

# **MULTIMEDIA POLSKA S.A.**

Directors' Report on the Operations of Multimedia Polska S.A.  
for the Year Ended 31 December 2008

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Dear Sirs,

Please find enclosed 2008 annual report of Multimedia Polska S.A. From our business's perspective, the year 2008 was very regular and harmonious. Our EBITDA and EBIDTA growth rate were fully in line with expectations. We successfully delivered our investment programme that ended a big network upgrade investment cycle. We repaid a significant portion of our indebtedness. I believe that all of those positive factors will help to safeguard our operations from the global economic instability.

### **Stable Growth**

In 2008, our key business processes progressed efficiently and were in line with expectations. We were successful in maintaining our dynamic sales rates and maintaining ARPUs (average revenue per user) at satisfactory levels. We sold close to 178,000 net services. Through a sensible promotion policy, we managed to raise ARPU considerably on analog and digital TV, and what is particularly encouraging is an increase in ARPU and revenues also in our fixed-line segment, recorded in the fourth quarter of 2008.

We believe that digital TV and broadband internet will be our key revenue drivers in the coming years. The results delivered in these segments in 2008 show that our organisation is well-prepared to continue to deliver this component of our strategy.

### **Changes Inside the Organisation**

Looking back at 2008 as a whole, I would reiterate that we successfully finalised the difficult process of reconstructing our sales department. The dynamic development of our call centre and implementation of incentive systems for our customer care centres produced intense competition among our sales channels leading to increased efficiency.

### **Financial Results**

We posted ca. 19 percent growth in 2008 sales revenues. Our EBITDA was up ca. 34.5 percent and reached PLN 183 million.

A considerable threat to our 2009 short-term strategy is exchange rate fluctuations. The functional and reporting currency of the Company is the Polish zloty. Our revenues are expressed in zloty, while a part of our operating expenses (programming costs) and capital expenditure is denominated in other currencies, i.e. US dollars and euro. We do not have any foreign currency options or any other foreign currency hedge tools, and we are unable to predict future exchange rate fluctuations, which may impact our financial results either way.

### **Acquisitions and Market Consolidation**

As regards our active overbuild in Tarnów, the effects to date confirm that the decision to overbuild our competitors in attractive locations was right. A year into the project, this market is showing record sales. The key factors behind our successful performance are: (1) our highly competitive product offering, and (2) the fact that loyalty agreements concluded with competitive operators are gradually expiring.

### **New Areas of Operation**

Our key project in terms of future value creation involves network constructions and the positioning of the Multimedia brand in Warsaw. We believe that the project is progressing well and according to plan, and presently we do not see any threats on the horizon. At the end of 2008, we already had some 47,000 homes passed and some 15,000 RGUs (revenue generating units), which is fully in line with our budget assumptions.

### **Innovation. New Technologies. New Projects**

We are successfully progressing with our Digital TV and add-ons project which is showing very good growth dynamics also in line with projections. We have launched a large-format advertising and image campaign "HollyVOD at Home". We are pleased to see that the awareness of our brand in key locations is growing.

### **Our Investment Programme**

As to our investment programme, 2008 saw a big investment cycle come to a close. Our networks are now well-prepared to offer supreme-quality services. As such the coming year will witness a more conservative approach to our investment budget. We intend to focus on maximising our free cash flows—obviously without deteriorating our product offering and the quality of the services we offer. As far as our investment budget is concerned, apart from the items typically associated with the number of new activations, we will place particular emphasis on monitoring the overall capacity of our networks in order to maintain our RGU run rate dynamics.

Andrzej Rogowski

President of Multimedia Polska S.A.

## **1. Basic information regarding Multimedia Polska S.A.**

Basic information regarding Multimedia Polska S.A. (henceforth referred to as "Multimedia") is given below:

Headquarters: 81-341 Gdynia, ul. Tadeusza Wendy 7/9  
KRS: 0000238931  
District Court for Gdańsk-Północ VIII Economic Division of the National Court Register  
NIP: 586-10-44-881  
REGON: 190007345

The Company was incorporated by virtue of Notarial Deed of 21 June 1991 as a limited liability company (*spółka z ograniczoną odpowiedzialnością*) and on 1 August 2005, pursuant to a ruling of the District Court for Gdańsk-Północ, VIII Economic Division, it changed its legal form from a limited liability company (*spółka z ograniczoną odpowiedzialnością*) into a joint stock company (*spółka akcyjna*).

The term of operation of the Company and the other Group entities is unlimited.

The main activity of Multimedia Polska Group is the provision of a wide range of telecommunications services, particularly radio, television, Internet and telephony over cable television systems.

## **2. Information on any Agreements Significant for the Business of Multimedia Polska S.A.**

### **2.1. Acquisition of Telecommunications Networks**

#### **2.1.1 Lanet**

On 17 March 2008, Multimedia Polska S.A. acquired a wireless internet network from a civil partnership Lanet. The network is located in Szczytno and provides the service to some 863 internet users.

The aggregate selling price of the network is PLN 560,950 payable in two instalments:

- 1st instalment representing 70% of the sale price and amounting to PLN 392,665 net payable until 1 April 2008;
- 2nd instalment representing 30% of the sale price and amounting to PLN 168,285 net payable within 7 days from final verification of the number of network connections (sockets).

The transfer of ownership to Multimedia Polska S.A. was effected on the day of payment of 1st instalment.

The final settlement of the transaction took place in the second quarter of 2008.

#### **2.1.2 Other Acquisitions**

In the first quarter of 2008, Multimedia Polska S.A. acquired networks from the following telecom and cable operators:

- PT Aries - an internet provider in Trzebinia,
- PHU Volta - an internet provider in Pruszcz Gdański,
- Rezystor S.C. - a cable operator in Pruszcz Gdański,
- Mikrotel Sp. z o.o. - a cable operator in Ropczyce.

As at the date of finalisation of the transactions, the cable and telecom networks acquired in the transactions passed by some 6,300 homes and served 2,900 cable television subscribers and 3,100 Internet subscribers.

In the fourth quarter of 2008, Multimedia Polska S.A. acquired a network of CSM Stalowa Wola for PLN 5.2m. The primary focus of CSM Stalowa Wola involves providing services to large enterprises within a Special Economic Zone in Stalowa Wola. The acquisition of CSM is a means of reinforcing Multimedia's position in the business customer segment.

### **2.2. Insurance Agreement with Powszechny Zakład Ubezpieczeń S.A.**

On 1 January 2007, the Company entered into an arrangement with Powszechny Zakład Ubezpieczeń S.A. of Warsaw regarding insurance of property owned by the Company and the other entities of the group in the years 2007-2009. The aggregate amount of insurance premium paid in 2008 was PLN 1,086,547. The insurance covers in particular telecommunications infrastructure and cable television networks insured against damage caused by fire, theft and other types of risks. The Company's car fleet was also insured. The aggregate amount of insurance

premium for the entire car fleet (involving third party, personal accident insurance and AC) in 2008 was PLN 605,328.00.

### **3. Other Events Material for the Assessment of the Company's Business**

#### **3.1. Share Buy-Back Programme**

In accordance with the resolution adopted by the Extraordinary General Meeting on 11 December 2007, between 13 December 2007 and 14 November 2008 the Company carried out the share buy-back programme whereby shares were repurchased for no more than PLN 120 million for subsequent cancellation and reduction of the share capital (the "Programme").

The Programme was carried out on the primary market of the Warsaw Stock Exchange (*Giełda Papierów Wartościowych S.A. w Warszawie*) where Multimedia shares are listed. The Programme was carried out in compliance with Polish law and applicable regulations of the European Union. A brokerage house acting pursuant to an agreement concluded with the Company purchased Multimedia shares exclusively through the Warsaw Stock Exchange on its own behalf to the Company's account.

The Company's strategic shareholders – Tri Media Holdings Limited, Emerita B.V and UNP Holdings B.V. – did not participate in the Programme.

The Programme was ended on 14 November 2008 after consultations with the Supervisory Board. The Company closed the share buy-back programme because, as required by resolution no. 5/2008 of 11 August 2008 of the Company's Extraordinary General Meeting, the funds allocated to the buy-back programme and dividend payment were transferred to a special-purpose reserve fund devoted to dividend payment (which was announced in current report no. 59/2008 dated 11 August 2008).

After the transfer was effected, PLN 4,000,000 was left for the buy-back and that sum had been exhausted.

In execution of the share buy-back programme implemented in order to redeem the shares and decrease the Company's share capital, in the period from 13 December 2007 to 14 November 2008, the Company acquired 4,510,317 shares in total, which carry in aggregate 4,510,317 votes at the Company's general meetings and represent 2.86% of the Company's share capital and the same percentage of votes at general meetings.

Pursuant to Resolution no. 7 dated 19 January 2009, the Extraordinary General Meeting of Multimedia Polska S.A. cancelled the treasury shares and reduced share capital. The cancellation of the treasury shares became effective on 31 March 2009 upon registration of the reduction of the share capital by the Court.

### **4. Information on any Organisational and Capital Links within Multimedia Polska Group**

Multimedia Polska S.A. is the parent entity of Multimedia Polska Group. It holds a 100% interest in the share capital of all its subsidiaries except Tele – Top Grupa Multimedia Polska Sp. z o.o., where the Company has a 99.90% interest, and Telewizja Kablowa Brodnica Sp. z o.o., where the Company has a 94.12% interest. There are also other organisational links—through business management agreements—between Multimedia Polska S.A. and the following subsidiaries: Multimedia Polska – Zachód Sp. z o.o., and Multimedia Polska – Południe S.A. (and in the reporting period also Zicom Sp. z o.o., Sotel Sp. z o.o., and Intertel Sp. z o.o.). Moreover, the Management Board of Multimedia Polska S.A. acts as management of all the subordinated entities.

### **5. Material Related-Party Transactions**

#### **5.1. Agreements on Business Management and Advisory Services**

Multimedia Polska S.A. provides services to its subsidiaries, Multimedia Polska – Zachód Sp. z o.o. and Multimedia Polska – Południe S.A., operating in the telecommunications sector, based on *Agreements on Business Management, Business Management Advisory Services and Business Administration* concluded on 3 July 2006. Under each of the agreements Multimedia Polska S.A. undertook separately with respect to each subsidiary to provide – against payment and on the terms detailed in the agreements – services consisting in the management of a part of an enterprise as defined in Art. 7 of the Commercial Companies Code and to advise the companies with respect to business management and telecom network operation. The agreements were concluded for indefinite terms and may be terminated at a six months' notice. Multimedia Polska S.A. undertook with respect to each subsidiary to bear the entire responsibility for any of its actions or omissions which constitute a breach of the agreement. Should any loss be caused to any of the subsidiaries, Multimedia Polska S.A. will be obliged to cover its full amount.

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Annual fees payable to Multimedia Polska S.A. in 2008 for the provision of the services by each subsidiary in the reporting period were as follows:

<b>Subsidiary</b>	<b>Remuneration to Multimedia Polska S.A. (PLN)</b>
Multimedia Polska – Zachód Sp. z o.o.	3.785.288,34 <sup>(1)</sup>
Multimedia Polska – Południe S.A. <sup>(2)</sup>	10.211.059,52 <sup>(1)</sup>

- (1) The monthly fees payable to Multimedia Polska S.A. are subject to monthly review based on actual costs incurred by Multimedia Polska S.A. in connection with the provision of the services in the period. The costs comprise only costs recorded in the books of account of Multimedia Polska S.A. attributable accordingly to each subsidiary.
- (2) The amount of remuneration payable by Multimedia Polska – Południe S.A. is the total of remuneration payable by the following companies: Multimedia Polska – Brzesko S.A., Multimedia Polska – D bica S.A., Multimedia Polska – Konin S.A. and Multimedia Polska – Wschód S.A., which were merged with Multimedia Polska – Południe S.A. on 27 December 2006 and had been parties to respective agreements with Multimedia Polska S.A. on business management, business management advisory services and business administration, legally transferred to Multimedia Polska – Południe S.A. upon the finalisation of the merger.

### **5.2. Agreements on Physical Network, Logical Network and Service Inventory Services**

On 3 September 2007, in order to perform passportisation services required by, inter alia, agreements on business management and advisory services and business administration services discussed in point 5.1., Multimedia Polska S.A. concluded agreements on physical network, logical network and service inventory services with Multimedia Polska – Południe S.A. and Multimedia Polska – Zachód Sp. z o.o. whereby Multimedia Polska – Południe S.A. and Multimedia Polska – Zachód Sp. z o.o. undertook to inventory the following data for the benefit of the Issuer and against payment: physical network, logical network and services provided. Monthly remuneration for the inventory of data referred to above will be the cost incurred by each subsidiary in connection with data inventory plus 3%. Agreements cover the duration of data inventory and may be terminated at a three months' notice.

### **5.3. Agency Agreement for Accountancy Services**

On 3 September 2007, Multimedia Polska S.A. concluded an agency agreement with its subsidiary Telewizja Kablowa Brodnica Sp. z o.o. for accountancy services, book-keeping in particular, and the provision of accounting consultancy services against payment. Multimedia Polska S.A. is entitled to monthly remuneration of PLN 300 (three hundred) for the services, payable by Telewizja Kablowa Brodnica Sp. z o.o. subject to monthly review based on actual costs (recorded and directly attributable to Telewizja Kablowa Brodnica Sp. z o.o. in the Issuer's books of account) incurred by the Issuer in order to provide those services. A margin of 3.5% and an applicable VAT rate should be added. The agreement was concluded for an indefinite term and may be terminated at a six months' notice.

### **5.4. Loan Agreements Concluded within the Group**

In the reporting period, from 1 January 2008 to 31 December 2008, the companies of Multimedia Polska Group concluded annexes to loan agreements. The loan agreements (and annexes to loan agreements) concluded in the reporting period are listed in the table below.

Furthermore, on 19 December 2008, pursuant to an Annex to the Loan Agreement dated 12 December 2005 between Multimedia Polska Zachód Sp. z o.o. and Multimedia Polska S.A., the parties extended the repayment date for the loan with accrued interest to 31 December 2009.

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<b>Parties</b>		<b>Value</b>	<b>Agreement / annex date</b>	<b>Maturity Date</b>
<b>Lender</b>	<b>Borrower</b>			
Multimedia Polska S.A.	INTERTEL SP. Z O.O.	350,000	Agreement dated 21/11/2007 Annex dated 10/03/2008	30/06/2008 <sup>(1)</sup>
Multimedia Polska S.A.	SOTEL SP. Z O.O.	1,100,000	Agreement dated 17/12/2007	01/06/2008 <sup>(1)</sup>
Multimedia Polska S.A.	ZICOM SP. Z O.O.	350,000	Agreement dated 16/01/2008 Annex dated 12/02/2008	31/07/2008 <sup>(1)</sup>
Multimedia Polska - Południe S.A.	Multimedia Polska S.A.	100,000	Agreement dated 04/09/2008	31/12/2009 <sup>(2)</sup>
		5,000,000	Annex 1 dated 06/11/2008,	
		3,500,000	Annex 2 dated 27/11/2008	
Multimedia Polska S.A.	Multimedia Polska – Zachód Sp. z o.o.	19,000,000	Agreement dated 19/12/2008 to Annex dated 12/12/2005	31/12/2009 <sup>(3)</sup>
		51,500,000		

- (1) As a result of the registration of the merger of Multimedia Polska S.A. with PHU Sotel Sp. z o.o., Intertel Sp. z o.o. and Zicom Sp. z o.o., Multimedia Polska S.A. assumed all rights and obligations of those companies, including rights and obligations resulting from the loan agreements referred to above. Interest on the loans is based on 1 M WIBOR from the first day of a given month plus 1.2% p.a.
- (2) Interest is equal to 3 M WIBOR from the first day of a given month plus 1.2% p.a.
- (3) The total outstanding amount of the loan as at 31 December 2008 was PLN 27,500,000. Interest is equal to 1 M WIBOR from the first day of a given month plus 1.2% p.a.

#### 5.5. Sale of Fixed Assets

In the reporting period, the Issuer sold assets under construction totalling PLN 16,489,040.78 to Multimedia Polska – Południe S.A. and Multimedia Polska – Zachód Sp. z o.o.

<b>Parties</b>		<b>Value (PLN)</b>
<b>Seller</b>	<b>Purchaser</b>	
Multimedia Polska S.A.	Multimedia Polska – Południe S.A.	15.423.186,22
Multimedia Polska S.A.	Multimedia Polska – Zachód Sp. z o.o.	1.065.854,56

The transactions were effected pursuant to agreements dated 1 March 2005 regarding telecommunications investments and investment management.

#### 5.6. Arrangement regarding Remuneration Payable in Connection with Securing the Repayment of the Credit Facility Described in Point 6.1. Herein

On 15 December 2007, Tele-Top Grupa Multimedia Polska Sp. z o.o., Multimedia Polska – Zachód Sp. z o.o. and Multimedia Polska – Południe S.A. (the Guarantors) concluded an agreement with the Company regulating the rules of payment of remuneration due from the Issuer to the Guarantors for the guarantee of timely performance of all obligations following from the credit facility agreement given in that agreement by the Guarantors.

As provided for in the agreement, the Company is obliged to pay to the Guarantors once a year—on the last calendar day of each year when the credit facility agreement remains in force—remuneration in the aggregate amount corresponding to 0.2% of the available credit facility in proportions resulting from the proportion of each Guarantor's share capital to the sum of their share capitals.

For the period between 1 January 2008 and 31 December 2008, the remuneration of the Guarantors totalling PLN 1,100,000 net (PLN 1,342,000 gross) was paid to Multimedia Polska – Południe S.A. on 06/01/2009, to Multimedia Polska – Zachód Sp. z o.o. on 05/02/2009, and to Tele-Top Grupa Multimedia Polska Sp. z o.o. on 28/01/2009.

