

Cyfrowy Polsat S.A.

Report on the application of the principles of corporate governance  
for the financial year ended 31 December 2008

## Part I

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

We are subject to the set of principles of the corporate governance as set out in the Best Practices of WSE Listed Companies, constituting an appendix to the Decree No. 12/1170/2007 of the Council of GPW of 4 July 2007.

The document was issued by the Warsaw Stock Exchange (GPW) and made available at the head office of the GPW and at a special website dedicated to issues of the corporate governance at <http://corp-gov.gpw.pl/>.

## Part II

Specification of the principles of corporate governance not applied by the issuer together with reasons for not applying.

On 6 May 2008 in the current report No. 9/2008 we informed that our intention is to comply with all the principles of the corporate governance contained in the Best Practices of Companies listed on the Warsaw Stock Exchange.

However, with regards to the principle No. III.6, setting out that at least two members of the Supervisory Board shall comply with the requirement of independence from the Company or entities being in material relation to the Company, our Management Board decided that the application of the principle shall depend on a decision of the General Meeting of Shareholders whose competencies include appointing members of the Supervisory Board.

The General Meeting of Shareholders of 4 July made changes to the composition of the Supervisory Board appointing two members to the Supervisory Board who comply with the independence criterion set out in Chapter III point 6 of the Best Practices of WSE Listed Companies.

## Part III

Description of the basic features of the internal control system and the risk management system applied at the company with respect to the process of preparing financial statements.

Our Management Board is responsible for internal control system and its effectiveness in the process of preparing financial statements and interim reports which are prepared and published in accordance with the provisions of the Decree of the Finance Minister of 19 February 2009 on current and interim information provided by issuers of securities and the conditions of accepting, as equivalent, information required by the provisions of a country not being a member state.

The objective of our internal control system in financial reporting is the assurance of the adequacy and correctness of financial information contained in the financial statements and interim reports. Our system of internal control and risk management comprises:

- a) A specified scope of financial reporting by the Company;
- b) A defined segregation of duties and work organisation;
- c) A consistent set of financial and operational data which is in line with the respective decree contained in the financial reports enabling the results of successive periods to be comparable;
- d) Regular reviews of the Company's results using established scope of the financial reporting; and
- e) Regular reviews of the Company's published financial statements by an auditor.

#### **a. Specified scope of financial reporting by the Company**

Our Management Board regularly reviews the strategy and business forecasts for the period of three to five years. Based on the conclusions from such reviews middle and senior management prepare a detailed financial plan for the following 12 months covering all the areas of our activities and updates business forecasts. The accounting policy regarding statutory reporting adopted by us is used in both the budgeting process and during the preparation of interim management reporting.

A detailed financial plan for the following 12 months is further accepted by our Management Board and approved by the Supervisory Board.

Our Management Board analyses the current financial results during the year by comparing them with the accepted financial plan.

#### **b. Defined segregation of duties and work organisation**

The Budgeting and Controlling Department is responsible - based on assumptions prepared by the Management Board and the senior and middle management - for preparation of the next 12 month and long-term financial plans; the Budgeting and Controlling Department reports to the Finance Director, who reports to the Member of the Management Board responsible for finance. The financial plan for the following 12 months, accepted by the Management Board, is passed on to the owners of the areas of our activities for implementation. The Budgeting and Controlling Department performs regular analyses of implementation of the plan and reports the results to the Management Board and the owners of the areas of our activities who are responsible for the execution of the plan.

The Reporting Department, which reports to the Chief Financial Office reporting directly to the Member of the Management Board responsible for Finance, is responsible for preparing our financial statements and the interim financial reports.

Before providing them to an independent auditor, the Director of the Finance Department and then the Management Board Member responsible for finance verify the prepared financial statements.

The Investor Relations Department prepares our interim reports on the basis of the interim and annual financial statements after the Management Board Member responsible for finance has accepted them, taking into consideration other data provided by managers and directors managing the functional of departments of the Company .

The Management Board Member responsible for finance accepts the interim reports before providing them to an independent auditor.

