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SELENA FM S.A.

MANAGEMENT BOARD'S REPORT ON ACTIVITIES
FOR THE YEAR 2012

Wrocław, 21 March 2013

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1. CHARACTERISTICS OF THE COMPANY'S OPERATIONS

1.1. Key details of the Company

Selena FM S.A. having its registered office at ul. Strzegomska 2-4 in Wrocław, is entered in the business register of the National Court Register kept by the District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register under KRS no. 0000292032.

The Company was formed through conversion of the limited liability company Selena FM sp. z o.o. into a joint stock company, approved by the Extraordinary General Meeting on 26 September 2007. On 31 October 2007, the new entity was registered in the National Court Register by the District Court for Wrocław-Fabryczna in Wrocław. The Company received statistical number REGON 890226440. Its duration is indefinite (it is a going concern).

On 18 April 2008, the Company debuted on Warsaw Stock Exchange.

Selena FM S.A. has no branches.

1.2. Products and services

The core business of the Company as the holding entity in Selena FM Group is provision of advice on strategic management, finance management, sales strategy as well as maintenance of accounting books for customers. In 2011, the Company also took over from its subsidiary Selena Co. S.A. the function of foreign product distribution and oversight over the Group's foreign subsidiaries.

1.3. Distribution markets

Related parties account for more than 93% of the Company's sales (more than 93% in 2011).

Sales are generated in Poland (up to 10%) and abroad in the countries where the Group's units are based. The Company's tangible assets are located in Poland.

The subsidiaries which contribute more than 10% to total sales of the Company include: Selena Vostok OOO (54%) and Selena Ca LLP (10%).

1.4. Connected companies and equity investments

The stake in share capital and the book value of the individual investments are presented in the table below.

Company	Registered Office	Activity	Share in capital		Net value of shares	
			31.12.2012	31.12.2011	31.12.2012	31.12.2011
Selena S.A. (dawniej Selena Co. S.A)	Wrocław	Distributor	100,00%	100,00%	62 781	62 362
Carina Sealants Sp. z o.o. S.K.A.	Siechnice	Manufacturer of sealants, Distributor	99,93%	100,00%	1 2 069	2 070
Research Centre of Construction Technology Sp. z o.o.	Siechnice	Research and development	99,50%	99,50%	2 1 400	1 400
Orion Polyurethanes Sp. z o.o. S.K.A.	Dzierżoniów	Manufacturer of foams, adhesives, distributor	99,95%	99,95%	3 8 174	8 175
Libra Sp. z o.o.	Dzierżoniów	Manufacturer of sealants and adhesives, distributor	100,00%	100,00%	5 589	5 589
Tytan EOS Sp. z o.o.	Wrocław	Manufacturer of loose materials	100,00%	100,00%	4 007	4 007
PMI "IZOLACJA - MATIZOL" S.A.	Gorlice	Manufacturer of hydroinsulations, distributor	100,00%	100,00%	18 500	18 500
Orion Polyurethanes Sp. z o.o.	Dzierżoniów	Legal administration	100,00%	-	8	-
Carina Sealants Sp. z o.o.	Siechnice	Legal administration	100,00%	-	8	-
Selena Deutschland GmbH	Hagen	Distributor	100,00%	100,00%	4	4
Selena Italia srl	Limena	Distributor	100,00%	100,00%	0	0
Selena Iberia slú	Madrid	Manufacturer of sealants and adhesives, distributor	100,00%	100,00%	24 911	42 728
Selena USA Inc.	Easton	Manufacturer of sealants, distributor	100,00%	100,00%	1 289	0
Selena Sulamericana Ltda	Ponta Grossa	Manufacturer of foams, distributor	95,00%	95,00%	4 3 714	3 714
Selena USA Real Estate Corp.	Elkhart	Property management	100,00%	100,00%	1 300	2 418
Selena Romania SRL	Iľfov	Distributor	100,00%	100,00%	8 771	174
Selena Bohemia s.r.o	Roudnice	Distributor	100,00%	100,00%	0	0
Selena Hungária Kft.	Pécs	Distributor	100,00%	100,00%	0	0
FinSelena Oy	Lammi	Distributor	100,00%	100,00%	0	318
Selena Bulgaria Ltd.	Sofia	Distributor	100,00%	100,00%	0	0
Selena Slovakia s.r.o.	Nitra	Distributor	100,00%	100,00%	0	0
Selena Ukraine Ltd.	Kiev	Distributor	99,00%	99,00%	5 0	0
Selena CA L.L.P.	Almaty	Distributor	100,00%	100,00%	0	0
Selena Shanghai Trading Co., Ltd.	Shanghai	Distributor	100,00%	100,00%	0	0
Selena Nantong Building Materials Co.	Nantong	Manufacturer of foams, distributor	100,00%	100,00%	33 910	33 910
Selena Vostok	Moscow	Distributor	99,00%	99,00%	5 7 834	7 834
OOO Kvadro	Widnoje	Distributor	99,00%	99,00%	5 0	0
Selena Malzemeleri Yapi Sanayi Tic. Ltd.	Istanbul	Manufacturer of polyurethane foams and sealants, distributor	100,00%	1,00%	0	0
					184 269	193 203

1 – Other shares are owned by Carina Sealants Sp. z o.o.

