SELENA FM S.A.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010
WITH INDEPENDENT AUDITOR'S OPINION

Wrocław, 29 April 2011

INCOME STATEMENT

Figures in PLN thousand	Note	Year ended 31 December 2010	Year ended 31 December 2009
Continued operations			
Revenue from the sale of goods and materials		154	0
Revenue from the sale of services		10 135	7 347
Revenue from sales		**10 289**	**7 347**
Cost of sales	6	9 789	6 926
Gross profit (loss)		**500**	**421**
Other operating income		133	67
Selling and marketing costs	6	5	0
General and administrative expenses	6	11 867	9 128
Other operating costs		10	22
Operating profit (loss)		**-11 249**	**-8 662**
Financial revenues	7.1	176 630	7 501
Financial expenses	7.2	107 880	409
Profit (loss) before tax		**57 501**	**-1 570**
Income tax	8	-1 972	-419
Net profit (loss) on continued operations		**59 473**	**-1 151**
Discontinued operations			
Loss on discontinued operations		–	–
Net profit (loss) for the previous year		**59 473**	**-1 151**
Earnings per share (continued operations) (PLN/share):	12		
- basic		2,62	-0,05
- diluted		2,61	-0,05

STATEMENT OF COMPREHENSIVE INCOME

Figures in PLN thousand	Year ended 31 December 2010	Year ended 31 December 2009
Profit after tax	59 473	-1 151
Additional costs relating to the investment in a subsidiary	-168	0
Total comprehensive income	**59 305**	**-1 151**

STATEMENT OF FINANCIAL POSITION

Figures in PLN thousand	Note	31 December 2010	31 December 2009
Non-current assets			
Property, plant and equipment	13	1 577	41
Intangible fixed assets	14	3 342	1 022
Shares in subsidiaries	15	49 778	76 170
Other long-term receivables		32	0
Long-term portion of loans granted	16	7 457	7 345
Other long term financial assets	17	23 145	45 435
Deferred tax assets		2 751	778
		88 082	**130 791**
Current assets			
Inventory	18	273	0
Trade receivables	19	4 639	3 554
Income tax receivable		205	205
Other short-term receivables	20	106 905	735
Short-term portion of loans granted	16	2 978	1 063
Other short-term financial assets	17	54 315	37 568
Cash and cash equivalents	21	2 056	24 050
		171 371	**67 175**
TOTAL ASSETS		**259 453**	**197 966**
Equity			
Registered capital	22.1	1 136	1 136
Supplementary capital	22.2	191 626	191 626
Other reserves	22.3	9 968	9 530
Retained profit / loss carried forward	22.4	52 207	-7 098
- retained profit / loss carried forward from previous years		-7 266	-5 947
- profit (loss) after tax		59 473	-1 151
		254 937	**195 194**
Current liabilities			
Trade creditors	23	1 432	1 007
Short-term portion of bank and other loans	25	85	88
Other short-term liabilities	24	2 999	1 677
Total liabilities		**4 516**	**2 772**
TOTAL EQUITY AND LIABILITIES		**259 453**	**197 966**

STATEMENT OF CASH FLOWS

Figures in PLN thousand	Nota	Year ended 31 December 2010	Year ended 31 December 2009
Cash flows from operating activities			
Profit (loss) before tax on continued operations		**57 501**	**-1 570**
Loss before tax on discontinued operations		–	–
Adjusted by:			
Depreciation		71	97
FX gains (losses)		298	102
Interest and dividends		-176 096	-6 419
Profit / (loss) on investing activities		107 228	302
Change in the balance of receivables	27	-1 659	-445
Change in the balance of inventories		-273	0
Change in the balance of obligations		2 319	3 219
CIT paid		0	-167
Other – issue of equity instruments	34	438	0
Net cash flows from operating activities		**-10 173**	**-4 881**
Cash flows from investing activities			
Acquisition of tangible and intangible fixed assets	13,14	-3 009	-1 044
Purchase of shares in a subsidiary	15	-19 900	0
Purchase of other financial assets	17.1	-1 428	-8 078
Disposal of other financial assets		0	135
Dividends and interest received		8 409	5 714
Loans granted	16	-4 116	-1 399
Repayments of loans granted	16	2 300	300
Bond repayments received	17.1	5 923	10 689
Net cash flows from investing activities		**-11 821**	**6 317**
Cash flows from financing activities			
Inflows from bank / other loans received		0	0
Net cash flows from financing activities		**0**	**0**
Net increase in cash and cash equivalents		**-21 994**	**1 436**
Change in cash and cash equivalents:		**-21 994**	**1 436**
Cash at the beginning of the period		*24 050*	*22 614*
Cash at the end of the period		*2 056*	*24 050*

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

				Retained profit / (loss carried forward):		
Figures in PLN thousand	**Registered capital**	**Supplementary capital**	**Other reserves**	**from previous years**	**from the current period**	**Total equity**
As at 1 January 2010	**1 136**	**191 626**	**9 530**	**-7 098**	**0**	**195 194**
Net profit (loss) for the financial year	0	0	0	0	59 473	**59 473**
Other revenues	0	0	0	-168	0	**-168**
Total comprehensive income	**0**	**0**	**0**	**-168**	**59 473**	**59 305**
Allocation of rights to warrants as part of the incentive programme	0	0	438	0	0	438
As at 31 December 2010	**1 136**	**191 626**	**9 968**	**-7 266**	**59 473**	**254 937**

FOR THE YEAR ENDED 31 DECEMBER 2009

				Retained profit / (loss carried forward):		
Figures in PLN thousand	**Registered capital**	**Supplementary capital**	**Other reserves**	**from previous years**	**from the current period**	**Total equity**
As at 1 January 2009	**1 136**	**191 626**	**9 530**	**-5 947**	**0**	**196 345**
Net profit (loss) for the financial year	0	0	0	0	-1 151	**-1 151**
Total comprehensive income	**0**	**0**	**0**	**0**	**-1 151**	**-1 151**
As at 31 December 2009	**1 136**	**191 626**	**9 530**	**-5 947**	**-1 151**	**195 194**

ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS.

1. Information on the Company

1.1 Establishment of the Company and constitutional details

Selena FM S.A. was established and registered in 1993 as a limited liability company under the name Przedsiębiorstwo Budownictwa Mieszkaniowego. In 2006, the Extraordinary General Meeting of Shareholders approved the name change to Selena FM. In 2007, the Company was transformed into a joint stock company. On 18 April 2008, Selena FM S.A. debuted on the Warsaw Stock Exchange and has been a listed entity since that date.

The Company's duration is indefinite.

The Company's registered office address is ul. Strzegomska 2-4, 53-611 Wrocław, Poland. The Company operates in Poland.

The Company is entered in the business register of the National Court Register kept by the District Court for Wrocław-Fabryczna, IX Commercial Division of the National Court Register, after transformation, under KRS no. 0000292032 (previous KRS no. 0000129819). The Company was assigned the statistical number REGON 890226440.

The core business of the Company as the holding entity in Selena FM Group is provision of advice on strategic management, finance management, sales strategy as well as maintenance of accounting books for customers. In 2011, the Company also acquired from its subsidiary Selena Co. S.A. the role of distribution of products to foreign markets, and the role of ownership supervision over foreign subsidiaries, as indicated in Note 15.4 of this report. On 30 December 2010, the Extraordinary General Meeting of Shareholders amended the Articles of Association of Selena FM S.A. to reflect the increased scope of the entity's activities.

Selena FM S.A. and its subsidiaries are controlled by Krzysztof Domarecki.

1.2 The Management Board of the Company

The membership of the Company's Management Board as at 31 December 2010 and as at the date of approval of this report is as follows:

- Krzysztof Domarecki – Management Board President
- Kazimierz Przełomski – Vice-President of the Management Board, and
- Elżbieta Agnieszka Szymańska – Management Board Member.

The Management Board has operated in such composition since 1 March 2009. Up to that date, Krzysztof Domarecki fulfilled the role of a one-person Management Board.

2. Information on the financial report

2.1 Data covered by the financial statements

2.1.1 Identification of the Consolidated Financial Statements

These financial statements are unconsolidated accounts of the Company. For a full understanding of the financial position and trading performance of the Company as a parent of Selena FM Group these financial statements should be read together with the consolidated financial statements of the Group for the year ended 31 December 2010, published on 29 April 2011.

2.1.2 Reporting period

These financial statements cover the period of 12 months ended on 31 December 2010 and the data presented as at that date.

2.1.3 Comparable data

The profit and loss account, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity cover the data for 12 months ended 31 December 2010 as well as comparative data for the period of 12 months ended 31 December 2009.

The balance sheet covers the data presented as at 31 December 2010 and the comparative data as at 31 December 2009.

2.1.4 Notes

The accounting policy and notes are an integral part of these financial statements.

2.2 Approval of the financial statements

These financial statements were approved for publication by the Management Board on 29 April 2011.

2.3 Basis of preparation

These financial statements have been prepared under the historical cost convention, except for financial instruments measured at fair value: .

2.4 Measurement and reporting currency

The currency used for measurement and presentation of financials in this report in Polish zloty, and all figures have been presented in PLN thousand, unless specified otherwise.

2.5 Going concern

These financial statements have been prepared on the assumption that the Company will continue in operation in the foreseeable future. At the date of approval of these financial statements, no circumstances occurred that would point to a risk to continuity of operations by the Company.

2.6 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) approved by the EU. At the date of approval of these financial statements for publication, taking into account the ongoing IFRS implementation process in the EU, as regards the Company’s operations there is no difference between the already implemented IFRS and the IFRS approved by the EU.

The IFRS include the standards and interpretations approved by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”).

3. Accounting policy

3.1 Changes in the accounting policies

The accounting policies that were used in preparation of the financial statements are consistent with the policies used in preparation of the financial statements of the Company for the year ended on 31 December 2009, except for the changes resulting from implementation of new standard or changes to the accounting policies by the Group's Management Board.

The statement of comprehensive income for 2010 shows the costs of PLN 168k accrued until 31 December 2009 in relation to the acquisition of new companies – the costs were not actually realised. The Group's consolidated accounts contain a corresponding presentation of these costs.

An analysis of impact of the changes and the new interpretations applicable to annual periods commencing 1 January 2010 were presented in the following section of this note.

3.2 New standards and interpretations

The list below shows new standards and interpretations applicable to the Company since 1 January 2010.

IFRS 3 Business Combinations (amended) and IAS 27 Consolidated and unconsolidated financial statements (amended) – applicable from 1 July 2009. The updated IFRS 3 introduces material changes to the rules of recognising business combinations taking place after that date. The changes relate to the valuation of non-controlling shares and recognition of the costs associated with the transaction, initial recognition and subsequent valuation of the conditional payment, and settlement of multi-phase combinations. The changes may affect the amount of the goodwill, results presented for the period when the enterprise was acquired and the results reported in the subsequent periods. The impact of changes in these standards on the Company's report is presented below.

IAS 39 Financial Instruments: Recognition and Measurement – applicable to the annual period commencing after 1 July 2009. The changes relate to the determination of one-sided risk in a hedged item, and determination, in particular situations, of inflation as hedged risk or a part of risk. The change did not affect the financial position or the trading performance of the Company.

IFRIC Interpretation 17 Distribution of Non-Cash Assets to Owners – applies to the annual periods commencing after 1 July 2009. The interpretation contains guidance on the accounting treatment of the transactions that result in a transfer of non-cash assets to owners through distribution of reserves / retained earnings or dividend. The interpretation did not affect the financial position or the trading performance of the Company.

IFRS 2 Share-based Payments – applicable from 1 January 2010. The purpose of the change is to explain the accounting treatment of group share-based payment transactions settled in cash. It replaces IFRIC 8 and IFRIC 11. The adoption of this change did not affect the financial position or the trading performance of the Company.

The changes resulting from the review of IFRS – published in May 2008 and in April 2009 did not have any material impact on the financial position or the trading performance of the Company.

3.3 New standards and interpretations which have been published but have not become effective yet

The standards and interpretations specified below were issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, but have not become effective yet.

Amendments to IFRS (May 2010); in May the Board issued a set of amendments to the previously published standards. The amendments do not have any material impact on the Company's financial statements.

