# SELENA FM S.A.

**53-611 Wrocław, ul. Strzegomska 2-4**

# Report on Operations
# of the SELENA Group
# in the period from 01.01.2008 to 31.12.2008

**Wrocław, April 2009 r.**

Contents

I. 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).

Since 20 May 2008, the shares of Selena FM SA have been quoted on Warsaw Stock Exchange.

These financial statements cover the period from 1 January to 31 December 2008 and include data for the comparative period ended 31 December 2007.

The Selena FM Group comprises Selena FM S.A. and its subsidiaries.

| Entity | Registered Office |
|---|---|
| Orion Sp. z o.o. | Dzierżoniów |
| Libra Sp. z o.o. | Dzierżoniów |
| Carina Silicones Sp. z o.o. | Siechnice |
| Selena Co S.A. | Wrocław |
| Selena S.A. | Świdnica |
| Sima Technologie Przemysłowe Sp. z o.o. | Kraków |
| Tytan EOS Sp. z o.o. | Wrocław |

Indirect subsidiaries through Selena Co S.A.:

| Entity | Registered Office |
|---|---|
| Selena Romania SRL | Ilfov (Romania) |
| Selena Bohemia s.r.o. | Roudnice (Czech Republic) |
| Selena Hungária Kft. | Pécs (Hungary) |
| Selena USA, Inc. | Easton (USA) |
| Selena Deutschland GmbH | Hagen (Germany) |
| Neue Hagfa Dr Schenk Germany | Hagen (Germany) |
| Selena CA L.L.P. | Almaty (Kazakhstan) |
| Selena Ukraine Ltd. | Kiev (Ukraine) |
| Selena Romania SRL | Limena (Italy) |
| Selena Sulamericana Ltda | Ponta Grossa (Brazil) |
| Siloxane Sp. z o.o. | Siechnice (Poland) |
| Selena Ukraine Ltd. | Sofia (Bulgaria) |
| Selena Vostok Moscow | Moscow (Russia) |
| Selena Sever Moscow | Moscow (Russia) |
| Selena Shanghai Trading Co., Ltd. | Shanghai (China) |
| Foshan Chinuri-Selena Chemical Co | Foshan (China) |
| Selena Nantong Building Materials Co., Ltd | Nantong (China) |
| POLYFOAM Yalitim Sanayi ve Tic Ltd. | Istanbul (Turkey) |

Indirect affiliates through Selena Co. S.A. and joint ventures:

| Entity | Registered Office |
|---|---|
| FinSelena Oy | Lammi (Finland) |
| Hamil - Selena Co. Ltd | Kimhae (Korea) |
| Borkan Prefabrik Yapi Elemanlari ve Dis Ticaret A.S. | Istanbul (Turkey) |

The subsidiaries and indirect subsidiaries are consolidated using the line-by-line method. Affiliates and joint ventures are accounted for using the equity method.

The composition of the governing bodies of the parent company is set out in point IV.8 of this report.

II. Key financial figures, structure of assets and liabilities

Tables II.1-3 show the Selena Group's selected financials for 2008 in comparison with 2007. These are key elements of the income statement, balance sheet and the cash flow statement.

**Table II.1 Financial Highlights – Income Statement (PLN m)**

| | **2008** | **2007** | ***Change*** |
|---|---|---|---|
| **Revenue from sales** | **529,6** | **518,0** | ***11,6*** |
| **Gross profit** | **160,9** | **152,4** | ***8,5*** |
| *%* | *30,38%* | *29,42%* | |
| **Operating profit (EBIT)** | **7,9** | **52,0** | ***-44,1*** |
| *%* | *1,49%* | *10,04%* | |
| **Net profit** | **15,2** | **34,9** | ***-19,7*** |
| *%* | *2,87%* | *6,74%* | |
| **EBITDA** | **17,8** | **60,7** | ***-42,9*** |
| *%* | *3,36%* | *11,72%* | |

**Revenue from sales** in 2008 amounted to PLN 529.6 m versus PLN 518 m in 2007 (an increase by 2.3%). In 2008 the revenues expressed in EUR amounted to EUR 150 m compared with EUR 137.1 m achieved last year, which is an increase by 9.4%.

In the fourth quarter of 2008, the financial crisis and economic slowdown dragged down the Group's sales and distribution of products. Sales decreased both in the Western European markets and in the CEE.

**Gross profit** in 2008 amounted to PLN 160.9 m versus PLN 152.4 m in 2007, up 5.6 %, with gross profit margin at 30.38%.

The selling expenses increased by PLN 18.3 m year-on-year. This was mainly driven by: cost of salaries, cost of development of new companies in Russia, investments into development of the distribution network, costs of marketing, including the media campaign in the Polish market for Tytan Professional and Tytan EOS.

In 2008, the general and administrative expenses increased by PLN 6.6 m year-on-year. This growth is mainly due to the investments in new foreign companies of the Group, including establishment, development or take-over of new companies (Selena Vostok and Selena Sever in Russia, POLYFOAM Yalitim Sanayi ve Tic Ltd in Turkey, Selena Shanghai Trading Co. Ltd and Foshan Chinuri-Selena Chemical Co in China, Tytan EOS in Poland) as well as establishment and development of the organisation structure for managing the Selena Group.

**Operating profit (EBIT)** amounted to PLN 7.9 m versus PLN 52 m for 2007.
The key factors positively affecting the operating profit in 2008 were: increase in domestic sales by PLN 25 m due to introduction of new products (bituminous masses, insulation systems); stronger foothold gained by the new companies in the Russian market with contribution of PLN 5.5 m of gross profit; change in the distribution system in Kazakhstan, which allowed extra gross profit of PLN 1.5 m to be generated.
The key factors negatively affecting the operating profit in 2008 were the increase in the Group's cost base, allowances for doubtful accounts of PLN 26,173 k, including: allowances for the accounts with counterparties (PLN 23,431 k) and allowances for slow-moving stocks (PLN 2,742 k).
The operating profit was reduced by allowances for inventory write-downs due to the depressed market and the resultant risk that the Group will be unable to collect all the amounts due in the full amount. Also, the Group took steps to recover its distressed debts (collection efforts, negotiation for restructure).
The Group’s operating profit was also negatively affected by the negative EBIT of the newly acquired Polyfoam (PLN 1.5 m).

In 2008 the Group’s profit on financial activity came in at PLN 8.2 m versus the loss of PLN 15.5 m in 2007.
The result on financial activity was adversely affected by the financial costs of Polyfoam (subsidiary) in respect of FX losses and borrowing costs of PLN 3 m and the write-off of goodwill of PLN 4 m. The write-off arose as a result of restatement by Selena FM S.A. of the acquired assets of the Turkish company (May 2008) at the balance sheet date 31.12.2008. Due to the conservative assumptions of the goodwill impairment test (negative effects of the crisis in the mid-term, uncertain market situation, worse outlook for the building chemistry markets), the test result was different than the book value. From the beginning of the year, Polyfoam, which is an owner of a leading brand in the Turkish market, has been recording increasingly stronger sales, which might lead to operating profit being achieved already in September / October 2009.