2 – Other shares are owned by Krzysztof Domarecki (Supervisory Board Chairman of Selena FM S.A.)

3 – 1 share is owned by Orion Polyurethanes sp. z

o.o.; other shares are held outside the Group

4 – Other shares outside of the Group

On 15 February 2012, the loans of TRY 7.03m granted to the Turkish subsidiary Selena Yapi Malzemeleri were converted into the company's equity. As a result of the conversion, Selena FM S.A. became a majority owner of the company (86.39%). On 1 October 2012, Selena FM S.A. again converted its loans of TRY 4.48m into equity, thus increasing its share in the company's share capital from 86% to 91%. On 17 December 2012, Selena FM S.A. repurchased, for PLN 1k, from its subsidiary Carina Silicones sp. z o.o. the minority stake in Selena Yapi Malzemeleri Sanayi Tic. Ltd., thus becoming its only shareholder.

Full structure of the Group, including the Company's indirect affiliates, is presented in the consolidated financial statements of Selena FM Group for 2012.

1.5. Key developments

The information on loan agreements and investments into related parties are described in other sections of this report. The key developments for Selena FM Group were described in the Management Board's report on the activities of Selena FM Group.

1.6. Achievements in research and development

Selena FM S.A. does not carry out R&D activity directly. R&D is co-ordinated by the subsidiary Research Center of Construction Technology and the research units in the subsidiaries that carry out production activity.

1.7. Description of risks and threats

Selena FM S.A. as a holding entity is not exposed to any specific risks or threats. The risk factors and threats that the Group as a whole is exposed to were described in the Management Board's report on the activities of Selena FM Group for 2012.

1.8. Expected development of the Company

Since January 2013, the Company has been working on development of a strategy for Selena Group for 2014-2016 with an outlook towards 2020. The process is expected to end in July 2013. In 2013, the Company will be continuing projects aimed to improve effectiveness of the operational processes in the Group and to increase effectiveness of the sales force in the subsidiaries.

1.9. Investment plans

The Company's investments mainly include financing and capital support for its subsidiaries. The level of investment depends on the current and expected performance of the subsidiaries and their capex plans. The Group's investment plans are presented in Note 10 of the Management Board's report on the Group's activity for 2012.

At the Company's level, there are investments planned into development of the IT infrastructure.

2. FINANCIAL POSITION

2.1. The Company's revenue and earnings

Figures in PLN thousand	2012	2011	Change	Change %
Revenue from sales	343 321	334 593	8 728	3%
Cost of sales	304 622	302 729	1 893	1%
Gross profit on sales	38 699	31 864	6 835	21%
Selling and marketing costs	20 658	13 096	7 562	58%
General and administrative expenses	15 455	16 264	-809	-5%
Other operating profit (loss)	-11 135	-4 628	-6 507	-
EBITDA – operating profit + depreciation / amortisation	-6 828	-951	-5 877	-
Operating profit (loss) (EBIT)	-8 549	-2 124	-6 425	-
Net finance revenue	-37 075	42 217	-79 292	-
Profit (loss) before tax	-45 624	40 093	-85 717	-
Profit (loss) after tax	-45 123	37 263	-82 386	-

EBITDA – operating profit + depreciation

The increase in revenues in 2012 results from achievement of higher sales to the foreign distribution companies of the Group.

In 2012, gross sales margin was PLN 38.7m, which was PLN 6.8m more than in the previous year. The higher margin resulted from implementation of a new transfer pricing policy resulting from the division of functions and risks between production plants and foreign distributors. Another effect of the policy is the increase in the licence fees for trademark use, as described below.

Selling costs in 2012 amounted to PLN 20.7m, and increased by PLN 7.6m year-on-year. The costs were primarily affected by the charge of PLN 6.5m on account of the licence fees paid by Selena FM S.A. for the use of trademarks. The licensor – the owner of the trademarks – is the subsidiary Virgo Sp. z o.o. The other increases in selling costs resulted from the higher sales generated.

At the end of 2012, general and administrative expenses were PLN 15.5m, which is PLN 0.8m lower than in the corresponding period of the previous year. The lower value of this line results from the completed savings project.

