

**Cyfrowy Polsat S.A.**

**Report on the application of the principles of corporate governance  
for the financial year ended 31 December 2009**

## **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.**

In July 2007 the Council of the Warsaw Stock Exchange passed the set of principles of the corporate governance for joint-stock companies issuing shares, convertible bonds, or senior bonds that are admitted to trade on the stock exchange. The principles of corporate governance in the form of the Best Practices of WSE Listed Companies, constitute an appendix to the Decree No. 12/1170/2007 of the Council of GPW of 4 July 2007 and entered into force on 1 January 2008.

The content of the document is publicly available on the website of the Warsaw Stock Exchange (GPW) dedicated to those issues at <http://www.corp-gov.gpw.pl/>.

## **Part II**

### **Specification of the principles of corporate governance that the issuer has waived including the reasons for the waiver.**

In order to implement a transparent and effective information policy we provide fast and safe access to information to shareholders, analysts and investors employing, both traditional and modern, technologies of publishing information about the Company to the greatest possible extent.

We strive to make every possible effort to employ the corporate governance principles, set out in the above document, trying to execute all the recommendations regarding best practices of WSE Listed Companies and all recommendations directed to the management boards, supervisory boards and shareholders in all areas of our business.

However, we have waived the recommendation of direct broadcast from the general meetings of shareholders due to the ambiguity of provisions in that area.

Moreover, we did not post information about candidates proposed to the Supervisory Board together with their substantiation and professional biographies on the corporate website. In practice we did not receive the required information from the shareholders before general meetings and, as a result, we were not able to post such information on our website. So far, candidates to the Supervisory Board were presented directly in a general meeting.

## **Part III**

### **Description of the basic features of the internal control system and the risk management system applied in the Company with respect to the process of preparing financial statements and consolidated financial statements.**

The Management Board is responsible for our internal control system and its effectiveness in the process of preparing financial statements and interim reports 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.

We draw on our employees' extensive experience in the identification, documentation, recording and controlling of economic operations, including numerous control procedures supported by modern

information technologies used for recording, processing and presentation of operational and financial data.

In order to ensure the accuracy and reliability of the accounts of the parent and subsidiary companies, we apply the following principles:

- Accounting Policy for Cyfrowy Polsat SA
- Inventory Instructions

And also for Cyfrowy Polsat SA:

- Market risk management policy and a series of internal procedures in the area of transaction control systems and processes resulting from the activities of the Company and the capital group.

We keep our accounts in the computer system connected/integrated with the source systems and auxiliary books, while ensuring data security through the use of access rights on the need-to-know basis granted to authorized users. System operation is assured by the IT department specialists with years of experience in this area. In addition, the system security is ensured by applying the appropriate solutions for physical security of the equipment. We have a complete IT system documentation in all its areas. In accordance with Article 10 of the Act of September 29 1994, the accounting information system documentation shall be periodically reviewed and updated upon approval by heads of units. An important element of the risk management, in relation to the financial reporting creation process, is ongoing internal controls exercised by the Controlling department and the Internal Audit department, created in January 2010. The Internal audit functions on the basis of the authority of the Management Board and the Supervisory Board. Its primary task is to test and evaluate controls for the reliability and consistency of financial data underlying the preparation of financial statements and management information.

The Controlling functions on the basis of financial controlling system and business controlling, exercising control over both the current processes and the implementation of financial and operational plans, and production of financial statements and reports.

An important element of quality control and data validation is the use of management reporting system at the unit company and consolidated basis, and regular monthly analysis of financial and operational performance, as well as key indicators conducted by the Management Board. The monthly analysis of the results is carried out in relation to both the current financial and operational plan and the results of previous periods.

The budgetary control system is based on monthly and annual financial and operational plans and 3-year business projections. Financial results are monitored regularly in relation to the financial and operational plans. During the year, we make an additional review of the financial and operational plans for the year. The financial and operational plans are always adopted by the Management Board and approved by the Supervisory Board.

One of the basic elements of control in the preparation of financial statements of the Company and the Group is verification carried out by independent auditors. An auditor is chosen from a group of reputable firms, which guarantee a high standard of service and independence. At Cyfrowy Polsat SA, the Supervisory Board chooses the auditor, while in the companies of the Group - the Meeting of Shareholders. The tasks of the independent auditor include, in particular: a review of semi-annual individual and consolidated financial statements and audit of annual separate and consolidated financial statements.