#### **c. Consistent set of financial and operational data in the financial reports compliant with the respective Decree enabling comparison of results of successive periods.**

The scope of basic data encompassed by the interim reporting process includes both the obligatory data defined in the Decree of 19 October 2005 on current and interim information provided by issuers of securities and a set of operational data enabling verification of effectiveness of our activities and update of analytical models used by external financial analysts.

We apply cohesive and uniform accounting principles in the presentation of financial data in the financial statements, interim financial reports, internal financial plans and other reports presented to investors.

#### **d. Regular reviews of the Company's results using the established scope of financial reporting.**

Data for the financial statements and interim reports is prepared on the basis of the reporting system used in the Finance-Accounting Department, which is based on interim management reporting. After closing of the reporting period, our financial results are analysed in detail, taking into consideration compliance with the budgeted numbers and cohesiveness of the accepted accounting policy. Corrections of possible errors and deviations from existing standards are recognised in the accounting records. Financial statements approved by the Management Board Member responsible for finance are distributed in accordance with accepted standards.

The financial and operating results, based on the prepared management reports, are analysed further at the level of Deputy Finance Director responsible for Budgeting and Controlling. Our Management Board and the operational departments are informed about the level of costs in a given period and the level of utilisation of the annual financial plan in the interim reports.

#### **e. Regular independent reviews of the Company's published financial statements by an external auditor.**

We apply the principle of an review of the published financial statements by an independent auditor. The semi-annual reports and annual reports which are published and the financial data which constitute the basis of this reporting, as well as the source data constituting the grounds for their preparation are reviewed by the Company's auditor.

Key management and data input systems, including the electronic document flow, billing systems as well as the system of booking revenues and expenses, constitute a part of the audit during the review of the financial statements.

The adequacy of the financial data and the extent of further disclosures are subject to review. The results of the review or audit are presented by the auditor to the management of the Company's Finance Department during the summary meetings.

## **Part IV**

### **Presentation of shareholders holding, directly or indirectly, material bundles of shares.**

The following table presents our shareholders as of 31 December 2008:

Shareholder	Number of shares held	% of share capital	Number of votes	% of votes
Polaris Finance B.V. <sup>1</sup>	162.943.750	60,73%	317.968.750	69,76%
Zygmunt Solorz-Żak	30.603.750	11,41%	61.207.500	13,43%
Others	74.777.500	27,86%	76.648.750	16,81%
<b>Total</b>	<b>268.325.000</b>	<b>100,00%</b>	<b>455.825.000</b>	<b>100,00%</b>

<sup>1</sup> Zygmunt Solorz-Żak owns 85% of shares of Polaris Finance B.V and Heronim Ruta owns 15% of shares of Polaris Finance B.V.

## **Part V**

### **Presentation of owners of securities with special controlling rights**

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

- Series A shares totalling 2,500,000 have preferential voting rights entitling their holder to two voting rights per share;
- Series B shares totalling 2,500,000 have preferential voting rights entitling their holder to two voting rights per share;
- Series C shares totalling 7,500,000 have preferential voting rights entitling their holder to two voting rights per share;
- Series D shares totalling 175,000,000 have preferential voting rights entitling their holder to two voting rights per share.

The holders of preferential shares are: Polaris Finance B.V. (155,025,000 shares entitling to 312,143,750 votes in the General Meeting), Zygmunt Solorz-Żak (30,603,750 shares entitling to 67,207,300 votes in the General Meeting), and Heronim Ruta (1.871.250 shares entitling to 3,742,500 votes in the General Meeting).

Series E shares amounting to 75,000,000 units and Series F shares amounting to 5,825,000 units are ordinary bearer shares.

## Part VI

### Specification of limitations of exercising the voting rights from shares

There are no limitations of exercise of the voting rights from our shares.

## Part VII

### Specification of limitations of the Company's securities ownership rights transfer

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

## Part VIII

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

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

The members of the Management Board may be dismissed at any time by the Supervisory Board.

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

Members of the Management Board participate, in particular, in each General Shareholders' Meeting and provide answers to questions asked during the General Shareholders' Meeting. Moreover, Members of the Management Board invited to a Meeting of the Supervisory Board by the Chairman of

the Supervisory Board, participate in the Meeting with a right to voice their opinion on issues on the agenda.