In 2012, Selena FM generated an operating loss of –PLN 8.6m. The loss was primarily affected by the impairment charges posted on the trade receivables from connected companies. Due to the present macroeconomic situation, especially in Europe, and the results achieved by the individual companies, the Management Board made a comprehensive analysis of recoverability of the assets engaged in the subsidiaries. In effect, impairment charges of PLN 10.4m were posted on trade receivables. Impairment charges were posted in particular on the amounts due from the following companies: FinSelena – PLN 2.8m, Bulgaria – PLN 1.7m, Selena Yapi – PLN 2m, Selena Slovakia – PLN 0.5m and Selena USA – PLN 1.2m. As a result of the recoverability analysis, impairment charges were also posted on the value of loans granted and the shares described below.

These charges did not have any impact on the Group's consolidated result for 2012.

The result on financial activity was –PLN 37m, and mainly resulted from impairment charges posted on shares (PLN 38.5m) and on the loans granted to subsidiaries (PLN 18.2m). The impairment charges related to the shares of the following companies: Selena Iberia – PLN 18.6m, Selena Yapi – PLN 12.8m, Selena Romania – PLN 3.1m, Selena Italia – PLN 1.9m and the loans granted to: Selena Yapi – PLN 12m and Selena Bohemia – PLN 6.2m. These charges did not have any impact on the Group's consolidated result for 2012. Furthermore, the interest expense was PLN 3.1m. The main item of the finance revenue was the dividend of PLN 23.7m received from the subsidiary Orion Polyurethanes Sp. z o.o. SKA (formerly: Orion Sp. z o.o.) as well as interest on the bonds and loans granted (PLN 3.1m).

2.2. The Company's key balance sheet figures

Figures in PLN thousand	31 December 2012	31 December 2011	Change	Change %
Shares in subsidiaries	184 269	193 203	-8 934	-5%
Loans granted, bonds purchased, equity contributions	67 324	85 778	-18 454	-22%
Trade receivables	88 946	129 304	-40 358	-31%
Cash	13 165	19 378	-6 213	-32%
Other assets	30 214	32 375	-2 161	-7%
Total assets	383 918	460 038	-76 120	-17%
Equity	241 110	286 123	-45 013	-16%
Bank loans	42 603	73 064	-30 461	-42%
Trade liabilities	91 554	95 408	-3 854	-4%
Other liabilities	8 651	5 443	3 208	59%
Total equity and liabilities	383 918	460 038	-76 120	-17%
Debt ratio*	37%	38%		

* total assets / total liabilities

The balance sheet total at the end of 2012 was PLN 384m, down by PLN 76m on the balance sheet total posted in 2011. The decrease resulted from the impairment charges posted on the value of shares, loans and receivables from connected companies (see point 2.1 for details) in the total amount of PLN 67.1m, and from repayment of bank loans (the debt balance was reduced by PLN 30.5m).

2.3. Cash flows of the Company

	Figures in PLN thousand	2012	2011	Change
Net cash flows from operating activities		28 484	-32 994	61 478
Net cash flows from investing activities		-2 067	-9 954	7 887
Net cash flows from financing activities		-32 338	59 330	-91 668
Change in cash and cash equivalents:		-5 921	16 382	-22 303

The inflows of cash from operating activities of PLN 28.5m were mainly caused by extension of the payment terms for trade liabilities.

The cash flows from investing activities of -PLN 2m were connected with the provision of loans of PLN 16.6m (net) to subsidiaries and repurchase of PLN 14m worth of bonds by subsidiaries.

The outflows of cash from financing activities of -PLN 32.3m result from repayment of the bank debt (PLN 28.7m) and leases (PLN 0.6m) as well as the interest paid on these obligations (PLN 3.1m).

2.4. Loans received

Ref.	Loan type	Maturity	31 December 2012		31 December 2011	
			Long-term portion	Short-term portion	Long-term portion	Short-term portion
1	Working capital loan	11/2013	0	4 928	0	8 176
2	Non-renewable loan	04/2013	0	3 515	3 500 *	13 966
3	Working capital loan	02/2014	4 089	0	5 424 *	0
4	Working capital loan	03/2014	13 483	0	12 091 *	0
5	Working capital loan	06/2014	341	0	7 554 *	0
6	Non-renewable loan	07/2014	11 772	4 434	17 488 *	4 770
7	Other	na żądanie	0	41	0	95
Total			29 685	12 918	46 057	27 007

* long-term portion of the loan agreements for which the required consolidated ratios were not met at the balance sheet date (see Note 28.3)

In addition to the loans described above and specified in the table, on 9 May 2012 Selena FM S.A. with its subsidiary Orion sp. z o.o. (now Orion Polyurethanes sp. z o.o. SKA) signed a multi-purpose credit line agreement up to PLN 20m, expiring on 30 April 2013.

Details of the lending terms are presented in Note 28.2 of the Company's financial statements for 2012.

