	-
ESTIMATED CHANGE IN EXCHANGE RATE BY -5 %				
EUR	56,614	(5,523)	60,881	(7,171)
USD	238	-	332	-
CHF	(37)	-	(65)	-
GBP	(7)	-	(6)	-
SEK	(4)	-	(11)	-
CAD	(2)	-	(2)	-
AUD	(6)	-	(4)	-
NOK	(26)	-	(32)	-

Had Polish zloty weakened 5% against the basket of currencies as at 31 December 2012 and 31 December 2011, the Group's net profit would have decreased by PLN 56,770 and decreased by PLN 61,093, respectively and other comprehensive income would have increased by PLN 5,541 in 2012 and increased by PLN 7,177 in 2011. Had the Polish zloty strengthened 5%, the Group's net profit would have correspondingly increased by PLN 56,770 and increased by PLN 61,093. Other comprehensive income would have decreased by PLN 5,523 in 2012 and decreased by PLN 7,171 in 2011, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

Interest rate risk

Changes in market interest rates have no direct effect on the 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 30).

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

	Carrying amount	
	31 December 2012	31 December 2011
FIXED RATE INSTRUMENTS		
Financial assets	134	124
Financial liabilities	(1,430,870)	(1,545,880)
VARIABLE RATE INSTRUMENTS		
Financial assets	270,040	292,058
Financial liabilities	(923,348)	(1,281,000)
NET INTEREST EXPOSURE	**(653,308)**	**(988,942)**

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

	Income statement		Other comprehensive income		Equity	
	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp
31 DECEMBER 2012						
Variable rate instruments*	(6,533)	6,533	7,787	(7,787)	1,254	(1,254)
Cash flow sensitivity (net)	(6,533)	6,533	7,787	(7,787)	1,254	(1,254)
31 DECEMBER 2011						
Variable rate instruments*	(9,889)	9,889	11,160	(11,160)	1,271	(1,271)
Cash flow sensitivity (net)	(9,889)	9,889	11,160	(11,160)	1,271	(1,271)

* - 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.

		31 December 2012		31 December 2011	
	Category according to IAS 39	Fair value	Carrying amount	Fair value	Carrying amount
Loans granted to third parties	L&R	228	228	225	225
Trade and other receivables	L&R	338,547	338,547	251,780	251,780
Bonds	AFS	-	-	14,854	14,854
Interest rate swaps	Hedges	(15,321)	(15,321)	(6,687)	(6,687)
Cross-currency interest rate swaps	Hedges	(10,700)	(10,700)	13,706	13,706
Cash and cash equivalents	L&R	270,354	270,354	277,534	277,534
Loans and borrowings	Other	(936,191)	(867,611)	(1,304,235)	(1,205,185)
Senior Notes	Other	(1,486,680)	(1,413,735)	(1,599,961)	(1,522,577)
Finance lease liabilities	Other	(727)	(784)	(1,048)	(1,186)
Accruals	Other	(155,426)	(155,426)	(131,167)	(131,167)
Trade and other payables and deposits	Other	(251,493)	(251,493)	(131,794)	(131,794)
TOTAL		**(2,247,409)**	**(2,105,941)**	**(2,593,413)**	**(2,417,117)**
Unrecognized gain/(loss)			(141,468)		(176,296)

It is assumed that the fair value of cash and cash equivalents is equal to their nominal value, therefore no evaluation methods were used in order to calculate their fair value.

When determining the fair value of finance lease liabilities, forecasted cash flows from the reporting date to December 2015 (assumed date of lease agreements termination) were analyzed. 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, trade and other payables and deposits comprise mainly receivables and payables which will be settled no later than at the end of the first month after the reporting date. It was therefore assumed that the effect of their valuation, taking 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 2012 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 regarding the Group's credit risk.

