



**MANAGEMENT REPORT
ON THE OPERATIONS OF
NFI MIDAS S.A.
IN 2011**

Warsaw, 20 March 2012

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1 Description of NFI Midas S.A.

1.1 Key information about NFI Midas S.A.

Narodowy Fundusz Inwestycyjny Midas Spółka Akcyjna (the "Fund" or "Issuer") was established on 15 December 1994 pursuant to the Act on national investment funds and their privatisation of 30 April 1993 (Journal of Laws No. 44, item 202, as amended) ("NFI Act") and validly exists under provisions of that Act and the Code of Commercial Companies ("CCC"). The Fund is registered in the District Court in Warsaw, 12th Commercial Department of the National Court Register, Entry No. KRS 000002570. The registered office of the Fund is in the city of Warsaw.

1.1.1 Core business of the Fund

Core business activities of the Fund comprise:

- 1) financial holdings' activities (64.20.Z)
- 2) other forms of lending (64.92.Z)
- 3) other financial services activities, not classified elsewhere, except for insurance and pension funds (64.99.Z)
- 4) other activities auxiliary to financial services, except for insurance and retirement funds (66.19.Z)
- 5) purchase and sale of real estate on its own account (68.10.Z)

1.1.2 Changes in the structure of the Fund

In 2011 the structure of the Fund did not change.

1.2 Branches of the Fund

The Fund has no branches or establishments.

1.3 Changes in the the Fund management principles

In 2011 there were no major changes in the way the Fund is managed. After the Management Board of the Fund had accepted updates to the Fund's strategy, there was a change in the principles of management over the entire NFI Midas S.A. Capital Group, as described in the Management Report on the operations of NFI Midas S.A. Capital Group.

1.4 Organizational or capital relations

The Fund is a part of the capital group ("Midas Group") as defined in IAS 27 "Consolidated and Separate Financial Statements" in which the Fund is the parent and its subsidiaries (as defined in IAS 27) include CenterNet S.A. with its registered office in Warsaw ("CenterNet"), Mobyland Sp. z o.o. with its registered office in Warsaw ("Mobyland"), Conpidon Limited with its registered office in Nicosia ("Conpidon"), Aero2 Sp. z o.o. with its registered office in Warsaw ("Aero2"), Daycon Trading Limited with its registered office in Nicosia ("Daycon") and Nova Capital Sp. z o.o. with its registered office in Warsaw ("Nova").

The Fund is also a part of the capital group ("ZSZ Group") as defined in the Act on Public Offering in which the parent (person controlling the Fund) is the Chairman of the Supervisory Board, Mr. Zygmunt Solorz – Żak. Mr. Zygmunt Solorz – Żak controls the Fund indirectly through the following entities: Karswell Limited with its registered office in Nicosia, Cyprus ("Karswell"), Ortholuck

Limited with its registered office in Nicosia, Cyprus (a subsidiary of Karswell, "Ortholuck"), Litenite Limited with its registered office in Nicosia, Cyprus (a subsidiary of Ortholuck, "Litenite"). To the best knowledge of the Fund as at the date of this report:

- 1) Mr. Zygmunt Solorz-Żak holds shares in Karswell but the Fund is not aware of what is the stake of Mr. Zygmunt Solorz-Zak in the capital of Karswell,
- 2) Ortholuck holds 51% stake in Litenite,
- 3) Mr. Zygmunt Solorz-Żak, Karswell and Ortholuck do not directly hold any shares of the Fund (information is based on the notification made pursuant to Art. 69 of the Act on Public Offering received by the Fund from Mr. Zygmunt Solorz-Żak).

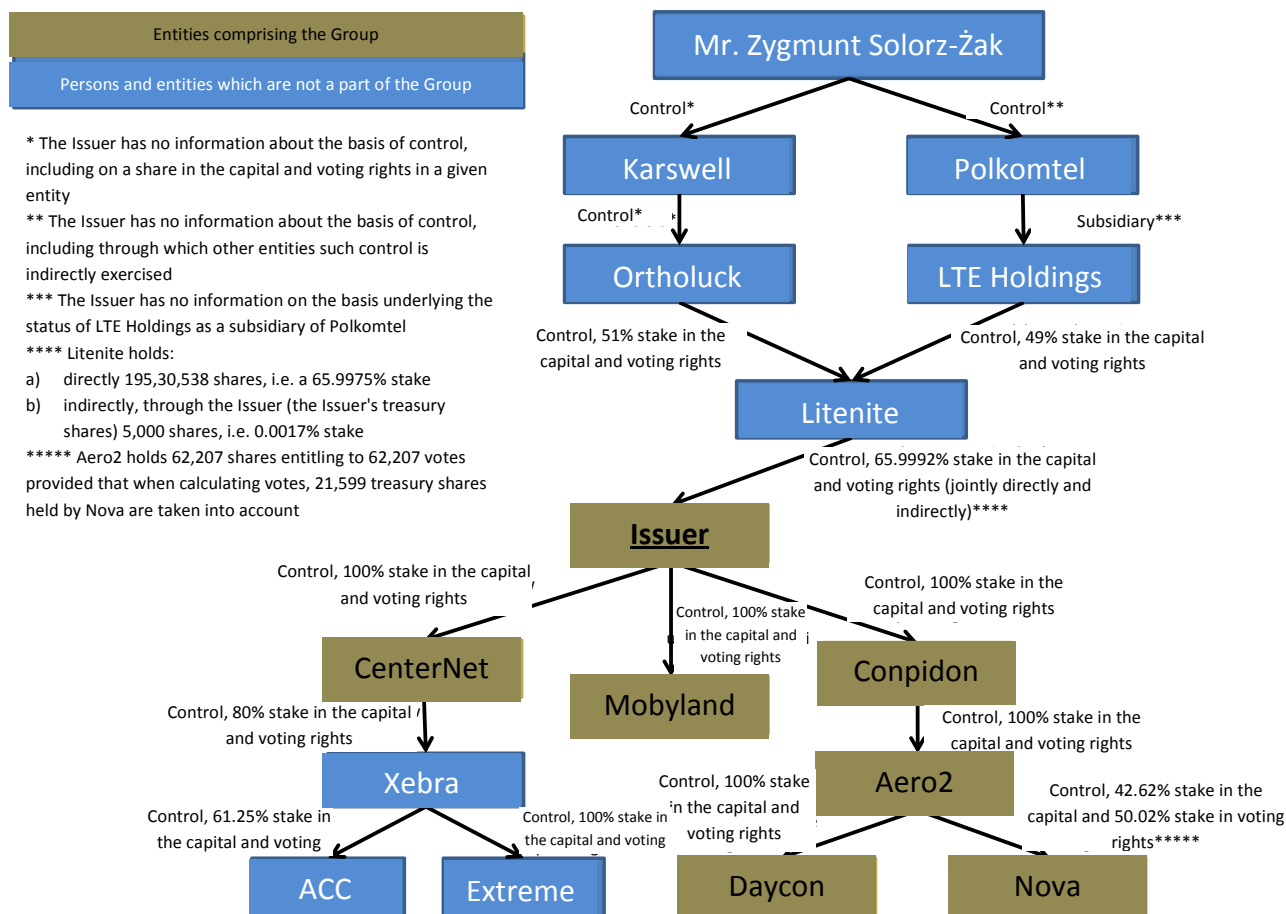
The Fund does not have any other information on how Mr. Zygmunt Solorz-Żak exercises control over Karswell, Ortholuck and Litenite.

ZSZ Group also includes subsidiaries of the Fund – CenterNet, Mobyland, Aero2, Daycon, Nova.

In addition, 49% of Litenite shares are held by LTE Holdings Limited with its registered office in Nicosia, Cyprus ("LTE Holdings"), a subsidiary of Polkomtel Spółka Akcyjna with its registered office in Warsaw ("Polkomtel"), but the Fund is not aware of the basis underlying the status of LTE Holdings as a subsidiary of Polkomtel.

Polkomtel is an entity controlled by Mr. Zygmunt Solorz-Żak.

The diagram below shows information available to the Fund on entities which are parents to the Fund, other entities through which Mr. Zygmunt Solorz-Żak holds shares in the parents of the Fund as well as information about Midas Group and subsidiaries of CenterNet not being a part of Midas Group .



1.5 Deposits and capital investments of the Fund

Carried out in 2011, investments were a key element of the Midas Group's business development in the telecommunications sector. During this period the Fund finalised acquisitions of two telecommunications operators, i.e. Mobyland and Aero2 (indirectly) which constitute long-term capital investments of Midas Group.

Acquisition of Mobyland

On 6 June 2011 the Fund entered with Daycon into the agreement for sale of shares in Mobyland, as described in section 2.4.1 of this report, under which the Fund acquired on 6 June 2011 204,200 shares in Mobyland, with a nominal value of PLN 500 each, representing 100% of the share capital of Mobyland, and entitling to 100% of votes at the general meeting of shareholders of Mobyland, for the price of PLN 177,000,000. The acquisition of Mobyland was of vital importance for the Fund because it opened possibilities to pursue the development strategy of the Group as described in section 2.6 of this report. The acquisition of Mobyland was funded by proceeds from the issue of C class shares of the Fund.

Indirect acquisition of Aero2

On 19 September 2011 the Fund entered into the preliminary conditional agreement for purchase of shares in Conpidon Limited, with its registered office in Nicosia, Cyprus, as described in section 2.4.1 of this report. On 9 December 2011 the Fund entered into the final agreement under which it acquired 100% of shares in Conpidon which as at the date of such agreement held 100% of shares in Aero2, the agreement being described in section 2.4.1 of this report. In accordance with provisions of the agreement the Issuer undertakes to pay PLN 548,000,000 for the acquired shares. Proceeds from the

issue of D class shares of the Fund are expected to finance the acquisition of the a/m shares. On 19 March 2012 the Management Board of the Issuer allotted to investors D class shares in the Fund (respective information is included in section 5.2 of this report). The acquisition of Aero2 is of vital importance for the Group because it opens possibilities to pursue the development strategy of the Group as described in section 2.6 of this report.

2 Business operations of the Fund

Investment activities constitute a core business of the Fund. Investment activities carried out by the Fund in 2011 included mainly the structuring and organisation of the expanded Midas Group as well as providing financing to entities from Midas Group. Those activities are conducted on the territory of Poland. In addition, the Fund pursued such activities as raising capital necessary for the implementation of the Midas Group investment plans through the issue of new shares and debt papers.

2.1 *Principal products, goods and services*

Due to the nature of its operations, the Fund practically does not manufacture products or goods and does not provides services. Principal products, goods and services manufactured by Midas Group are described in detail in the Management Report on the operations of NFI Midas S.A. Capital Group.

2.2 *Key sales and supply markets*

The nature of the Fund's activities does not allow for identification of key sales or supply markets. Nevertheless, subsidiaries belonging to Midas Group operate on the market of telecommunications services in Poland.

2.3 *Important events, achievements and failures of the Fund affecting its business operations*

In May 2011 the Fund successfully completed the public issue of its C class shares. Proceeds from the issue allowed the pursuit of the NFI Midas issue objectives, including financing the acquisition of Mobyland, reducing indebtedness under issued corporate papers and replenishing the working capital of the Company. The use of the proceeds from the issue was described in section 3.5 of this report.

In June 2011 the Fund acquired a 100% stake in Mobyland. The agreement for the purchase of shares in Mobyland was widely described in section 2.4.1 of this report.

In September 2011 the Fund updated the strategy of Midas Group, as referred to in section 2.6.1 of this report. Also in September the Fund began the process of acquisition of Aero2, resulting in the preliminary conditional agreement for the purchase of shares in Conpidon, as described in section 2.4.1 of this report.

In October 2011 the Fund signed with Huawei Poland Sp. z o.o. ("Huawei"), a letter of intent, as described in section 2.4.1 of this report.

In December 2011 the Fund indirectly acquired a 100% stake in Aero2.

2.4 *Information about agreements entered into by the Fund*

This section enumerates agreements which are entered into in the normal course of business of the Fund. Such agreements were classified as essential because of their value exceeding as at their date 10% of the Fund's equity or due to their direct impact on the operations and strategy of the Fund.

2.4.1 Agreements of significant importance for the Fund's business operations

Agreement (together with annexes) with Alior Bank

On 18 May 2011 the Fund entered with Alior Bank S.A. ("Alior Bank") into an Agreement on contracts for sale of registered papers referenced respectively as MID0611.1, MID0611.2, MID0611.3 issued by the Fund ("Agreement"). The Agreement was executed as Alior Bank intended to enter into contracts for sale of registered papers referenced as MID0611.1, MID0611.2, MID0611.3 ("Papers") to holders of Papers (the Issuer will not be a party to those Contracts). Terms and conditions of the Agreement were described in detail in the current report 25/2011 of 20 May 2011 (available on the Fund's website - www.midasnfi.pl).

The agreement entered into force on the date of signing the above contracts for sale of registered papers referenced as MID0611.1, MID0611.2, MID0611.3, though Alior Bank notified the Fund on the execution of such contracts on 20 May 2011.

On 19 May 2011 Alior Bank and the Fund entered into an annex to the Agreement which came into force on the effective date of the Agreement. Terms and conditions of the annex were described in detail in the current report 25/2011 of 20 May 2011 (available on the Fund's website - www.midasnfi.pl).

On 10 June 2011 the Bank and the Fund entered into an annex ("Annex 2") to the Agreement. Terms and conditions of Annex 2 were described in detail in the current report 35/2011 of 10 June 2011 (available on the Fund's website - www.midasnfi.pl).

On 29 June 2011 the Fund and Alior Bank entered into an annex ("Annex 3") to the Agreement. Terms and conditions of Annex 3 were described in detail in the current report 41/2011 of 30 June 2011 (available on the Fund's website - www.midasnfi.pl).

Under the Agreement the Fund will issue debt papers in 2011. The issues were further described later in this report.

Early redemption of debt papers

On 10 June 2011 the Fund made an early redemption of papers referenced as MID0611.1, MID0611.2, MID0611.3 ("Papers") issued on 21 April 2010. As at the date of early redemption Alior Bank was the holder of the Papers. The Papers were redeemed for the total amount of PLN 104,639,446.66 which included PLN 104,424,189.78 of the nominal value of the Papers, and PLN 215,256.88 of interest due for the period from 1 June 2011 to 10 June 2011.

Agreements with Inwestycje Polskie

On 20 May 2011 the Fund entered into the Security Agreement with Inwestycje Polskie ("Agreement"). Under the Agreement the Fund ordered Inwestycje Polskie to establish security collaterals on Inwestycje Polskie's assets which would cover claims of Alior Bank against the Fund from registered papers issued by the Fund and referenced as respectively MID0611.1, MID0611.2, MID0611.3 ("Papers"), and Inwestycje Polskie agreed to establish such security collaterals.