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

## Part IX

### Specification of rules of amending the Articles of Association.

A change to the Articles of Association requires a resolution of the General Shareholders' Meeting and an entry into the Court register. The general provisions of Law and the Bylaws of the General Shareholders' Meeting and the Articles of Association govern the procedure of adopting resolutions regarding changes to the Articles of Association.

Pursuant to provisions of the Articles of Association, observing the provisions of art. 417 § 4 of the commercial companies code, a change of the Articles of Association may take place without a share buyback.

## Part X

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

The General Shareholders' Meeting acts pursuant to the provisions of the commercial companies' code. The Articles of Association, and the Bylaws of General Shareholders' Meeting adopted by the resolution No.6 of the Extraordinary Shareholders' Meeting of 4 December 2007.

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

- a) discussion and approval of reports of the Management Board and the Supervisory Board, and the financial statements for the previous year,
- b) decision about allocation of profits, or covering debts,
- c) signing off for the performance of duties for the Supervisory Board and the Management Board,
- d) appointment and dismissal of Members of the Supervisory Board and determination of their compensation,
- e) changes to the Articles of Association of the Company,
- f) changes to the business of the Company,
- g) increase or decrease in the equity,
- h) merger or transformation of the Company,
- i) dissolution or liquidation of the Company,
- j) issue of bonds,
- k) sale or lease of the Company and establishment of a right of use or sale of the Company's plant,
- l) all decisions regarding claims for damages upon establishment of the Company, or performance of management or supervision.

The following persons may participate in the General Shareholders' Meeting: (i) holders of registered shares, who have been entered into the share register, at least a week prior to the scheduled date of the General Shareholders' Meeting, and (ii) owners of bearer shares, who submit, in our offices, at least a

week prior to the scheduled date of the General Shareholders' Meeting, a registered depository certificates, stating the number of shares held, and containing a statement the shares indicated in the content of the certificates have been locked in the investment account and shall not be subject to trade until the date of the General Shareholders' Meeting.

A shareholder, being a natural person, is entitled to participation in the General Shareholders' Meeting and execution of voting rights in person, or through a proxy. A shareholder, being a legal entity, is entitled to participation in the General Shareholders' Meeting and execution of voting rights through a person authorized to forward statements of will on their behalf, or through a proxy.

The members of the Board, Supervisory Board and the auditors of the company are obligated to participate in the General Shareholders' Meeting if the items on the agenda are of financial nature. Other persons invited by the Board may also take part in the General Shareholders' Meeting.

The General Meeting is opened by the Chairman of the Supervisory Board or a person they nominate. Person opening the General Meeting shall cause immediate election of its Chairman, refraining from considering any other substantive or formal matters.

Each participant in the General Meeting is entitled to be elected the Chairman of the General Meeting, and also nominate one person as candidate to the position of the Chairman of the General Meeting. Until election of the Chairman the General Meeting shall not take any decisions.

The Chairman of the General Meeting directs proceedings in accordance with the agreed agenda, provisions of law, the Articles of Association and the By-laws, and in particular: giving the floor to speakers, ordering voting and announcing the results thereof. The Chairman ensures efficient proceedings and respecting of the rights and interests of all shareholders. The Chairman may decide on issues of the order of the agenda.

After creation and signing of the attendance list the Chairman approves that the Shareholders' Meeting has been called in a proper manner and is authorized to pass resolutions; presents the agenda and orders selection of the Ballot Committee.

The General Meeting may pass a motion regarding nonfeasance of voting over an item on the agenda, and also on adjourning the order of issues on the agenda. However, removing an item from the agenda, or its adjourning upon a request of shareholders, requires prior consent of all the shareholders present, who have forwarded such a motion, supported by a majority of votes of the General Meeting. Motions regarding the aforementioned issues shall be justified in detail.

The Chairman, after opening an item on the agenda, may give floor in order of application of speakers. In the event of a significant number of applications the Chairman may set a time limit or limit the number of speakers. The floor may be taken regarding items on the agenda and currently under discussion only. The Chairman may give the floor outside of the order of application to the members of the Management Board or Supervisory Board, and also to the Company experts called by them.