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 2012, 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 measured at fair value

	31 December 2012	Level 1	Level 2	Level3
Cross-currency interest rate swaps			478	
TOTAL		-	**478**	-

Liabilities measured at fair value

	31 December 2012	Level 1	Level 2	Level3
Interest rate swaps			(15,321)	
Cross-currency interest rate swaps			(11,178)	
TOTAL		-	**(26,499)**	-

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

Assets measured at fair value

	31 December 2011	Level 1	Level 2	Level3
Bonds			14,854	
Cross-currency interest rate swaps			13,968	
TOTAL		-	**28,822**	-

Liabilities measured at fair value

	31 December 2011	Level 1	Level 2	Level3
Interest rate swaps			(6,687)	
Cross-currency interest rate swaps			(262)	
TOTAL		-	**(6,949)**	-

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 2012 to 31 December 2012

	Loans and borrowings	*Senior Notes*	Hedging instruments	Total
Interest expense on loans and borrowings	(109,760)	-	(1,107)	(110,867)
Interest expense on Senior Notes	-	(108,926)	1,734	(107,192)
Foreign exchange rate differences	-	112,143	-	112,143
Total finance costs	(109,760)	3,217	627	(105,916)
TOTAL GROSS PROFIT/(LOSS)	**(109,760)**	**3,217**	**627**	**(105,916)**
HEDGE VALUATION RESERVE	**-**	**-**	**(31,345)**	**(31,345)**

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**

HEDGE ACCOUNTING AND DERIVATIVES

Cash Flow Hedge of interest rate risk of interest payments

At 31 December 2012, 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 2012.

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

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

	For the period from 1 January 2012 to 31 December 2012	For the period from 1 January 2011 to 31 December 2011
OPENING BALANCE	**(6,687)**	**-**
Effective part of gains or losses on the hedging instrument	(8,634)	(6,687)
Amounts recognized in the profit and loss statement, of which:	-	-
■ adjustment of interest costs	-	-
■ adjustment due to inefficiency of the hedge relationships	-	-
CLOSING BALANCE	**(15,321)**	**(6,687)**

Cash Flow Hedge of foreign exchange risk of interest payments

At 31 December 2012, the 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 2012.

	31 December 2012	31 December 2011
Type of instrument	Cross-currency interest rate swap	Cross-currency interest rate swap
Exposure	interest payments in euro	interest payments in euro
Hedged risk	Foreign exchange risk	Foreign exchange risk
Notional value of hedging instrument (EUR)	700,000	525,000
Fair value of hedging instruments	(10,700)	13,706
Hedge accounting approach	Cash Flow Hedge	Cash Flow Hedge
Expected period the hedge item affect income statement	Until 20 May 2014 (termination date)	Until 20 November 2013 (termination date)

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

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

40. CAPITAL MANAGEMENT

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

The goal of capital management is to maintain the Group's ability to operate as a going concern in order to provide the shareholders return on investment as well as benefits for other stakeholders. The Group might issue shares, increase debt or sell assets in order to maintain or improve the equity structure.

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 and issued bonds less cash and cash equivalents (including restricted cash).

		Carrying amount
	31 December 2012	**31 December 2011**
Loans and borrowings	867,611	1,205,185
Senior Notes	1,413,735	1,522,577
Cash and cash equivalents	(270,354)	(277,534)
NET DEBT	**2,010,992**	**2,450,228**
Equity	2,468,403	1,896,043
EQUITY AND NET DEBT	**4,479,395**	**4,346,271**
LEVERAGE RATIO	**0.45**	**0.56**

41. 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, the mobile TV services, the online TV 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 pay television services which primarily relate to direct distribution of technologically advanced pay-TV services and revenues are generated mainly by pay-TV 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;
- online TV services (IPLA) and music services (MUZO) available on computers, smartphones, tablets, SmartTV, game consoles and other TV equipment which generate revenues mainly from subscription fees and advertising on the Internet
- 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.