In addition, the parties agreed that the amount of remuneration may be increased if the Company finds itself in a difficult financial position.

## **5.7. Network Interconnection Agreements**

On 1 January 2008, the following agreements came into force between the Issuer and two subsidiaries: Multimedia Polska – Południe S.A. and Multimedia Polska – Zachód Sp. z o.o.: a network interconnection and mutual settlements agreement and a network interconnection agreement. The subject matter of the network interconnection and mutual settlements agreement is the provision of interconnection services in respect of exchanging transit telecom traffic and the activation and maintenance of an interconnection point, while the subject matter of the network interconnection agreement is the delivery of telecommunications services consisting in terminating calls in the parties' respective networks. The agreements were concluded for indefinite terms with a 2 months' termination notice. The projected value of mutual settlements in 2008 exceeded the equivalent of EUR 500,000. Settlements are based on the actual recorded call time.

## **5.8. Telecom Services Agreement**

On 31 December 2005, an agreement was concluded between the Issuer and Multimedia Polska – Zachód Sp. z o.o. regarding cooperation with respect to providing telecoms network maintenance services, billing services and additional services. The agreement was concluded for a definite term of 10 years. In 2008, the Company paid to Multimedia Polska – Zachód Sp. z o.o. an aggregate amount of PLN 4,022,451.76 as remuneration for the services delivered by Multimedia Polska – Zachód Sp. z o.o. to the Company under the agreement.

## **6. Information on any Contracted Loans, Borrowings or Received Borrowings, Sureties and Guarantees**

### **6.1. Senior Credit Facility Agreement for PLN 550,000,000**

The Company, as the borrower, and the subsidiaries of Multimedia Polska S.A., as guarantors, entered on 7 September 2005 into a senior credit facility agreement. The Lenders are ABN Amro, Bank Pekao S.A. together with Bank Millennium S.A., Calyon S.A. (branch in Poland) and BNP Paribas (branch in Poland). The agreement was subsequently restated and amended twice: (i) by an amendment agreement dated 27 December 2005 and (ii) by an amendment agreement dated 20 June 2006.

The senior credit facility consists of three tranches: (i) tranche A of up to PLN 320,000,000; (ii) tranche B of up to PLN 130,000,000; and (iii) tranche C of up to PLN 100,000,000.

In accordance with the credit facility agreement, draw-downs in each interest period bear interest at a rate per annum equal to (i) WIBOR on three-month deposits in PLN plus (ii) a margin of 0.85%, provided that the margin is adjusted, i.e., appropriately reduced (to 0.65%) or increased (to no more than 0.90% respectively), depending on a margin adjustment procedure based on the ratio of our Net Consolidated Debt to Annual EBITDA after the expiration of the six month period beginning on the date of the first utilization of the proceeds from the senior credit facility. For details on our senior credit facility agreement please refer to our International Offering Circular (pp. 158-164).

The senior credit facility provides for the following security: (i) a transfer of receivables to which the Company and the guarantors are entitled under the insurance agreements as well as insurance policies issued on their basis, (ii) a registered pledge over the pool of all present and future assets, rights and claims each time in the possession of both the Company and the guarantors (except for rights and claims under insurance agreements and bank account agreements); in accordance with the amendment agreements referred to above, the maximum amount of security was increased to PLN 825,000,000 and was entered into the pledge register based on court decisions announced on 10 October 2006, (iii) a registered pledge on the Company's and the guarantors' rights and claims under certain bank accounts.

In addition, on 22 December 2006, the Company made an appropriate declaration before notary public Hanna Waro ska of the Notary Public's Office in Gdynia declaring that a joined capped mortgage on the Company's real property and rights equivalent to real property had been established for the benefit of the Lenders to secure all present and future rights and claims under the senior credit facility.

In accordance with the objectives of the issue of Series F Shares, the Company transferred PLN 100,000,000 to the blocked account of the Security Agent (Bank Pekao S.A.) on 23 November 2006 in order to repay PLN 100,000,000 representing Tranche C. In accordance with the senior credit facility agreement, the amount was delivered to the lenders by the Facility Agent on the last day of the interest period, i.e. on 10 January 2007. The Company is repaying the loan in semi-annual instalments.

As at 31 December 2008, the outstanding principal amount of the facility was PLN 323,983,142.40.

In addition, pursuant to the provisions of the credit facility agreement dated 27 January 2009 (see point 6.2 below), in order to provide additional collateral for this here senior credit facility, Multimedia agreed to provide additional collateral—mortgages registered in favour of each of the lenders in the mortgage books set up for the Company's real estate property other than the real property already mortgaged in compliance with the declaration described above.

## **6.2. Overdraft Facility**

Detailed information regarding the overdraft facility is provided in point 18.6 below.

## **6.3. Loans Extended and Taken Out by Multimedia Polska S.A. within Multimedia Polska Group**

In the reporting period, from 1 January 2008 to 31 December 2008, Multimedia Polska S.A. extended loans totalling PLN 1,200,000 pursuant to loan agreements and annexes to loan agreements and took out a loan totalling PLN 27,500,000 to finance ongoing operations.

Furthermore, on 19 December 2008, pursuant to an Annex to the Loan Agreement dated 12 December 2005 between Multimedia Polska Zachód Sp. z o.o. and Multimedia Polska S.A., the parties extended the repayment date for the loan with accrued interest to 31 December 2009.

A detailed presentation of loans extended by Multimedia is provided in the table in point 5.4 above.

## **6.4. Information on Other Loans, Sureties or Guarantees Given or Taken**

During the reporting period, and as at the date of authorisation of this report, the Company had not advanced any loans to employees. The Company did not issue any sureties or guarantees.

During the reporting period, and up to the date of authorisation of this report, the Company did not take out any loans.

## **7. Changes in the Composition of Managing or Supervisory Bodies in the Financial Year**

### **7.1. Management Board of Multimedia Polska S.A.**

#### **7.1.1 Composition of the Management Board**

In the period from 1 January 2008 to 31 December 2008, the President of the one-member Management Board was:

Name	Position
Andrzej Rogowski	President

#### **7.1.2 Principles Governing the Appointment and Dismissal of Management Board Members**

On 20 March 2008, the Extraordinary General Meeting passed resolution no. 4/2008 amending Par. 27.1 of the Company's statutes to read as follows: "The Management Board of the Company shall be composed of one to five members, including the President of the Management Board, appointed for a joint 2 (two)-year term of office."

The amendment became effective when registered by the National Court Register, i.e. as from 17 April 2008.

As provided in Par. 23.2 a) of the Statutes of the Company, Management Board members are appointed and dismissed by the Supervisory Board.

The mandates of the Management Board members expire on the date of the General Meeting of Shareholders convened to approve the financial statements for the last full financial year of their membership on the Management Board. It is permissible to re-appoint the same persons as members of the Management Board for further terms of office.

### **7.1.3 Powers of the Management Board**

The Management Board manages the Company's affairs and represents the Company vis-à-vis third parties. The President of the Management Board acting jointly with another member of the Management Board or with a holder of commercial proxy, or two members of the Management Board acting jointly are authorized to make declarations of intent and sign on behalf of the Company. In case of a single-member Management Board, representation is delivered by the single member.

As set forth in the Company's Statutes, the following actions taken by the Management Board require the consent of the Supervisory Board:

- (i) acquisition, in one or several related transactions, of an enterprise or an organized part of an enterprise, or assets of another enterprise if the value of such assets exceeds the equivalent of EUR 500,000,
- (ii) acquisition or sale of real property (including the right of perpetual usufruct) or an interest in such real property,
- (iii) sale, lease, grant for use by another person, or encumbering with rights in property or obligations of the Company's assets with the unit net book value exceeding the equivalent of EUR 500,000, except for any agreements or actions specifically provided for in the annual business plan and the budget approved by the Supervisory Board,
- (iv) subscription for or acquisition of shares in another company or disposal of shares owned by the Company, except for any agreements or actions specifically provided for in the annual business plan and the budget approved by the Supervisory Board,
- (v) taking out a loan or credit or assuming any other financial obligation whose unit net book value exceeds the equivalent of EUR 500,000 or whose total value in the financial year exceeds the equivalent of EUR 1,000,000, except for any financial obligations specifically provided for in the annual business plan and the budget approved by the Supervisory Board, and
- (vi) entering into an agreement or conducting a unilateral act in law providing for the fulfilment by the Company of a pecuniary or non-pecuniary performance with the value exceeding EUR 250,000, or resulting in the Company assuming an obligation with the term of validity exceeding 2 years, except for any agreements or actions specifically provided for in the annual business plan and the budget approved by the Supervisory Board.

In case of a multi-member Management Board, the President of the Management Board manages the work of the Management Board and convenes its meetings. The Management Board meetings are chaired by the President of the Management Board, and in his absence by a member of the Management Board appointed by the President. Resolutions of the Management Board may be adopted if all members of the Management Board have been duly notified of the Board meeting, and at least half of the members of the Management Board are present at the meeting. Resolutions of the Management Board are passed by a simple majority of votes cast. In the event of a voting tie, the President of the Management Board has the casting vote. Resolutions of the Management Board may also be passed in written ballot without holding a meeting if all members of the Management Board express their consent to such voting.

The managing persons do not have the power to adopt any decisions concerning the issue or repurchase of the Company's shares.

### **7.2. Supervisory Board of Multimedia Polska S.A.**

In the period from 1 January 2008 to 31 December 2008, and as at the date of authorisation of this report, the Supervisory Board of Multimedia Polska S.A. was composed of the following persons:

<b>Name</b>	<b>Position</b>
Ygal Ozechov	Co-Chairman of the Supervisory Board
Tomek Ulatowski	Co-Chairman of the Supervisory Board
Konrad Jaskóła	Member of the Supervisory Board
David C. Seidman	Member of the Supervisory Board
Gabriel Wujek	Member of the Supervisory Board

On 30 June 2008, the Annual General Meeting by Resolutions no. 17-21 reappointed the Supervisory Board for another term of office. The composition of the Supervisory Board remained unchanged.

**8. Agreements Concluded between Multimedia Polska S.A. and Managing Persons**

As at the date of authorisation of this report, there are no contracts or agreements between the Company and the Management Board members other than an executive service agreement between the Company and Mr. Andrzej Rogowski.

The executive service agreement provides for a 12-month severance pay if terminated by the Company.

**9. The value of Remuneration Paid to the Managing and Supervisory Persons**

**9.1. Remuneration Paid and Payable to Managing Persons**

The table below presents remuneration and benefits paid to the President of the Management Board in 2008:

Name of Management Board Member	Remuneration received from Multimedia Polska S.A. (in PLN)
Andrzej Rogowski	1,099,564.00

**9.2. Remuneration Paid and Payable to Supervisory Persons**

Members of the Company's Supervisory Board receive monthly compensation based on a resolution of the General Meeting of 28 July 2006. The remuneration payable to each member of the Board in 2008 is presented in the table below.

Name of Supervisory Board Member	Remuneration payable (in PLN)
Ygal Ozechov	48,000
Tomek Ulatowski	48,000
David C. Seidman	48,000
Konrad Jaskóła	48,000
Gabriel Wujek	48,000
<b>Total</b>	<b>240,000</b>

Neither the managing persons nor the supervisory persons receive any additional remuneration for their membership on the governing bodies of the subsidiaries.

**10. Total Number of Shares of Multimedia Polska S.A. Held by the Managing and Supervisory Persons**

**10.1. Management Board of Multimedia Polska S.A.**

The information provided below regarding the number of shares held by the Management Board members is based on information provided by them in accordance with Art. 160.1 of the Act on trading in financial instruments.

Name	As at 1 Jan 2008	As at 31 Dec 2008	As at 2 April 2009
Andrzej Rogowski – President	1,505,888 <sup>(1)</sup>	1,505,888 <sup>(1)</sup>	1,505,888 <sup>(1)</sup>

(1) Includes 670,870 shares held indirectly through a subsidiary, Kalberri Limited.

According to information available to the Company, the President of the Management Board does not have shares in any of the subsidiaries of Multimedia Polska Group.

## 10.2. Supervisory Board of Multimedia Polska S.A.

Name	As at 1 Jan 2008	As at 31 Dec 2008	As at 2 April 2009
Tomasz Ulatowski	26,442	5,238,389 <sup>(1)(2)</sup>	5,238,389 <sup>(1)(2)</sup>
Ygal Ozechov	0	5,211,947 <sup>(3)</sup>	5,211,947 <sup>(3)</sup>
David C. Seidman	0	0	0
Konrad Jaskóła	0	0	0
Gabriel Wujek	0	0	0

- (1) Indirectly through an American company YTD, LLC, headquartered in Wilmington, Delaware, USA, in which Mr. Tomasz Ulatowski and related entities have a 50% interest and which has a 100% interest in M2 Investments Limited headquartered in Nicosia, Cyprus, which holds 5,211,947 Multimedia shares.
- (2) Directly 26,442 shares of Multimedia Polska S.A.
- (3) Indirectly through an American company YTD, LLC, headquartered in Wilmington, Delaware, USA, in which Mr. Ygal Ozechov and related entities have a 50% interest and which has a 100% interest in M2 Investments Limited headquartered in Nicosia, Cyprus, which holds 5,211,947 Multimedia shares.

According to information available to the Company, none of the members of the Supervisory Board has shares in Multimedia Polska S.A. or shares in any companies of Multimedia Group. This information is provided based on the fact that the Company has not received any information from any Supervisory Board member regarding any acquisition of such shares in accordance with Art. 160.1 of the Act on trading in financial instruments.

## 11. Shareholders Holding Significant Blocks of Shares, Whether Directly or Indirectly, and Information on the Number of Shares Held by Those Entities, Percentage of Share Capital, the Number of Votes attached to the Shares and Their Share in the Total Votes at the General Meeting

As of 1 January 2008 and 31 December 2008, the Company's share capital amounted to PLN 157,700,000 and was divided into 157,700,000 shares, representing the same number of votes at the General Meeting of the Company. The following shareholders had 5% or more votes at the general meeting.

Information provided in the table below is prepared based on current reports submitted to the Warsaw Stock Exchange, which reflect all information provided to the Company by shareholders in accordance with Art. 69.1 of the Act on public offering and the terms for introduction of financial instruments to organised trading and on public companies.

The Company's shareholding structure as at 31 December 2008 was as follows:

Shareholder	Number of shares held	Number of votes at the General Shareholders' Meeting	Percentage of votes at the General Shareholders' Meeting	Percentage held in share capital
Tri Media Holdings Ltd <sup>(1)(2)</sup>	26,945,741	26,945,741	17.09%	17.09%
UNP Holdings B.V. <sup>(1)</sup>	41,228,807	41,228,807	26.14%	26.14%
Emerita B.V. <sup>(1)</sup>	15,781,292	15,781,292	10.01%	10.01%
BZ WBK AIB Asset Management S.A. <sup>(3)</sup>	15,964,920	15,964,920	10.12%	10.12%
including:				
BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. <sup>(4)</sup>	8,023,790	8,023,790	5.09%	5.09%
Other shareholders	57,779,240	57,779,240	36.64%	36.64%
<b>TOTAL</b>	<b>157,700,000</b>	<b>157,700,000</b>	<b>100.00%</b>	<b>100.00%</b>

- (1) Entities directly or indirectly controlled by EVL.
- (2) 2,765,628 shares are held indirectly through Biscoden Trading & Investments Limited, a subsidiary of Tri Media Holdings.
- (3) See point 11.2. below.
- (4) See point 11.1. below.

**11.1. Information provided by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. in connection with exceeding the 5% of total vote threshold as a result of holding shares in aggregate through other investment funds managed by the same investment fund company**

On 7 January 2008, Multimedia Polska S.A. ("the Company", "Multimedia") received a notification in accordance with Art. 69.1.1 in conjunction with Art. 87.1.2.a) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies from BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. ("TFI"), acting on behalf of Arka BZ WBK Akcji Fundusz Inwestycyjny Otwarty, Arka BZ WBK Rozwoju Nowej Europy Fundusz Inwestycyjny Otwarty, Arka BZ WBK Stabilnego Wzrostu Fundusz Inwestycyjny Otwarty, Arka BZ WBK Zrównoważony Fundusz Inwestycyjny Otwarty and Lukas Fundusz Inwestycyjny Otwarty (hereinafter referred to as Funds).

The notification stated that as a result of share purchase transactions settled on 3 January 2008 and as at the date of settlement, the Funds came to hold 8,023,790 shares, constituting 5.09% of the Company's share capital and carrying 8,023,790 (5.09%) votes exercisable at general meetings.

Before the settlement of the aforementioned transactions, the Funds held 7,863,790 shares constituting 4.99% of the Company's share capital and carrying 7,863,790 (4.99%) votes exercisable at general meetings.

TFI also notified the Company that acting in the manner specified in Art. 46.1.1) of the Act of 27 May 2004 on Investment Funds, it commissioned BZ WBK AIB Asset Management Spółka Akcyjna with its registered office in Poznań to manage the Funds' investment portfolios. Hence, the disclosure obligation arising in connection with the share purchase transactions referred to herein is also imposed separately on BZ WBK AIB Asset Management S.A. (Current report no 52/2007 dated 8 October 2007).