According to the Agreement the a/m claims were secured ("Security Collateral") as follows:

- a) first-rank contractual mortgage up to PLN 130,000,000 established in favour of Alior Bank on Inwestycje Polskie's right of perpetual usufruct of the Real Estate and title to buildings erected thereon, constituting an ownership title separate from the real estate
- b) sureties, as defined in provisions of the Civil Code, under which Inwestycje Polskie undertakes in relation to Alior Bank to perform obligations of the Fund under the Papers in the event when the Fund fails to perform such obligations,
- c) Inwestycje Polskie's statement on submission to enforcement, substantially in the form required by Alior Bank, up to PLN 156,636,000 as a part of enforcement proceedings carried out by Alior Bank,
- d) assignment of monetary claims under all-risk insurance of the Real Estate to Alior Bank.

Any expenses incurred by Inwestycje Polskie for establishing the Security Collateral were to be reimbursed by the Fund. The Fund agreed to pay fees to Inwestycje Polskie for establishing the Security Collateral in the amount of PLN 650,000 net per annum, payable monthly, based on invoices, pro rata to the period of validity of the Security Collateral in the given month.

In addition, the Fund committed to:

- a) reimburse Inwestycje Polskie against any amounts paid to Alior Bank in performance of the security collaterals established under the Agreement;
- b) cover any losses incurred by Inwestycje Polskie in relation to Alior Bank drawing on the Security Collateral;
- c) establish in favour of Inwestycje Polskie, in order to secure possible claims of Inwestycje Polskie against the Fund under the Agreement following Alior Bank drawing on the Security Collateral, a registered pledge over CenterNet shares held by the Fund provided that such registered pledge will be established immediately after deletion of registered pledges established on CenterNet shares and existing as at the date of the Agreement.

The Agreement was effective from the date of its conclusion until the expiration of the Security Collateral and settlement by the Client of all the liabilities under the Papers and the Agreement, i.e. until 30 June 2011.

On 15 July 2011 the Fund entered into the Security Agreement with Inwestycje Polskie ("Agreement 2"), as amended by the annex of 8 December 2011. Under the Agreement 2 the Issuer ordered Inwestycje Polskie to establish security collaterals on Inwestycje Polskie's assets which would cover claims of Alior Bank against the Fund from registered papers issued by the Fund, under a single transaction or in tranches, for the total nominal value not exceeding PLN 104,424,000, with a maturity falling on 30 June 2012 at the latest and bearing interest not lower than the sum of WIBOR 1M and a 2.5 pp margin per annum ("Papers"), and Inwestycje Polskie agreed to establish such security collaterals.

According to Agreement 2 the a/m claims should be secured ("Security Collateral 2") as follows:

- a) first-rank contractual mortgage up to PLN 130,000,000 established in favour of Alior Bank on Inwestycje Polskie's right of perpetual usufruct of the Real Estate and title to buildings erected thereon, constituting an ownership title separate from the real estate,

- b) sureties, as defined in provisions of the Civil Code, under which Inwestycje Polskie undertakes in relation to Alior Bank to perform obligations of the Fund under the Papers in the event when the Fund fails to perform such obligations,
- c) Inwestycje Polskie's statement on submission to enforcement, substantially in the form required by Alior Bank, up to PLN 156,636,000 as a part of enforcement proceedings carried out by Alior Bank,
- d) assignment of monetary claims to Alior Bank under all-risk insurance of the Real Estate from an insurer accepted by Alior Bank.

In the event when the issue of the Papers is organised in tranches, Inwestycje Polskie is required to establish security collaterals up to amounts corresponding to the equivalent of the Papers issued in each tranche. With each subsequent issue of the Papers, Inwestycje Polskie is required to increase the amounts of the Security Collaterals.

Any expenses incurred by Inwestycje Polskie for establishing the Security Collateral should be reimbursed by the Fund. The Fund agreed to pay fees to Inwestycje Polskie for establishing the Security Collateral in the amount of PLN 650,000 net per annum, payable monthly and accrued pro rata to the duration of risk from granting such Security Collateral and pro rata to the annual amount of the a/m fees. The fees are payable from the date when Inwestycje Polskie submit all required statements on establishing the Security Collateral.

In addition, the Fund undertakes:

- a) to reimburse Inwestycje Polskie against any amounts paid by Inwestycje Polskie to Alior Bank in performance of the security collaterals established under the Agreement;
- b) cover any losses incurred by Inwestycje Polskie in relation to Alior Bank drawing on the Security Collateral;
- c) to establish in favour of Inwestycje Polskie, in order to secure possible claims of Inwestycje Polskie against the Fund under Agreement 2 following Alior Bank drawing on the Security Collateral, a pledge and a registered pledge over CenterNet shares held by the Fund,
- d) not to proceed, without the consent of Inwestycje Polskie, with any changes in the share capital of CenterNet, including not to issue securities and any other rights to CenterNet shares.

The Agreement is effective from the date of its conclusion until the expiration of the Security Collateral and settlement by the Client of all the liabilities under the Papers and the Agreement.

On 8 December 2011 the Fund entered with Inwestycje Polskie into the agreement for a regular and registered pledge on shares of a 100% subsidiary - CenterNet ("Pledge Agreement"). Under the Pledge Agreement the Fund established a pledge in favour of Inwestycje Polskie on 4,264,860 CenterNet shares with a nominal value of PLN 17.30 each and PLN 73,782,078 in aggregate, representing 100% of the share capital and voting rights in that entity ("CenterNet Shares"), disclosed in the books of account of the Fund at PLN 238,989,000 and constituting a long-term capital investment of the Fund. Terms and conditions of the Pledge Agreement were described in detail in the current report 87/2011 of 9 December 2011 (available on the Fund's website - www.midasnfi.pl). On 28 December 2011 the District Court for the capital city of Warsaw in Warsaw, XI Commercial Division - Pledge Register,

issued a decision to enter a pledge on CenterNet shares in favour of Inwestycje Polskie in the pledge register.

Issue of debt papers

On 18 July 2011 the Fund issued 21,500 series MID0612.1 debt papers with a nominal value of PLN 1,000 each ("Papers"), with a total nominal value of PLN 21,500,000. The Papers were subscribed for on 19 July 2011 by Alior Bank at a price equal to their nominal value as a result of the acceptance by Alior Bank, on 18 July 2011, of the proposal to subscribe for the Papers of 15 July 2011 ("Proposal") and as a result of the payment of the a/m issue price on 19 July 2011. Under the terms of the issue of the Papers stipulated in the Proposal, the Papers mature on 30 June 2012, however the Fund has the right to perform early redemption of the Papers. In addition, the Papers provide a right to interest, accrued and paid on a monthly basis, at WIBOR 1M from the second working day preceding the beginning of the given interest period, increased by 2.5 percentage points, per annum. Terms and conditions for the issue of the Papers were described in detail in the current report 51/2011 of 19 July 2011.

Following the subscription, on 9 December 2011, by Alior Bank for 30,000 series MID0612.2 debt papers with a nominal value of PLN 1,000 each ("Papers"), with a total nominal value of PLN 30,000,000 for the issue price equal to their nominal value as a result of the acceptance by Alior Bank of the proposal to subscribe for the Papers ("Proposal") and as a result of the payment of the a/m issue price by Alior Bank, the issue of the Papers was successful. Under the terms of the issue of the Papers stipulated in the Proposal and accepted by Alior Bank, the Papers mature on 30 June 2012, however the Fund has the right to perform early redemption of the Papers. In addition, the Papers provide a right to interest, accrued and paid on a monthly basis, at WIBOR 1M from the second working day preceding the beginning of the given interest period, increased by 2.5 percentage points, per annum. Terms and conditions for the issue of the Papers were described in detail in the current report 87/2011 of 9 December 2011.

Agreement on debt papers with CenterNet and Mobyland

On 30 June 2011 the Fund signed with Mobyland an agreement ("Agreement") amending terms and conditions for the issue of series MID0611B registered papers ("Papers") held by Mobyland. The Agreement incorporated amendments of terms and conditions for the issue of the Papers in relation to (i) the date of redemption of the Papers by the Fund and (ii) interest periods applicable to the Papers. Under the agreement the Fund and Mobyland amended terms and conditions for the issue of the Papers so that the redemption date for the Papers fall on 31 December 2013. In addition the Agreement modified interest calculation and payment methods. Instead of monthly interest payments, interest will be paid on the redemption date, i.e. on 31 December 2013. All the other terms and conditions for the issue of the Papers remained unchanged.

On 30 June 2011 the Fund signed with CenterNet an agreement ("Agreement 2") amending terms and conditions for the issue of series MID0611C registered papers ("Papers 2") held by CenterNet. The Agreement incorporated amendments of terms and conditions for the issue of the Papers 2 in relation to (i) the date of redemption of the Papers 2 by the Fund and (ii) interest periods applicable to the Papers 2. Under the Agreement 2 the Fund and CenterNet amended terms and conditions for the issue of the Papers 2 so that the redemption date for the Papers 2 fall on 31 December 2013. In addition the Agreement 2 modified interest calculation and payment methods. Instead of monthly interest payments, interest will be paid on the redemption date, i.e. on 31 December 2013. All the other terms and conditions for the issue of the Papers 2 remained unchanged. On 13 December 2011 the Fund

made a partial redemption of the papers issued by the Fund and held by CenterNet for the amount of PLN 6,500,000.

Letter of Intent with Huawei

On 26 October 2011 the Fund signed with Huawei Polska Sp. z o.o. with its registered office in Warsaw ("Huawei") a letter of intent (English "Memorandum of Understanding", hereinafter referred to as the "Letter of Intent") for the construction of a nationwide telecommunications network based on HSPA+ (900 MHz frequency), LTE FDD (1800 MHz frequency) and LTE TDD (2600 MHz frequency) technologies and for searching for financing ("Project").

In the Letter of Intent the Fund and Huawei undertook to negotiate in good faith agreements which would contain specific terms and conditions of cooperation between the Fund, as the buyer, and Huawei, as the exclusive - to the extent to which it would participate in the Project - supplier of hardware and software and services for purposes the Project. The Letter of Intent does not exclude the participation of the Group entities in the Project. In addition, as the Fund is interested in obtaining financing in the form of a trade credit (the so called "vendor financing") to build a nationwide telecommunications network based on HSPA+/LTE technologies Huawei agreed to help in arranging such financing. The parties to the Letter of Intent initially estimated the value of the Project for EUR 235-300 m, and the duration of their cooperation for implementation of the Project for three years but because of an early stage of talks the Fund noted that these parameters might change. The parties to the Letter of Intent initially estimated that the vendor financing could cover approximately 85% of the value of the Project.

The Letter of Intent will be effective from the date of its signing until the date of signing the agreements referred to above.

Annexes to the preliminary agreement for sale of shares in Mobyland

On 7 January 2011 the Fund signed with Daycon ("Seller") an annex to the preliminary agreement for sale of shares in Mobyland ("Preliminary Agreement") amending and adding provisions to the Preliminary Agreement under which the Fund is entitled to change the composition of the management board of Mobyland on terms and conditions specified unilaterally by the Fund any time indicated by the Fund.

On 30 March 2011 the Fund signed with the Seller an annex to the Preliminary Agreement amending and among others adding provisions to the Preliminary Agreement under which in the event when circumstances specified in the Preliminary Agreement and constituting grounds for the Fund to withdraw from the Preliminary Agreement appear after execution of the Final Agreement or before execution of the Final Agreement but become known for the Parties only after execution of the Final Agreement, then the Fund would be authorised to request the Seller to repurchase the shares for the price of PLN 177,000,000 ("Put Option"). The Fund may exercise its rights under the Put Option in writing with a notarised signature within the periods applicable to the right to withdraw from the Preliminary Agreement with respect to any of the circumstances justifying the exercise of such rights by the Fund. The Fund's ability to exercise rights under the Put Option expires on 31 December 2014 at the latest. In order to secure the Fund's claims under the Put Option, together with the execution of the Final Agreement the Seller was required to provide the Fund with an irrevocable offer, valid until 31 December 2014, to acquire 100% of shares in Mobyland for PLN 177,000,000.

Final Agreement for sale of shares in Mobyland

On 6 June 2011 the Fund ("Buyer") entered with Daycon ("Seller") into the Agreement for sale of shares in Mobyland ("Final Agreement") under which the Fund acquired, on 6 June 2011, assets of a significant value. The agreement was concluded in performance of the Preliminary agreement for sale of shares in Mobyland Sp. z o.o. ("Preliminary Agreement") dated 16 December 2010.

Under the Final Agreement, the Seller sold to the Fund and the Fund purchased from the Seller assets of a significant value in the form of 204,200 shares in Mobyland, with a nominal value of PLN 500 each, representing 100% of the share capital of Mobyland and entitling to 100% of votes at the shareholders meeting of Mobyland for the price of PLN 177,000,000. Terms and conditions of the Final Agreement were described in detail in the current report 33/2011 of 7 June 2011.

Preliminary conditional agreement to purchase shares in Conpidon

On 19 September 2011 the Fund signed with Litenite ("Seller") a preliminary conditional agreement ("Agreement") to purchase shares in Conpidon which as at the date of such Agreement was the majority shareholder of Aero 2.

The subject of the Agreement was the obligation to enter into another agreement ("Final Agreement") under which the Seller sells and transfers to the Fund 100% of shares ("Conpidon Shares") in the capital of Conpidon ("Transaction"). Under the Agreement, for the Conpidon Shares the Fund agreed to pay to the Seller a price equal to PLN 548,000,000. The price was determined based on the assumption that net debts of Aero2 are not higher than PLN 70,000,000. In the event when Aero2 net debts are higher, the price for the shares will be reduced by the amount of such excess. Terms and conditions of the Agreement were described in detail in the current report 61/2011 of 19 September 2011.

Final Agreement for purchase of shares in Conpidon

On 9 December 2011 the Fund entered with Litenite Limited ("Seller") into an agreement for the purchase of shares in Conpidon ("Agreement") following which the Fund became an indirect owner of 100% of shares in Aero 2 Sp. z o.o. The agreement was executed in performance of the preliminary agreement for the purchase of shares in Conpidon ("Preliminary Agreement") referred to in section 2.4.1 of this report.

Under the Agreement, the Seller sold to the Fund and the Fund purchased from the Seller assets of a significant value in the form of 221,000 shares in Conpidon, with a nominal value of EUR 1 each, representing 100% of the share capital of Conpidon and entitling to 100% of votes at the shareholders meeting of Conpidon for the price of PLN 548,000,000 ("Price for Conpidon Shares"). As a result of the Agreement the Fund indirectly acquired 221,000 shares in Aero2, with a nominal value of PLN 50 each, representing 100% of the share capital of Aero2 and entitling to 100% of the votes at the shareholders meeting of Aero2. The Parties jointly agreed that the transfer of the title to the shares had been effected when entering into the Agreement. Terms and conditions of the Agreement were described in detail in the current report 88/2011 of 9 December 2011.

