SELENA FM GROUP

MANAGEMENT BOARD'S REPORT ON THE GROUP'S ACTIVITIES FOR THE YEAR 2012

Wrocław, 21 March 2013

1. Information on the Group

1.1. Characteristics of the Parent Company

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

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

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

1.2. Management Board of the Parent Company

Since 2 November 2011, the Management Board of the Parent Company consisted of the following persons:

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

On 4 June 2012, the Supervisory Board of the Company appointed Beata Pawłowska as Vice-President of the Management Board responsible for sales and marketing.

As at the date of publication of this report, the Management Board consisted of the following persons:

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

1.3. Key products and services

The core business of the Group includes production, distribution and sale of construction chemicals and general building accessories. The Group's product range includes:

- Polyurethane mounting foams;
- Construction sealants (silicones, acrylic products);
- Construction and mounting adhesives;
- Roofing membranes and shingles;
- Bituminous masses;
- Building insulation systems;
- Application equipment:
- Wood preservatives;
- Agents for roofs and walls;
- Foils and membranes.

The offered products include both solutions addressed to professionals and to individual users. The Group's leading brands include Tytan, Artelit and Quilosa.

The Group has manufacturing plants in Poland, Spain, Turkey, China, Romania and Brazil, with trading operations present in 18 countries in Europe, Asia and both Americas. The Group also carries on R&D activity in Poland, Spain, Turkey and China.

1.4. Distribution markets

For management purposes, the Group has identified 3 geographic segments: European Union (including: Poland and Spain), Eastern Europe and Asia (including Russia and China) and North and South America (the USA and Brazil).

See Note 1.5.1 for a detailed structure of the individual segments, and Note 2.1 for a share in sales of the individual segments in the Group sales.

Due to the nature and geographic scale of the business, both the Group's suppliers and buyers are diversified - the share of individual entities in the Group's total purchasing or sales does not exceed 10%.

1.5. Group composition, related parties and equity investments

1.5.1. Group structure

The table below shows the ownership and organisational structure of the Group and division into operating segments.

The data are presented as at 31 December 2012 and 31 December 2011.

No changes in the Group structure occurred between the balance sheet date and the date of publication of this report.

All the companies in the table are consolidated using the full (line-by-line) method, except the associated company Hamil - Selena Co. Ltd., which is consolidated using the equity method.