**Net profit** in 2008 was PLN 15.2 m, compared with PLN 34.9 m posted in 2007. This means a net profit margin of 2.9 %.

The Management Board of Selena FM S.A. notes that the consolidated net profit of the Group includes the losses of the newly established subsidiaries, which at the first stage of entering the market incur costs which are not fully counterbalanced by revenues. This applies to: Polyfoam, Selena USA Inc, Selena Shanghai Trading Co. Ltd., Foshan Chinuri-Selena Chemical Co, Selena Nantong Building Materials Co., Ltd.
In the fourth quarter 2008, Selena Shanghai started the sale of Tytan products and began intensive expansion of its sales structures in the selected provinces of China.
Chinuri-Selena Chemical Co plans to achieve an operating profit in October 2009.

**Table II.2 Financial Highlights – Balance Sheet (PLN m)**

| | 2008 | 2007 | *Change* |
|---|---|---|---|
| **Assets** | **431,8** | **310,5** | ***39%*** |
| Non-current assets | 129,8 | 92,4 | *40%* |
| Current assets | 302,0 | 218,0 | *39%* |
| *Inventory* | *68,6* | 59,9 | *15%* |
| *Trade debtors* | *96,9* | *113,8* | *-15%* |
| *Cash and cash equivalents* | *112,2* | *22,5* | *399%* |
| | | | |
| ***Total equity*** | **323,4** | **148,8** | *117%* |
| Non-current liabilities | 21,2 | 26,5 | *-20%* |
| *Loans and advances* | 15,9 | 20,5 | *-22%* |
| *Current liabilities* | 87,2 | 135,2 | *-36%* |
| Trade creditors | 49,5 | 53,1 | *-7%* |
| *Loans and advances* | 18,8 | 64,9 | *-71%* |

As at 31.12.2008, total assets of the Selena Group amounted to PLN 431.8 m, up 39% on 2007. This is a result of expansion of the Group's activities and structure (primarily an increase in financial assets – long term investments, and investments into property, plant and equipment). Thus structured balance sheet at the end of 2008 speaks positively of the Group's acquisition potential and its ability to raise external finance.

Current assets are the main asset item, accounting for 70% of the total assets. Current assets increased by PLN 84 m year-on-year, mainly due to the proceeds from the floatation of shares.
At the end of 2008, non-current assets accounted for ca. 30% of the Groups assets, the key items being property, plant and equipment, which increased by more than PLN 27.5 m (to PLN 108.1 m as at 31.12.2008) due to the Group's investments, consolidation of two production companies (Foshan Chinuri, Polyfoam) and acquisition of assets (in Q4) by Tytan EOS.
In 2008, the Group's asset funding structure changed significantly. As at 31.12.2008 equity accounted for nearly 75% of combined equity and liabilities versus 48% at the end of 2007, while liabilities accounted for 25.7% versus 52% in 2007.

As at 31.12.2008, the shareholder's equity amounted to PLN 323.4 m and increased by PLN 174.6 m compared with the end of 2007, mainly due to the floatation of shares and the increase in the share capital.
At the end of 2008, liabilities decreased by PLN 53.3 m compared with the end of 2007, mainly due to reduction of the bank debt (by PLN 50.8 m).
Compared with the end of 2007, bank debt decreased from PLN 85.4 m to PLN 34.6 m. This was caused by allocation of the share issue proceeds in reduction of the financial costs. Pending achievement of the share issue objectives, the free portion of the proceeds was invested in bank deposits (PLN 49.2 m as at 31.12.2008).
The balance sheet structure of the Selena FM Group at the end of 2008 points to the financial stability of the Group and the safe level of its liquidity.

**Table II.3 Financial Highlights – Cash Flow Statement (PLN m)**

| | 2008 | 2007 | Change |
|---|---|---|---|
| **Net cash flows from operating activities** | **33,0** | **13,0** | ***20,0*** |
| **Net cash flows from investing activities** | **-32,9** | **-23,8** | ***-9,1*** |
| **Net cash flows from financing activities** | **89,2** | **21,6** | **67,6** |
| **Total net cash flows** | **89,3** | **10,8** | ***78,5*** |

*Source for Table II: Selena FM S.A.*

Net cash flows in 2008 amounted to PLN 89.3 m. The cash flows from operating activities were at PLN 33 m, up by PLN 20 m on 2007. The outflows in investing activities were balanced with the net operating cash flows, and were used, among others, to acquire new companies and complete investments / modernisations in the Selena Group. Net cash flows from financing activities were positive at PLN 89.3 m at the end of 2008, which was mainly due to the issue of new shares and repayment of the loans.

The low debt level and the cash position (cash less bank debt) of PLN 77.5 m safeguard the company's liquidity and provide a stable platform for the Group's successful operations in 2009 and delivery of the Group's acquisition goals.

In the nearest future the Group will be continuing its development strategy which is to achieve a strong position in the global building chemistry market by:
- becoming the world's biggest manufacturer and seller of polyurethane foams (thanks to the already achieved significant competitive advantage);
- becoming one of the top 10 global suppliers of sealants;
- becoming one of the top 30 global manufacturers and suppliers of construction / industrial adhesives.

III. In the opinion of the Group, the key risks and threats that the Group is exposed to include:
- the economic situation in Poland and in the world, which affects the trading performance of the Group companies, has an impact on the investment and business decisions and might influence the speed of delivery of the Group's development strategy;
- weakening demand for investments and consumption in Poland;

- limited credit availability to the construction sector, adversely affecting building production and hence the building chemistry market;
- increasing problems with liquidity among customers and delays in collection of debtors;
- risk of increase in raw material prices (mainly oil-based);
- risk of legislation changes;
- currency fluctuations in the markets where the Group operates.