Amendments to *IAS 32 Financial Instruments*: Disclosures: Classification of rights issues – applies to the annual periods commencing on 1 February 2010 or thereafter;

IAS 24 Related Party Disclosures –amended in November 2009) – applies to the annual periods commencing on 1 January 2011 or thereafter;

Amendments to IFRIC 14 and IAS 19 – limit on a defined benefit assets; minimum funding requirements and interdependencies: prepaid contributions to the minimum funding requirements – applies to the annual periods commencing on 1 January 2011 or thereafter;

IFRIC 19 Extinguishing Financial Liabilities with Equity – applies to the annual periods commencing on 1 July 2010 or thereafter;

Phase 1 of IFRS 9 *Financial Instruments*: *Recognition and Measurement* - applies to the annual periods commencing on 1 January 2013 or thereafter – until the date of approval of these financial statements these amendments have not been approved by the EU. In the subsequent phases, the IASB will deal with hedge accounting and impairment. The project is expected to end in mid 2011.

Amendments to IFRS 7 – Financial Instruments – apply to the annual periods commencing on 1 July 2011 – until the date of approval of these financial statements not yet approved by the EU.

Amendments to IAS 12 – Income Tax – apply to the annual periods commencing on 1 January 2012 – until the date of approval of these financial statements not yet approved by the EU.

Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards – apply to the annual periods commencing after 1 July 2011; until the date of approval of these financial statements not yet approved by the EU.

In the opinion of the Management Board, application of the first phase of IFRS 9 will affect recognition and measurement of the Company's financial assets. The Company will assess the impact in association with other phases. The standard is to be implemented on 1 January 2013.

3.4 Significant accounting policies

3.4.1 Restatement of foreign currency positions

Transactions expressed in foreign currencies are translated into PLN using the exchange rate current at the transaction date.

At the balance sheet date, the cash assets and liabilities expressed in foreign currency are translated into PLN using the mean rate applicable at the end of the reporting period that has been set by for the particular currency by the National Bank of Poland. The FX differences arising are recognised in finance revenue or expenses as the case may be, or where required by the accounting policy, are capitalised in assets. Non-cash assets and liabilities are carried at historical cost expressed in the foreign currency, stated at the historical rate current at the transaction date. Non-cash assets and liabilities carried at fair value expressed in foreign currency are converted at the rate applicable at the fair measurement date.

For the purpose of balance sheet valuation, the following currency rates were adopted

Currency	31 December 2010	31 December 2009
1 USD	2,9641	2,8503
1 EUR	3,9603	4,1082

3.4.2 Property, plant and equipment

Property, plant and equipment are carried at cost reduced by depreciation and impairment charges. The initial value of fixed assets includes the price of acquisition increased by all the costs directly relating to the purchase and adaptation of the asset for use. The expenditures incurred after the asset has been brought into use, including the maintenance and repair costs, are charged to the profit and loss when incurred.

Where fixed assets consist of components of a significant value, and have different useful lives, such components are presented separately. The costs of general repairs are also treated as components of fixed assets.

Depreciation begins when the asset is ready for use and continues until the asset is liquidated or slated for sale. Depreciable value is written off systematically over the useful economic life of the asset.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, as per the table below.

Fixed asset categories	Depreciation period (years)
Buildings and structures	10 to 40
Technical plant and equipment	3 to 10
Office equipment	3 to 5
Vehicles	3 to 7
Other fixed assets	3 to 5

This method of depreciation reflects consumption of the economic benefits of the asset.

Depreciation charges for fixed assets are recognised in profit and loss in the relevant category for the asset.

If in the preparation of the financial statements any circumstances occurred indicating that the carrying amount of the asset may not be recoverable, the asset is tested for impairment. If any indications of impairment have been identified, and the carrying amount exceeds the estimated recoverable amount, then the value of such assets or cash generating units that the assets belong to is reduced to the recoverable amount. The recoverable amount is the higher of the two values: fair value decreased by the cost of sale or value-in-use. When estimating the value-in-use, the estimated future cash flows are discounted to the current value using the gross discount rate, reflecting the current market estimate for the time value of money and the risks pertaining to the asset. Where an asset does not generate cash flows sufficiently independently, the recoverable amount is determined for the cash generating unit that the asset belongs to. Impairment charges are recognised in the profit and loss account under other operating costs.

A tangible asset may be derecognised after its disposal or if the entity expects no economic benefits from its continued use. Any profits or losses arising from derecognition of the asset (calculated as a difference between the possible net inflows from sale and the carrying amount of the asset) are recognised in the profit and loss in the period when the derecognition took place.

Fixed assets under construction include all the fixed assets that are during construction or assembly and are recognised at cost reduced by impairment charges, if any. Fixed assets under construction are not depreciated until the construction is finished and the asset is brought into use.

The end value, useful life and the depreciation method of the assets are reviewed each year, and if necessary corrections are made, effective from the beginning of the reporting period in which the review took place.

3.4.3 Borrowing costs

Borrowing costs are capitalised as a part of the cost of generation of a fixed asset. Borrowing costs include interest and FX profits or losses where they are regarded as an adjustment to interest costs.

3.4.4 Leasing

<u>Company as a lessee</u>

The leases under which the lessor retains substantially all the risks and benefits of ownership are recognised as operating leases. The operating lease fees and the subsequent lease payments are expensed in the profit and loss on a straight-line basis throughout the lease term.

<u>Company as a lessor</u>

The leases under which the Company retains substantially all the risks and benefits of ownership are recognised as operating leases. The initial direct costs incurred during negotiation of the operating lease agreement are added to the book value of the leased asset and are recognised as a cost throughout the lease term on the same rules as the revenues from lease. Any conditional lease fees are recognised as an income in the period when they become due.

3.4.5 Intangible fixed assets

If an intangible asset is acquired separately, it is measured at cost. After initial recognition, intangible assets are carried at cost less amortisation and impairment. The expenditure on internally generated intangible assets, except the expenditure on development work, is not capitalised and is recognised in the cost of the period when it was incurred.

The Company determines if the useful life of an intangible asset is limited or indefinite. Intangible assets with a limited life are amortised throughout the period of their use, and are tested for impairment each time when indications of impairment are identified. The period and method of amortisation of such assets are reviewed at least at the end of each accounting year. The expected useful life for the intangible fixed assets used by the Company (software licences) was set to 2-5 years.

Changes in the expected life or consumption of economic benefits flowing from the asset are recognised by changing the amortisation period or method, as appropriate, and are treated as changes in estimates. The amortisation write-offs for intangible assets with a limited life are recognised in profit and loss in the item that corresponds to the function of amortised asset.

Useful lives are also reviewed each year and if needed are corrected effective from the beginning of the next financial year.

Any profits or losses arising from derecognition of the asset are calculated as a difference between the net inflows from sale and the carrying amount of the asset, and are recognised in the profit and loss in the period at the time of the derecognition.

3.4.6 Shares in subsidiaries, associates and joint ventures

Shares in subsidiaries, associates and joint ventures are carried at historical cost less impairment, if any.

If in the preparation of the financial statements any circumstances occurred indicating that the carrying amount of the shares may not be recoverable, the shares are tested for impairment. If the carrying amount of the shares exceeds the estimated recoverable value, then the value of the shares is reduced to their recoverable value. When estimating the recoverable value, the estimated future cash flows are discounted to the current value using the gross discount rate, reflecting the current market estimate for the time value of money and the risks pertaining to the asset. Impairment charges, if any, are recognised in the profit and loss account under financial expenses.

3.4.7 Financial instruments

Financial instruments are divided into the following categories:

- financial assets held to maturity;
- financial assets measured at fair value through profit and loss;
- loans granted and receivables;
- financial assets available for sale;
- liabilities measured at fair value through profit and loss;
- other liabilities measured at amortised cost.

<u>Financial assets held to maturity</u> are assets that are not derivatives with determined or determinable payments and a stated maturity, which the Company intends and is able to retain until maturity, other than:

- assets designated on initial recognition as assets measured at fair value through profit and loss;
- assets designated as available for sale;
- assets that meet the definition of loans and receivables.

Financial assets held to maturity are measured at amortised cost using the effective interest rate. Financial assets held to maturity are classified as long-term assets if their maturity is longer than 12 months after the balance sheet date.

<u>Financial assets measured at fair value through profit and loss</u> are the financial instruments acquired to generate profits on short-term price fluctuations. A financial instrument is classified to this category if its meets one of the following conditions:

a) is classified as held for trading, i.e.

- acquired with an intention of sell-off in a short-term, or;
- is a part of the portfolio of jointly managed financial instruments, which are likely to generate profits in the short-term, or
- is a derivative, except derivatives covered by hedge accounting, and financial guarantees agreements;

b) was classified to this category under IAS 39 at the time of initial recognition.

Financial assets measured at fair value through profit and loss are measured at fair value taking account of their market value at the balance sheet date, excluding the sale transaction costs. Changes in the value of such instruments are reflected in the profit and loss account as financial revenues or expenses.

If a contract contains one or more embedded derivatives, the whole contract may be classified to the category of financial assets measured at fair value through profit and loss. This does not apply in the cases where the embedded derivative does not have any major influence on the cash flows from the contract or it is expressly prohibited to separate the embedded derivatives.

Loans and receivables are financial assets other than derivatives, with determined or determinable payments, not quoted on active market. They are included in current assets unless their maturity date is longer than 12 months from the balance sheet date. Loans grated and receivables with a maturity longer than 12 months after the balance sheet date are included in fixed assets. Loans granted and receivables are measured at amortised cost.

Financial assets available for sale are the financial assets that are not derivatives, which:

- have been classified as available for sale, or
- do not belong to any of the previously specified three asset categories.

Financial assets available for sale are carried at fair value, gross of transaction costs, taking into account their market value at the balance sheet date. Where no stock quotations exist in the active market, and their fair value may not be reliably estimated using alternative methods, financial assets available for sale are measured at cost less impairment. The difference between the fair value and the cost of acquisition of the assets available for sale (if a market price exists, determined in an active regulated market or the fair value may be determined in another reliable manner), after reduction by deferred tax, is recognised in other comprehensive income. A decrease in the value of assets available fore sale cause by impairment is reflected in the profit and loss account as a financial expense.
Purchase and sale of financial assets are recognised at the transaction date.
At the time of initial recognition, a financial asset is measured at fair value, increased – in the case of an asset that is not classified as measured at fair value through profit and loss – by the transaction costs that may be directly allocated to the acquisition.

A financial instrument is derecognised if the entity loses control over the contractual rights that make up the financial instrument; usually this happens when the instrument is sold or when all the cash flows attributed to the instrument are transferred to an independent third party.

A financial guarantee agreement is an agreement whereby the issuer is require to make payments to the holder to compensate the loss that the holder will incur if the debtor does not make a contractual payment on the terms defined for the particular debt instrument. At the time of initial recognition, the financial obligation on account of the guarantee agreement is measured at fair value. After the initial recognition, the value is measured at the higher of:

- initial value decreased by the amounts recognised in the profit and loss are a result of settlement of the initially recognised amount during the period of the guarantee's validity, or
- estimated likely payment.

Financial liabilities measured at fair value through profit and loss are measured at fair value taking account of their market value at the balance sheet date, excluding the sale transaction costs. Changes in the fair value of such instruments are reflected in the profit and loss account as financial revenues or expenses.

Financial liabilities measured at amortised cost are the liabilities that are not financial instruments measured at fair value through profit and loss. They are measured at amortised cost using the effective interest rate method.

3.4.8 Impairment of financial assets

At each balance sheet date, the Company assesses if there are any objective indications of impairment of an asset or a group of financial assets.

Interest carried at amortised cost

If there are objective indications of impairment, the impairment charge is calculated as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows (excluding future losses on account of uncollected receivables), discounted using the original effective interest rate (i.e. the rate determined on initial recognition). The carrying amount of the asset is reduced directly or by the impairment charge. Losses are reflected in the profit and loss account.

The Company first determines if there are any objective indications of impairment of individually significant financial assets, and the indications of impairment of assets that are not individually significant. If such analysis shows that there are no objective indications of impairment of an individually assessed financial asset, significant or not, the Company includes such asset to the group of financial assets with a similar credit risk profile and tests the assets for impairment collectively. The assets that are individually tested for impairment and for which an impairment charge was recognised or a decision was made that the existing charge would not change, are excluded from collective impairment test.
If in the subsequent period the impairment charge is reduced, and the reduction may be objectively linked to an event occurring after recognition of the charge, the previously recognised charge is reversed. Subsequent reversal of the impairment charge is recognised in the profit and loss account to the degree that at the date of the reversal the book value of the asset was not higher that its amortised cost.