Segment	Region	Country	Entity	Reg. Office	Activity	Group's Share 31 Dec. 2012	Group's Share 31 Dec. 2011	Owner
European Union	Poland	Poland	Selena FM S.A.	Wrocław	Group Head Office			-
			Selena S.A.	Wrocław	Distributor	100,00%	100,00%	FM
			Orion Polyurethanes sp. z o.o. SKA (formerly: Orion Sp. z o.o.)	Dzierżoniów	Manufacturer of foams, adhesives, distributor	99,95%	99,95%	FM 4
			Carina Sealants sp. z o.o. SKA (formerly: Carina Silicones Sp. z o.o)	Siechnice	Manufacturer of sealants, distributor	100,00%	100,00%	FM 5
			Libra Sp. z o.o.	Dzierżoniów	Manufacturer of sealants and adhesives, distributor	100,00%	100,00%	FM
			PMI "IZOLACJA - MATIZOL" S.A.	Gorlice	Manufacturer of roof cov., hydroinsulation systems, distributor	100,00%	100,00%	FM
			Tytan EOS Sp. z o.o.	Wrocław	Manufacturer of loose materials	100,00%	100,00%	FM
			Research Centre of Construction Technology sp. z o.o.	Siechnice	Research and development	99,50%	99,50%	FM 2
			Virgo Project sp. z o.o.	Wrocław	Managing intellectual property	100,00%	100,00%	SA
			Orion Polyurethanes sp. z o.o.	Dzierżoniów	Legal administration	100,00%	-	FM
			Carina Sealants sp. z o.o.	Siechnice	Legal administration	100,00%	-	FM
	Western Europe	Spain	Selena Iberia slu	Madrid	Manufacturer of sealants and adhesives, distributor	100,00%	100,00%	FM
		Italy	Selena Italia srl	Limena	Distributor	100,00%	100,00%	FM
		Germany	Selena Deutschland GmbH	Hagen	Distributor	100,00%	100,00%	FM
	Central and Eastern Europe	Czech Republic	Selena Bohemia s.r.o.	Roudnice	Distributor	100,00%	100,00%	FM
		Romania	Selena Romania SRL	Ilfov	Distributor	100,00%	100,00%	FM
			EURO MGA Product SRL	Ilfov	Manufacturer of adhesives and cement mortars	99,87%	-	Rom
		Hungary	Selena Hungária Kft.	Pécs	Distributor	100,00%	100,00%	FM
		Bulgaria	Selena Bulgaria Ltd.	Sofia	Distributor	100,00%	100,00%	FM
		Slovakia	Selena Slovakia s.r.o.	Nitra	Distributor	100,00%	100,00%	FM
		Finland	FinSelena Oy	Lammi	Distributor	100,00%	100,00%	FM
Eastern Europe and Asia	Eastern Europe	Russia	Selena Vostok Moscow	Moscow	Distributor	100,00%	100,00%	FM 3
			OOO Kvadro	Widnoje	Distributor	100,00%	100,00%	FM 3
			Selena Sever Moscow	Moscow	Distributor	100,00%	100,00%	SA
		Kazakhstan	Selena CA L.L.P.	Almaaty	Distributor	100,00%	100,00%	FM
		Ukraine	Selena Ukraine Ltd.	Kiev	Distributor	100,00%	100,00%	FM 3
	Asia	China	Selena Shanghai Trading Co., Ltd.	Shanghai	Distributor	100,00%	100,00%	FM
			Selena Nantong Building Materials Co., Ltd.	Nantong	Manufacturer, distributor	100,00%	100,00%	FM
			Foshan Chinuri-Selena Chemical Co.	Foshan	Manufacturer of sealants, distributor	77,70%	77,70%	SA 1
		South Korea	Hamil - Selena Co. Ltd	Kimhae	Manufacturer of foams	30,00%	30,00%	SA 3
	Middle East	Turkey	Selena Malzemeleri Yapi Sanayi Tic. Ltd.	Istambul	Manufacturer of polyurethane foams and sealants, distributor	100,00%	100,00%	FM
			POLYFOAM Yalitim Sanayi ve Tic Ltd.	Istambul	Distributor	100,00%	100,00%	SA 2
N &S America	N &S America	Brazil	Selena Sulamericana Ltda	Ponta Grossa	Manufacturer, distributor	95,00%	95,00%	FM 1
		USA	Selena USA, Inc.	Easton	Distributor	100,00%	100,00%	FM
			Selena USA Real Estate Corp.	Elkhart	Property management	100,00%	100,00%	FM

Explanations to the "Owner"column

FM - 100% stake owned by Selena FM
FM 1 – shares are owned by Selena FM, the remaining shares are held outside of the Group
FM 2 – shares are owned by Selena FM, other shares are owned by Krzysztof Domarecki (Supervisory Board Chairman of Selena FM)
FM 3 – shares are owned by Selena FM (99%) and Selena Co. (1%)
FM 4 – shares are owned by Selena FM (99%), 1 share owned by Orion Polyurethanes sp. z o.o.; other shares held outside the Group
FM 5 – shares are owned by Selena FM, 1 share (0.1%) is owned by Carina Sealants sp. z o.o.
SA - 100% stake owned by Selena SA
SA 1 – shares are owned by Selena SA, the remaining shares are held outside of the Group
SA 3 – shares are owned by Selena SA (85%) and Carina Sealants(15%)
SA 3 – associate – shares are owned by Selena SA
Rom– shares are owned by Selena Romania, the remaining shares are held outside of the Group

1.5.2. Changes in the Group structure

Purchase of shares in EURO MGA Product sarl

In 2012, the subsidiary Selena Romania srl finalised the acquisition of EURO MGA Product sarl, a process started in 2011, and on 31 December 2012 took control over the company. In 2006-2009, the acquired company was one of the leaders of the Romanian market of adhesives and cement plasters. Since 22 February 2011, it was bankrupt.

