SELENA FM S.A.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011
WITH AN INDEPENDENT AUDITOR'S OPINION

Wrocław, 25 April 2012

PROFIT AND LOSS ACCOUNT

Data in PLN thousand	Note	Year ended 31 December 2011	Year ended 31 December 2010
Continued operations			
Revenue from the sale of goods and materials		309 237	154
Revenue from the sale of services		25 356	10 135
Revenue from sales		**334 593**	**10 289**
Cost of goods sold	6.1	302 729	9 789
Gross profit (loss)		**31 864**	**500**
Other operating income		209	133
Selling and marketing costs	6.1	13 096	5
General and administrative expenses	6.1	16 264	11 867
Other operating costs	6.4	4 837	10
Operating profit (loss)		**-2 124**	**-11 249**
Financial revenues	7.1	44 930	176 630
Financial expenses	7.2	2 713	107 880
Profit (loss) before tax		**40 093**	**57 501**
Income tax	8.1	2 830	-1 972
Net profit (loss) on continued operations		**37 263**	**59 473**
Discontinued operations			
Profit (loss) on discontinued operations		–	–
Net profit (loss) for the previous year		**37 263**	**59 473**
Earnings per share (continued operations) (PLN/share):	12		
- basic		1,64	2,62
- diluted		1,63	2,61

STATEMENT OF COMPREHENSIVE INCOME

Data in PLN thousand	Year ended 31 December 2011	Year ended 31 December 2010
Profit after tax	37 263	59 473
Other comprehensive income (net of tax)	0	-168
Total comprehensive income	**37 263**	**59 305**

STATEMENT OF FINANCIAL POSITION

Data in PLN thousand	Note	31 December 2011	31 December 2010
Non-current assets		**223 629**	**88 082**
Property, plant and equipment	13	3 532	1 577
Intangible fixed assets	14	5 363	3 342
Shares in subsidiaries	15	193 203	49 778
Other long-term receivables	19	0	32
Long-term portion of loans granted	16	18 801	7 457
Other long term financial assets	16	2 304	23 145
Deferred tax assets	8.3	426	2 751
Current assets		**236 409**	**171 371**
Inventory	17	3 176	273
Trade debtors	18	129 304	4 639
Income tax receivable		0	205
Other short-term receivables	19	19 878	106 905
Short-term portion of loans granted	16	36 823	2 978
Other short-term financial assets	16	27 850	54 315
Cash and cash equivalents	20	19 378	2 056
TOTAL ASSETS		**460 038**	**259 453**
Equity		**286 123**	**254 937**
Registered capital	21.1	1 136	1 136
Supplementary capital	21.2	236 561	191 626
Other reserves	21.3	11 163	9 968
Retained profit / loss carried forward		37 263	52 207
retained profit / loss carried forward from previous years		0	-7 266
- profit (loss) after tax		37 263	59 473
Non-current liabilities		**788**	**0**
Other financial liabilities	24	788	0
Current liabilities		**173 127**	**4 516**
Trade creditors	22	95 408	1 432
Short-term portion of bank and other loans	25.1	73 064	85
Other financial liabilities	24	491	0
Income tax payable		505	0
Other short-term liabilities	23	3 659	2 999
Total liabilities		**173 915**	**4 516**
TOTAL EQUITY AND LIABILITIES		**460 038**	**259 453**

STATEMENT OF CASH FLOWS

Data in PLN thousand	Note	Year ended 31 December 2011	Year ended 31 December 2010
Cash flows from operating activities			
Profit / loss before tax on continued operations		**40 093**	**57 501**
Profit / loss before tax on discontinued operations		–	–
Adjusted by:			
Depreciation	6.3	1 173	71
FX (gains) / losses		2 325	242
Interest and dividends		-34 097	-176 096
Profit / loss on investing activities		140	107 228
Change in the balance of receivables	27	-136 432	-1 659
Change in the balance of inventories		-2 902	-273
Change in the level of creditors	27	95 305	2 319
Income tax paid		205	0
Other – management options programme		1 196	438
Net cash flows from operating activities		**-32 994**	**-10 229**
Cash flows from investing activities			
Inflows from sale of tangible fixed assets		204	0
Acquisition of tangible and intangible fixed assets		-3 610	-3 009
Purchase of shares in a subsidiary		0	-19 900
Purchase of other financial assets		-6 004	-1 428
Dividends and interest received		4 427	8 409
Loans granted		-32 352	-4 116
Repayments of loans granted		13 684	2 300
Bond repayments		13 697	5 923
Net cash flows from investing activities		**-9 954**	**-11 821**
Cash flows from financing activities			
Payment of finance lease liabilities		-419	0
Inflows from bank / other loans received		83 960	0
Repayment of loans		-14 875	0
Payment of dividend		-7 272	0
Interest paid		-2 064	0
Net cash flows from financing activities		**59 330**	**0**
Net increase in cash and cash equivalents		**16 382**	**-22 050**
Change in cash and cash equivalents:		**17 322**	**-21 994**
net FX differences		940	56
Cash at the beginning of the period		*2 056*	*24 050*
Cash at the end of the period		*19 378*	*2 056*

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 December 2011 ROKU

Data in PLN thousand	Registered capital	Supplementary capital	Other reserves	Retained profit / (loss carried forward): from previous years	from the current period	Total equity
As at 1 January 2011	**1 136**	**191 626**	**9 968**	**52 207**	**0**	**254 937**
Profit (loss) for the financial year	0	0	0	0	37 263	**37 263**
Total comprehensive income	**0**	**0**	**0**	**0**	**37 263**	**37 263**
Profit allocated to supplementary capital	0	44 935	0	-44 935	0	**0**
Allocation of rights to warrants as part of the incentive programme (Note 34)	0	0	1 195	0	0	**1 195**
Payment of dividend	0	0	0	-7 272	0	**-7 272**
As at 31 December 2011	**1 136**	**236 561**	**11 163**	**0**	**37 263**	**286 123**

FOR YEAR ENDED 31 DECEMBER 2010

Data in PLN thousand	Registered capital	Supplementary capital	Other reserves	Retained profit / (loss carried forward): 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**
Profit (loss) for the financial year	0	0	0	0	59 473	**59 473**
Additional costs relating to the investment in a subsidiary	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 (Note 34)	0	0	438	0	0	**438**
As at 31 December 2010	**1 136**	**191 626**	**9 968**	**-7 266**	**59 473**	**254 937**

ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

1. Information on 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.

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

1.2 The Management Board of the Company

On 17 June 2011, the Supervisory Board of the Parent Company:
- appointed Jarosław Michniuk Management Board Member effective from 25 July 2011;
- appointed Sławomir Lis Vice-President of the Management Board Member effective from 3 October 2011;
- accepted resignation of Elżbieta A. Szymańska as Management Board Member effective from 31 July 2011.

On 26 August 2011, Krzysztof Domarecki resigned as the Company's Management Board President. On the same date, the Supervisory Board appointed to this post Jarosław Michniuk, who had previously acted as Management Board member. Both changes became effective on 2 November 2011.

On 24 October, the Extraordinary General Meeting of the Company decided to remove Jacek Olszański from the post of Supervisory Board Chairman, and entrusted this role to Krzysztof Domarecki effective from 2 November 2011.

On 30 September 2011, Sławomir Lis decided not to take up the post of Vice-President of the Management Board for personal reasons.

As at the date of publication of this report, the Management Board consisted of the following persons:
- Jarosław Michniuk – President of the Management Board, and
- Kazimierz Przełomski – Vice-President of the 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 non-consolidated 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 2011, published on 25 April 2012.

2.1.2 Reporting period

These financial statements cover the period of 12 months ended on 31 December 2011 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 2011 as well as comparative data for the period of 12 months ended 31 December 2010.

The balance sheet covers the data presented as at 31 December 2011 and the comparative data as at 31 December 2010.

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 25 April 2012.

2.3 Basis of preparation

These financial statements have been prepared under the historical cost convention, except for those financial instruments that are 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 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.

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 31 December 2010, except for the changes resulting from implementation of new standard or changes to the accounting policies by the Company's Management Board.

An analysis of impact of the changes and the new interpretations applicable to annual periods commencing 1 January 2011 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 annual periods starting on 1 January 2011.

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.

Changes arising from the review of IFRS (published in May 2010).

Amendments to *IFRS 1 First-time Adoption of International Financial Reporting Standards. limited exemption from the obligation to present comparative data required by IFRS 7 for the first-time adopters* – applies to the annual periods commencing on 1 July 2010.

The foregoing changes have no material impact on the data presented in these financial statements.

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

The following standards and interpretations have been released by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee, but have not entered into force yet.

Phase 1 of *IFRS 9 Financial Instruments: Recognition and Measurement* - applies to the annual periods commencing on 1 January 2015 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.

Amendments to *IFRS 7 Financial Instruments*: *Disclosures: transfer of financial assets* – applies to the annual periods commencing on 1 July 2011 or thereafter.

