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**SELENA FM S.A.**

MANAGEMENT BOARD'S REPORT  
ON THE COMPANY'S ACTIVITIES IN 2014

Wrocław, 23 March 2015

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

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

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

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

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

Selena FM S.A. has no branches.

### **1.2. Products and services**

The core business of 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**

Selena FM S.A. generates 91% of its sales in transactions with related parties (vs. 92% in 2013).

Sales are generated in Poland (up to PLN 19m) and abroad, mainly in the geographies where the Group-owned companies are located. 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 (47%) and Selena Ca LLP (13%).

### **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	
			31.12.2014	31.12.2013	31.12.2014	31.12.2013
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	99,65%	99,65%	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	17 852
Orion Polyurethanes Sp. z o.o.	Dzierżonów	Legal administration	100,00%	100,00%	8	8
Carina Sealants Sp. z o.o.	Siechnice	Legal administration	100,00%	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 slú	Madrid	Manufacturer of sealants and adhesives, distributor	100,00%	100,00%	20 565	20 565
Selena USA Inc.	Holland	Distributor	100,00%	100,00%	0	0
Selena Sulamericana Ltda	Ponta Grossa	Manufacturer of foams, distributor	100,00%	100,00%	3 783	3 783
Selena USA Specialty Inc	Holland	Property management	100,00%	100,00%	1 300	1 300
Selena Romania SRL	Ilfov	Distributor	100,00%	100,00%	0	0
Selena Bohemia s.r.o	Roudnice	Distributor	100,00%	100,00%	0	0
Selena Hungária Kft.	Pécs	Distributor	100,00%	100,00%	0	0
FinSelena Oy	Lammi	Distributor	-	100,00%	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%	0,13%	1	1
Selena Ukraine Ltd.	Kiev	Distributor	99,00%	99,00%	0	0
Selena CA L.L.P.	Almaty	Distributor	100,00%	100,00%	9 029	0
TOO Selena Insulations	Astana	Manufacturer of insulation systems	100,00%	100,00%	1 206	1 206
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	0
Selena Vostok	Moscow	Distributor	99,00%	99,00%	11 197	11 197
Selena Malzemeleri Yapi Sanayi Tic. Ltd.	Istambul	Manufacturer of polyurethane foams and sealants, distributor	100,00%	100,00%	0	0
					<b>148 973</b>	<b>139 944</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.

5 - Selena USA Real Estate Corp., renamed on 1 October 2014

On 24 April 2014, the General Meeting of Selena CA L.L.P. adopted a resolution to increase the company's share capital by 540m Kazakh tenge. Selena FM S.A. is the sole shareholders of the entity. The share capital was registered on 20 May 2014.

On 1 October 2014, the subsidiary Selena USA Real Estate Corp. was renamed as Selena USA Specialty Inc. The change results from the re-profiling of the company as a trading unit.

To reinforce the Group's position in Slovakia, a decision was made to change the business model pursued in that market. An agreement was signed with a new distributor for the sale of Selena brand products. Logistic and sales operations in Slovakia and the Czech Republic have been conducted as part of a shared operational centre managed by Selena Bohemia. Selena Slovakia has been going through a restructure, gradually phasing off its business activity.

On 28 September 2015, Selena FM S.A. signed an agreement with Selena S.A. selling it 23,700 shares of Selena Sulamericana Indústria e Comércio de Produtos Químicos Ltda., representing 5% of the company's share capital. .

Full structure of the Group, including the Company's indirect affiliates, is presented in the consolidated financial statements of Selena FM Group for 2014.

### **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 2014.

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

Development of the Company is based on the adopted and communicated strategy for the years 2014 - 2016, which was updated for 2015 and 2016 to reflect the situation in the Eastern markets (the Russian and Ukrainian crisis). The Company is to continue as a centre responsible for planning and coordinating Selena Group's operations world-wide.

In 2015, Selena FM S.A. is to focus on implementation of its key strategic programmes in the following areas:

- **Product competitiveness** – further development of competitiveness of products in cooperation with the end users
- **Business development** – development of the division of insulation and materials division, as well as the hydro-insulation business line and products; increased focus on business development in China and consolidation of the global market position in the segment of adhesives and sealants
- **Continued improvement of operational effectiveness** – including implementation of the integrated ERP-class system in the Group (launching the system in Poland and preparation for its roll-out to international Group companies)
- **Continued improvement of financial effectiveness**

### **1.9. Investment plans**

The Company's investments in 2014 and 2015 are mainly connected with 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, started in 2014, is the deployment of the ERP class system based on Microsoft Dynamics AX 2012. The Group's capex plans are also presented in Note 1.12 to the Management Board's Report on the Group's Activities in 2014.