The table on the next page presents a summary of the Group's revenues and expenses by operating segment for the year ended 31 December 2012:

The year ended 31 December 2012	Retail	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	1,787,309	990,906	-	2,778,215
Inter-segment revenues	16,390	98,957	(115,347)	-
REVENUES	**1,803,699**	**1,089,863**	**(115,347)**	**2,778,215**
EBITDA	**631,995**	**400,248**	**2**	**1,032,245**
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	**431,392**	**361,057**	**(3,270)**	**789,179**
Acquisition of property, plant and equipment, reception equipment and other intangible assets	235,176*	25,579	-	260,755
Depreciation and amortization	183,795	37,721	3,272	224,788
Impairment	16,808	1,470	-	18,278
Balance as at 31 December 2012				
Assets, including:	1,602,992	4,015,663**	(57,310)	5,561,345
Investments in associates	-	2,722	-	2,722

*This item also includes the acquisition of reception equipment for operating lease purposes.
** includes non-current assets located outside of Poland in the amount of PLN 54.5 million (not in thousand).

Practically all revenues are generated in Poland.

It should be noted that the year ended 31 December 2012 is not comparable to the year ended 31 December 2011 as Telewizja Polsat Sp. z o.o. was acquired on 20 April 2011, and INFO-TV-FM was acquired on 30 January 2012 and ipla platform was acquired on 2 April 2012.

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 other 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:	1,279,725	4,056,562**	(11,119)	5,325,168
Investments in associates	-	2,531	-	2,531

*This item also includes the acquisition of reception equipment for operating lease purposes.
** Includes non-current assets located outside of Poland in the amount of PLN 97 million (not in thousand).

The accounting policies applied to both operating segments are described in note 6.

Reconciliation of EBITDA and Net profit for the period:

	for the year ended	
	31 December 2012	31 December 2011
EBITDA	**1,032,245**	**735,180**
Depreciation, amortization and impairment	(243,066)	(174,880)
PROFIT FROM OPERATING ACTIVITIES	**789,179**	**560,300**
Other foreign exchange rate differences, net (note 12)	999	(18,615)
Interest income (note 12)	18,006	10,715
Share of the profit of associate accounted for using the equity method	2,897	2,164
Interest costs (note 12 and 13)	(223,143)	(183,497)
Foreign exchange differences on *Senior Notes* (note 13)	112,143	(169,376)
Loss on call options (note 12)	-	(3,125)
Other	(4,434)	(6,500)
GROSS PROFIT FOR THE PERIOD	**695,647**	**192,066**
Income tax	(97,349)	(31,876)
NET PROFIT FOR THE PERIOD	**598,298**	**160,190**

42. 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 2012	31 December 2011
Revenues from barter transactions	28,444	15,942
Cost of barter transactions	22,841	13,891

	31 December 2012	31 December 2011
Barter receivables	3,838	3,175
Barter payables	1,304	3,045

43. TRANSACTIONS WITH RELATED PARTIES

Receivables

	31 December 2012	31 December 2011
Jointly controlled entities	487	848
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	15,883	11,562
TOTAL	**16,370**	**12,410**

*Amounts presented above do not include deposits paid (2012 – PLN 2,561, 2011 – PLN 2,140).

Liabilities

	31 December 2012	31 December 2011
Jointly controlled entities	1,045	594
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	27,447	7,058
TOTAL	**28,492**	**7,652**

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

Other assets

	31 December 2012	31 December 2011
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	160,173	94,281
TOTAL	**160,173**	**94,281**

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

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

Revenues

	for the year ended	
	31 December 2012	31 December 2011
Subsidiaries*	474	907
Jointly controlled entities	592	537
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	35,460	16,201
TOTAL	**36,526**	**17,645**

*Concerns transactions with subsidiaries executed prior to their acquisition.

The most significant transactions include licence fees on programming assets, transponder rental fees, sale of equipment and interconnect services and revenues from audiotext services.