Financial assets measured at cost

If there are objective indications of impairment of a not listed equity instrument that is not carried at fair value because its fair value may not be reliably estimated, or a connected derivative that must be settled by the provider of such not listed equity instrument, then the value of the impairment charge is determined as a difference between the book value of the financial asset and the present value of the estimated future cash flows discounted using the current market return rate for similar financial assets.

Financial assets available for sale

If there are objective indications of impairment of a financial asset available fore sale, then the amount being a difference between the purchase price of the asset (less any capital and interest payments and its present fair value less any impairment charges previously recognised in the profit and loss account, is derecognised from equity and transferred to the profit and loss account. Reversals of impairment charges for the value of equity instruments classified as available for sales are not recognised in the profit and loss account. If in the subsequent period the fair value of the debt instrument available for sale increases, and the increase may be objectively linked to an event occurring after recognition of the impairment charge in the profit and loss account, then the amount of the reversed charge is included in the profit and loss account.

3.4.9 Inventory

Inventory is measured at the lower of: cost or net realisable amount.

The net realisable amount is estimated as the price of a sale effected in the ordinary course of business, less finishing costs and costs needed to finalise the sale.

The closing balance of inventory is measured by determining its value using the FIFO method.

3.4.10 Trade and other receivables

Trade and other receivables are carried at the originally invoiced amounts or the contractual amounts, less impairment (allowances for doubtful accounts). Such allowances are recognised if recovery of the full amount of the receivable is not longer likely.

Where the time value of money plays a role, the value of the receivables is determined by discounting the future cash flows to the present value using the discount rate before tax that reflects the current market estimates of the time value of money. If such discounting method is used, the increase in the value of receivables over time is recognised as a financial revenue.

Receivables from the state are presented as other receivables, except the CIT receivable, which is a separate item on the balance sheet.
Advance payments are presented in accordance with the nature of the assets they pertain to – as fixed or current assets. Advance payments are not discounted as they are non-cash assets.

3.4.11 Cash and cash equivalents

Cash and short-term deposits include cash in bank and cash on hand, and short-term deposits with an original maturity not longer than 3 months.

The balance of cash and cash equivalents presented in the statement of cash flows consists of the items specified above. Overdrafts are presented in the balance sheet under loans and advances in short-term liabilities.

3.4.12 Interest-bearing bank debt, loans and debt securities

At initial recognition, all bank debt, loans and debt securities are measured at fair value less the cost of the debt.

After the initial recognition, interest-bearing loans and debt securities are then measured at amortised cost on an effective interest rate basis.

When determining the amortised cost, one takes into account the cost of obtaining a loan, and the discounts or premiums obtained in connection with the liability.

Revenues and expenses are presented in the profit and loss account upon derecognition of the liability from the balance sheet, and as a result of a settlement effected using the effective interest rate.

3.4.13 Trade and other liabilities

Trade liabilities are measured at the value of the payment due.

Financial liabilities are measured at amortised cost using the effective interest rate method.

An expired financial liability is derecognised from the balance sheet (i.e. if the contractual obligation has been discharged, cancelled or expired). Replacement of an existing debt instrument with an instrument with materially different terms in a transaction between the same entities is treated as an expiry of the original financial liability and a recognition of a new financial liability. Similarly, modification of the terms of an agreement relating to an existing financial liability is recognised as expiry of the original liability and recognition of a new liability. The difference between the respective book values of the exchanged instruments is recognised in the profit and loss account.

The other non-financial liabilities include in particular liabilities to the tax office on account of VAT and liabilities on account of advance payments received that will be settled through a supply of goods, services or fixed assets. Other non-financial liabilities are recognised at the amount due.

3.4.14 Provisions

Provisions are raised where the Company has an obligation (legal or constructive) are a result of a past event, and it is likely that fulfilment of such obligation will cause an outflow of economic benefits, and the value of such obligation may be reliably estimated. If the Company expects that the costs covered by the provision will be returned, e.g. by the insurer, then the return is recognised as a separate asset, but only when it is practically certain that such a return will be realised. The provision costs are recognised in the profit and loss account less any returns received.

Where the time value of money plays a role, the value of the provision is determined by discounting the future cash flows to the present value using the gross discount rate that reflects the current market estimates of the time value of money, and the potential risk associated with such obligation. If a discounting method is used, the increase in the value of the provision over time is recognised as a financial expense.

Provisions are presented as separate items of long-term or short-term liabilities, depending on the nature of the provision.

3.4.15 Retirement benefits

The Company's employees have the right to retirement benefits under the Labour Code. A retirement benefit is paid once-off when the employee retires. The value of the benefit depends on the years of service and the average remuneration of the employee. The Company makes a provision for future obligations on account of such payments to assign the related costs to their corresponding periods. According to IAS 19, retirement benefits are defined programmes of post-employment benefits. The present value of such obligations is calculated at each balance sheet date. The obligation is equal to the discounted payments that will be made in the future, taking into account the employment turnover, and relating to the period until the balance sheet date. Demographic information and information of staff turnover are based on historical figures. Actuarial profits and losses are recognised in the profit and loss account.

3.4.16 Revenues

Revenues are recognised at the amount of probable economic benefits flowing from the particular transaction, and where the value of the revenue may be reliably estimated. Revenues are recognised at fair value of the payment received or due, reduced by VAT and discounts. Recognition of revenues is subject to the criteria outlined below.

3.4.16.1 Sale of goods

Revenues are recognised if the material risks and benefits arising from the ownership of goods have been transferred to the buyer, and when the revenues may be reliably estimated.

3.4.16.2 Provision of services

Revenue from consultancy services to subsidiaries are invoiced depending on the involvement of the Company’s employees in the provision of advice to the particular subsidiary.

3.4.16.3 Interest

Interest income is recognised gradually as the interest is earned (using the amortised cost method with the effective interest rate, which precisely discounts the future cash flows over the estimated life of the financial instruments) relative to the net carrying amount of the financial instrument.

3.4.16.4 Dividends

Dividends are recognised at the time of determination of the shareholders' rights to dividend.

3.4.16.5 Rental (operating lease) income

Income from the lease of office space is recognised on a straight-line basis over the lease term.

3.4.17 Taxes

3.4.17.1 Current tax

Liabilities and receivables arising from the tax for the current period and the previous periods are measured at the amount of the expected payment to the revenue authorities (refundable by the revenue authorities) using the tax rates and tax legislation that legally or actually applied at the balance sheet date.

3.4.17.2 Deferred income tax

Deferred tax is calculated using the balance sheet obligations method for all the temporary differences existing at the balance sheet date between the tax value of assets and liabilities, and their carrying amount shown in the financial statements.

A deferred tax liability is recognised for all the positive temporary differences.

- except when the deferred tax liability arises as a result of initial recognition of a goodwill or an initial recognition of an asset or liability in a transaction other than business combination, and at the time of the transaction it did not have any impact on the PBT or taxable income or tax loss, and
- in the case of positive temporary differences arising from investments in subsidiaries or associates, and shares in joint ventures - except when the dates of reversal of the temporary differences are controlled by the investor and it is likely that in the foreseeable future the temporary differences will not be reversed.

Deferred tax assets are recognised for all the negative temporary differences, also for unutilised tax reliefs and unutilised tax losses carried to subsequent years, in the amount of the likely taxable income that will be generated to use the differences, assets and losses;

- except when the deferred tax assets relating to negative temporary differences are a result of initial recognition of a goodwill or an initial recognition of an asset or liability in a transaction other than business combination, and at the time of the transaction it did not have any impact on the PBT or taxable income or tax loss, and
- in the case of negative temporary differences from investments in subsidiaries or associates, or shares in joint ventures, the deferred tax asset is recognised in the balance sheet at the amount of the likely income arising in the foreseeable future from reversal of the temporary differences, allowing for the negative temporary differences to be covered.

The book value of the deferred tax asset is reviewed at each balance sheet date and is appropriately reduced to reflect the lower likelihood of receipt of a taxable income that would allow to cover, partly or in full the realisation of the deferred tax asset. The unrecognised deferred tax asset is revisited at each balance sheet date and is recognised up to the value that reflects the likelihood of future taxable income that will allow the asset to be recovered.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply in the period when the asset is realised or the liability is reversed. The measurement is based on the tax rates (and legislation) applicable at the balance sheet date or such rates/legislation which, at the balance sheet date, are certain to apply in the future.

A taxable income for the items recognised outside of a profit or loss, is recognised outside of a profit or loss: in other comprehensive income for the items presented in other comprehensive income, or directly in equity for the items recognised directly in equity.

Deferred tax assets are set off against the deferred tax liabilities only where there is an enforceable legal title for the set-off between the current tax receivable and payable, and the deferred tax relates to the same taxpayer and the same tax authority.

3.4.17.3 VAT

Revenues, expenses, assets and liabilities are recognised net of VAT, except where:

- the VAT paid at the acquisition of assets or services cannot be recovered from the tax authorities; then such VAT is recognised as a part of the price of the assets or as a part of the cost item, and;
- the receivables and liabilities that are recognised together with the VAT.

The net amount of the VAT that can be recovered or that is due to the tax authorities is recognised in the balance sheet as a part of other receivables or liabilities.

3.4.18 Net profit per share

Net profit per share for each period is calculated by dividing the net profit for the period by the weighted average number of shares in the particular reporting period.

The diluted profit per share is calculated by dividing the net profit for the period attributable to the shareholders of the parent by the weighted average number of outstanding ordinary shares during the period, increased by the weighted average number of ordinary shares that would have been issued if the potential ordinary shares were converted into shares.

4. Significant values based on professional judgement and estimates

4.1 Professional judgement

In addition to the accounting estimates, professional judgement of the management was of key importance in the process of application of the accounting policies to the areas outlined below.

Classification of leases

The Company classifies leases as operating or finance leased based on the estimated distribution of risks and rewards from the leased asset between the lessor and the lessee. Such evaluation is based on the economic substance of each transaction.

4.2 Uncertainty of estimates

Below is a presentation of the key assumptions relating to the future and other key sources of uncertainty existing at the balance sheet date, giving rise to a material risk of a significant correction to the carrying amounts of assets and liabilities in the next financial year.

Impairment of long-term investments

The Company tests its long-term investments for impairment. This exercise requires that the value in use of the cash-generating units (CGU) be estimated. The value in use is estimated by determining the future cash flows generated by the CGU and requires that the discount rate used for calculation of the present value of such cash flows be determined. Information on the adopted assumptions and results of impairment tests are presented in Note 15.4.

Deferred tax asset

The Company recognises a deferred tax asset on the assumption that a taxable profit will be generated in the future permitting the use of such asset. However, a failure to achieve the expected profit in the future might undermine such assumption.

Fair value of financial instruments

Fair value of the financial instruments for which no active market exists is determined using appropriate valuation techniques. In selection of the appropriate methods and assumptions the Company uses its professional judgement. The method of determination of fair value of the individual instruments is presented in Note 31.

5. Operating segments

The Company's operations are treated as a single operating segment by the Management Board. As at the beginning of 2011, the Company took over the role of global distributor, commencing from 2011, this activity will be reported as a separate operating segment. See Note 1.1 of this report for description of the Company's operations.

The Company's trading performance is assessed based on the data prepared in accordance with IAS/IFRS.

More than 98% revenues are contributed by subsidiaries. A detailed specification of the service buyers is presented in Note 28.2 of this report.

All revenues are generated in Poland. The Company's tangible fixed assets are also located in Poland.

The Company is not dependant on any buyer. Due to the nature of operations of the Company as a parent of the Group, sales are generated depending on its subsidiaries' demand, so they are not a major contributor to the assessment of the Company's operating efficiency.

