

A large, stylized globe graphic, similar to the one in the logo, is positioned on the right side of the page. It is composed of horizontal, curved, metallic-looking bands and is partially obscured by a light blue gradient bar that spans across the middle of the page.

## SELENA FM S.A.

MANAGEMENT BOARD'S REPORT ON THE COMPANY'S  
ACTIVITIES IN 2013

Wrocław, 21 March 2014

1.	CHARACTERISTICS OF THE COMPANY'S OPERATIONS.....	3
1.1.	Key details of the Company .....	3
1.2.	Products and services .....	3
1.3.	Distribution markets .....	3
1.4.	Connected companies and equity investments .....	3
1.5.	Key developments.....	5
1.6.	Achievements in research and development .....	5
1.7.	Description of risks and threats .....	5
1.8.	Expected development of the Company .....	5
1.9.	Investment plans .....	5
2.	FINANCIAL POSITION.....	6
2.1.	The Company's revenue and earnings .....	6
2.2.	The Company's key balance sheet figures.....	7
2.3.	Cash flows of the Company .....	7
2.4.	Loans received .....	7
2.5.	Loans granted and bonds purchased .....	8
2.6.	Guarantees and off-balance sheet items .....	8
2.7.	Financial instruments and financial risk management principles.....	9
2.8.	Assessment of financial resources management.....	9
3.	OTHER INFORMATION .....	9
3.1.	Material agreements.....	9
3.2.	Related party transactions .....	9
3.3.	Issue of securities .....	9
3.4.	Acquisition of treasury shares.....	9
3.5.	Delivery of forecasts .....	9
3.6.	Litigations .....	10
3.7.	Unusual events and factors .....	10
3.8.	Changes to the governance principles .....	10
3.9.	Agreements with directors .....	10
3.10.	Remuneration of the Management Board and the Supervisory Board .....	10
3.11.	Shareholdings by executive and non-executive directors.....	10
3.12.	Agreements affecting changes in the proportion of shareholdings .....	11
3.13.	Control of employee shares programmes .....	11
3.14.	Information on the audit of the financial statements.....	11
4.	CORPORATE GOVERNANCE PRINCIPLES.....	11
4.1.	Corporate Governance Principles applied.....	11
4.2.	Exceptions to the Corporate Governance Principles .....	11
4.3.	Internal control over financial reporting .....	12
4.4.	Significant shareholders .....	12
4.5.	Holders of shares with special control rights .....	13
4.6.	Limitations on voting rights .....	13
4.7.	Limitations on transfer of title to the Company's shares .....	13
4.8.	Appointment and powers of the Management Board .....	13
4.9.	Amending the Articles of Association .....	14
4.10.	General Meeting and the rights of shareholders.....	14
4.11.	Composition of the Management Board and the Supervisory Board .....	16
	MANAGEMENT BOARD'S ASSURANCE STATEMENT ON RELIABILITY OF THE FINANCIAL REPORT .....	16
	THE MANAGEMENT BOARD'S STATEMENT ON SELECTION OF AUDITOR .....	17

## **1. CHARACTERISTICS OF THE COMPANY'S OPERATIONS**

### **1.1. Key details of the Company**

Selena FM S.A. having its registered office address 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 Selena FM S.A. as the parent entity in Selena FM Group is distribution of the Group's products into foreign markets, and provision of advice to its subsidiaries with regard to strategic management, finance management, sales strategy and maintenance of accounting books for customers. The Company is responsible for strategic management of Selena Group, which comprises the entities referred to in section 1.4.

### **1.3. Distribution markets**

More than 92% of the sales generated by Selena FM S.A. are sales to related parties (2012: more than 93%).

Sales are generated in Poland (up to 4%) 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 (12%).