Expenses and purchases of programming assets

	for the year ended	
	31 December 2012	31 December 2011
Subsidiaries*	6,931	24,598
Jointly controlled entities	5,612	6,735
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	163,389	79,987
TOTAL	**175,932**	**111,320**

* Concerns transactions with subsidiaries executed prior to their acquisition and includes donation forwarded to Fundacja Polsat.

Most significant transactions include expenses for programming assets, data transfer services (Mobyland), advertising services, property rental, telecommunication services with respect to the Group's customer call center, IT services, license fees for broadcasting Polsat Jim Jam and rental of filming and lighting equipment.

Gains and losses on investment activities

	for the year ended	
	31 December 2012	31 December 2011
Subsidiaries*	2	–
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	82	75
TOTAL	**84**	**75**

*Concerns transactions with subsidiaries executed prior to their acquisition.

Koszty finansowe

	for the year ended	
	31 December 2012	31 December 2011
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	87	–
TOTAL	**87**	**-**

44. LITIGATIONS

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

In 2009 the Parent received UOKiK's decision whereby the President of UOKiK confirmed that certain statements included in the Company's service delivery regulations in force prior to 1 November 2009, were breaching the collective interests of consumers and imposed a cash fine of PLN 994. At the same time, the President of UOKiK acknowledged that these unlawful provisions were eliminated from the amended regulations.

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

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

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

45. OTHER DISCLOSURES

SECURITY RELATING TO LOANS AND BORROWINGS

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 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 t he 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.

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, later transformed into a limited liability 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.

On 18 April 2012 the Company entered into agreements for the establishment of the following security in respect to the repayment of the term and revolving facility loans granted under the Senior Facilities Agreement and the repayment (redemption) of the High Yield Notes (i.e. *Senior Notes*):

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

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

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

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

Additionally, on 10 July 2012, Telewizja Polsat Sp. z o.o. entered into agreement establishing registered and financial pledges on all shares in Telewizja Polsat Holdings Sp. z o.o.

On 27 November 2012 Telewizja Polsat Holdings Sp. z o.o. acceded to the Senior Facilities Agreement as the guarantor and the Intercreditor Agreement as a debtor. On 27 November 2012 Telewizja Polsat Holdings Sp. z o.o. 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 Holdings Sp. z o.o.

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

On 27 November 2012 Telewizja Polsat Sp. z o.o. has disposed all shares of Media-Biznes Sp. z o.o. to Telewizja Polsat Holdings Sp. z o.o. On 27 November 2012 Telewizja Polsat Sp. z o.o. (original pledgor) has transferred security interests created on all shares in Media-Biznes Sp. z o.o. to Telewizja Polsat Holdings Sp. z o.o. (new pledgor).

Establishment of securities on *Senior Notes*

Aside from securities presented above, pursuant to the Indenture, the Notes are guaranteed by each of the Initial Guarantors (the Company, CPTM).

Additionally, there are the following securities established in order to 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:

(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.

(iv) 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').

COMMITMENTS TO PURCHASE PROGRAMMING ASSETS

As at 31 December 2012 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 2012	31 December 2011
within one year	157,273	155,502
between 1 to 5 years	69,541	203,377
TOTAL	**226,814**	**358,879**

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

	31 December 2012	31 December 2011
within one year	15,913	6,702
TOTAL	**15,913**	**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 4,082 as at 31 December 2012 (PLN 10,613 as at 31 December 2011). Total amount of capital commitments resulting from agreements on property improvements was PLN 5,878 as at 31 December 2012 (PLN 3,906 as at 31 December 2011). Additionally the amount of deliveries and services committed to under agreements for the purchases of licences and software as at 31 December 2012 was PLN 405 (PLN 946 as at 31 December 2011).

46. REMUNERATION OF THE MANAGEMENT BOARD

The table below presents the Management Board's remuneration.