**11.2. Information provided by BZ WBK AIB Asset Management S.A. in connection with increasing interest in the share capital of Multimedia Polska S.A. above the 10% of total vote threshold as a result of holding shares as part of securities portfolios managed by BZ WBK AIB Asset Management S.A. which entitle BZ WBK AIB Asset Management S.A. as the manager to exercise voting rights attached to those shares at the general meeting on behalf of its customers**

On 31 July 2008, Multimedia Polska S.A. (the "Company", "Multimedia") received a notification from BZ WBK AIB Asset Management S.A. with its registered office in Poznań in accordance with Art. 69.1.1 in conjunction with Art. 87.1.3.b) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies that following purchases of the Company's shares by BZ WBK AIB Asset Management S.A. settled on 29 July 2008, clients of BZ WBK AIB Asset Management S.A. came to hold Multimedia shares representing over 10% of total voting rights exercisable at the Company's general meetings.

The notification stated that as of 29 July 2008 a total of 15,964,920 Multimedia shares were deposited on securities accounts managed by BZ WBK AIB Asset Management S.A. for their customers under account management agreements, which constitute 10.12% of the Company's share capital. The shares carry 15,964,920 voting rights at the Company's general meetings, representing 10.12% of total voting rights at the general meetings of Multimedia Polska S.A.

Before increasing their interest in the Company's share capital, the clients of BZ WBK AIB Asset Management S.A. had 15,755,946 shares on their securities accounts held under account management agreements, constituting 9.99% of the Company's share capital and carrying 15,755,946 voting rights at the Company's general meetings, representing 9.99% of total voting rights at the general meetings of Multimedia Polska S.A.

In addition, the notification stated that it is possible that the engagement of BZ WBK AIB Asset Management S.A.'s customers in Multimedia shares may either increase or decrease in the period of 12 months following the notification. Any decisions regarding any acquisition or disposal of shares will depend upon the Company's current position, the assessment of that position and market conditions, as well as the value of assets covered under management agreements by BZ WBK AIB Asset Management S.A. BZ WBK AIB Asset Management S.A. also notified the Company that BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Poznań ("TFI"), acting pursuant to Art. 46.1.1) of the Act of 27 May 2004 on Investment Funds, commissioned BZ WBK AIB Asset Management S.A. to manage investment portfolios of investment funds of which TFI is a representative body ("the Funds"). Hence, if the Funds should come to hold Multimedia shares, BZ WBK AIB Asset Management S.A. is obliged to make an appropriate disclosure.

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The Company's shareholding structure as at the date of authorisation of this report was as follows:

Shareholder	Number of shares held	Number of votes at the General Shareholders' Meeting	Percentage of votes at the General Shareholders' Meeting <sup>(5)</sup>	Percentage held in share capital <sup>(5)</sup>
Tri Media Holdings Ltd <sup>(1)(2)</sup>	26,084,741	26,084,741	17.03%	17.03%
UNP Holdings B.V. <sup>(1)</sup>	41,228,807	41,228,807	26.91%	26.91%
Emerita B.V. <sup>(1)</sup>	15,781,292	15,781,292	10.30%	10.30%
BZ WBK AIB Asset Management S.A. <sup>(3)</sup>	15,759,077	15,759,077	10.29%	10.29%
including:				
BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. <sup>(4)</sup>	8,023,790	8,023,790	5.24%	5.24%
Other shareholders	54,335,766	54,335,766	35.47%	35.47%
<b>TOTAL</b>	<b>153,189,683</b>	<b>153,189,683</b>	<b>100.00%</b>	<b>100.00%</b>

(1) Entities directly or indirectly controlled by EVL.

(2) 1,904,628 shares are held indirectly through Biscoden Trading & Investments Limited, a subsidiary of Tri Media Holdings.

(3) See point 11.3. below.

(4) See point 11.1. below.

(5) The percentage interest calculated after the 31 March 2009 registration of the reduction of the share capital of the Company by the registry court.

**11.3. Information provided by BZ WBK AIB Asset Management S.A. in connection with reducing interest in the share capital of Multimedia Polska S.A. below 10% of total vote as a result of holding shares as part of securities portfolios managed by BZ WBK AIB Asset Management S.A. which entitle BZ WBK AIB Asset Management S.A. as the manager to exercise voting rights attached to those shares at the general meeting on behalf of its customers**

On 26 January 2009, Multimedia Polska S.A. ("the Company", "Multimedia") received a notification from BZ WBK AIB Asset Management S.A. with its registered office in Poznań in accordance with Art. 69.1.2 in conjunction with Art. 87.1.3.b) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies that following the sale of the Company's shares by BZ WBK AIB Asset Management S.A. on 19 January 2009, clients of BZ WBK AIB Asset Management S.A. came to hold Multimedia shares representing less than 10% of total voting rights exercisable at the Company's general meetings.

The notification stated that before the transaction described above, an aggregate of 15,771,337 Multimedia shares had been deposited on securities accounts managed by BZ WBK AIB Asset Management S.A. for their customers under account management agreements, which constituted 10.001% of the Company's share capital. The shares entitled their holders to 15,771,337 voting rights, representing 10.001% of total voting rights at Multimedia's general meetings.

On 19 January 2009, the clients of BZ WBK AIB Asset Management S.A. had in aggregate 15,759,077 shares deposited on their accounts held under account management agreements, constituting 9.99% of the Company's share capital. The shares entitled their holders to 15,759,077 voting rights, representing 9.99% of total voting rights at Multimedia's general meetings.

BZ WBK AIB Asset Management S.A. also notified the Company that BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Poznań ("TFI"), acting pursuant to Art. 46.1.1) of the Act of 27 May 2004 on Investment Funds, commissioned BZ WBK AIB Asset Management S.A. to manage investment portfolios of investment funds of which TFI is a representative body ("the Funds"). Hence, if the Funds should come to hold Multimedia shares, BZ WBK AIB Asset Management S.A. is obliged to make an appropriate disclosure.

Compared to the 2007 annual report, the information provided above changed as follows:

- 1) On 25 August 2008, the Company was informed by Emerging Ventures Limited ("EVL") with its registered office in St. Peter Port, Guernsey, that as a result of realisation of an agreement of

20 August 2008, EVL's subsidiary company UNP Holdings B.V. with its registered office in Hoofddorp, the Netherlands, disposed of 4,210,810 Multimedia shares. After the transaction was settled, on 21 August 2008, UNP Holdings B.V. came to hold 41,228,807 Multimedia shares representing 26.1% of the Company's share capital and entitling to 41,228,807 votes at the Company's general meeting, which represent 26.1% of total voting rights exercisable at Multimedia's general meeting.

Before the disposal of shares, UNP Holdings B.V. held 45,439,617 Multimedia shares constituting 28.8% of the Company's share capital and entitling to 45,439,617 votes at Multimedia's general meeting, which represent 28.8% of total voting rights exercisable at the Company's general meeting. Through its subsidiaries EVL currently holds 83,955,840 Multimedia shares, which account for 53.2% of all Multimedia shares and carry 83,955,840 votes at the Company's general meeting, which represents 53.2% of total vote.

Previously through its subsidiaries EVL held 88,166,650 Multimedia shares, representing 55.9% of the Company's share capital and entitling to 88,166,650 votes at Multimedia's general meeting, which represents 55.9% of total vote.

Emerging Ventures Limited also informed the Company that it did not intend to decrease its share of total vote at Multimedia's general meeting within 12 months from the notification the subject hereof.

- 2) See points 11.2 and 11.3 above.
- 3) On 30 January 2009, Multimedia acquired 861,000 treasury shares in a block transaction from Biscoden Trading & Investments Limited. The shares represented a 0.55% interest in the Company's share capital and carried 861,000 votes, which represent 0.55% of the total vote at Multimedia's general meetings. The Company acquired own shares in order to offer them for purchase by the Company employees in execution of the Company's share option plan.

**12. Information on Agreements which May Cause Changes in the Percentages of Shares Held by the Existing Shareholders in the Future**

The Company is not aware of any agreements which may cause changes in the percentages of shares held by the existing shareholders in the future.

**13. Identification of Holders of any Securities Conferring Special Control Powers with respect to Multimedia Polska S.A.**

The Statutes of the Company do not contain any provisions conferring special powers to its shareholders connected with Multimedia Polska S.A. shares held by them.

**14. Information on the Supervision of Employee Stock Option Plans**

**14.1. Incentive Programme**

On 14 August 2007, a group of Multimedia Polska S.A. employees (the "Beneficiaries") received from a Multimedia Polska S.A. Shareholder – Biscoden Trading & Investments Limited ("Biscoden") – a proposal to purchase a specified quantity of Multimedia Polska S.A. shares from Biscoden. The proposal constitutes a program to provide additional motivation to specified employees to continue employment and make decisions aimed at increasing the value of Company shares (the "Motivation Program"). The program contemplates the possibility of the Beneficiaries purchasing from Biscoden a total of up to 286,000 shares. The purchase will be implemented without increasing the share capital of the Company. A provision is gradually being created against compensation costs to cover the value of the Program, constituting reserve capital of the Company. The options being offered are of the European type, with their redemption date expiring on 31 December 2008. Under the Motivation Program, the Beneficiaries were awarded 271,700 options to purchase Company shares at an exercise price of 6 PLN. As of the award date, the fair value of the options was estimated at PLN 5.67.

The estimated total cost of the Motivation Program amounts to PLN 1,540,800 and will be recognized during the period of Q3 2007 to Q4 2008. In 2007, this cost amounted to PLN 424,100 and in 2008, the cost of the Motivation Program was to come at PLN 1,116,700.

The valuation of the options was performed utilizing the Black-Scholes model, with the following input data:

price on award date	PLN 11.20
exercise date	Dec. 31, 2008

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estimated volatility of return on shares	27.94%
employee turnover ratio	5%
annual risk free interest rate	4.69%

The estimated volatility of return on shares was forecast on the basis of historical MMP share prices. The model assumes that no dividends will be paid for the duration of the program.

The acquisition of rights to exercise the awarded options was to occur on 31 December 2008, provided that the Beneficiary continues to be employed on that date. Under circumstances when an employment agreement is terminated or an employer penalty is imposed upon the Beneficiary, the options are terminated. Settlement of the share purchase transaction was to take place no later than on 20 February 2009.

The motivation programme described above was discontinued and replaced by the share option plan discussed in point 14.2.

#### **14.2. Share Option Plan**

Detailed information regarding the Share Option Plan is provided in point 18.8 below.

#### **15. Limitations of the Transferability of the Securities of Multimedia Polska S.A. and Limitations concerning the Exercise of Voting Rights**

The Statutes do not set forth any limitations concerning the Shares being pledged or encumbered with usufruct rights. The Statutes do not contain any clauses preventing any pledgee or usufructuary of Shares from being granted voting rights, and the granting of such rights is not subject to any consent from any of the Company's governing bodies.

The Company's corporate documents do not contain any regulations that would significantly restrict the transferability of Multimedia Polska S.A. shares. Each share confers the right to one vote at the General Meeting of Multimedia Polska S.A. There are no limitations concerning the exercise of voting rights from Multimedia shares.

#### **16. Information on Agreements Concluded by Multimedia Polska S.A. with Certified Auditors of Financial Statements**

On 17 April 2008, the Management Board signed an agreement with Ernst & Young Audit Sp. z o.o. with its registered office in Warsaw under which the auditors will audit the following statements:

- 1) standalone financial statements for the year ended 31 December 2008;
- 2) consolidated financial statements for the year ended 31 December 2008;
- 3) standalone financial statements for the year ended 31 December 2009;
- 4) consolidated financial statements for the year ended 31 December 2009;

and perform a limited review of the following:

- 1) standalone and consolidated financial statements for the six months ended 30 June 2008;
- 2) standalone and consolidated financial statements for the six months ended 30 June 2009.

As provided in the agreement, the parties agreed that this year the auditors will also audit the financial statements of two subsidiaries of the Issuer, Multimedia Polska – Południe S.A. and Multimedia Polska – Zachód Sp. z o.o. for a consideration of PLN 60,000.

On 9 July 2008, the Agreement between the Company and Ernst & Young Sp. z o.o. dated 17 April 2008 was amended by Annex no. 1. Pursuant to the Annex, the Company changed the scope of work commissioned to the certified auditors so that instead of the review it commissioned an audit of standalone financial statements of the Company for the six months ended 30 June 2008.

As the scope of work commissioned to Ernst & Young Sp. z o.o. was expanded, the remuneration payable to the certified auditors was increased from PLN 800,000 to PLN 940,000.

The total consideration paid or payable to the certified auditors under the agreement in connection with the audit and review of the financial statements is presented in the table below.

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Object	Net consideration (PLN)	
	Agreement regarding 2006 audit, H1 2007 review and 2007 audit	Agreement regarding 2008 and 2009 audit and review
Audit/review of standalone and consolidated annual/interim financial statements and other services	930,000	940,000

#### 17. Deposits and Equity Investments Made by Multimedia Polska S.A. in the Financial Year

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents as at 31 December 2008 is PLN 21,331 thousand (31 December 2007: PLN 163,201 thousand). Financial risks inherent to the Company's operations are discussed in notes 39, 39.2 and 39.3.

As at 31 December 2008, the Company did not have any un-drawn committed borrowing facilities.

As at 31 December 2008, the Company had the following short-time deposit:

- PLN 2,500,000 bearing interest at the rate of 5.20% (opened on 31 December 2008).

For the purposes of the cash flow statement, cash and cash equivalents as at 31 December 2008 comprise the following:

	31 December 2008	31 December 2007 Restated
Cash at bank and in hand	18 375	52 584
Short-term deposits	2 513	110 370
Other cash	443	247
<b>Cash and cash equivalents</b>	<b>21 331</b>	<b>163 201</b>
Bank overdraft	-	(22)
	<b>21 331</b>	<b>163 179</b>

#### 18. Material Events after the Balance Sheet Date

As at the date of this report, no events had occurred since the balance sheet date that were not, but should have been disclosed in the books of account for the period in question.

##### 18.1. Creation of Reserve Fund Designated to Share Repurchase

On 19 January 2009, the Extraordinary General Meeting of the Company pursuant to Resolution no. 4 created a special purpose reserve fund designated for the purpose of repurchasing shares to offer them to Company employees.

Furthermore, pursuant to the abovementioned resolution, the Extraordinary General Meeting transferred PLN 8,500,000 (eight million five hundred thousand) from the Dividend Fund created pursuant to resolution no. 5/2008 of the Extraordinary General Meeting dated 11 August 2008 to the reserve fund designated for the purpose of repurchasing shares in order to offer them to Company employees.

##### 18.2. Cancellation of Treasury Shares

Acting pursuant to Art. 359.2 of the Commercial Companies Code and Par. 8 of the Company's Statutes, on 19 January 2009 the Extraordinary General Meeting passed Resolution no. 7 cancelling of 4,510,317 (four million, five hundred and ten thousand, three hundred and seventeen) ordinary bearer shares of Multimedia Polska S.A. each of a nominal value of PLN 1.00 (one zloty), bearing securities code ISIN: PLMLMDP00015 that the Company acquired with the shareholders' consent for the total acquisition value of PLN 39,299,991.94 (thirty nine million, two hundred and ninety nine thousand, nine hundred and ninety one zloty and ninety four groszy) in connection with the execution of the share buy-back programme aimed at future cancellation of the shares and reduction of the share capital in accordance with and in execution of resolution no. 4 of the Extraordinary General Meeting of 11 December 2007.

The reduction of the Company's share capital which results from the cancellation of the treasury shares is effected by amending the statutes, without following the convocation procedure described in Art. 456.1 of the

Commercial Companies Code, as the shareholders' remuneration due from the shares that have been cancelled had been paid from an amount which could be designated for distribution in accordance with Art. 348.1 of the Commercial Companies Code.

The cancellation of treasury shares became effective on 31 March 2009, upon registration of the reduction of the share capital by the Court.

### **18.3. Share Capital Reduction**

In connection with the adoption by the General Meeting of 19 January 2009 of Resolution no. 7 concerning the cancellation of Company shares, the Extraordinary General Meeting, pursuant to Resolution no. 8 reduced the Company's share capital from PLN 157,700,000 (one hundred and fifty seven million, seven hundred thousand) to PLN 153,189,683 (one hundred and fifty three million, one hundred and eighty nine thousand, six hundred and eighty three zloty), i.e. by PLN 4,510,317 (four million, five hundred and ten thousand, three hundred and seventeen zloty) by cancelling 4,510,317 ordinary bearer shares of Multimedia Polska S.A. each of a nominal value of PLN 1.00 (one zloty), described in detail in resolution no. 7 of this General Meeting. The purpose of the share capital reduction was to carry out the resolution concerning the cancellation of treasury shares adopted by the same General Meeting, i.e. to adjust the amount of the Company's share capital to the number of Company shares that will remain after 4,510,317 ordinary bearer shares have been cancelled.

### **18.4. Amendments to the Statutes of Multimedia Polska S.A.**

In connection with the adoption on 19 January 2009 of resolution no. 8 on the reduction of the Company's share capital, the Extraordinary General Meeting amended Par. 6 of the Statutes of Multimedia Polska S.A. so as to read as follows:

"The Company's share capital shall amount to PLN 153,189,683 (one hundred and fifty three million, one hundred and eighty nine thousand, six hundred and eighty three zloty) and shall be divided into 153,189,683 (one hundred and fifty three million, one hundred and eighty nine thousand, six hundred and eighty three) ordinary bearer shares with the nominal value of PLN 1.00 (one) each."

Also pursuant to the Resolution referred to above, the Extraordinary General Meeting authorised the Supervisory Board to draw up a consolidated text of the Statutes, which was approved by the Supervisory Board in a written ballot on 30 January 2009.

The amendments introduced by the Resolution took effect on 31 March 2009, i.e. on the date of their registration with the National Court Register (KRS).

### **18.5. Reducing Interest in the Share Capital of Multimedia Polska S.A. Below the 10% Threshold of Total Vote**

Detailed information regarding the reduction of interest in the share capital of Multimedia Polska S.A. below the 10% threshold of total vote is provided in point 11.3.

