

## **Report on activity of TVN Supervisory Board and its Committees containing an assessment of activity performed by the Supervisory Board in 2009**

Pursuant to Paragraph 6 of the TVN Supervisory Board's Regulations and pursuant to Principle III.1(2) of the Code of Best Practice for WSE Listed Companies, the Supervisory Board of TVN S.A. hereby presents its report on activity of the Supervisory Board in 2009.

### **I. Members of the Supervisory Board in 2009**

In the period from 1 January 2009 the Supervisory Board consisted of the following members:

- 1) Wojciech Kostrzewa - Chairman
- 2) Bruno Valsangiacomo – Deputy Chairman
- 3) Arnold R. Bahlmann
- 4) Romano Fanconi
- 5) Paweł Gricuk
- 6) Paweł Kosmala
- 7) Wiesław Rozłucki
- 8) Andrzej Rybicki
- 9) Markus Tellenbach
- 10) Aldona Wejchert
- 11) Gabriel Wujek

On 15 May 2009 the Annual General Shareholders Meeting of TVN S.A. adopted a resolution whereby the above named members of the Supervisory Board were appointed for the next, joint three year term of office. At the first meeting of the Supervisory Board in its new term of office held on 12 August 2009 the Supervisory Board elected its Chairman and Deputy Chairman as well as members of the Audit Committee and Related Party Transactions and Remuneration Committee (*SVB Resolutions Nos. 2/08/09, 3/08/09, 4/08/09, 5/08/09, 6/08/09, 7/08/09, 8/08/09, 9/08/09*).

As of 31 August 2009 Mr. Markus Tellenbach resigned from membership in the Supervisory Board due to its appointment as the President of TVN Management Board. During the meeting held on 28 October 2009, the Supervisory Board co-opted Mr. Michał Broniatowski as a member of TVN Supervisory Board (*SVB Resolution No. 3/10/09*).

After these changes, the Supervisory Board performed its activities up until 31 December 2009, consisting of the following members:

- 1) Wojciech Kostrzewa - Chairman
- 2) Bruno Valsangiacomo – Deputy Chairman
- 3) Arnold R. Bahlmann
- 4) Michał Broniatowski
- 5) Romano Fanconi
- 6) Paweł Gricuk
- 7) Paweł Kosmala
- 8) Wiesław Rozłucki

- 9) Andrzej Rybicki
- 10) Aldona Wejchert
- 11) Gabriel Wujek.

## II. Scope of activity of the Supervisory Board in 2009

Activity of the Supervisory Board in 2009 concentrated over issues of key importance for the business activity of the Company. Spectrum of issues involved in decisions, control, consulting and opinioning by the Supervisory Board included such crucial areas as determination of growth strategy for the Company, evaluation of financial statements of the Company and interim Management Board's reports on the activity, expressing consent for actions to be taken by the Management Board in matters reserved to authorities of the Supervisory Board, determining remuneration paid to members of the Management Board.

1. In performing its **authority to determine growth strategy for the Company**, the Supervisory Board focused on issues related with principal directions of TVN Group development assuming the need of applying new business models in light of changes taking place on the media market. Concluding the necessity of integrating business of TVN capital group within three main pillars of TV production and linear TV transmission, transmission of on-line content and distribution of programs on the "n" Digital Platform, the Supervisory Board adopted in 2009 a number of important decisions for business activity of the Company.

Aiming to improve the system of managing TVN and the TVN Group, the Supervisory Board made successive changes in structure and membership of the Management Board, decreasing the number of Management Board members from ten to four and approving the new Bylaws of the Management Board. New President of the Management Board and new member of the Management Board for finance had been appointed as of 1 September 2009 (*SVB Resolutions Nos. 4/05/09, 5/05/09, 11/08/09, 12/08/09, 13/08/09, 14/08/09, 15/08/09*).

Continuing the adopted assumption of long-term investing into TV programs distribution using modern digital transmission technologies the Supervisory Board accepted motion of TVN Management Board on further financing of the business activity of the "n" Digital Platform (*SVB Resolution Nos. 6/02/09, 7/02/09*). Guided by such strategy, the Supervisory Board adopted the resolution on increasing the level of investment into the "n" Digital Platform, first to 51% share (*SVB Resolution No. 1/03/09*) and, next, to 100% by acquiring the outstanding 49% shares held by Neovision Holding B.V., the parent of the "n" Platform operator (*SVB Resolution No. 3/11/09*). By making this decision, the Supervisory Board took into account report of JP Morgan on valuation of the "n" Platform and concluded that integration creates the possibility of achieving success and profitability of the new "n" Platform business model.