The Meeting may not pass resolutions regarding items that are not on the agenda unless all the share capital is represented in the General Meeting and none of the present in the Meeting raises any objections as to the adoption of a resolution.

Voting shall proceed in a manner adopted by the General Meeting using a computerized system of casting and counting votes, ensuring that votes are cast in the number corresponding to the number of shares held and - in case of a secret ballot - allowing to eliminate a possibility of detecting the manner of voting by individual Shareholders.

With observation of the governing provisions of law resolutions passed by the General Meeting are legally effective regardless of the number of shareholders and the number of shares they represent present in the Meeting and are adopted by a majority of votes.

The shareholders participating in the General Meeting have the number of votes corresponding to the number of shares held, observing the fact that the registered shares Series A through D are preferential in such a way that each of them entitles to casting two (2) votes in the General Meeting.

The Chairman of the General Meeting closes the General Meeting upon exhausting its agenda.

## Part XI

Personnel composition and changes in the previous business year and description of the functioning of the management, supervisory, or administrative bodies of the Company and its committees.

### The Management Board

Currently the Board consists of four members. The composition of the Board did not change during 2008.

### Composition of the Management Board

The following table presents names, surnames, functions, date of appointment and date of expiry of the current term of particular members of the Management Board.

Name and surname	Function	Year of first appointment	Year of appointment of the current term	Year of expiry of term
Dominik Libicki	President of the Management Board	2001	2007	2010
Dariusz Działkowski	Member of the Management Board	2007	2007	2010
Maciej Gruber	Member of the Management Board	2005	2007	2010
Andrzej Matuszyński	Member of the Management Board	2007	2007	2010

**Dominik Libicki** has been the president and chief executive officer of Cyfrowy Polsat S.A. since March 2001. Mr. Libicki is also the President of the Management Board of Cyfrowy Polsat Technology Sp. z o.o. He also sits on the Supervisory Board of Polskie Media S.A., the broadcaster of TV4. Mr. Libicki sits on the Supervisory Board of POT Sp. z o.o. which executes the project of implementing the digital terrestrial television in Poland. Since February 2005, Mr. Libicki has also been vice president of the Union of Private Media Employers of the Polish Confederation of Private Employers "Lewiatan" (Związek Mediów przy Polskiej Konfederacji Pracodawców Prywatnych Lewiatan). His previous professional experience is related mainly to the television production industry. He was the Managing Director of PAI Film. He also ran his own company Studio Meg which produced television advertising spots and television programs. Between 2005 and 2006 he was a member and between 2006 and 2008 the Vice- Chairman of the Supervisory Board of Polska Telefonia Cyfrowa Sp. z o.o., the largest mobile



network in Poland (the Era network). Dominik Libicki graduated from the Department of Environmental Studies at the Wrocław Technical University and completed a training course for supervisory board members organized by the Polish Ministry of Economy.

Dariusz Działkowski has been a member of the Management Board responsible for technology since August 2007. Mr. Działkowski is also a member of the Management Board of Cyfrowy Polsat Technology Sp. z o.o. From November 2001 Dariusz was the Technical Director of Cyfrowy Polsat S.A.. Dariusz Działkowski got his previous professional experience with Canal+ and Ericsson where he held the positions of Technical Director and Services Sales Department Manager respectively. He is one of the founders of Centrum Telemarketingowe Sp. z o.o. Dariusz Działkowski graduated from the Electronics Department at the Warsaw University of Technology at the radio and TV faculty and has an MBA degree from the University of Maryland.

Maciej Gruber has been a member of the Management Board responsible for finance since 2005. He is also a member of the Management Board of Cyfrowy Polsat Technology Sp. z o.o. He was the Finance Director of Cyfrowy Polsat S.A. from December 2002. His previous experience is related to the finance and management sectors. Between 1998 and 2001 he was the Director of Development and a member of the Management Board of UPC Telewizja Kablowa Sp. z o.o. Between 1995 and 1998 he was a member of the team of corporate finance of the investment bank ABN Amro Hoare Govett Corporate Finance CEE Sp. z o.o. (previously known as MeesPierson EurAmerica). Previously Mr. Gruber worked as an auditor for Guérard Viala Polska Sp. z o.o. and participated in the project of sector capital privatization at Bain et Compagnie Snc. Before engaging with Cyfrowy Polsat S.A. Mr. Gruber ran his own business specializing in providing advisory services within the business management area to entities in the broadband communication and digital platform sectors, the tourist and healthcare industries. Maciej Gruber graduated from the Chemistry Faculty at the Wrocław Technical University with a master's degree and completed a post-graduate diploma from the Copernic Program and obtained a diploma from the Collège des Ingénieurs in Paris, France.