As part of the loan agreements signed by the Parent Company separately or jointly with its subsidiaries, Selena FM undertook to maintain certain financial ratios at the levels agreed with banks.

As at 30 June 2011, the consolidated ratios agreed with banks were exceeded. For this reason, in accordance with IAS 1, some loans had to be presented as short-term, even though their contractual maturity (indicated in the table above) would suggest a long-term obligation. However, as at 2012, all the required ratios were as required by the lenders, and all the loans were presented in accordance with their maturity dates.

2.5. Loans granted and bonds purchased

To ensure funding for its subsidiaries, the Company purchases their bonds and provides them with loans.

The table below presents a summary of changes to the financing extended to other companies in 2012.

Connection type	Figures in PLN thousand	31 December 2011	Principal		Interest		Valuation	Write-down	31 December 2012
			Increase	Decrease	Accrued	Paid			
Subsidiaries	Bonds	26 234		-14 004	1 286	-1 300	4		12 220
	Loans	55 246	46 998	-45 244	1 676	-856	-2 521	-4 014	51 285
	Contributions to capital	2 304			11				2 315
Other connected (Syrius Investments)	Bonds	1 616			56	-50	-118		1 504
Not connected	Loans	378		-358	7	-7	-20		
Total		85 778	46 998	-59 606	3 036	-2 213	-2 655	-4 014	67 324
<i>including long-term:</i>			21 105						41 922

Details of the financing provided to subsidiaries were presented in detail in Note 19 of the Company's financial statements for 2012.

2.6. Guarantees and off-balance sheet items

The guarantees the Company extended to other entities, including its subsidiaries are presented in Note 29 of the Company's financial statements for 2012.

The Company does not grant guarantees for the obligations of non-connected entities.

2.7. Financial instruments and financial risk management principles

The Company's financial instruments are presented in detail in Note 36 of the Company's financial statements for 2012.

The Company's risk financial risk management principles (covering FX risk, interest rate risk, credit risk and liquidity risk) are presented in detail in Note 35 of the Company's financial statements for 2012.

2.8. Assessment of financial resources management

The Company meets its financial obligations in a timely manner and has no liquidity problems. In the Management Board's opinion, there are no risks to the Company's capacity to service its obligations in a timely manner.

3. OTHER INFORMATION

3.1. Material agreements

The agreements concluded in 2012 and deemed material for the Company's financial position, include the agreements connected with the financing for subsidiaries (Note 2.5) and guarantee agreements with subsidiaries (Note 2.6).

The Group's material agreements were described in detail in the consolidated report on the Group's activities for 2012 (Note 3.1).

3.2. Related party transactions

In 2012, the Company and its subsidiaries entered into business-as-usual transactions. The terms of the transactions were market-based and resulted from the current activities. These transactions, and the transactions concluded with the Company's Directors, are presented in detail in Notes 32 and 33 of the Company's financial statements for 2012.

3.3. Issue of securities

As part of execution of the management options programme described in Note 3.11, on 16 March 2012, 110,000 ordinary series D shares of Selena FM S.A. were put on the market. The capital increase was registered by the court on 12 April 2012.

3.4. Acquisition of treasury shares

The Company did not have any treasury shares either as at 31 December 2012 or at the date of publication of this report. The list of the Company's shares held by the executive and non-executive directors of the Parent are presented in Note 3.12 of this report.

In accordance with the resolution of the Extraordinary General Meeting of 31 January 2012, the Management Board of Selena FM S.A. was authorised to acquire treasury shares in the maximum amount of 2 million shares, for a unit price not higher than PLN 8 per share. The shares may be purchased by 30 June 2014.

The shares will be offered as part of the incentive programme to the key management personnel of the Group. In case the shares are not taken up by the persons covered by the Programme, the shares will be sold to the entities or persons that do not participate in the programme, will be converted into equity in the course of the acquisitions or reorganisations made by the Company, or will be cancelled.

For the purpose of the EGM resolution, on 31 January 2012 a reserve capital of PLN 8m was set up (from the supplementary capital).

Details of the incentive programme will be elaborated by the Supervisory Board.

3.5. Delivery of forecasts

The Company did not publish its stand-alone forecasts for 2012.

3.6. Litigations

The Company is not involved in any court, arbitration or administration proceedings whose value would be at least 10% of the Group's equity.

3.7. Unusual events and factors

Unusual events and factors affecting the Company's business are described in Notes 2.1-2.3 Unusual Events and Factors Affecting the Group of the Management Board's Report on the Group Activities in 2012.

3.8. Changes to the governance principles

During the reporting period no changes occurred in the main governance principles, either in the Company or in the Group.

3.9. Agreements with directors

The employment agreement signed on 4 June 2012 between Selena FM S.A. and Beata Pawłowska, appointed as Vice-President of the Management Board, does not contain any special or non-standard provisions.