Amendments to *IAS 12 Income Tax: Recovery of Underlying Assets* – applies to the annual periods commencing on 1 January 2012 or thereafter – 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.
Severe Hyperinflation and Removal of Fixed Dates for First- time Adopters –
– applies to the annual periods commencing on 1 July 2011 or thereafter;
until the date of approval of these financial statements not yet approved by the EU.

Amendments to *IAS 19 Employee Benefits* – 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.

Amendments to IAS 1 *Presentation of Financial Statements: presentation of items in Other Comprehensive Income* – applies to the annual periods commencing on 1 July 2013 or thereafter – until the date of approval of these financial statements these amendments have not been approved by the EU.

IFRS 10 – Consolidated Financial Statements – applies to the annual periods commencing on 1 January 2013 – until the date of approval of these financial statements not yet approved by the EU.

IFRS 11 – Joint Ventures – applies to the annual periods commencing on 1 January 2013 – until the date of approval of these financial statements not yet approved by the EU.

IFRS 12 – Related Party Disclosures – applies to the annual periods commencing on 1 January 2013 – until the date of approval of these financial statements not yet approved by the EU.

IFRS 13 – Fair Value Measurement – applies to the annual periods commencing on 1 January 2013 – until the date of approval of these financial statements not yet approved by the EU.

IFRS 27 – Separate Financial Statements – applies to the annual periods commencing on 1 January 2013 – until the date of approval of these financial statements not yet approved by the EU.

IAS 28 – Investments in Associates and Joint Ventures – applies to the annual periods commencing on 1 January 2013 – until the date of approval of these financial statements not yet approved by the EU.
Changes to IAS 28 with respect to offsetting assets and liabilities, applies to the annual periods commencing after 1 January 2014 – until the date of approval of these financial statements not yet approved by the EU.

IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine - applies to the periods commencing on 1 January 2013 – 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. Government loans* - applies to the annual periods commencing on 1 January 2013 or thereafter – until the date of approval of these financial statements not yet approved by the EU.

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 upon publication of the standards, to ensure a consistent presentation. In the case of other standards, the entity is analysing their impact on the financial statements.

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 2011	31 December 2010	12 months ended 31 December 2011	12 months ended 31 December 2010
1 USD	3,4174	2,9641	2,9679	3,0402
1 EUR	4,4168	3,9603	4,1401	4,0044

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 7
Vehicles	3 to 7
Other fixed assets	3 to 7

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 calculated using the effective interest rate method, financial charges under a finance lease, and FX differences arising from external finance, up to the value of the interest expense correction.

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 quoted in an active market (not derivatives) with determined or determinable payments and a stated maturity, which the entity 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 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 Inventories

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.

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

Revenues from provision of services are recognised when the service is performed, at the net value stated in the agreement or on the invoice.

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.

3.4.19 Transactions settled through equity instruments

The cost of transactions settled with staff in equity instruments is recognised by reference to the fair value at the date when the respective rights were awarded. Fair value is determined by an independent valuer. Measurement of the equity-settled payments takes account of the market conditions of the rights allocation (associated with the price of the parent's shares) and other conditions than those relating to the rights allocation.

The cost of transactions settled in equity instruments is recognised by reference to the increase in the value of equity in the period when all the conditions relating to performance / service were fulfilled, ending on the day when the given staff members acquire full rights to the benefits ("vesting day"). The aggregate cost in respect of equity-settled transactions recognised at each balance sheet date until the vesting date reflects the passage of the vesting period and the number of awards to which – according to the parent's management at that date, based on the possibly most accurate estimates of the number of equity instruments - rights will be finally acquired.

No costs will be recognised in respect of the awards to which rights will not be finally acquired, except for the awards for which vesting depends on market conditions or other conditions than those relating to the vesting, which are treated as acquired, regardless of whether or not the market conditions or the other conditions than those relating to the vesting are fulfilled, provided that all the other conditions relating to effectiveness/performance and / or provision of service are fulfilled.
If the conditions for allocation of equity-settled awards are modified, to meet the minimum requirement costs are recognised as if the conditions have not been modified. Furthermore, costs are recognised in respect of each increase in the value of the transaction as a result of the modification, measured at the date of the modification.

Where an equity-settled award is cancelled, it is treated as if the rights to the award have not been acquired at the cancellation date, and any not yet recognised costs in respect of the award are recognised immediately. This also relates to the awards for which the conditions other than those relating to the vesting, controlled by the parent or the employee, have not been met. However, where the cancelled award is replaced by a new award - determined as a supplementary award on the date of its allocation, the cancelled award and the new award are treated as a modification of the original award, i.e. in the manner outlined above.

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. See Note 1.1 of this report for description of the Company's operations.

The Company's operating efficiency is assessed on the basis of management data that are prepared in accordance with the IAS/IFRS guidelines.

Related parties account for more than 93% of sales (more than 98% in 2010).

Sales are generated in Poland (PLN 25.8m) and abroad in the countries where the Group's units are based. The Company's tangible assets are 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 for goods and services, so they are not a major contributor to the assessment of the Com'any's operating efficiency.

6. Operating costs

6.1 Cost by type

Data in PLN thousand	Year ended 31 December 2011	Year ended 31 December 2010
Consumption of materials and energy	778	388
Cost of employee benefits	16 554	10 128
Depreciation	1 173	71
External services, including:	14 740	8 706
consultancy	6 621	5 235
lease	2 093	2 089
other	6 026	1 382
Taxes and duties	329	200
Other costs by type, including:	2 632	1 970
entertainment and advertising costs	715	377
cost of business travel	1 515	1 307
Cost of merchandise and materials sold	278 641	149
Cost of services sold	17 242	49
Operating costs	**332 089**	**21 661**
change in the balance of products	0	0
Total	**332 089**	**21 661**

including:

Cost of goods sold	302 729	9 789
Selling and marketing costs	13 096	5
General and administrative expenses	16 264	11 867

6.2 Cost of employee benefits

Data in PLN thousand	Year ended 31 December 2011	Year ended 31 December 2010
Remuneration	14 361	8 776
Social security costs	1 821	1 043
Other employee benefit costs	372	309
Total cost of employee benefits	**16 554**	**10 128**
including:		
Cost of goods sold	4 265	4 526
Selling and marketing costs	5 392	2
General and administrative expenses	6 897	5 600

The cost of employee benefits indicated in the table also includes the cost of delivery of the management options programme, described in Note 42 of this report.

6.3 Depreciation

Data in PLN thousand	Year ended 31 December 2011	Year ended 31 December 2010
Fixed asset depreciation	556	19
Depreciation	617	52
Total depreciation	**1 173**	**71**
including:		
Cost of goods sold	3	0
Selling and marketing costs	313	0
General and administrative expenses	857	71

6.4 Other operating costs

Data in PLN thousand	Year ended 31 December 2011	Year ended 31 December 2010
Loss on disposal of non-financial fixed assets	52	0
Impairment charge for receivables	4 114	0
Other	671	10
Total	**4 837**	**10**

7. Financial revenues and expenses

7.1 Financial revenues

Data in PLN thousand	Year ended 31 December 2011	Year ended 31 December 2010
Dividends and share in profits	31 466	170 302
Interest, including:	11 085	6 250
on bonds and loans granted	4 818	5 794
on deposits and bank accounts	205	47
reversal of discount of financial assets	6 062	409

FX differences	2 379	0
Other financial revenues	0	78
Total	**44 930**	**176 630**

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.

On 10 June 2011, the General Meeting of Orion Sp. z o.o. (a subsidiary) adopted a resolution on allocation of the company's profit for 2010 in the amount of PLN 31,482k to dividend. An amount of PLN 31,466k was allocated to Selena FM S.A., pro-rated to the value of its stake in the company.

The item "reversal of discount of receivables" relates to the receivables from Selena Co. S.A. covered by the settlement of dividend that Selena FM received from subsidiary Orion sp. z o.o. on 30 June 2010 and 10 June 2011 (described above). Due to the expected date of settlement of the receivables covered and their significant value (PLN 199.4m in total), the receivables were measured at fair value at the recognition date, and in effect were reduced by the value of the discount (the value of shares in Orion sp. z o.o. was increased by a corresponding amount). The discount was gradually reversed until full settlement of the acquired receivables. Full settlement of the receivables took place in 2011.

7.2 Financial expenses

Data in PLN thousand	**Year ended 31 December 2011**	**Year ended 31 December 2010**
Interest, including:	2 291	0
on loans and advances received	2 124	0
on finance lease	63	0
on other obligations	104	0
Impairment of other financial assets	20	107 714
FX differences	0	166
Other financial costs	402	0
Total	**2 713**	**107 880**

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 result of the change, in 2010 an impairment charge was posted for the value of shares in Selena Co. (as shown in the table above). See Note 15.7 for details of how the impairment charge was recognised.

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

8. Income tax

8.1 Tax charges

Data in PLN thousand	**Year ended 31 December 2011**	**Year ended 31 December 2010**
Income tax for the current period	505	0
Change in deferred tax	2 325	-1 972
Tax charge recognised in profit or loss:	**2 830**	**-1 972**

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 2011 and 31 December 2010.