Andrzej Matuszynski has been a member of the Management Board responsible for marketing. since August 2007. From 2005 he was the Marketing and Customer Care Director of Cyfrowy Polsat S.A. His previous professional experience is closely related to the marketing and advertising areas. Between 1997 and 2004 he worked for the Eurozet holding (Radio Zet, Radiostacja, RRM, Studio Zet), recently as the Research and Marketing Director and the Member of Management Board of Radiostacja. He was responsible for managing the marketing department, creation of the marketing campaign of Radio Zet and Radiostacja and cooperation with advertising agencies and media houses. Andrzej Matuszynski graduated from the Psychology Department at the Catholic University of Lublin. He also completed post-graduate studies in management (executive MBA program) at the Canadian Management Institute in Warsaw.

### **Bylaws of the Management Board**

Our Management Board acts pursuant to the provisions of the commercial companies code, and the Bylaws of Management Board approved by the Supervisory Board on 29 November 2007.

The Management Board runs our matters in a transparent and efficient way pursuant to the provisions of the law, our internal provisions and "the Best Practices of WSE Listed Companies". Upon taking decisions related to our matters, the Members of the Management Board act within justified limits of business risk.

The following are entitled to submit statements on our behalf (i) in the case of one person Management Board - the President of the Management Board acting independently, and (ii) in the case of a more

numerous Management Board - the President of the Management Board acting independently, two members of Management Board acting jointly, or a member of the Management Board acting jointly with a proxy.

All issues related to our management, not restricted by the provisions of the law or the Articles of Association to the competence of the Supervisory Board or the General Meeting, are within the scope of competence of the Management Board.

Members of the Management Board participate in sessions of the General Meeting and provide substantive answers to questions asked during the General Meeting. Members of the Management Board invited to a meeting of the Supervisory Board by the Chairman of the Supervisory Board participate in the meeting with the right to take the floor regarding issues on the agenda. Members of the Management Board shall, within their scope of competence and the scope necessary to settle issues discussed by the Supervisory Board, submit explanation and information regarding our matters to the participants in the meeting of the Supervisory Board.

The Board adopts resolutions provided that at least half of the Members of the Board are present in the meeting and all the Members of the Board have been notified of the meeting. Resolutions are adopted by an absolute majority of votes of the Members of the Board present in the meeting or participating in the voting. The establishment of a proxy requires consent of all the members of the Management Board. Each member of the Management Board may revoke the power of proxy. In the case of equality of votes upon adoption of resolutions by the Management Board the vote of the President of the Management Board shall prevail.

Resolutions are adopted in a meeting or in a manner set out below. The President of the Management Board, or a person they authorized, calls meetings of the Management Board. The meetings of the Management Board are held in our offices or another place indicated by the person calling the meeting.

The voting is open. A secret voting shall be administered upon a request of just one Member of the Board present in the meeting.

Moreover, according to the Bylaws of the Management Board, the Management Board may adopt resolutions in writing, or in a manner enabling instantaneous communication of the Members of the Management Board by means of audio-video communication (e.g. teleconferencing, videoconferencing).

### The Supervisory Board

The composition of the Supervisory Board of the Company as of 1 January 2008:

- a) Heronim Ruta - Chairman of the Supervisory Board;
- b) Mariola Gaca - Member of the Supervisory Board;
- c) Anna Kwasnik - Member of the Supervisory Board;
- d) Zdzislaw Gaca - Member of the Supervisory Board;
- e) Andrzej Papis - Member of the Supervisory Board.

On 4 July 2008 the General Shareholders' Meeting of the Company passed a resolution regarding changes to composition of the Supervisory Board which dismissed Zdzislaw Gaca, Mariola Gaca, and Anna Kwasnik from the Supervisory Board and appointed Robert Gwiazdowski, Leszek Reksa, and Zygmunt Solorz-Zak to the Supervisory Board.