## 2. FINANCIAL POSITION

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

Figures in PLN thousand	2013	2012	Change	Change %
Revenue from sales	405 347	417 640	-12 293	-3%
Cost of sales	359 793	374 067	-14 274	-4%
Gross profit on sales	45 554	43 573	1 981	5%
Selling and marketing costs	20 926	17 880	3 046	17%
General and administrative expenses	15 942	16 745	-803	-5%
Other operating profit (loss)	-16 248	-14 622	-1 626	-
EBITDA – operating profit + depreciation / amortisation	-5 339	-3 558	-1 781	-
Operating profit (loss) (EBIT)	-7 562	-5 674	-1 888	-
Net finance income	-12 430	38 829	-51 259	-
Profit (loss) before tax	-19 992	33 155	-53 147	-
Profit (loss) after tax	-21 448	32 004	-53 452	-
Total comprehensive income	-21 448	32 004	-53 452	-

*EBITDA – operating profit increased by depreciation/amortisation*

In 2014, sales decreased by 3% as a result of lower sales to the subsidiary Selena Vostok, which operates on the Russian market.

In 2014, gross profit increased by PLN 2.0m vs. previous year despite a decrease in sales. The higher gross profit achieved by Selena FM S.A. was a consequence of introduction of new, high-margin products and achievement of lower raw-material costs.

The increase in selling costs in 2014 (+PLN 3m) was driven by the cost of the measures to counterbalance the sales decreases in Russia and other markets and the planned cost of the "Brazilian Promotion", an initiative designed to build long-term relations with the largest distributors of Selena Group.

At the end of 2014, general and administrative expenses were PLN 15.9m, decreasing by PLN 0.8m on the corresponding period of the previous year. The decrease was mainly driven by the effects of implemented restructuring and optimisation programmes.

In 2014, Selena FM generated an a loss on other operations of -PLN 16.2m. The loss was primarily affected by impairment charges posted on trade receivables (PLN 14.4m), including the amounts due 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. On this basis, appropriate impairment charges were posted for receivables. Impairment charges were posted in particular on the amounts due from the following companies: Selena Romania – PLN 5.5m, Selena Sulamericana – PLN 3.1m, Selena Iberia – PLN 2.5m, Selena Italia – PLN 1.2m, Selena Slovakia – PLN 0.8m, other affiliates – PLN 1.0m.

As a result of the recoverability analysis, impairment charges were also posted on the value of loans granted as described below.

These charges did not have any impact on the Group's consolidated result for 2014.

The result on financial activity was PLN -12.4m. Significant items of financial revenues are interest on the loans granted and on bonds, totalling PLN 3.1m and FX gains of PLN 5.8m.

The result on financial activity was decreased by financial expenses, including impairment charges on loans granted to subsidiaries (PLN 19.4m). The impairment charges were connected with the loans given to the following companies: Romania – PLN 14.3m, Selena Nantong Building Materials Co. Ltd – PLN 2.1m, Selena Slovakia – PLN 1.5m, Selena

Malzemeleri Yapi Sanayi Tic. Ltd. – PLN 1.4m and Polyfoam Yalitim Sanayi ve Tic Ltd. – PLN 0.1k. These charges did not have any impact on the Group's consolidated result for 2014.

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

Figures in PLN thousand	31 December 2014	31 December 2013	Change	Change %
Shares in subsidiaries	148 973	139 944	9 029	6%
Loans granted, bonds purchased, equity contributions	70 701	57 392	13 309	23%
Trade receivables	149 544	139 947	9 597	7%
Cash	5 163	34 919	-29 756	-85%
Other assets	36 181	35 782	399	1%
<b>Total assets</b>	<b>410 562</b>	<b>407 984</b>	<b>2 578</b>	<b>1%</b>
Equity	236 596	264 437	-27 841	-11%
Bank loans	78 802	82 343	-3 541	-4%
Trade liabilities	89 041	92 595	-3 554	-4%
Other liabilities	6 123	-31 391	37 514	-120%
<b>Total equity and liabilities</b>	<b>410 562</b>	<b>407 984</b>	<b>2 578</b>	<b>1%</b>
Debt ratio*	42%	35%		

\* Total liabilities / Total equity and liabilities

The balance sheet total at the end of 2014 was PLN 410.6m, up by PLN 2.6m on the balance sheet total posted at the end of 2013.

## 2.3. Cash flows of the Company

Figures in PLN thousand	2014	2013	Change
Net cash flows from operating activities	-10 664	29 518	-40 182
Net cash flows from investing activities	-33 461	-5 197	-28 264
Net cash flows from financing activities	14 177	-2 363	16 540
<b>Change in cash and cash equivalents</b>	<b>-29 948</b>	<b>21 958</b>	<b>-51 906</b>

Cash flows from operating activities were PLN 10.7m versus PLN 29.5m in 2013.