Data in PLN thousand	Year ended 31 December 2011	Year ended 31 December 2010
Gross profit (loss) on continued operations	40 093	57 501
Tax rate	19%	19%
Tax at the statutory rate	7 618	10 925
Tax on non-taxable revenues (fixed differences)	-5 979	-34 652
- in respect of dividends received	-5 979	-32 357
- other	0	-2 295
Tax on costs that are not tax-deductible (fixed differences)	1 191	21 755
- in respect of impairment charge for the shares in Selena Co.	0	21 755
- in respect of impairment charge for receivables	771	0
- in respect of management options	227	0
- other	193	0
Tax charge presented in the profit or loss:	**2 830**	**-1 972**
Effective tax rate	7,06%	-3,43%

8.3 Deferred income tax

Deferred tax asset

Data in PLN thousand	As at 31 December 2011	Debit / credit to net income	As at 31 December 2010	Debit / credit to net income
Deferred tax asset on negative temporary differences in assets	*125*	*-917*	*1 042*	*927*
Trade debtors	*11*	*11*	*0*	*-13*
Impairment charges for receivables	*11*	*11*	*0*	*-13*
Loans granted and contributions to capital	114	24	90	-12
Valuation of loans granted	*114*	*49*	*65*	*-12*
Unrealised FX losses	*0*	*-25*	*25*	*0*
Other assets	*0*	*-952*	*952*	*952*
Discount of dividend receivable (Note 7.1)	*0*	*-952*	*952*	*952*
Deferred tax asset on negative temporary differences in liabilities	*1 062*	*570*	*492*	*259*
Accruals	*470*	*78*	*392*	*176*
Liabilities in respect of loans and advances	*638*	*621*	*17*	*0*
Interest payable	*41*	*26*	*16*	*0*
Unrealised FX losses	*597*	*595*	*1*	*0*
Other liabilities	*-46*	*-129*	*83*	*83*
Lease liabilities	*-46*	*-46*	*0*	*0*
Management options	*0*	*-83*	*83*	*83*
Deferred tax asset on temporary differences in tax losses	*718*	*-718*	*1 436*	*645*
Deferred tax asset on total temporary differences	**1 905**	**-1 065**	**2 970**	**1 831**
Deferred tax asset less liability	426		2 751	
Charge in respect of deferred tax		2 325		-1 972

Deferred tax liability

Data in PLN thousand	As at 31 December 2011	Debit / credit to net income	As at 31 December 2010	Debit / credit to net income

Deferred tax liability on positive temporary differences in assets	*1 453*	*1 234*	*219*	*-141*
Trade debtors	816	816	0	0
Unrealised FX gains	*816*	*816*	*0*	*0*
Loans granted and contributions to capital	*385*	*308*	*78*	*53*
Interest on loans granted, accrued and outstanding	*191*	*135*	*56*	*53*
Interest on contributions, accrued and outstanding	*0*	*-22*	*22*	*0*
Unrealised FX gains	*194*	*195*	*0*	*0*
Bonds	*73*	*-69*	*141*	*-194*
Interest on bonds, accrued and outstanding	*50*	*-66*	*115*	*-220*
Fair valuation of bonds	*0*	*-26*	*26*	*26*
Unrealised FX gains	*23*	*23*	*0*	*0*
Other assets	179	179	0	0
Unrealised FX gains on cash	*179*	*179*	*0*	*0*
Deferred tax liability on positive temporary differences in liabilities	*26*	*26*	*0*	*0*
Trade creditors	26	26	0	0
Unrealised FX gains	*26*	*26*	*0*	*0*
Deferred tax liability	**1 479**	**-1 260**	**219**	**-141**

9. Dividend paid and proposed

On 1 June 2011, the AGM of the Parent Company decided to allocate a part of the net profit for 2010 to dividend of PLN 0.32 per share (PLN 7,271,680). All the 22,724,000 shares will pay a dividend. The ex-dividend date, when the list of shareholders eligible for dividend is determined, was 4 July 2011. The dividend was paid on 12 July 2011.

10. Discontinued operations

In the period of ended 31 December 2011 or in the period ended 31 December 2010, 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 ordinary shareholders by the weighted average number of outstanding ordinary shares during the period.

The number of ordinary shares in 2011 and 2010 did not change.

As a result of execution of the share-based incentive programme (Note 34), 110,000 of new series D ordinary shares were admitted to trading on 16 March 2012.

The table below shows a calculation of the profit per share in the reporting period.

		Year ended 31 December 2011	Year ended 31 December 2010
Profit (loss) after tax	PLN	37 262 907	59 473 284
Weighted average number of ordinary shares	share	22 724 000	22 724 000
Profit/(loss) per ordinary share	**PLN/share**	**1,64**	**2,62**
Number of shares, including possible dilution	share	22 834 000	22 750 975
Diluted profit per share	**PLN/share**	**1,63**	**2,61**

13. Property, plant and equipment

The tables below show the gross value, depreciation and net value of tangible assets as at 31 December 2011 and 31 December 2010.

Data in PLN thousand	Buildings and premises	Plant and machinery	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value as at 1 January 2011	**69**	**855**	**766**	**14**	**47**	**1 751**
Increases, including:	19	463	2 093	111	0	2 686
Direct purchase	19	463	569	111	0	1 162
Leasing	0	0	1 524	0	0	1 524
Decreases, including:	0	3	149	0	47	199
Liquidation, sale	0	3	149	0	0	152
Other	0	0	0	0	47	47
Gross value as at 31 December 2011	**88**	**1 315**	**2 710**	**125**	**0**	**4 238**
Write-off as at 1 January 2011	**41**	**121**	**1**	**11**	**0**	**174**
Increases, including:	4	194	349	9	0	556
Depreciation for the period	4	194	349	9	0	556
Decreases, including:	0	2	22	0	0	24
Liquidation, sale	0	2	22	0	0	24
Write-off as at 31 December 2011	**45**	**313**	**328**	**20**	**0**	**706**
Net value as at 1 January 2011	**28**	**734**	**765**	**3**	**47**	**1 577**
Value as at 31 December 2011	**43**	**1 002**	**2 382**	**105**	**0**	**3 532**

Data in PLN thousand	Buildings and premises	Plant and machinery	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value as at 1 January 2010	**69**	**116**	**0**	**11**	**0**	**196**
Increases, including:	0	739	766	3	606	2 114
Direct purchase	0	248	766	3	606	1 623
Settlement of fixed assets under construction	0	491	0	0	0	491
Decreases, including:	0	0	0	0	559	559
Settlement of fixed assets under construction	0	0	0	0	491	491
Transfer from intangible assets	0	0	0	0	68	68
Gross value 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**
Increases, including:	4	14	1	0	0	19
Depreciation for the period	4	14	1	0	0	19
Write-off as at 31 December 2010	**41**	**121**	**1**	**11**	**0**	**174**

Net value as at 1 January 2010	**32**	**9**	**0**	**0**	**0**	**41**
Value as at 31 December 2010	**28**	**734**	**765**	**3**	**47**	**1 577**

In 2011 and 2010, financing costs were not capitalised into tangible assets.

14. Intangible fixed assets

The tables below show the gross value, amortisation and net value of intangible assets as at 31 December 2011 and 31 December 2011.

Data in PLN thousand	Software	Other intangible assets	Intangible assets not brought into use	Total
Gross value as at 1 January 2011	**2 534**	**278**	**642**	**3 454**
Increases, including:	891	184	1 563	2 638
Direct purchase	891	184	1 525	2 600
Other	0	0	38	38
Gross value as at 31 December 2011	**3 425**	**462**	**2 205**	**6 092**
Write-off as at 1 January 2011	**69**	**43**	**0**	**112**
Increases, including:	534	83	0	617
Amortisation for the period	534	83	0	617
Write-off as at 31 December 2011	**603**	**126**	**0**	**729**
Net value as at 1 January 2011	**2 465**	**235**	**642**	**3 342**
Value as at 31 December 2011	**2 822**	**336**	**2 205**	**5 363**

Data in PLN thousand	Software	Other intangible assets	Intangible assets not brought into use	Total
Gross value as at 1 January 2010	**87**	**21**	**973**	**1 081**
Increases, including:	2 454	257	2 233	4 944
Direct purchase	5	135	2 165	2 305
Settlement against intangible assets under construction	2 449	115	0	2 564
Other	0	7	68	75
Decreases, including:	7	0	2 564	2 571
Settlement against intangible assets under construction	0	0	2 564	2 564
Other	7	0	0	7
Gross value as at 31 December 2010	**2 534**	**278**	**642**	**3 454**
Write-off as at 1 January 2010	**46**	**13**	**0**	**59**
Increases, including:	24	30	0	54
Depreciation for the period	24	28	0	52
Other	0	2	0	2
Decreases, including:	1	0	0	1
Other	1	0	0	1
Write-off as at 31 December 2010	**69**	**43**	**0**	**112**
Net value as at 1 January 2010	**41**	**8**	**973**	**1 022**
Value as at 31 December 2010	**2 465**	**235**	**642**	**3 342**

The intangible fixed assets under construction represent the cost of software being implemented. The impairment test for the Company's fixed assets described in Note 15.8 did not reveal any need to post an impairment charge for fixed assets.

