

TV broadcasting market

The Polish TV broadcasting market consists of state-owned and private commercial broadcasters airing both at the regional and national levels.

TV broadcasting in Poland was started in the 1950s by the state-owned TV broadcaster TVP, which was the sole Polish TV broadcaster until 1992. Since the opening of the Polish TV market to private commercial broadcasters in 1992, the number of TV channels has increased substantially. Today, the Polish TV broadcasting market has five national or pan-regional terrestrial broadcasters (TVP, TVN, TV Polsat, Polskie Media and Telewizja Puls), a number of smaller regional broadcasters, broadcasters of satellite and cable TV channels and foreign broadcasters that distribute foreign language (predominantly German and English) channels. Currently, there are seven analog terrestrial channels in Poland, five of which are available to over 90% of Polish households.

Poland is currently in the process of converting from analog terrestrial broadcasting TV to DTT based on Digital Video Broadcasting—Terrestrial standards. According to the act on the implementation of DTT, Poland will switch off the analogue transmitters on July 31, 2013. The introduction of DTT will enable i.a. the launch of HDTV (High Definition Television) and broadcasting more free TV channels (eventually seven within the first multiplex and then eight channels within both the second and the third multiplex). Digital television may boost the development of additional services such as pay-per-view (payment for a particular program) or e-commerce.

Potential entrants to the broadcasting market must overcome regulatory barriers related to the licensing of broadcasting activities and restrictions on foreign ownership of TV broadcasters. In addition, potential entrants to the TV broadcasting industry would incur high technical, operational, and licensing costs in order to create a programming library, to acquire access to content providers, to establish and expand a distribution network and to establish advertising partner relationships. Due to the market's maturity, high level of competition among the major broadcasters and significant barriers to entry, we believe that successful entry into the Polish broadcasting market by new participants is very difficult in the short term.

The Polish TV broadcasting market is supervised by the KRRiT (National Broadcasting Council of Poland) which grants broadcasting licenses and supervises the operations of Polish TV broadcasters.

Polish TV advertising market

According to Zenith Optimedia estimates, in 2010 Poland was the second largest advertising market in Central Europe. According to estimates prepared by Starlink media house, advertising expenditure in this period increased YoY by 4.5% to PLN 7.3 billion, of which PLN 3.84 billion was spent in television segment, which recorded a growth of 7.2%. Zenith forecasts increases in TV advertising expenditure in Poland of 2.6% and 3.7% in 2011 and 2012, respectively. While TV advertising's share of overall media advertising has remained stable over the past few years, advertising expenditure in 2009, as well as TV broadcaster revenue, declined along with reduced GDP growth during the global economic downturn.

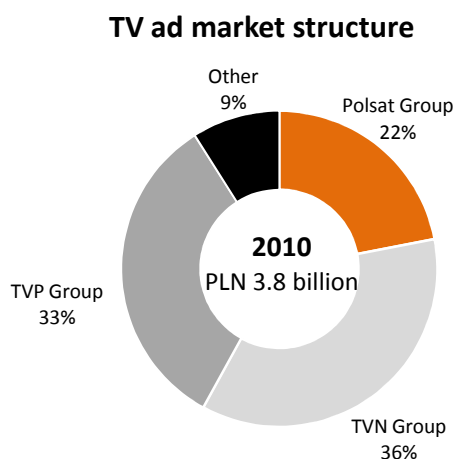
In 2010, TV advertising was the dominant advertising medium in Poland. According to Zenith Optimedia, historically, TV's share of total advertising expenditure has been stable, ranging from 51% in 2006 to 53% in 2010, and is expected to continue to have an approximately 53% share of all advertising expenditure in Poland in 2011 and 2012. The recent dynamic growth of the Internet as an advertising medium has not resulted in a substantial change in TV's share of advertising spending but it has had a significant adverse impact on print advertising.