2.4.2 Essential transactions with related parties contracted not on an arm's length basis

The Fund did not enter into any essential transactions with related parties contracted not on an arm's length basis.

2.4.3 Contracted and terminated credit and loan agreements

Loan agreements with Nova

In 2011 the Fund entered into three loan agreements with Nova with a total value of PLN 4,950,000. The agreements referred to in the preceding sentence were signed when Nova was out of the Midas Group. The loans bear interest at 5% per annum. The a/m loans mature on 31 December 2012. The loans are secured by blank promissory notes. The agreements do not provide for any liquidated damages. Other terms and conditions of the agreements do not differ from those commonly used in agreements of such type.

Loan agreement with Aero2

In 2011 the Fund entered into a loan agreement with Aero2 for PLN 175,000. The loan bore interest at 5% per annum. The a/m loan matured on 31 December 2011. The loan was secured by blank promissory notes. The agreements did not provide for any liquidated damages. Other terms and conditions of the agreements did not differ from those commonly used in agreements of such type. The loan was repaid by the Fund prior to the a/m maturity date.

2.4.4 Loans and sureties granted and sureties and guarantees received

Loan agreement with CenterNet

On 18 July 2011 the Fund, on the basis of a respective agreement, granted a loan to CenterNet in the amount of PLN 21,500,000. The loan bears interest at WIBOR 1M + 3 percentage points per annum. The maturity date, as specified in the agreement, falls on 30 June 2012. As the Fund incurred expenses in association with the issue of series MID0612.1 registered papers (referred to in section 2.4.1 of this report), CenterNet undertook in the Agreement to reimburse the Fund against a part of such expenses, in the amount of PLN 107,500 within 1 month of the date of payment of the above loan amount. The loan was secured by a blank promissory note. The Agreement does not provide for any liquidated damages. Other terms and conditions of the Agreement do not differ from those commonly used in agreements of such type.

Loan agreement with Aero2

In December 2011 the Fund, on the basis of a respective agreement, granted a loan to Aero2 in the total amount of PLN 19,000,000. The loan bears interest at WIBOR 1M + 3% per annum. The a/m loans mature on 29 June 2012. The loan was secured by a blank promissory note. The Agreement does not provide for any liquidated damages. Other terms and conditions of the Agreement do not differ from those commonly used in agreements of such type.

2.5 *Employment data*

As at 31 December 2011 the number of persons (in full time equivalents) employed in the Fund under employment contracts and those cooperating with the Fund under civil law contracts was 3.58. Similarly, as at 31 December 2010 the Fund employed 2 persons.

2.6 *Growth of the Fund*

2.6.1 Description of its development direction policy

The main business purpose of the Fund, as stated in its strategy updated on 19 September 2011, is to be the most modern broadband Internet access operator in Poland based on LTE/HSPA+ technologies, with its own technical telecommunications infrastructure which in combination with a unique market position held by Midas Group among others thanks to an effective combination of 1800 MHz

frequencies, will contribute to real opportunities in terms of further development and strengthening of the Midas Group's market position, and thus will create value for the shareholders of the Fund.

After the Aero2 acquisition in December 2011, Midas Group holds different assets: unique resources including 900 MHz, 1800 MHz and 2600 MHz frequencies together with telecommunications infrastructure allowing to provide services based on HSPA + and LTE technologies. In the Fund's opinion within the next 2-3 years Midas Group will have a significant competitive advantage over other operators active on the Polish market of broadband Internet based on LTE/HSPA + technologies. Individual competitive operators, according to the issuer, do not currently have sufficient resources and adequate technical infrastructure to provide broadband Internet services based on LTE technology with quality comparable to that offered by Midas Group.

The Issuer expects that within 2-3 years, at the earliest, operators on the Polish market may be able to build necessary infrastructure and to acquire or obtain necessary frequency resources allowing for the provision of services based on LTE technology. Based on press releases, the Issuer estimates that competitive market operators, PTC and PTK Centertel, which began sharing the telecommunications network, expect that a common network will be fully operational in 2014.

Following the implementation of the strategy, Midas Group as the first operator in Poland provides telecommunication services based on LTE/HSPA + technologies which today (due to restrictions associated with subscriber terminals currently available) allows for radio data transmission at maximum download speeds of up to 100 Mb/s and maximum upload speeds of up to 50 Mb/s. Trends in the area of further development of Internet services, perceivable on other markets, constitute a confirmation of justifiability of investments in the development of advanced technologies.

The strategy adopted by the Fund is implemented through:

- 1) Acquisitions of telecommunications assets holding frequencies or new concessions for frequencies necessary to pursue the strategy.
- 2) Construction of a nationwide telecommunications network based on HSPA + and LTE technologies. Ultimately, the Midas Group plans to use circa 4,800 LTE-technology base stations of which circa 4,600 will support HSPA + technology too.
- 3) Wholesale sale of high quality telecommunications services, in particular Internet access, to retail operators with their own large customer bases.
- 4) Implementation of a cost-effective business model through:
 - a. outsourcing services to be the best providers of services in terms of price-to-quality ratio,
 - b. maintenance agreements with infrastructure suppliers generating the lowest costs,
 - c. use of synergies within the Midas Group,
 - d. building a flat and flexible goal-oriented organisational structure.

One of the steps required when implementing the strategy, in terms of acquisitions of telecommunications assets, is the acquisition of the hitherto existing business partner and trusted counterpart – Aero2. As a part of the strategy, the Fund entered into the agreement, as referred to in

section 2.4.1 of this report, under which it acquired 100% of shares in Conpidon, holding 100% of shares in Aero2.

A business rationale for the above investment lies in the possibility to produce synergies within the Midas Group resulting from a unique nature of assets held by Aero2. This entity is the owner of 900 MHz and 2600 MHz frequencies allowing to offer broadband mobile Internet services based on HSPA + and LTE technologies. In addition, Aero2 has a modern telecommunications network including among others: (i) approximately 640 base stations used by Midas Group and operating based on HSPA + technology of which circa 615 support LTE too, and (ii) approximately 430 base stations operating based on HSPA + technology in the frequency band owned by Aero2, incorporated into the telecommunications network used by Midas Group in cooperation with Polkomtel under the letter of intent referred to in section 2.4.1 of this report. Thanks to such cooperation with Polkomtel for a joint use of the telecommunications infrastructure, there is a possibility for a further expansion of the telecommunications network carried out at lower costs of such expansion compared to an independent development of this network as well as relatively faster than when pursuing such independent development activities. Ultimately, within up to 3 years, Midas Group intends to reach the number of base stations providing a coverage of above 90% of the population based on HSPA + technology, and about 70% of the population based on LTE technology.

The further development of the telecommunications network of Midas Group will take place as a part of two projects, referenced respectively as project 700 and project 4100 (described in the Management Report for the Capital Group). Any costs associated with the implementation of the projects 700 and 4100 will be financed by proceeds from the issue of D class shares and by other sources of financing, such as bank loans, issues of bonds or debt papers or it is also considered to use vendor financing which would be arranged by the supplier of respective devices making up the telecommunications network under construction, for example Huawei Polska (the letter of intent for such vendor financing, as referred to above, was described in section 2.4.1 of this report), and partly based on its own operating cash flows. A final amount and structure of capital required to be raised will depend on talks currently conducted by the Issuer with potential partners with whom it could jointly build the network and potential suppliers of capital and on the value of funding obtained through the issue of D class shares. The Issuer estimates that over the next 12 months its capital needs related to the further development of infrastructure under projects 700 and 4100 may range in aggregate from ca. PLN 300,000,000 net to ca. PLN 400,000,000 net (depending on whether the Midas Group will carry out development works on its own or whether it uses electronic infrastructure belonging to Polkomtel – transmission, multiradio type base stations, etc.) of which from the issue of D class shares ca. PLN 254,988,000 is intended to be appropriated for that purpose provided that PLN 50,000,000 was already temporarily sourced from the issue of debt papers subscribed for by Alior Bank (the issue completed in December 2011, as described in section 2.4.1 of this report and the issue completed in February 2012, as described in section 5.2 of this report). The papers will be repurchased using proceeds from the issue of D class shares.

The Issuer estimates that the total funding necessary for the implementation of Midas Group's development strategy can reach ca. PLN 1.85 bn net of which PLN 548,000,000 will cover the price for the acquisition of Aero2. Any remaining balance will be expended to cover costs associated with pursuing the projects 700 and 4100.

Besides reasons enumerated above, the Fund seeks the following further benefits for Midas Group brought by the implementation of its updated strategy:

- 1) the above-mentioned time and technology advantage over the rest of the LTE operators,
- 2) cost synergies,
- 3) no need to invest in additional frequencies,
- 4) economies of scale in business negotiations,
- 5) acquiring its own telecommunications network,
- 6) creating a comprehensive offer for wholesale data transmission sales.

Mr. Zygmunt Solorz-Żak exercising control over the Issuer notified the latter that it intended to consider in the future a combination of Midas Group's and Polkomtel's operating activities if it is consistent with the obligations of Polkomtel or Midas Group under loans, debt instruments or other agreements Polkomtel or Midas Group is then a party to as well as taking into account then prevailing internal or external economic, business and commercial conditions. The Issuer cannot assure whether, when, on what terms and conditions and in what form such a combination of activities will actually take place.

2.6.2 Development prospects of the Fund

According to the Management Board of the Fund, by the end of 2012 the following events may have a significant impact on the development prospects of the Fund:

- 1) completion of detailed planning activities for HSPA +/LTE network on Polkomtel's infrastructure and thus determination to what extent Midas Group will be developing the network on its own, and to what extent it will use Polkomtel's electronic infrastructure (transmission, multiradio type base stations, etc. as well as to what extent such infrastructure is going to be used) which will affect demand Midas Group's needs for capital related to the extension of the infrastructure under projects 700 and 4100,
- 2) Midas Group obtaining financing for the implementation of the strategy, including for payment of the price for the acquired shares in Conpidon and for the expansion of the telecommunications network of Midas Group, in particular through the issue of D class shares and under debt financing, for example under vendor financing, if any, which may be arranged following the letter of intent signed by the Issuer with Huawei Polska, as described in section 2.4.1 of this report.

2.7 *Evaluation of feasibility of investment plans*

According to its strategy, the Fund intends to invest any obtained funds in telecommunications and IT projects, and in the further development of the Midas Group in particular. Therefore significant negative cash flows might be expected in the years 2012-2014 in association with the costs of projects carried out by Midas Group. Detailed information in this respect is presented in section 2.6.1 of this report. As at the date of this report, the Management Board does not see any real threat for the feasibility of investment plans, however it draws attention to the risks associated with financing, as described in section 2.8.1 of this report.

2.8 Risks and threats

2.8.1 Risks associated with the Fund's business operations

Risk associated with the Midas Group's strategy

Midas Group pursues its operating strategy in the telecommunications industry. Given the high level of competition in that industry and the high degree of innovation among technologies offered, there is a risk that it may prove necessary to amend that strategy. For this reason, the Midas Group cannot guarantee that its strategic initiatives, and in particular the one concerning further development of the telecommunications infrastructure by Aero2, will bring positive results, or that, if they do not, there will be no negative impact on the operations of the Group or its financial position or results achieved.

Financing risk

Due to its strategy tightly connected with the telecommunications industry, Midas Group already incurs and will need to incur in the future significant investment expenditures relating to the continuation of its operations in that industry, in particular for further development of the telecommunications infrastructure by Aero2. In view of the above, the Fund must obtain additional funding from financial institutions, shareholders, business partners (e.g. through vendor financing solutions arranged under the letter of intent referred to in section 2.4.1 of this report) or other entities. The Fund cannot guarantee that such financing will be available under acceptable market conditions, or that it will be made available at all. In the case where it is not possible to find such financing, the Midas Group would have to significantly modify its plans for financing its strategy, and already started projects in particular. But even when such financing is actually obtained there is a risk of failure of the strategy and projects in progress, as described above. In the event when obtaining financing in required amounts is not possible, it will not be either practicable to pursue Midas Group's investment model for purposes of the further development of its telecommunications network, as described in section 2.6.1 of this report.

Risk of departure of key management personnel and the difficulty in recruiting new qualified supervisory personnel

The Fund's operations are dependent on the quality of the work of its employees and management. The Management Board of the Issuer cannot guarantee that the possible departure of some managers or the possible inability to find personnel having appropriate knowledge and experience in managing and operations will not have a negative impact on the operations, financial position and results of the Fund. Such circumstances may arise, in particular, as a result of a departure caused by a conflict of interests.

Changes in the composition of managerial staff may disrupt the operations of the Fund or have a significant negative impact on the operations and financial results of the Fund.

2.8.2 Risks associated with the Fund's business environment

Risks associated with the macroeconomic situation

Midas Group's financial position is dependent on the economic situation in Poland and in the world. Financial results generated by Midas Group are influenced by GDP growth rate, inflation, interest rates, unemployment, fiscal and monetary policies and capital expenditures of companies. Those factors significantly affect the output of companies and demand for services. There is a risk that an economic slowdown in Poland or abroad or introduction of the state economic policy instruments might have a negative impact on the market position of the Issuer and its financial results.

Risks associated with a changing legal environment (including tax)

Some risk to the Midas Group's operations may come from changes in laws or in its different interpretations. Possible changes, in particular in provisions relating among others to business activities, telecommunications, environment protection, intellectual property, labour law, social security law and commercial law, may follow the directions which could bring negative effects on the Midas Group's operations. New regulations may entail interpretation issues, inconsistent court decisions, adverse interpretations adopted by public authorities, lack of cohesion between judicial decisions of the Polish courts and EU laws, etc. In particular, there is a risk in the area of tax laws, due to the large impact regulations and how they are interpreted have on Midas Group's financial position.

For example, a possible withdrawal of the exemption of dividends and other income from the share in profits of legal entities established on the territory of the Republic of Poland as well as income from the sale of shares or holdings in companies based on the territory of the Republic of Poland from corporate income tax which is currently available to the Fund (Art. 17 (1) section 20 of the Corporate Income Tax Act) could lead to increased tax liabilities of the Fund.

A similarly important source of risk are possible changes in telecommunications laws due to activities of Aero2, CenterNet and Mobyland in this industry. For example, there may be changes making wireless data transmission based on technologies used by Midas Group less attractive in relation to other data transmission technologies or resulting in limitations in terms of availability of multimedia contents (including such contents shared in violation of intellectual property rights) in the Internet which may bring a decrease in demand for data transmission and a drop in sales of Midas Group's services. It should be also noted that Midas Group's position may be indirectly affected by such changes to telecommunications laws which directly impact on the position of other entities operating on the telecommunications market, primarily those which for Midas Group's entities are suppliers or recipients of their services, in particular in the area of wholesale wireless data transmission.