15. Shares in subsidiaries

15.1 The Company's investments

Company	Reg. Office	Activities	Share in capital 31 December 2011	Share in capital 31 December 2010	
Selena S.A. (formerly Selena Co. S.A)	Wrocław	Distributor	100,00%	100,00%	
Selena S.A. (before merger)	Wrocław	Distributor	-	50,00%	1
Carina Silicones Sp. z o.o.	Siechnice	Manufacturer of sealants, distributor	100,00%	100,00%	
Research Centre of Construction Technology Sp. z o.o.	Siechnice	Research and development	99,50%	99,50%	2
Orion Sp. z o.o.	Dzierżoniów	Manufacturer of foams, adhesives, distributor	99,95%	99,95%	3
Libra Sp. z o.o.	Dzierżoniów	Manufacturer of sealants and adhesives, distributor	100,00%	100,00%	
Tytan EOS Sp. z o.o.	Wrocław	Manufacturer of loose materials	100,00%	100,00%	
PMI "IZOLACJA - MATIZOL" S.A.	Gorlice	Manufacturer of materials for hydroinsulation, distributor	100,00%	100,00%	
Selena Deutschland GmbH	Hagen	Distributor	100,00%		
Selena Italia srl	Limena	Distributor	100,00%		
Selena Iberia slu	Madrid	Manufacturer of sealants and adhesives, distributor	100,00%		
Selena USA Inc.	Easton	Manufacturer of sealants, distributor	100,00%		
Selena Sulamericana Ltda	Ponta Grossa	Manufacturer of foams, distributor	95,00%		4
Selena USA Real Estate Corp.	Elkhart	Property management	100,00%		
Selena Romania SRL	Ilfov	Distributor	100,00%		
Selena Bohemia s.r.o	Roudnice	Distributor	100,00%		
Selena Hungária Kft.	Pécs	Distributor	100,00%		
FinSelena Oy	Lammi	Distributor	100,00%		
Selena Bulgaria Ltd.	Sofia	Distributor	100,00%		
Selena Slovakia s.r.o.	Nitra	Distributor	100,00%		
Selena Ukraine Ltd.	Kiev	Distributor	99,00%		
Selena CA L.L.P.	Almaty	Distributor	100,00%		
Selena Shanghai Trading Co., Ltd.	Shanghai	Distributor	100,00%		
Selena Nantong Building Materials Co., Ltd.	Nantong	Manufacturer of foams, distributor	100,00%		
Selena Vostok	Moscow	Distributor	99,00%		
OOO Kvadro	Widnoje	Distributor	99,00%		
Selena Malzemeleri Yapi Sanayi Tic. Ltd.	Istambul	Manufacturer of polyurethane foams and sealants, distributor	1,00%		5

1 - 31 October 2011 the company was merged with Selena Co. S.A.; the new entity changed its name to Selena S.A.
2 - Other shares are owned by Krzysztof Domarecki (Supervisory Board Chairman of Selena FM S.A.)
3- Other shares are owned by Anna Kozłowska (member of the Supervisory Board of Selena FM S.A.)
4 – Other shares outside of the Group
5 - 99 % shares owned by the subsidiary Carina Silicones

15.2 Share value

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

Data in PLN thousand	Share value 31 December 2011	31 December 2010	
Selena S.A. (formerly Selena Co. S.A)	170 076	107 714	
Selena S.A. (before merger)	-	11 087	
Carina Silicones Sp. z o.o.	2 070	2 070	
Research Centre of Construction Technology Sp. z o.o.	1 400	1 400	
Orion Sp. z o.o.	8 175	7 125	
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	18 500	
Selena Deutschland GmbH	4	-	
Selena Italia srl	0	-	*
Selena Iberia slu	42 728	-	
Selena USA Inc.	0	-	*
Selena Sulamericana Ltda	3 714	-	
Selena USA Real Estate Corp.	2 418	-	
Selena Romania SRL	174	-	*
Selena Bohemia s.r.o	0	-	*
Selena Hungária Kft.	0	-	*
FinSelena Oy	318	-	
Selena Bulgaria Ltd.	0	-	*
Selena Slovakia s.r.o.	0	-	*
Selena Ukraine Ltd.	0	-	*
Selena CA L.L.P.	0	-	*
Selena Shanghai Trading Co., Ltd.	0	-	*
Selena Nantong Building Materials Co., Ltd.	33 910	-	
Selena Vostok	7 834	-	
OOO Kvadro	0	-	*
Selena Malzemeleri Yapi Sanayi Tic. Ltd.	20	-	
Gross value of shares	300 937	157 492	
Impairment charge (Selena S.A., formerly: Selena Co. S.A.)	107 714	107 714	
Impairment charge (Selena Malzemeleri Yapi Sanayi Tic. Ltd.)	20	0	
Net value of shares	**193 203**	**49 778**	

* value of shares below PLN 400

15.3 Purchase of shares in subsidiaries

As part of the programme of reorganisation of the Group's head office, the shareholdings in foreign companies held by Selena Co. S.A. were being gradually transferred to Selena FM S.A. Stakes in 18 companies were sold for a total amount of PLN 90.9m.

In 2011, the following shareholdings were purchased from Selena Co. S.A.:

Entity	Shares sold	Purchase date	Price (PLN equivalent)
Selena Italia srl	100%	16 March 2011	1,00
Selena Deutschland GmbH	100%	16 March 2011	1,00
Selena Bohemia s.r.o.	100%	16 March 2011	0,17
Selena Romania SRL	100%	16 March 2011	100,00
Selena Hungária Kft.	100%	16 March 2011	1,00
Selena Bulgaria Ltd.	100%	16 March 2011	207,37
Selena Slovakia s.r.o.	100%	16 March 2011	1,00
Selena Ukraine Ltd.	99%	16 March 2011	99,00
Selena Shanghai Trading Co., Ltd.	100%	16 March 2011	2,91
Selena USA, Inc.	100%	16 March 2011	290,52
Selena Vostok Moscow	99%	12 maja 2011	7 833 896,84
Industrias Quimicas Löwenberg S.L.	100%	16 June 2011	42 728 264,11
Selena Nantong Building Materials Co.	100%	27 June 2011	33 909 727,50
Selena Sulamericana Ltda	95%	27 June 2011	3 713 550,92
Selena USA Real Estate Corp.	100%	27 June 2011	2 417 896,19
FinSelena Oy	100%	27 June 2011	318 050,83
OOO Kvadro	99%	29 June 2011	396,66
Selena CA L.L.P	100%	12 October 2011	4,34
			90 922 491,36

The liability towards Selena Co. S.A. in respect of acquisition of shares in the foreign affiliates was settled through a set-off:

- against the part of the amounts owed by Selena Co. S.A. that became payable to Selena FM S.A. as part of settlement of the dividend received from Orion sp. z o.o. (see Note 19) – PLN 47,597k;
- against the receivables on account of the purchased bonds and loans (Note 18) – PLN 42,728k;
- other receivables – PLN 597k.

15.4 Merger of Selena Co. S.A. and Selena S.A.

On 31 October 2011, Selena Co. S.A. and Selena S.A. were merged. The merger was effected by a transfer of the assets of Selena S.A. to Selena Co. S.A., whose share capital was increased. For its shares in Selena S.A, Selena FM S.A. received 128,000 shares in Selena Co. S.A. with a total nominal value of PLN 6.4m. The new entity changed its name to Selena S.A. On 31 October 2011, the merger was registered with the National Court Register.

On 7 November 2011, the share capital of the new entity was increased by PLN 2.5m. The 30,000 new shares were acquired by the sole shareholder (Selena FM S.A.) for PLN 50.94m. The increased amount was settled against payments from the merging companies.

The increase in the value of the shares of Selena S.A. (after the merger) results from:

- capital increase – PLN 50,940k;
- acquisition of shares in Selena S.A. (before the merger), previously owned by Selena FM S.A. – PLN 11,087k;
- fair valuation (discount) of the loans taken over from Selena Co. S.A as part of settlement of the receivables described in Note 19 – PLN 335k.

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 1,049k 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 Other developments

The increase in the value of shares in Selena Romania results from the guarantee given by Selena FM to the company for the purchase of receivables as part of acquisition of EURO MGA Product sarl (transaction described in the Group's consolidated report for 2011). Details of the guarantee are presented in Note 26.1.

Moreover, on 19 December 2011, Selena FM acquired from its subsidiary Research Center of Construction Technology 1% stake in Selena Malzemeleri Yapi Sanayi Tic. of Istanbul for 11 thousand of Turkish liras. The shares were covered with an impairment charge as per Note 15.8.

15.7 Impairment of shares in Selena Co. S.A (2010)

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 19). The transaction had no impact on the Company's profit or on the Group's consolidated profit.

In 2011, most of the shares in foreign members of the Group were sold from Selena Co. to Selena FM (Note 15.3).

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. 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. at PLN 107.7m.