In 2011, as part of the acquisition process, Selena Romania acquired the company's debts, including the bank debt. Purchase of the debt allowed an active participation in the company's restructure. The objective of the restructure programme was to give a capital injection to the company and clear a portion of its obligations. On 21 December 2011, Selena Romania increased the capital of the acquired company by RON 12,054k, and acquired 99.87% stake in it. The proceeds from the increased capital were transferred to the creditors indicated in the restructure plan, including RON 9.3m to Selena Romania, as a result of a purchase of the bank's receivables. On 31 January 2012, delivery of the restructure plan was confirmed by the court, which ended the restructuring process. Since that date, adopted as the date of assumption of control over the company, the company's financials have been reflected in the Group's consolidated accounts.

Since the capital increase referred to above to the date of acquisition of control, the company's shares were presented in the consolidated balance sheet as other long-term financial assets.

Details about settlement of the acquisition are presented in Note 5.1 of the Group's consolidated financial statements for 2012.

1.5.3. Establishment of partnerships limited by shares

On 5 November 2012, Selena FM S.A. acquired 100% stake in the following companies: Orion Polyurethanes sp. z o.o. and Carina Sealants sp. z o.o. for PLN 15k. On the same day, Orion Polyurethanes sp. z o.o. acquired from Selena FM S.A. 1 share
in Orion sp. z o.o., and Carina Sealants sp. z o.o. acquired from Selena FM S.A. 1 share in Carina Silicones sp. z o.o. The acquired shares represent less than 0.1% stake in the individual companies.

On 31 December 2012, the following companies had their legal form changed:

- Orion sp. z o.o. was transformed into Orion Polyurethanes sp. z o.o. S.K.A.;
- Carina Silicones sp. z o.o. was transformed into Carina Sealants sp. z o.o. S.K.A.

In these companies, the general partners are: Orion Polyurethanes sp. z o.o. and Carina Sealants sp. z o.o.

1.5.4. Financing investments

Investments were funded from equity and bank loans. See Note 2.5 for details.

1.5.5. Branches

Selena FM S.A. has no branches.

1.6. Key developments

1.6.1. Changes in the parent company's governing bodies

On 4 June 2012, the Supervisory Board of the Company appointed Beata Pawłowska as Vice-President of the Management Board responsible for sales and marketing.

On 19 April 2012, the General Meeting of Shareholders of Selena FM S.A. dismissed the previous Supervisory Board consisting of:

- Krzysztof Domarecki – Supervisory Board Chairman
- Grzegorz Forczek – Supervisory Board Member
- Maria Godoś – Supervisory Board Member
- Anna Kozłowska – Supervisory Board Member, and
- Andrzej Kozłowski – Supervisory Board Member

A new Supervisory Board was appointed for a joint 3-year term of office, consisting of:

- Krzysztof Domarecki – Supervisory Board Chairman
- Krzysztof Kluza – Supervisory Board Member
- Grzegorz Kostrzyński – Supervisory Board Member
- Andrzej Krämer – Supervisory Board Member
- Paweł Wyrzykowski – Supervisory Board Member

1.6.2. Acquisition of EURO MGA Product sarl

The acquisition of EURO MGA Product sarl was described in Note 1.5.2 of this report.

1.6.3. Acquisition of an organised part of Izolmas business

On 17 May 2012, the subsidiary Selena S.A. acquired from Izolmas sp. z o.o. of Płock, manufacturer of bituminous masses, an organised part of the enterprise, which was then included in the operational structures of the subsidiary PMI Izolacja-Matizol S.A. The acquisition is supposed to foster development of the Group's product offering.