6. Operating costs

6.1 Costs by type

Figures in PLN thousand		Year ended 31 December 2010		Year ended 31 December 2009
Cost of employee benefits (Note 6.2)		10 128		7 530
External services, including:		8 706		5 861
Consultancy	*5 235*		*3 222*	
Cost of lease of premises and cars	*2 089*		*1 924*	
Other services	*1 382*		*715*	
Consumption of materials and energy		388		334
Taxes and duties		200		144
Depreciation		71		97
Other costs by type, including:		1 970		1 662
Business travel	*1 307*		*1 284*	
Other costs	*663*		*378*	
Total		**21 463**		**15 628**

Costs of goods sold	198	426
Cost of operating activities, including	**21 661**	**16 054**
Cost of sales	*9 789*	*6 926*
Selling and marketing costs	*5*	*0*
General and administrative expenses	*11 867*	*9 128*

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6.2 Cost of employee benefits

Figures in PLN thousand	**12 months ended 31 December 2010**	**12 months ended 31 December 2009**
Remuneration	8 776	6 507
Social security costs	1 043	900
Other employee benefit costs	309	123
Total cost of employee benefits, including presented as:	**10 128**	**7 530**
Cost of sales	*4 526*	*3 132*
Selling and marketing costs	*2*	*0*
Administrative expenses	*5 600*	*4 398*

The costs presented below also include the cost of the management options programme described in Note 34 (PLN 438k in 2010).

7. Financial revenues and expenses

7.1 Financial revenues

On 24 June 2010, the General Meeting of Carina Silicones Sp. z o.o. adopted a resolution on payment of a dividend of PLN 2,000k from the profit for 2009 to its sole owner, i.e. Selena FM S.A.

On 30 June 2010, the General Meeting of Orion Sp. z o.o. adopted a resolution on payment of a dividend from the profit for 2009 and a part of the profit from the previous years, in the total amount of PLN 168,386k. An amount of PLN 168,302k was allocated to Selena FM S.A., pro-rated to the value of its stake in the company (99.95%). The dividend was paid on 30 June 2010. The dividend was settled in the manner described in Note 20.

Figures in PLN thousand	**12 months ended 31 December 2010**	**12 months ended 31 December 2009**
Dividend received from subsidiaries	170 302	0
Interest, including:	5 841	6 943
Interest on bonds (Note 17.1)	*5 256*	*6 009*
Interest on loans and subsidies (Note 16)	*538*	*400*
Interest on cash	*47*	*534*
Adjusted interest on the receivables taken over as part of dividend settlement (Note 20)	409	0
FX differences	0	441
Other	78	117
Total	**176 630**	**7 501**

7.2 Financial expenses

Figures in PLN thousand	**12 months ended 31 December 2010**	**12 months ended 31 December 2009**
Impairment of shares in Selena Co.	107 714	0
Fair valuation of the loan to Tytan EOS	0	408

FX losses	166	0
Other financial costs	0	1
Total	**107 880**	**409**

Due to the changes in the functioning of the Group's Head Office, and the ensuring take-over by the Company of the functions previously performed by its subsidiary Selena Co. S.A., a changed approach was adopted with regard to analysis of Selena Co. for the purpose of an impairment test. As a consequence of this change, an impairment charge was posted for the shares in Selena Co. The rules used for posting this charge are described in detail in Note 15.4 of this report.

The impairment charge does not have any effect on the consolidated figures of Selena FM.

8. Income tax

8.1 Tax charges

Figures in PLN thousand	Year ended 31 December 2010	Year ended 31 December 2009
Income tax for the current period	0	0
Change in deferred tax	-1 972	-419
Tax charge for the year	**-1 972**	**-419**

8.2 Effective tax rate

The table below shows reconciliation of the tax on the pre-tax profit at the statutory rate with the income tax calculated at the effective tax rate of the Company for the year ended on 31 December 2010 and 31 December 2009.

Figures in PLN thousand	Year ended 31 December 2010	Year ended 31 December 2009
Profit (loss) before tax	**57 501**	**-1 570**
Tax at the Polish statutory rate of 19%	10 925	-298
Unrecognised tax losses	*0*	*87*
Non-deductible costs / Non-taxable income, including:	*-12 897*	*-207*
- in respect of impairment charge for the shares in Selena Co.	*21 755*	*-*
- in respect of dividends received	*-32 357*	*-*
- other	*-2 295*	*-207*
Deferred income tax disclosed in profit and loss account	**-1 972**	**-419**
Effective tax rate	*-3,4%*	*26,7%*

8.3 Deferred income tax

Figures in PLN thousand	Balance sheet as at 31 December 2010	Income statement 2010	Balance sheet as at 31 December 2009	Income statement 2009
Receivables in respect of outstanding interest on a loan	*56*	*54*	*2*	*-15*
Receivables in respect of outstanding interest on bonds	*115*	*-220*	*335*	*-109*
Receivables in respect of outstanding other interest	*22*	*0*	*22*	*-10*

Measurement of bonds at amortised cost	*26*	*26*	*0*	*0*
Deferred tax liability, gross	**219**	**-141**	**360**	**-134**
Unrealised FX losses	*25*	*1*	*26*	*11*
Deductible tax losses	*1 436*	*-645*	*791*	*-87*
Impairment charges for receivables	*0*	*13*	*13*	*0*
Provision for the cost of balance sheet audit	*17*	*-6*	*11*	*2*
Provision for the cost of unutilised leaves	*55*	*-17*	*38*	*-17*
Other accruals	*320*	*-153*	*167*	*-155*
Liability in respect of unpaid remuneration	*0*	*0*	*0*	*39*
Interest payable	*16*	*0*	*16*	*0*
Discount of the receivables from Selena Co.	*952*	*-952*	*0*	*0*
Management options	*83*	*-83*	*0*	*0*
Fair valuation of the loan to Tytan EOS	*65*	*12*	*77*	*-77*
Deferred tax assets, gross	**2 970**	**-1 832**	**1 138**	**-284**
Impairment charge for a deferred tax asset	*0*	*0*	0	*0*
Deferred tax assets, net	**2 970**	**-1 832**	**1 138**	**-284**
Deferred tax asset less liability	2 751		778	

9. Dividend paid and proposed

In the reporting period the Company did not pay any dividend.

In the share prospectus approved by the regulator (KNF) on 21 March 2008, the Company declared that after finalisation of the intensive development programme, three years after the shares issue, on the basis of the planned investments and the financial projections, the Management Board will recommend to the General Meeting a dividend payment of 25%-50% of the net profit, starting from the distribution of the net profit for the financial year 2010.

Following on from these declarations, the Management Board of Selena FM S.A. recommends a dividend of PLN 7,271,680 (PLN 0.32 per share) payable to the shareholders for the net profit earned by the Group in 2010. This figure represents 30% of the Group’s consolidated net profit for 2010.

10. Discontinued operations

In the period of ended 31 December 2010 or in the period ended 31 December 2009, the Company did not discontinue nor it plans to discontinue any type of business in the next year.

11. Social assets and Social Fund obligations

The Social Fund Act of 4 March 1994, as amended, stipulates that the Social Fund shall be created by the employees with at least 20 staff members (FTEs), as at the beginning of a given year. By virtue of its work regulations, the Company decided not to establish such Social Fund.

12. Profit per share

The basic profit per share is calculated by dividing the net profit for the period attributable to the shareholders of the Parent Company by the weighted average number of outstanding ordinary shares during the period.

The number of ordinary shares in 2010 and 2009 did not change.

Due to execution of the share-based incentive programme, in 2011, up to 111,800 new shares might be issued and acquired, at PLN 1 per share, in accordance with the information contained in Note 34 of this report. The transaction may affect dilution of the profit per share. The effects of the potential dilution are presented in the table below.

The table below presents data on profit and the number of shares that were used to calculate the profit per share.

		Year ended 31 December 2010	Year ended 31 December 2009
Profit (loss) after tax	PLN	59 473 284	-1 151 299
Weighted average number of ordinary shares	share	22 724 000	22 724 000
Profit/(loss) per ordinary share	**PLN/share**	**2,62**	**-0,05**
Net profit attributable to ordinary shareholders adjusted by the dilution effect	PLN	59 402 767	-1 151 299
Number of shares, including possible dilution	share	22 750 975	22 724 000
Diluted profit per share	**PLN/share**	**2,61**	**-0,05**

In the period between the balance sheet date and the date of preparation of this financial report no transactions occurred which would affect the number of ordinary shares of potential ordinary shares.

13. Property, plant and equipment

Figures in PLN thousand	Buildings and premises	Plant and machinery	Vehicles	Other fixed assets	Fixed assets under constructio n	Total
Initial value						
As at 1 January 2010	**69**	**116**	**0**	**11**	**0**	**196**
Acquisition	0	248	766	3	606	1 623
Transfer from fixed assets under construction	0	491	0	0	-491	0
Transfer from intangible assets	0	0	0	0	-68	-68
As at 31 December 2010	**69**	**855**	**766**	**14**	**47**	**1 751**
Write-off						
As at 1 January 2010	**37**	**107**	**0**	**11**	**0**	**155**
Depreciation during the period	4	14	1	0	0	19
As at 31 December 2010	**41**	**121**	**1**	**11**	**0**	**174**
Net value						
As at 1 January 2010	**32**	**9**	**0**	**0**	**0**	**41**
As at 31 December 2010	**28**	**734**	**765**	**3**	**47**	**1 577**

Figures in PLN thousand	Buildings and premises	Plant and machinery	Vehicles	Other fixed assets	Fixed assets under construction	Total
Initial value						
As at 1 January 2009	**69**	**54**	**0**	**11**	**0**	**134**
Acquisition	0	62	0	0	0	62
As at 31 December 2009	**69**	**116**	**0**	**11**	**0**	**196**
Write-off						
As at 1 January 2009	**34**	**49**	**0**	**11**	**0**	**94**
Depreciation during the period	3	58	0	0	0	61
As at 31 December 2009	**37**	**107**	**0**	**11**	**0**	**155**
Net value						
As at 1 January 2009	**35**	**5**	**0**	**0**	**0**	**40**
As at 31 December 2009	**32**	**9**	**0**	**0**	**0**	**41**

In 2010 and 2009, financing costs were not capitalised into tangible assets.

The tables show the net value of fixed assets as at 31 December 2010 and 31 December 2009. An increase in the net value of equipment relates to the launch of SAP BI platform and a financial and accounting system (Impuls). An increase in the value of vehicles results from changes in the Group Head Office structure (described in Note 15.4 to this report) and is connected with transfer of operations of Selena Co. S.A. (including vehicles) to the parent company – Selena FM S.A.

14. Intangible fixed assets

Figures in PLN thousand	Patents and licences	Software	Other	Intangible assets under construction	Total
Initial value					
As at 1 January 2010	**21**	**87**	**0**	**973**	**1 081**
Acquisition	23	5	112	2 165	2 305
Transfer from intangible assets under construction	115	2 449	0	-2 564	0
Transfer between groups	7	-7	0	0	0
Transfer from fixed assets	0	0	0	68	68
As at 31 December 2010	**165**	**2 534**	**112**	**642**	**3 454**
Write-off					
As at 1 January 2010	**13**	**46**	**0**	**0**	**59**
Amortisation during the period	8	24	20	0	52
Other corrections	1	-1	0	0	0
As at 31 December 2010	**22**	**69**	**20**	**0**	**112**
Net value					
As at 1 January 2010	**8**	**41**	**0**	**973**	**1 022**
As at 31 December 2010	**143**	**2 465**	**92**	**642**	**3 342**

Figures in PLN thousand	Patents and licences	Software	Other	Intangible assets under construction	Total
Initial value					
As at 1 January 2009	**8**	**81**	**0**	**0**	**89**
Acquisition	13	6	0	973	993
As at 31 December 2009	**21**	**87**	**0**	**973**	**1 081**

Write-off					
As at 1 January 2009	**3**	**21**	**0**	**0**	**24**
Amortisation during the period	10	25	0	0	35
As at 31 December 2009	**13**	**46**	**0**	**0**	**59**
Net value					
As at 1 January 2009	**5**	**60**	**0**	**0**	**65**
As at 31 December 2009	**8**	**41**	**0**	**973**	**1 022**

The tables below show the net value of intangible assets as at 31 December 2010 and 31 December 2009. An increase in the value of software is associated with the cost of implementation and commissioning of the SAP BI platform and the financial and accounting system Impuls. The intangible assets under construction relate to two projects that will go live in 2011.