Neither the Parent Company nor the subsidiaries entered into any material agreements with members of the Company's executive or non-executive directors whose effects would not be disclosed in the financial statements of the Parent Company or the Group.

3.10. Remuneration of the Management Board and the Supervisory Board

The remuneration of the Management and the Supervisory Board members of the Company is described in Note 33 of the Company's financial statements for 2012.

3.11. Equity-based remuneration programmes

General information

The Parent Company operated a share-based incentive scheme described in detail in the share prospectus approved by the KNF on 21 March 2008. Under the programme, the Group's executives may be awarded a maximum of 326,000 shares. The shares could be allocated in 4 tranches in the years 2008-2011. Allocation in any year depended on fulfilment of general conditions (defined each year by the Supervisory Board, relating to achievement of stated effectiveness ratios by the Group) and individual conditions (employment or performance of individual staff members). Shares are awarded through the issue and free vesting of subscription warrants.

In 2008 and 2009, no warrants were allocated to employees.

Execution of the programme in 2010

As part of the programme execution in 2010, 114,600 warrants were awarded. On 30 June 2011, the Management Board adopted a resolution stating that the individual conditions for awarding the shares to the programme participants had been met, so all the eligible persons acquired rights to the subscription warrants. The warrants were issued on 14 July 2011. The warrants were converted into shares at the price of PLN 1. Finally, employees paid up 110,000 warrants.

The application for admission of the new shares to public trading was filed on 7 February 2012. On 16 March 2012, the shares were introduced to public trading. On 12 April 2012, the share capital increase was registered by the court.

The fair value of the warrants in the implementation of the programme for 2010 at the date of their allocation was determined by an independent actuary at PLN 1,633k, and was recognised in the accounts for the entire vesting period, i.e. from the start of the programme (18 October 2010) to 15 July 2011.

Execution of the programme in 2011

According to the Supervisory Board resolution of 31 January 2011, the general objective (trigger) for 2011 was the achievement by the Group of a consolidated operating profit set by the Supervisory Board and continuation of employment with Selena Group until 15 July 2012. On 4 March 2011, the eligible persons joined the programme for 2011. The total fair value of the programme for 2011 calculated at the award date was estimated at PLN 3m. As the general objective had not been met, the cost of programme delivery for 2011 was not recognised.

The programme ended after a formal confirmation at the Supervisory Board meeting that the general objective for 2011 had not been met.

3.12. Shareholdings by executive and non-executive directors

The table below shows a summary of the shareholdings in the Company by executive and non-executive directors as at the date of publication of this report.

Name	Job role	Number of shares	Nominal value of shares (PLN)
Kazimierz Przelomski	Vice-President of the Management Board	9 800	490
Krzysztof Domarecki	Supervisory Board Chairman	9 538 000	476 900
Syrius Investments s.a.r.l.*	-	8 050 000	402 500

* entity controlled by Krzysztof Domarecki

At that date of dismissal from the Supervisory Board, Andrzej Kozłowski held 132,000 shares in Selena FM S.A, and Anna Kozłowska held 4,000 shares as well as 10 shares in the subsidiary Orion sp. z o.o. (now Orion Polyurethanes sp. z o.o. SKA) with a nominal value of PLN 1,000.

Krzysztof Domarecki also holds 0.5% stake in Research Centre of Construction Technology sp. z o.o.

3.13. Agreements affecting changes in the proportion of shareholdings

The Company is not aware of any agreements that in the future might affect the proportion of shareholdings of the existing shareholders.

3.14. Control of employee shares programmes

In 2012, no employee shares programmes were in place in the company.

3.15. Information on the audit of the financial statements

On 29 June 2012, the Supervisory Board of Selena FM S.A. resolved to appoint Ernst&Young Audit sp. z o.o. as the auditor responsible for review of the interim financial statements and audit of the annual financial statements of the Parent Company, and the Group's consolidated financial statements for 2012. The audit agreement was concluded on 30 July 2012.

4. CORPORATE GOVERNANCE PRINCIPLES

4.1. Corporate Governance Principles applied

Selena FM S.A. adopted the corporate governance principles specified in the document "Code of Best Practice for the WSE Listed Companies", adopted by the Resolution of the Stock Exchange Council no. 15/1282/2011 of 31 August 2011 and no. 20/1287/2011 of 19 October 2011 on changes to the Code of Best Practice for the WSE Listed Companies. On 1 January 2012, the Company adopted the Corporate Governance principles adopted by the Resolution of the Stock Exchange Council no. 19/1307/2012 of 21 November 2012. Full text of the principles is published at: <http://www.corp-gov.gpw.pl/assets/library/polish/regulacje>

4.2. Exceptions to the Corporate Governance Principles

The Company's Management Board hereby declares that in 2012 the Company complied with the corporate governance principles presented in the Code of Best Practice for the WSE Listed Companies, except:

- (i) principle no. I.12 – giving shareholders the possibility to exercise - personally or by proxy - the right of vote at the General Meeting by using remote means of electronic communication.
- (ii) principle II.1 point 7) regarding publication on the website of the shareholders' questions regarding matters included in the agenda, asked before and during the general meeting, with answers thereto.
- (iii) principle no. II. 1 point 9a) regarding the audio or video record of the General Meeting.
- (iv) principle no. IV. 10 – enabling the shareholders to participate in the General Meeting using means of electronic communication.