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

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

15.8 Impairment

Due to existence of the factors that might be indicative of impairment of the shares in Selena Iberia (crisis in the Spanish markets), Matizol (unfavourable market environment) and Selena Yapi Malzemeleri (restructure of the Group's operations in the Turkish market), an impairment test was carried out for these shares based on the entities' cash flow projections for 2012-2106. No need for an impairment charge was identified with respect to Selena Iberia and Matizol. As regards Selena Yapi Malzemeleri, an impairment charge was recognised for the entire value of the shares (PLN 20k).

Model assumptions for the tests are shown in the table below.

CGU	Selena Iberia	Matizol	Selena Yapi Malzemeleri
WACC before tax	13,0%	12,1%	15,5%
Residual growth rate	2,5%	2,5%	2,5%
Impairment	brak	brak	PLN 23k
Model sensitivity – charge amount with:			
WACC before tax increased by 1 p.p.	*no charge*	*no charge*	*PLN 48k*
residual growth rate reduced by1 p.p.	*no charge*	*no charge*	*PLN 34k*

In 2011, the market valuation of the shares of Selena FM S.A. was in the Management's opinion an indication for performance of an impairment test, as the carrying amount of its net assets in 2011 was for a long time higher than the Company's market capitalisation. As at 31 December 2011, the value of net assets per share was PLN 12.59, while the last time when the market value of the shares of Selena FM exceeded this value was on 5 August 2011. The test did not show any need for posting impairment charges – it showed that the discounted future cash flows from operations were much higher than the net assets value. The test was based on a pre-tax WACC of 13.8% and the residual growth rate of 2.5%.

16. Loans granted and other financial assets

16.1 Loans granted and other financial assets

The Company, as a Parent of the Group, finances the operations of its subsidiaries. The financing is based on the bonds issued by the subsidiaries, loans and capital injections.

A summary of changes in the balance of such instruments in 2011 is shown in the table below.

			Principal amount		Interest			
Connection type	**Data in PLN thousand**	**31 December 2010**	**Increase**	**Decrease**	**Accrued**	**Paid**	**Valuation**	**31 December 2011**
Subsidiaries	Bonds	73 772	6 000	-52 997	3 191	-3 552	-179	26 234
	Loans	8 875	66 350	-21 053	1 437	-740	377	55 246
	Contributions to capital	2 293	0	0	11	0	0	2 304
Other connected (Syrius Investments)	Bonds	1 396	0	0	56	0	164	1 616
Not connected	Loans	1 560	0	-1 263	124	-135	92	378
Total		**87 896**	**72 350**	**-75 313**	**4 819**	**-4 427**	**454**	**85 778**
including long-term:		*30 601*						*21 105*

16.2 Maturities of the loans granted and other financial assets

Maturity (in years)		Overdue	<1	1-2	2-3	No maturity	Total
Subsidiaries	Bonds		26 234				**26 234**
	Loans		36 445	14 243	4 558		**55 246**
	Contributions to capital					2 304	**2 304**
Other connected (Syrius Investments)	Bonds		1 616				**1 616**
Not connected	Loans	378					**378**
Total		**378**	**64 295**	**14 243**	**4 558**	**2 304**	**85 778**

16.3 Bonds of connected entities – changes during the year

Purchase of bonds

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

On 28 March 2011, Selena FM acquired the short-term bonds of PLN 2m issued by Libra sp. z o.o. (fixed interest rate of 5.65%, maturity date: 30 June 2011).

Bond redemption

On 28 January the subsidiary Libra sp. z o.o. redeemed bonds of PLN 4,419k.

On 25 February 2011, Carina Silicones redeemed a part of the bonds (principal amount plus interest) of PLN 4m.

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

On 7 November 2011, Selena FM S.A. increased the share capital of Selena S.A. (after its merger with Selena Co. S.A.). A part of the increase was financed by redemption of the bonds issued by Selena S.A. (before the merger) in the amount of PLN 6,000k. At the same time, the value of the shares in Selena S.A. (after the merger) were increased by a corresponding amount, as described in Note 15.4 (bonds swapped into shares).

Change in maturity dates

Maturity of the unredeemed bonds issued by Libra sp. z o.o. was extended from 30 June 2011 to 31 December 2012 by way of several extension letters.

On 31 December 2011, the date of redemption of the bonds of Selena S.A. was extended to 31 December 2012.

On 31 December 2011, maturity of the unredeemed bonds of Carina Silicones sp. z o.o. was extended to 31 December 2012.

16.4 Loans to connected entities – changes during the year

On 18 March 2011, Selena FM S.A. granted a loan of EUR 2.5 m to Selena Co. S.A. (variable interest rate based on 3M EURIBOR + margin, maturing on 31 December 2011). A part of the loan of PLN 2,019k was repaid in cash, while the remainder (PLN 7,770k) along with the amounts due in respect of the purchased bonds of Selena Co. S.A. (PLN 33,000k) was settled against the liability on account of the purchase of 100% stake in Industrias Quimicas Löwenberg S.L. (Quilosa) from Selena Co. S.A. In effect, as at 30 June 2011, any settlements between Selena FM S.A. and Selena Co. S.A. in respect of loans and bonds were closed.

On 21 July 2011, Selena FM S.A. granted a loan of EUR 120k to its subsidiary Selena Slovakia. The loan bears a fixed interest rate of 3M Euribor + margin. The loan matures on 20 July 2012.

On 1 September 2001, Selena FM granted a loan of EUR 1.7m to its subsidiary Quilosa. The loan is payable by 31 December 2012, and bears an interest rate of 3M Euribor + margin.

On 18 August 2011, Selena FM S.A. provided a loan of EUR 750k to its subsidiary Selena Romania. The loan bears a fixed interest rate of 3M Euribor + margin. The loan matures on 17 August 2014.

On 31 August 2011, Selena FM S.A. and Selena Co. S.A. and their subsidiaries signed an agreement whereby Selena Co. S.A. settled a part of its obligations towards Selena FM S.A through transfer of assets in the form of loans granted to those subsidiaries (along with interest payable). As a result of the transaction, Selena FM received and recognised the following loans:

- Selena Yapi Mezelmeleri TRY 6,528 thousand (payable by 22 July 2012, interest rate based on CBRT-lending + margin);
- Selena Romania: EUR 465 thousand (payable by 1 February 2014, interest rate based on 3M Euribor + margin);
- Selena Bohemia: EUR 357 thousand (payable by 13 June 2013, interest rate based on 3M Euribor + margin);
- Selena Slovakia: EUR 30 thousand (payable by 31 December 2010, interest rate based on 3M Euribor + margin).

On 30 September 2011, Selena FM S.A. and Selena Co. S.A. and their subsidiaries signed an agreement whereby Selena Co. S.A. settled a part of its obligations towards Selena FM S.A through transfer of assets in the form of trade receivables from those subsidiaries. Under the agreements, the receivables were converted into interest bearing long-term loans. As a result of the transaction, Selena FM received and recognised the following loans:

- Selena Yapi Mezelmeleri: TRY 500 thousand and EUR 1,425 thousand;
- Selena Romania: EUR 1,147 thousand;
- Selena Bohemia: EUR 1,162 thousand.

On 20 December 2011, Selena FM S.A. provided a loan of EUR 2.6m to Selena Romania. The loan bears a fixed interest rate and matures on 31 December 2012. The purpose of the loan was to fulfil the terms of the agreement for take-over of EURO MGA (see Note 13.2 of the consolidated financial statements for 2011). A part of the loan of EUR 2,138k was repaid on 21 December 2011.

On 25 May 2011, Selena FM S.A. granted a loan of PLN 2m to its subsidiary PMI-Izolacja Matizol. The loan carries a variable interest rate of 3M WIBOR + margin. The original payment date (25 August 2011) was extended to 25 November 2011, and then by an annex of 25 November 2011 to 25 June 2012.

On 25 February 2011, Matizol repaid a loan of EUR 163k, on 1 December 2012 paid PLN 212k, and on 29 December 2011 an amount of PLN 538k was subject to a set-off.

On 30 December 2011, some of the principal of the loan of PLN 650k to Tytan EOS was set-off against the amounts due to the company.

Furthermore, after the balance sheet date, some of the loans granted to Selena Romania and Selena Yapi Malzemeleri were swapped into their shares, as explained in Note 35.

16.5 Capital contributions

The items includes returnable contributions imposed on Selena FM S.A. as per Article 177 of the Commercial Companies Code. The contributions may be returned after 3 months from the date of notice of the intended return in a letter to the Company. The value of the contributions is PLN 1.2m to Orion sp. z o.o. and PLN 1.1m to Libra sp. z o.o.

16.6 Bonds of other connected entities

The balance includes the bonds issued on 19 October 2010 by Syrius Investments sarl (connected entity) for an amount of EUR 350k; the interest rate is fixed at 3.75% (market level). The maturity date of 26 July 2011 was extended by an annex of 26 July 2011 to 26 July 2012.