Cash flows from investing activities of -PLN 33.5m were connected with the provision of loans of PLN 27.9m (net) to subsidiaries, an increase of PLN 9.0m in the share capital of Selena CA L.L.P, expenditure of implementation of the ERP system and repurchase of PLN 9.2m worth of loans and bonds by subsidiaries.

The inflows of cash from financing activities of PLN 14.2m result from an excess of the bank debt incurred (PLN 47.3m) over repayment of banks loans (PLN 24.9m). The Company repaid financial leases of PLN 0.5m and paid interest of PLN 13m.

## 2.4. Loans received

Ref.	Loan type	Due date	31 December 2014		31 December 2013	
			Long-term portion	Short-term portion	Long-term portion	Short-term portion
1	Working capital loan	01/2014				4 023
2	Working capital loan	03/2014				14 997
3	Non-renewable	07/2014				9 880
4	Working capital loan	06/2016	11 515			
5	Working capital loan	07/2016	14 793		3 569	
6	Working capital loan	01/2017	24	20 885		
7	Working capital loan	02/2017	9 169		4 352	
8	Non-bank loan	12/2015		6 400		2 089
9	Non-bank loan	12/2018	6 451		6 385	
10	Non-bank loan	12/2019	3 000	130		
11	Non-bank loan	12/2019	3 205	32		
12	Non-bank loan	12/2019	3 197			
<b>Total loans</b>			<b>51 354</b>	<b>27 448</b>	<b>14 306</b>	<b>30 988</b>

Details of the lending terms are presented in Note 27 of the Company's financial statements for 2014.

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 2014.

Connection type	Figures in PLN thousand	31.12.2013	Principal		Interest		Valuation	Write-down	31 December 2014
			Increase	Decrease	Accrued	Paid			
	Bonds	6 126		-6 000	196	-287			35
	Loans								
Subsidiaries	Gross value	73 912	41 400	-5 347	2 865	-1 088	4 762		116 504
	Impairment charge	-24 972	-19 447	146			-1 565		-45 838
	Net value	48 940	41 400	-5 347	2 865	-1 088	4 762	-20 866	70 666
	Capital contributions	2 326		-2 178	11	-159			
Other affiliates (Universal Energy Sp. z o.o.)	Bonds		1 850	-1 850	1	-1			
Non-affiliates	Shares		318					-318	
<b>TOTAL</b>		<b>57 392</b>	<b>43 568</b>	<b>-15 375</b>	<b>3 073</b>	<b>-1 535</b>	<b>4 762</b>	<b>-21 184</b>	<b>70 701</b>
<i>including long-term:</i>			47 024						66 483

Details of the financing provided to subsidiaries were presented in detail in Note 18 of the Company's financial statements for 2014.

On 18 August 2014, Selena FM S.A. acquired A series bonds with a total issuance value of PLN 1,850k issued by Universal Energy Sp. z o.o. under the agreement of 13 August 2014. The bonds carry a variable rate of interest and mature on 27



August 2014. The bonds' rate of interest is variable. On 22 August, Universal Energy Sp. z o.o. redeemed PLN 1,850k worth of bonds with the accrued interest.

## **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 2014.

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 2014.

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 2014.

## **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 2014 and deemed material for the Company's financial position, include bank loan agreements (Note 2.4), 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 2014 (Note 3.1).

## **3.2. Related party transactions**

In 2014, 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 32 of the Company's financial statements for 2014.

## **3.3. Issue of securities**

In 2014, the Company did not issue any securities.

### **3.4. Acquisition of own shares**

The Company did not have any treasury shares either as at 31 December 2014 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). The Management Board did not purchase own 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 2014.

### **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 2014.

### **3.8. Changes to the governance principles**

In 2014, no major changes were made to the rules of managing the Group. The Executive Board appointed in 2013 dealt with operational matters relating to the conduct of the Group's business that do not fall within the remit of the General Meeting of Shareholders, Supervisory Board or the Management Board in accordance with the applicable law or the Company's Articles of Association. 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. At the beginning of the fourth quarter, the Management Board was expanded to include two persons responsible for the promising business lines: insulation (dry mortars, thermal insulation materials, ceramic adhesives) and hydro-insulation (Roofing membranes, shingles, bituminous masses).

### **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 2014.

### 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)
AD Niva Sp. z o.o. *	-	9 538 000	476 900
Syrius Investments s.a.r.l.*	-	8 050 000	402 500
Krzysztof Kluza	Deputy CEO	6 000	300
Marcin Macewicz	Management Board Member	4 600	230

\* Entity controlled by Krzysztof Domarecki, Supervisory Board Chairman

Krzysztof Domarecki also holds 0.35% stake in Selena Labs 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 2014, no employee shares programmes were in place in the company.