In the Ministry of Administration and Digitisation works are in progress on draft amendments to the Telecommunications Law. According to the Issuer it is not possible to give an exhaustive assessment of the risks arising from such projected changes at the present stage of their drafting. However, it seems that, subject to the following changes to frequency reservation extension policies, those proposed changes in provisions regulating activities of the telecommunications operators have no significant importance for the Midas Group entities. The Issuer believes that they will mostly affect other operators providing retail services. It is planned, among others, to impose new, additional responsibilities on the operators, for example in terms of protection mechanisms to prevent infringement of privacy and relevant sensitive data of end users or in the area of the operators' disclosure obligations in relation to end-users.

In addition, as a part of the aforementioned draft amendments to the Telecommunications Law it is envisaged to introduce regulations under which the entity holding a frequency reservation and extending it for a subsequent period, would be obliged to pay the difference equal to the growth in the value of reserved frequencies in relation to the value at which such frequencies were acquired. As proposed by the draft amendments, the amount of such fees would be determined by the President of UKE (Office of Electronic Communications) based on the market value of frequencies with the view to ensure equivalent and effective competition. Moreover, the a/m project includes a proposal to introduce regulations under which the President of UKE would be authorised, in agreement with the President of the Consumer and Competition Protection Office, to refuse the reservation of frequencies for the next period if it would be required in order to ensure equivalent and effective competition or in

order to significantly increase effective use of frequencies. The above regulations can apply to Midas Group entities when renewing frequency reservations held, causing a risk of additional costs or reservation losses.

Such circumstances may have a significant negative impact on the operations and financial results of the Midas Capital Group.

Risk associated with changes in foreign exchange rates

Midas Group incurs expenses also in foreign currencies, however in 2011 their share in the entirety of Midas Group's expenses was not significant. But a rising share of expenses expressed in foreign currencies in the total expenses incurred by Midas Group could be expected in subsequent periods because expenses associated with the further development of Midas Group's telecommunications infrastructure may be denominated in EUR or possibly in any other foreign currency. So far there are no clear indications in this regard. Even in the event when the a/m expenses associated with the development of the infrastructure are determined in PLN, for purchases of telecommunications equipment they would depend indirectly on exchange rates of foreign currencies as manufacturers of telecommunications equipment are foreign entities. It should be also mentioned that financing which may be arranged by suppliers (vendor financing) as well as financing in the form of bank loans, may be denominated in EUR, but also in this respect there are no indications and agreements.

Therefore Midas Group (including the Fund) is exposed to exchange risk which may generate increases in expenses for purchases of external services and goods or increases in financing expenses due to the balance sheet valuation of liabilities denominated in EUR caused by adverse changes in foreign currency exchange rates. Such circumstances may have a significant negative impact on the operations and financial results of the Fund.

2.8.3 Risks associated with the operations of subsidiaries belonging to Midas Capital Group

Considering the fact that all the hitherto existing investments of the Fund focused on the telecommunications industry, the Management Board of the Fund points out that the risks described in the Management Report on the operations of NFI Midas S.A. Capital Group in 2011 will also have an indirect impact on the success of the Fund's strategy and investment policy. Therefore, the risks described in the Management Report on the operations of NFI Midas S.A. Capital Group in 2011 will also apply indirectly to the Fund.

3 Financial position and assets of the Fund

3.1 *Principles for the preparation of annual standalone financial statements*

These financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS") and the IFRS approved by the European Union.

The IFRS comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

The financial statements were prepared on a historical cost basis, except for financial assets available for sale and financial assets and liabilities measured at fair value with corresponding items in the statement of comprehensive income and IFRS as approved by the EU

3.2 *Description of key economic and financial figures*

Statement of financial position

As at 31 December 2011 the value of the investment portfolio amounted to PLN 966,203,000 and increased by PLN 727,213,000 compared to 2010. A principal growth driver was the acquisition of shares in subsidiaries: Conpidon (indirectly in Aero2) and Mobyland

The balance of receivables at the end of 2011 was PLN 42,197,000 as compared to PLN 98,000 at the end of the previous year. This increase resulted from loans granted to subsidiaries: CenterNet and Aero2.

Cash amounted to PLN 3,244,000 at the end of 2011 as against PLN 140,000 at the end of 2010.

The equity on the balance sheet date was PLN 381,219,000 and comparing to the end of 2010 it rose by PLN 286,662,000 of which PLN 292,331,000 constituted an increase resulting from the issue of shares of the Fund, and PLN 5,669,000 was the net loss for 2011 (key factors affecting the net profit were described below).

The liabilities amounted to PLN 631,646,000 as at 31 December 2011 and increased by PLN 486,769,000 comparing to the end of 2010. The increase is mainly due to liabilities to Litenite from the acquisition of the subsidiary, Conpidon, in December 2011. As at the date of this report, the liabilities to Litenite were largely reduced following the offset agreement described in section 5.2 of this report.

Statement of comprehensive income

In 2011 the Fund recognised investment income in the amount of PLN 1,843,000 as compared to PLN 890,000 for the previous year. Such result was influenced by interest income on loans granted to subsidiaries.

In 2011 operating expenses reached PLN 2,028,000 compared with PLN 4,315,000 in the previous year. In 2011 the most important items of operating expenses included external services at PLN 1,335,000 and payroll PLN 489,000.

The total loss for 2011 equaled PLN 5,669,000 as compared with the loss of PLN 5,870,000 a year before.

Statement of cash flows

In 2011 net cash flows from operating activities amounted to PLN -1,677,000 as against PLN -4,012,000 in the previous year.

In 2011 net cash flows from investing activities amounted to PLN -218,729,000 as against PLN -4,298,000 in the previous year. A principal factor affecting cash flows in 2011 was the acquisition of the subsidiary, Mobyland, and granting and repayment of loans to subsidiaries.

In 2011 net cash flows from financing activities amounted to PLN 223,510,000 as against PLN 8,302,000 in the previous year. A principal factor affecting cash flows from financing activities in 2011 was the issue of the Fund's shares.

3.3 *Changes in the the Fund's investment portfolio*

In 2011 the structure of the Midas Group was significantly extended.

On 7 January 2011 after signing the annex referred to in the current report 1/2011 of 8 January 2011 Midas Group was enlarged and included Mobyland in which the Fund holds, since 6 June 2011,

following the acquisition from Daycon, 100% of the share capital and 100% of the votes at the shareholders' meeting of Mobyland.

On 9 December 2011 Midas Group was enlarged and included Conpidon. The Fund, as stipulated in the agreement for the purchase of Conpidon shares from Litenite, became the owner of 100% of shares and votes in Conpidon. In turn, Conpidon has a 100% stake in the share capital and votes of Aero2. Nova and Daycon are subsidiaries of Aero2. Aero2 holds 100% of the share capital and votes in Daycon as well as 62,207 shares in the share capital of Nova, representing 42.63% in such capital and entitling to 62,207 votes on the Shareholders Meeting of Nova, representing 50.03% of the votes at such meeting (including 21,599 treasury shares held by Nova).

3.4 Differences between actual financial results disclosed in the annual report and any previously published forecasts of results for the given year

The Management Board of the Fund did not publish any forecasts for 2011.

3.5 Use of proceeds from the issue of C class shares

Following the issue of C class shares in 2011 the Fund raised PLN 293,566,000. To the date of this report, the Fund used the proceeds from the issue of C class shares as follows:

- 1) PLN 177,000,000 was appropriated for payment of the price for 204,200 shares in Mobyland (acquired under the agreement as described in section 2.4.1 of this report),
- 2) PLN 104,639,000 was used to repay a part of the Fund's indebtedness through an early redemption of commercial papers issued by the Fund and referenced as MID0611.1, MID0611.2, MID0611.3. The a/m papers were redeemed for the total amount of PLN 104,639,000 which included PLN 104,424,000 of the nominal value of the papers, and PLN 215,000 of interest due for the period from 1 June 2011 to 10 June 2011.
- 3) PLN 11,927,000 was transferred to replenish the Fund's working capital.

3.6 Financial Instruments

3.6.1 Employed financial instruments

Key financial instruments used by the Fund include loans, papers, cash and short-term deposits. Such financial instruments are aimed at sourcing funding for the Midas Group's operations.

In its business activities the Fund does not use financial derivatives.

3.6.2 Financial risk management objectives and methods

The financial risk is associated with unexpected changes in cash flows arising, among others, from operating activities of Midas Group. Key risks of the Company's financial instruments include interest rate risk, price risk, liquidity risk, currency risk and credit risk. Policies for managing each of the above risks are presented in Note 29 to 2011 financial statements of NFI Midas S.A.

3.7 Current and forecasted financial position

The Management Board of the Fund perceives as good the Fund's financial position. In addition, following the successful completion on 19 March 2012 of the issue of D class shares, the Management Board of the Fund believes that its financial position will not significantly deteriorate in the future.

3.8 *Events and factors largely affecting operating and financial results*

3.8.1 **Important events during the financial year**

In 2011 events with a significant impact on the Fund's performance were:

- acquisition of shares in Mobyland and indirectly Aero2, as described in detail in section 1.1.1 of this report,
- issue of C class shares of the Fund (a description of the use of proceeds from the issue of C class shares is included in section 3.5 of this report).

3.8.2 **Extraordinary factors and events**

According to the Management Board of the Fund, in 2011 there were no extraordinary factor or events.

3.8.3 **Evaluation of events and factors affecting the results**

In the opinion of the Management Board of the Fund, the above-described factors and events contributed to the implementation of the Midas Group's strategy. In particular, the Fund's acquisition of shares in Mobyland and indirectly Aero2 enabled a more effective delivery by Midas Group of telecommunications services in the area of wholesale wireless data transmission.

3.9 *Evaluation of the management of financial resources*

Proceeds from the issue of C class shares permitted the Fund in 2011 to have available funds to guarantee that all current and planned expenses related to the activities of the Fund are properly settled. The balance of available cash makes it possible to flexibly settle its ongoing liabilities. The Fund's liquidity was managed by focusing on detailed analyses of the receivables turnover and due dates of the Fund's liabilities as well as on an on-going monitoring of bank accounts, as well as on raising capital and debt.

3.10 *Entity authorised to audit financial statements*

The entity authorised to audit and review financial statements of the Fund and of Midas Group, in accordance with the resolution of the Supervisory Board of the Fund, is Ernst & Young Audit Sp. z o.o. with its registered office in Warsaw ("E&Y"). E&Y is entered on the list of entities authorised to audit financial statements by the National Council of Statutory Auditors under number 130.

The financial statements of the Fund and the consolidated financial statements of Midas Group for 2011 were audited by E&Y under the agreement entered into on 1 August 2011 for review/audit together with the auditor's opinion and report.

Detailed information on the fees for the entity authorised to audit financial statements in 2011 (as well as in 2010) is presented in section 28 of the financial statements of NFI Midas S.A.

4 **Statement of compliance with corporate governance principles in 2011**

4.1 *Description of corporate governance principles applicable to the Issuer*

In 2011 the Fund was subject to the principles of corporate governance contained in the document "Best Practices of WSE Listed Companies" attached to Resolution No. 17/1249/2010 of the WSE Supervisory Board of 19 May 2010. This document contains the rules of corporate governance the Fund voluntarily agreed to apply.

The Best Practices of WSE Listed Companies is available on the website dedicated to corporate governance at- www.corp-gov.gpw.pl.

4.2 Description of the scope of the Issuer's departures from applicable corporate governance principles

In 2011 the Fund applied the principles of corporate governance contained in the "Best Practices of WSE Listed Companies" with the following exceptions:

Section I "Recommendations for Best Practice for Listed Companies":

- principle 1 third indent "- enable on-line broadcasts of General Meetings over the Internet, record General Meetings, and publish the recordings on the company website."

Pursuant to its Statute the Fund may provide the opportunity to participate in the General Meeting by electronic communication measures on terms and conditions laid down in the Rules of Procedure of the General Meeting. On 17 October 2011 the General Meeting adopted a resolution amending the Rules of Procedure of the General Meeting under which the Rules of Procedure were supplemented by a provision stating that the Fund can provide the opportunity to participate in the general meeting by electronic communication measures including: 1) real-time broadcasts of proceedings of the General Meeting, 2) bilateral real-time communication allowing shareholders to express themselves in the course of the General Meeting while physically being in another place, 3) exercising voting rights in person or by proxy in the course of the General Meeting. Pursuant to the aforementioned resolution, the amendment enters into force on the day following the date of the General Meeting of the Fund (which adopted the resolution). In view of the above, after the respective amendment to the Rules of Procedure of the Fund's General Meeting enters into force, the Fund will consider a possible application of this principle.

- principle 5) "A company should have a remuneration policy and rules of defining the policy. (...)". On 15 November 2011 the Ordinary General Meeting of the Fund took a resolution on the suspension of the validity and enforcement of Resolution No. 11/2006 of the General Meeting of the Fund of 8 November 2006. Accordingly, members of the Supervisory Board of the Fund are not remunerated in the period from taking the above-mentioned resolution until the date of the next Ordinary General Meeting. Considering the above, the Fund does not warrant application of this principle at least until the next Ordinary General Meeting of the Fund is held.

- principle 9) "The WSE recommends to public companies and their shareholders that they ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' economic business.". Appointments and dismissals of members of the Supervisory Board, and indirectly also members of the Management Board are in the sole discretion of the General Meeting of the Fund. The Management Board of the Fund does not have control over what candidatures to the Supervisory Board are submitted by shareholders of the Fund entitled to participate in the General Meeting or what candidatures to the Management Board are proposed by members of the Supervisory Board.

- principle 12) "A company should enable its shareholders to participate in a General Meeting using electronic communication means through:

1) real-life broadcast of General Meetings;

2) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting;

3) exercise their right to vote during a General Meeting either in person or through a plenipotentiary."

Pursuant to its Statute the Fund may provide the opportunity to participate in the General Meeting by electronic communication measures on terms and conditions laid down in the Rules of Procedure of the General Meeting. On 17 October 2011 the General Meeting adopted a resolution amending the Rules of Procedure of the General Meeting under which the Rules of Procedure were supplemented by a provision stating that the Fund can provide the opportunity to participate in the general meeting by electronic communication measures including: 1) real-time broadcasts of proceedings of the General Meeting, 2) bilateral real-time communication allowing shareholders to express themselves in the course of the General Meeting while physically being in another place, 3) exercising voting rights in person or by proxy in the course of the General Meeting. Pursuant to the aforementioned resolution, the amendment enters into force on the day following the date of the General Meeting of the Fund (which adopted the resolution). In view of the above after the respective amendment to the Rules of Procedure of the General Meeting of the Fund enters into, the Fund will consider possible application of such principle, taking into account any technical and legal aspects associated with providing shareholders with such options to participate in the General Meeting.