Auditor's independence is fundamental to ensuring the accuracy of the audit of the books. An audit committee, appointed within the Company's Supervisory Board, supervises the financial reporting process in Cyfrowy Polsat SA, in cooperation with the independent auditor. The Audit Committee oversees the financial reporting process, in order to ensure sustainability, transparency and integrity of financial information. The audit committee includes two members of the Supervisory Board, who meet the independence criteria set out in the Best Practices of WSE Listed Companies in Chapter III, Section 6.

Moreover, under Article 4a of the Act of 29 September 1994 on accounting, the duties of the Supervisory Board include ensuring that the financial statements and the report of the Company's operations meet the requirements of the law, and the Supervisory Board carries out this duty, using the powers under the law and the articles of association of the Company.

This is yet another level of control exercised by an independent body to ensure the accuracy and reliability of the information presented in the separate and consolidated financial statements.

## Part IV

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

The following table presents our shareholders as of 31 December 2009:

| Shareholder                       | Number of shares held | % of share capital | Number of votes    | % of votes     |
|-----------------------------------|-----------------------|--------------------|--------------------|----------------|
| Polaris Finance B.V. <sup>1</sup> | 182.943.750           | 68,18%             | 357.968.750        | 78,53%         |
| Others                            | 85.381.250            | 31,82%             | 97.856.250         | 21,47%         |
| <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. As at 31 December 2009 the shares of the A through D series were shares preferential as to the voting rights in the way that:

- Series A shares totaling 2,500,000 have preferential voting rights entitling their holder to two voting rights per share;
- Series B shares totaling 2,500,000 have preferential voting rights entitling their holder to two voting rights per share;
- Series C shares totaling 7,500,000 have preferential voting rights entitling their holder to two voting rights per share;
- Series D shares totaling 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. (175,025,000 shares entitling to 350,050,000 votes in the General Meeting), Zygmunt Solorz-Żak (10,603,750 shares entitling to 21,207,500 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. On 8 March 2010 Extraordinary General Meeting of Cyfrowy Polsat S.A. resolved to change the Company's Statute in the following manner: 8,082,499 registered series D shares privileged as to the voting rights (2 votes per share) were transformed into ordinary bearer shares. The above change of the Company's Statute will be effective after its registration by the Court of Registration. It was additionally resolved that these shares shall be the subject of application for admission to trading on a regulated market maintained by the Warsaw Stock Exchange and shall be subject to dematerialization.

Structure of to Company shares will be as follows after the registration of the above mentioned change by the Court of Registration:

| Share series | Number of shares   | Nominal value of shares | Type                                |
|--------------|--------------------|-------------------------|-------------------------------------|
| Series A     | 2.500.000          | 100                     | preference shares (2 voting rights) |
| Series B     | 2.500.000          | 100                     | preference shares (2 voting rights) |
| Series C     | 7.500.000          | 300                     | preference shares (2 voting rights) |
| Series D     | 166.917.501        | 6.677                   | preference shares (2 voting rights) |
| Series D     | 8.082.499          | 323                     | ordinary bearer shares              |
| Series E     | 75.000.000         | 3.000                   | ordinary bearer shares              |
| Series F     | 5.825.000          | 233                     | ordinary bearer shares              |
| <b>Total</b> | <b>268.325.000</b> | <b>10.733</b>           |                                     |

## 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 chairing 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 directly 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 Resolution 6 of the Extraordinary Shareholders' Meeting of 4 December 2007 and amended by Resolution 29 of the Extraordinary Shareholders' Meeting of 23 December 2009.

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

- 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 share capital,
- 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 General Meeting shall be attended by persons who are shareholders of the Company sixteen days before the date of the General Meeting (the day of registration for participation in the General Meeting). The record date for participation in the General Meeting is uniform for bearer shares and registered shares holders. Holders of shares and interim certificates and lienors and users who have the right to vote, are entitled to participate in the General Meeting of the Company, provided they are entered in the register of shareholders on record date of participation in the General 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 power of attorney to attend the General Meeting and exercise voting rights requires a written or an electronic form. The shareholder must notify the Company about awarding the power of attorney in an electronic version by sending the information specifying the data of the Shareholder and the Shareholder's proxy, i.e. the name and surname or company (the name) and address (seat), and indicating the number of shares and votes, of which the proxy is authorized to exercise voting rights at the address: [akcjonariusze@cyfrowypolsat.pl](mailto:akcjonariusze@cyfrowypolsat.pl).

The General Meeting should be attended by members of the Management Board and Supervisory Board - in the composition which allows for substantive answers to the questions asked during the General Meeting - and by the auditor of the Company, if the General Meeting is held to discuss financial matters.

The General Meeting is opened by the Chairman of the Supervisory Board or a person they nominate. The 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 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 the 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.