### **18.6. New Credit Agreements—Overdraft Facility**

On 27 January 2009, Multimedia concluded an agreement with Bank Polska Kasa Opieki Spółka Akcyjna (the "Bank") setting forth general terms and conditions of credit financing which entitles Multimedia to apply to the Bank for loans for corporate customers.

In execution of the aforementioned frame agreement, pursuant to a detailed agreement dated 27 January 2009, the Bank provided Multimedia with an overdraft facility in the form of a renewable credit line totalling PLN 15,000,000. The facility was granted for a period of 12 months. The following are pledged as security for the facility: a power of attorney from Multimedia to the Bank to dispose of the Company's checking account and Multimedia's declaration of voluntary submission to enforcement of judgements up to PLN 22,500,000. The facility bears a floating rate of interest based on Wibor for 1 month deposits plus a margin of 1.7% p.a.

Furthermore, pursuant to the above-mentioned agreement, in order to provide additional collateral for the senior credit facility dated 7 September 2005 (see point 6.1. above), the Company agreed to set up mortgages registered in favour of each of the lenders in the mortgage books set up for the Company's specific real estate property other than the real property already mortgaged.

**18.7. Amended Loan Agreement between Multimedia Polska S.A. and Multimedia Polska – Południe S.A.**

**18.7.1 Amended Loan Agreement between Multimedia Polska S.A. and Multimedia Polska – Południe S.A. – Annex no. 3**

On 28 January 2009, pursuant to Annex No. 3 to the aforementioned Agreement, the loan amount was increased by PLN 2,500,000, i.e. from PLN 27,500,000 to PLN 30,000,000, provided however that interest on the increased loan amount referred to in Par. 4 of the Agreement will accrue from the date on which the amount is transferred to the Borrower's bank account. The other provisions of the Agreement remained unchanged.

**18.7.2 Amended Loan Agreement between Multimedia Polska S.A. and Multimedia Polska – Południe S.A. – Annex no. 4**

On 23 February 2009, pursuant to Annex No. 4 to the aforementioned Agreement, the loan amount was increased by PLN 3,500,000, i.e. from PLN 30,000,000 to PLN 33,500,000, provided however that interest on the increased loan amount referred to in Par. 4 of the Agreement will accrue from the date on which the amount is transferred to the Borrower's bank account. The other provisions of the Agreement remained unchanged.

**18.8. Share Option Plan**

**18.8.1 Share Repurchase**

On 30 January 2009, Multimedia Polska S.A. ("the Company", "Multimedia"), acting pursuant to Art. 363.1.2 of the commercial companies code and resolution no. 5 of the Extraordinary General Meeting of the Company dated 19 January 2009, acquired 861,000 (eight hundred and sixty one thousand) treasury shares in a block transaction for a total consideration of PLN 6,328,350 during a trading session at the Warsaw Stock Exchange (Giełda Papierów Wartościowych S.A.). The price per share was PLN 7.35.

The 861,000 shares each of a nominal value of PLN 1 represent a 0.55% interest in the Company's share capital. The shares carry 861,000 votes, which represent 0.55% of the total vote at Multimedia's general meetings.

The Company acquired own shares in order to offer them for purchase by the Company employees in execution of the Company's share option plan.

**18.8.2 Terms and Conditions of the Share Option Plan**

On 11 February 2009, the Management Board of Multimedia Polska S.A.—acting under the authorisation granted by the Extraordinary General Meeting in resolution no. 5 dated 19 January 2009—passed resolution no. 5/2009 setting forth the conditions of offering shares to Company employees (Share Option Plan).

The goal of the Plan is to provide additional incentive for Key Employees by granting eligible ones a premium (henceforth the "Option") which should depend on the degree of involvement in the Company's development. The Plan will be executed by offering Multimedia shares to Key Employees in 2009, and subsequently in 2010.

The Management Option Plan will be effected as follows:

1. Key Company Employees will be eligible for participation in the Management Option Plan in a given year.
2. In cooperation with the Supervisory Board, the President of the Management Board will draw up a list of persons to whom options will be granted and the number of shares that will be available for purchase by them (the "Eligible Persons"). The list of Eligible Persons had been drawn up by 26 February 2009 for Tranche I and by 15 January 2010 for Tranche II. In cooperation with the Supervisory Board, the Management Board may amend the list of Persons Eligible to participate in the Management Option Plan. If a Company Management Board Member should become an Eligible Person, then whether the options are to be granted and the number of shares that may be purchased by that person will be determined by the Supervisory Board. In this case, in an agreement between a Management Board Member and the Company, the Company shall be represented by the Supervisory Board.
3. The number of Eligible Persons shall not be greater than 35 people.
4. Eligible Persons will be entitled to purchase in aggregate no more than 861,000 (eight hundred and sixty one thousand) Multimedia treasury shares each of a nominal value of PLN 1 (one zloty), on the basis of Offers made to Eligible Persons.
5. Shares will be sold to Eligible Persons at a price not higher than PLN 3 per share. This limit will remain unchanged throughout the period of the Management Option Plan.

6. Shares available for purchase by Eligible Persons will be divided into two tranches.
7. Tranche I will be realised on or before 5 March 2009. Tranche II will be realised on or before 30 January 2010.
8. Shares constituting Tranche I that have not been purchased by Eligible Persons may be moved to Tranche II. The decision to move the shares shall be made by the Management Board after consultations with the Supervisory Board on or before 31 December 2009. When making the decision regarding the transfer of shares from Tranche I to Tranche II, the Management Board, in cooperation with the Supervisory Board, may at the same time modify the list of Eligible Persons.
9. Eligible Persons will be given an option to exercise their right to receive a loan in order to acquire the shares. The repayment of the loan will be secured in such a way that the funds equivalent to the loan amount with interest accrued thereon received by an Eligible Person as a result of his/her disposal of shares will be in the first instance transferred to the Company by the brokerage house keeping the securities account of the given Eligible Person.
10. The execution of the Management Option Plan shall begin on the day on which the offer is made to Eligible Persons to acquire shares and shall end on the date on which the share pool available for purchase by Eligible Persons is exhausted.
11. The rights of Eligible Persons existing in connection with the execution of the Management Option Plan shall expire for reasons specified in Offers made to Eligible Persons.

### **18.9. Changes in the Group's Structure After the Balance Sheet Date**

#### ***18.9.1 Intention to Merge Multimedia Polska S.A. and Multimedia Polska – Zachód Sp. z o.o.***

On 26 February 2009, the Management Board of Multimedia Polska S.A. decided to merge Multimedia Polska S.A. and Multimedia Polska – Zachód sp. z o.o. (a company wholly owned by the Issuer).

In accordance with the plan of merger, the merger will be effected in accordance with Art. 492.1.1 and Art. 516.6 of the Commercial Companies Code by transferring all assets of Multimedia Polska – Zachód sp. z o.o. to Multimedia Polska S.A.

The main business activity of Multimedia Polska S.A. (the acquirer) and Multimedia Polska – Zachód sp. z o.o. (the acquiree) is the provision of telecommunications services, and in particular: television, Internet and telephony.

The merger of Multimedia Polska S.A. and Multimedia Polska – Zachód sp. z o.o. is aimed at reducing operating costs associated with the operation of subsidiaries, streamlining the structure of the capital group and reducing operating costs associated with the operation of subsidiaries, as well as streamlining the management structure and reporting within Multimedia Polska Group.

With a view to the above, the Management Board recommends to the General Meeting that the General Meeting take appropriate resolutions regarding the merger.

### **18.10. Convocation of Annual General Meeting**

The Management Board convened an Annual General Meeting of Multimedia Polska S.A. for 28 April 2009 at 4.30pm with the following agenda:

- I. Opening of the Meeting.
- II. Election of Chairman of the Annual General Meeting.
- III. Drawing up the list of attendees.
- IV. Confirmation that the Annual General Meeting has been properly convened and is able to pass resolutions.
- V. Election of the ballot counting committee.
- VI. Accepting the agenda.
- VII. Adopting a resolution concerning the approval of the Management Board's activity report for the period from 1 January 2008 to 31 December 2008.
- VIII. Adopting a resolution concerning the approval of standalone financial statements of the Company for the period from 1 January 2008 to 31 December 2008.
- IX. Adopting a resolution concerning the approval of consolidated financial statements of Multimedia Polska Group for the period from 1 January 2008 to 31 December 2008.
- X. Adopting a resolution concerning a vote of approval for the President of the Management Board confirming the discharge of his duties in 2008.
- XI. Adopting a resolution regarding distribution of profits generated by the Company in 2008.

- XII. Adopting a resolution concerning the approval of the Supervisory Board's report on supervisory activities performed in the period from 1 January 2008 to 31 December 2008.
- XIII. Adopting a resolution concerning a vote of approval for Supervisory Board members confirming the discharge of their duties in 2008.
- XIV. Adopting a resolution concerning the merger of the Company and Multimedia Polska – Zachód Sp. z o.o.
- XV. Adopting a resolution amending the Statutes of Multimedia Polska S.A.
- XVI. Adopting a resolution endorsing the consolidated text of the Statutes of Multimedia Polska S.A.
- XVII. Adopting a resolution regarding bond issue.
- XVIII. Closing of the Meeting.

#### **18.11. Registration of the Reduction of the Share Capital of Multimedia Polska S.A.**

On 31 March 2009, the District Court for Gdańsk – Północ of Gdańsk, VIII Economic Division of the National Court Register, registered the reduction of the share capital of Multimedia Polska S.A. based on Resolution no. 8/2009 of 19 January 2009 by the Extraordinary General Meeting of the Company. Hence, as at the date of publication of this report, the Company's share capital amounts to PLN 153,189,683 and is divided into 153,189,683 ordinary bearer shares each of the nominal value of PLN 1, representing 153,189,683 votes at the Company's General Meeting.

#### **18.12. Registration of Amendments to the Company's Statutes**

On 31 March 2009, the District Court for Gdańsk – Północ of Gdańsk, VIII Economic Division of the National Court Register, registered amendments to the Company's Statutes. The amendments were introduced pursuant to a resolution of the Extraordinary General Meeting of Multimedia Polska S.A. held on 19 January 2009.

The Company's Statutes were amended in Par. 6, which now reads as follows:

"The Company's share capital shall amount to PLN 153,189,683 (one hundred and fifty three million, one hundred and eighty nine thousand, six hundred and eighty three zloty) and shall be divided into 153,189,683 (one hundred and fifty three million, one hundred and eighty nine thousand, six hundred and eighty three) bearer shares with the nominal value of PLN 1.00 (one) each."

### **19. Material Risk Factors and Threats to the Business of Multimedia Polska S.A.**

#### **19.1. Risks Relating to the Change of Strategy of Multimedia Polska S.A.**

In 2007, Multimedia Polska S.A. pursued its strategy of long-term value creation for shareholders, which included:

- increasing RGUs<sup>1</sup> through organic growth and mergers and acquisitions of other operators or their assets;
- construction of own networks in new locations;
- introducing innovative services and product offerings, e.g. digital television over cable networks;
- further product bundling; and
- improving operational efficiency.

Management may be likely to take strategic steps different from those listed above or defined in the issue prospectus or change the strategic assumptions with the view to achieve the primary goal of creating value for shareholders. We cannot guarantee that new strategic initiatives undertaken by the Company will be successful for our business and results of operations.

#### **19.2. Risks Relating to the Change of Shareholding Structure**

Multimedia Polska S.A. is currently controlled directly or indirectly by EVL who had a 53.2% interest in the share capital and the overall votes at GSM as at 31 December 2008. Neither Polish law nor the provisions of our corporate documents provide for any restrictions regarding the transfer or disposal of the shares of Multimedia Polska S.A. Any material changes in our shareholding structure may effect the composition of our Supervisory Board or Management Board and have a material adverse effect on our business and strategy.

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<sup>1</sup> Revenue Generating Units

### **19.3. Market-Related and Operating Risks**

#### **19.3.1 Deterioration of Economic Trends**

Our financial condition and results of operations could be adversely affected if the cable television, broadband Internet or telephony markets in Poland deteriorate. The analogue cable television market already has a high penetration rate while the fixed-line telephony market continues to be characterised by a downward trend in the overall number of subscribers, primarily because of the substitution effect from mobile telephony. These market conditions may make it difficult for us to increase our current number of subscribers and to grow our business.

#### **19.3.2 Increased Competition**

The Polish cable television, broadband Internet and fixed-line telephony industries are highly competitive. In some instances, we compete against companies with easier access to financing, more comprehensive product ranges, greater personnel resources, wider geographical coverage, greater brand name recognition and experience or longer-established relationships with regulatory authorities and customers. Some of our competitors have made significant capital expenditures into their networks to improve their ability to provide new services and products and extend their area of operation. Such competition can make it difficult to attract new customers and retain existing customers, thereby increasing churn levels. Increased competition and special promotions and discounts we grant to customers who subscribe for multiple services are likely to reduce our average revenue per user on a per-service basis.

##### **Cable Television**

We estimate that for the most part our cable television service area does not overlap with service areas of other cable operators. However, such overlap may increase in the future, negatively affecting our financial position and operating results.

As digital television develops, the difference between content distributors and content providers may also become blurred. Current providers of content may decide to market packages directly to the end user and seek only to acquire network access from cable providers instead of being part of the cable provider's channel offering.

##### **Broadband Internet**

The broadband internet market is characterised by two trends – increasing connection speeds and offering more competitive prices. In addition, we may soon be facing increased competition from mobile operators providing wireless broadband internet services. We cannot provide any assurance that the measures we introduce in response to these developments will be successful in attracting and retaining customers.

##### **Fixed-Line Telephony**

Increasing competition among fixed-line telephony and cable television operators that provide telephony services over cable using voice over Internet protocol ("VoIP") technology is beginning to put a downward pressure on prices. In addition, increasing numbers of users are substituting fixed-line telephone lines for mobile telephone services. This substitution, in addition to the increasing use of electronic means of communication, may negatively affect our call volumes and subscriber retention. In addition, we may be forced to respond to such developments by investing resources into our own product development initiatives, which may not be successful. There can be no assurance that we will be able to compete successfully against TPSA, or our other current or future competitors operating in the voice sector. Our failure to do so could have a material adverse effect on our financial condition and results of operations.

#### **19.3.3 Risks Relating to the Launch of Digital Television over Cable**

We are in the process of implementing digital television over cable networks; the project may pose certain technical and administrative threats.

Multimedia Polska S.A. is in the process of implementing an advanced digital television signal distribution system. Consequently, we may encounter some problems in integrating the components of the system or problems connected with the availability of particular elements of the system (e.g. deliveries of set-top boxes), system reliability and similar technological obstacles usually associated with the implementation of a large integrated system.

We are rolling out the services in several locations simultaneously; hence, we may have some difficulties connected with logistics and the flexible adaptation of our business to this new and advanced service.

The innovative technical solutions we are implementing represent the technological vanguard of the Polish cable industry (HDTV, VOD, interactive television etc.). It may therefore prove difficult for us to find good and reliable business partners who will enable us to deliver the best quality of the service as far as the technology and content are concerned.

#### **19.3.4 Technological Risks**

Our business is characterized by rapid technological change and the introduction of new products and services. If any new or enhanced technologies, products or services introduced by us, in particular those associated with the deployment of digital cable TV, fail to achieve sufficient market acceptance or experience technical difficulties, our profits, margins and cash flows may be adversely affected. As a result, we may not recover the initial investment that we have made, or may have to make to deploy these technologies, products and services.

#### **19.3.5 Risks Relating to Network Maintenance and Upgrades**

Our assumptions regarding the expenditures associated with maintenance and upgrades of the network may prove to be inaccurate for a number of reasons, for example:

- we may be unable to obtain compatible equipment from our existing suppliers required to maintain or upgrade the network; or
- network usage requirements in the network may exceed our projections and our planned investments may be insufficient to maintain capacity at the level of quality we seek to provide our customers.

Our inability to maintain adequately or upgrade our network and related systems or make other network improvements essential for our operations could have a material adverse effect on our business and results of operations.

#### **19.3.6 Risks Relating to Increased Programming Costs**

The success of our television services depends on access to an attractive selection of television programming from content providers. Although we do have long-term agreements with the providers of the most attractive content, we cannot guarantee that such content will be available to us in the future at commercially reasonable prices. If we are unable to purchase content at commercially reasonable prices or at all, our ability to retain and grow our customer base could be adversely affected.

#### **19.3.7 Potential Future Mergers and Acquisitions**

Our primary focus is on active participation in the consolidation of the Polish telecommunications and cable television markets. The future mergers and acquisitions may have a major impact on our business and results of operations. The process of acquiring and integrating a new business with our operations may also carry some risks, e.g. discontinuation of our services by some customers of the acquired operator, the need for additional investments into the acquired network, delays connected with legal consolidation of the businesses etc. We may also become liable for any debts or obligations of acquired operators, including possible undisclosed liabilities. Although the telecommunications and the cable television markets are highly fragmented, we cannot guarantee that any of the mergers or acquisitions that we intend to make will be finalised or that the Company will succeed in increasing its RGU levels as projected.

#### **19.3.8 Risks Relating to our Cooperation with TPSA and Other Telecoms**

Our success depends on our ability to provide high quality and reliable services, which is in part dependent upon the proper functioning of facilities and equipment owned and operated by third parties and is, therefore, beyond our control.

Historically, our key business partner as far as the scale of our cooperation is concerned is TPSA. A large portion of the traffic generated on our networks is transmitted using interconnection points with TPSA. In addition, to expand our network organically, we rely upon TPSA to lease network infrastructure to us in various locations where TPSA has already constructed such infrastructure. We lease space in underground ducts, tunnels or piping controlled by TPSA particularly in urban areas. We expect that in the future we will offer broadband Internet services using TPSA's local loop telephone lines in accordance with agreements with TPSA. Even though providing such services is mandated by law, the cooperation of TPSA will be necessary to make such services viable. If TPSA refuses to cooperate with us or makes such cooperation difficult, this may affect our ability to expand our network or to launch new services that depend upon the unbundling of TPSA's services.