Section II "Best Practice for Management Boards of Listed Companies":

Principle 1. A company should operate a corporate website and publish on it, in addition to information required by legal regulations:

- principle 1.5) "(...) where members of the company's governing body are elected by the General Meeting – the basis for proposed candidates for the company's Management Board and Supervisory Board available to the company, together with the professional CVs of the candidates within a timeframe enabling a review of the documents and an informed decision on a resolution." Application of this rule is subject to the willingness of shareholders entitled to participate in the General Meeting to voluntarily assume the obligation to provide the Fund with information on their intentions to nominate candidates for the composition of the Supervisory Board prior to the meeting.

- principle 1.7) "(...) shareholders' questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions." This principle is not and will not be applied. There are no detailed records kept in the Fund as to the course of the General Meeting, including all statements and questions. Participants of the General Meeting, pursuant to provisions of the Code of Commercial Companies, have the right to make statements in writing which are attached to minutes.

- principle 3) "Before a company executes a significant agreement with a related entity, its Management Board shall request the approval of the transaction/agreement by the Supervisory Board. (...)." Pursuant to the Statute, in addition to the matters specified in the Act, in other provisions of the Statute or in resolutions of the General Meeting, powers and duties of the Supervisory Board include, but are not limited to:

1) expressing consent for the Fund entering into any significant agreement with a related party (the above does not apply to standard transactions contracted on an arm's length basis in the ordinary course of business carried out by the Fund with a subsidiary in which the Fund holds a majority stake) or with the parent; a related party being as defined in the Regulation of the Minister of Finance issued pursuant to Art. 60, sec. 2 of the Act of 29 July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies (Journal of Laws No. 184, item 1539, as amended); in addition, it is assumed that granting loans or any other debt financing within those entities belongs to the category of the ordinary course of business of the Fund;

2) expressing consent for the Fund contracting an obligation provided that the value of a single or a series of related transactions in the given financial year with a single entity exceeds 20% of the Fund's net assets, as determined based on the last standalone financial statements published in the periodical report.

The Management Board of the Fund represents to apply such principle to the extent resulting from the a/m provisions of the Statute.

Section III "Best Practice for Supervisory Board Members":

- principle 6) "At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company (...)". The members of the Supervisory Board meeting the independence criteria set out in the "Best Practice of WSE Listed Companies" are: Mirosław Mikołajczyk and Jerzy Żurek. On 17 October 2011 the General Meeting of the Issuer passed a resolution to amend the Statute in order to remove among others the provisions on independent members of the Supervisory Board. The a/m amendment to the Statute was filed in the Register of Entrepreneurs of the National Court Register, and thus entered into force on 29 December 2011. Deleting the provisions of the Statute on the independent members of the Supervisory Board was motivated by the intention to liquidate duality between the provisions contained in Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board and the hitherto existing provisions of the Statute.

- principle 8) "Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors ... should apply to the tasks and the operation of the committees of the Supervisory Board(...)". On the meeting of the Supervisory Board held on 25 March 2011 the Management Board presented a proposal to establish an audit committee and a remuneration committee. On 12 July 2011 the Supervisory Board appointed Krzysztof Majkowski, Andrzej Chajec and Jerzy Żurek to the remuneration committee. In 2011 the composition of the Audit Committee was not established so the Fund did not apply that principle in this regard in 2011. On 5 January 2012 (subsequent event) the Supervisory Board established the Audit Committee composed of Andrzej Abramczuk, Mirosław Mikołajczyk and Jerzy Żurek. In the Issuer's opinion Mirosław Mikołajczyk and Jerzy Żurek meet the criteria set out in Art. 86 sec. 4 of the Act of 7 May 2009 on auditors and their self-government, entities authorised to audit financial statements and public supervision (Journal of Laws No. 77, item. 649, as amended), i.e. they satisfy independence conditions specified in the Act, and are qualified in the field of accounting as corporations where they acted or act as members of the management board, prepared financial statements, and pursuant to the Accounting Act the obligations of such individuals as members of the management board included assuring preparation of such statements and approving the same. The composition of the Audit Committee is also, in the opinion of the Fund, consistent with the provisions of Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive directors (...), referred to in Best Practice for WSE Listed Companies. Consequently, from 5 January 2012 there is the Audit Committee within the Supervisory Board.

- principle 9) "Execution by the company of an agreement/transaction with a related entity which meets the conditions of section II.3 requires the approval of the Supervisory Board.". Pursuant to the Statute, in addition to the matters specified in the Act, in the other provisions of the Statute or in resolutions of the General Meeting, powers and duties of the Supervisory Board include, but are not limited to:

1) expressing consent for the Fund entering into any significant agreement with a related party (the above does not apply to standard transactions contracted on an arm's length basis in the ordinary course of business carried out by the Fund with a subsidiary in which the Fund holds a majority stake) or with the parent; a related party being as defined in the Regulation of the Minister of Finance issued pursuant to Art. 60, sec. 2 of the Act of 29 July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies (Journal of Laws No. 184, item 1539, as amended); in addition, it is assumed that granting loans or any other debt financing within those entities belongs to the category of the ordinary course of business of the Fund;

2) expressing consent for the Fund contracting an obligation provided that the value of a single or a series of related transactions in the given financial year with a single entity exceeds 20% of the Fund's net assets, as determined based on the last standalone financial statements published in the periodical report.

The Management Board of the Fund represents to apply such principle to the extent resulting from the a/m provisions of the Statute.

4.3 Description of the principal characteristics of internal audit and risk management systems in place in the Fund in reference to the process of the preparation of financial statements

The Management Board of the Fund is responsible for the system of internal control and supervision over the preparation of financial statements in the parent, while in the subsidiaries the management boards of the same are responsible therefor. Periodic reports are prepared and published in accordance with the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognising as equivalent information required by the law of a non-member state (Journal of Laws of 28 February 2009, No. 33 item. 259). Also the Supervisory Board of the Fund and supervisory boards of its subsidiaries assess financial statements of respectively the Fund and the subsidiaries in respect of their compliance with the accounting books and documents, as well as with the facts. Results of such assessment of the Fund's financial statements are included by the Supervisory Board of the Fund in its annual report.

Principal systems of internal control in relation to the preparation of financial statements of the Fund are:

- 1) internal division of responsibilities in the preparation of financial statements;
- 2) on-going internal supervision over accounting duties;
- 3) preparation and internal distribution (the Management Board, the Supervisory Board) of periodic financial reports containing balance sheets, profit and loss accounts, cash flow statements of the Fund's subsidiaries and consolidated accounts for the entire capital group of the Fund;
- 4) internal procedures and regulations relating among others to contracting significant transactions and obligations (in accordance with the Statute and rules of procedure of the Fund's management and supervisory bodies);
- 5) internal review and approval of financial statements prior to their publication;
- 6) periodic review and audit of financial statements by an auditor

Reviews are carried out by the auditor for semi-annual financial statements whereas annual standalone and consolidated reports are subject to audits.

Moreover, since 5 January 2012 there is the Audit Committee within the Supervisory Board composed of Andrzej Abramczuk, Mirosław Mikołajczyk and Jerzy Żurek. In the Issuer's opinion Mirosław Mikołajczyk and Jerzy Żurek meet the criteria set out in Art. 86 sec. 4 of the Act of 7 May 2009 on auditors and their self-government, entities authorised to audit financial statements and public supervision (Journal of Laws No. 77, item. 649, as amended), i.e. they satisfy independence conditions specified in the Act, and are qualified in the field of accounting as corporations where they acted or act as members of the management board, prepared financial statements, and pursuant to the Accounting Act the obligations of such individuals as members of the management board included assuring preparation of such statements and approving the same. The composition of the Audit Committee is also, in the opinion of the Issuer, consistent with the provisions of Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive directors (...), referred to in Best Practice for WSE Listed Companies. Specific tasks of the Audit Committee are described in section 4.2.2 of this report.

4.4 Share capital

4.4.1 Structure of the share capital

As at 31 December 2011 and as at the date of this report the Fund's share capital amounts to PLN 29,593,335.00 and is divided into 295,933,350 ordinary bearer shares with a nominal value of PLN 0.10 each, including:

- 1) 11,837,334 A class shares,
- 2) 47,349,336 B class shares,
- 3) 236,746,680 C class shares.

Each ordinary share gives right to one vote at the General Meeting of Shareholders. All shares issued were paid in full and registered with the National Court Register.

4.4.2 Large shareholders

The table below presents the shareholding structure of the Fund as at 31 December 2011. The table was compiled based on notifications received by the Fund from the shareholders pursuant to Art. 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies ("Act on Public Offering").

Name of of the shareholder of the Fund	Number of shares	%	Number of votes	%
Zygmunt Solorz-Żak (*) (**)	195,313,538	65.9992	195,313,538	65.9992
Other shareholders	100,619,812	34.0008	100,619,812	34.0008
TOTAL	295,933,350	100.00	295,933,350	100.00

(*)Mr. Zygmunt Solorz-Żak controls the Fund through: (I) Karswell, (ii) Ortholuck and (iii) Litenite for 195,308,538 shares of the Fund held by Litenite, and through (iv) the Fund for 5,000 treasury shares held by the Fund.

(**) The number of shares and votes takes account of 5,000 treasury shares of the Fund held indirectly by Litenite, where, in accordance with Art. 364 of the Code of Commercial Companies, the Fund does not exercise voting rights from its own treasury shares.

Notifications received pursuant to Art. 69 after the balance sheet date

On 16 February 2012 the Company received from Allianz Platinum FIZ ("Allianz Fund") a notification about crossing the threshold of 5% of the total number of votes in the Company as a result of changes in the number of shares held in the Company. Following the purchase of the Company's shares by Allianz Fund on 7 February 2012 the number of shares held by Allianz Fund, together with Allianz FIO, is 15,117,234 shares which represent 5.1082% of the Company's share capital and entitle to 15,117,234 votes representing 5.1082% of the total number of votes.

On 15 March 2012 the Company received a notification from Allianz Fund on reduction of their holdings in the Company's shares below the threshold of 5% of the total number of votes in the Company. Following the disposals of the Company's shares on 8 March 2012 by Allianz FIO and Allianz Absolute Return FIZ the number of shares held by Allianz Fund together with Allianz FIO and Allianz Absolute Return FIZ funds dropped to 14,766,338 shares which represent 4.9898% of the Company's share capital and entitle to 14,766,338 votes which represent 4.9898% of the total number of votes.

4.4.3 Shareholders of the Fund with special control rights, restrictions to voting rights and to transferability of the Fund's shares

There is no preference as to the voting rights attached to shares of the Fund or shareholders of the Fund. The only restriction in exercising voting rights applies to the Fund which pursuant to Art. 364 of the Code of Commercial Companies does not exercise voting rights from its own treasury shares.

For transferability restrictions applicable to titles to securities of the Fund, as of the date of this report, the security collateral for claims of Alchemia SA from series X02.09.A papers issued by the Fund on 18 November 2009 has the form of a block on 5,000 shares of the Fund valid until all performances associated with series X02.09.A papers are satisfied.

4.4.4 Direct shareholding and rights thereto held by persons managing and supervising the Issuer's business

The following table summarises direct shareholding in the Fund by managing and supervising persons as at the end of the reporting period, i.e. as at 31 December 2011 and as at the date of this report, i.e. as at 20 March 2012.

Name and surname	Position	Shares in the Fund held as at 31.12.2011	Change	Shares in the Fund held as at 20.03.2012
Zygmunt Solorz-Żak (*)	Chairman of the Supervisory Board	none	-	none
Krzysztof Majkowski	Vice Chairman of the Supervisory Board	237,000	-	237,000
Andrzej Abramczuk	Secretary of the Supervisory Board	none	-	none
Andrzej Chajec (**)	Member of the	none	-	none

	Supervisory Board					
Mirosław Mikołajczyk	Member of the Supervisory Board	the	none	-	none	
Jerzy Żurek	Member of the Supervisory Board	the	none	-	none	
Wojciech Pytel	President of the Management Board	the	none	-	none	
Krzysztof Adaszewski	Member of the Management Board	the	N/A	-	none	
Maciej Kotlicki	Member of the Management Board	the	none	-	none	

(*) Zygmunt Solorz-Zak holds indirectly, through entities directly or indirectly controlled, 195,313,538 shares in the Fund. This information is contained in section 3.1 of this report.

(**) A person closely-related to Mr Andrzej Chajec, as defined in the Act on trading in financial instruments holds 50 shares in the Fund.

4.4.5 Agreements which may affect proportions of shares held by the hitherto existing shareholders and bondholders

Determinations which in the future may result in changes in the way control is exercised over the Company.

On 06 December 2012 under the agreement entered into by and between Ortholuck Limited with its registered office in Nicosia, Cyprus ("Ortholuck"), holding 100% of shares in Litenite, and LTE Holdings, a subsidiary of Polkomtel S.A. with its registered office in Warsaw ("Polkomtel"), LTE Holdings acquired from Ortholuck 49% of shares in Litenite. The remaining 51% stake in Litenite still held by Ortholuck was encumbered by a pledge in favour of Polkomtel and that the laws of Cyprus govern and apply to such pledge ("Polkomtel Pledge"). In the case when certain events take place, including for example violations of the obligations between Ortholuck and LTE Holdings under the respective agreement between such entities in relation to which the Company has no further information or a possible bankruptcy of Litenite or its subsidiaries, then Polkomtel under the Polkomtel Pledge will be entitled among others to exercise corporate and property rights on pledged shares in Litenite, including voting rights as well as will obtain the right to sell such shares. In addition, under the Polkomtel Pledge, Ortholuck will be obliged not to dispose of or encumber the pledged shares in Litenite, except encumbering them with another pledge, on certain terms and conditions, as a security collateral for financing obtained by Litenite or its subsidiary. Such other pledge with take precedence over the Polkomtel Pledge. In addition, LTE Holdings was contractually reserved an option to purchase from Ortholuck, at the market price, the remaining 51% stake in Litenite ("Call Option").

In the event when there are circumstances permitting Polkomtel to exercise its rights under the Polkomtel Pledge, as referred to above, and Polkomtel actually exercises the same, then it will take over control of the Company. However, in the event when there are circumstances permitting to exercise Call Option and LTE Holdings actually exercises the same, then Polkomtel will also take over control of the Company. But as long as control over Polkomtel is exercised by Zygmunt Solorz-Żak, there will be no changes in the control of the Company. However in the event when Zygmunt Solorz-Żak loses control of Polkomtel (when Polkomtel exercises control of the Company), for example

following violations of the obligations related to the financing of the acquisition of Polkomtel, thus he will lose control of the Company. The Company has no knowledge about the a/m obligations related to financing the acquisition of Polkomtel.