Name	Function	2012	2011
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	660
TOTAL		**3,060**	**3,060**

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

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

47. 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 2012 and 2011:

Name	Function	2012	2011
Zygmunt Solorz-Żak	President of the Supervisory Board	180	180
Heronim Ruta	Member of the Supervisory Board	120	120
Andrzej Papis	Member of the Supervisory Board	120	120
Robert Gwiazdowski	Independent Member of the Supervisory Board	120	120
Leszek Reksa	Independent Member of the Supervisory Board	120	120
TOTAL		**660**	**660**

48. SUBSEQUENT EVENTS

Polsat Media Biuro Reklamy Sp. z o.o. was established on 10 January 2013 and registered in the Court Registry on 14 February 2013. As at the date of approval of these consolidated financial statements Telewizja Polsat Sp. z o.o. held 100% shares in the share capital of Polsat Media Biuro Reklamy Sp. z o.o.

49. JUDGMENTS, FINANCIAL ESTIMATES AND ASSUMPTIONS

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

- *Classification of lease agreements*

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

As a part of its business activities the Group has concluded agreements with Eutelsat for the rental of transponder capacity as well as an agreement with Nagravision for the lease of conditional access system (including SMART cards). These agreements were classified as operating leases as Eutelsat and Nagravision hold substantially all the risks and rewards incidental to the ownership of the transponders and the conditional access system. For more information see note 33.

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

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

The economic useful lives of the reception equipment rented to customers under operating lease agreements are estimated for 5 years. For information on the useful lives of property, plant and equipment, programming assets and other intangible assets with definite useful lives see notes 6j and 6k. For information on the depreciation charge for the period by the category of property, plant and equipment and intangible assets with definite useful lives see notes 17 and 21.

- *Economic useful lives and amortization method of programming assets*

Economic useful life of programming assets is based on the shorter of the expected consumption of future economic benefits embodied in an asset and the license period. Amortisation method of programming assets reflects how these economical benefits are consumed. The estimation of the useful life and the amortization method requires assessment of the timing during which the Group is expecting to obtain the income from the acquired programming assets and the percentage apportionment of this income in the given period. For more information about the amortization method and amortization charge for the period by programming assets category see notes 6l and 22.

- *Indefinite useful life of Polsat brand*

As at the reporting date, the Group has reviewed whether relevant factors continue to indicate indefinite useful life of Polsat brand recognised in 2011 on the acquisition of Telewizja Polsat S.A.

The Group has reviewed the following factors which are essential for estimating the economic useful life of the Polsat brand:

- The expected usage of the asset by the entity and whether the asset could be managed more efficiently
- Technical, technological, commercial or other types of obsolescence

- The stability of the industry in which the asset operates and changes in the market demand for media services
- Expected actions by competitors or potential competitors
- The level of maintenance expenditure required to obtain the expected future economic benefits from the asset
- Whether the useful life of the asset is dependent on the useful life of other asset of the entity.

Having analyzed the above factors, the Group has concluded that there is no foreseeable limit to the period over which the Polsat brand is expected to generate net cash inflows for the Group and thus the indefinite useful life was assumed. Furthermore, the Polsat brand is widely recognized by media and is highly appreciated in numerous rankings, for example 'Rzeczpospolita' journal's rankings or BAV Consulting's rankings. Numerous awards for employees, individuals associated with the brand as well as high Power Ratio index also indicate a strong position of the brand.

Fair value of assets and liabilities of INFO-TV-FM

The Group identified assets and liabilities and estimated their fair value under the purchase price allocation process relating to the acquisition of INFO-TV-FM. For more information see note 38.

Fair value of assets and liabilities of entities comprising the IPLA platform

The Group identified assets and liabilities and estimated their fair value under the purchase price allocation process relating to the acquisition of entities comprising the Ipla platform. For more information see note 38.