Additionally, we lease infrastructure from third party service providers. If such service providers fail to maintain their networks properly, or fail to respond quickly to network failures, our customers may experience service

interruptions. If interruptions adversely affect the perceived reliability of our service, we may have difficulty attracting new customers and our brand, reputation and growth will be negatively impacted.

#### **19.4. Disruptions Connected with our New Billing System**

We have implemented a single billing system TYTAN 6.0. As we are actively pursuing our acquisition policy, we may acquire other operators with separate billing systems. Hence, our ability to invoice our customers and to collect revenue may be disrupted when data bases are migrated to TYTAN 6.0.

#### **19.5. Risks Relating to the Loss of Key Personnel**

We believe that our commercial success depends on our ability to attract and retain highly qualified management and key personnel. Competition for highly skilled individuals in Poland is presently rather intense. There can be no assurance that we will continue to be successful in attracting and retaining such individuals in the future. Loss of services and failure to attract or retain such individuals could have a material adverse effect on our business, financial condition and result of operations.

#### **19.6. Risks Related to our Financial Position**

##### ***19.6.1 Risks Related to Interest and Foreign Exchange Rates***

We have significant long-term indebtedness, which may result in some exposure to interest rate fluctuations. A material increase in the interest rates on our debt may lead to increased debt service costs and may therefore adversely affect our results. A portion of our debt bears interest at a variable rate. Under the terms of our existing interest rate hedging arrangements, our effective interest rates may be higher than actual interest rates, resulting in increased costs for us. There can be no guarantee that our hedging strategies will adequately protect our operating results from the effects of interest rate fluctuations, or that these hedges will not limit any benefit that we might otherwise receive from favourable movements in exchange rates.

Our business is also exposed to fluctuations in currency exchange rates. A substantial majority of our revenue is denominated in Polish zloty; however, we also have significant capital and operating expenditures (programming) that are denominated in Euro and US dollars. We do not engage in foreign exchange hedging transactions and, as a consequence, we could be adversely affected by any future unfavourable shifts in exchange rates.

##### ***19.6.2 Risks Related to our Financing***

We exhausted the substantial proceeds of our Global Offering in compliance with the provisions of our prospectus. Sustaining our pace of expansion through network constructions and development and a possible attempt to acquire a large telecom or cable operator may require financial resources significantly larger than those currently available to us, which will result in a need for additional financing. We could fail to obtain such additional financing and, as a result, we could be forced to limit or considerably modify our development plans.

##### ***19.6.3 Risks Related to our Bank Debt***

We still have a relatively high level of bank debt and bear relatively high debt service costs; our debt burden may be further increased in the future. Our level of debt, both current and future, could have important consequences, including, but not limited to, the following:

- requiring that a substantial portion of our cash flows from operations be dedicated to servicing debt, thereby reducing the funds available to us to finance our operations, capital expenditures, research and development and other business activities, including maintaining the quality of the network;
- impeding our ability to obtain additional debt or equity financing, including financing for capital expenditures, and increasing the cost of any such borrowing, particularly due to the financial and other restrictive covenants contained in the agreements governing our debt; and
- adversely affecting public perception of us and our brand and making us more vulnerable to economic downturns and adverse developments and giving us less flexibility to react to changes in our business.

Our bank debt facilities contain a number of significant covenants or other provisions that could adversely affect our ability to operate our business. These covenants, applicable to Multimedia Polska S.A. and to all our subsidiaries, are described in more detail in point 6.

Our ability to comply with these provisions may be affected by events beyond our control. In addition to limiting our flexibility in operating our business, the breach of any covenants or obligations under the agreements governing our debt will result in a default and could trigger acceleration of the related debt.

## **19.7. Risks Related to Regulatory and Legal Proceedings**

### **19.7.1 Change of Polish Telecommunications Laws**

The main act that presently regulates telecommunications activities in Poland is the Telecommunications Law. Under this act, the President of the UKE may impose obligations on operators controlling access to end users so as to ensure that they are able to communicate with end users on the network of another telecommunications provider, including the obligation to interconnect networks. The following obligations may be imposed on a telecommunications provider who is deemed to have a qualified position in one of the telecommunications markets listed in the decree of the competent Minister of Telecommunications (i) the obligation to grant other operators access to its network, especially with regard to its interconnection or mutual use of the local subscriber loop; (ii) the obligation to calculate costs and relate the network access tariffs to these calculations; and (iii) the obligation to maintain regulatory accounts separately for each of its telecommunications services. The Telecommunications Law does not define the size of the area in which the market position of a telecommunications provider is evaluated. As a result, the President of the UKE may name telecommunications providers as having a significant position in a small area, in which even a small telecommunications provider can have a large market share, based on the level of market development and the instructions of the European Commission. This will serve as a basis for imposing any other regulatory obligations upon such a company, which will have to be proportional to the superior market position of the company, i.e. to the extent that it prevents effective competition on the given telecommunications market.

Pursuant to the Telecommunications Law, each public telecommunications network operator is obliged to conduct negotiations concerning interconnection agreements upon another telecommunications operator's request. However, the President of the UKE is required to resolve any disputes between the parties to the negotiations by an administrative decision, which shall replace the relevant agreement only if one of the negotiating parties is a public telecommunications network operator obliged to provide the interconnection.

The Telecommunications Law states that the obligation to provide universal services shall rest with the operator selected pursuant to a decision of the President of the UKE issued after a tender procedure. Should no bids for the provision of a universal service or particular sub-services be submitted, the President of the UKE shall entrust the provision of the universal service to a provider of generally available fixed-line telephony services with a significant market position. Telecommunications providers whose revenues from telecommunications activity exceed PLN 4,000,000 will have to co-finance the performance of this obligation, by co-financing the funding of universal services, if the funding has been assigned to the telecommunications provider selected on the basis of the decision of the President of the UKE.

The Telecommunications Law requires that each operator of a public switching network, including us, support local number portability for our customers, which allows our customers to take their existing telephone numbers with them if they discontinue our services. Any complications with number portability may make it easier for our customers to discontinue our services or may be a reason for such discontinuation. If we are unable to attract a sufficient number of new customers from other operators through number portability, the cost of implementing number portability may outweigh the potential benefits that we receive.

### **19.7.2 Claims of Organizations for Collective Administration of Copyrights**

Pursuant to Polish copyright law, cable television operators may broadcast on their cable networks radio and television programs on the basis of an agreement entered into with the relevant organization for collective administration of copyright. We have entered into several agreements with the Association of Polish Filmmakers ("SFP") which owns the copyright for various audiovisual works and the Polish Copyright Association ("ZAIKS") which owns the copyright for various musical works, the two largest organizations for collective administration of copyright in Poland. Due to the significant number and diversity of television and radio programs we broadcast, it is possible that smaller organizations representing authors not associated with SFP and ZAIKS may submit claims against us for infringement of such authors' copyrights.

### **19.7.3 Changes in Tax Regulations**

Regulations regarding VAT, income tax, real estate tax and social security contributions are subject to frequent changes. This results in there being little point of reference and few established precedents that may be followed. Current regulations contain several contradictory provisions and uncertainties which also leads to differing interpretations by state authorities and private entities. Taxes and other similar payments, such as customs duties and foreign currency payments, may be audited by authorities authorised to impose severe fines and penalties while any liabilities revealed during such audits may become payable together with considerable interest accrued. Tax returns submitted by Multimedia Polska S.A. may be audited by tax authorities for five years and some transactions with our subsidiaries may also be challenged by competent tax authorities. Therefore, the amounts disclosed in our financial statements may change after they are audited by tax authorities.

#### 19.7.4 Real Estate Tax

Our general policy concerning real estate tax owed for telecommunications infrastructure is that the taxable base for such tax should only include the value of assets that are permanently attached to the land. We consistently exclude infrastructure that is not permanently attached to the land in calculating our taxable base such as any cables installed in cable ducts (except cables installed directly underground or hung on poles).

Certain local tax authorities have disagreed with our position and have brought tax proceedings against us regarding the period from 2003 to 2007. Appeal proceedings against those tax proceedings are currently in progress before a number of authorities. It is hard to predict any dates of final decisions being issued in respect of our appeals.

We believe potential risks relate to the assessment of real estate taxes due for the period between 1 January 2003 and 31 January 2006. Certain amendments to applicable laws made during this period were interpreted by certain local tax authorities as allowing them to tax elements of our telecommunications infrastructure excluded by us from our reported taxable base. Decisions issued by the tax authorities in similar cases have proved to be inconsistent, making it difficult to assess the potential impact such decisions could have on our disputes with local tax authorities. There is no guarantee that new real estate tax proceedings in respect of this time period will not be instituted against us and that we will not become liable to pay additional tax together with applicable penalty interest. The total amount of such potential additional tax, if any, and of penalty interest is difficult to predict.

It should be noted that a number of favourable rulings of the Supreme Court and Voivodeship Administrative Courts were made in the second half of 2007 and in 2008 in respect of the disputes then in progress. Thus, we hope that in 2009 most of the proceedings and disputes will end in a final and favourable manner for us.

The Executive Order of the Infrastructure Minister of 26 October 2005 regarding technical conditions applicable to telecommunications infrastructure and its location (Journal of Laws of 2005 No. 219, item 1864) came into force on 1 February 2006. We believe that this Executive Order and related tax regulations clearly enumerate the elements of taxable telecommunications infrastructure and therefore we think that the risk of new tax disputes has been significantly reduced. However, it is still possible that tax authorities will require us to correct some of our current real estate tax declarations for 2006-2009 and pay additional taxes together with penalty interest for those years. In the years 2006-2008, Multimedia Group had disputes with 10 tax offices. In view of the fact that we own infrastructure located within the authority of hundreds of communes (*gminas*) each having its own tax authorities, we believe that our interpretation and application of the laws is correct.

#### 20. Discussion of the Financial Standing of Multimedia Polska S.A. and Major Events which Had a Significant Impact on its Operations<sup>2</sup>

The following discussion and analysis of the Company's results for the year 2008 was prepared on the basis of the financial statements of Multimedia Polska S.A. for the twelve months ended 31 December 2008 prepared in accordance with IFRS. When analysing the data provided below, one must remember that Multimedia Polska S.A. merged with its subsidiaries: PHU Sotel Sp. z o.o., Intertel Sp. z o.o., and Zicom Sp. z o.o. in 2008 and also acquired assets as a result of purchases of cable and telecom networks. In order to provide full comparability, the financial statements for 2007 take account of the results of the entities merged in 2008 with appropriate adjustments and eliminations. As a result, the comparable data for 2007 (comparison data) presented in the financial statements of Multimedia Polska S.A. for 2008 are different from the data audited and previously published for that year (approved data). Differences between comparable and approved data, i.e. the data published in the previous financial statements and annual report, are presented in note 42 to the financial statements.

In order to preserve continuity of our reporting, in the following discussion and analysis the financial data for 2008 is compared to approved data and not to comparison data for 2007 as published in the 2008 financial statements.

Multimedia Polska S.A. operates only in Poland and 100% of its revenues are generated in the domestic market. The Company does not have any export sales. Due to the nature of the Company's operations, there are no significant concentration risks with respect to both subscribers and suppliers.

A detailed description of the operating and financial standing of Multimedia Polska Group, including all business segments of Multimedia Polska S.A., is provided in the consolidated annual report. Management believes that

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<sup>2</sup> Please be aware of the fact that the analysis provided below was based on PLN millions rounded to one decimal place. Thus, some arithmetic inaccuracies may result from the approximation.

only the consolidated financial and operating data provide adequate comparability and allow for a fuller analysis of the financial position of the Group.

### **20.1. Key Operating Statistics**

As at 31 December 2008, Multimedia Polska S.A. had 1,028,463 revenue generating units (RGUs), including 624,336 cable TV RGUs, 251,222 broadband Internet RGUs, 108,829 voice RGUs, 30,299 premium channels RGUs, 13,066 indirect voice services, and 711 payphones.

As at 31 December 2008, we had nearly 236,600 subscribers who have subscribed for more than one service, including nearly 70,000 Triple Play subscribers.

In 2008, as a result of organic growth, acquisitions and changes in the structure of the Group, we recorded a net increase in RGUs of 177,865 or 20.9% (after churn), including:

- 74,486 CATV RGUs
- 63,651 broadband Internet RGUs
- 29,208 voice RGUs
- 7,672 premium channels RGUs, and
- 2,848 indirect voice RGUs.

Going forward, we expect that more of our customers will subscribe for bundled offerings, which may help to reduce our churn rate and provide an important source of future revenue growth. While our average revenue per RGU is expected to continue to decline for our telephony services and our broadband Internet services, we expect that the effect of these decreases on our revenues may be more than offset as a result of rapid growth of the number of our broadband Internet customers and increasing popularity of bundled services. We also expect our cable television revenues to increase as a result of further development of digital TV over cable networks.

Also in line with our strategy to deliver more services to the current subscriber base, the ratio of RGUs per subscriber went up from 1.50 in 2007 to 1.72 in 2008.

### **20.2. Consolidated Income Statement**

#### **20.2.1 Sales Revenue**

Our sales revenues consist of cable television, broadband Internet, fixed-line telephony and other revenues. Please note that sales revenue in the financial statements for 2008 was split into segments in accordance with the requirements of IFRS (note 13). The discussion presented below is based on a revenue breakdown by service group and does not include revenues from activations, re-connections, package migrations etc. Such eliminations are made to provide better reliability of ARPU calculations. It is also consistent with our historical approach presented in all quarterly reports published to date.

Hence, there are some differences between the revenues from each service group presented below and the respective revenues reported in the financial statements. Here revenues from activations, re-connections, package migrations etc. are accounted for in other sales revenues.

The shares of revenues from individual services as a percentage of total revenues in 2007 and 2008 are presented in the table below.

	<u>2007</u>	<u>2008</u>
Cable television	57.6%	55.2%
Internet	22.1%	24.2%
Telephony	16.4%	15.1%
Other	3.9%	5.5%

Comparing our results year-on-year, sales revenues increased by PLN 65.8m, or 18.6%, from PLN 354.1m in 2007 to PLN 419.9m in 2008. The principal sources of sales revenue growth were an increase in the number of cable subscribers (revenue growth of PLN 27.9m, including IPTV, DTV and premium channels) and an increase in the number of broadband Internet subscribers (revenue growth of PLN 23.5m). Furthermore, the Company recorded a significant increase in voice revenues as a result of dynamic growth of our VoIP customer base (revenue growth of PLN 5.3m).

### **20.2.2 Operating Expenses**

Comparing our results year-on-year, operating expenses (excluding D&A) increased by PLN 19.1m, or 8.8%, from PLN 217.7m in 2007 to PLN 236.8m in 2008.

The largest increases were recorded in payroll and benefits (PLN 14.1m), network maintenance (PLN 4.7m), and programming and copyrights (PLN 3.8m).

The increase in payroll and benefits is connected with significant development of our organisation, which entailed an increase in headcount and payroll. Compared to 2007, headcount was considerably increased in Call Centre; we also opened two new regions: the Warsaw region and the Silesia region. Also in the second half of 2007 we took over some personnel from the companies we acquired and built our own sales structures, largely replacing outsourcing. The effects of those events were reflected full-scale in the results for 2008.

Please also note that the comparability of data is disrupted by the fact that in 2007 commissions paid to sales representatives were classified as sales and marketing while in 2008 they were classified to a large extent as payroll. In 2008, commissions paid to sales representatives—recorded under payroll and benefits—amounted to ca. PLN 5.9m. In order to bring 2007 and 2008 data to full comparability, this amount should be moved in 2008 from payroll and benefits to sales and marketing. In comparable conditions, payroll and benefits would increase by ca. PLN 8.2m (16.8%).

Network maintenance costs increased as a result of higher costs of links lease and maintenance of interconnection points.

Programming and copyright expenses increased as a result of dynamic additions of subscribers of digital TV and value-added services, such as video on demand.

The largest decrease in operating expenses was recorded in interconnect costs (PLN 6.7m). The decrease was connected with lower rates obtained by Multimedia Polska for traffic termination, both within the Group and outside of it.

The following table provides information on the components of our operating expenses.

(PLN '000)	2007	2008
Programming and copyrights	45 239.7	49 030.9
Bandwidth	9 394.5	11 185.8
Interconnect	26 654.9	19 951.9
Network costs	36 523.4	41 246.0
Sales and marketing	15 662.2	14 887.6
Payroll and benefits	49 015.7	63 129.2
Taxes and charges	3 570.3	4 360.4
Professional services	7 282.3	7 340.2
Energy and materials	11 128.5	13 178.8
Other expenses	13 207.9	12 469.7
<b>Total</b>	<b>217 679.5</b>	<b>236 780.5</b>

### **20.2.3 Other Operating Revenue and Expenses**

Other operating revenue increased by PLN 1.3m from PLN 2.3m in 2007 to PLN 3.6m in 2008. A detailed breakdown of other operating revenue is provided in note 14.2 to the financial statements.

Other operating expenses were up by PLN 2.0m from PLN 2.0m in 2007 to PLN 4.1m in 2008. The increase was attributable to liquidation of fixed assets (PLN 1.6m) and higher write-downs of uncollectible receivables and bad debt (PLN 1.5m).