Moreover Ortholuck was contractually reserved a return option to purchase from LTE Holdings the 49% stake in Litenite, previously sold by Ortholuck ("Return Option"). The Return option will be exercisable under circumstances stipulated in the respective agreement and involving a debt ratio provided that at the same time there are no grounds to exercise the Call Option. The Return Option will expire and will not be exercisable in the event when LTE Holdings exercises the Call Option or Polkomtel exercises its a/m rights under the Polkomtel Pledge. In the event when there are circumstances entitling to exercise the Return Option and Ortholuck actually exercises the same, then it will have, jointly with the shares currently held, 100% of shares in Litenite and the control of the Company will not change.

To the best knowledge of the Fund, there are no other arrangements under which the control of the Fund might potentially change in the future.

4.4.6 Employee stock plan

The Fund does not operate any employee stock plan.

4.4.7 Acquisition of its own shares

The Fund did not acquire its own shares in 2011.

As at 31 December 2011 the Fund held 5,000 treasury shares encumbered as a security collateral for claims of Alchemia SA (as described in section 4.4.3 of this report). Until the date of this report the balance of treasury shares has not changed.

4.5 *Description of amendments to the Fund's Statute*

Pursuant to the Code of Commercial Companies Code, the Fund's Statute is amended by a resolution of the General Meeting of Shareholders and an entry to the National Court Register. Pursuant to applicable provisions of the Fund's Statute, resolutions of the General Meeting on amendments to the Fund Statute (including on the issue of new shares) are taken by a majority of 3/4 (three quarters) of votes. In addition, resolutions on amendments to the Fund's Statute increasing benefits for shareholders or reducing rights granted personally to individual shareholders require the consent of all the shareholders affected.

4.6 *Procedures applicable to general meetings and their principal competences and description of shareholders' rights and methods for their exercise*

Pursuant to Art. 399 of the Code of Commercial Companies the General Meeting is convened by the Management Board. The Supervisory Board has the right to convene the Ordinary General Meeting if the Management Board fails to do so within the period specified in the Code of Commercial Companies (CCC) or in the Statute (pursuant to Art. 23 sec. 4 of the Statute - within two weeks of the date when a respective request is made by the Supervisory Board) and the Extraordinary General Meeting if the Supervisory Board considers it advisable.

Shareholders representing at least a half of the share capital or at least a half of the total votes in the company may convene the Extraordinary General Meeting. Shareholders appoint the chairman of such meeting. In addition, pursuant to Art. 400 of CCC the Issuer's shareholder or shareholders, representing at least one-twentieth of the share capital may request the Extraordinary General Meeting

to be convened as well as specific issues to be placed on the agenda of the next General Meeting. Such request must be submitted in writing or electronically to the Management Board.

Pursuant to Art. 24 and Art. 401 of CCC the Supervisory Board or a shareholder or shareholders representing at least 1/20 of the share capital may require specific issues to be placed on the agenda of the next General Meeting. Such request should be submitted to the Management Board no later than twenty one (21) days before the date scheduled for the General Meeting. The request should include a justification or a draft resolution concerning the proposed item on the agenda. The request may be submitted in writing (sent to the address of the Company) or as an electronic document saved in PDF format sent to the e-mail address of the Company: wz@midasnfi.pl. The Management Board is obliged to immediately, but no later than eighteen (18) days before the date scheduled for the General Meeting, announce changes to the agenda, introduced at the request of the shareholders.

A shareholder or shareholders representing at least 1/20 (one twentieth) of the share capital may, before the date of the General Assembly, submit to the Company in writing (sent to the address of the Company) or as an electronic document saved in PDF format sent to the e-mail address of the Company: wz@midasnfi.pl, draft resolutions relating to matters to be placed on the agenda. The Company immediately publishes draft resolutions on its website. A shareholder or shareholders submitting draft resolutions must present a certificate issued by an appropriate body acknowledging the right to participate in the Ordinary General Meeting (OGM) and identifying the latter as shareholders of the Company.

A request to convene the Extraordinary General Meeting (EGM) and place certain issues on the agenda, presented by authorised persons, may be rejected only for legitimate reasons and specifically justified. In the event when the request refers to the selection of members of the Supervisory Board to be included in the agenda pursuant to Art. 385 § 3 of CCC, it cannot be rejected in any case. The General Meeting convened at the request of the authorised entities or the General Meeting whose agenda includes certain issues placed thereon at such request may be cancelled only with the consent of the requesting parties. In other cases the General Meeting may be cancelled if holding the meeting is subject to extraordinary obstacles or is obviously pointless.

Such cancellation and a possible postponement of the General Meeting take place the same way as when convening the Meeting, reducing as much as possible any negative consequences of the changes for the Company and the shareholders. The cancellation and postponement of the General Meeting should be made immediately after the conditions justifying such cancellation or postponement emerge, however no later than seven days before the date of the General Meeting. If the cancellation or postponement of the General Meeting may not be made within the time limit referred to in the preceding sentence, the General Meeting should be held unless the circumstances show that it is impossible or excessively difficult, then such cancellation or postponement can be made any time before the date of the General Meeting. The cancellation or postponement of the General Meeting is made by a notice published on the Company's website together with a statement of reasons and in compliance with any other requirements of applicable laws. Competences to cancel the General Meeting will be vested only in the body or person having convened the General Meeting.

The General Meeting meets as an ordinary or extraordinary meeting. The Ordinary General Meeting is convened each year no later than on the last day of October.

Pursuant to Art. 402¹ of CCC the General Meeting of the Company is convened by a notice made on the Company's website and as prescribed for the transmission of current information in accordance

with the provisions of the Act on Public Offering. The notice should be made at least twenty six days before the date of the General Meeting.

Pursuant to Art. 402² of CCC every notice on the General Meeting of a public company should include at least:

- 1) date, time and place of the General Meeting together with a detailed agenda,
- 2) precise description of the procedures for participation in the General Meeting and exercise voting rights, and in particular information on:
 - a. shareholders' rights to request specific issues to be placed on the agenda of the General Meeting,
 - b. shareholders' rights to submit draft resolutions on matters brought to the agenda of the General Meeting or matters to be placed on the agenda before the date of the General Meeting,
 - c. shareholders' rights to submit draft resolutions on matters placed on the agenda during the General Meeting,
 - d. procedures for exercising voting rights by proxy, including, in particular, forms used for proxy voting purposes and procedures for notifying the company electronically on appointment of such proxy,
 - e. ability and procedures for participation in the General Meeting by electronic communication measures,
 - f. procedures for taking the floor during the General Meeting using electronic communication measures,
 - g. procedures for exercising voting rights by correspondence or by electronic communication measures,
- 3) record date for participation in the General Meeting, as referred to in Art. 406¹ of CCC
- 4) information that the right to participate in the General Meeting is vested only in persons being shareholders of the Company on the record date for participation in the General Meeting,
- 5) indication where and how a person entitled to participate in the General Meeting can obtain the full text of the documentation to be presented to the General Meeting and draft resolutions or, if no resolutions are scheduled to be adopted, comments of the Management Board or the Supervisory Board of the Company, relating to matters brought to the agenda of the General Meeting or matters to be placed on the agenda before the date of the General Meeting,
- 6) reference to the website where respective information on the General Meeting is published.

The public company operates its own website and publishes the following information since the date of convening the General Meeting:

- 1) notice on convening the General Meeting,

- 2) information on the aggregate number of shares in the Company and the number of votes from such shares as at the date of notice, and if shares are of different categories - also information about individual categories of shares and respective numbers of votes from shares of each category,
- 3) documentation to be presented to the General Meeting,
- 4) draft resolutions or, if no resolutions are scheduled to be adopted, comments of the Management Board or the Supervisory Board of the Company, relating to matters brought to the agenda of the General Meeting or matters to be placed on the agenda before the date of the General Meeting,
- 5) forms permitting to exercise voting rights by proxy or by correspondence, if they are not sent directly to all the shareholders.

If the forms referred to above in 5), for technical reasons, cannot be made available on the website, the public company indicates on this site how and where to get the forms. In such case the public company sends the forms free of charge to each shareholder at his/her/its request. The forms should contain a proposed wording of the resolutions of the General Assembly and should permit:

- 1) to identify the shareholder casting the vote and his/her/its proxy if the shareholder exercises voting rights by proxy,
- 2) to cast the vote as defined in Art. 4 § 1 point 9) of CCC,
- 3) to lodge an objection by the shareholders voting against the resolution,
- 4) to place instructions on how to vote in respect of each of the resolutions over which the proxy is supposed to vote.

The General Meeting may also adopt resolutions without being formally convened, if the entire share capital is represented and none of those present objects either to the holding of the General Meeting or to the placement of particular matters on the agenda. The General Meeting can only adopt resolutions on items on the agenda.

Written draft resolutions under the agenda provided for in the notice on the Meeting are prepared by the Management Board and published on the Company's website. Draft resolutions to be presented to the General Meeting together with relevant documents, and the opinion of the Supervisory Board in the case when the Management Board requested such opinion, should be made available by the Management Board on the Company's website from the date of convening the General Meeting and in the registered office of the Company to all the shareholders, so that the shareholders have the opportunity to read and evaluate them. Draft resolutions drawn up by shareholders should be immediately published on the Company's website stating the date of receipt and data of the shareholder having prepared the draft resolution.

Resolutions of the General Meeting are adopted by an absolute majority of votes, and in the cases where provisions of the Act require a qualified majority, by a majority required by CCC.

All shareholders are entitled to attend the General Meeting in person or by proxy. Unless provisions of CCC stipulate otherwise, the General Meeting may pass resolutions regardless of the number of shareholders present and the amount of share capital represented.

Shareholders notify the Company by e-mail in particular on granting an electronic proxy to participate in the General Meeting and on revoking the same. Every proxy being granted should be notified to the Company by electronic communication measures while exercising best efforts to allow an effective verification of the validity of such proxy. Together with the electronic proxy notice, the shareholder shall send the following in PDF format: scan of the proxy, scan of ID, passport or another document permitting to identify the shareholder as the principal and the proxy established, e-mail address and telephone number of the shareholder and the proxy provided that the proxy is not released from the obligation to submit, when drawing up the list of persons entitled to participate in the General Meeting, any documents for his/her identification. Rules applicable to the identification of the shareholder apply mutatis mutandis to a notice served on the company on revocation of the proxy.

The agenda of the General Meeting is determined by the party convening the General Meeting. A shareholder or shareholders representing at least one twentieth of the share capital can request specific items to be placed on the agenda of the next General Meeting. Such request must be submitted in writing or electronically to the Management Board.

Pursuant to Art. 420 sec. 1 of CCC votes are public on the General Meeting. A secret ballot voting is pursued during elections and for votes with respect to dismissing members of the Issuer's governing bodies or liquidators, with respect to actions being brought against them, as well as in personal matters. Besides, such secret ballot voting should be administered at the request of at least one of the shareholders present or represented on the General Meeting.

Pursuant to Art. 29 sec. 1 of the Statute the General Meeting is opened by the Chairman or Deputy Chairman of the Supervisory Board, and then from among the persons entitled to attend the General Meeting the Chairman of the General Meeting is elected. In the absence of those persons, the General Meeting is opened by the President of the Management Board or any person designated by the Management Board.

A resolution on abandoning the matter included in the agenda of the General Meeting may only be adopted for serious reasons. Detailed reasons should be given when filing a request in that respect. A removal from the agenda or abandoning the matter placed on the agenda at the request of the shareholders requires a resolution of the General Meeting, after a previous consent expressed by all the present shareholders who made such request, supported by 75% of the votes on the General Meeting.

4.1 Description of rules for appointment and dismissal of managing persons and their rights

4.1.1 Supervisory Board

The Supervisory Board consists of from five to seven members. Members of the Supervisory Board are appointed for a joint three-year term. The mandate of each member of the Supervisory Board appointed or co-opted before the expiry of the term of the Supervisory Board expires together with the expiry of such term.

Members of the Supervisory Board are appointed and recalled by the General Meeting. As replacement for a member resigning or deceased before the expiry of the mandate the Supervisory Board may co-opt a member of the Supervisory Board. Only the members of the Supervisory Board elected or approved by the General Meeting vote on resolutions on co-opting a member of the Supervisory Board. Co-opted members of the Supervisory Board are presented for approval on the next General Meeting.

On 17 October 2011 the General Meeting of the Issuer passed a resolution to amend the Statute in order to remove among others the a/m provisions on independent members of the Supervisory Board. The a/m amendment to the Statute became effective when filed in the Register of Entrepreneurs of the National Court Register, i.e. on 29 December 2011. Deleting the provisions of the Statute on the independent members of the Supervisory Board was motivated by the intention to liquidate duality between the provisions contained in Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board and the hitherto existing provisions of the Statute.

In addition to the matters specified in applicable laws, in other provisions of the Statute or in resolutions of the General Meeting, powers and duties of the Supervisory Board include:

- a) evaluation of the financial statements for the previous financial year;
- b) evaluation of the Management Report on the operations of the Fund;
- c) submitting to the General Meeting a written report on the results of the activities referred to in points (a) and (b);
- d) assessing motions of the Management Board on distributing profits or covering losses;
- e) entering into contracts with members of the Management Board and specifying the principles of their remuneration, as well as appointing, suspending or dismissing individual members of or the entire Management Board;
- f) entrusting members of the Supervisory Board with duties of the Management Board in the event when the entire Management Board is dismissed or when the Management Board is otherwise not able to work;
- g) expressing consent for the purchase and disposal of real estates, rights of perpetual usufruct or shares in real estates by the Fund;
- h) expressing consent for the Fund entering into any significant agreement with a related party (the above does not apply to standard transactions contracted on an arm's length basis in the ordinary course of business carried out by the Fund with a subsidiary in which the Fund holds a majority stake) or with the parent; a related party being as defined in the Regulation of the Minister of Finance issued pursuant to Art. 60, sec. 2 of the Act of 29 July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies (Journal of Laws No. 184, item 1539, as amended); in addition, it is assumed that granting loans or any other debt financing within those entities belongs to the category of the ordinary course of business of the Fund;
- i) expressing consent for the Fund contracting an obligation provided that the value of a single or a series of related transactions in the given financial year with a single entity exceeds 20% of the Fund's net assets, as determined based on the last standalone financial statements published in the periodical report;
- j) providing the Ordinary General Meeting with a summary statement on the Fund's position, taking into account the evaluation of the internal control system and the system for managing risks essential for the Fund;
- k) appointment of auditors for auditing the Fund's financial statements.

Rights to make decisions on issues or repurchases of shares are reserved for the General Meeting of the Fund.