Principle no. I.12 and principle no. IV.10. – ensuring that the shareholders can actively participate in the General Meeting via means of electronic communication. The Company does not apply these principles and does not intend to apply the same in the near future. The high level of risk arising from technical difficulties or broken connection may result in a shareholder being unable to exercise his/her voting rights.

Rule no. II.1 point 7) and no. II. 1 point 9a) are not and will not be applied. The Company does not keep a detailed record (in paper or electronic version) of the course of each General Meeting - such information can be derived from the notarial deed of the General Meeting, but the deed does not contain all the statements made, questions asked and answers given at the General Meeting. Individual matters are put on the General Meeting agenda by the Chairman of the General Meeting taking account of the applicable law, importance of the matter and reasonable demands of the shareholders. As stipulated by the Commercial Companies Code, the participants of the General Meeting have the right to make written statements that are attached to the minutes. The Management Board of the Company believes that such rules ensure transparency of the General Meeting and protect the Company against potential claims of the shareholders who might not wish to have their image or statements published.

4.3. Internal control over financial reporting

The Company's Management Board is responsible for effective functioning of the system of internal control over financial reporting.

To ensure reliability of its financial accounts, the Company has implemented and has been actively upgrading its internal control and risk management system. The system covers, among others, the following areas:

- Controlling and management accounting;
- Accounting, including financial reporting and consolidation;
- - Forecasting and financial analyses;
- Internal audit.

As part of the internal control and risk management system there are organisational solutions and corporate standards/procedures in place that ensure effectiveness of the control over financial reporting and identification / elimination of risks in this area. The following measures should be noted:

- Harmonisation of the accounting policies, financial reporting and accounting procedures;
- Application of a standardised financial reporting model for external and internal purposes;
- Clear division of roles and responsibilities of the financial functions and the middle and upper management;
- Regular and formalised process of reviewing and updating the budget assumptions and financial projections;
- Having the financial accounts reviewed and audited by an independent auditor;
- Implementation of a common IT platform SAP BI for the all the Group companies;
- Conduct of internal review of correctness of financial information prepared by the Group members.

The Finance Director (Vice-President of the Management Board) has oversight over preparation of the financial statements and financial reports of the Company. Preparation of the annual and interim financial statements is the responsibility of the Company's finance function. The Company keeps abreast of the legal developments relating to the stock exchange reporting and makes sure it is prepared for their implementation well in advance.

Each month, upon closing on the books of account, a management report is put together with details on the key financials and ratios for particular business segments. The Management Board and the unit managers analyse and discuss the Company's and the Group's performance.

Each quarter, the Company's Management Board verifies the reliability and currency of the annual budgets and the short-term projections. Where appropriate, the Management Board liaises with the management of the Group companies to review and update the previous budget assumptions.

As required by law, the Company has its financial accounts audited (reviewed) by an independent auditor. The auditor is selected by the Supervisory Board from among the recognised audit firms which ensure high standards of service and professional independence.

The auditor presents the audit (review) results to the Company's Supervisory Board and the Management Board, and then in the auditor's opinion and report. The audit of financial statements also includes verification of the Company's internal control system. The findings, observations and recommendations for improvement of the internal control system stemming from the audit of financial statements are presented to the Company in the form of a Management Letter.

4.4. Significant shareholders

According to the Company's knowledge, as at the date of publication of this report, the following shareholders hold the shares which carry at least 5% votes at the General Meeting:

Shareholder	31 December 2012		31 December 2011	
	share in capital	share in votes	share in capital	share in votes
Krzysztof Domarecki	41,77%	50,45%	41,97%	50,66%
Syrius Investments S.a.r.l (Luxemburg)*	35,25%	30,00%	35,43%	30,12%
	77,02%	80,45%	77,40%	80,78%

* The only shareholder of Syrius Investments S.a.r.l. is Krzysztof Domarecki

4.5. Holders of shares with special control rights

No securities exist which would carry any special control rights in the Company.

4.6. Limitations on voting rights

There are no limitations on the exercise of votes from the Company's shares.

4.7. Limitations on transfer of title to the Company's shares

There are no limitations on the transfer of title to the Company's shares.