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

On 23 May 2014, 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 2014 and 2015. The audit agreement was concluded on 18 June 2014.

## 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 2013, the Company adopted the Corporate Governance principles approved 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)

At the same time, the Company tries to apply in practice European Commission Recommendation No 2014/208 of 9 April on the quality of corporate governance reporting ("comply or explain").

### 4.2. Exceptions to the Corporate Governance Principles

The Company's Management Board hereby declares that in 2014 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. By complying with all the terms applicable to the notice of General Meeting, the Company ensures that its shareholders can participate in such a meeting.

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.

The Company's Management Board also declares that in 2015 the Company will comply with the corporate governance principles presented in the Code of Best Practice for the WSE Listed Companies, except the items specified above.

#### **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 shares	4 000 000	17,52%	8 000 000	29,81%
	Bearer shares	5 538 000	24,25%	5 538 000	20,64%
Syrius Investments S.a.r.l.*	Bearer shares	8 050 000	35,25%	8 050 000	30,00%

\* entity controlled by Krzysztof Domarecki, Supervisory Board Chairman

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

On 9 June 2014, the most recent amendment was introduced to the Statutes whereby §5 was revised to reflect changes in the share capital arising from closure of the session of series D shares (110 thousand ordinary bearer shares) and to add the following provisions the rights of Supervisory Board specified in section 2 §15:

- o) "Approve an increase or reduction of the share capital in subsidiaries and the Company's participation in such an increase or reduction of the share capital in the entities in which the Company holds a minority interest, except the equity transactions provided for in the Company's financial plan approved by the Supervisory Board", and
- p) "Approve disposal by the Company of any previously acquired shareholdings in other companies and approve the terms and method of such transactions, except the equity transactions provided for in the Company's financial plan approved by 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. Membership of the Management Board and the Supervisory Board**

##### **Management Board**

As at 31 December 2014, the Management Board was composed of:

- Jarosław Michniuk – Management Board President
- Krzysztof Kluza – Vice-President of the Management Board
- Robert Konaszewski – Vice-President of the Management Board
- Andrzej Feruga – Management Board Member
- Marcin Macewicz – Management Board Member.

Changes in the Management Board in 2014:

- On 10 March 2014, the Supervisory Board accepted resignation of Ms Beata Pawłowska as Vice-President of the Management Board.
- On 5 September 2014, the Supervisory Board of the Company appointed Robert Konaszewski as Vice-President of the Management Board responsible for sales and marketing.
- On 24 September 2014, Kazimierz Przelomski resigned as Vice-President of the Management Board. The Supervisory Board dismissed him from office effective from 30 September 2014.
- On 1 October, the Supervisory Board appointed Andrzej Feruga and Marcin Macewicz as Management Board members.
- On 13 October 2014, the Supervisory Board appointed Krzysztof Kluza as Vice-President of the Management Board responsible for finance. Krzysztof Kluza resigned as Supervisory Board member of Selena FM S.A. effective from 24 September 2014.

As at the date of publication of this report, the Company's Management Board consisted of:

- Jarosław Michniuk – Management Board President
- Krzysztof Kluza – Vice-President of the Management Board
- Robert Konaszewski – Vice-President of the Management Board
- Andrzej Feruga – Management Board Member
- Marcin Macewicz – Management Board Member.

##### **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.

Changes in the Supervisory Board:



- On 9 June 2014, the Annual General Meeting of Selena FM S.A. appointed Czesław Domarecki and Marcin Wower as members of the Supervisory Board.
- On 13 June, Marcin Wower resigned as Supervisory Board Member as he decided to pursue a new professional challenge that involves a ban on holding directorships in other companies.
- On 24 September 2014, Krzysztof Kluza resigned as Supervisory Board member.
  
- On 16 December 2014, Paweł Wyrzykowski resigned as Supervisory Board member. The resignation was due to the scope of Mr Wyrzykowski's professional responsibility and his inability to reconcile them with his role as Supervisory Board member of Selena FM S.A.

As at 31 December 2014, the Supervisory Board was composed of:

- Krzysztof Domarecki - Supervisory Board Chairman
- Czesław Domarecki – Supervisory Board Member
- Grzegorz Kostrzyński – Supervisory Board Member
- Andrzej Krämer – Deputy Chairman of the Supervisory Board.

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 2014 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 2014 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**

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**Jarosław Michniuk**

**VP of the Management Board  
Financial Director**

.....

**Krzysztof Kluza**

**VP of the Management Board  
Sales and Marketing**

.....

**Robert Konaszewski:**

**Management Board Member**

.....

**Andrzej Feruga**

**Management Board Member**

.....

**Marcin Macewicz**