## IV. Corporate governance statement for 2008

### IV.1 THE CORPORATE GOVERNANCE RULES ADOPTED BY SELENA FM S.A.

Selena FM S.A. adopted the corporate governance rules specified in the document "Code of Best Practice for the WSE Listed Companies", published on the website http://www.corp-gov.gpw.pl/lad_corp.asp

### IV.2 EXCEPTIONS TO THE APPLICATION OF THE CORPORATE GOVERNANCE PRINCIPLES

The Company's Management Board advises that in 2008 the Company complied with the corporate governance rules laid down in the document "Code of Best Practice for the WSE Listed Companies", except rule 1.7, rule 2 in section II "Best practice for management boards of listed companies" as well as rule 6 in section III "Best practice for supervisory board members". The Company's announcement to this effect has been published on its website www.selenafm.com
As regards rule II.1: "A company should operate a corporate website and publish: shareholders' questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions"- the rule was not followed. 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.
Rule II.2: "A company should publish its website in English, at least to the extent described in section II.1."
The rule was not followed in full in 2008. However, since 1 January 2009 the Company has operated an English version of its website.
Part III of the Best Practice - Best practice for the members of supervisory boards, Rule III. 6.: "At least two members of the supervisory board shall meet the criteria of independence from the company and other entities that have material ties with the company. (…)"
This rule is not followed. As the present Supervisory Board is composed of only 5 members, the independence requirement is satisfied by having one independent member, who meets the criterion specified in Appendix 2 to the European Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors and the guidelines contained in point III item 6 of the document "Best Practice for Companies Listed on Warsaw Stock Exchange".

## IV.3. DESCRIPTION OF THE KEY FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATING TO THE PREPARATION OF THE FINANCIAL STATEMENTS AND THE CONSOLIDATED FINANCIAL STATEMENTS OF THE ISSUER

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;
- Accounting, including Financial Reporting and Consolidation;
- Forecasting and financial analyses.

The internal control and risk management system incorporates a number of procedural controls. Also, corporate standards have been put in place to ensure effectiveness of control and identification and mitigation of risks. 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.

The Finance Director (Vice-President of the Management Board) has oversight over preparation of the financial statements and periodic reports of the Company. Organisation of the annual and interim reporting process is the responsibility of the Stock Exchange Reporting function, which is a part of the Accounting Department. 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. Next, the Management Board and the unit managers analyse and discuss the Company’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 reviewed or audited by an independent auditor. The auditor is selected by the Supervisory Board, upon prior recommendation of the Management Board, by way of a tender, from among the recognised audit firms which ensure high standards of service and the required independence.

The auditor presents the review / audit results to the financial management of the Company and to the Company’s CEO. Then the results are published in the auditor’s report. The audit of financial statements 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 Management Board in the form of the auditor's report.

## IV.4. SHAREHOLDERS HAVING DIRECTLY OR INDIRECTLY SIGNIFICANT INTEREST IN THE COMPANY

According to the Company's knowledge the following shareholders hold the shares which carry at least 5% votes at the General Meeting:

| Share type | Shareholder | Number of shares | % of share capital | Number of votes | Voting power |
|---|---|---|---|---|---|
| Registered preference shares | Krzysztof Domarecki | 4 000 000 | 17,60% | 8 000 000 | 29,94% |
| Bearer shares | Krzysztof Domarecki | 5 538 000 | 24,37% | 5 538 000 | 20,72% |
| Bearer shares | Syrius Investments S.a.r.l. | 8 050 000 | 35,43% | 8 050 000 | 30,12% |

No securities exist which would carry any special control rights in the Company. There are no limitations on the transfer of title to the Company's shares or limitations on the exercise of votes from these shares.

IV.5. APPOINTMENT AND REMOVAL OF EXECUTIVES AND THE POWERS OF EXECUTIVES.

**Management Board**

The Issuer’s Management Board may consist of one to three 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.

**Supervisory Board**

The Supervisory Board consists of 5 or 7 members appointed for a joint term of office of 5 years. The number of the Supervisory Board members is determined by the General Meeting. The Supervisory Board members are appointed and removed by the General Meeting. When selecting the Supervisory Board members, the General Meeting designates the Supervisory Board Chairman. The General Meeting may change the number of Supervisory Board members during the Supervisory Board term of office, however only in connection with changes made to the Supervisory Board composition during such term of office. At the first meeting, the Supervisory Board elects Vice Chairman and Secretary from among its members. Each Supervisory Board member may be elected for the next terms of office. Each Supervisory Board member is free to resign from his office at any time. The resignation shall be tendered in writing to the Management Board. In the event a Supervisory Board member resigns or the mandate of a Supervisory Board member expires for a different reason, the Management Board immediately convenes a General Meeting to supplement the composition of the Supervisory Board. Until the Supervisory Board is supplemented, it operates in a reduced composition. However, if the number of the Supervisory Board members falls below 5 (five), the Supervisory Board loses its capacity to adopt resolutions.

The Supervisory Board shall exercise oversight of the Company's operations. In particular, the Supervisory Board shall:

a) assess the Company’s financial statements, the Management Board's report on the Company's operations and the Management Board's proposals regarding distribution of profit or the method of covering the loss, and to present to the General Meeting the annual reports on the result of such assessment and prepare and present to the AGM a condensed evaluation of the Company's position, with a focus on evaluation of the internal audit and risk management;

b) appoint and remove Management Board members and suspend them in their duties as well as approve appointment or removal of a proxy;

c) determine the rules of remunerating the Management Board members and the level of their remuneration;

d) approve non-salary benefits granted by the Company to the Management Board members;

e) enter into agreements between the Company and the Management Board members; in an employment agreement with a Management Board member or in another agreement whereby a Management Board member provides service to the Company, the Company is represented by the Supervisory Board Chairman or another member of the Supervisory Board duly authorised by the Supervisory Board. The same procedure applies to the statements of will of the Company arising from performance or relating to termination of such agreements;

f) select the auditor for the Company’s financial statements;
g) approve the Company’s annual financial plans;
h) approve the acquisition or disposal by the Company of properties, perpetual usufruct rights or a share in a real estate where the value of the transaction exceeds 5% of the Company's equity as per the last audited financial statements;
i) from the floatation of the Company's shares and for as long as the Company remains a listed company, and subject to section 2 letter e), approve conclusion of an agreement between the Company and its related parties as defined in the ordinance of the Minister of Finance of 19 October 2005 on current and period information provided by the issuers of securities (Journal of Laws, No. 209 of 2005, item 1744). The approval is not required for usual transactions entered into on market terms in the ordinary course of the Company's business with a controlled entity;
j) Approve disposal of preference registered shares, subject to the exclusions specified in § 6 section 5, the second sentence;
k) Subject to the provisions of letters l) to o), approve material agreements that are not provided for in the Company's financial plan; a material agreement is one to which the Company is a party and the value of such agreement is at least 5% of the Company’s equity as per the last audited financial statements. A material agreement is also two or more agreements concluded by the Company with one entity or a subsidiary of such entity in a period of less than 12 months if the total value of such agreements meets the criteria set out in the preceding sentence;
l) Approve the issuing or accepting a bill of exchange or granting a corporate guarantee by the Company whose value exceeds 5% of the Company’s equity as per the last audited financial statements, except the cases specified in the Company’s financial plan approved by the Supervisory Board.
ł) Approve any loan, leasing or a similar agreement whose purpose is to fund the Company’s business if its value exceeds 5% of the Company’s equity as per the last audited financial statements;
m) Approve any pledge, mortgage or other encumbrance of the Company's assets whose single value exceeds 5% of the Company’s equity as per the last audited financial statements, except the cases specified in the Company’s financial plan approved by the Supervisory Board;
n) Approve the formation by the Company of another company or acquisition of shareholding in other companies and approve the terms of such transactions, except the equity transactions provided for in the Company's financial plan approved by the Supervisory Board;
o) Approve disposal by the Company of any previously acquired shareholdings in other companies and approve the terms of such transactions if the single value of the transaction exceeds 5% of the Company’s equity as per the last audited financial statements, except the equity transactions provided for in the Company’s financial plan approved by the Supervisory Board;

p) Assess own performance and present the results of such performance to the General Meeting;
r) Review and express opinion on any matters presented to the General Meeting;