### **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.

Entity	Head Office	Activity	Share in capital		Book value of shares	
			31.12.2013	31.12.2012	31.12.2013	31.12.2012
Selena S.A.	Wrocław	Distributor	100,00%	100,00%	62 781	62 781
Carina Sealants Sp. z o.o. S.K.A.	Siechnice	Manufacturer of sealants, distributor	100,00%	100,00%	2 069	2 069
Selena Labs Sp. z o.o.	Siechnice	Research and Development	99,50%	99,50%	1 400	1 400
Orion Polyurethanes Sp. z o.o. S.K.A.	Dzierżonów	Manufacturer of foams, adhesives, distributor	99,95%	99,95%	8 174	8 174
Libra Sp. z o.o.	Dzierżonów	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 roof coverings, hydroinsulation systems, distributor	100,00%	100,00%	17 852	18 500
Orion Polyurethanes Sp. z o.o.	Dzierżonów	Legal administration	100,00%	-	8	8
Carina Sealants Sp. z o.o.	Siechnice	Legal administration	100,00%	-	8	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 sl	Madryt	Manufacturer of sealants and adhesives, distributor	100,00%	100,00%	20 565	24 911
Selena USA Inc.	Holland	Distributor	100,00%	100,00%	0	1 289
Selena Sulamericana Ltda	Ponta Grossa	Manufacturer of foams, distributor	100,00%	95,00%	3 783	3 714
Selena USA Real Estate Corp.	Holland	Property management	100,00%	100,00%	1 300	1 300
Selena Romania SRL	Ilfov	Distributor	100,00%	100,00%	0	8 771
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 (spółka w procesie niewypłacalności 'konkurssi')	Lammi	Distributor	100,00%	100,00%	0	0
Selena Bulgaria Ltd.	Sofia	Distributor	100,00%	100,00%	0	0
Selena Slovakia s.r.o.	Nitra	Distributor	100,00%	100,00%	0	0
EURO MGA Product SRL	Ilfov	Manufacturer of loose materials	0,13%	-	1	0
Selena Ukraine Ltd.	Kijów	Distributor	99,00%	99,00%	0	0
Selena CA L.L.P.	Almaty	Distributor	100,00%	100,00%	0	0
TOO Selena Insulations	Astana	Manufacturer of insulation systems	100,00%	100,00%	1 206	0
Selena Shanghai Trading Co., Ltd.	Shanghai	Distributor	100,00%	100,00%	0	0
Selena Nantong Building Materials Co., Ltd.	Nantong	Manufacturer of foams, distributor	100,00%	100,00%	0	33 910
Selena Vostok	Moscow	Distributor	99,00%	99,00%	11 197	7 834
OOO Kvadro	Widnoje	Distributor	-	99,00%	-	0
Selena Malzemeleri Yapi Sanayi Tic. Ltd.	Istambul	Manufacturer of polyurethane foams and sealants, distributor	100,00%	1,00%	0	0
					<b>139 944</b>	<b>184 269</b>

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

2 - Other shares outside of the Group

3 - Other shares are owned by the subsidiary Selena S.A. Romania SRL

4 - Other shares are owned by the subsidiary Selena S.A.

On 28 June 2013, Selena Vostok Moscow was merged with OOO Kvadro. As a result of the merger, the share capital of Selena Vostok Moscow was increased by RUB 33,273k. OOO Kvadro was struck off the business register. The structure of the shares held by Selena FM S.A. did not change. The business operations of OOO Kvadro are continued by Selena Vostok Moscow.

On 21 August 2013, Selena FM S.A. acquired 0.13% stake in EURO MGA Product SRL. As a result of the transaction, Selena FM Group has 100% ownership of the company's share capital. Also, on 5 September 2013, Selena FM S.A. acquired 5% stake in Selena Sulamericana Indústria e Comércio de Produtos Químicos Ltda., becoming a full owner of the company's share capital.

On 11 October 2013, a new limited liability company was registered in Kazakhstan: TOO Selena Insulations. Selena FM S.A. is the sole shareholders of the entity. The company is an SPV formed to develop Selena Group's product offering in Kazakhstan.

On 31 December 2013, the loans of EUR 1,500k granted the subsidiary Yapi Malzemeleri were converted into the company's equity. The new shares were taken up by Selena FM S.A.

Full structure of the Group, including the Company's indirect affiliates, is presented in the consolidated financial statements of Selena FM Group for 2013.

#### **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 Selena Labs (formerly: Research Center of Construction Technology), and the research units in the subsidiaries that carry out production activity (except Poland, in Spain and China).

#### **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 2013.

#### **1.8. Expected development of the Company**

From January to September 2013, the Company was working on the Group's strategy for 2014-2016. At present, in accordance with the balanced scorecard methodology, the Group's strategy and all its constituent strategies, are being mapped onto specific projects that will seek to achieve the set strategic objectives.