Fair value of IPLA brand

The Group identified Ipla brand in the balance sheet under the purchase price allocation process relating to the acquisition of entities comprising Ipla platform. 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. Fair value estimation of the Ipla brand was based on the following key assumptions:

- market level royalty fee rates
- forecasted level of revenues from sale of products and/or services under the Ipla brand
- growth rate for estimating the cash flows beyond the financial planning period
- discount rate reflecting the risks associated with the brand

For more information on fair value of Ipla brand and the assumptions and estimates used see note 19.

Indefinite useful life of IPLA brand

Having reviewed all the relevant events and circumstances the Group has concluded that there is no foreseeable limit to the period over which the Ipla brand is expected to generate economic benefits for the Group and thus the indefinite useful life was assumed. The following factors were analyzed:

- The expected usage of the brand and the assessment whether the brand could be managed more efficiently
- Technical, technological, commercial and other types of obsolescence
- The stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset
- Expected actions by competitors or potential competitors
- The level of maintenance expenditure required to obtain the expected future economic benefits from the asset
- Whether the useful life of the asset is dependent on the useful life of other asset of the entity

Having analyzed given factors, the Group has concluded that there is no predictable time limit during which the IPLA brand will contribute to the Group's net income therefore the indefinite useful life was assumed.

The impairment of goodwill

The Group performed impairment test. The impairment test was based on the value-in-use calculations of the cash-generating unit to which the goodwill has been allocated on the initial recognition. The value-in-use calculations included estimation of discounted cash flows for the given cash-generating unit and the relevant discount rate. The value of goodwill tested at each cash-generating unit, the key assumptions used in the value-in-used calculations for each cash-generating unit, impairment test results and sensitivity analysis of reasonably possible changes in the key assumptions are presented in note 20.

The impairment of intangible assets with indefinite useful lives

The Group performed the impairment test for the intangible assets with indefinite useful lives (Polsat band and Ipla brand). The impairment test was based on the value-in-use calculations of the cash-generating units to which the brands have been allocated. The value-in-use calculations included estimation of discounted cash flows for the given cash-generating unit and the relevant discount rate. The key assumptions used in the impairment test of Polsat brand and Ipla brand, impairment test results and sensitivity analysis are presented in note 20.

The impairment of non-financial non-current assets

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

Revenues from contractual penalties

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

Impairment of receivables

Judgment is required in evaluating the likelihood of collection of customer debt after revenue has been recognized. This evaluation requires estimates to be made including the level of bad debt allowance made for amounts with uncertain recovery profiles. Allowances are based on the probability of receivables collection, and on more detailed reviews of individually significant balances. Depending on the type of the customer and the source of the receivable, the assessment of the probability of receivable collection is done either based on the analysis of individual balances or based on the statistical probability of recoverability for each receivable's ageing profile. Recoverability rates are defined based on the analysis of the historical recoverability and the customers' behavior as well as other factors that, according to the Management Board, might influence the recoverability of the receivables. For more information see notes 6h, 26 and 39.

Provisions for pending litigation

The provisions are estimated based on the court documentation and the expertise of the Group's lawyers who participate in the current litigations. Group's probable obligations are estimated based on the progress of litigation proceedings. For more information see note 6r and 44.

Measurement of the provisions for employee benefits

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

Deferred tax

The key assumption in relation to deferred tax accounting is the assessment of the expected timing and manner of realization or settlement of the carrying amounts of assets and liabilities held at the reporting date. In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deductible temporary differences can be utilized. For further details refer to note 6y and 14.

Fair value of financial instruments

Fair value of financial instruments for which there is no active market is estimated using appropriate techniques of measurements. The techniques are chosen based on the professional judgment. For more information about the method of establishing the fair value of financial instruments and key assumption made see note 6h.

CYFROWY POLSAT GROUP

PART 5
ADDITIONAL INFORMATION

Photos: Polsat

GLOSSARY

Subscriber

A person who has concluded an agreement with Cyfrowy Polsat for the provision of digital pay TV services, obliged to pay fees for access to a package or packages of television and radio programmes, or who uses these packages as part of digital pay TV services upon prior payment of a monthly fee, without concluding such an agreement.