IV.6. CHANGES TO THE ISSUER'S 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 art. 415 §. 3 and art. 416 §.1 of the Commercial Companies Code.

IV.7. MODUS OPERANDI OF THE GENERAL MEETING, ITS MAIN POWERS AND THE MANNER IN WHICH THESE POWERS ARE EXERCISED

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 takes place in the Company's head office or in Warsaw, at the dates specified in the notice published in the Court and Economic Journal as required by law. In addition to the shareholders, the General Meeting may be attended by the members of the Management Board and the Supervisory Board of the Company as well as the following persons: 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. The Shareholder(s) representing at least 10% 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.

2. The Shareholder(s) representing at least 10% of the share capital may demand that certain items be included in the agenda of the next General Meeting.
3. 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.
4. 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.
5. 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 holding bearer shares if at least a week before the date of the General Meeting they submit in the Company's registered office certificates of deposit issue to their names by the entity maintaining securities account, in accordance with the relevant regulations, indicating the number of the shares held by them;
   3) Proxies (representatives) of the persons specified in point 2) and 3) above.
6. 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.
7. 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.

8. Shareholders shall have all the other rights conferred upon them by the Commercial Companies Code.

## IV.8. COMPOSITION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD OF THE COMPANY

In 2008, no changes occurred to the one-person Management Board of the Company. The role of the Management Board President was held by Krzysztof Domarecki.
On 27 February 2009, the Supervisory Board made changes to the composition of the Company's Management Board. In effect, since 1 March 2009, the Management Board of Selena FM S.A. has consisted of the following persons:
Krzysztof Domarecki – Management Board President
Kazimierz Przełomski – Vice-President of the Management Board
Elżbieta Agnieszka Szymańska – Management Board Member
In 2008, no changes occurred to the five-person Supervisory Board of the Company. Members of the Supervisory Board are:

1) Jacek Olszański – Chairman of the Supervisory Board
2) Maria Godoś – Supervisory Board Member
3) Grzegorz Forczek – Supervisory Board Member
4) Andrzej Kozłowski – Supervisory Board Member
5) Anna Kozłowska – Supervisory Board Member

As at the publication date of this report, the Company's governing bodies consisted of the following members:
Management Board:
Krzysztof Domarecki – Management Board President
Kazimierz Przełomski – Vice-President of the Management Board
Elżbieta Agnieszka Szymańska – Management Board Member

Supervisory Board:

- Jacek Olszański – Chairman of the Supervisory Board
- Maria Godoś – Supervisory Board Member
- Grzegorz Forczek – Supervisory Board Member
- Andrzej Kozłowski – Supervisory Board Member
- Anna Kozłowska – Supervisory Board Member

As the Supervisory Board consists of 5 persons and taking account of the size of the Company's operations, formation of separate committees of the Supervisory Board, including the audit committee, is not deemed necessary. The roles otherwise fulfilled by such committees are performed by the Supervisory Board collectively.
The operations of the Management Board and the Supervisory Board are governed by the Terms of Reference of the Management Board and the Terms of Reference of the Supervisory Board, respectively, which are available on the Issuer's website at www.selenafm.com.

V. The companies of the Selena FM Group are not involved in any court, arbitration or administration proceedings whose value would be at least 10% of the Group's equity.

VI.1. The main business profile of the Selena Group is production and sale of construction chemistry products and accessories. The Group operates through its subsidiaries which produce and sell the products offered by the Group and are responsible for marketing and advertising in all geographies where the Group operates. Selena FM S.A. co-ordinates the operations of these companies.
As at the end of 2008, the Selena FM Group comprised 29 entities located in 16 countries. The Group has 11 production plants operating in Poland (6), Brazil, USA, Turkey, China and Korea.
The Group derives more than 60% of its revenues from the foreign markets.
The broad range of products of the Selena Group is addressed both to professionals and individual users. The main brands are TYTAN and ARTELIT.

VI.2. The products and the merchandise offered by the Selena Group companies are sold in the domestic and the international markets.
The main export markets are the countries of the Eastern Europe (primarily Russia, Ukraine and Kazakhstan) and then the EU states (the main ones being: Romania, Czech Republic, Hungary and Bulgaria).
Another important area of the Group's operations is Asia (China), the Middle East and the North and South America. We expect that on the back of the investments in the production facilities in Brazil and the USA as well as a result

of the planned investments in the production capacity, sales achieved in those markets will notably increase in the coming years.
The Group is not over-dependent on any suppliers or buyers.

VI.3. Business with overwhelming majority of the counterparties is transacted based on once-off written orders.
The following Group companies are parties to material insurance agreements providing cover for their high-value assets: Carina Silicones Sp. z o.o., Libra Sp. z o.o., Orion Sp. z o.o., Selena Co. S.A. and Selena S.A.
The table below contains details of the cover procured by the companies:

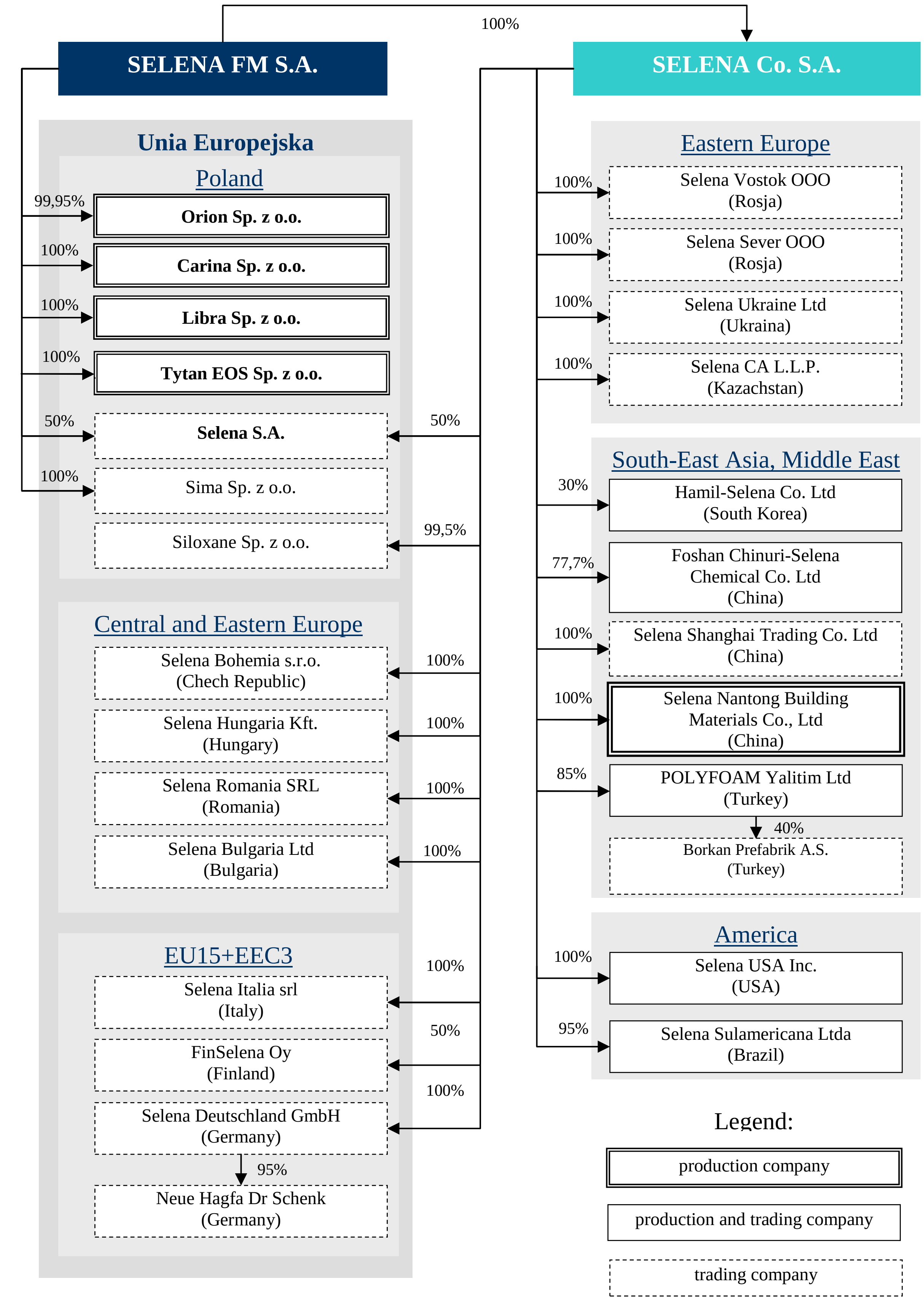
| No. | Insured, place of insurance | Insurer | Scope of Cover | Insured Amount [PLN] | Term of Insurance |
|---|---|---|---|---|---|
| 1. | Carina Silicones Sp. z o.o. Siechnice | STU Ergo Hestia S.A. with PZU S.A. | Comprehensive all risks insurance and electronic equipment insurance | PLN 17.338.765 | 20.05.2008 - 19.05.2009 |
| 2. | Libra Sp. z o.o. Dzierżoniów | STU Ergo Hestia S.A. with PZU S.A. | Comprehensive all risks insurance and electronic equipment insurance | PLN 27.505.000 | 01.06. 2008 - 19.05.2009 |
| 3. | Orion Sp. z o.o. Dzierżoniów | STU Ergo Hestia S.A. with PZU S.A. | Comprehensive all risks insurance and electronic equipment insurance | PLN 100.423.135 | 01.06. 2008 - 19.05.2009 |
| 4. | Selena Co. S.A Wrocław | STU Ergo Hestia S.A. with PZU S.A. | Comprehensive all risks insurance and electronic equipment insurance | 3.047.785,00zł | 01.06. 2008 - 19.05.2009 |
| 5 | Selena S.A. Świdnica | STU Ergo Hestia S.A. with PZU S.A. | Comprehensive all risks insurance and electronic equipment insurance | PLN 12.487.400 | 01.06. 2008 - 19.05.2009 |

In the reporting period the Company entered into material agreements with two subsidiaries: Libra sp. z o.o. and Selena Co S.A. In both cases the agreements provided for the issue of bonds by the subsidiaries. The bonds were taken up in full by Selena FM S.A. The bonds will be redeemed on 30 June 2009 (for Libra sp. z o.o. ) or 31 December 2009 (for Selena Co S.A.). The interest rate on the bonds is based on 1M WIBOR. The Company announced the conclusion of these agreements in the following current reports: RB 20/2008 of 24.06.2008 (for Libra sp. z o.o.) and RB 35/2008 of 20.11.2008 (for Selena Co S.A.).
In addition, agreements were made with suppliers and buyers, which were deemed material by the Selena Group, but which did not formally meet the criteria of a "material agreement".

The Company has no information about any agreements between its shareholders.

VI.4. Organisational or capital ties between Selena FM S.A. and other Group companies are shown in the chart below (as at 31.12.2008).
In the reporting period the Company did not make any equity investments outside the group of its connected companies. The transactions are described in section VI.12 of this report.

All the completed investments were financed from the Company’s own funds derived from the IPO completed in Q2 2008 and from the retained profit.
Some of the IPO proceeds were temporarily put on short-term bank deposits (with a term ranging from 1 day to 3 months). Ultimately, these funds will be put towards the objectives outlined in the share prospectus for the C series shares.


SELENA FM S.A.
100%
SELENA Co. S.A.
Unia Europejska
Poland
99,95%
Orion Sp. z o.o.
100%
Carina Sp. z o.o.
100%
Libra Sp. z o.o.
100%
Tytan EOS Sp. z o.o.
50%
Selena S.A.
50%
100%
Sima Sp. z o.o.
99,5%
Siloxane Sp. z o.o.
Central and Eastern Europe
100%
Selena Bohemia s.r.o. (Chech Republic)
100%
Selena Hungaria Kft. (Hungary)
100%
Selena Romania SRL (Romania)
100%
Selena Bulgaria Ltd (Bulgaria)
EU15+EEC3
100%
Selena Italia srl (Italy)
50%
FinSelena Oy (Finland)
100%
Selena Deutschland GmbH (Germany)
95%
Neue Hagfa Dr Schenk (Germany)
Eastern Europe
100%
Selena Vostok OOO (Rosja)
100%
Selena Sever OOO (Rosja)
100%
Selena Ukraine Ltd (Ukraina)
100%
Selena CA L.L.P. (Kazachstan)
South-East Asia, Middle East
30%
Hamil-Selena Co. Ltd (South Korea)
77,7%
Foshan Chinuri-Selena Chemical Co. Ltd (China)
100%
Selena Shanghai Trading Co. Ltd (China)
100%
Selena Nantong Building Materials Co., Ltd (China)
85%
POLYFOAM Yalitim Ltd (Turkey)
40%
Borkan Prefabrik A.S. (Turkey)
America
100%
Selena USA Inc. (USA)
95%
Selena Sulamericana Ltda (Brazil)
Legend:
production company
production and trading company
trading company

VI.5. In 2008, the Company entered into customary transactions with its subsidiaries in the ordinary course of business. The transactions were concluded on market terms. Several transactions were regarded as "material agreements" and were described in section VI.3. of this report.