#### **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 largest project for Selena FM S.A. and for the whole Group will be the deployment of the ERP class system based on Microsoft Dynamics AX 2012. The Group's capex plans are also presented in Note 1.10 to the Management Board's Report on the Company's Operations in 2013.

## 2. FINANCIAL POSITION

### 2.1. The Company's revenue and earnings

	Figures in PLN thousand	2013	2012	Change	Change %
Revenue from sales		417 640	343 321	74 319	22%
Cost of sales		374 067	304 622	69 445	23%
Gross profit on sales		43 573	38 699	4 874	13%
Selling and marketing costs		17 880	20 658	-2 778	-13%
General and administrative expenses		16 745	15 455	1 290	8%
Other operating profit (loss)		-14 622	-11 135	-3 487	-
EBITDA – operating profit + depreciation / amortisation		-3 558	-6 828	3 270	-
Operating profit (loss) (EBIT)		-5 674	-8 549	2 875	-
Net finance income		38 829	-37 075	75 904	-
Profit (loss) before tax		33 155	-45 624	78 779	-
Profit (loss) after tax		32 004	-45 123	77 127	-
Total comprehensive income		32 004	-45 123	77 127	-

*EBITDA – operating profit increased by depreciation/amortisation*

The increase in revenues in 2013 results from achievement of higher sales to the foreign distribution companies of the Group, primarily in the eastern markets.

In 2013, gross sales margin was PLN 43.6m, which was PLN 4.9m more than in the previous year. The higher gross profit achieved by Selena FM S.A. was a consequence of the higher sales.

Selling costs in 2013 amounted to PLN 17.9m, and decreased by PLN 2.8m year-on-year.

At the end of 2013, general and administrative expenses were PLN 16.7m, which is PLN 1.3m higher than last year. The expenses were mainly driven by the growing scope of business of Selena FM S.A. as the Group's head office (including set up of job positions).

In 2013, Selena FM generated an operating loss of –PLN 5.7m. 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 10.1m were posted on trade receivables. Impairment charges were posted in particular on the amounts due from the following companies: Selena Iberia – PLN 4.7m, Selena Romania – PLN 1.6m, Selena Sulamericana Ltda – PLN 1.3m, FinSelena Oy – PLN 1.0m, Selena USA – PLN 0.5m, other related parties – PLN 0.2m.

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 2013.

The result on financial activity was PLN 38.8m. Finance revenues mainly included the dividends from subsidiaries: Orion Polyurethanes sp. z o.o. SKA - relative to its stake in the company's share capital, Selena FM S.A. acquired the right to dividend of PLN 95.6m, and Carina Sealants sp. z o.o. SKA – the dividend received was PLN 12.2m. Finance revenues also include interest on bonds and the loans granted (PLN 2.9m).

The result on financial activity was decreased by impairment charges posted on shares (PLN 40m) and on the loans granted to subsidiaries (PLN 25.8m). The impairment charges related to the shares of the following companies: PMI Izolacja-Matizol S.A. – PLN 0.6m, Selena Iberia – PLN 4.3m, Selena USA – PLN 1.3m, Romania – PLN 8.8m and Selena Nantong Building Materials Co. Ltd – PLN 33.9m. These charges did not have any impact on the Group's consolidated result for 2013.

## 2.2. The Company's key balance sheet figures

Figures in PLN thousand	31 December 2013	31 December 2012	Change	Change %
Shares in subsidiaries	139 944	184 269	-44 325	-24%
Loans granted, bonds purchased, equity contributions	57 392	67 324	-9 932	-15%
Trade receivables	139 947	88 946	51 001	57%
Cash	34 919	13 165	21 754	165%
Other assets	35 782	30 214	5 568	18%
<b>Total assets</b>	<b>407 984</b>	<b>383 918</b>	<b>24 066</b>	<b>6%</b>
Equity	264 437	241 110	23 327	10%
Bank loans	45 295	42 603	2 692	6%
Trade liabilities	92 595	91 554	1 041	1%
Other liabilities	5 657	8 651	-2 994	-35%
<b>Total equity and liabilities</b>	<b>407 984</b>	<b>383 918</b>	<b>24 066</b>	<b>6%</b>
Debt ratio*	35%	37%		

\* Total liabilities / Total equity and liabilities

The balance sheet total at the end of 2013 was PLN 408m, up by PLN 24m on the balance sheet total posted at the end of 2012. The increase is a result of the 57% growth in the balance of trade receivables, an effect of the higher sales generated by Selena FM S.A. to connected companies and the degree of utilisation of external finance.