4.8. Appointment and powers of the Management Board

The Company's Management Board may consist of one to five members appointed for a joint 3-year term of office. The number of the Management Board members is determined by the Supervisory Board. The Management Board members, including the Management Board President, are appointed and removed by the Supervisory Board.

The Management Board led by the Management Board President manages the Company and represents it outside. The authority to represent and bind the Company is vested in two Management Board members acting together or one Management Board member acting jointly with a proxy.

The Company is represented by the Supervisory Board in any contracts between the Company and the Management Board members or in any disputes between the Company and the Management Board members.

Management Board resolutions are adopted by absolute majority of votes of the Management Board members present at the meeting.

The Management Board acts pursuant to the Terms of Reference of the Management Board approved by the Supervisory Board.

Each Management Board member may manage the Company's affairs independently in relation to the ordinary course of the Company's business. Any matters that go beyond the ordinary course of the Company's businesses require a resolution of the Management Board. Also, the Management Board shall adopt resolutions at the request of any single Management Board member. The Management Board shall adopt resolutions on the following matters in particular:

- 1) reports, motions and other matters submitted to the Supervisory Board and the General Meeting;
- 2) granting the power of proxy (prokura);
- 3) convening annual and extraordinary General Meetings of Shareholders on its initiative or at a written request of the Supervisory Board or other competent bodies acting in accordance with the applicable laws or the Statutes, and defining the agenda of the General Meeting.

The right to take a decision on the issue or redemption of the Company's shares is regulated by the Commercial Companies Code.

4.9. Amending the Statutes

Any changes to the Company's Statutes require a resolution of the General Meeting adopted by an absolute majority of votes in accordance with Article 415 §. 3 and Article 416 §.1 of the Commercial Companies Code.

On 1 June 2011, the Statutes were changed whereby the possible number of Management Board members was increased to 5, the term of office of the Supervisory Board was shortened to 3 years, and the threshold value of the Company's equity was reduced from 5% to 3%, according to the latest audited financial statements that are used to define the value of obligations whose assumption requires the prior consent of the Supervisory Board.

4.10. General Meeting and the rights of shareholders

The General Meeting operates pursuant to the Company's Statutes and the Terms of Reference of the General Meeting, which are available to the public. The General Meeting is convened in the Company's registered office or in Warsaw at the date specified in the Company's current reports and on its website. In addition to the shareholders, the General Meeting may be attended by the members of the Management Board and the Supervisory Board, and: directors, officers and other employees of the Company or its subsidiaries invited by the Company's Management Board - when the General Meeting considers an item of the agenda falling within the scope of responsibility of such persons, as well as the experts invited by the authority which convened the General Meeting - when the General Meeting considers an item of the agenda subject to assessment by experts, or – where approved by the Shareholders representing the ordinary majority of votes – when the General Meeting considers other items of the agenda: representatives of the media, other persons – where approved by Shareholders – when the General Meeting considers particular items of the agenda or during the entire General Meeting.

The Terms of Reference of the General Meeting lay down the rules of election of the General Meeting Chairman, the role of the Chairman and the rules of election and the duties of the Ballot Commission. Voting at the General Meeting is open. Secret vote is ordered for: appointment or removal of members of the Company's governing bodies; motions to bring a member of the Company's governing bodies to liability; in personal matters and at the request of at least one authorised voter.