The structure of advertising expenditure in Poland in 2006-2013

	2006	2007	2008	2009	2010	2011F	2012F	2013F
Television	51.2%	50.3%	51.8%	52.0%	52.5%	52.6%	52.6%	52.3%
Print	27.1%	23.6%	21.5%	19.8%	17.8%	16.1%	14.6%	13.3%
Internet	3.7%	8.5%	9.5%	11.7%	13.8%	15.5%	17.3%	19.3%
Outdoor	8.9%	9.6%	9.1%	8.6%	7.9%	7.5%	7.4%	7.0%
Radio	8.2%	7.1%	6.8%	6.6%	6.5%	6.7%	6.6%	6.5%
Cinema	1.0%	1.0%	1.2%	1.4%	1.5%	1.5%	1.5%	1.5%

Source: Zenith Optimedia, „Advertising expenditure forecasts, December 2011”

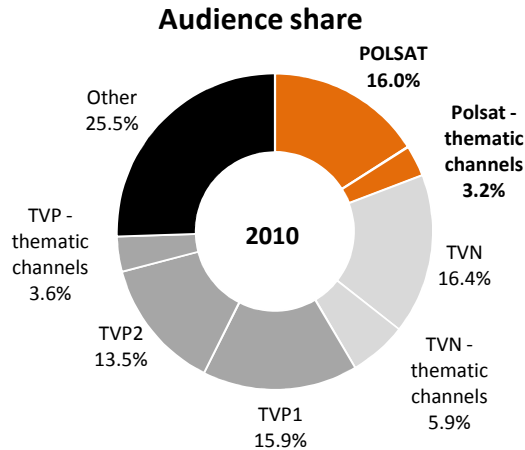
Based on data from Starlink, we estimate that in 2010, TV Polsat Group had a 22% share of the PLN 3.84 billion Polish TV advertising market and an advertising power ratio, which is a ratio of advertising market share to total individual audience share measuring the relationship between advertising revenue and audience share, of 1.3, the second highest power ratio in the market. At the same time, we estimate that TVN Group had a 36% share and an advertising power ratio of 1.7 and TVP Group had a 33% share and an advertising power ratio of 0.8.



Source: Cyfrowy Polsat's estimates based on Starlink

Key TV channels

The Polish TV market is dominated by the four largest FTA channels, TVP1, TVP2, TVN and POLSAT, which collectively had approximately 62% of the aggregate audience share in 2010. However, the increasing success in Poland of satellite, cable TV and DTT providers will likely result in the increasing fragmentation of Polish TV viewing audiences.



Source: NAM, All 16-49, all day

In 2010, our main channel, POLSAT, was the second major TV channel in Poland with a 16.0% audience share and approximately 95% technical coverage. The channel started broadcasting in 1992 as the first commercial channel in Poland. We also broadcast 12 thematic channels with comprehensive offers targeted to each important audience segment. Our thematic channels achieved a 3.2% combined audience share in 2010. POLSAT competes for audiences and advertising primarily with the nationwide channels of TVP and TVN. Our other channels compete primarily with a few small regional channels operating in Poland and with channels distributed via satellite and cable TV networks in Poland.

The TVN channel achieved a 16.4% audience share in 2010 and had approximately 90% technical coverage. TVN Group key thematic channels achieved a 5.9% combined audience share. TVN Group broadcasts key channels via satellite and two via Internet only.

In 2010, TVP1 was the third major TV channel in Poland with approximately 15.9% audience share, while TVP2 achieved 13.5% audience share. In 2010 TVP1 and TVP2 reached almost 100% of households in Poland. TVP's regional cable TV and satellite channels had 3.6% audience share in 2010. As the national state-owned broadcaster, TVP receives the majority of license fees mandatorily charged to Polish citizens owning TV or radio sets under the License Fees Act of 2005 (Dz.U. of 2005 No. 85 Item 728, as amended). Despite regulation preventing TVP from interrupting programs to broadcast advertising, which lessens its advertising inventory, in 2009, TVP generated only approximately 17% of its income from license fees, with the balance comprising advertising revenue according to the KRRiT Report.

Source: Starlink; Cyfrowy Polsat's estimates based on Starlink; Zenith Optimedia, „Advertising expenditure forecasts, December 2011”; NAM, all 16-49, all day, SHR%