Details about the acquisition were provided in Note 5.2 of the consolidated financial statements of the Group for 2012.

1.6.4. Changes to the Group's operating model in the USA

As par part of the projects designed to optimise operating effectiveness, the Management Board decided to change the operating model of Selena USA. In July and August 2012, the production of sealants in the company was discontinued. In consequence, Selena USA has been a distribution business, supplied by other production plants of Selena Group. The change will ensure a more effective use of the production assets within the Group.

1.6.5. Changes to the Group's operating model in Finland

At the end of 2012, Selena changed the distribution model in Scandinavia and is phasing out the operations of the Finnish company FinSelena Oy. Sales in the Scandinavian markets will be conduced in co-operation with the local distributor, which – since 1 January 2012 – has offered products under the Tytan brand through its distribution network in Finland, Sweden, Norway, Denmark and Island. In the opinion of the Management Board, the change in the operating model will improve the effectiveness of the Group's activities in the Scandinavian market.

1.6.6. Consolidation of operations in Russia

In the second half of 2012, Selena Group began a project of consolidation of the Russian companies Selena Vostok OOO and Kvadro OOO. The purpose of the integration is to reduce fixed costs and ensure a better use of the sales network and the product offering.

1.6.7. Continuation of the restructuring programme in Spain

Due to the sustained economic slowdown in Spain, the restructuring and savings programmes in Selena Iberia are being continued. The programmes include cost reduction, gradual rebuilding of the sales potential and stabilisation of margins, and encompass specifically:

- the project of increasing the strength of the sales force (optimisation of trading routes, implementation of the Sales Force Automation tool) and a project designed to improve margins through an optimised pricing policy towards particular market segments and the customer);
- the project aiming to reduce the labour costs (ERE 2 Programme), including a temporary suspension of selected staff members, reduction of salaries by ca. 10% and no salary review in 2013;
- the project of increasing the use of production capacity in the Quer plant, including reorganisation and improvement of effectiveness of the production processes, increase in external sales and additional production to the Group's distribution companies.

To ensure a more effective implementation of the projects, in January 2013, the Company's management was strengthened by appointment of a new Managing Director and Sales Director. This ended the process of formation of the executive team of Selena Iberia.

1.6.8. Development of the product range

In order to retain its position as an innovative company, in 2012 Selena expanded its product offering with approx. 30 new products. For example, a new package of foams was launched, including polystyrene and wall blocks adhesive, low-expansion and high fire-rating foams. Following the acquisition of EURO MGA Product, a set of new polystyrene adhesives, plasters, primers and finishing mortars were launched for production and sale. In Poland, the Selena's product range was expanded with the new TYTAN EOS STROP system used for insulations of ceilings by means of a non-mesh method, an effective way of accelerating home insulation projects.

1.6.9. Awards and recognitions

In 2012, in the rankings of the biggest Polish companies, Selena Group was ranked 241st (advancing by 2 positions) in the List of 500 compiled by the *Polityka* magazine, while in the List of 500 compiled by the *Rzeczpospolita* daily, the Group was ranked 298th (advancing by 7 positions).

In 2012, at Selena S.A. was also awarded the title of the Leader of the Construction Joinery Sector 2012, in the "foams and silicones" segment (a prestigious award conferred on the basis of sales rankings for 2011 compiled by the Centre of Sector Analyses). At the gala of the Polish Sport Builder Competition, Selena received the title of the Polish Sport Builder.

In March 2012, during the 9th edition of the Builder Gala / Gala Awards, Selena S.A. was awarded two titles: POLISH HERCULES 2011 and CONSTRUCTION COMPANY OF THE YEAR 2011. It was the second time that Selena S.A. received the latter title, which is attributed to its strong market position, innovation and constant adjustment of product offering to the market requirements. The fact that in one year one company receives the two awards is an unprecedented event, as no other winner of the Hercules title has ever been again awarded with the title "Construction Company of the Year".