16.7 Loans to non-connected entities

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 includes a lien on the machines to be purchased under the financed investment. The loan matured on 7 January 2011. On 5 August 2011, an annex was signed to the loan agreement, extending the loan's maturity date to 31 December 2011. At the date of publication of this report, negotiations are under way to repay the outstanding debt. Given the history of co-operation with the company and the collateral held, in the Management's opinion there are no grounds for recognition of any impairment loss as at 31 December 2011.

17. Inventories

Data in PLN thousand	31 December 2011	31 December 2010
Merchandise	3 176	273
Total inventory, gross	**3 176**	**273**
Impairment charge for inventory	0	0
Total net inventory	**3 176**	**273**

The increase in the balance of inventories as at 31 December 2011 is associated with the transfer of trading activities from Selena Co. S.A. to Selena FM S.A.

18. Trade debtors

18.1 Age structure of trade debtors

Trade debtors do not carry any interest rate - the payment terms range from 75 to 120 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.

				Overdue, not written down in full (days in arrears):				
Data in PLN thousand		**Total**	**Up-to-date**	**< 30**	**30 – 60**	**60 – 90**	**90 – 180**	**>180**
31 December 2011	From connected companies	123 720	61 257	24 064	12 934	10 035	12 490	2 940
	From non-connected companies	5 584	4 120	159	468	508	329	0
31 December 2010	From connected companies	4 614	2 085	269	158	906	598	598
	From non-connected companies	25	14	1	2	2	4	2

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 as at 31 December 2011.

18.2 Impairment charges for receivables

Data in PLN thousand	Year ended 31 December 2011	Year ended 31 December 2010
Impairment charge at the beginning of the period	**0**	**67**
Created	4 114	0
Reversed, including:	0	63
in respect of debt repayment	0	63
Utilised, including:	0	4
in respect of debt expiry	0	4
Impairment charge at the end of the period	**4 114**	**0**

including:		
Impairment charge for trade debtors	4 114	0
Impairment charge for other receivables	0	0

19. Other receivables

Data in PLN thousand	Year ended 31 December 2011	Year ended 31 December 2010
The receivables acquired from Selena Co. acquired in settlement of the dividend paid by Orion sp. z.o.o.	0	105 798
VAT claimed	18 522	646
Other	1 356	461
Total other receivables	**19 878**	**106 905**

On 30 June 2010, Selena FM S.A. signed a three-party agreement with its subsidiaries Orion Sp. z o.o. and Selena Co. S.A. to set the rules of dividend payment described in Note 7.1 hereof. 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. As at 31 December 2010, the balance shown in the table above represents the unsettled part of these receivables.

Furthermore, on 10 June 2011, 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 7.1 of this report. As part of settlement of its dividend obligations, Orion sp. z o.o. transferred its trade receivables of PLN 31,466k from Selena Co. S.A. to Selena FM S.A. The amount of the receivables was initially carried at fair value, taking account of the expected settlement date (discount of PLN 1,049k).

Both receivables were settled by 31 December 2011.

20. 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 2011, 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.

Data in PLN thousand	Year ended 31 December 2011	Year ended 31 December 2010
Cash in bank	19 352	2 014
Cash on hand	26	42
TOTAL	**19 378**	**2 056**

As at 31 December 2011, the Company held unutilised credit lines of PLN 29.5m as part of the credit limits described below (PLN 11.5m as at 31 December 2010).

21. Registered capital, supplementary capital and reserves

21.1 Registered capital

21.1.1 Nominal value per share

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

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

All the shares are fully paid-up. In 2011, the number of shares did not change. On 16 March 2012, as part of execution of the management options programme described in Note 34, 110.000 new series D bearer shares were put on the market.

21.1.2 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.

21.1.3 Major shareholders

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

	31 December 2011		31 December 2010	
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.

21.2 Supplementary capital

Data 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
Profit allocated to supplementary capital	2011	44 935
Supplementary capital		**236 561**

The items from 2007 and 2008 were described in the Company's financial statements for 2009.

21.3 Other reserves

The amount presented in the statement of financial position as at 31 December 2011 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.

Also, in 2010, a management options programme described in Note 34 of this report was continued. 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 2011, an amount of PLN 1,633k was reported under "Other reserves". Shares issued under the programme were admitted to trading on 16 March 2012.

21.4 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.

22. Trade creditors

Data in PLN thousand	Year ended 31 December 2011	Year ended 31 December 2010
Trade creditors		
amounts due to connected companies	91 314	378
amounts due to other companies	4 094	1 054
Total	**95 408**	**1 432**

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.

23. Other liabilities

Data in PLN thousand	Year ended 31 December 2011	Year ended 31 December 2010
Remuneration payable	2 033	1 699
Investment liabilities	751	943
Taxes and insurance payable	403	316
Other liabilities	472	41
TOTAL	**3 659**	**2 999**

24. Other financial liabilities

Data in PLN thousand	Year ended 31 December 2011	Year ended 31 December 2010
Long-term financial liabilities	788	0
Finance lease liabilities	614	0
Other financial liabilities	174	0
Short-term financial liabilities	491	0
Finance lease liabilities	491	0
Total financial liabilities	**1 279**	**0**

Other financial liabilities include the valuation of a financial guarantee given to Selena Romania (Note 26.1).

25. Loans received

25.1 Bank loans

The table below shows the bank loans existing as at 31 December 2011 and 31 December 2010.

			Debt as at 31 December 2011			Debt as at 31 December 2010	
Ref.	**Loan type**	**Repayment date**	***Long-term portion***		***Short-term portion***	***Long-term portion***	***Short-term portion***
1	Working capital loan	05/2012	*0*		*8 176*	*0*	*0*
2	Non-renewable loan	06/2013	*3 500*	*	*13 966*	*0*	*0*
3	Working capital loan	02/2014	*5 424*	*	*0*	*0*	*0*
4	Working capital loan	03/2014	*12 091*	*	*0*	*0*	*0*
5	Working capital loan	06/2014	*7 554*	*	*0*	*0*	*0*
6	Non-renewable loan	07/2014	*17 488*	*	*4 770*	*0*	*0*
	Other	różne	*0*		*95*	*0*	*85*
	TOTAL		***46 057***		***27 007***	***0***	***85***

* long-term obligations presented as short-term

25.2 Specification of loans

1) On 13 May 2011, Selena FM S.A. signed a PLN 10m overdraft agreement. The facility expires on 31 May 2012. The debt bears a variable interest rate of 1M WIBOR + margin. It is secured by a guarantee granted by Selena S.A. and the borrower's obligation to maintain current account turnover at the contractual level.

2) On 3 June 2011, Selena FM S.A. with its subsidiaries Selena S.A., Tytan EOS sp. z o.o. and PMI Izolacja-Matizol signed a PLN 22 m loan agreement. The loan is repayable in equal instalments by 2 June 2013. The loan bears a variable interest rate of 1M+ margin. The loan is secured on fixed assets owned by PMI Izolacja-Matizol.

3) 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 facility expires on 31 January 2014. The facility is secured by an open mortgage up to PLN 20m over the properties owned by Carina Silicones sp. z o.o. (currently owned by the subsidiary Research Center of Construction Technology), 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; variable interest rate of 1M WIBOR + margin.

4) Agreement of 24 September 2009 for Selena FM and subsidiaries Selena S.A., Libra sp. z o.o. up to the total limit of PLN 25m (including PLN 15 m for Selena FM), expiring on 31 March 2014; The facility bears a variable interest rate of 1M WIBOR + margin. The debt is secured on the properties, inventories, plant and equipment owned by Libra sp. z o.o.

5) 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. On 13 May 2011, an annex to the agreement was signed. The annex extends funding to 30 June 2014 and increases the available limit from PLN 20 m to PLN 40m. A security was established for the debt in the form of a mortgage on the property owned by Orion sp. z o.o., up to PLN 60m. The property is already charged with a mortgage backing the term loan provided by Raiffeisen Bank in 2007; variable interest rate:1M WIBOR + margin.

6) An agreement of 12 July 2011 for a non-revolving loan for Selena FM S.A. to fund purchase of shares in Quilosa. The loan of EUR 5.3m matures on 31 July 2014. The loan carries a variable interest rate of 1M EURIBOR + margin. The loan is secured by a corporate guarantee of Selena S.A. and a registered pledge on Quilosa shares.

25.3 Loan agreement terms

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

As at 30 June 2011, the consolidated ratios agreed with banks were exceeded. For this reason, the obligations in respect of some loans, were presented, in accordance with IAS 39, as short-term obligations, even if their contractual maturity (indicated in the table in Note 25.1) would suggest a long-term obligation.

Until the date of publication of these financial statements, no bank declared its intention to terminate funding, nor did the Management Board receive any information about any bank taking steps to this end.

In the opinion of the Management Board of the Parent Company, the situation outlined above is temporary and does not pose any threat to the Group's liquidity or its ability to pay its debts. At the same time, the Management Board is implementing a profitability recovery plan for the Group.