### The composition of the Supervisory Board

From 4 July 2008 to 31 December 2008 the following persons sat on the Supervisory Board:

Name and Surname	Function	Year of first appointment	Year of appointment to the current term	Year of term expiry
Zygmunt Solorz-Żak	Chairman of the Supervisory Board Member of the Remuneration committee	2008	2008	2009
Robert Gwiazdowski	Independent <sup>1</sup> member of the Supervisory Board Member of the Audit Committee	2008	2008	2009
Andrzej Papis	Member of the Supervisory Board	2007	2007	2009
Leszek Reksa	Independent member of the Supervisory Board Member of the Audit Committee	2008	2008	2009
Heronim Ruta	Member of the Supervisory Board Member of the Audit Committee Member of the Remuneration Committee	2001	2006	2009

<sup>1</sup> conforms with the independence criteria listed in the Best Practices of WSE listed Companies in Chapter III point 6

**Zygmunt Solorz-Zak** is one of the greatest private entrepreneurs in Poland. Having spent a few years abroad returned to Poland and set up the Foreign Enterprise SOLPOL at the end of the 1980s. At the beginning of the 1990s Mr. Solorz-Zak took interest in the media sector investing in the Kurier Polski. In 1993 Mr. Solorz-Zak started first private satellite television in Poland - Polsat which, by receiving a license, transformed into a nationwide television. Within a few years Telewizja Polsat became the leader of the television market in Poland. Since the foundation of Telewizja Polsat Zygmunt Solorz-Zak has been the Chairman of the Supervisory Board. Mr. Solorz-Zak's investment interest also includes other business sectors through companies such as Elektrim S.A., Invest-Bank S.A., PAK S.A., PTE Polsat S.A., or TU Polisa Zycie S.A. Mr. Solorz-Zak is also the founder of Cyfrowy Polsat S.A. The entrepreneur has great experience of work in statutory bodies of commercial code companies from being the President of Supervisory Boards of companies such as Polskie Media S.A., Invest Bank S.A. and Elektrim S.A.

**Robert Gwiazdowski** a Ph. D. of Law,. Since 1997 holder of Investment Advisor title. Mr. Gwiazdowski is also an arbiter in arbitrary proceedings at the Stock Exchange Court within the Warsaw Stock Exchange S.A.. He is the President of Adam Smith Centre. Between 1985 and 2006 he was a senior researcher at the University of Warsaw (assistant and then lecturer on the Law and Administration Faculty). In 1992-2002 he was partner in Smoktunowicz & Falandysz Legal Office. In 1994-2004 he was the Head of Tax Commission of Adam Smith Centre. Since 2002 he has run a business within legal and tax, and also finance and economic consultancy, trading as Gwiazdowski Consulting. Mr. Gwiazdowski is an author of commentaries regarding tax and economic topics on Polish TV and radio stations, and

an author of numerous publications and articles. Mr. Gwiazdowski is the Supervisory Board member of Gemius S.A., MNI S.A. (independent member of the Supervisory Board) and DGA S.A..

**Andrzej Papis** is a Legal Advisor. Mr. Papis graduated from the Law and Administration Faculty of the Warsaw University and completed his legal apprenticeship in the Local BAR Chamber in Warsaw. Between 1998 and 1999 he was an assistant in the team of professor M. Kulesza for the administrative reform of the country, followed by his post as co-worker of the Government Proxy Office for Implementation of the General Health Insurance. Since 2000 he has been the lawyer of Telewizja Polsat S.A. Since 2003 he has also been a member of the Board of TFP Sp. z o.o. and since 2004 he has been a member of the Supervisory Board of Elektrim S.A.. Since 2007 Mr. Papis has been on the Supervisory Board of Media Biznes Sp. z o.o. - broadcaster of the television channel TV Biznes.