4.1.2 Management Board

The Management Board consists of one to three members, including the President of the Management Board, appointed for a joint two-year term. The Supervisory Board determines, within the above limits, the number of members of the Management Board and appoints the President and other members of the Management Board. The Supervisory Board or the General Meeting may dismiss the entire Management Board or its individual members, including the President of the Management Board, before the expiry of their term.

The Management Board exercises all its powers concerning management of the Fund, with the exception of powers reserved by law and the Statute for the Fund's other bodies. Operating procedures for the Management Board as well as duties that can be assigned to its individual members, may be defined in detail in the Rules of Procedure of the Management Board, adopted by the Management Board.

Resolutions of the Management Board require activities going beyond the ordinary management duties and, in particular:

- 1) defining strategies and key operating objectives of the Company as well as financial, pay and personnel policies of the Company,
- 2) approval of the Company's financial statements,
- 3) drafting business plans and financial plans for the Company,
- 4) adopting the Rules of Procedure for the Management Board,
- 5) entering into agreements on joint business with third parties (consortium agreements),
- 6) carrying out legal transactions whose value is higher than 15% of the Company's net assets as at the date of the balance sheet for the last financial year,
- 7) subscribing for shares or holdings in another company,
- 8) convening the General Meeting and setting its agenda,
- 9) granting sureties or guarantees, assuming debts, establishing mortgages or pledges,
- 10) purchasing or disposing of real estates or shares therein.

4.2 *Composition, changes and operating procedures applicable to managing, supervising and administration bodies of the Fund*

4.2.1 Supervisory Board

As at 31 December 2011 the composition of the Supervisory Board of the Fund was as follows:

- 1) Zygmunt Solorz-Żak - Chairman of the Supervisory Board
- 2) Krzysztof Majkowski - Deputy Chairman of the Supervisory Board

- 3) Andrzej Abramczuk - Secretary of the Supervisory Board
- 4) Andrzej Chajec - Member of the Supervisory Board
- 5) Mirosław Mikołajczyk - Member of the Supervisory Board
- 6) Jerzy Żurek - Member of the Supervisory Board

During 2011 the composition of the Fund's Supervisory Board did not change.

Operating procedures for the Supervisory Board are governed by provisions of the Act on National Investment Funds and CCC, provisions of the Statute, in particular Art. 16-22 and the Rules of Procedure of the Supervisory Board. To all matters not settled in the Statute provisions of Art. 381-392 of CCC respectively apply.

Each member of the Supervisory Board is obliged to provide the Fund with his/her statement on the number of shares held in the Fund, their percentage share in the capital and the resulting number of votes, within 4 days of being appointed to the Supervisory Board, and also each time of being requested to do so by the Fund's Management Board. Each member of the Supervisory Board within 4 days of the purchase or disposal of shares in the Fund is obliged to inform the Fund accordingly. A letter on this matter should contain information on the number of acquired or sold shares in the Fund, their percentage share in the share capital and the number of votes from those shares, and the number of shares currently held and the respective number of votes. The above provision shall apply *mutatis mutandis* to the acquisition and disposal of shares in the Fund's parents or subsidiaries as well as to transactions with such entities insofar as they are relevant to the financial position of the member of the Supervisory Board. Members of the Supervisory Board should refrain from any transactions which could lead to a conflict of interest with the Fund. Members of the Supervisory Board are obliged to immediately inform the Chairman of the Supervisory Board about the conflict of interest and are required to abstain from voting on these matters. A member of the Supervisory Board may not resign from performing this function during the term if it could prevent the effective work of the Supervisory Board and, in particular, if this could prevent timely adoption of any significant resolution.

Pursuant to Art. 17.1 of the Statute and section 4 of the Rules of Procedure of the Supervisory Board, the Supervisory Board elects from among its members the Chairman and Deputy Chairman of the Supervisory Board. The Chairman of the Supervisory Board manages its work, convenes meetings of the Board and presides over them, represents the Supervisory Board in dealings with the Management Board and in external relations. In the absence of the Chairman of the Supervisory Board at the meeting of the Supervisory Board or in the case of his/her inability to perform his/her functions in the period between meetings (longer illness, departure) the Chairman of the Supervisory Board is replaced by the Deputy Chairman, and in the absence of the Deputy Chairman or his/her inability to perform his/her functions, by another member of the Supervisory Board elected by members of the Supervisory Board. Pursuant to Art. 18.1 of the Statute the Supervisory Board meets at least once every quarter.

Subject to the provisions of Art. 19.2 and 19.3 of the Statute, the Supervisory Board takes decisions by an absolute majority of the votes cast if at least half of its members attend the meeting, and all its members are invited to the meeting as stipulated in the Statute. The Supervisory Board may adopt valid resolutions also in cases when despite the failure to serve notice on individual members, they are present at the meeting of the Supervisory Board and agree to participate in the meeting.

Members of the Supervisory Board may participate in adopting resolutions of the Supervisory Board by written voting through any other member of the Supervisory Board. A written vote may not relate

to matters introduced onto the agenda during a meeting of the Supervisory Board. The Supervisory Board may adopt resolutions in writing (by circulation) and also by means of direct remote communication. In particular, members of the Supervisory Board may vote on resolutions by sending fax messages or via e-mail. Resolutions taken this way are valid provided that all the members of the Supervisory Board are previously notified about the content of the resolution as stipulated in Art. 19.1 of the Statute. Passing resolutions as specified in Art. 19.2 and 19 sec. 3 of the Statute cannot apply to the election of the Chairman and Deputy Chairman of the Supervisory Board, to the appointment of a member of the Management Board and to the dismissal and suspension of such persons.

The Supervisory Board performs its duties collectively, although it may delegate its members to carry out particular supervisory actions individually.

After the date for a meeting is determined, the Chairman of the Supervisory Board informs the Management Board about such meeting, requests the same to submit any required papers and documents and notifies about the obligatory presence of specialist employees or other persons in order to discuss issues which are the subject of the agenda. The Chairman of the Supervisory Board may authorise a member of the Supervisory Board to exercise the a/m powers and, in the case when working teams of the Supervisory Board are established, their chairmen are also authorised to the extent of activities of such team to impose on the Management Board an obligation to prepare materials for the meeting and ensure the presence of specialist employees or other persons whose presence is necessary due to the scope of issues to be discussed during the meeting of the Supervisory Board. In the event when the resolution on delegating members of the Supervisory Board to perform specific supervisory activities is taken, the delegated member of the Supervisory Board may, to the extent of his/her assignment, request an access to files and documents regardless of expected topics of the next meeting of the Supervisory Board, may also require the presentation of individual documents to the Supervisory Board, if they are associated with the planned agenda of the next meeting.

The Supervisory Board may establish permanent and ad hoc working teams from among its members. A resolution establishing any such team defines competences and operating procedures therefor, and can also empower individual team members to perform control activities from the scope of the team's responsibilities. Working teams of the Supervisory Board, as well as members of the Supervisory Board delegated to perform specific supervisory activities, notify the Supervisory Board about the results of their work on the meeting of the Supervisory Board, however without the right to issue any recommendations or opinions for the Management Board.

Members of the Supervisory Board perform their duties personally, however, the Supervisory Board may decide to order some experts' opinions or analyses related to their supervisory functions to persons from outside of the Supervisory Board. Terms and conditions for the execution of such orders in accordance with any resolution adopted in that respect are agreed by the Chairman of the Supervisory Board or another member of the Supervisory Board indicated in the resolution who informs the Management Board about the need to enter into a mandate or a contract for specific work on behalf of the Fund to the extent respectively agreed.

Pursuant to § 27 sec. 5 of the Issuer's Statute, exclusive competences of the General Meeting include a decision on a refund (reimbursement) to persons being members of the Supervisory Board against expenses or damages incurred by such person in connection with the exercise of their official functions assuming they act in good faith and in the best interests of the Fund. This provision refers to the subjective condition of "acting in the best interests of the Fund" through the introduction of "one's reasonable belief in the light of the circumstances". Provisions of the Statute incorporate consequences

of the error made by the General Meeting when taking the resolution on adopting the consolidated text of the Statute on 30 October 2009. The essence of this error was the omission of the preposition "in" in the last part of sec. 5: "which in such person's reasonable belief in the light of the circumstances was in the best interests of the Fund". According to the Issuer, this error, analysed based on historical, linguistic and teleological interpretation, does not affect the norm contained in that provision, and its removal is planned during a subsequent preparation of the consolidated text of the Issuer's Statute.

4.2.2 Audit Committee

There is the Audit Committee established in the Fund unless the General Meeting delegates its responsibilities to the Supervisory Board consisting of five members, and in addition, the Supervisory Board may appoint other committees, including the nomination and remuneration committees.

According to the Rules of Procedure of the Supervisory Board, the following permanent committees may work within the Supervisory Board: the Audit Committee and the Remuneration Committee which submit annual reports on their activities to the Supervisory Board. Such reports are made available to shareholders of the Fund. The committees are appointed by the Supervisory Board from among its members. The committees are made up of 3 to 5 members. Works of each individual committee are managed by its chairman. All members of the Supervisory Board are entitled to participate in meetings of the committee.

The Audit Committee includes at least two independent members (non-members of the Supervisory Board) and at least one member who has qualifications and experience in the field of accounting or finance. The task of the Audit Committee is advising the Supervisory Board on the proper implementation of the principles of budgetary and financial reporting as well as internal control of the Fund and the cooperation with the auditors of the Fund. The Audit Committee's responsibilities include in particular:

- a) monitoring the work of the auditors of the Fund and making recommendations to the Supervisory Board as to the selection and remuneration of the auditors of the Fund,
- b) discussing the nature and scope of the audit with the Fund's auditors before the commencement of each audit of the annual financial statements and monitoring the coordination of work between the Fund's auditors;
- c) reviewing periodic and annual financial statements of the Fund (standalone and consolidated), with a particular focus on: (i) any changes to accounting standards, principles and practices, (ii) major areas of judgement, (iii) significant post-audit adjustments, (iv) going concern statements, (v) compliance with applicable accounting regulations,
- d) discussing any problems or reservations that might result from the audit of the financial statements,
- e) analysing letters to the Management Board made by the auditors of the Fund, independence and objectivity of their audit and the responses of the Management Board,
- f) giving opinions on annual and multi-year financial plans,
- g) giving opinions on the dividend policy, profit distribution and securities issues,
- h) reviewing the management accounting system,

- i) reviewing the internal control system, including control mechanisms in the area of finance, operations, compliance, risk and management assessment,
- j) analysing reports of internal auditors of the Fund and major findings of other internal analysts and the Management Board's response to such findings, including examining the degree of independence of internal auditors and giving opinions on the Management Board's plans to employ and dismiss any person in charge of the organizational unit responsible for the internal audit,
- k) annually reviewing the internal audit programme, coordinating the work of internal and external auditors and examining conditions of the internal auditors' work,
- l) cooperating with the Fund's organisational units responsible for audit and control and periodically assessing their work,
- m) considering any other matters relating to the audit of the Fund, as found by the Audit Committee or the Supervisory Board,
- n) informing the Supervisory Board on any material issues in respect of the activities of the Audit Committee.

The composition of the Audit Committee as at the date of this report was as follows:

- Andrzej Abramczuk
- Mirosław Mikołajczyk
- Jerzy Żurek

4.2.3 Remuneration Committee

The purpose of the Remuneration Committee is to support strategic objectives of the Fund by providing the Supervisory Board with opinions and conclusions as to the development of the management structure, including organizational solutions, payroll system and selection of staff with the skills required to build the success of the Fund. The Committee's responsibilities include in particular: (a) initiating reviews of and giving opinions on systemic solutions for appointment of members of the Management Board, (b) reviewing the Fund's management system solutions proposed by the Management Board and designed to ensure efficiency, consistency and safety and security of the Fund's management, (c) periodically reviewing and recommending rules for accepting incentive schemes for members of the Management Board and senior executives, in accordance with the interests of the Fund, (d) periodically reviewing the system of remunerations of members of the Management Board and executives reporting directly to members of the Management Board, including manager's contracts and incentive schemes, (e) presenting opinions to the Supervisory Board on justifications for performance-based remunerations in the context of the assessment of the degree of implementation of specific tasks and objectives of the Fund, (f) assessing the human resources management system in the Fund.

4.2.4 Management Board

As at 31 December 2011 the composition of the Management Board was as follows:

- 1) Wojciech Pytel - President of the Management Board

- 2) Krzysztof Adaszewski - Member of the Management Board
- 3) Maciej Kotlicki - Member of the Management Board

On 25 March 2011 the Supervisory Board of the Fund appointed Mr. Krzysztof Adaszewski to the Management Board.

On 27 October 2011 the Supervisory Board of the Fund, following the appointment on 26 October 2011 of Mr. Wojciech Pytel to the management board of Polkomtel S.A. with its registered office in Warsaw ("Polkomtel"), dismissed Mr. Wojciech Pytel as the President of the Management Board of the Fund. At the same time on the same day, i.e. 27 October 2011, the Supervisory Board of the Fund appointed Mr. Wojciech Pytel as the President of the Management Board of the Fund, effective from 15 November 2011. The decision on the dismissal and re-appointment of Mr. Wojciech Pytel as the President of the Fund's Management Board, according to the explanations provided by the Supervisory Board, was necessary for Mr. Wojciech Pytel to obtain consents of competent authorities of Polkomtel pursuant to Art. 380 of the Code of Commercial Companies.

Operating procedures of the Management Board are governed by the Act on National Investment Funds and CCC, the provisions of the Statute, and in particular Art. 12-15 of the Statute as well as the Rules of Procedure of the Management Board. To all matters not settled in the Statute provisions of Art. 368-380 of CCC respectively apply.

Two members of the Management Board acting jointly or one member of the Management Board acting together with a holder of commercial proxy, subject to the following sentence, are authorised to make declarations and sign on behalf of the Fund. If the Management Board is composed of one person, such one member of the Management Board is authorised to make declarations and sign on behalf of the Fund. The following, among others, require the consent of the Supervisory Board:

- a) the Fund entering into any significant agreement with a related party (the above does not apply to standard transactions contracted on an arm's length basis in the ordinary course of business carried out by the Fund with a subsidiary in which the Fund holds a majority stake) or with the parent; a related party being as defined in the Regulation of the Minister of Finance issued pursuant to Art. 60, sec. 2 of the Act of 29 July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies (Journal of Laws No. 184, item 1539, as amended); in addition, it is assumed that granting loans or any other debt financing within those entities belongs to the category of the ordinary course of business of the Fund;
- b) the Fund contracting an obligation provided that the value of a single or a series of related transactions in the given financial year with a single entity exceeds 20% of the Fund's net assets, as determined based on the last standalone financial statements published in the periodical report;

In any agreements between the Fund and members of the Management Board and in disputes therewith the Fund is represented by the Supervisory Board. The Supervisory Board may authorise, by way of its resolution, one or more members of the Supervisory Board to make such legal transactions.