No facts were identified that would indicated the risk of impairment of intangible assets under construction.

15. Shares in subsidiaries

15.1 The Company's investments

Company	Head Office	Activity	Share in capital 31 December 2010	31 December 2009	
Selena Co S.A.	Wrocław	Distributor	100,00%	100,00%	
Selena S.A.	Wrocław	Distributor	50,00%	50,00%	*
Orion Sp. z o.o.	Dzierżoniów	Manufacturer of foam, adhesives, distributor	99,95%	99,95%	**
Carina Silicones Sp. z o.o	Siechnice	Manufacturer of sealants, distributor	100,00%	100,00%	
Libra Sp. z o.o.	Dzierżoniów	Manufacturer of sealants and adhesives, distributor	100,00%	100,00%	
PMI "IZOLACJA - MATIZOL" S.A.	Gorlice	Manufacturer of roof coverings, distributor	100,00%	-	
Tytan EOS Sp. z o.o.	Wrocław	Manufacturer of loose materials	100,00%	100,00%	
RCoCT (formerly: Siloxane Sp. z o.o.)	Siechnice	Research and development	99,50%	99,50%	***

* Selena FM S.A. directly holds 50% of share capital (41.82% voting power) and the other 50% of share capital (58.18% of voting power) is held indirectly through its subsidiary Selena Co.S.A.

** Other shares are owned by Anna Kozłowska (member of the Supervisory Board of Selena FM S.A.)

*** Other shares are owned by Krzysztof Domarecki (CEO) of Selena FM S.A.

15.2 Share value

The table below shows a specification of the shares held by the Company in its subsidiaries.

Figures in PLN thousand	31 December 2010	31 December 2009
Selena Co S.A.	107 714	51 714
Selena S.A.	11 087	11 087
Orion sp. z o.o.	7 125	1 703
Carina Silicones sp. z o.o.	2 070	2 070
Libra sp. z o.o.	5 589	5 589
Tytan EOS sp. z o.o.	4 007	4 007
PMI Izolacja-Matizol S.A.	18 500	0
Research Centre of Construction Technology (dawniej: Siloxane sp. z o.o.)	1 400	0

Gross value of shares	**157 492**	**76 170**
Impairment charge for the shares (Selena Co. S.A. - Note 15.4)	107 714	0
Value of shares presented in the balance sheet	**49 778**	**76 170**

15.3 Shares in PMI Izolacja Matizol

On 12 March 2010, Selena FM S.A. purchased from Boryszew S.A. 100% stake in Przedsiębiorstwo Materiałów Izolacyjnych Izolacja –Matizol S.A. of Gorlice ("Matizol"). The price of the company's acquisition was PLN 18.5m.

Matizol specialises in production of roof coverings (membranes, felt adhesives, shingles, bituminous masses). These products are manufactured in two plants located in Gorlice and Chełmża. The transaction is an element of the Group's strategy of sales development in the segment of construction materials.

15.4 Shares in Selena Co S.A.

In 2010, Selena FM S.A. completed the programme of organisational and capital optimisation of its Group structure by changing the operating principles of its Head Office and restructuring the intercompany claims. Change in the operations of the Head Office (take-over of foreign distribution and management of foreign affiliates by Selena FM S.A.) is designed was increase the operational effectiveness of the Group with regard to cash flows, working capital and FX risk management, reinforcement of ownership supervision over the foreign affiliates and optimisation of the management structures.

As part of the optimisation programme, the debt owed by Selena Co. to Selena FM was converted to equity. On 16 November 2010, Selena Co. S.A. increased its share capital by PLN 1.7m. The new shares were acquired in full by Selena FM in exchange for a non-cash contribution of PLN 56m. Proceeds from the issue of new equity were used to repay a portion of the receivables that Selena FM S.A. acquired from its subsidiary Orion sp. z o.o. (Note 20). The transaction had no impact on the Company's profit or on the Group's consolidated profit.

On 16 November 2010, Selena FM S.A. entered into a preliminary agreement whereby it purchased from Selena Co. S.A. its shareholdings in the foreign affiliates of Selena FM Group. The agreement will be carried out by concluding individual agreements for disposal of shares in the particular companies in the period of 7 months from 1 December 2010 to 30 June 2011.

As a result of the optimisation programme, the role of Selena Co. S.A. in the Group changed. Due to reduction of business of Selena Co. and the ensuring limitation of its ability to generate cash flows in the future periods, an impairment test was carried out for the company's shares. Due to the change in the rules of the company's operations, the concept of determination of the Cash Generating Unit was changed as well. Previously, the value of shares in Selena Co. was compared to the projected total (consolidated) cash flows generated in the operations of Selena Co. and its (foreign) affiliates. As all the operations of Selena Co. were transferred to Selena FM and given the planned sale of its foreign affiliates to Selena FM, as at 31 December 2010, an impairment test was carried out for the company's shares, using the following assumptions:

- The test covered the total investment of Selena FM in Selena Co, i.e. the value of shareholding (PLN 107.7 m), purchased bonds (PLN 34.1m, Note 17.1), and the unsettled balance of receivables acquired from Orion sp. z o.o. as part of dividend settlement (PLN 105.8m, Note 20).
- The future cash flows generated by Selena Co. will come from:
  - Sale of assets in the foreign affiliates at a price corresponding to their market value;
  - Cash flows generated by Selena SA, pro-rata to Selena Co.'s share in the company's capital (Selena Co owns 50% stake in Selena S.A.)
  - Selena Co.'s rights to the use of trademarks in the foreign markets.

On the basis of a comparison of the total investment of Selena FM into the assets of Selena Co. and the value of cash flows generated by the assets of Selena Co. (noting the sale of shares in foreign affiliates to Selena FM), as at 31 December 2010 an impairment charge was made for 100% value of the shareholding in Selena Co., i.e. PLN 107.7m. The value of other investments in Selena Co. (bonds, receivables) is recoverable in the opinion of the Management Board.

The impairment charge was recognised in the financial expenses of Selena FM (Note 7.2 hereto).

The impairment charge does not have any effect on the consolidated profit of Selena FM Group.

15.5 Shares in Orion Sp. z o.o.

An increase in the value of shares in Orion sp. z o.o. results from the dividend pay-out by the Company to Selena FM S.A. (transaction described in Note 7.1) – fair value of the receivables acquired in the transaction (taking account of the discount on the expected settlement dates of the receivables) was by PLN 5,422k lower than their nominal value. The difference increased the value of shares in the transferring company, i.e. Orion sp. z o.o.

15.6 Shares in Research Centre of Construction Technology sp. z o.o.

On 16 December 2010, Selena FM S.A. purchased a controlling stake in RCoCT from Selena Co. S.A. for PLN 1. On the same day, the company's share capital was increased from PLN 200k to PLN 300k. The new shares were taken up by Selena FM S.A. for PLN 1.4m.

16. Loans granted

	Figures in PLN thousand	31 December 2009	Udzielenie	Spłata	Odsetki naliczone	Odsetki zapłacone	Wycena	31 December 2010
a)	Selena Co. S.A.	158		-150	2	-10		0
b)	Tytan EOS sp. z o.o.	7 345		-200	339	-93	66	7 457
c)	PMI Izolacja-Matizol S.A.	0	3 400	-1 950	48	-17	-63	1 418
d)	Nurichem	905	716		139	-120	-80	1 560
		8 408						**10 435**

a) Under the agreement of 27 August 2009, Selena FM S.A. granted a loan of PLN 450k (at a fixed interest rate of 5.55%) to Sima Technologie Przemysłowe Sp. z o.o. (on 31 March 2010 the company merged with Selena Co. S.A.). A part of the loan of PLN 300k was repaid on 31 December 2009, while the remainder (PLN 150k) by 29 April 2010.

Furthermore, as part of the restructure of the assets of Sima Technologie Przemysłowe Sp. z o.o. completed in 2007 (described in detail in Note 20 of the unconsolidated financial statements of Selena FM S.A. for 2008), Selena FM S.A. presented an asset representing the loan of EUR 200k granted to Sima. As at 31 December 2008, an impairment charge was posted for the entire amount of the claim. In 2010, the loan was written off against the impairment charge.

Błąd! Nieprawidłowe łącze.

b) The balance includes 4 loans granted between 14 September and 31 October 2008. The respective loan amounts were as follows: PLN 1.4m, PLN 0.65m, PLN 0.20m and PLN 5.50m (PLN 7.75m in total). The repayment date of the loan was set to 31 December 2010. On 9 March 2010, all the loan agreements were amended to extend the repayment date to 31 December 2013. In 2010, principal repayments of PLN 200k were made.

c) The balance includes 2 loans: PLN 750k (granted on 12 May 2010, at a fixed interest rate of 5.85%; payable by 30 September 2010; the maturity date was extended to 31 December 2011) and EUR 161k (granted on 8 November 2010, at a fixed interest rate of 3.75%, while the final repayment date was set to 31 March 2011); both loans are secured with blank promissory notes. Furthermore, on 31 August 2010, Matizol repaid loans granted on 25 May 2010 (EUR 327k) and 23 March 2010 (EUR 163k).

d) On 4 December 2009, Selena FM S.A. signed a loan agreement for EUR 390k with Nurichem Co. Ltd. (South Korea.). The borrower is the Korean distributor of Selena's products manufactured by Hamil Selena Co. (associate). The loan bears a fixed interest rate of 9%. It was given for investment purposes. The loan security is a lien on the machines to be purchased under the financed investment. By 31 December 2009, the borrower received EUR 220k and on 7 January 2010 – the remainder of the loan, i.e. (EUR 170k). The loan matured on 7 January 2011. At the borrower's request, the repayment date will be extended to 31 December 2011. At the time of signing this report the terms of the extension were still being negotiated.

17. Other financial assets

17.1 Other financial assets

	Figures in PLN thousand	31 December 2009	Issue	Redemption	Interest accrued	Interest paid	Valuation	31 December 2010	Repayment date
	Bonds								
a)	Selena Co.S.A.	37 410		-2 663	2 402	-2 996	-84	34 069	2013-12-31
b)	Libra sp. z o.o.	18 658		-2 306	1 200	-1 306	-22	16 224	2011-12-31
c)	Selena SA	12 000			818	-818		12 000	2011-12-31
d)	Carina Silicones	6 000			409	-409		6 000	2011-12-31
e)	Orion sp. z o.o.	6 652		-953	417	-638		5 478	2011-12-31
f)	Syrius Investment sarl	0	1 428		10		-42	1 396	2011-07-26
		80 720	**1 428**	**-5 923**	**5 256**	**-6 167**	**-148**	**75 167**	
	Including long-term	*43 152*						*20 852*	
	Contributions to capital								
g)	Orion sp. z o.o.	1 183			10			1 193	
h)	Libra sp. z o.o.	1 100						1 100	
		2 283	**0**	**0**	**10**	**0**	**0**	**2 293**	
	Including long-term	*2 283*						*2 293*	
	Total	**83 003**	**1 428**	**-5 923**	**5 266**	**-6 167**	**-148**	**77 460**	
	Including long-term	*45 435*						*23 145*	

Błąd! Nieprawidłowe łącze.

a) Registered bonds issued by Selena Co. S.A. to finance its current assets. The balance includes the following bond issues:

- issue of PLN 8,000k of 15 May 2008; terms as at 31 December 2009: redemption by 31 December 2010, fixed interest rate of 6.82%; final repayment date extended to 31 December 2013 by an annex of 1 July 2010; in 2010, bonds were redeemed for a total amount of PLN 2,633k (PLN 1,700k on 25 January 2010 and PLN 963k on 10 November 2010);
- issue of PLN 28,000k of 5 November 2008; terms as at 31 December 2009: redemption by 31 December 2010, fixed yield of 7.05%; final repayment date extended to 31 December 2013 by an annex of 1 July 2010.

b) Registered bonds issued by Libra Sp. z o.o. for the purpose of current assets financing. The balance includes the following bond issues:

- issue of PLN 12,900k of 15 May 2008; terms as at 31 December 2009: redemption by 30 June 2010, fixed yield of 6.82%; repayment date extended to 31 December 2013 by an annex of 29 June 2010; a part of the issue of PLN 900k was repaid on 22 July 2010;

- issue of PLN 5,625k of 24 June 2008; terms as at 31 December 2009: redemption by 30 June 2010, fixed yield of 6.82%; final repayment date extended to 31 December 2011 by an annex of 29 June 2010; a part of the issue of PLN 1,406k was repaid on 22 July 2010.