### **20.2.4 Operating Profit**

Comparing our results year-on-year, operating profit increased by PLN 21.0m, or 38.3%, from PLN 54.9m in 2007 to PLN 76.0m in 2008. The components of the increase recorded in 2008 as compared to 2007 are presented below:

- + PLN 27.9m increase in cable television revenues (including IPTV, DTV and premium channels) resulting from a larger subscriber base,

- + PLN 23.5m increase in Internet revenues resulting from a larger subscriber base, despite price reductions,
- + PLN 5.3m increase in voice revenues as a result of an increase of VoIP customer base,
- + PLN 9.3m increase in other revenues as a result of higher sales to related parties,
- PLN 20.2m increase in fixed costs,
- PLN 3.8m increase in programming and copyrights costs,
- PLN 1.8m increase in costs connected with the lease of bandwidth for Internet,
- + PLN 6.7m decrease in interconnection costs,
- + PLN 0.7m decrease of the balance of other operating revenue and expenses, and
- PLN 25.0m increase in depreciation and amortisation.

#### **20.2.5 EBITDA and Adjusted EBITDA**

Comparing our results year-on-year, EBITDA increased by PLN 46.0m, or 33.7%, from PLN 136.6m in 2007 to PLN 182.6m in 2008. The increase in EBITDA is attributable to the same factors that contributed to the level of operating profit, as described above, except depreciation and amortisation.

In the same periods, Adjusted EBITDA increased by PLN 47.0m, or 34.5%, from PLN 136.3m in 2007 to PLN 183.3m in 2008. Adjusted EBITDA margin increased from 38.5% in 2007 to 43.7% in 2008. When calculating Adjusted EBITDA, as defined and measured by us, we excluded non-recurring events. For details on our method of measuring EBITDA please refer to our International Offering Circular – Operating and Financial Review and Prospects (pp. 50-52). Adjustments to EBITDA in 2008 were immaterial and amounted to PLN 0.7m.

#### **20.2.6 Finance Revenue**

Comparing our results year-on-year, finance revenue increased by PLN 18.9m from PLN 13.8m in 2007 to PLN 32.8m in 2008. The increase of finance revenue was attributable to dividend received from Multimedia Polska – Południe S.A. (PLN 26m) and a significant decrease in interest received (decline of PLN 4.3m), associated with a considerably lower balance of cash held in bank deposits in 2008 as compared to 2007. In addition, compared to 2007 we recorded income from interest accrued on SWAP of PLN 1.9m and did not record any income on SWAP valuation (in aggregate the decrease in SWAP-related income was PLN 2.3m).

#### **20.2.7 Finance Costs**

Comparing our results year-on-year, finance costs increased by PLN 0.3m from PLN 29.3m in 2007 to PLN 29.6m in 2008. The increase was primarily attributable to foreign exchange losses of PLN 0.7m.

#### **20.2.8 Income Tax**

We recorded PLN 13.1m income tax in 2008, which gives an effective tax rate on gross profit of 16.5%. A detailed discussion regarding permanent and temporary differences between accounting profit before tax and gross profit is provided in note 15 to the financial statements.

#### **20.2.9 Net Profit**

In 2008, our net profit amounted to PLN 66.2m and increased by PLN 30.9m, or 87.9%, as compared to 2007. Apart from the regular operating factors described in point 20.2.4, the surge in net profit was primarily attributable to the dividend of PLN 26.3m received in 2008 from our subsidiary. Hence, any analysis of the Issuer's net profit does not, in management's opinion, properly reflect our true financial standing as a Company and as a Group.

Management intends to recommend to the Supervisory Board and the General Meeting of Multimedia Polska S.A. that the total net profit should be transferred to reserves.

### **20.3. Balance Sheet**

#### **20.3.1 Non-Current Assets**

As at the balance sheet date, 31 December 2008, the value of our non-current assets was PLN 882.1m, and accounted for 90.2% of our total assets. The value of non-current assets was up PLN 122.3m compared to 2007 primarily due to certain investments into property, plant and equipment and capital acquisitions completed in 2008. Our capital expenditures in 2008 totalled PLN 235.3m (see point 23). The increase in non-current assets was adversely impacted by disposals of property totalling PLN 20.0m and an impairment charge of PLN 106.7m. In addition, non-current assets increased as a result of recognition of customer relations, which increased intangible assets by PLN 32.5m on the one hand and decreased the value of goodwill by PLN 11.7m on the other. Financial assets fell by PLN 16.3m.

### **20.3.2 Current Assets**

Our current assets as at 31 December 2008 amounted to PLN 95.6m and accounted for 9.8% of our total assets. The value of current assets decreased by PLN 184.5m primarily due to a decrease in cash and cash equivalents mainly attributable to the repayment of a portion of our senior credit facility, allocation of some of our cash to the share buy-back programme, and dividend payout.

#### **Receivables**

Our receivables as at the balance sheet date, 31 December 2008, amounted to PLN 57.5m. They decreased by PLN 20.0m or ca. 25% over 2007. The decrease was largely attributable to a decrease in trade receivables.

#### **Cash and Cash Equivalents**

Our cash as at 31 December 2008 was at a level of PLN 21.3m and decreased by PLN 141.5m as compared to 2007. Cash and cash equivalents accounted for 22.3% of current assets. The decrease in cash and cash equivalents was primarily connected with the repayment of PLN 82.0m of our senior credit facility, dividend payout of PLN 33.9m, and share buy-back of PLN 34.9m. Moreover, we spend PLN 215.3m cash on capital expenditures, which were partly covered by our operating cash inflows. Our cash was also boosted by dividends from subsidiaries (PLN 26.4m) and repayment of loans extended to subsidiaries (PLN 20.2m).

### **20.3.3 Equity**

Equity as at the balance sheet date, 31 December 2008, was PLN 493.4m and decreased by PLN 3.1m as compared to 2007. Equity was decreased by PLN 34.9m as a result of the share buy-back programme aimed at subsequent redemption of the shares. At the same time, other reserves and retained earnings increased by PLN 31.7m. A detailed table showing changes in equity is provided in the financial statements.

### **20.3.4 Non-Current Liabilities**

Our non-current liabilities as at the balance sheet date, 31 December 2008, amounted to PLN 236.6m and were down by PLN 75.2m from 2007. The decrease was attributable to the decrease of our senior credit facility, discussed in more detail in point 6.1, in connection with the reclassification of a portion of our senior credit facility together with bank interest and fees in the amount of ca. PLN 97.8m from non-current to current liabilities. At the same time, our deferred income tax liability was up PLN 4.9m.

Non-current liabilities under interest-bearing loans and borrowings and finance leases accounted for 95.1% of our total non-current liabilities in 2008.

### **20.3.5 Current Liabilities**

Our current liabilities as at the balance sheet date, 31 December 2008, totalled PLN 247.8m and were up by PLN 16.1m as compared to 2007. We reclassified a part of our loans and borrowings from non-current to current as at 2008 year-end. This was necessitated by the senior credit facility repayment schedule which entailed a need for an accounting reclassification of a portion of our senior credit facility together with bank interest and fees in the amount of PLN 97.8m from non-current to current loans and borrowings. We also repaid PLN 82.0m of the facility. In addition, we received a PLN 27.5m loan from our subsidiary.

Another large item of our current liabilities in 2008 and 2007 were trade payables and other payables consisting of investment-related trade payables. Those items presented jointly in our financial statements under "trade and other payables" accounted for some 36% of total current liabilities as at 2008 year-end and decreased by PLN 8.4m, from PLN 98.3m in 2007 to PLN 89.9m in 2008.

## **20.4. Cash Flow Statement**

Net cash flows from operating activities in 2008 amounted to PLN 174.8m against PLN 165.6m in 2007, representing an increase of PLN 9.0m or 5.4%. The increase was connected with a greater scale of our operations and the resultant higher revenues generated in 2008 as compared to 2007 and a higher level of operating margins.

Net cash flows from investing activities in 2008 amounted to PLN -166.6m against PLN -181.8m in 2007. The basic structure of the cash flows was as follows: the negative items were (a) cash outflows connected with the purchase of property, plant and equipment and intangible assets, and the three positive items were (b) proceeds from sale of property, plant and equipment and intangible assets, (c) dividends received, and (d) repayment of loans advanced:

- a) cash outflows connected with the purchase of property, plant and equipment and intangible assets (incl. acquisitions) was in aggregate PLN 235.2m against PLN 240.0m in 2007, a decrease of PLN 4.8m. The main difference between 2007 and 2008 in the structure of our CAPEX was a significantly smaller share of acquisition CAPEX, which was PLN 12.0m in 2008 against PLN 101.9m in 2007. At the same time, our organic CAPEX amounted to PLN 223.3m and was up by PLN 85.2m against 2007.
- b) we recorded PLN 19.9m in proceeds from sale of property, plant and equipment and intangible assets. This amount was connected with transfers of assets within the Group,
- c) we recorded PLN 26.4m in dividends received, and
- d) we recorded PLN 20.2m in repaid loans.

Net cash flows from financing activities amounted to PLN -152.0m in 2008 against -154.5m in 2007. The main difference between cash flows from financing activities in 2008 and 2007 was the fact that, apart from repaying some of our debt and debt service costs, we also spent cash on dividend payout and share buy-back. We also obtained PLN 27.5m from loans advanced to us.

## **20.5. Employment**

As at 31 December 2008, the Company had 1,805 employees in total, including associates. We employed 973 employees in our regions (including our network service and customer care personnel, sales representatives, sales managers, regional directors etc.) and 832 employees in our head offices. Employment levels were up by 295, or 19.5%, as compared to 2007. The increase in headcount was associated with the development of our call centre, increasing the number of sales representatives, introducing Points of Sale (POS), and organisational changes in selected departments.

## **21. Explanation of any Differences Between the Financial Results Disclosed in the Annual Report and the Financial Forecasts Published Earlier for the Year**

The Company did not publish forecasts of financial results.

## **22. Financial Resources Management**

As at the balance sheet date, 31 December 2008, the Company had cash and cash equivalents in the amount of PLN 21.3m. Our current receivables amounted to PLN 57.5m while our total liabilities amounted to PLN 484.4m, including PLN 247.8m in current liabilities.

The current liquidity ratio, calculated as current assets divided by current liabilities, was 0.4. The quick liquidity ratio, calculated as current assets less inventories divided by current liabilities, was the same as the current liquidity ratio because the value of inventories was insignificant. Management believes that the levels of those ratios are safe and the Company's liquidity is not majorly threatened.

As at 31 December 2008, the Company had liabilities relating to bank loans totalling PLN 351.2m, including PLN 225.1m of long-term debt. As provided for in the respective credit facility agreements, the first instalment became payable in 2008. As at the end of 2008, the debt to equity ratio was 0.71. Taking into account the profitability of our business and results of operations, for example at the level of EBITDA, we consider this ratio to be relatively low and safe and significantly below market average.

The interest cover ratio, calculated as EBITDA divided by interest and fees on bank loans and overdrafts, was 6.4. Management believes that this level of the ratio confirms that the Company is able to make timely payments of interest accrued on bank loans and borrowings utilising only cash from operating activities.

Management believes that the Company's ability to maintain payment of current liabilities is not in any way threatened. The situation may change in the future if we commit our funds to capital expenditure in a short space of time. The Company's exposure to such risk is, however, limited thanks to its ability to generate positive cash flows from operating activities.

## **23. Capital Expenditure**

We spent approximately PLN 235.3m on capital expenditure in 2008, including PLN 217.6m on upgrades and expansion of our own networks and adding new connections, and PLN 17.6m on acquisitions of other operators.

Expenditures connected with the expansion of our own networks included PLN 189.6m growth CAPEX directly related to expanding the range of services provided by us and subscriber activations, and PLN 28.0m CAPEX

incurred to ensure continuity of services, replace network equipment and streamline internal processes (Other Capital Expenditure).

### **23.1. Growth Capital Expenditure**

The main growth capital expenditures in 2008 comprise:

- expenditures related to subscriber activations, such as installation costs and CPE (customer premises equipment) costs, in particular purchases of set-top boxes, which receive and decode digital television signals at customer premises, and purchases of cable modems for broadband internet activations;
- construction of new homes passed as part of our active acquisitions project and to expand the reach of our networks by cabling newly constructed housing estates. The most important item of the construction of new HPs in 2008 were investments made in the Warsaw agglomeration. We continued to expand our networks in the north east districts and also the southern districts in new housing estates along the underground railroad. We also started a new head-end for the Warsaw agglomeration that is able to provide signal to over 200,000 homes. We continued to expand the metropolitan backbone network to be able to provide our signal to new housing estates which will be connected to the network in 2009. We also started to build the second main node of our metropolitan network in order to optimise the use of fibre-optic cables inside the agglomeration and to streamline network management;
- development of our central infrastructure to service a higher number of customers and steadily increase broadband connection speeds for all customers;
- upgrades of networks acquired in previous years and adapting selected access networks to increased broadband connection speeds; and also increasing penetration of digital cable TV;
- expansion of our nationwide fibre-optic backbone network; and
- development of WiMax wireless access systems.

In total, by the end of 2008, our Warsaw agglomeration network passed by over 41,000 homes.

As a result of network upgrades completed in 2008, our cable networks passing by some 85,600 homes (HP) were upgraded for broadband Internet, 128,000 for voice services, and 139,200 for digital television.

Overall, we cabled some 76,300 homes passed in 2008.

### **23.2. Other Capital Expenditure**

Other capital expenditure of PLN 28.0m, not directly related to network expansion or subscriber activations, included primarily expenditures on:

- expansion of core network equipment based on IP package technology (SoftSwitch) in connection with migrating customers to SoftSwitch,
- development of call centre premises necessitated by increased incoming traffic from our customers and outgoing traffic connected with a greater scale of sales made by our call centre,
- expansion of IT infrastructure,
- expansion of the network passportisation system,
- upgrades and fittings for cable television head-ends,
- upgrades of power and air-conditioning systems,
- expansion of our car fleet for use by our regional offices as well as sales and network maintenance personnel,
- expansion of the network operations centre,
- measurement equipment for new regions and new services, particularly digital television.

### **23.3. Acquisition Capital Expenditure**

In 2008, Multimedia Polska S.A. acquired networks from the following telecom and cable operators:

- PT Aries - an internet provider in Trzebinia,
- PHU Volta - an internet provider in Pruszcz Gdańsk,
- Rezystor S.C. - a cable operator in Pruszcz Gdańsk,
- LANET S.C. - an internet provider in Szczytno,
- Mikrotel Sp. z o.o. - a cable operator in Ropczyce,
- CSM Stalowa Wola - operating within a special economic zone in Stalowa Wola.

As at the date of finalisation of the transactions, the cable and telecom networks acquired in the transactions passed by some 6,400 homes and served 2,900 cable television subscribers and 3,100 Internet subscribers.

#### **23.4. Assessment of the Feasibility of Planned Investments**

As at the balance sheet date, 31 December 2008, Multimedia had cash and cash equivalents of PLN 21.3m.

We expect that our 2009 investment projects relating to the expansion of our networks, deployment of new technologies and new services and new subscriber activations will be to a large extent financed with cash generated from operating activities. It is also possible that our CAPEX could be increased if we can obtain external financing on acceptable terms.

#### **24. Factors and Non-Recurring Events which Had an Impact on 2008 Results**

Non-recurring events in 2008 involved impairment and valuation and liquidation of fixed assets. However, these events did not have any material negative impact on our operating profit in 2008 as their value was in aggregate only PLN 0.7m.

Our net profit was impacted by an extraordinary item, i.e. our receiving PLN 26.3m dividend from our subsidiary. Our net profit amounted to PLN 66.2m in 2008 and increased by PLN 30.9m as compared to 2007. Taking into account only operating events, without the dividend, our adjusted net profit—when brought to full comparability—would amount to ca. PLN 42.9m in 2008 and increase by some 22%.

Hence, any analysis of the Issuer's net profit does not, in management's opinion, properly reflect the Company's true financial standing. Management recommends that consolidated financial statements should be analysed instead.

#### **25. Development Prospects for Multimedia Polska S.A. in 2009**

##### **25.1. Operating Factors**

Going forward, we expect that more of our customers will subscribe for bundled offerings, which may help to reduce our churn rate and provide an important source of future revenue growth. While our average revenue per RGU is expected to continue to decline for our telephony services and our broadband Internet services, we expect that the effect of these decreases on our revenues may be more than offset as a result of rapid growth of the number of our broadband Internet customers and increasing popularity of bundled services. We also expect our cable television revenues to increase as a result of further development of digital TV over cable networks.

##### **25.2. The Warsaw Project**

In Q3 2007, the Management Board of Multimedia Polska decided to start operations in the Warsaw agglomeration.

Management believes that high margins generated by cable operators in the Warsaw market, a large number of newly-constructed estates across the agglomeration and relatively weak competition in the market will provide a relatively fast return on investments.

We have called up a new team to manage the Warsaw Project that has its own income and expenditure budget. Due to the specific conditions of the Warsaw market and the size of the project, the team has set up a new Region in the overall regional structure of Multimedia's operations.

The Warsaw project has been divided into three parts:

1. construction of cable networks in new housing estates, where there is currently no competition from other cable operators,
2. construction of cable networks in districts already covered by other operators, where competition is relatively weak,
3. take-over of other operators operating in the Warsaw agglomeration.

In the first phase of the project planned for the next 3-4 years, we are targeting construction or acquisition of networks passing by some 120,000 homes. The project's budget of ca. PLN 85m makes the project an important element of the Company's operations in the future, which may have a material impact on our future financial results.