VI.6. In the reporting period, the Group companies took out the following loans:

- Carina Silicones Sp. z o.o.–on 3.04.2008 signed an overdraft agreement with Bank Millennium S.A., Warsaw. The purpose of the PLN 5 m overdraft is to fund working capital requirements. The facility matures on 04.04.2009.
- Libra Sp. z o.o. - on 26.11.2008 signed an annex to the working capital loan agreement with Raiffeisen Bank Polska S.A., Warsaw. The maximum loan amount is PLN 2 m. The annex extended the maturity of the loan to 27.05.2009.
- Selena Co S.A. - on 26.11.2008 signed an annex to the working capital loan agreement with Raiffeisen Bank Polska S.A., Warsaw. The maximum loan amount is PLN 8 m. The annex extended the maturity of the loan to 27.05.2009.

None of the loans used by the Group in 2008 were terminated.

VI.7. In 2008, the following intercompany loans were granted within the Group:
Selena FM S.A. provided 4 loans to its subsidiary Tytan EOS sp. z o.o. in the total amount of PLN 7,750,000. All the loans mature on 31 December 2010. Interest rate on each loan is fixed at 3M Wibor + 0.5% margin. Interest is payable in bullet on 31 December 2010.
Selena S.A. provided 1 loan of PLN 100,000 to Tytan EOS sp. z o.o. for a term from 29 October 2008 to 31 December 2008. Interest rate on the loan was 3M Wibor + 0.5% margin. Interest is payable is bullet. The loan was repaid on 19 December 2008.

No other intercompany loans were provided in 2008.

VI.8. In 2008, the Selena Group companies provided the following guarantees:
- Orion sp. z o.o.: on 26.11.2008 gave a guarantee to Selena Co S.A. as security for the loan of PLN 8 m granted by Raiffeisen Bank Polska S.A. The guarantee expires on 30.06.2009.
- Orion sp. z o.o.: on 26.11.2008 gave a guarantee to Libra Sp. z o.o. as security for the loan of PLN 2 m granted by Raiffeisen Bank Polska S.A. The guarantee expires on 30.06.2009.
- Orion sp. z o.o.: continuation of the Bill of Exchange Guarantee for Carina Sp. z o.o. under the PLN 1.3 m lease agreement with ING Lease S.A. The guarantee expires in May 2011.

- On 4.12.2008 Selena S.A. gave a guarantee of PLN 425,025.92 to Pro Koncept sp. z o.o. The guarantee expires on 15.12.2009.
- On 7.07.2008 Selena S.A. gave a guarantee of EUR 76,000 to Prologis Poland sp. z o.o. The guarantee expires on 15.11.2011.

VI.9. In Q2 2008, the Company completed an IPO under the resolution of the Extraordinary General Meeting of Shareholders of 18 December 2007 on increasing the share capital to maximum PLN 1,136,200 through a public issue of C series shares, preemptive rights of the previous shareholders excluded, and on seeking admission of the shares to public trading on the Warsaw Stock Exchange.
On 18 April 2008, the series C shares were for the first time quoted on the Warsaw Stock Exchange.
On 24 April 2004, the District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register registered the increase in the Company's share capital by way of issue of the C series shares.
After the registration the share capital amounts to PLN 1,136,200.00 and is divided into 22,724.000 shares with a nominal value of PLN 0.05 each.
As a result of the issue of 5,000,000 series C shares with the issue price of PLN 33 per share, the Company raised capital of PLN 165 m.
The net proceeds from the issue (after the issuance costs) were PLN 161,287 k.
Until the date of this report, the funds were used as follows:

| | | |
|---|---|---|
| A. Strategic acquisitions: | PLN 19.2 m | |
| - purchase of 85% stake in Polyfoam Yalitim (Turkey) | | PLN 7.4 m |
| - purchase by Tytan EOS of Cerko, including its production assets | | PLN 11.8 m |
| B. Increase in production capacity: | | PLN 15.8 m |
| - construction of a production plant in Nantong (China) | | PLN 6.7 m |
| - extension of the foam production plant in Nowa Ruda | | PLN 9.1 m |
| Total expenditures on the share issue objectives: | | PLN 35.0 m |
| Cash in bank | | PLN 49.2 m |
| Funds temporarily transferred to subsidiaries, including: towards repayment of working capital and term loans | | PLN 77.1 m |

VI.10. With reference to the projected consolidated performance of the Selena FM Group in 2008, published in the current report no. 31/2008, the Management Board of Selena FM S.A. advises that: in the announcement of 26.09.2008, the Management Board presented projected key financial figures for 2008: revenue from sales of PLN 542,229 k; EBIT of PLN 35,295 k; EBITDA of PLN 45,509 k and net profit of PLN 20,346 k.
Revenue from sales were achieved in 97.7%.

Operating profit (EBIT), EBITDA and the net profit were much different than projected, which – in the opinion of the Management Board - reflects the unfolding recession in the market. This is demonstrated primarily by the liquidity crunch of some of the Group customers, leading to potential payment delays. Effective from 1 January 2009, the Management Board of Selena FM S.A. made changes in the Group's accounting policy with regard to valuation of debtors and recognition of allowances for doubtful accounts. The tighter rules, more rigorous approach to writing down all debtors overdue by more than 180 days admittedly had an adverse effect on the Group's operating result, but indeed facilitated more realistic assessment of the debtors book.

The operating result (EBIT) was achieved at 22.3% of the plan and the variance of PLN 27,418 k is mainly due to the write-downs for debtors and stocks in the total amount of PLN 26,173 k.

EBITDA was achieved in 39% compared with the forecast. The variance was caused by the write-downs referred to above.

Net profit came in at PLN 15,171 k, i.e. 74.6% of the projected figure. The write-downs were the key factor contributing to this variance. Their adverse profitability impact was partly neutralised by the better performance on financial operations (particularly due to FX gains).