As at 31 December 2009 the shareholders participating in the General Meeting had 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, our Management Board has three members. The composition of the Board changed during 2009 and early in January 2010. In May 2009 Maciej Gruber, a member of the Management Board and Chief Financial Officer resigned, and in his place Tomasz Szelaġ was appointed. In January 2010, Andrzej Matuszyński, member of the Management Board for Marketing and Customer Services, resigned from his position; his duties were taken over by Dominik Libicki, President of the Management Board.

### **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 as at 31 December 2009.



| Name and surname    | Function                          | Year of first appointment | Year of appointment for 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                     |
| Tomasz Szelaąg      | Member of the Management Board    | 2009                      | 2009                                     | 2010                     |
| Andrzej Matuszyński | Member of the Management Board    | 2007                      | 2007                                     | Resigned in January 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). Mr. 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.. Mr. 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. Mr. 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.

**Andrzej Matuszynski** was a member of the Management Board responsible for marketing from August 2007 to January 2010. 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. Mr. Matuszynski graduated from the Psychology Department at the Catholic University of Lublin. He also completed postgraduate studies in management (executive MBA program) at the Canadian Management Institute in Warsaw.

**Tomasz Szeląg** is a member of the Management Board and Chief Financial Officer since May 2009. In the years 2000-2003 he was an assistant at the University of Economics in Wrocław (Department of Foreign Trade). In May 2003 he defended his doctorate on the hedge transaction used by the world's copper producers, and was an assistant professor of Department of International Economic Relations. In the years 2003 - 2004 he also held the position of assistant professor in the School of Banking in Wrocław - Department of International Economic Relations. In parallel, since 2003, he served as Chief Specialist in the Foreign Exchange Risk Division at KGHM Polska Miedź SA, and then at the Department of Analysis and Market Risk. In September 2004 he was made director of the department. In December 2004 he was made Director of the Hedging Department at KGHM and he performed his function until March 2007. From April 2007 to May 2008 he worked as Director of the Branch of Société Générale Bank in Wrocław. In July 2008 he became Vice-President for Finance at Telefonía Dialog SA, which position he held until March 2009. He graduated from Wrocław University of Economics in the Faculty of National Economy, the branch of International Economic and Political Relations, specialization in Foreign Trade.

### **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 a half of the members of the Board are present in the meeting and all 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 Supervisory Board comprises five members. The Supervisory Board has acted in a stable composition throughout 2009.

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

The following persons sat on the Supervisory Board:

| <b>Name and Surname</b> | <b>Function</b>  | <b>Year of first appointment</b> | <b>Year of appointment to the current term</b> | <b>Year of term expiry</b> |
|-------------------------|--|----------------------------------|--|----------------------------|
| Zygmunt Solorz-Żak      | Chairman of the Supervisory Board<br>Member of the Remuneration committee                                | 2008                             | 2009   | 2011                       |
| Robert Gwiazdowski      | Independent <sup>1</sup> member of the Supervisory Board<br>Member of the Audit Committee                | 2008                             | 2009   | 2011                       |
| Andrzej Papis           | Member of the Supervisory Board  | 2007                             | 2009   | 2011                       |
| Leszek Reksa            | Independent <sup>1</sup> member of the Supervisory Board<br>Member of the Audit Committee                | 2008                             | 2009   | 2011                       |
| Heronim Ruta            | Member of the Supervisory Board<br>Member of the Audit Committee<br>Member of the Remuneration Committee | 2001                             | 2009   | 2011                       |

<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 he 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, or TU Polisa Zycie. 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 senior Doctor 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 University of Technology. 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 Badań 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 Spoldzielnia 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 Uzddaroji Akcine Bendrove "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.
- (i) granting consent for disbursement of a down payment toward the anticipated dividend.

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 Audit Committee, as at 31 December 2009 comprised the following members of the Supervisory Board:

- Heronim Ruta

- Robert Gwiazdowski, an independent member of the Supervisory Board,
- Leszek Rekxa, an independent member of the Supervisory Board.

The composition of the Audit Committee meets the requirements of Article 86, Paragraph 4 of the Act of 7 May 2009 on auditors and their self-government, entities authorized to audit the financial statements and the public supervision, according to which, the Audit Committee should include at least three members, including at least one member of the Audit Committee who must satisfy the condition of independence and be qualified in the field of accounting or auditing.

The Remuneration Committee, as at 31 December 2009, comprised the following members of the Supervisory Board:

- Zygmunt Solorz - Żak,
- Heronim Ruta.

The provisions of the Bylaws apply to meetings, resolutions, and minutes of the committees of the Supervisory Board, with observation of the following information. 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.