**Leszek Rekxa** is a graduate of the Foreign Trade Faculty of the School of Planning and Statistics (now the Warsaw School of Economics). He has extensive professional experience on managerial positions in various companies. For over 15 years he has been employed on managerial positions in the banking sector (PKO BP S.A.). He also has great experience of work in statutory bodies of legal companies - held a position of President of Board of PHU BIMOT S.A., Member of the Supervisory Board of Bankowy Fundusz Leasingowy S.A. and Member of the Supervisory Board of Zakłady Azotowe Kędzierzyn S.A.

**Heronim Ruta** graduated from the Electrical Faculty of the Warsaw Polytechnic. He is employed by Ster Sp. z o.o. and seats on the Supervisory Boards of Invest Bank S.A., PAI Media S.A., Gurex S.A., and Telewizja Polsat S.A., and also on the board of Diasen Ltd. Between 1973 and 1978 Mr. Ruta was a trainee and then an electrical technology specialist with Plastics Processing Plant (Zakłady Tworzyw Sztucznych) Pronit Erg, between 1978 and 1979 he was a specialist supervising development of an experimental car for detection of cracks in rail tracks in Centralny Ośrodek Badania Techniki Kolejnictwa. In 1980 Mr. Ruta worked for Cementation International Limited, London, designing the electrical layout for the Marriott Hotel in Warsaw. Between 1980 and 1987 he was the head of Wytworczo-Uslugowa Spółdzielnia Pracy. In 1987 Heronim founded Herom Sp. z o.o., where he was president until 1992. From 1992 to 1994 he was president of Ster Sp. z o.o., and between 1991 and 1998 he ran his own business activities within trade and services in the field of electronics goods and establishment of television broadcast transmitters for Telewizja Polsat S.A.. From 2002 to 2005 Mr. Ruta was member of the Management Board of Polaris Finance B.V. and between 2002 and 2004 he was member of the Supervisory Board of Uždaroji Akcinė Bendrovė "Baltijos Televizija".

## **Description of operations of the Supervisory Board**

The Supervisory Board acts pursuant to the commercial companies code and also pursuant to the Articles of Association of the Company and the Bylaws of the Supervisory Board of 3 December 2007.

Pursuant to the Articles of Association of the Company the Supervisory Board performs constant supervision over activities of the enterprise. Within the scope of supervision performance the Supervisory Board may demand any information and documents regarding our business from the Management Board.

Members of the Supervisory Board shall take necessary steps to receive regular and full information from the Management Board regarding material matters concerning our business and risks involved in the business and the strategies of risk management. The Supervisory Board may - not infringing the competencies of other bodies of the Company - express their opinion on all the issues related to our proceedings, including forwarding motions and proposals to the Board.

The competencies of the Supervisory Board also include matters restricted by the commercial companies code, in particular:

- (a) audit of the financial statements both as to their compliance with books and documents and also the factual state, audit of the interim and annual reports of the Management Board, or Management Board's motions regarding allocation of profit or covering debts and presenting written reports with results of the audits before the General Shareholders Meeting,
- (b) once a year, prepare and present a concise evaluation of the situation of the Company, considering the evaluation of the internal control system and the management system of risks that are important for the Company,
- (c) appointment of members of the Management Board,
- (d) delegation of members of the Supervisory Board to temporary performance of duties of members of the Management Board who are unable to perform their duties,
- (e) suspending particular or all members of the Management Board for material reasons,
- (f) approval of the Bylaws of the Management Board,
- (g) determination of remuneration of the members of the Management Board,
- (h) appointment of a certified auditor to examine financial statements of the Company.

Moreover, the competencies of the Supervisory Board include:

- (a) creation and presentation of an evaluation of the Management Board's performance before the General Shareholders' Meeting,
- (b) analysis and issuing of an opinion on matters that may be the subject of a resolution of the General Meeting,
- (c) approval of one-year and long-term programs for the Company developed by the Management Board,
- (d) determination of the remuneration level of the Supervisory Board delegated to temporary performance of duties of a member of the Management Board,
- (e) granting consent for participation in other companies,
- (f) granting consent for entering into a material agreement with a related entity,
- (g) granting consent for performance of activities resulting in the Company incurring a liability, with the exception of:
  - activities projected or set out in the annual program for the Company approved by the Supervisory Board, or
  - activities resulting in incurring a liability of the value up to PLN 10,000,000 (ten million zlotys), including guarantees or issuing or guaranteeing bills of exchange done in the scope of daily business, in particular the business of pay digital television or the business of MVNO.
- h) issuing, upon the Management Board's request, opinion on all issues material for the Company.