Shareholder rights

1. Shareholders representing at least a half of the share capital or at least a half of the total voting power may convene an Extraordinary General Meeting.
2. The Shareholder(s) representing at least 1/20 of the share capital shall have the right to convene the General Meeting if the General Meeting was not convened at their prior request and the registry court authorised them to convene the same. The court shall appoint the Chairman of the General Meeting so convened.
3. The Shareholder(s) representing at least 1/20 of the share capital may demand that certain items be included in the agenda of the next General Meeting and propose draft resolutions.
4. A Shareholder has the right to receive a certified copy of the Management Board's report on the Company's operations, the financial statements and the auditor's opinion as well as certified copies of the documents indicated in §15 section 2 point a) and point p) of the Company's Statutes. The documents shall be provided to the shareholders on request, no later than 15 days before the General Meeting.
5. The Shareholder shall have the right to demand receipt of certified copies of the proposals on any matters included in the agenda within a week before the General Meeting.
6. The Shareholder has the rights to demand that the list of registered General Meeting participants be forwarded to the indicated e-mail address.
7. The following persons shall have the right to participate in and exercise voting rights at the General Meeting:
 - 1) Shareholders holding registered shares, provided that their names are recorded in the book of shares at least a week before the date of the General Meeting;
 - 2) Shareholders who 16 days before the General Meeting date (record date) held on their securities account dematerialised shares in Selena FM S.A.;
 - 3) Proxies of the persons specified in point 2) and 3) above.
8. The basic rights and obligations of the persons authorised to vote (Shareholders or their proxies) include:
 - 1) exercising their right of vote in an unrestricted way;
 - 2) making formal proposals;
 - 3) demanding that a secret vote be held;
 - 4) demanding that their objections be recorded in the minutes;
 - 5) demanding that their written statements be recorded in the minutes;
 - 6) asking questions and demanding explanations from the Management / Supervisory Board members, auditors and experts present at the General Meeting on matters connected with the agenda;
 - 7) ensuring compliance with the agenda, applicable laws, Statutes, the Terms of Reference of the General Meeting and the best practice in public companies that the Company has bound itself to observe.
9. At the request of the Shareholders representing at least a fifth of the Company's share capital, the Supervisory Board shall be elected by the next General Meeting through a vote by separate groups. If the Supervisory Board is to be elected through a vote by groups:
 - 1) it is up to the Shareholders to create such groups;
 - 2) a Shareholder may belong to one group only;
 - 3) the minimum number of shares required to create a separate group is the product of the number of shares represented at the General Meeting and the number of Supervisory Board members to be elected;
 - 4) creation of a separate group is reported by the Shareholders to the General Meeting Chairman,
 - 5) each separate group chooses their leader who shall hold the election;
 - 6) the leader of each group shall prepare and sign the attendance list for the group and then shall proposed candidates for the Supervisory Board members and presents to the General Meeting Chairman the results of the election in his group;
 - 7) the General Meeting Chairman shall announce the results of the elections in particular groups and shall determine the number of the Supervisory Board members yet to be elected;
 - 8) the Shareholders who did not participate in any of the groups shall elect the remaining Supervisory Board members.
10. Shareholders shall have all the other rights conferred upon them by the Commercial Companies Code.

4.11. Composition of the Management Board and the Supervisory Board

Management Board

Since 2 November 2011, the Management Board of the Parent Company consisted of the following persons:

- Jarosław Michniuk – Management Board President, and
- Kazimierz Przelomski – Vice-President of the Management Board.

On 4 June 2012, the Supervisory Board of the Company appointed Beata Pawłowska as Vice-President of the Management Board responsible for sales and marketing.

As at the date of publication of this report, the Management Board consisted of the following persons:

- Jarosław Michniuk – Management Board President, and
- Kazimierz Przelomski – Vice-President of the Management Board.
- Beata Pawłowska – Vice-President of the Management Board.

Supervisory Board

Since 2 November 2011, the Company's Supervisory Board comprised the following members:

- Krzysztof Domarecki – Supervisory Board Chairman;
- Maria Godoś – Supervisory Board Member
- Grzegorz Forczek – Supervisory Board Member
- Andrzej Kozłowski – Supervisory Board Member
- Anna Kozłowska – Supervisory Board Member

On 19 June 2012, the General Meeting of Selena FM S.A. recalled the previous Supervisory Board and appointed a new Supervisory Board, for the joint three-year term of office, in the following membership:

- Krzysztof Domarecki – Supervisory Board Chairman
- Krzysztof Kluza – Supervisory Board Member
- Grzegorz Kostrzyński – Supervisory Board Member
- Andrzej Krämer – Supervisory Board Member
- Paweł Wyrzykowski – Supervisory Board Member

As the Supervisory Board consists of 5 person, on 4 December 2009 the Supervisory Board adopted a resolution to delegate to the whole Supervisory Board the responsibilities of the audit committee, as referred to in § 86 section 7 of the Act on Statutory Auditors and their Self-Government, entities entitled to audit financial statements, and the public oversight, dated 7 May 2009. The resolution was implemented in 2012.

MANAGEMENT BOARD'S ASSURANCE STATEMENT ON RELIABILITY OF THE FINANCIAL REPORT

The Management Board of Selena FM S.A. hereby confirms that to the best of its knowledge the financial statements for 2012 and the comparable data have been prepared in accordance with the applicable accounting policies and give a true, fair and clear picture of the affairs of Selena FM S.A. and its financial performance and that the Management Board's report on activities gives a true picture of the Group's development, achievements and standing, including description of the key risks and threats.

THE MANAGEMENT BOARD'S STATEMENT ON SELECTION OF AUDITOR

The Management Board of Selena FM S.A. hereby declares that the auditor of the annual financial statements of the Company for 2012 was selected in accordance with the law and that the audit firm and its auditors fulfilled the necessary criteria to be able to issue an unbiased and independent opinion of the financial statements in accordance with the applicable laws and professional standards.

**President of the Management
Board**

.....
Jarosław Michniuk

**Vice-President of the Management
Board**

Financial Director

.....
Kazimierz Przełomski

**Vice-President of the Management
Board**

**responsible for Sales and
Marketing**

.....
Beata Pawłowska