Selena was awarded in this year's edition of the Teraz Polska (Poland: Now) competition. In 2012, for the first time in the competition's history, an award was conferred in the category "Foreign Investment". The award was granted to Selena, as the only company in this edition, for the launch of its polyurethane foams plant in Nantong, China.

Selena FM S.A. was also one of the 3 companies nominated to the Economic Award of the Polish President in the category "Presence in the global market".

Furthermore, Selena Group was recognised in the competition "Polish Company – International Champion", organised by PricewaterhouseCoopers, under the auspices of the "Polish Champion", Polish Business Support Programme. Selena Group received a special award for its achievements in the international promotion of Polish brand.

In the third quarter of 2012, at the gala organised in the office of the National Economic Chamber in Warsaw, Selena S.A. was also awarded the title of the Leader of the Construction Joinery Sector 2012, in the "foams and silicones" segment (a prestigious award conferred on the basis of sales rankings for 2011 compiled by the Centre of Sector Analyses). Also, at this year's gala of the Polish Sport Builder Competition, Selena received the title of the Polish Sport Builder. The jury of the competition honoured Selena for its contribution to development of the sports infrastructure in Poland as its products have been frequently used in various projects, including construction of stadiums for the Euro 2012 Championships, as well as other numerous sports facilities across the country.

FIX2 Rapid, adhesive with a fast initial grip, was awarded in Poland with the title Leader of New Technologies, and in Belorussia one of Selena's products was honoured as the Building Product of the Year.

1.6.10. Group promotion

On 12-13 April 2012, Selena S.A. participated in the PSB construction fair, where it presented its four new products: Polyurethane thin bed mortar, Fix2 Rapid adhesive, Low Expansion foam, and NEO interior paints.

The volleyball team Tytan AZS Częstochowa sponsored by Selena has achieved a spectacular success, becoming the first Polish team in 34 years to win the European Challenge Cup 2012.

In the third quarter of 2012, Selena S.A. started the "Roofing Expert" programme whereby it forged relations with the best roofing contractors in Poland who will be recommending Tytan Professional products across the country.

1.6.11. New logo of Selena

On 1 July 2012, Selena Group changed its logo. The new logo with the slogan "Global Experience" emphasises the brand's market presence in more than 70 countries world-wide. The new visual communication is designed to strengthen the identity of the Selena brand and build its recognition in the market.

The change in corporate communication is supposed to increase the awareness of the Selena brand to make it equally recognisable as its trademarks: Tytan Professional or Artelit. The new logo emphasises the international profile of the Group, whose nearly 70% sales are generated abroad.

At the same time, the image of the Group's flagship brand – Tytan Professional – has been facelifted.

1.6.12. Other significant events

In 2012, no significant events occurred for the Group other than those described in this report or in the Group's financial report for 2012.

1.7. Achievements in research and development

The Group's R&D activity is centralised in the special-purpose company Research Centre of Construction Technology sp. z o. o. Its laboratories are located in Siechnice, Dzierżoniów, Nowa Ruda, and in Spain, China and Turkey. RCoCT co-operates with the leading universities in Poland and with recognised research and certification institutes.

1.8. Description of risks and threats

The key factors that in the Management Board's opinion may affect the Group's performance in the following periods are described below.

The macroeconomic situation in Poland and world-wide. The projections for the European economy indicate that in 2013 the economies of the north of Europe will see a slight growth, while the economies of the Sough – a decline. Most projections indicate the falling trend in GDP forecasts for individual countries, including Poland. According to the estimates of the Market Economy Research Institute published on 5 February 2013, in 2013, the GDP growth will be merely 1.4%, with a growth of 0.5% expected in Q1 and Q2. A slight recovery is to be expected in Q3 (1.9%) and in Q4 (2.3%). According to the February projections of the European Commission, Poland may expect a GDP growth of merely 1.2%. According to the European Commission, the expected economic growth rate for the EU in 2013 will be merely 0.1% (including 0.3% for the euro zone), while the global economy will grow by 3.2%. This is confirmed by the IMF projections of January 2013, pointing to 5.5% growth of the economies of the developing countries. Selena's key international markets should see the following GDP growth rates: Russia 3.5% (according to IMF), China 8%, Kazakhstan 6% (according to EBRD), Spain -1,4%, Romania 1.6%, Turkey 3.7%.