At this point, Mutimedia's construction and acquisition activities are focused around a few Warsaw districts and involve the following:

1. construction of networks covering 26,000 homes passed in the north west districts, of which ca. 20,000 already completed;
2. construction of 15,000 HPs in the north east districts, of which ca. 10,000 already completed;
3. expansion of our backbone network in Warsaw to some 50 km in order to integrate it and deliver our full bundle of services to all homes passed by Multimedia's access networks, of which 40 km already completed;
4. initiating cooperation with key developers in the Warsaw market;
5. construction of networks in the Southern districts covering some 20,000 homes passed, of which 9,000 have already been completed;
6. acquisition of networks from other operators, including assets, as a result of which we added 2,400 homes passed from Margo-Sat in the fourth quarter of 2007.

The construction of the first Multimedia Customer Service Centre in Warsaw has been completed alongside the head-end which enables us to provide the full package of television, internet, telephony and DTV to a few hundred thousand households in Warsaw. The official opening of both sites took place in May 2008.

### **25.3. Digital Television**

We expect our cable television revenues to increase in the coming quarters as a result of systematic expansion of digital television and value added services, such as VOD, into further cable locations. Our digital television system is a High Definition solution (1080i), first of the kind offered over cable networks in Poland. Each STB has a two-way IP communication path which will be used to provide interactive television services in the future. As at 31 December 2008, digital television was available to some 680,000 homes passed. The roll out of VOD is the first such venture in the Polish cable TV market, considerably reinforcing the position of Multimedia's digital platform against other operators' competitive offerings.

### **25.4. New Technologies**

We are running R&D projects in all main areas of operations, including video, data and voice services. We plan to launch at least several projects with an innovative service potential in 2009. More precise information regarding new roll-outs will be provided on an ongoing basis, when services are launched for commercial use.

### **25.5. Foreign Currency Risk**

Our functional and reporting currency is Polish zloty. Our revenues are expressed in zloty, while a part of our operating expenses (programming costs) and capital expenditure is denominated in currencies other than zloty, specifically US dollars and euro. We do not have any foreign currency options, or any other foreign currency financial instruments, and we are unable to predict future exchange rate fluctuations. Future exchange rate fluctuations may impact our financial results either positively – in case of appreciation of the zloty, or negatively – in case of its depreciation.

## **26. Changes in the Key Principles of Managing Multimedia Polska S.A.**

The structural changes that took place in 2008 went in two directions: we restructured our sales channels and centralised and restructured our network maintenance systems.

The reconstruction of our sales forces, initiated back in 2007, was successfully finalised. Also, the dynamic development of our call centre and implementation of incentive systems for our customer care centres produced intense competition among our sales channels leading to increased efficiency.

We also continued the process of centralising our maintenance efforts and systems through 2008. The process of building a single network operating centre (NOC) and putting together a team responsible for service management (Service Management Department) was successfully finalised. We continue to increase the number of telecom and IT systems that can be monitored and reconfigured remotely (centralised network management). We implemented a set of basic quality and efficiency indicators which allow us to measure and assess the performance of our technical environments. We initiated the process of reorganising our technical teams, which resulted in increased efficiency and enabled us to implement additional solutions, such as our Network Inventory Project, without outsourcing.

**27. Foreign Exchange Rates**

The table "Selected Financial Information" contains items of the income statement and the cash flow statement for 12 months ended 31 December 2008 and 31 December 2007, and items of the balance sheet as at 31 December 2008 and 31 December 2007 translated using the following EUR/PLN exchange rates:

	<b>31 December 2008</b>	<b>31 December 2007</b>
Balance sheet <sup>(1)</sup>	4.1724	3.5820
Income statement, cash flow statement <sup>(2)</sup>	3.5129	3.7845

(1) Average exchange rate published by the National Bank of Poland for the given day.

(2) Average of average daily exchange rates for the reference period.

## **Statement by the Management Board of Multimedia Polska S.A.**

In accordance with the provisions of the Regulation of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state, the Management Board of Multimedia Polska S.A. represents as follows:

- to the best of our knowledge the annual financial statements and the comparable information have been prepared in compliance with International Financial Reporting Standards and give a true, fair and clear view of the assets, financial standing and net result of Multimedia Polska S.A., and the Directors' Report on the operations of Multimedia Polska S.A. truly reflects the development, achievements and situation of Multimedia Polska S.A., including the description of the key risk factors and threats;

- Ernst & Young Audit Sp. z o.o. in Warsaw, the qualified auditor of financial statements who audited the annual financial statements, had been selected in compliance with the provisions of the law. The auditing firm and the qualified auditors who performed the audit met the conditions to issue an impartial and independent auditor's opinion in accordance with the applicable provisions of the national law.

Warsaw, 2 April 2009

Andrzej Rogowski

President

**STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE RULES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008**

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## **1. Information about the set of corporate governance rules complied with by the Issuer.**

Multimedia Polska S.A. is governed by corporate governance rules laid out in the Code of Best Practice for WSE Listed Companies adopted on 4 July 2007 by the WSE Supervisory Board and in force since 1 January 2008.

Both in 2008 and now, the Company complied and intends to continue to comply with all principles set forth in the Code of Best Practice for WSE Listed Companies.

## **2. Description of main features of internal control and risk management systems in relation to the process of preparing financial statements and consolidated financial statements.**

The Management Board of the Company is responsible for the system of internal control and risk management in the Company, as well as the quality of financial statements and periodic reports prepared and published in accordance with the provisions of the Regulation of 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state.

The system of internal control and risk management in the process of preparing and publishing financial reports is based on the following key principles:

- a repeatable set of financial and operating data provided in the report, compliant with the respective Regulation, allowing for straightforward comparison of the results of each consecutive quarter
  - a defined, stable structure of reporting within the Company with a split of competences clearly indicating persons responsible for the respective parts of financial reports
  - maximum involvement of competent people within the Company, responsible for their respective areas of the business, into the preparation of each report
  - review of the Company's financial statements and the underlying methodology by external auditors
1. A repeatable set of financial and operating data provided in the report, compliant with the respective Regulation, allowing for straightforward comparison of the results of each consecutive quarter

The scope of basic data reported in periodic reports covers, on the one hand, the obligatory data defined in the Regulation of 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws dated 28 February 2009); and on the other hand, a set of operating data that allows for an analysis and verification of the effectiveness of key processes inside the Company, as well as an update of analytical models by internal auditors and external financial analysts.

The internal audit system implemented in the Company enables a consistency check between the fluctuation of key operating indicators and the financial data provided in the financial statements. Moreover, each time a reporting period is closed, financial data is verified for consistency with the previous reporting periods and the current forecast updated on a monthly basis.

A clear definition of the scope of financial and operating data reported periodically in financial reports from the very beginning of the Company's presence at the WSE greatly facilitates verification of the internal consistency of financial reporting and significantly reduces any risks connected with reporting.

2. A defined, stable structure of reporting within the Company with a split of competences clearly indicating persons responsible for the respective parts of financial reports

The split of competences of particular organisational units was defined at the start of the reporting process and was formalised by appropriate procedures. The main departments involved in the preparation of periodic reports are the Finance Department, responsible for all financial data published in the report, the Legal Department, responsible for providing a description of major events influencing the Company's legal situation, and the Investor Relations Office and the Controlling Department, responsible for preparing the key operating statistics.

The operating statistics and information on the events impacting the Company's legal position are prepared based on standard data reported by competent persons appointed by directors and managers of the Company's key organisational units, responsible for the processes that have a significant influence on the Company's standing. The scope of data reported in the financial reports was defined with reference to the required core content of the report and is verified each time to identify any key events and indicators that should be included in the report.

3. Maximum involvement of competent people within the Company, responsible for their respective areas of the business, into the preparation of each report

Verification of financial and operating data for a given period requires that key decision-making persons, who have influence on particular items of the financial statements, must be involved in the reporting process. Verification is two-fold: first data verification and validation is provided by the Finance Department, then any potential risk factors are discussed with the persons responsible for a given item.

Operating data is provided by competent employees directly and is verified and validated by the Finance Department and Investor Relations.

Final endorsement of financial reports is given based on verified financial and operating data.

4. Review of the Company's financial statements and the underlying methodology by external auditors

The external auditor audits annual and half-year financial statements and has access to the source data being the basis of their preparation and the procedures of preparing financial statements. While auditing the financial statements, the auditors also review business management systems, including electronic document flow, and the system of booking revenues and expenses.

**3. Shareholders holding significant blocks of shares, whether directly or indirectly, and information on the number of shares held by those entities, percentage of share capital, the number of votes attached to the shares and their share in the total votes at the general meeting**

Information provided in the tables below is prepared based on current reports submitted to the Warsaw Stock Exchange, which reflect all information provided to the Company by shareholders in accordance with Art. 69.1 of the Act on public offering and the terms for introduction of financial instruments to organised trading and on public companies.

The Company's shareholding structure as at 31 December 2008 was as follows:

Shareholder	Number of shares held	Number of votes at the General Shareholders' Meeting	Percentage of votes at the General Shareholders' Meeting	Percentage held in share capital
Tri Media Holdings Ltd <sup>(1)(2)</sup>	26,945,741	26,945,741	17.09%	17.09%
UNP Holdings B.V. <sup>(1)</sup>	41,228,807	41,228,807	26.14%	26.14%
Emerita B.V. <sup>(1)</sup>	15,781,292	15,781,292	10.01%	10.01%
BZ WBK AIB Asset Management S.A. <sup>(3)</sup>	15,964,920	15,964,920	10.12%	10.12%
including:	8,023,790	8,023,790	5.09%	5.09%
BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. <sup>(4)</sup>				
Other shareholders	57,779,240	57,779,240	36.64%	36.64%
<b>TOTAL</b>	<b>157,700,000</b>	<b>157,700,000</b>	<b>100.00%</b>	<b>100.00%</b>

(1) Entities directly or indirectly controlled by EVL.

(2) 2,765,628 shares are held indirectly through Biscoden Trading & Investments Limited, a subsidiary of Tri Media Holdings.

(3) See point 3.2. below.

(4) See point 3.1. below.

**3.1. Information provided by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. in connection with exceeding the 5% of total vote threshold as a result of holding shares in aggregate through other investment funds managed by the same investment fund company**

On 7 January 2008, Multimedia Polska S.A. ("the Company", "Multimedia") received a notification in accordance with Art. 69.1.1 in conjunction with Art. 87.1.2.a) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies from BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. ("TFI"), acting on behalf of Arka BZ WBK Akcji Fundusz Inwestycyjny Otwarty, Arka BZ WBK Rozwoju Nowej Europy Fundusz Inwestycyjny Otwarty, Arka BZ WBK Stabilnego Wzrostu Fundusz Inwestycyjny Otwarty, Arka BZ WBK Zrównoważony Fundusz Inwestycyjny Otwarty and Lukas Fundusz Inwestycyjny Otwarty (hereinafter referred to as Funds).

The notification stated that as a result of share purchase transactions settled on 3 January 2008 and as at the date of settlement, the Funds came to hold 8,023,790 shares, constituting 5.09% of the Company's share capital and carrying 8,023,790 (5.09%) votes exercisable at general meetings.

Before the settlement of the aforementioned transactions, the Funds held 7,863,790 shares constituting 4.99% of the Company's share capital and carrying 7,863,790 (4.99%) votes exercisable at general meetings.

TFI also notified the Company that acting in the manner specified in Art. 46.1.1) of the Act of 27 May 2004 on Investment Funds, it commissioned BZ WBK AIB Asset Management Spółka Akcyjna with its registered office in Poznań to manage the Funds' investment portfolios. Hence, the disclosure obligation arising in connection with the share purchase transactions referred to herein is also imposed separately on BZ WBK AIB Asset Management S.A. (Current report no 52/2007 dated 8 October 2007).

**3.2. Information provided by BZ WBK AIB Asset Management S.A. in connection with increasing interest in the share capital of Multimedia Polska S.A. above the 10% of total vote threshold as a result of holding shares as part of securities portfolios managed by BZ WBK AIB Asset Management S.A. which entitle BZ WBK AIB Asset Management S.A. as the manager to exercise voting rights attached to those shares at the general meeting on behalf of its customers**

On 31 July 2008, Multimedia Polska S.A. (the "Company", "Multimedia") received a notification from BZ WBK AIB Asset Management S.A. with its registered office in Poznań in accordance with Art. 69.1.1 in conjunction with Art. 87.1.3.b) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies that following purchases of the Company's shares by BZ WBK AIB Asset Management S.A. settled on 29 July 2008, clients of BZ WBK AIB Asset Management S.A. came to hold Multimedia shares representing over 10% of total voting rights exercisable at the Company's general meetings.

The notification stated that as of 29 July 2008 a total of 15,964,920 Multimedia shares were deposited on securities accounts managed by BZ WBK AIB Asset Management S.A. for their customers under account management agreements, which constitute 10.12% of the Company's share capital. The shares carry 15,964,920 voting rights at the Company's general meetings, representing 10.12% of total voting rights at the general meetings of Multimedia Polska S.A.

Before increasing their interest in the Company's share capital, the clients of BZ WBK AIB Asset Management S.A. had 15,755,946 shares on their securities accounts held under account management agreements, constituting 9.99% of the Company's share capital and carrying 15,755,946 voting rights at the Company's general meetings, representing 9.99% of total voting rights at the general meetings of Multimedia Polska S.A.

In addition, the notification stated that it is possible that the engagement of BZ WBK AIB Asset Management S.A.'s customers in Multimedia shares may either increase or decrease in the period of 12 months following the notification. Any decisions regarding any acquisition or disposal of shares will depend upon the Company's current position, the assessment of that position and market conditions, as well as the value of assets covered under management agreements by BZ WBK AIB Asset Management S.A. BZ WBK AIB Asset Management S.A. also notified the Company that BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Poznań ("TFI"), acting pursuant to Art. 46.1.1) of the Act of 27 May 2004 on Investment Funds, commissioned BZ WBK AIB Asset Management S.A. to manage investment portfolios of investment funds of which TFI is a representative body ("the Funds"). Hence, if the Funds should come to hold Multimedia shares, BZ WBK AIB Asset Management S.A. is obliged to make an appropriate disclosure.

The Company's shareholding structure as at the date of publication of this report was as follows:

Shareholder	Number of shares held	Number of votes at the General Shareholders' Meeting	Percentage of votes at the General Shareholders' Meeting	Percentage held in share capital
Tri Media Holdings Ltd <sup>(1)(2)</sup>	26,084,741	26,084,741	17.03%	17.03%
UNP Holdings B.V. <sup>(1)</sup>	41,228,807	41,228,807	26.91%	26.91%
Emerita B.V. <sup>(1)</sup>	15,781,292	15,781,292	10.30%	10.30%
BZ WBK AIB Asset Management S.A. <sup>(3)</sup>	15,759,077	15,759,077	10.29%	10.29%
including: BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. <sup>(4)</sup>	8,023,790	8,023,790	5.24%	5.24%
Other shareholders	54,335,766	54,335,766	35.47%	35.47%
<b>TOTAL</b>	<b>153,189,683</b>	<b>153,189,683</b>	<b>100.00%</b>	<b>100.00%</b>

(1) Entities directly or indirectly controlled by EVL.

(2) 1,904,628 shares are held indirectly through Biscoden Trading & Investments Limited, a subsidiary of Tri Media Holdings.

(3) See point 3.3. below.

(4) See point 3.1. above.

**3.3. Information provided by BZ WBK AIB Asset Management S.A. in connection with reducing interest in the share capital of Multimedia Polska S.A. below 10% of total vote as a result of holding shares as part of securities portfolios managed by BZ WBK AIB Asset Management S.A. which entitle BZ WBK AIB Asset Management S.A. as the manager to exercise voting rights attached to those shares at the general meeting on behalf of its customers**

On 26 January 2009, Multimedia Polska S.A. ("the Company", "Multimedia") received a notification from BZ WBK AIB Asset Management S.A. with its registered office in Poznań in accordance with Art. 69.1.2 in conjunction with Art. 87.1.3.b) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies that following the sale of the Company's shares by BZ WBK AIB Asset Management S.A. on 19 January 2009, clients of BZ WBK AIB Asset Management S.A. came to hold Multimedia shares representing less than 10% of total voting rights exercisable at the Company's general meetings.

The notification stated that before the transaction described above, an aggregate of 15,771,337 Multimedia shares had been deposited on securities accounts managed by BZ WBK AIB Asset Management S.A. for their customers under account management agreements, which constituted 10.001% of the Company's share capital. The shares entitled their holders to 15,771,337 voting rights, representing 10.001% of total voting rights at Multimedia's general meetings.

On 19 January 2009, the clients of BZ WBK AIB Asset Management S.A. had in aggregate 15,759,077 shares deposited on their accounts held under account management agreements, constituting 9.99% of the Company's share capital. The shares entitled their holders to 15,759,077 voting rights, representing 9.99% of total voting rights at Multimedia's general meetings.

BZ WBK AIB Asset Management S.A. also notified the Company that BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Poznań ("TFI"), acting pursuant to Art. 46.1.1) of the Act of 27 May 2004 on Investment Funds, commissioned BZ WBK AIB Asset Management S.A. to manage investment portfolios of investment funds of which TFI is a representative body ("the Funds"). Hence, if the Funds should come to hold Multimedia shares, BZ WBK AIB Asset Management S.A. is obliged to make an appropriate disclosure.

**4. Holders of any securities that confer special control powers, with a description of those powers.**

The Statutes of the Company do not contain any provisions conferring special powers to its shareholders connected with Multimedia Polska S.A. shares held by them.

**5. Restrictions regarding the exercise of voting rights, such as restrictions on voting by holders of a specified portion or number of shares, time restrictions regarding the exercise of voting rights or provisions under which, with the Company's cooperation, equity rights attached to securities are separated from ownership of the securities.**

There are no limitations concerning the exercise of voting rights from Multimedia shares. Each share confers the right to one vote at the General Meeting of Multimedia Polska S.A. The Statutes do not contain any clauses preventing any pledgee or usufructuary of Shares from being granted voting rights, and the granting of such rights is not subject to any consent from any of the Company's governing bodies.