The Supervisory Board positively assessed activity of the Company aimed at ensuring proper level of financing for projects of the Company, granting consent for the Management Board of the Company to issue bonds of TVN Finance Corporation II AB with nominal value of EUR 405,000,000, maturing in 2017 (*SVB Resolution Nos. 2/11/09 and 4/11/09*). Funds generated from issue of the TVN Finance Corporation II AB bonds



were used to repay the bonds of TVN Finance Corporation PLC issued in 2003 and certain loans extended to the Company, and will ensure a safe level of financial liquidity.

Because of the situation on the Stock Exchange, the Supervisory Board accepted motion of the Company addressed to the General Meeting of Shareholders for having the General Meeting of Shareholders adopted a resolution pursuant to which the term of the TVN Incentive Schemes was extended to 31 December 2014, in result of which Eligible Persons under these Schemes acquired right to subscribe for Series C and E shares until 31 December 2014 (*SVB Resolution No. 6/05/09*).

2. In performing its **authority to consider reported financial results of the Company**, the Supervisory Board performed regular assessments of TVN S.A. and TVN Group financial statements and reports of the Management Board on the Company activity.

- a) Quarterly and semi-annual statements:

The Supervisory Board considered and approved the standalone and consolidated semi-annual and quarterly financial statements for the purpose of their publishing by the Company in the form of current reports in accordance with requirements set forth in the Regulation of the Minister of Finance on current and regular reports to be published by securities issuers. Moreover, the Supervisory Board also considered interim consolidated financial statements of TVN Group prepared as required by the Indenture Agreement of 2 December 2003 executed by and between TVN Finance Corporation plc., TVN Sp. z o.o. and JP Morgan Chase Bank (*SVB Resolutions Nos. 4/02/09, 2/05/09, 10/08/09 and 1/11/09*).

- b) Annual financial statement for 2008:

Pursuant to Art. 382 § 3 Code of Commercial Companies, the Supervisory Board considered report of the Management Board on the Company activity in 2008 and financial statements for 2008 to assess conformity with the ledgers, documents and state of fact, and approved motion of the Management Board on allocation of Company's net profit equal to PLN 405,299,127.21, in that PLN 149,495.93 into obligatory reserve capital, resultant amount into reserve fund and paying out dividend equal to PLN 0.57 per share (*SVB Resolution No. 2/02/09*).

Assessment of Company's financial statements made by the Supervisory Board pursuant to an opinion issued by the auditor and Audit Committee had been presented and adopted by TVN General Shareholders Meeting on 15 May 2009.

The Supervisory Board also considered consolidated financial statements of the TVN Group for 2008 and approved publication of the annual 20 F report of TVN Group for 2008 (*SVB Resolutions Nos. 3/02/09 and 4/02/09*).

3. In performing its **authority to determine terms of engagement of Management Board members**, the Supervisory Board adopted a resolution granting discretionary bonuses to members of the TVN S.A. Management Board, acknowledging achievement of results for 2008 (*SVB Resolution No. 5/02/09*) and resolutions on executing management agreements with members of the Management Board, also on terminating contracts with resigning members of the Management Board (*SVB Resolutions Nos. 16/08/09, 17/08/09, 18/08/09, 19/08/09, 20/08/09, 21/08/09, 1/09/09, 2/09/09, 3/09/09*).



### **III. Supervisory Board Committees**

Two committees operated within the TVN Supervisory Board in 2009, i.e. the Audit Committee and the Related Party Transactions and Remuneration Committee. Membership in the Committees in 2009 was as follows:

Audit Committee: Wiesław Rozłucki – Chairman, Bruno Valsangiacomo and Paweł Gricuk;  
Related Party Transactions and Remuneration Committee: Wojciech Kostrzewa – Chairman, Arnold R. Bahlmann and Paweł Gricuk.

Reports on activity of the Committees in 2009 are enclosed to this report.

### **IV. Assessment of activity of the Supervisory Board in 2009**

The Supervisory Board conscientiously performed its task of a special authority controlling managing of the Company in the name of the shareholders. Members of the Supervisory Board had extensive professional expertise allowing in-depth analysis of information received from the Company.