Compared with the performance presented on 2.03.2009 in the financial report for Q4 2008, changes were observed in the operating profit (EBIT), EBITDA and the net profit.

The operating profit was mainly affected by the impairment of the fixed assets of Selena USA in the amount of PLN 1,600 k.

This factor also affected the EBITDA level and so did a change in the depreciation charge. The latter results from a review of the useful lives of some fixed assets in the subsidiaries with an impact of PLN 530 k.

The net profit was affected by the higher financial costs - mainly due to revision of the FX differences in connection with the allowances for doubtful accounts in the amount of PLN 1,800 k and the cost of discount of debtors (PLN 1,000 k) covered by the 3-year repayment schedule. On the other hand, the net profit was positively impacted by restatement of the deferred income tax of PLN 592 k.

VI.11. The Group meets its financial obligations in a timely manner and has no liquidity problems. There are no risks to the capacity of the Group companies to meet their obligations in a timely manner.

VI.12. In 2008, the Selena FM Group made both tangible asset and equity investments. The key investments include:

- Orion sp. z o.o.- completed extension of the foam production plant in Nowa Ruda (purchase and installation of another, third, production line). The total spend on this investment came in at PLN 25 m. To finance the project, Orion took out a term loan of PLN 20.5 m with Raiffeisen Bank Polska S.A. in July 2007.

- In May 2008, Selena Co S.A. acquired 85% stake in Polyfoam Yalitim Sanayi ve Tic Ltd., Istanbul (Turkey) for EUR 340 k and acquired 85% of the new shares in the company for EUR 850 k. The transaction was financed from the IPO completed by Selena FM S.A. (current report RB 10/2008 of 5.05.2008)
- Selena Co. S.A. increased its interest in Foshan Chinuri Selena Chemicals Co. Ltd from 50 % to 66.7 % in May 2008. The share capital of the company increased from USD 500 k to USD 750 k. The transaction was financed from the IPO completed by Selena FM S.A. (current report RB 16/2008 of 9.06.2008)
- Selena Co. S.A. increased the share capital of Selena Ukraine Ltd in June 2008. The share capital of the company now amounts to USD 750 k. The transaction was financed from the IPO completed by Selena FM S.A. (current report RB 24/2008 of 7.07.2008)
- In September 2008, Selena FM S.A. acquired 100% stake in the newly formed company Tytan EOS sp. z o.o. whose share capital is PLN 500 k. The transaction was financed from the IPO completed by Selena FM S.A. (current report RB 28/2008 of 16.09.2008)
- In September 2008, Tytan EOS sp. z o.o. acquired properties and movable assets of the production plant in Krzeszowice. The total value of the transaction was PLN 2.3 m. The transaction was financed from the IPO completed by Selena FM S.A. (current report RB 29/2008 of 17.09.2008)
- In October 2008, Tytan EOS sp. z o.o. acquired an organised part of the enterprise trading as CERKO. The total value of the transaction was PLN 8.2 m. The transaction was financed from the IPO completed by Selena FM S.A. (current report RB 33/2008 of 31.10.2008)
- In October 2008, Selena FM S.A. acquired 100% stake in the newly formed company Nantong Building Materials Co., Ltd (China) whose share capital is USD 11,000 k. The transaction was financed from the IPO completed by Selena FM S.A. (current report RB 32/2008 of 31.10.2008)
- In November 2008, Selena Co. S.A. increased its interest in Foshan Chinuri Selena Chemicals Co. Ltd from 66.7 % to 77.7 %. The share capital of the company increased from USD 750 k to USD 1,120 k. The transaction was financed from the IPO completed by Selena FM S.A. (current report RB 34/2008 of 5.11.2008)

If the proceeds from the issue of the C series shares are insufficient to finance all the share issue objectives, the additional source of finance will be cash flows (net profit and depreciation) and bank debt.

VI.13. The main event in 2008 which affect the Company’s operations and its financial performance was the Initial Public Offering completed in the second

quarter of 2008. Through the IPO the Company raised PLN 161 m (after the issuance costs). Before the funds are allocated to achievement of the share issue objectives they are used to, among other things, reduce the interest expense of the Selena Group and to provide additional financial revenues in the form of interest on deposits.
Other, external events which significantly affected the Group's profitability in 2008 include:

- Completed extension of the foam production plant in Nowa Ruda and the start of production (which increased the foam production capacity and the depreciation expense).
- Establishment of Tytan EOS sp. z o.o. and acquisition by the new entity a part of assets of two plants manufacturing adhesives for foam insulations, thin-coat plasters and mortars. The investment greatly improved the production capacity and allowed for offering the customers even more value for money in this product group.
- Acquisition and then restructure of Polyfoam Yalitim Yanami ve Tic Ltd., Turkey (take-up of 85% interest) opened the path for production of foams and silicones in the Turkish and the Middle East markets and for distribution of the products under the acquired brand and the Tytan brand.
- Investment into development of the sales structure in China as part of Selena Shanghai Trading Co. Ltd.
- Continued investments into development of the market presence in: Russia, Kazakhstan, Ukraine and USA.
- Completion of development of the Selena Group global management structure (impact on the administrative expenses).
- Introduction of an innovative foam Tytan O2 which is safe for users as it does not emit harmful MDI vapour – consolidating the image of a leader in the European market of technological foams.

Beyond doubt, the external factor which had the biggest impact on the financial performance of the Selena Group was the financial downturn in the construction, particularly residential, market. The slump in demand for building materials, including building chemistry, hit the Group’s markets to a different degree. The hardest hit were the countries of the Western and Central Europe and the Baltics. In 2008 in Poland the Selena Group did not suffer any decrease in sales thanks to its strong brands and the marketing activity.
Another factor which materially affected the Group’s performance was the fluctuations in the local currency rates vs. the euro and the US dollar. The Selena Group is to a substantial degree protected against these fluctuations through natural hedging (most raw materials are purchased in EUR, but some sales are also in EUR), with a longer exposure on the sales side.

VI.14. External and internal factors relevant to the development of the Selena FM Group.
In the upcoming months, the effects of the global financial and economic crisis in all the Group’s markets will continue to be seen. At the same time, the downward corrections in the GDPs of the countries where the Group operates coupled with the obvious deterioration in demand, do not allow for any precise determination of how the construction materials market will behave.
In the Polish market, one can observe a notable downturn in the development activity with some stabilisation in the single family residential construction, but still with a strong negative effect of the limited bank funding availability. A reasonably expected but again difficult to estimate factor that might stimulate demand is the transfer of some construction initiatives from new developments (houses and apartments) to repairs and renovations, where building chemistry products are used to a substantial degree.
In 2009, the Group’s performance, like in 2008, will be influenced by the EUR rate in relation to the local currencies and the inflationary processes in some markets in the Central Europe, Eastern Europe & Central Asia and in Russia.
In Q1 2009, the raw material prices declined and levelled off, so no major changes in this regard are expected.
Sales might be adversely affected by the payment difficulties of some clients. For 2009, the Group adopted a conservative (restrictive) policy in this regard.
The investments in the sales potential in China will on the one hand increase the cost of sales and marketing, but on the other hand will propel sales in that market.
Sales may also be driven by the planned acquisitions in Europe, including Poland.
Systematically during the years, new or improved products will be marketed, developed by in-house R&D functions.