APS (Authorised Point-of-Sale)

Cyfrowy Polsat's retail points of sale for digital satellite pay TV, Cyfrowy Polsat's Internet access, and the Plus network's mobile telephony services. At the APSs, customers may sign up for Cyfrowy Polsat's services and take advantage of special offers for Cyfrowy Polsat's television and Internet access, as well as Plus mobile telephony services. They may also purchase a set-top box and order a professional antenna installation. The APSs also provide technical advice, accept Cyfrowy Polsat's equipment for servicing, and supply replacement units for the duration of repairs.

ARPU (Average Revenue Per User)

The average monthly net revenue per subscriber to our services, calculated as the quotient of the total net revenue generated by our subscribers to our digital pay TV services in a given period and the average number of subscribers to whom we provided services in the given period.

BTS (Base Transceiver Station)/mast

A base or relay station. A device (frequently with a high mast) equipped with an electromagnetic radiation antenna, used in wireless communication systems (mobile telephony, mobile Internet), connecting the terminal (mobile phone, modem) with the fixed part of a telecommunications network.

Catch-up TV

Service providing access to selected television shows online for a certain period after they were broadcast on TV.

Satellite Centre

Cyfrowy Polsat's receiver and transmitter centre located at the Company's registered office in Warsaw, at ul. Łubinowa 4a.

CRM (Customer Relationship Management)

A set of systems, tools and procedures necessary for customer relationship management. CRM involves not only IT systems and customer relationship management mechanisms, but also the entire business strategy and philosophy, which help build positive, long-term relations with customers.

Set-top box

A device processing the encoded digital signal so that it may be received by a TV set. It is generally used to receive digital satellite pay TV.

DTH (Direct-To-Home)

A service providing access to television and radio programmes broadcast by satellite as part of paid programme packages.

DVB-T or DTT (Digital Video Broadcasting – Terrestrial/Digital Terrestrial Television)

Digital Terrestrial Television – a digital technology designed to enable broadcasting of more channels and/or ensure better quality image and audio using radio transmission received by a conventional antenna, rather than a satellite antenna or cable connection.

Dividend

Part of the Company's profit distributed to the shareholders.

FTA (Free-To-Air)

Unencrypted, generally available TV and radio channels.

HD TV (High Definition Television)

Television signal format of a definition higher than the standard.

HSPA+ (High Speed Packet Access Plus)

A technology for radio data transfer at higher speeds – up to 21 Mbps, 28.8 Mbps for MIMO and 42 Mbps for Dual Carrier.

ICSC (Internet Customer Service Centre)

An Internet service allowing customers, upon logging in, to manage their subscriber accounts.

Broadband Internet access

Broadband or high bandwidth connection to the Internet network.

IPTV (Internet Protocol Television)

Technology enabling transfer of a television signal over IP broadband networks.

Access card

A card used with a set-top box to provide access to digital satellite pay TV.

Programme licence

The right to use (distribute) TV or radio programmes in a precisely defined manner.

LTE (Long Term Evolution)

A wireless data transmission technology, characterised by much higher transfer speeds, larger network capacity, and lower latencies than traditional technologies. At present, it is the world's fastest and most advanced mobile Internet.

MIMO (Multiple Input, Multiple Output)

A technological solution increasing wireless network capacity, based on multiple input, multiple output data transmission, both on the broadcast and reception side.

Modem (Modulator – Demodulator)

An electronic device converting a digital signal into an analogue signal and vice versa, so that it can be received by telephone lines, television lines and radio waves.

Multiroom

Service providing access to the same range of TV channels on two televisions in one household, for a single subscription fee.