The Supervisory Board consists of five to nine members including the Chairman of the Supervisory Board, appointed by the General Shareholders' Meeting. The General Shareholders' Meeting, prior to appointment of members of the Supervisory Board for a new term, determines the number of members of the Supervisory Board. The term of office of the Supervisory Board is three years and is a joint one.

The Supervisory Board may consist of two members meeting the criteria of an independent member of the Supervisory Board as set out in the corporate governance regulations included in the Best Practices of WSE listed Companies.

Meetings of the Supervisory Board take place at least once a quarter. The venue for meetings is the seat of the Company or any other place indicated by the person calling the meeting.

The Chairman of the Supervisory Board, or a member of the Supervisory Board appointed by the Chairman calls a meeting of the Supervisory Board. Meetings of the Supervisory Board are chaired by the Chairman, and in the case of their absence by a member of the Supervisory Board indicated by the Chairman in writing, or another member of the Supervisory Board elected by the members present in the meeting.

The Chairman calls a meeting of the Supervisory Board also upon request of a member of the Management Board, or a member of the Supervisory Board, or upon a motion of a shareholder representing at least 1/10 (one tenth) of the share capital. A Meeting of the Supervisory Board shall take place at least within 14 days of the date of filing a written application to the Chairman.

Resolutions of the Supervisory Board are passed by majority of votes cast. In the case of equality the vote the Chairman prevails. A resolution of the Supervisory Board requires inviting all the members of the Supervisory Board and presence of at least half of the members of the Supervisory Board to be valid.

The Supervisory Board may pass resolutions via means of direct, remote communication and also a member of the Supervisory Board may cast their vote in writing via other member of the Supervisory Board.

Members of the Supervisory Board execute their rights and perform their duties in person. Members of the Supervisory Board participate in General Meetings.

Moreover, within the performance of their duties, the Supervisory Board shall:

- (a) once a year prepare and present before the General Meeting a concise evaluation of the situation of the Company, considering the evaluation of the internal control system and the management system of risks that are important for the Company.
- (b) once a year prepare and present before the Annual General Meeting an evaluation of its own performance,
- (c) discuss and issue opinions about matters to be subjects of resolutions of the General Meeting.

### **Committees of the Supervisory Board**

Pursuant to the Bylaws of the Supervisory Board the Supervisory Board may appoint permanent committees, in particular the Audit Committee, or the Remuneration Committee, or ad hoc committees to investigate certain issues remaining in the competence of the Supervisory Board or acting as advisory and opinion bodies of the Supervisory Board. The provisions of the Bylaws apply to meetings, resolutions, and minutes of the committees of the Supervisory Board, with exception of the following information.

On 4 August 2008 the Supervisory Board appointed the Audit Committee and the Remuneration Committee.

The Audit Committee consists of Heronim Ruta, Robert Gwiazdowski, and Leszek Reksa.

The Remuneration Committee consists of Zygmunt Solorz - Zak and Heronim Ruta.

A committee is appointed by the Supervisory Board from among its members by means of a resolution. The committee appoints, by means of a resolution, the Chairman of the particular committee from among its members. The mandate of a member of a particular committee expires upon expiry of the mandate of the Member of the Supervisory Board. The Supervisory Board may, by means of a

resolution, resolve to dismiss a member from the composition of a particular committee before the expiry of the mandate of the Member of the Supervisory Board. Dismissal from membership in a committee is not tantamount to dismissal from the Supervisory Board.

The first meeting of a committee is convened by the Chairman of the Supervisory Board or other Member of the Supervisory Board they indicate. Meetings of the committees are convened as needs arise, ensuring thorough delivery of duties assigned with a particular committee. Minutes of committee's meetings and adopted resolutions are made available to the Members of the Supervisory Board not being members of the committee. The Chairman of a given committee chairs its proceedings. The Chairman also performs supervision over preparation of the agenda, distribution of documents, and preparation of minutes of the meetings of the committee.