VI.15. During the reporting period no changes occurred in the main governance principles, either in the Company or in the Group.

VI.16. The Company did not enter into separate agreements with its executives that would provide for compensation should they decide to step down or be removed from office without a material reason.

VI.17. The remuneration, rewards or benefits paid, payable or potentially payable to the members of the Management Board and the Supervisory Board of Selena FM S.A. in 2008 are shown in the table below:

| Name | Amount [PLN] | | |
|---|---|---|---|
| **Executive Directors:** | | | |
| Krzysztof Domarecki | 330 000,00 | | |
| | | | |
| **Non-executive Directors:** | | | |
| Jacek Olszański | 140 950,81 | Including:<br>- for participation in Supervisory Board meetings | 6 000,00 |
| Grzegorz Forczek | 6 400,00 | Including:<br>- for participation in Supervisory Board meetings | 4 000,00 |
| Maria Godoś | 3 000,00 | Including:<br>- for participation in Supervisory Board meetings | 3 000,00 |
| Anna Kozłowska | 4 000,00 | Including:<br>- for participation in Supervisory Board meetings | 4 000,00 |
| Andrzej Kozłowski | 5 829,28 | Including:<br>- for participation in Supervisory Board meetings | 4 000,00 |

VI.18. As at 31.12.2008, the executive and non-executive directors of Selena FM S.A. held the following shares of the Company:

| Name | Number of shares | Nominal value of the shares [PLN] |
|---|---|---|
| **Executive Directors:** | | |
| Krzysztof Domarecki | 9 538 000 | 476 900,00 |
| **Non-executive Directors:** | | |
| Anna Kozłowska | 4 000 | 200,00 |
| Andrzej Kozłowski | 132 000 | 6 600,00 |

Anna Kozłowska holds 10 shares of Orion sp. z o.o. with a total nominal value of PLN 1,000.00.
At the date of this report, the status of shareholding by the executive and non-executive directors did not change.

VI.19. The Company is not aware of any agreements that in the future might affect the proportion of shareholdings of the existing shareholders.

VI.20. In 2008, the Selena FM Group implemented an equity sharing programme for management as an incentive tool to foster long-term growth of the

Company's value and to ensure a sustainable profit increase and stability of workforce. Under Resolution no. 3 of 18.12.2007, the EGM of Selena FM S.A. implemented the incentive scheme for the years 2008-2011 whose participants will have the right to acquire, in total, maximum 326,000 series C bearer shares of the Company with a nominal value of PLN 0.05 each. In 2008, maximum 65,000 shares were available for vesting under the scheme. The vesting criterion after the first year of the scheme, approved by Supervisory Board resolution no. 2/2008 of 31.01.2008, was achievement of the operating profit of PLN 56 m in 2008. As this criterion was not fulfilled, in accordance with the Incentive Scheme Regulations the participants will not be entitled to take up the shares for the first year of the scheme.

VI.21. On 18.08.2008, the Company entered into an agreement with Ernst & Young Audit sp. z o.o. to conduct audit of the annual financial statements and review of the half-yearly accounts and the consolidated financial statements for the financial year 2008.
The auditor's fee for the financial year is as follows:

- PLN 103,705.67 for audit of the unconsolidated and consolidated financial statements;
- PLN 120,000 – for review of the financial accounts.

Except as stated above, no other fees in respect of other services are payable to Ernst & Young Audit sp. z o.o.
In 2007, Ernst & Young sp. z o.o. audited the Company’s and the consolidated financial statements for a total fee of PLN 102,255.30. No review took place of the half-yearly accounts (unconsolidated and consolidated) as this was unnecessary because the Company was not a listed entity at that time.
In 2007, except for the audit agreement, there were other arrangements made between the parties, providing for payment of a fee to Ernst & Young Audit sp. z o.o. – specifically the firm was retained to prepare financial statements of the Selena Group for 2004-2005 and convert the same to comply with IFRS requirements for the purpose of the share prospectus. Ernst & Young Audit sp. z o.o. also agreed to prepare the part of the share prospectus which described the historical performance of the Company in 2004-2006 and the financial projections for 2007. The total value of these services was PLN 700,000.

VI.22. Events after the balance sheet date.
On the evening of 24 February 2009, a fire broke out in one of the warehouses of Carina Silicones sp. z o.o., a subsidiary of Selena FM S.A.
The warehouse contained mainly packaging and some production materials. No employees were hurt in the fire and the losses were estimated at PLN 1.65 m (including PLN 750 k in respect of the building, ca. 900 k in respect of stocks).
Carina's warehouses and stocks were insured for a value much higher than the estimated losses.

The production in the plant continues without disruption.

On 1 March 2009, the Supervisory Board of Selena FM S.A. made changes to the composition of the Company's Management Board and appointed Mr. Kazimierz Przełomski to Vice-President of the Management Board and Ms. Elżbieta Agnieszka Szymańska to Management Board Member.

On 2 April 2009, Selena Co S.A., the Issuer's subsidiary, entered into an agreement with a private individual to acquire 100% stake in OOO Kvadro sp. z o.o. (Russia) for EUR 658,000 (PLN 2,954,091 at the NBP rate of 2.04.2009). The purpose of the transaction was to increase market presence in the Russian market of building chemistry through acquisition of new customer groups and development of new distribution channels.

VI.23. As at 31.12.2008, the Group did not have any material off-balance sheet items.

## 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 consolidated financial statements 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 the Selena FM Group and its financial performance and that the report on Group operations gives a true picture of the Group's development, achievements and standing, including description of the key risks and threats.

## THE COMPANY'S STATEMENT ON SELECTION OF AUDITOR

The Management Board of Selena FM S.A. hereby declares that the auditor of the annual consolidated financial statements of the Group 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 consolidated financial statements in accordance with the applicable laws and professional standards.

| Krzysztof Domarecki | Kazimierz Przełomski | Elżbieta A. Szymańska |
|---|---|---|
| Management Board President | Vice-President of the Management Board | Management Board Member |
| Selena FM S.A. | Selena FM S.A. | Selena FM S.A. |