## 2.3. Cash flows of the Company

Figures in PLN thousand	2013	2012	Change
Net cash flows from operating activities	29 518	28 484	1 034
Net cash flows from investing activities	-5 197	-2 067	-3 130
Net cash flows from financing activities	-2 363	-32 338	29 975
<b>Change in cash and cash equivalents</b>	<b>21 958</b>	<b>-9 921</b>	<b>27 879</b>

The inflow of cash from operations was PLN 29.5m, up PLN 1m on the operating cash flows generated in 2012.

The cash flows from investing activities of –PLN 5.2m were connected with the provision of loans of PLN 32.5m (net) to subsidiaries and repurchase of PLN 27m worth of bonds by subsidiaries.

The outflows of cash from financing activities of -PLN 2.4m result from repayment of the bank debt (PLN 44.3m) – with the value of incurred bank debt during the period amounting to PLN 51.3m – and repayment of leases (PLN 0.5m) as well as the interest paid on these obligations (PLN 1.8m).

## 2.4. Loans received

Ref.	Loan type	Due date	31.12.2013		31.12.2012	
			Long-term portion	Short-term portion	Long-term portion	Short-term portion
1	Working capital loan	11/2013				4 928
2	Non-renewable loan	04/2013				3 515
3	Working capital loan	07/2016	3 569		4 089	
4	Working capital loan	03/2014		14 997	13 483	
5	Working capital loan	06/2016			341	

6	Non-renewable loan	07/2014		9 880	11 772	4 434
7	Working capital loan	11/2015	4 352			
8	Working capital loan	01/2014		4 023		
9	Loan	12/2014		2 089		
10	Loan	12/2018	6 385			
11	Other	on demand				41
<b>Total</b>			<b>14 306</b>	<b>30 989</b>	<b>29 685</b>	<b>12 918</b>

In addition to the loans described above and specified in the table, on 25 January 2013 Selena FM S.A. and Orion Polyurethanes sp. z o.o SKA signed a multi-product line agreement (with subsequent amendments). The Credit Agreement replaced the agreement of 9 May 2012 between the entities. Under the new agreement, a joint credit limit of EUR 7.35m was established, including a limit of EUR 4.9m to Selena FM S.A. Under the Annex, the due date was extended to 17 January 2017.

Details of the lending terms are presented in Note 27.2 and Note 39 of the Company's financial statements for 2013.

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. In the period covered by this unconsolidated financial statements no default occurred under any loan agreement.

## 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 2013.

Connection type	Figures in PLN thousand	31 December 2012	Principal		Interest		Valuation	Write-down	31 December 2013	
			Increase	Decrease	Accrued	Paid				Other decreases
Bonds		12 220		-6 000	674	-768			6 126	
Loans										
Subsidiaries	<i>Gross value</i>	54 971	48 228	-29 700	2 171	-380	-1 213	-165	73 912	
	<i>Impairment charge</i>	-3 686	-25 795	4 066				443	-24 972	
	<i>Net value</i>	51 285	48 228	-29 700	2 171	-380	-1 213	-165	48 940	
	Capital contributions	2 315			11				2 326	
Other connected entities (Syrius Investments)	Bonds	1 504	50	-1 534	35	-118	63			
<b>TOTAL</b>		<b>67 324</b>	<b>48 278</b>	<b>-37 234</b>	<b>2 891</b>	<b>-1 266</b>	<b>-1 213</b>	<b>-102</b>	<b>-21 286</b>	<b>57 392</b>
<i>including long-term:</i>		<i>41 922</i>							<i>47 024</i>	

Details of the financing provided to subsidiaries were presented in detail in Note 18 of the Company's financial statements for 2013.

## 2.6. Guarantees and off-balance sheet items

The guarantees the Company extended to other entities, including its subsidiaries are presented in Note 28 of the Company's financial statements for 2013.

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 35 of the Company's financial statements for 2013.

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 34 of the Company's financial statements for 2013.