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 and guarantees granted

26.1 Guarantees given to subsidiaries

<u>Acquisition of Selena Iberia (formerly: (Quilosa)</u>

Under the investment agreement between Selena Co. S.A. and Quilosa Holding XXI, S.L., on 3 July 2009 Selena Co. S.A. became majority shareholder of Industrias Quimicas Löwenberg S.L. (Quilosa), acquiring 51% stake in its 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 could be exercised within 36 months starting from 1 June 2011, while the call option could be exercised within 18 months starting from 1 January 2013. The option's exercise date was to be determined based on the higher of: EUR 10.8m or 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 before the date specified in the investment agreement. In consequence, the guarantee described above expired.

Due to extension of the credit lines of EUR 400k for Selena Iberia, on 22 November 2011 Selena FM S.A. issued a letter of support for Selena Iberia, expiring on 9 September 2012. The document is regarded as a financial guarantee in the meaning of IAS.

Other guarantees

In accordance with Agreements 4 and 5 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 2011, the companies used limits in a total amount of PLN 9.3m. In the opinion of the Management Board the risk of the companies' default under the limits is marginal.

To secure the purchase by Selena Romania sarl of the receivables of EURO MGA Product of Romania (the transaction was a part of the take-over of control over EURO MGA Product), Reffeisen Bank Poland issued a bank guarantee to secure fulfilment by Selena Romania of its obligations under the purchase of receivables. The guarantee was paid by Selena FM S.A., and any possible bank cost in respect of exercise of the guarantee will be covered by Selena FM S.A. The guarantee amount is EUR 1.6m and it expires on 30 June 2014 (at the same time the company undertook to extend it to the date of payment of the obligation is respect of the receivables purchase, i.e. to September 2015). The guarantee meets the definition of a financial guarantee in the meaning of IAS 39, and the related obligation is estimated at EUR 174k. The amount is presented in Note 24, and the value of shares in Selena Romania has been increased by a corresponding amount (Note 15.2).

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 material 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 Finance lease liabilities – Company as a lessee

The Company leases machines, equipment and vehicles under finance leases. The future minimum lease payments under such leases and the present value of the minimum lease payments are presented in the table below.

	31 December 2011		**31 December 2010**	
Data in PLN thousand	**Nominal value**	**Current value**	**Nominal value**	**Current value**
Total lease payments	**1 208**	**1 105**	**0**	**0**
payable up to 1 year	560	491	0	0
payable from 1 to 5 years	648	614	0	0
Less financial expenses	103	0	0	0
Current value of total minimum lease payments	**1 105**	**1 105**	**0**	**0**

The interest under the leases recognised as interest expense amounted to PLN 63k for 2011and nil for 2010.

Terms of the material leases (cars):
- lease term – 3 years;
- amortisation period – mainly 5 years;
- lease payments vary depending on current interest rate;
- at the lease termination, the lessee has the right to purchase the leased asset for a price equal to its residual value.

26.4.2 Operating lease liabilities – Company as a lessee

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

Data in PLN thousand	Year ended 31 December 2011	Year ended 31 December 2010
Lease payments recognised as cost for the period	2 016	745
Future minimum operating lease payments		
payable up to 1 year	1 162	640
payable from from 1 to 5 years	773	345
Total operating lease liabilities	**1 935**	**985**

The Company uses office and storage space under operating leases.

26.4.3 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.

Data in PLN thousand	Year ended 31 December 2011	Year ended 31 December 2010
Lease payments recognised as income for the period	113	31
Future receivables in respect of minimal lease payments:		
payable up to 1 year	39	30
payable from 1 to 5 years	92	121
Operating lease receivables – total	**131**	**151**

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

Data in PLN thousand	Year ended 31 December 2011	Year ended 31 December 2010
Balance sheet change in receivables	**-37 402**	**-107 289**
Change in investment receivables	23	0
Change in income tax (CIT) receivable	-205	0
Change in dividends receivable	31 466	105 798
Purchase of shares in subsidiaries – set-off	-83 172	-168
Capital increase in a subsidiary – conversion of receivables	-44 940	0
Change in the balance of receivables acquired from Selena Co. in respect of amortised cost valuation	-1 049	0
Other	-1 153	0
Change in the balance of receivables in the statement of cash flows	**-136 432**	**-1 659**

Liabilities

Data in PLN thousand	Year ended 31 December 2011	Year ended 31 December 2010
Balance sheet change of short-term liabilities	**168 610**	**1 744**
Change in the balance of loans and advances	-72 979	3
Change in the balance of liabilities on account of leasing	-491	0
Change in the balance of investment liabilities	-192	-919
Set-off of payments	862	1 491
Change in the balance of liabilities on account taxes	-505	0
Change in the balance of liabilities in the statement of cash flows	**95 305**	**2 319**

28. Related parties

28.1 Terms of transactions with related parties

The Company provides advisory services to its subsidiaries, and is a distributor of the Group's products to foreign companies. The transactions for the sale and purchase of goods and services to/from the 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 2011 and 2010.

Data in PLN thousand		Period	Sales	Purchase of goods and services	Dividends	Other financial revenue
Subsidiaries		2011	310 488	262 638	31 466	10 700
		2010	10 098	3 517	170 302	5 644
Associates		2011	1 790	0	0	0
		2010	0	0	0	0
Owners	Krzysztof Domarecki	2011	0	0	0	0
		2010	0	0	0	0
	Syrius Investment (Krzysztof Domarecki)	2011	0	0	0	56
		2010	0	0	0	0
Supervisory Board Members	Andrzej Kozłowski (RUBID)	2011	2	15	0	0
		2010	2	98	0	0
	Anna Kozłowska	2011	0	0	0	0
		2010	0	0	0	0
	Grzegorz Forczek	2011	0	2	0	0
		2010	0	2	0	0
Management	Kazimierz Przełomski	2011	0	0	0	0

Board Members	(KONSULTHOUSE)	2010	0	0	0	0

The table below shows the balance of transactions with related parties (subsidiaries, associates, members of the Company's governing bodies) as at 31 March 2012 and 31 December 2011.

	Data in PLN thousand	**Period**	**Bonds, loans, contributions to capital**	**Trade receivables**	**Other receivables***	**Liabilities**
Subsidiaries		2011	85 398	123 306	3	90 391
		2010	84 939	4 803	105 798	380
Associates		2011	0	412	0	0
		2010	0	0	0	0
Owners	Krzysztof Domarecki	2011	0	0	0	0
		2010	0	260	0	0
	Syrius Investment (Krzysztof Domarecki)	2011	1 615	0	0	95
		2010	1 396	0	0	85
Supervisory Board Members	Andrzej Kozłowski (RUBID)	2011	0	1	0	1
		2010	0	1	0	0
	Anna Kozłowska	2011	0	0	0	0
		2010	0	0	0	0
	Grzegorz Forczek	2011	0	0	0	0
		2010	0	0	0	0
Management Board Members	Kazimierz Przełomski (KONSULTHOUSE)	2011	0	0	0	0
		2010	0	0	0	0

* data for 2010 include receivables in respect of settlement of the dividend from Orion sp. z.o.o (Note 19)

28.3 Emoluments of directors

Emoluments of the Parent's Management Board are presented in the table below.

MANAGEMENT BOARD Data in PLN thousand	**Year ended 31 December 2011**	**Year ended 31 December 2010**
Short-term employment benefits, including bonuses (remuneration and deductions)	1 973	1 462
Krzysztof Domarecki	848	680
Jarosław Michniuk	394	0
Kazimierz Przełomski	363	345
Elżbieta A.Szymańska	368	437
Retirement benefits	0	0
Termination benefits	21	0
Total	**1 994**	**1 462**

SUPERVISORY BOARD Data in PLN thousand	**Year ended 31 December 2011**	**Year ended 31 December 2010**
Short-term employment benefits, including bonuses (remuneration and deductions)	43	39
Jacek Olszański	12	12
Maria Godoś	7	8
Grzegorz Forczek	8	8

Andrzej Kozłowski	8	3
Anna Kozłowska	8	8
Retirement benefits	0	0
Termination benefits	0	0
Total	**43**	**39**

Kazimierz Przełomski has the right to an annual bonus for 2011 in the maximum amount of 3x the monthly salary. A decision on the bonus payment is taken by the Supervisory Board.

Under the employee shares programme (see Note 34 of this report for details), Management Board Members Kazimierz Przełomski and Elżbieta A. Szymańska were awarded 9,600 subscription warrants each. The respective costs disclosed in the 2010 accounts were PLN 75k for 2011, and PLN 200k for 2011.

Krzysztof Domarecki and Syrius Investment as shareholders of Selena FM received a dividend in 2011 (Note 9), corresponding to the number of their shares (Note 21).

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. received a dividend paid by Orion sp. z o.o. The dividend value was PLN 84k in 2010 and PLN 16k in 2011.

Details of changes in the governing authorities of the Parent in 2011 are presented in Note 1.2.

29. Auditor's fee

The table below shows the fee payable to the auditor of the Company's 2011 and 2010 financial statements. In the two years the auditor was Ernst & Young Audit Sp. z o.o.