Furthermore, on 28 January 2011, Libra sp. z o.o. redeemed bonds of PLN 4,419k.

a) Registered bonds issued by Selena Co. S.A. to finance its current assets. The balance includes the following bond issues:

- issue of PLN 9,000k of 15 May 2008; terms as at 31 December 2009: redemption by 30 June 2010, fixed yield of 6.82%; final repayment date extended to 31 December 2011 by an annex of 31 December 2010.
- issue of PLN 3,000k of 24 June 2008; terms as at 31 December 2009: redemption by 30 June 2010, fixed yield of 6.82%; repayment date extended to 31 December 2011 by an annex of 1 July 2010.

d) Registered bonds issued by Carina Silicones Sp. z o.o. for the purpose of current assets financing. The balance includes the issue of PLN 6,000k of 15 May 2008; terms as at 31 December 2009: redemption by 30 June 2010, fixed yield of 6.82%; final repayment date extended to 31 December 2011 by an annex of 31 December 2010.

e) Registered bonds issued by Orion Sp. z o.o. for the purpose of current assets financing. The balance includes the issue of 2 July 2008 with 9 bond series: "„A" – PLN 953k (series repaid on 31 August 2010); "B" – PLN 805k, in series "C" – PLN 586k, "D" – PLN 315k, "E" – PLN 755k, "F" – PLN 207k, "G" – PLN 2,260k, "H" – PLN 310k and "I" – PLN 240k; total nominal value of bonds as at 31 December 2010 is PLN 5,478k; terms as at 31 December 2009: redemption by 30 June 2010, fixed yield of 6.82%; repayment date extended to 31 December 2011 by an annex of 31 December 2010.

f) bonds issued on 19 October 2010 by Syrius Investments sarl (connected entity) of EUR 350k;); the bonds are to be redeemed on 26 July 2011; the yield is fixed at 3.75% (market level); the transaction is treated as a short-term investment of free funds.

g,h) Returnable contributions imposed on Selena F.M. S.A. pursuant to Article 177 of the Commercial Companies Code; the contributions may be returned after 3 months after publication of a notice (in the Company's notices newsletter) of the intention to return the same.

18. Inventory

Figures in PLN thousand	31 December 2010	31 December 2009
Merchandise	273	0
Impairment charge	0	0
Net inventories in the balance sheet	**273**	**0**

The balance of inventories as at 31 December 2010 is associated with commencement of the transfer of trading activities from the subsidiary Selena Co. S.A. to Selena FM S.A.

19. Trade receivables

19.1 Aging of trade debtors

Trade debtors do not carry any interest rate - the payment terms are usually 30 days.

The age structure of the trade debtors is presented in the table below. The table does not include the debtors which have been written down in full.

Figures in PLN thousand	Total	Up-to-date	Overdue (days in arrears): <30	30-60	60-90	90-120	120-150	150-180	>180
From connected companies	4 614	2 085	269	158	906	134	134	330	598
From non-connected companies	25	14	1	2	2	0	0	4	2
Total as at 31 December 2010	**4 639**								
From connected companies	3 546	1 941	144	113	113	93	93	79	970
From non-connected companies	8	8	0	0	0	0	0	0	0
Total as at 31 December 2009	**3 554**								

Taking into account the expected payments and the mutual service provision between the companies, the Management Board does not see it necessary to create any impairment charges for the receivables listed above.

See Note 28.2 of this report for details on the transactions with related parties.

20. Other receivables

Figures in PLN thousand	31 December 2010	31 December 2009
Receivables from Selena Co. acquired as part of dividend settlement	105 798	0
VAT claimed	646	198
Prepayments for deliveries	460	260
Capitalised cost of investment projects	0	168
Other	0	109
Total	**106 904**	**735**

On 30 June 2010, Selena FM S.A. entered into a three party agreement with its subsidiaries Orion Sp. z o.o. and Selena Co. S.A. that regulates dividend settlement described in Note 7 of this report. As part of settlement of the dividend, Orion Sp. z o.o. transferred its receivables of PLN 168,232k from Selena Co. SA to Selena FM S.A. The latter company then set off a part of the transferred amounts receivable from Selena Co. (PLN 362k) against its obligations towards the company. The remaining amount of the receivables was measured at fair value as at the initial recognition date, taking into account the expected settlement date.

On 16 November 2010, Selena Co. increased its share capital by PLN 1.7m. The new shares were acquired in full by Selena FM in exchange for a non-cash contribution of PLN 56m. The funds were used to repay a part of the receivables described above.

As at 31 December 2010, the value of the receivables was increased by the interest arising from settlement of the receivables at amortised cost, and reduced in connection with the planned change in the terms of settlement of the receivables by a total of PLN 409k (financial revenue shown at Note 7).

21. Cash and cash equivalents

Cash in bank carries variable rates of interest. Short-term deposits are opened for different periods (from one day to one month), and carry different interest rates. As at 31 December 2010, the fair value of cash and cash equivalents essentially corresponds to their book value.

The table below shows a structure of the cash balances at the balance sheet date.

Figures in PLN thousand	31 December	31 December

	2010	2009
Bank accounts	2 014	10 022
Cash on hand	42	19
Short-term deposits	0	14 009
Total	**2 056**	**24 050**

As at 31 December 2010, the Company held unutilised credit lines of PLN 4m as part of the credit limits described below (PLN 3m as at 31 December 2009).

Receivables limit agreement with Raiffeisen Bank Polska S.A. (PLN 20m)

An agreement of 25 June 2009 with Selena FM, and the subsidiaries Orion sp. z o.o., Libra sp. z o.o. and Selena Co. S.A. providing for a limit of PLN 20m (including PLN 1m for Selena FM S.A.). The facility is not secured by any fixed assets, and matures on 30 June 2011. Each of the borrowers made a statement of submission to execution up to PLN 30m.

Renewable loan agreement with DZ Bank Polska S.A. (PLN 25m)

An agreement of 24 September 2009 with Selena FM, and the subsidiaries Selena S.A., Libra sp. z o.o., Tytan EOS sp. z o.o. and Selena Co. S.A. providing for a limit of PLN 25m (including for Selena FM: as at 31 December 2010: PLN 2m, and PLN 19m as at the date of signing this report). The loan is payable by 24 September 2012, and is secured on the assets of Libra sp. z o.o. (mortgage on the property up to PLN 32.5m, registered pledge on stocks up to PLN 6.3m, registered pledge on machines and equipment up to PLN 6.3m, assignment of trade receivables and receivables from the insurance policies for the pledged assets). The borrowers agreed to submit to debt collection up to PLN 50m under the banking writ of execution.

Credit line with Fortis Bank Polska (PLN 25m)

Agreement of 21 December 2010 for Selena FM and subsidiaries Selena S.A., Tytan EOS sp. z o.o. and PMI Izolacja-Matizol S.A. up to the total limit of PLN 25m (including PLN 1m for Selena FM). The credit line expires on 19 December 2012. The debt is secured by selected receivables and assignment of insurance for the receivables of Selena S.A. The borrowers also signed statements of submission to forced debt collection.

Credit limit with ING Bank Śląski S.A. (PLN 25 m) – event after the balance sheet date

Agreement of 21 February 2011 Selena FM and subsidiaries Carina Silicones sp. z o.o. and Orion sp. z o.o. up to PLN 25m (including PLN 10m for Selena FM S.A.). The credit limit expires on 31 January 2014. The facility is secured by an open mortgage up to PLN 20 m over the properties owned by Carina Silicones sp. z o.o., a registered pledge on the company's movables and assignment of rights to its property insurance policy. The borrowers also signed statements of submission to forced debt collection.

22. Registered capital, supplementary capital and reserves

22.1 Registered capital

22.1.1 Nominal value per share

The structure of the registered capital is shown in the table below.

Series	Type	Nominal value of a share (PLN)	Number	Value (PLN)
A	Preference	0,05	4 000 000	200 000
B	zwykłe	0,05	13 724 000	686 200
C	zwykłe	0,05	5 000 000	250 000
			22 724 000	**1 136 200**

All the Company's shares are fully paid-up. In 2010, the number of shares did not change.

22.1.2 Shareholder rights

Series A preference shares carrying two votes. Series B and C shares carry one share each. The shares of all series carry the same dividend rights and the same return on capital.

22.1.3 Major shareholders

The table below shows the stake in the share capital and the voting power of the major shareholders.

	31 December 2010		31 December 2009	
Shareholder	**Share in equity**	**Voting power**	**Share in equity**	**Voting power**
Krzysztof Domarecki	41,97%	50,66%	41,97%	50,66%
Syrius Investments S.a.r.l (Luxemburg)*	35,43%	30,12%	35,43%	30,12%
	77,40%	**80,78%**	**77,40%**	**80,78%**

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

22.2 Supplementary capital

Figures in PLN thousand	Date recognised	Value
Excess of the shareholding value over the nominal value of the acquired shares in the merger with Domarecki i Wspólnicy spółka jawna	2007	10 042
Share capital increase and acquisition of new shares by Syrius Investment S.a.r.l	2007	13 588
Fair valuation of long-term liabilities as at the date of conversion into share and supplementary capital	2007	-530
Profit allocated to supplementary capital	2008	7 239
Excess of the issuance price over the nominal value of shares after deduction of the issuance costs	2008	161 287
Supplementary capital		**191 626**

In 2010, the value of supplementary capital did not change. The individual items of the supplementary capital shown in the table above were partly described in the company's financial statements for 2009.

22.3 Other reserves

The amount presented in the statement of financial position as at 31 December 2009 was recognised in 2007 as a result of the merger between Selena FM Sp. z o.o. and Domarecki i Wspólnicy sp. j. Details of the transaction are presented in the Company's financial statements for 2009.

Furthermore, in 2010, a management options programme described in Note 34 of this report was launched. The cost of the programme is reported under the operating costs, and its corresponding increase in capital is reported under equity in the statement of financial position. As at 31 December 2010, an increase of PLN 438k was reported under "Other reserves".

22.4 Retained earnings and limitations on dividend payout

The Company is required under the Commercial Companies Code to create a supplementary capital for possible losses. The supplementary capital is created from at least 8% profit for the given financial year reported in the Company's financial statements to the point when the capital reaches at least a third of the share capital. The allocation of the reserve capital or the supplementary capital is the decision of the General Meeting, however a portion of the supplementary capital equal to a third of the share capital may be used only to cover the loss shown in the financial statements, and cannot be used for other purposes.

23. Trade creditors

Figures in PLN thousand	31 December 2010	31 December 2009
Amounts due to connected companies	378	291
Amounts due to other companies	1 054	716
Total trade creditors	**1 432**	**1 007**

Trade creditors do not carry any interest rate – they are usually payable within 60 days.

The information on the settlements with connected entities is presented in Note 28.2 hereof.

24. Other liabilities

Figures in PLN thousand	31 December 2010	31 December 2009
Remuneration payable	1 699	933
Investment liabilities	943	466
Taxes and insurance payable	316	209
Other liabilities	41	69
TOTAL	**2 999**	**1 677**

25. Loans received

As part of the conversion of the Company's debt owed to Syrius Investments S.a.r.l., in 2007 the Company recognised loan interest payable of EUR 21k. The balance was not repaid before the end of 2010, and remained outstanding as at the date of this report.

26. Contingent liabilities

26.1 Guarantees given to subsidiaries

<u>Acquisition of Quilosa</u>

Under the investment agreement between Selena Co. S.A. and Quilosa Holding XXI, S.L. relating to the acquisition of the new shares in Industrias Quimicas Löwenberg S.L. (Quilosa), Spain, on 3 July 2009 Selena Co. S.A. became a majority owner of the company, acquiring 260,204 shares with a nominal value of EUR 6.01/share for a total amount of EUR 5.5m, representing 51% in the increased share capital. On 3 July 2009, both shareholders of Quilosa (Selena Co. S.A. and Quilosa Holding XXI) entered into a shareholder agreement whereby Selena Co. made an irrevocable

proposal to acquire the remaining shares (put option) while Quilosa Holding XXI, S.L. warranted to Selena Co. that the call option for the remaining shares will be exercised. The put option may be exercised within 36 months starting from 1 June 2011, while the all option may be exercised within 18 months starting from 1 January 2013. The unit value of a share representing the exercise price of the put and call option will be determined based on valuation of Quilosa at the option exercise date. The price of the shares in Quilosa as at the date of exercise of the option will be calculated based on the higher of the two values (taking account a potential correction arising from the net financial debt vs. the balance at the acquisition date):
- EUR 10.8m;
- a multiplier of the EBITDA of the acquired company achieved in the year preceding the exercise of the option.