## **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 2013 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 2013 (Note 3.1).

## **3.2. Related party transactions**

In 2013, 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 31 and 31 of the Company's financial statements for 2013.

## **3.3. Issue of securities**

In 2013, the Company did not issue any securities.

## **3.4. Acquisition of treasury shares**

The Company did not have any treasury shares either as at 31 December 2013 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 3.11 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. For the purpose of the EGM resolution, on 31 January 2012 a reserve capital of PLN 8m was set up (from the supplementary capital). Until 31 December 2013, the Management Board did not purchase treasury shares as the programme's triggering criteria were not met.

## **3.5. Delivery of forecasts**

The Company did not publish its stand-alone forecasts for 2013.

### 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 2013.

### 3.8. Changes to the governance principles

3.8.1. As a result of adoption of the Strategy for 2014-2016, taking into account the increase in the complexity of Selena FM Group, in October 2013, an extended executive body was set up – the Executive Board. The Executive Board comprises Management Board members and the persons responsible for key elements of the strategy. The Executive Board is responsible for all the operational matters relating to the conduct of the Group's business that do not fall within the remit of the General Meeting of Shareholders or the Supervisory Board in accordance with the applicable law or the Company's Statutes. The role of the Executive Board is to expedite the sharing of management information, shorten the decision-making times and consequently increase the effectiveness of decisions.

3.8.2. Also, in 2013, Insulation Division was established, whose role is to integrate the research and development, production, sales and marketing activities into a single, orchestrated vehicle operating in many geographies.

The overarching objective is to facilitate the decisions on the current business operations of Selena FM Group.

### 3.9. Agreements with directors

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 32 of the Company's financial statements for 2013.

### 3.11. 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	Title	Shares held	Nominal value (PLN)
Kazimierz Przelomski	Vice-President of the Management Board	9 800	490
AD Niva Sp. z o.o. *	-	9 538 000	476 900
Syrius Investments s.a.r.l.*	-	8 050 000	402 500
Krzysztof Kluza	Secretary of the Supervisory Board	6 000	300

\* Entity controlled by Krzysztof Domarecki, Supervisory Board Chairman

Krzysztof Domarecki also holds 0.5% stake in Selena Labs sp. z o.o. (previously Research Centre of Construction Technology sp. z o.o.)

### **3.12. 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.

### **3.13. Control of employee shares programmes**

In 2013, no employee shares programmes were in place in the company.

### **3.14. Information on the audit of the financial statements**

On 4 June 2013, the Supervisory Board of Selena FM S.A. resolved to appoint Deloitte Polska 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 2013. The audit agreement was concluded on 1 July 2013.

## **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/dobre\\_praktyki\\_16\\_11\\_2012.pdf](http://www.corp-gov.gpw.pl/assets/library/polish/regulacje/dobre_praktyki_16_11_2012.pdf)

### **4.2. Exceptions to the Corporate Governance Principles**

The Company's Management Board hereby declares that in 2013 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 Executive Board with management personnel analyse and discuss the results achieved by the Company and its subsidiaries.

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	Share type	Number of shares acquired	Stake in share capital	Number of votes	Votes at AGM
AD Niva Sp. z o.o. *	Registered preference	4 000 000	17,52%	8 000 000	29,81%
	Bearer	5 538 000	24,25%	5 538 000	20,64%
Syrius Investments S.a.r.l.*	Bearer	8 050 000	35,25%	8 050 000	30,00%

\* entity controlled by 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 Articles of Association**

Any changes to the Company's Articles (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 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**

As at 31 December 2013, the Management Board of Selena FM S.A. comprised the following persons:

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

On 10 Marc 2014, the Supervisory Board accepted resignation of Ms Beata Pawłowska as Vice-President of the Management Board.

As at the date of publication of this report, Management Board membership was a follows:

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

##### **Supervisory Board**

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

- Krzysztof Domarecki – Supervisory Board Chairman
- Krzysztof Kluza – Supervisory Board Secretary
- Grzegorz Kostrzyński – Supervisory Board Member
- Andrzej Krämer – Deputy Chairman of the Supervisory Board
- Paweł Wyrzykowski – Supervisory Board Member

As at 31 December 2013 and as at the date of publication of this report, no changes took place in the Supervisory Board's composition.

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 2013 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 2013 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**