Efficient activities performed by the Audit Committee and the Related Party Transactions and Remuneration Committee of the Supervisory Board allowed the Board to receive professional analyses and recommendations, facilitating adoption of correct decisions. Presence of independent Board members in the Committees guaranteed the application of objective criteria in evaluating matters submitted for analysis by the Supervisory Board.

Being a group of experts, the Supervisory Board also provided advisory services to the Management Board, contributing its experience and knowledge related with their duties assumed in other entities and offering support in the being undertaken activities.

Intensive activity performed by the Supervisory Board assured operating continuity and upon resignation of certain members, new members were incorporated. Meetings of the Supervisory Board were held more frequently than once every quarter-year, and resolutions were adopted always in presence of quorum of at least six Supervisory Board members. When moved for by the Management Board, the Supervisory Board also adopted resolutions in writing, without holding meetings.

In assessing activities of the Company's Management Board, the Supervisory Board was guided by objective criteria, taking into consideration excellent financial results of the Company and program successes, as well as high share in the audience and advertising market achieved by the Company.

In performing its duties, the Supervisory Board proceeded in compliance with the applicable laws, including provisions of the Code of Commercial Companies, Statutes of the Company, adhering to Standing By-laws of the TVN S.A. Supervisory Board as approved by the General Shareholders Meeting and in accordance with requirements set forth in the Best Practices of WSE Listed Companies.

*This document has been adopted by Resolution of TVN S.A. Supervisory Board No. 5/02/10 of 17 February 2010 and has been prepared for the purpose of submitting to the Annual General Shareholders Meeting.*



## TVN S.A. Audit Committee Activity Report for 2009

The TVN S.A. Audit Committee (AC) Charter defining the AC's responsibilities approved by the Supervisory Board in August 2006 was still in force in 2009.

The AC activities in 2009 included:

- supervision of TVN Group and TVN S.A. (the Company) financial reporting process in order to ensure balance, transparency and reliability of financial statements issued by the Group and the Company;
- evaluation of internal audit effectiveness, which verifies the adequacy and effectiveness of the system of internal control in all phases of the business of the Company and its subsidiaries i.e. first of all Grupa Onet.pl S.A. and ITI Neovision Sp. z o.o.;
- evaluation of external audit effectiveness;
- verification of financial controls and effectiveness of the risk management system.

AC's composition in 2009 did not change, with Mr Wiesław Rozłucki as the Chairman and Mr Paweł Gricuk and Mr Bruno Valsangiacomo as members of the AC.

In 2009 the AC held five meetings at Company's premises. The meetings were held on: February 18<sup>th</sup>, May 12<sup>th</sup>, August 11<sup>th</sup>, October 27<sup>th</sup> and December 16<sup>th</sup>. The AC Members were present during the meetings personally or by telephone.

Other persons present by invitation were the Chief Financial Officer, the Internal Audit Director and the Company's external auditor - PricewaterhouseCoopers. The AC ensured that meeting with the Internal Audit Director and the external auditor without the Company management present was possible.

### Supervision of the financial reporting process

In 2008 the AC reviewed financial statements for Q4 2008, the year 2008, Q1 and Q2 2009, H1 2009 and Q3 2009 and recommended them for approval of the Supervisory Board.

The AC had a chance to review the new accounting policies, new disclosures as well as the critical judgments and estimates which took place.

The Company Management Board presented their considerations of the economic environment under volatile market situation and their forecast of its influence on the Company's financial results.

The AC discussed with the Company management the influence of the ITI Neovision Sp. z o.o. shares purchase on the Company's results, foreign exchange and liquidity risk management and possible impairment indicators of the Company's investments.

### External audit

The AC has recommended to the Supervisory Board selection of PricewaterhouseCoopers as the Company's external auditor. The external auditor discussed with the AC their Yearly Audit Plan, which specified all the key risk areas taken into consideration during the performance of audit procedures.

The AC acquainted themselves with the external auditor's reports on review of financial statements for the year 2008 and H1 2009.

### Internal audit

The TVN Internal Audit Director presented the results of audits conducted in the Group in accordance with the yearly program approved by the AC, results of follow-up audits conducted in reference to recommendations raised during previous audits and results of ad-hoc audits.

In 2009 AC received 7 internal audit reports for TVN S.A.

The audits covered, among others, the following areas of the Company activity: management of the Company's co-workers, review of the financial and accounting system, settlements of cash and credit card expenses, cooperation with the external tv producers, „tv set-crew” cost control and office and production space rental.