Selena FM S.A. gave Quilosa Holding XXI, S.L. an irrevocable and unconditional guarantee that Selena Co. would make the payment under the option.

On 31 March 2011, i.e. before the date originally planned in the acquisition agreement, Selena Co. S.A. entered into an agreement with the minority shareholder to purchase the remaining 49% stake in Quilosa. In consequence, on the date of signing the agreement, the guarantee expired.

Other guarantees

In accordance with the agreements described in Note 21 of this report, the Company placed a statement of submission to execution in respect of the credit line agreements to which the Company is a party along with its subsidiaries. As at 31 December 2010, the Company does not use its allocated limits, while the other companies used their limits in the total amount of PLN 12.5m. In the opinion of the Management Board the risk of the companies' default under the limit is marginal.

26.2 Court disputes

As at the balance sheet date and as at the date of preparation of this report Selena FM S.A. is not a party to any court dispute.

26.3 Tax settlements

Tax payment and other regulated areas of business (including customs or currency-related activities) may be subject to inspection by administrative bodies, which have the right to impose high fines and sanctions. In the absence of well-established legislation, Polish regulations tend to be unclear and inconsistent. There are frequent differences in interpretation of tax regulations both within State administration bodies and between such bodies and corporations, which gives rise to uncertainties and conflicts. As a result, the tax risk in Poland is substantially higher than in the countries with a more mature tax system.

Tax payments may be inspected for five years after the year when the tax was paid.

Currently the Company's tax settlements are not subject to control by any competent authorities.

26.4 Leasing

26.4.1 Operating lease liabilities – Company as a lessee

The future minimum lease payments under the leases are presented in the table below.

Figures in PLN thousand	31 December 2010	31 December 2009

Operating lease liabilities		
payable up to 1 year	*640*	*1 383*
payable from 1 to 5 years	*345*	*1 497*
Total	**985**	**2 880**
Lease payments recognised as cost for the period	*745*	*1 520*

The Company uses vehicles and office and storage space under operating leases.

The vehicle leases were concluded for an indefinite term with 14-day notice period, while the rental agreements for the office space expire in 2012.

26.4.2 Operating lease receivables – Company as a lessor

The future receivables in respect of minimum lease payments arising from the irrevocable operating leases are presented in the table below.

	31 December 2010 (PLN k)	31 December 2009 (PLN k)
Operating lease receivables		
payable up to 1 year	*30*	*16*
payable from 1 to 5 years	*121*	*66*
	151	**82**
Lease payments recognised as income for the period	*31*	*18*

27. The reasons for differences between some balance sheet changes in some items and changes presented in the statement of cash flows

The table below shows the reasons for differences between some balance sheet changes in some items and changes presented in the statement of cash flows.

Receivables (Figures in PLN thousand)	**Year ended 31 December 2010**	**Year ended 31 December 2009**
Balance sheet change in receivables	**-107 289**	**-663**
Change in income tax (CIT) receivable	0	167
Change in dividends	105 798	0
Purchase of shares - additional costs incurred in 2009	-168	0
Change in the balance of receivables acquired from Selena Co. in respect of amortised cost valuation	0	51
Change in the balance of receivables in the statement of cash flows	**-1 659**	**-445**

28. Related parties

28.1 Terms of transactions with related parties

The Company provides consultancy services to its direct subsidiaries. The transactions for the sale of services to related parties are carried out on an arm's length.

28.2 Related party transactions

The table below shows a summary of the transactions with related parties in 2010.

Figures in PLN thousand	Sales	Purchases	Receivables	Other financial assets*	Liabilities	Financial revenue (interest)	Dividend	Valuation	Purchase of fixed assets
Selena Co.	2 528	2 778	105 798	34 069	1	2 402		409	794
RCoCT (formerly: Siloxane)			4						
Selena S.A.	927	1	94	12 000		818			5
Orion	3 233	135	2 902	6 671	158	427	168 302		
Carina Silicones	2 148	118	555	6 000	56	409	2 000		4
Libra	1 101	228	897	17 324		1 200			30
Tytan EOS				7 457		339		65	
Quilosa		5			5				
Selena USA		97			4				
Selena Sulamericana	161		161						
Chinuri			189						
PMI Izolacja - Matizol				1 418		48			
Selena Bohemia		156			156				
Syrius Investments				1 396		10		42	
	10 098	**3 517**	**110 600**	**86 335**	**380**	**5 654**	**170 302**	**516**	**833**

* loans granted and bonds purchased (Note 16. and 17.)

The table below shows a summary of the transactions with related parties in 2009.

Figures in PLN thousand	Sales	Purchases	Receivables	Other financial assets*	Liabilities	Financial revenue (interest)	Valuation
Selena Co.	2 694	2 603		37 410	270	2 818	
Siloxane			4				
Selena S.A.	940	1	97	12 000		1 053	
Sima Technologie Przemysłowe	133	2	89	158		9	
Orion	875	3	647	7 835	71	448	
Carina	2 237	83	1 674	6 000	7	408	
Libra	372		1 033	19 758		1 292	
Selena Shanghai Trading					6		
Tytan EOS				7 345		390	408
Quilosa	2	3			3		
	7 253	**2 694**	**3 545**	**90 506**	**357**	**6 418**	**408**

* loans granted and bonds purchased

28.3 Transactions with the Company's directors

The table below shows the transactions with the company's directors (Supervisory Board and Management Board members) in 2010 and 2009.

	Figures in PLN thousand	Year	Revenue	Purchases	Receivables	Liabilities	Bonds purchased
Management Board	Krzysztof Domarecki	2010			260		
		2009			260		
	Syrius Investment	2010				85	1 396
		2009				88	
Supervisory Board	RUBID (Andrzej Kozłowski)	2010	2	98	1	0	
		2009	2	2	1	1	
	Grzegorz Forczek	2010		2			
		2009		2		1	

28.4 Emoluments of directors

Figures in PLN thousand	Year ended 31 December 2010	Year ended 31 December 2009
Management Board		
Short-term employment benefits, including bonuses (remuneration and deductions)	1 462	1 151
Krzysztof Domarecki	*680*	*479*
Kazimierz Przełomski	*345*	*276*
Elżbieta A.Szymańska	*437*	*396*
Retirement benefits	0	0
Termination benefits	0	0
	1 462	**1 151**
Supervisory Board		
Short-term employment benefits, including bonuses (remuneration and deductions)	39	33
Jacek Olszański	*12*	*9*
Maria Godoś	*8*	*6*
Grzegorz Forczek	*8*	*6*
Andrzej Kozłowski	*3*	*6*
Anna Kozłowska	*8*	*6*
Odprawy emerytalne	0	0
Świadczenia z tytułu rozwiązania stosunku pracy	0	0
	39	**33**

Furthermore, under the employee shares programme (see Note 34 of this report), Management Board Members Kazimierz Przełomski and Elżbieta A. Szymańska were each awarded 12,000 subscription warrants (the maximum number if 100% of the targets for 2010 are met). The respective cost disclosed in the 2010 accounts (with the targets met at 80%) was PLN 75k.

Also, Anna Kozłowska (Member of the Supervisory Board of Selena FM S.A.), who holds 0.05% stake in the subsidiary Orion Sp. z o.o. acquired rights to the dividend of PLN 84k paid by Orion sp. z o.o.

29. Auditor's fee

The table below shows the fee payable to the auditor of the Company's 2010 and 2009 financial statements. In the two years the auditor was Ernst & Young Audit Sp. z o.o.

Figures in PLN thousand	Year ended 31 December 2010	Year ended 31 December 2009

Audit of the annual financial statements	90	90
Review of the interim financial statements	100	100
Total	**190**	**190**

30. Goals and rules of financial risk management

Selena FM S.A. as a holding entity of the Group primarily focuses on ensuring finance for its subsidiaries' operating and investment needs, and on securing their liquidity. The key tools for this policy include:

- purchase of registered bonds issued by the subsidiaries, and
- granting interest-bearing loans to the subsidiaries.

The Company's cash is put on short-term deposits.

Financial risk management in the Company includes the process of identification, assessment, measurement and management of this risk.

The main risks arising from the utilised financial instruments include the market risk (including the interest rate and currency risk), credit risk and liquidity risk.

30.1 Market risk

30.1.1 Interest rate risk

In accordance with the policy to ensure financing for its subsidiaries, the Company purchases bonds of these companies and grants them loans. See Note 16 and Note 17 of this report for details on these assets.

Selena FM S.A. is exposed to interest rate risk in respect of:

- changes in the fair value of the bonds purchased and bank deposits, for which interest is calculated at the fixed interest rates;
- changes in the cash flows connected with the granted loans for which interest is calculated at variable interest rates.

The repurchased bonds are issued for relatively short periods (approx. 12 months); the fixed interest rate is calculated using the market rate at the time of bond issue. Where the redemption period is extended the interest rate may be updated as needed to reflect the current market interest rates.

Interest–bearing loans have a relatively small shares in the Company's financial assets (see the table below), and the relatively short periods for which they have been granted protect the Company against the risk of adverse changes in cash flows caused by interest rate changes.

The age structure of interest-bearing financial assets (at nominal value) is presented in the table below.

Fixed interest rate instruments	**31 December 2010**			**31 December 2009**			
Figures in PLN thousand	**< 1**	**1-3**	**Total**	**< 1**	**1-3**	**3-5**	**Total**
Bonds purchased	54 315	20 852	75 167	39 326	39 200	12 241	90 767
Loans granted	2 978	0	2 978	1 063	0	0	1 063
Bank deposits	0	0	0	14 009	0	0	14 009
	57 293	20 852	78 145	54 398	39 200	12 241	105 839
Interest-bearing liabilities	85	0	85	88	0	0	88

Variable interest rate instruments	**31 December 2010**			**31 December 2009**			
Figures in PLN thousand	**< 1**	**1-3**	**Total**	**< 1**	**1-3**	**3-5**	**Total**
Loans granted		7 457			7 345		

The table below shows the impact of a potential decrease in the market rates on the value of the interest income in respect of the variable interest rate loans granted by the Company. A corresponding impact will be observed in the event of a possible increase in the interest rates.

Figures in PLN thousand	31 December 2010	31 December 2009
Exposure amount – loans granted	7 145	7 345
Effect of a decrease in 3M WIBOR by 1 p.p.	-71	-73

As a rule, the Company does not use any Interest Rate Swaps or similar contracts to mitigate its interest rate risk.

30.1.2 FX risk

Selena FM S.A. carries on its business in Poland and the zloty is its functional currency.

The table below shows the open positions denominated in EUR. The Company's exposures in other currencies is not material as at 31 December 2010 and 31 December 2009.

Figures in PLN thousand	31 December 2010	31 December 2009
Loans granted	2 201	904
Bonds purchased	1 396	0
Receivables	351	0
Cash	100	1 853
	4 048	**2 757**
Trade creditors	225	0
Loans received	85	88
	310	**88**
Net exposure	**3 738**	**2 669**
Effect of a decrease in the EUR rate to 3.25 PLN/EUR*	-670	-558
Effect of an increase in the EUR rate to 4.75 PLN/EUR*	745	417

* rates at the max. / min. levels from years 2008-2010

Due to the relatively low currency exposure (in accordance with the foregoing table), the Company, in the Management Board's opinion, is not materially exposed to fluctuations in FX rates. For this reason, the Company does not use any instruments to hedge its cash flows and open currency positions.

30.2 Credit risk

The main items that carry credit risk include:

- Bonds, loans and other instruments described in Notes 16 and 17 to this report;
- Short-term receivables, and
- Cash and cash equivalents.