**6. Limitations of the transferability of the securities of Multimedia Polska S.A.**

The Company's corporate documents do not contain any regulations that would significantly restrict the transferability of Multimedia Polska S.A. shares. The Statutes do not set forth any limitations concerning the Shares being pledged or encumbered with usufruct rights.

**7. Description of principles governing the appointment and dismissal of management board members and their powers, and in particular the power to adopt any decisions concerning the issue or repurchase of the issuer's shares.**

**Principles governing the appointment and dismissal of Management Board Members**

On 20 March 2008, the Extraordinary General Meeting passed resolution no 4/2008 amending §27.1 of the Company's statutes to read as follows: "The Management Board of the Company shall be composed of one to five members, including the President of the Management Board, appointed for a joint 2 (two)-year term of office."

The amendment became effective when registered by the National Court Register, i.e. as from 17 April 2008.

As provided in §23.2 a) of the Statutes of the Company, Management Board members are appointed and dismissed by the Supervisory Board.

The mandates of the Management Board members expire on the date of the General Meeting of Shareholders convened to approve the financial statements for the last full financial year of their membership on the Management Board. It is permissible to re-appoint the same persons as members of the Management Board for further terms of office.

**Powers of the Management Board**

The Management Board manages the Company's affairs and represents the Company vis-à-vis third parties. The President of the Management Board acting jointly with another member of the Management Board or with a holder of commercial proxy, or two members of the Management Board acting jointly are authorized to make declarations of intent and sign on behalf of the Company. In case of a single-member Management Board, representation is delivered by the single member.

As set forth in the Company's Statutes, the following actions taken by the Management Board require the consent of the Supervisory Board:

- (i) acquisition, in one or several related transactions, of an enterprise or an organized part of an enterprise, or assets of another enterprise if the value of such assets exceeds the equivalent of EUR 500,000,
- (ii) acquisition or sale of real property (including the right of perpetual usufruct) or an interest in such real property,
- (iii) sale, lease, grant for use by another person, or encumbering with rights in property or obligations of the Company's assets with the unit net book value exceeding the equivalent of EUR 500,000, except for any agreements or actions specifically provided for in the annual business plan and the budget approved by the Supervisory Board,
- (iv) subscription for or acquisition of shares in another company or disposal of shares owned by the Company, except for any agreements or actions specifically provided for in the annual business plan and the budget approved by the Supervisory Board,
- (v) taking out a loan or credit or assuming any other financial obligation whose unit net book value exceeds the equivalent of EUR 500,000 or whose total value in the financial year exceeds the equivalent of EUR 1,000,000, except for any financial obligations specifically provided for in the annual business plan and the budget approved by the Supervisory Board, and

- (vi) entering into an agreement or conducting a unilateral act in law providing for the fulfilment by the Company of a pecuniary or non-pecuniary performance with the value exceeding EUR 250,000, or resulting in the Company assuming an obligation with the term of validity exceeding 2 years, except for any agreements or actions specifically provided for in the annual business plan and the budget approved by the Supervisory Board.

In case of a multi-member Management Board, the President of the Management Board manages the work of the Management Board and convenes its meetings. The Management Board meetings are chaired by the President of the Management Board, and in his absence by a member of the Management Board appointed by the President. Resolutions of the Management Board may be adopted if all members of the Management Board have been duly notified of the Board meeting, and at least half of the members of the Management Board are present at the meeting. Resolutions of the Management Board are passed by a simple majority of votes cast. In the event of a voting tie, the President of the Management Board has the casting vote. Resolutions of the Management Board may also be passed in written ballot without holding a meeting if all members of the Management Board express their consent to such voting.

The managing persons do not have the power to adopt any decisions concerning the issue or repurchase of the Company's shares.

## **8. Principles of amending the statutes of Multimedia Polska S.A.**

According to Art. 430 of the CCC, any amendment of the Statutes requires a resolution of the General Meeting taken by a 3/4 majority of votes and registration in the register. The management board must notify the amendments to the statutes to register court. The notification must be made within three months from the date on which the General Meeting passed the resolution, subject to Art. 431.4 and Art. 455.5 of the CCC. The General Meeting may authorise the supervisory board to draw up a consolidated text of amended statutes or introduce other editorial amendments stipulated in the resolution of the GM.

The statutory regulations of Multimedia Polska S.A. are in line with the regulations of the code. As provided in Par. 13 (i) of the Company's Statutes, amendments to the Statutes of the Company, including increase or decrease of the share capital, are reserved for the competence of the general meeting.

## **9. Procedure of the general meeting and its principal powers; description of rights of shareholders and the manner of performing thereof, and in particular regulations resulting from the by-laws of the general meeting, if adopted, unless this kind of information follows directly from the law.**

The General Meeting operates on the basis of the By-Laws of the General Meeting of Multimedia Polska S.A. adopted by resolution no. 1 of the Extraordinary General Meeting of Multimedia Polska S.A. of 28 July 2006.

Shareholders are entitled to participate in the General Meeting provided they had submitted deposit certificates issued to their name by the entity which keeps their securities account in accordance with the law on trading in financial instruments at least one week prior to the date of the General Meeting, and such certificates have not been withdrawn prior to the end of the Meeting; also entitled to participate are members of the Management and Supervisory Boards and – if financial matters of the Company are to be discussed at the Meeting – the Company's auditor. The Chairman of the General Meeting may also consent to the participation of other persons.

The General Meeting shall be opened by the Chairman of the Supervisory Board, his deputy or, if neither of them is present, the President of the Management Board or a person designated by the Management Board. Next, the Chairman shall be elected from among persons entitled to participate in the General Meeting. The person opening the General Meeting should procure an immediate election of the Chairman of the Meeting, and should refrain from any other substantial or formal decisions. Each participant of the General Meeting may nominate one candidate for the position of the Chairman; each nomination shall be recorded in the minutes. The Chairman shall be elected by way of a secret ballot, held separately for each candidate from the list, in the alphabetical order. The Chairman should not resign from office without a good reason.

The Chairman shall manage the proceedings of the General Meeting and shall adopt decisions on matters of procedure. In particular, the Chairman shall give floor to speakers, receive motions and resolutions in draft form, submit them for discussion, order and conduct voting, issue relevant procedural instructions and shall be authorised to interpret these By-Laws. While performing his duties, the Chairman shall ensure an efficient conduct of the Meeting and observance of the rights and interests of all shareholders, and shall prevent any abuse of rights by the participants of the General Meeting.

Immediately following the appointment, the Chairman shall check and sign the list of attendance at the General Meeting.

The Ballot Counting Committee, composed of three persons, shall be selected by the General Meeting from among the candidates nominated by the Chairman or the persons entitled to participate in the Meeting. The Ballot Counting Committee shall oversee correct conduct of each voting and shall establish the voting results.

Upon presentation of each consecutive issue on the agenda, the Chairman of the General Meeting shall open a discussion and give the floor to speakers in the order in which they request to speak. The Chairman may suggest that a few related items on the agenda be discussed jointly.

The Chairman may grant the floor disregarding the set order in the case of members of the Supervisory Board, members of the Management Board, and other persons who participate in the Meeting with the Chairman's consent.

While taking the floor, the speakers shall speak on the issues included in the agenda and discussed at the given moment. During the discussion of each item on the agenda each shareholder shall be entitled to take the floor to speak or to reply to a preceding speech. With respect to each item on the agenda, the Chairman may set a time limit for individual speeches and replies, depending on the subject matter of the issue being discussed. The time limit shall not apply to the Management Board members, the Supervisory Board members, and the auditor.

Adding new items to the agenda shall not be possible unless the whole share capital is represented and no objections are raised by any of the participants. However, a motion for convening an Extraordinary General Meeting and motions concerning procedural matters may be passed without the requirement of being included in the agenda. A resolution not to consider an issue placed on the agenda may be adopted only if it is justified by material and specific reasons. A motion in this respect should be accompanied by a detailed substantiation. If an issue was placed on the agenda at the request of shareholders, a decision not to consider the issue shall require their consent. A decision to remove or not to consider an issue included in the agenda at the request of shareholders shall require the relevant resolution of the General Meeting, supported by 75% of the votes.

The General Meeting shall adopt resolutions on matters included in the agenda by way of voting. Voting may be held using a computer system for casting and counting votes which makes it possible to determine the number of votes cast in favour of a resolution, votes cast against it and abstaining votes, and precludes the possibility of identifying how a particular shareholder voted in secret ballot.

The General Meeting shall adopt resolutions by way of an open vote. A secret ballot shall be called in the case of: a) voting on the appointment or removal of members of the Company's governing bodies or liquidators, b) motions for calling members of the Company's governing bodies or liquidators to account, c) personnel matters, d) a request made by at least one shareholder participating in the Meeting, e) other circumstances provided for in the applicable regulations.

The General Meeting shall adopt resolutions with a simple majority of the votes cast, unless the Polish Commercial Companies Code, the Company's Statutes or By-Laws of the General Meeting provide otherwise.

Voting on procedural matters may refer only to those issues which pertain to the proceedings of the General Meeting. Resolutions which may prejudice the exercise of shareholder rights shall not be submitted for voting under this procedure.

Each resolution shall be voted on after its draft has been read out by the Chairman or by a person designated by the Chairman.

If a Shareholder objects against a resolution, the Chairman should ensure that the shareholder who voices the objections against the resolution has the opportunity to briefly justify his/her position.

In 2008, General Meetings of Multimedia Polska S.A. were formally convened on 20 March, 30 June, and 11 August. The General Meetings were convened at the request of the Company's Management Board; the Company's shareholders did not submit any requests for a General Meeting to be convened; the General Meeting dated 20 March 2008 was convened by the Company's Supervisory Board.

The proceedings of the General Meeting were in compliance with the provisions of the Commercial Companies Code, the Company's Statutes, the principles set forth in the Regular By-laws of the General Shareholders Meeting of Multimedia Polska S.A. and the Code of Best Practice for WSE Listed Companies. The shareholders were able to acquaint themselves with the wording of draft resolutions provided for in the agenda, published on the Company's website 14 days prior to the date of the General Meeting. The Company did not question the correctness of the documents presented by the shareholders and their proxies during the verification of the shareholders' authority to participate in the General Meeting.

The Chairman of the General Meeting ensured the proceedings were conducted efficiently. The proceedings of the General Meeting were never recalled or interrupted. Members of the Supervisory Board and the Management Board were in attendance to provide explanations according to their level of responsibility and in compliance with the applicable laws.

Resolutions of the General Meeting were adopted under circumstances allowing protection of minority shareholder rights, including filing of reservations or objections to resolutions. None of the adopted resolutions were questioned in court litigations.

The Annual General Meeting of Multimedia Polska S.A. was held at a date which met the requirements of Art. 395 of the Commercial Companies Code, and documentation relating to the financial statements for 2007 was published on the Company's website within the timeframe required by law.

All resolutions adopted by the General Meeting in 2008 were in the best interest of the Company and took into consideration the rights of its shareholders. Resolutions adopted by the General Meeting are available on the Internet at the following address: [www.multimedia.pl](http://www.multimedia.pl).

#### **10. Composition and changes to it that took place during the last reporting year with a description of procedure of managing, supervisory or administrative bodies of the issuer and their committees.**

##### **Composition of the Management Board**

From 1 January 2008 to 31 December 2008, the President of the single-member Management Board was:

<b>Name</b>	<b>Position</b>
Andrzej Rogowski	President

##### **Rules of procedure of the Management Board**

The Management Board performed its activities pursuant to provisions of the Commercial Companies Code, publicly available By-laws of the Management Board and in accordance with the Code of Best Practice for WSE Listed Companies.

When determining strategic objectives and current tasks of the Company, the Management Board was guided by the overriding interest of the Company and by the applicable laws, and took into consideration interests of Shareholders, employees of the Company and creditors.

The strategic objectives of the Management Board were submitted by the Management Board to the Supervisory Board for approval.

In an attempt to ensure transparency and efficiency of the management system, the Management Board adhered to the principle of professional conducting of business within justified business risk, taking into consideration the wide scope of available information, analyses and opinions.

The Management Board ensured adherence to the principle that the auditor - recommended by the Audit Committee and appointed by the Supervisory Board - has to be independent in performing his activities.

The President of the Management Board remained fully loyal to the Company.

Remuneration of the President of the Management Board was determined according to transparent procedures by the Supervisory Board and corresponded to the scope of responsibility and authority, and took into consideration economic results delivered by the Company, remaining in reasonable relationship with remuneration levels of Management Boards in other similar companies in the media segment of the market.

##### **Composition of the Supervisory Board**

In the period from 1 January 2008 to 31 December 2008, the Supervisory Board was composed of the following persons:

<b>Name</b>	<b>Position</b>
Ygal Ozechov	Co-Chairman of the Supervisory Board
Tomek Ulatowski	Co-Chairman of the Supervisory Board
David C. Seidman	Member of the Supervisory Board
Konrad Jaskóła	Member of the Supervisory Board
Gabriel Wujek	Member of the Supervisory Board

### **Rules of procedure of the Supervisory Board**

In 2008, the Supervisory Board of Multimedia Polska S.A. proceeded in accordance with the provisions of the Commercial Companies Code, publicly available By-laws of the Supervisory Board of Multimedia Polska S.A., approved by the Supervisory Board on 31 July 2006, and the Code of Best Practice for WSE Listed Companies.

Meetings of the Supervisory Board were held regularly, with the participation of the President of the Management Board. The Management Board provided the Supervisory Board with exhaustive information about material issues relating to the business of the Company. The Supervisory Board adopted resolutions in matters set forth in the meeting agenda distributed to members of the Supervisory Board in notices of the meetings. The Supervisory Board at times, acting on motion of the Management Board, adopted resolutions by circulation of documents without holding meetings, in an effort to ensure efficient performance of their functions.

The Supervisory Board met the requirement that at least half of the Supervisory Board members shall be independent Members who meet the independence criteria set forth in the Company's Statutes.

Resolutions of the Supervisory Board in matters of: (a) expressing consent for execution of a material agreement by the Company with an entity related with the Company, related Supervisory Board member or Management Board member, (b) appointing of the certified auditor to audit financial statements of the Company, (c) any performance by the Company or its related entities to benefit members of the Management Board - were adopted by a majority vote of independent Supervisory Board members.

The remuneration of the Supervisory Board did not constitute a significant cost item of the Company, affecting the financial result in any way. Such remuneration was approved in a resolution of the General Meeting and disclosed in the annual report. Members of the Supervisory Board had informed the Management Board of their having purchased or sold shares of the Company.

The Supervisory Board submitted a concise evaluation of the Company's standing as part of the Supervisory Board report on the Company's standing in 2007 during the General Meeting held on 30 June 2008. The General Meeting approved the report.

### **Scope of activities of the Supervisory Board in 2008**

Activities of the Supervisory Board in 2008 focused on matters of material importance for the business of the Company, including in particular approving the Company's budget for 2009 and approving the financial statements of Multimedia Polska S.A. and Multimedia Polska Group for 2007.

### **Supervisory Board Committees**

The Supervisory Board established two committees, the Audit Committee and the Remuneration Committee, each consisting of three Supervisory Board members, including at least two independent Supervisory Board members.

#### **Audit Committee**

Duties of the Audit Committee are set out in the By-laws of the Supervisory Board.

The Audit Committee consists of three members, including at least two independent members and at least one member possessing relevant qualifications and experience in accounting and finance. The Audit Committee's tasks include advising the Board regarding proper application of budget and financial accounting rules and the internal audit of the Company and the Group, as well as cooperation with independent auditors of the Company auditing its financial statements. The Committee's specific tasks include: (i) reviewing the Company's accounting policies, (ii) reviewing the Company's interim and annual financial statements (standalone and consolidated), (iii) reviewing internal audit procedures, (iv) analysing internal audit reports, including related-party transactions, (v) reviewing internal audit programs, cooperation with internal auditors and periodic evaluation of their performance, (vi) cooperation with independent auditors auditing the Company's financial statements and presenting to the

Supervisory Board recommendations regarding the choice of independent auditor, (vii) discussing the nature and scope of audit work with the interdependent auditor before each audit of annual financial statements, (viii) providing information to the Supervisory Board regarding the Committee's work with any proposals to take any necessary actions, and (ix) performing other tasks connected with accounting and finance, agreed between the Audit Committee and the Supervisory Board.

The Audit Committee is composed of Tomek Ulatowski, Konrad Jaskóła and Gabriel Wujek.

Periodic reports prepared by a special team, set up by the President of the Board to control the Company's organisational units on an ongoing basis and monitor any possible abuses, are discussed between the President of the Board and the members of the Audit Committee. This method of supervision allows for fuller supervision of the process of preparing financial statements and also allows the Supervisory Board to be regularly updated on the Company's ongoing processes.

### **Remuneration Committee**

Duties of the Remuneration Committee are set out in the By-laws of the Supervisory Board.

The Remuneration Committee consists of three members, including at least two members who meet the independence criteria set out in the Company's statutes. The Remuneration Committee's main task is to advise the Board regarding the development of the remuneration systems for the Management Board and the Company's directors, which would allow the Company to attract and retain the highest calibre professionals and incentivise them to work towards increasing the efficiency of the Company's operations.

The Remuneration Committee is composed of Ygal Ozechov, Konrad Jaskóła and Gabriel Wujek.

At the initiative of the co-chairmen of the Supervisory Board and with the President's cooperation, the Company implemented a share option plan whereby top managers with the largest influence on the Company and its ongoing management received blocks of Multimedia Polska S.A. shares. The goal of the management share option plan is to tie together the Company's top management and the Company's key objectives and provide strong incentive.