In 2009 AC received 4 internal audit reports for Grupa Onet.pl S.A.

The audits covered, among others, the following areas of the Company activity: sales of the marketing product, marketing barter transactions, ZUMI project and the portal security.

In 2009 AC received 3 internal audit reports for ITI Neovision Sp. z o.o.

The audits covered, among others, the following areas of the Company activity: customer retention, review of the CRM system, the call center operations.

The AC approved changes in the Internal Audit Charter connected to the extension of internal audit scope of activity in the TVN Group and changing of the audit's administrative reporting line to the CEO of TVN S.A. (previously CFO).

#### Comment on the Company's internal controls

In 2009 the TVN's Management Board structure was significantly changed, which was followed by the changes in the organizational structure and certain responsibilities. In the AC's opinion, under current economical conditions, the challenges for the Management Board are to maintain the level of revenues and market share, to continue cost savings, as well as further integration of the entities within the TVN group.

As a matter for Management Board's special attention the AC would like to mention the necessity to constantly monitor how the agreed improvements of the Company's internal control system are being realized.

The AC believes that the materials, information and explanations presented by TVN Management Board have been sufficient for the AC to formulate relevant recommendations for the Supervisory Board in 2009.



Wiesław Rozlucki  
TVN Audit Committee Chairman



## **Report on activity of the Related Party Transactions and Remuneration Committee in 2009**

In accordance with the Regulations of the Supervisory Board of TVN S.A. authorities of the Related Party Transactions and Remuneration Committee (the "Committee") include performing analyses of transactions with related parties and terms and conditions of agreements executed with members of the Management Board, including analyses of their remuneration and other benefits. The Committee presents recommendations to the Supervisory Board prior to adopting resolutions by the Supervisory Board in such matters.

In 2009 the Committee consisted of the following members: Wojciech Kostrzewa (Chairman), Arnold Bahlmann and Paweł Gricuk. Arnold Bahlmann and Paweł Gricuk are independent members of the Supervisory Board of TVN S.A.

The Committee held nine meetings (teleconferences) in 2009 and considered the following matters:

### ***Related party transactions***

Pursuant to the Prevailing TVN S.A. Procedure on Related Party Transactions adopted by the Supervisory Board, the Committee considered the following proposals of the TVN S.A. Management Board related with continuation of the investment into the "n" Digital Platform:

- 1) injection of financing by TVN S.A. into the "n" Digital Platform in the amount of PLN 118,698,000 on terms and conditions set forth in the Shareholders Agreement executed on 25 June 2008 by and between ITI Media Group N.V., TVN S.A. and Neovision Holding B.V., with the option of converting debt into shares in Neovision Holding B.V.;
- 2) increasing to 51% the share of TVN S.A. in Neovision Holding B.V. holding 100% shares of ITI Neovision Sp. z o.o. - operator of the "n" Digital Platform, together with taking over a part of the receivables amounting to approx. EUR 46.2 Mln;
- 3) acquiring remaining 49% of shares in Neovision Holding B.V. together with receivables to Neovision Holding B.V., ITI Neovision Sp. z o.o. and Dom Cyfrowy Sp. z o.o. amounting in total to EUR 188 Mln and extending by TVN S.A. of a loan to ITI Neovision Holding Sp. z o.o.

The Committee concluded that presented by the Management Board draft transactions are in line with the adopted by the Company long-term, investment strategy into modern digital TV broadcast technologies and recommended the Supervisory Board to issue consent for their execution through votes of its independent members.

The Committee also issued a positive opinion to motion of the Company's Management Board for consenting to have TVN S.A. endorse the bank guarantee issued on title of the license agreement executed by and between ITI Neovision Sp. z o.o. and UEFA for broadcasting Champions League, recommending the Supervisory Board to adopt a resolution in this matter.

### ***Remuneration of the Management Board***

The Committee approved the motion on granting members of the Management Board annual discretionary awards (bonuses) and additional awards in relation to performance by the Management Board in 2008 of tasks defined through financial indices.

In reference to reforming structure of the TVN S.A. Management Board and appointing new members of the Management Board, the Committee expressed a positive opinion as to the proposal for agreeing new financial terms for performing functions in the Management Board and management agreements with members of the Management Board, and also granting extra payments to the resigning members of the Management Board.

In these matters the Committee unanimously recommended the Supervisory Board to adopt resolutions in favor of those matters.



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Wojciech Kostrzewa

Chairman of the Related Party Transactions and Remuneration Committee