Members of the Management Board acquiring shares in the Company or its subsidiaries or parents should treat them as long-term investments.

Pursuant to § 27 sec. 5 of the Issuer's Statute, exclusive competences of the General Meeting include a decision on a refund (reimbursement) to persons being members of the Management Board against expenses or damages incurred by such person in connection with the exercise of their official functions assuming they act in good faith and in the best interests of the Fund. This provision refers to the subjective condition of "acting in the best interests of the Fund" through the introduction of "one's reasonable belief in the light of the circumstances". Provisions of the Statute incorporate consequences of the error made by the General Meeting when taking the resolution on adopting the consolidated text of the Statute on 30 October 2009. The essence of this error was the omission of the preposition "in" in the last part of sec. 5: "which in such person's reasonable belief in the light of the circumstances was in the best interests of the Fund". According to the Issuer, this error, analysed based on historical, linguistic and teleological interpretation, does not affect the norm contained in that provision, and its removal is planned during a subsequent preparation of the consolidated text of the Issuer's Statute.

4.3 Emoluments of managing and supervising persons

The table below shows the value of salaries, bonuses or benefits from their functions in 2011, separately for each of the Issuer's managing and supervising persons.

Name and surname	Position	Gross salary	Gross value of other benefits (***)
Wojciech Pytel	President of the Management Board of the Fund (*)	75,000	495
Maciej Kotlicki	Member of the Management Board of the Fund	75,000	396
Krzysztof Adaszewski	Member of the Management Board of the Fund (**)	75,000	495
Jerzy Żurek	Member of the Supervisory Board of the Fund	2.8	0
Andrzej Chajec	Member of the Supervisory Board of the Fund	2.8	0
Mirosław Mikołajczyk	Member of the Supervisory Board of the Fund	2.8	0
Krzysztof Majkowski	Deputy Chairman of the Supervisory Board of the Fund	4.7	0
Andrzej Abramczuk	Secretary of the Supervisory Board of the Fund	0	0
Zygmunt Solorz-Żak	Chairman of the Supervisory Board of the Fund	0	0

(*) in the period 15 December 2010 - 27 October 2011 and 15 November 2011 - 31 December 2011

(**) since 25 March 2011

(***) medical packages

As part of the aforementioned remuneration for members of the Management Board of the Fund, for each of them PLN 50,000 gross was paid as a bonus as determined in the resolution of the Supervisory Board of the Fund based on the size of the issue of C class shares.

Subject to the preceding sentence, in 2011 none of the managing or supervising persons received:

- remuneration, awards or benefits under incentive or bonus schemes based on the capital of the Issuer, including schemes based on preferred bonds, convertible bonds, subscription warrants (in cash, in kind or in any other form whatsoever),
- remuneration and awards received for functions in authorities of the subordinated entities.

4.4 Agreements with managing persons providing for compensation in the case of their resignation or dismissal without cause or when their dismissal or termination results from a merger of the Company following acquisition

In 2011 no agreements with managing persons providing for compensation in the case of their resignation or dismissal without cause or when their dismissal or termination results from a merger of the Company following acquisition were effective.

5 Other information

5.1 Proceedings pending before courts, competent arbitration tribunals or public administration authorities

On 31 March 2010 the Company received a copy of the Supreme Court's decision on admission for examination of the cassation appeal submitted by the Company against the judgment of 16 April 2009 of the Court of Appeal in Warsaw, VI Civil Division in which the Company's appeal against the judgment of the District Court, XX Commercial Division in Warsaw on 2 April 2008 (reference number XX GC 175/05) was dismissed. Under the judgments contested in the cassation appeal the Company paid to Torpol Sp. z o.o. with its registered office in Poznań PLN 627,131.58 including statutory interest and PLN 43,365.35 as reimbursement of litigation costs. The amount paid was a part of the advance payment made by Torpol Sp. z o.o. pursuant to the conditional agreement for the purchase of shares in PRK SA in Poznań. Torpol Sp. z o.o. made a statement on avoidance of the effects of the conditional agreement for the purchase of shares based on an error and requested and then claimed a reimbursement of the advance payment before the court. The Company settled all the obligations to Torpol Sp. z o.o. resulting from the above final judgment XX GC 175/05. The Supreme Court in its judgment of 29 October 2010 reference number CSK 595/09 repealed the contested judgment and returned the case for re-examination to the Court of Appeal in Warsaw. In the justification to its judgment the Supreme Court pointed out that there were no reasons to acknowledge effectiveness of the avoidance by Torpol Sp. z o.o. of the effects of the conditional agreement for the purchase of shares. In the light of the above judgment, on 15 March 2011, the Issuer and Torpol Sp. z o.o. entered into an out-of-court settlement under which among others: i) the parties confirmed that the statement of Torpol Sp. z o.o. on avoidance of the effects of the conditional agreement for the sale of shares in PRK S.A. did not produce any legal consequences, ii) the advance payment made by Torpol Sp. z o.o. was vested in the Issuer, iii) Torpol Sp. z o.o. would return to the Issuer by 21 March 2011 the recovered amount of the advance payment including interest in the total amount of PLN 1,091,459.48, iv) the parties undertake to immediately enter into a court settlement before the Court of Appeal in Warsaw, with a further reimbursement by Torpol Sp. z o.o. to the Issuer of the costs of the cassation procedure in the amount of PLN 36,757 and the mutual waiver of any other costs. On 21 March 2011 the Out-of-Court Settlement was executed, i.e. Torpol Sp. z o.o. reimbursed to the Issuer PLN 1,091,459.48, and the parties entered into the court settlement before the Court of Appeal in Warsaw on the terms and conditions indicated above.

5.2 Subsequent events

Determination of the issue price for D class shares.

On 3 February 2012 the Management Board of the Company, acting pursuant to Resolution No. 27/2011 of the General Meeting of the Fund of 15 November 2011 determined, with the consent of the Supervisory Board of the Fund expressed in its resolution of 3 February 2012, the issue price for D class shares at PLN 0.70 per share.

Issue of debt papers.

After Alior Bank S.A. with its registered office in Warsaw ("Alior Bank") subscribed on 17 February 2012 for 20,000 series MID0612.3 debt papers with a nominal value of PLN 1,000 each ("Papers"), with a total nominal value of PLN 20,000,000 for the issue price equal to their nominal value ("Issue Price") as a result of the acceptance by Alior Bank on 16 February 2012 of the proposal to subscribe for the Papers ("Proposal") and as a result of the payment of the Issue Price by Alior Bank, the issue of the Papers was successful.

Proceeds from the issue of the Papers were used as a bridge financing for investments carried out by Midas Group. The Company's use of such bridge financing is expected until the end of the public offering for D class shares of the Company. The Company informs that as a part of such financing proceeds from the issue of the Papers were used for a loan in the amount of PLN 20,000,000 to the subsidiary - Aero 2 Sp. z o.o. with its registered office in Warsaw.

In accordance with terms and conditions for the issue of the Papers, contained in the Proposal, the Papers mature on 30 June 2012 but the Company has the right to make an unconditional early redemption of the Papers. In addition, the Papers entitle to interest, accrued and paid on a monthly basis, except for the first interest period which will last from 17 February 2012 to 1 March 2012. The Papers bear interest at WIBOR 1M from the second working day preceding the beginning of the interest period, increased by 2.5 percentage points, per annum. The Papers do not entitle to any non-cash benefits from the Company. The Papers issued are certificated and transferable only with the written consent of the Company.

The Papers issued by the Company are secured, and the collateral security for the claims under the Papers as well as under series MID0612.1 and MID0612.2 papers (as described in detail in section 26.3 of this report) is: (i) a contractual mortgage for up to PLN 89,017,500.00 on: the right vested in Inwestycje Polskie Spółka z ograniczoną odpowiedzialnością with its registered office in Warsaw (04-175) ul. Ostrobramska 77, KRS 0000008176 ("Inwestycje Polskie") for perpetual usufruct of the real estate and the title to buildings erected thereon, constituting a separate ownership title, located in Warsaw at ul. Ostrobramska 77, including the plot of land No. 36/6 with the area of 0.5251 ha, described in KW WA6M/00171397/7, kept by the District Court for Warszawa – Mokotów in Warsaw, XV Land and Mortgage Register Division ("Real Estate"), established as a first rank mortgage in favour of Alior Bank in order to secure claims under the Company's obligations from the Papers and the obligations under the surety agreement referred to in section (iii) below, interest claims and other claims for ancillary services, including fees and commissions provided that the foregoing mortgage security collateral secures also series MID0612.1 papers; (ii) acknowledged assignment of claims under insurance of the Real Estate at the insurer accepted by Alior Bank against fire and other casualties for at least PLN 89,017,500.00; (iii) a civil law surety granted by Inwestycje Polskie provided that the liability of the suretor under the surety granted is limited to the amount corresponding to the value of the Real Estate as at the date of maturity of Alior Bank's claims against the suretor, (iv) the Company's statement submitted in the form of a notarial deed on submission to enforcement pursuant to Art. 777 § 1 point 5 of the Code of Civil Procedure for up to PLN 107,250,000.00 as a part of enforcement actions carried out by Alior Bank in the case of non-performance of the obligations which may arise on the Company's cash claims to Alior Bank; (v) statement of Inwestycje Polskie on submission to enforcement, in the form of a notarial deed, for up to PLN 107,250,000.00 as a part of enforcement actions carried out by Alior Bank.

Fore series MID 0612.1 and MID 0612.2 debt papers, referred to above, the a/m security collateral replaces the previous security collaterals as described in section 2.4.1 of this report.

Granting a loan to Aero 2 Sp. z o.o.

On 17 February 2012 the Company, under the loan agreement entered into with Aero 2 Sp. z o.o. ("Aero 2") ("Agreement"), granted to Aero 2 a loan in the amount of PLN 20,000,000. According to its provisions the loan bears interest at WIBOR 1M + 3 percentage points per annum and matures on 29 June 2012. The loan was granted for purposes of bridge financing for investments carried out by Midas Group until the end of the public offering of D class shares of the Company.

Agreement on a mutual offset of receivables with Litenite Limited

On 28 February 2012 the Fund concluded an agreement with Litenite Limited with its registered office in Nicosia, Cyprus ("Litenite") for a mutual offset of receivables ("Agreement").

In accordance with the Agreement, on 28 February 2012, the Company and Litenite made a contractual set off of a receivable of PLN 546,863,906.40 that was due to the Company from Litenite under its obligation to pay for 781,234,152 D class shares of the Company, covered by the basic subscription submitted by Litenite on 28 February 2012 at an issue price of PLN 0.70 per share under the public offering for D class shares (closed subscription), against a receivable of PLN 548,000,000 due from the Company to Litenite in respect of payment of the price for 100% of shares in Conpidon Limited under the agreement for sale of shares in Conpidon Limited with its registered office in Nicosia, Cyprus. As a result of the contractual offset, the above receivable due to the Company was written off in full, i.e. in the amount of PLN 546,863,906.40, and the above receivable due to Litenite was written off in part, i.e. to the amount of PLN 1,136,093.60.

Under the Agreement the Company and Litenite agreed also that the Company would be entitled to withdraw from the Agreement if a decision, if any, of the registry court having jurisdiction over the Company: (i) on refusal to register the Company's share capital increase following the issue of D class shares or (ii) on rejection of the application in that respect, becomes final. Such right is vested in the Company for the period of one month from when the a/m decision of the court becomes final.

The Agreement was signed in order to pursue the first objective of the issue of D class shares, i.e. payment of the price for the acquisition of Aero2 Sp. z o.o. with its registered office in Warsaw. Considering the foregoing offset, PLN 1,136,093.60 constitutes the remaining claim of Litenite against the Company as a part of pursuing such objective. However the Company notes the option to withdraw from the Agreement, as described above. In the case of such withdrawal the Agreement will be considered, pursuant to Art. 395 § 2 sentence 1 of the Civil Code as not entered into, and the Company will be liable to pay to Litenite PLN 548,000,000 as the payment of the price for a 100% stake in Conpidon Limited sold to the Company.

Allotment of D class shares under principal and additional subscriptions

On 19 March 2012 the Management Board of the Fund, by way of its resolution, allotted all the D class shares of the Fund offered under the public offering. The Management Board allotted D class shares to entities which submitted properly paid subscriptions for D class shares in the performance of subscription rights for D class shares, with each of these entities having been allotted the number of shares equal to their properly paid principal subscriptions submitted, and to entities which made additional subscriptions for D class shares, in accordance with Art. 436 § 2 of the Code of Commercial Companies, with each of these entities having been allotted the number of shares resulting from their

properly paid subscriptions and the rate of reduction. Terms and conditions for the allotment of D class shares were described in the current report 17/2012 of 19 March 2012 (available on the Fund's website - www.midasnfi.pl).

5.3 Important achievements in the area of research and development

In 2011 the Fund carried out no research and development activities.

5.4 Registry, communication and address data

The registered name of the Issuer:	Narodowy Fundusz Inwestycyjny MIDAS Spółka Akcyjna. The Issuer may use the abbreviated name NFI MIDAS S.A.
Place of registration:	The Issuer was registered by the District Court for the capital city of Warsaw, XVI Commercial-Registry Division based on the decision of 31 March 1995 (ref. XVI Ns reg. H-2401/95) under the number RHB 43367. Then the Issuer was registered in the Register of Entrepreneurs of the National Court Register on 23 June 2001, in the District Court for the capital city of Warsaw in Warsaw, XIX Commercial Division of the National Court Register. Currently, the Issuer is registered in the Register of Entrepreneurs of the National Court Register kept by the District Court for the capital city of Warsaw in Warsaw, XII Commercial Division of the National Court Register.
Registration No.:	KRS 0000025704
Date established:	The Issuer was established on 15 December 1994 by the State Treasury represented by the Minister of Ownership Transformations (currently the Minister of the State Treasury) as a sole shareholder company of the State Treasury.
Duration:	Unlimited
Registered office:	Warsaw
Legal form:	spółka akcyjna (Polish joint stock company) (national investment fund)
Regulations applicable to the Issuer's operations:	The Issuer operates pursuant to and in accordance with the laws of Poland, in particular the provisions of the Code of Commercial Companies and the Act on NFI as well as on the basis of its Statute.
Country of the registered office:	Republic of Poland
Address:	ul. Lwowska 19, 00-660 Warsaw
Telephone number:	+48 22 249 83 10
Fax number:	+48 22 249 83 13
E-mail:	biuro@midasnfi.pl
Website:	http://www.midasnfi.pl

SIGNATURES OF MEMBERS OF THE MANAGEMENT BOARD:

Wojciech Pytel

President of the Management
Board

Krzysztof Adaszewski

Member of the
Management Board

Maciej Kotlicki

Member of the Management
Board

Warsaw, 20 March 2012