Data in PLN thousand	2011	2010
Audit of the annual financial statements	100	90
Review of the interim financial statements	100	100
Total	**200**	**190**

The free includes remuneration for the audit (review) of the Parent Company's unconsolidated report and the consolidated statements, and excludes the remuneration for audit of the financial statements of the Group's subsidiaries. The audit agreement was signed on 18 August 2011.

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 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 purchased bonds are issued for relatively short periods (usually up to 12 months); 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 instruments (at nominal value) is presented in the table below.

Fixed interest rate instruments	**31 December 2011**			**31 December 2010**		
Data in PLN thousand	**< 1 year**	**1-3 years**	**Total**	**< 1 year**	**1-3 years**	**Total**
Bonds purchased	27 850		27 850	54 315	20 852	75 167
Loans granted	9 917		9 917	2 978		2 978
	37 767		**37 767**	**57 293**	**20 852**	**78 145**
Finance lease liabilities	491	614	1 105			

Variable interest rate instruments	**31 December 2011**			**31 December 2010**		
Data in PLN thousand	**< 1 year**	**1-3 years**	**Total**	**< 1 year**	**1-3 years**	**Total**
Loans granted	26 906	18 801	45 707		7 457	7 457
Bank loans	26 912	46 057	72 969			

The potential impact of the market interest rates changes on the financial result generated by the financial instruments with a variable yield is presented in the table below.

	2011		**2010**	
Data in PLN thousand	**PLN**	**EUR**	**PLN**	**EUR**
Loans granted	6 639	31 757	7 145	
Cash	6 343	11 363	15 885	19 665
Loans received	-43 157	-29 907		
Other financial liabilities	-491	0		
Net exposure	**-30 665**	**13 213**	**23 030**	**19 665**
Impact * of an increase ** in interest rate*** by 1 pp	-307	132	230	197

* excluding possible tax effects
** impact of a decrease is the same
*** respectively: WIBOR or EURIBOR

The Company does not use any IRSs 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 currency risk arising from the Company's exposures in other currencies (Turkish lira and the US dollar) is not material as at 31 December 2011 and 31 December 2010.

Data in PLN thousand	31 December 2011 EUR	31 December 2011 TRY	31 December 2010 EUR
Loans granted	34 206	13 036	2 201
Bonds purchased	1 616		1 396
Receivables	116 704		351
Cash	11 363		100
	163 889	**13 036**	**4 048**
Trade creditors	98 060		225
Loans received	29 907		85
	127 967	**0**	**310**
Net exposure	**35 922**	**13 036**	**3 738**
Impact where the rate is 3.75 PLN/EUR / 1.68 PLN TRY*	-5 423	-756	-198
Impact where the rate is 4.75 PLN/EUR / 2.18 PLN TRY*	2 710	2 898	745

* rates at the max. / min. levels from years 2009-2011

The company does not use any FX hedges.

30.2 Credit risk

The main items that carry credit risk include:

- Bonds, loans and other instruments described in Note 16 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. If there are any concerns about the ability to pay specific assets, an impairment charge is created. In 2011, the charge posted in respect of the amounts due from connected entities was PLN 4,114k (Note 6.4).

In the case of cash and cash equivalents, the Management Board believes that the credit risk is low.

Concentration of financial risk in the Company results from the fact that the Company's financial assets mainly relate to its subsidiaries, 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 short-term assets (PLN 231.2m) are much higher that the value of its short-term liabilities (PLN 172.7m).

Maturities of the Company's financial liabilities are presented in the table below.

Data in PLN thousand	On demand	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Total

Interest bearing borrowings	3 011	4 060	19 936	46 057	73 064
Financial liabilities	9	120	362	788	1 279
Trade creditors	57 201	38 207	0	0	95 408
Other liabilities	244	3 920	0	0	4 164
Total liabilities	**60 465**	**46 307**	**20 298**	**46 845**	**173 915**

As explained in Note 25.3, the loans presented in the column “1 to 5 years” may be due before maturity as the Company failed to meet consolidated financial covenants.

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.

31. Financial instruments

31.1 Fair value of the individual classes of financial instruments

		31 December 2011		31 December 2010	
Instrument class		**Book value**	**Fair value**	**Book value**	**Fair value**
Financial assets					
Loans and receivables	Trade debtors	129 304	129 304	4 639	4 639
	Other receivables	1 356	1 356	106 259	106 259
	Loans	55 624	55 624	10 435	10 435
	Bonds	27 850	27 850	75 156	74 615
	Capital contributions	2 304	2 304	2 293	2 293
Financial assets/liabilities measured at fair value through profit and losss	Cash	19 378	19 378	2 056	2 056
Financial liabilities					
Other financial liabilities measured at amortised cost	Trade creditors	95 408	95 408	1 432	1 432
	Loans and advances	73 064	73 064	85	85
	Other	4 938	4 938	2 999	2 999

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 – fixed-rate loans and bonds issued by subsidiaries (as per the table below). Due to the short settlement dates and the interest rates close to market rates, the fair value of these instruments is not significantly different than their book value.

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

2011

Data in PLN thousand	**PiN**	**AF WwWGpWF**	**ZFwgZK**	**ZFwzzMSR39**	**TOTAL**
Interest income / expense	4 818	205	-2 124	-63	2 836
Reversal of discount of other financial receivables	6 062	0	0	0	6 062
FX gains / losses	4 508	19 316	-21 445	0	2 379

Creation / reversal of impairment charges	-4 114	0	0	0	-4 114
Profits / losses in respect of fair valuation	-178	0	0	0	-178
TOTAL (net profit / loss)	**11 096**	**19 521**	**-23 569**	**-63**	**6 985**

2010

Data in PLN thousand	PiN	AF WwWGpWF	ZFwgZK	ZFwzzMSR39	TOTAL
Interest income / expense	5 794	48	0	0	5 842
Reversal of discount of other financial receivables	409	0	0	0	409
FX gains / losses	-154	170	-22	0	-6
Reversal of impairment charges	-92	0	0	0	-92
TOTAL (net profit / loss)	**5 957**	**218**	**-22**	**0**	**6 153**

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

PiN - Loans and receivables

ZFwgZK - Financial liabilities measured at amortised cost

ZFwzzMSR39 – Financial liabilities out of scope of IAS 39 (leasing)

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 2011 and in the year ended 31 December 2010 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.

Data in PLN thousand	Year ended 31 December 2011	Year ended 31 December 2010
Interest bearing borrowings	73 064	85
Other financial liabilities	1 279	0
Less cash and cash equivalents	-19 378	-2 056
Net debt	**54 965**	**-1 971**
Equity	286 123	254 937

Equity and net debt	**341 088**	**252 966**
Gearing	**16%**	**n.d.**

33. Employment structure

In the year ended 31 December 2011 and in the year ended 31 December 2010 the average employment was as shown in the table below.

	Year ended 31 December 2011	Year ended 31 December 2010
Administration	83	79
Sales	48	0
TOTAL	**131**	**79**

34. Employee options programme

34.1 Execution of the programme in 2010

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

In 2008 and 2009, no warrants were allocated to employees.
As part of the programme execution in 2010, 114,600 warrants were awarded. On 30 June 2011, the Management Board adopted a resolution stating that the individual conditions for awarding the shares to the programme participants had been met, so all the eligible persons acquired rights to the subscription warrants. The warrants were issued on 14 July 2011. The warrants were converted into shares at the price of PLN 1. Finally, employees paid up 110,000 warrants.

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

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

Allocation of the subscription warrants dilutes the profit attributable to the current equity holders. Details on the possible dilution of the consolidated profit were provided in Note 12 to this 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 was the achievement by the Group of a consolidated operating profit set by the Supervisory Board and continuation of employment with Selena Group until 15 July 2012. On 4 March 2011, the eligible persons joined the programme for 2011. The total fair value of the programme for 2011 calculated at the award date was estimated at PLN 3m. As the general objective had not been met, the cost of programme delivery for 2011 was not recognised.

The programme will end after a formal confirmation at the Supervisory Board meeting that the general objective for 2011 has not been met. The Supervisory Board meeting will be held after approval of the Group's consolidated results by the AGM.

35. Events occurring after the balance sheet date

New management options programme

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

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

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

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

Issue of shares under the management options programme

On 16 March 2012, 110,000 new shares of Selena FM S.A. were put on the market as part of delivery of the employee options programme described in Note 34. The capital increase was registered by the court on 12 April 2012.

Granting loans to Selena Yapi Malzemeleri

After the balance sheet date, the subsidiary Selena Yapi Malzemeleri received loans for a total amount of EUR 338k and USD 200k.

Granting loans to Selena Iberia

On 22 March 2012, a loan of EUR 521k was provided to the subsidiary Selena Iberia.

Conversion of loans granted to subsidiaries

On 15 February 2012, the loans of TRY 7.03m granted to the Turkish subsidiary Selena Yapi Malzemeleri were converted into the company’s equity.

On 28 February 2012, the loans of EUR 2.81m granted to the subsidiary Selena Romania were converted into the company’s equity.

Person responsible for maintenance of accounting books

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

President of the Management Board

…..……………………….
Jarosław Michniuk

Vice-President of the Management Board Financial Director

……..…………………….
Kazimierz Przełomski