Due to the nature of the Company's business, financial assets (loans, bonds, trade debtors) mainly relate to connected entities. The Management Board regularly monitors and current and projected financial position of these companies and its impact on their ability to meet payments under the financial instruments. No material risk in this regard was identified as at the balance sheet date.

In the case of cash and cash equivalents, the Management Board believes that the credit risk is marginal. Cash is deposited on the accounts with ING Bank Śląski.

Concentration of financial risk in the Company results from the fact that the Company's financial assets mainly relate to its connected companies, as presented in Note 28.2 of this report. In the Management Board's opinion, the risk associated with the credit quality of assets is low.

30.3 Liquidity risk

In the Management Board's opinion, the risk of liquidity loss understood as the ability to meet obligations as and when they fall due is currently marginal.

Taking into account the Company's balance sheet structure, no major liquidity risk exists at the balance sheet date. The Company's holdings in cash and cash equivalents ensure multiple cover for its liabilities as at the balance sheet date.

All the liabilities shown in the balance sheet mature up to 3 months.

Furthermore, in Note 26 of the financial statements the Company shows contingent liabilities that in the future might cause an outflow of cash from the company. In the case of the guarantee for Selena Co. S.A., there will be no outflow of funds as the transaction of purchase of the other assets of Quilosa was finalised before the date of approval of these financial statements.

31. Financial instruments

31.1 Fair value of the individual classes of financial instruments

	Category	31 December 2010		31 December 2009	
Figures in PLN thousand	**As per IAS 39**	**Book value**	**Fair value**	**Book value**	**Fair value**
Financial assets					
Bonds	UdtW	75 167	74 615	80 720	79 387
Returnable contributions	PiN	2 293	2 293	2 283	2 283
Loans granted	PiN	10 435	10 435	8 409	8 409
Trade receivables	PiN	4 639	4 639	3 554	3 554
Other receivables	PiN	105 798	105 798	0	0
Cash and cash equivalents	WwWGpWF	2 056	2 056	24 050	24 050
Financial liabilities					
Other short-term loans – interest	PZFwgZK	85	85	88	88
Trade creditors and other liabilities	PZFwgZK	4 431	4 431	2 684	2 684

UdTW - Financial assets held to maturity

WwWGpWF - Financial assets / liabilities measured at fair value through profit and loss

PiN - Loans and receivables

PZFwgZK - Other liabilities measured at amortised cost

A major portion of the information that underlies estimation of fair value of financial instruments is highly subjective and results from the Management's judgement, therefore it may not be accurate. Fair value is estimated at the balance sheet date. For the instruments measured at amortised cost fair value is estimated as the current value of future contractual cash flows discounted by a rate corresponding to the market rate that would be determined for such instrument had it been initially recognised at the balance sheet date. The amounts that will be actually achieved or paid at maturity may be significantly different than the estimates.

The Company has short-term financial assets – bonds of PLN 75.2m issued by its subsidiaries (as per the table above). The bonds carry a fixed interest rate, as presented in Note 16 of this report. The fair value of these bonds as at the balance sheet date was determined using the discounted cash flows method with the market interest rate current at the balance sheet date.

The fair value of other financial instruments does not differ materially from their book value.

31.2 Revenues, expenses, profits and losses disclosed in the profit and loss account by categories of financial instruments

Year ended 31 December 2010 / **Figures in PLN thousand**	**Category as per IAS**	**Profit / loss in respect of:** Interest	FX differences	Valuation	Disposal	Total
Financial assets						
Bonds	UdtW	5 256		-157		**5 099**
Returnable contributions	PiN	10				**10**
Loans granted	PiN	528	-143	65		**450**
Trade receivables and other receivables	PiN		-11			**-11**
Cash and cash equivalents	WwWGpWF	48	170			**218**
Financial liabilities						
Other short-term loans	PZFwgZK		3			**3**
Trade creditors and other liabilities	PZFwgZK		-25			**-25**
						5 744

Year ended 31 December 2009 / **Figures in PLN thousand**	**Category as per IAS**	**Profit / loss in respect of:** Interest	FX differences	Valuation	Disposal*	Total
Financial assets						
Bonds	UdtW	6 009	-58			**5 951**
Returnable contributions	PiN	10				**10**
Loans granted	PiN	401	-45	-408		**-52**
Trade receivables and other receivables	PiN		196	49		**245**
Cash and cash equivalents	WwWGpWF	534	359			**893**
Other short-term investments*	WwWGpWF				57	**57**
Financial liabilities						
Other short-term loans	PZFwgZK		1			**1**
Trade creditors and other liabilities	PZFwgZK	-2	-12			**-14**
						7 091

* relates to the financial instruments settled in 2009 and not recognised in the balance sheet as at 31 December 2009

31.3 Hedging

The Company does not use hedge accounting.

32. Capital management

Capital structure is managed at the level of the Group for which the Company is a parent. The Company seeks to maintain good credit rating and safe capital ratios to facilitate the Group's operations and increase its value for shareholders.

The Company manages its capital structure, and modifies it in response to changes in the economic conditions. To maintain or adjust its capital structure the Company may paid a dividend to shareholders, return the capital to shareholders or issue new shares. In the year ended 31 December 2010 and in the year ended 31 December 2009 no changes were made to the goals, rules and processes applicable in this area.

32.1 Net debt

For the purpose of the Group's and Parent's capital management, the Company monitors the level of capital using the gearing ratio, which is calculated as net debt to total equity increased by net debt. Net debt includes interest-bearing loans and advances and other financial liabilities, decreased by cash and cash equivalents. Equity includes the equity attributed to the shareholders of the Parent.

If the net debt calculated using the formula described above is negative, then the gearing ratio is nil.

The table below shows a calculation of the Company's net debt.

Figures in PLN thousand	**31 December 2010**	**31 December 2009**
Interest bearing borrowings	85	88
Trade creditors	1 432	1 007
Other short-term liabilities	2 999	1 677
Total liabilities	**4 516**	**2 772**
Cash	-2 056	-24 050
Net debt	**2 460**	**-21 278**
Equity	254 937	195 194
Gearing	**1%**	**0%**

33. Employment structure

In the year ended 31 December 2010 and in the year ended 31 December 2009 the average employment was as shown in the table below.

	Year ended 31 December 2010	**Year ended 31 December 2009**
Management Board	3	3
Administration	76	64
	79	**67**

34. Employee options programme

34.1 Execution of the Programme in 2010

The Company operates a share-based incentive programme described in detail in the share prospectus approved by the KNF on 21 March 2008. Under the programme, the Group's executives may be awarded a maximum of 326,000 shares, i.e. 1.4% of the current shares. The shares may be awarded in 4 tranches in the years 2008-2011. Allocation in any year depends on fulfilment of general conditions (defined each year by the Supervisory Board, relating to achievement of stated effectiveness ratios by the Group) and individual conditions (employment or performance of individual staff members).

The allocation is based on issuance and free vesting of subscription warrants, with the warrants allocated for 2008-2010 being converted into equity from 15 July 2011 to 30 November 2011, and from 15 July 2012 to 30 November 2012 in the case of the warrants allocated for 2011. The warrants will be converted into shares at a price of PLN 1.

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

The Supervisory Board resolved to allocate for 2010 the maximum number of 151,400 warrants. Out of this pool, eventually 139,750 warrants were earmarked for the programme in 2010, including those awarded to the Management Board members: Kazimierz Przełomski – 12,000 warrants and Elżbieta A. Szymańskiej – 12,000 warrants (maximum number – provided that 100% of the targets are met). The 11,425 warrants that were not allocated to the 2010 programme may not be used in the future and will be cancelled.

According to the resolution of the Supervisory Board of 29 January 2010, the general objective (trigger) for 2010 was achievement of a consolidated operating profit of PLN 35 m, while the rights vest on the following rules:

- Operating profit greater than PLN 35 m – allocation of a pool of 139,750 warrants;
- Operating profit between PLN 30m and PLN 35m – allocation of up to 80% of the warrants (111,800);
- Operating profit below PLN 30m – no warrants allocated.

The rights to warrants will vest subject to continuation of employment with Selena Group until 15 July 2011.

As in 2010, the achieved consolidated operating profit triggered the vesting of 80% of the warrants, their cost (corresponding to 111,800 warrants) was recognised in the books as at 31 December 2010. On receipt of the auditor's opinion to the consolidated financial statements for 2010, a final determination will be made of the operating profit achieved and the number of warrants that will be awarded to employees. The 27,950 unallocated warrants will not be carried over to the next years and will be cancelled.

The number and value of the allocated and available warrants at the balance sheet date are shown in the table below.

	Warrants	**PLN/w***	**PLN k**
Available number of warrants as at 31 December 2009	326 000	16,17	5 271
Warrants earmarked by the Supervisory Board for 2010, including:	151 400		
Unallocated by the Management Board (151.400-139.750) - cancelled	*11 650*		
Allocated for 2010 (139,750 x 80%)	*111 800*	*16,01*	*1 790*
Unallocated for 2010 (139,750 x 20%) – cancelled	*27 950*		
Available number of warrants as at 31 December 2010	174 600	18,68	3 262

* share price at the balance sheet date or at the allocation date.

The fair value of the warrants at their allocation date was PLN 1,623 k according to an independent actuary. In accordance with IFRS 2, the cost will be recognised on a pro-rata basis over the rights vesting period, i.e. from the date of joining the programme (18 October 2010) to 15 July 2011. The cost of PLN 438 k for 2010, is included in the cost of operating activities, while its corresponding increase in capital is recognised in "other reserves".

Allocation of the subscription warrants may in the future dilute the profit attributable to the equity holders. Details on the possible dilution of the consolidated profit for 2010 were provided in Note 12 to this financial report.

34.2 Execution of the Programme in 2011

According to the Supervisory Board resolution of 31 January 2011, the general objective (trigger) for 2011 is achievement by the Group of a consolidated operating profit set by the Board and continuation of employment with Selena Group until 15 July 2012.

On 4 March 2011, the eligible persons joined the programme for 2011. In effect, the cost of the programme for 2011 will be recognised in the financial statements for 2011 and 2012 concurrently with rights vesting, i.e. from the date of joining the programme to commencement of conversion of the warrants into equity (15 July 2012). The total cost of the programme for 2011 is estimated at PLN 3m (including PLN 1.9m allocated to 2011).

35. Events occurring after the balance sheet date

On 25 February 2011, Carina Silicones redeemed PLN 4 m worth of bonds (principal amount plus interest) and Matizol repaid a loan of EUR 163k.

On 21 February 2011, the Company, jointly with its subsidiaries, signed a PLN 25m credit line agreement with ING Bank Śląski S.A. (see Note 24 for details).

On 15 March 2011, Orion Sp. z o.o. repurchased all the bonds issued to Selena FM (PLN 5,478 k).

On 16 March 2011, Selena S.A. issued to Selena FM bonds of PLN 4m (fixed interest rate of 5.65%, maturity date: 31 December 2011).

On 18 March 2011, Selena FM S.A. granted a loan of EUR 2.5m to Selena Co. S.A. (variable interest rate based on 3M EURIBOR + 1pp, maturing on 31 December 2011).

On 28 March 2011, Libra Sp. z o.o. issued to Selena FM bonds of PLN 2m (fixed interest rate of 5.65%, maturity date: 30 June 2011).

On 31 March 2011, Libra sp. z o.o. signed with DZ Bank Polska S.A. a term loan agreement for PLN 10m (bearing variable interest at 1M WIBOR + margin; maturity date: 31 March 2018; the loan is secured by a legal mortgage on the company's property up to PLN 13m, insurance policy assignment and a blank bill of exchange guaranteed by Selena FM S.A.).

Furthermore, on 16 March 2011, as part of the head office reorganisation (Note 15.4), Selena Co S.A. sold to Selena FM S.A. the first tranche of shares in: Selena Deutschland, Selena Italia, Selena Shanghai, Selena Ukraine, Selena Bulgaria, Selena Bohemia, Selena Romania, Selena Hungaria, Selena Slovakia, Selena USA.

Person responsible for maintenance of accounting books

……………………………..
Marlena Łubieszko-Siewruk

President of the Management Board

…..……………………….
Krzysztof Domarecki

Vice-President of the Executive Board
Financial Director

……..……………………..
Kazimierz Przełomski

Management Board Member

…..……………………….
Elżbieta A. Szymańska