Multiplex

A combined stream of digital data, composed of two or more streams of data carrying TV and radio programmes, along with

CYFROWY POLSAT
TELEWIZJA INTERNET TELEFON

MODEM
HUAWEI E398

SET-TOP-BOX
T-HD 1000

additional information, in particular concerning the conditional access system or additional services.

MVNO (Mobile Virtual Network Operator)

A reseller of mobile telephony services. MVNOs are not holders of licences for using radio frequencies or radio network owners, but they operate their own telecommunications infrastructure in the Full MVNO model. Like resellers of mobile telephony services, they sell services under their own brand and, depending on the model adopted, they may have their own range of telephone numbers, an individual network code, their own SIM cards, and a billing system, and may modify their offers at will.

Operator

A telecommunications provider entitled to render telecommunications services.

Pay-per-view (PPV)

Service providing paid access to selected TV content, frequently live broadcasts.

Prime time

The time when TV and radio stations have the largest audience and advertising income – the best shows are broadcast in prime time. At Telewizja Polsat, prime time starts at 6.30 pm and ends at 11.00 pm.

Pre-paid

Sale of a given operator's services on a prepayment basis.

Post-paid

A system of acquiring services on a subscription basis, in which services are paid for after being delivered.

Router

An electronic network device acting as a communication node between separate computer networks.

TV router

A device connecting any given source of digital TV signals with any given reception point. Television centres make thousands of such connections. The bandwidth of each channel for an HD signal is 1.5 Gbps, but will reach 3 Gbps in the near future.

SD TV

Standard definition television, the digital equivalent of the analogue PAL and NTSC standards.

SMS (Short Message Service)

A short text message which can be sent to another mobile telephony user directly from the phone or via the Internet, from a website. Text messages can contain up to 160 characters.

Multiplexer system

A set of devices which make it possible to merge several TV channel signals along with additional data into a single data stream. A statistical multiplexer will allocate space for a given channel in the stream as needed (content of the image).

Analogue transmission/analogue signal

A type of signal transmission, whereby the initial signal (e.g. voice) is transformed into an electric signal and broadcast as such. The transmission is carried out by a continuous change of the frequency, amplitude or phase of the broadcast signal. Analogue data transfer usually requires more bandwidth than digital broadcast and is more susceptible to damping.

Transponder

A separate part of a telecommunications satellite responsible for sending TV and radio channels from the operator's receiver and transmitter centre to subscribers' set-top boxes, through satellite dishes.

TTS (Text-To-Speech)

An IVR function enabling automatic voice playback of prepared texts.

Audience share

The group of TV viewers watching a channel at a given time, expressed as the percentage of all TV viewers at that time. Our data is sourced from Nielsen Audience Measurement (NAM), in the 'everyone' and 'from 16 to 49 years-old' demographics throughout the day.

Share in advertising market

Cyfrowy Polsat Group's share in TV advertisement and sponsorship revenues in Poland. Data is sourced from Starlink.

Churn rate

The churn rate is calculated as the ratio of agreements terminated in a 12-month period to the average annualised number of agreements executed in the same period. The number of terminated agreements is reduced by the number of subscribers who entered into an agreement no later than by the end of the 12-month period and the number of subscribers who had more than one agreement and terminated one of them to subscribe for the Multiroom service.

ipla

IPLA

The most widespread Internet TV in terms of technical coverage - the number of compatible platforms in Poland. Items shown are not part of the offer.

Subscription warrants

Securities issued by a joint stock company. Warrants may be registered or bearer warrants. Holders of warrants have the right to take up or subscribe for new shares.

EBITDA

Operating profit before depreciation and amortisation and impairment losses.

VOD

Video on demand; a service which allows viewers to access selected TV programmes and content at any time.

Technical reach (Broadcast Coverage Area)

Percentage of households in Poland capable of receiving the broadcast of a given channel.

Source: Cyfrowy Polsat, Wikipedia, Act on the Introduction of Digital Terrestrial Television.

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