Situation in the construction sector. According to the February report of IBnGR, the added value in the Polish construction sector is going to fall by 1.1%, while the construction and assembly production will fall by 1.4%. In the construction sector, the first quarter will be the weakest and the situation will begin to improve gradually in the subsequent quarters. Demand in the construction chemicals market will be mainly influenced by the situation in the housing construction, where such materials are used to the biggest extent. Data of the Polish Central Statistics Office (GUS) of 18 February 2013 point to the continuation of the process of house completions (an increase of 5.8% in January compared with 2012), coupled with a fall in the number of building permits by 24.2% and the number of commenced housing projects – by as much as 38.4%. The total construction and assembly production in January 2013 across the country was by 16.1% lower than a year before. The General Business Indicator in the construction sector shows a slight improvement in the recent months, but overall the moods remain relatively pessimistic. Projections for the outlays in the construction sector point to decreases in most of the euro zone countries and increases in most of the developing countries. Therefore, one may expect a diversified situation in the construction markets: negative trends in Spain and Italy, and positive trends in Russia, Kazakhstan, Turkey, Brazil and the USA.

Availability of financing. According to the data of the Polish Banks Association, in 2012 banks provided 196.5k new mortgage loans for a total value of PLN 39.1bn (2011: 231k new loans for a value of PLN 50bn). The total mortgage debt increased by merely 1%. This is an effect of, among other things, the tighter lending criteria adopted by banks in response to Recommendation S issued by the Polish Financial Supervision Authority.

FX rates. The available projections show that the coming months should not bring any material disruptions in the FX markets. The projections of ING of 14 February 2013 indicate that over the next year the rates of the CEE currencies should stabilise and then appreciate vs. the euro during the next 12 months. However, the currencies of Russia, Kazakhstan, Ukraine or Turkey should slightly depreciate against the dollar. In Poland, the rate of zloty vs. euro should be around 4.2 – 4.25 during the first 6 months, and a slight appreciation to 4.1 should be seen towards the year-end.

Collection risk. The Group companies do not see a material increase in overdue debtors. Potentially, such increase might be temporarily caused by the deteriorating situation in the Polish construction materials market. In 2013, the value of debtors to the generated turnover at the Group level should remain similar to the previous year.

Commodity prices. The prices of the basic commodities used for production of construction chemicals have remained stable in 2012, except the prices of the raw materials used in production of foams. Taking into account the high uncertainty around the economy and the moderate forecasts for the growth of GDP and the expenditures on construction, one should rather expect commodity prices to stabilise, although certain triggers might emerge driving the prices of individual commodities up or down.

1.9. Expected development of the Group

In 2013, Selena FM Group intends to continue its focus on improvement of operating efficiencies, improvement of margins and maintenance of the sales growth despite the adverse economic conditions.

In 2013, sales will be driven by the organic growth in the existing markets, especially in the Eastern Europe and Central Asia.

In January 2013, Selena began to elaborate the Group's strategy for 2014-2016, with an outlook towards 2020 – the work should be completed in mid 2013.

The key challenges and goals for 2013 are:

- Increase the sales effectiveness by e.g. defining the optimum distribution maps for each market, intensify product and marketing training for sales representatives and ensure sales support with IT systems;
- Improve margins by changing the product mix, introducing new products and reducing commodity costs;
- Improve operating effectiveness by reducing demand for working capital and implementing the programmes for reduction of logistics and production costs;
- Improve competitiveness by implementing innovative products (first patent requests submitted in February 2013), introducing products with modified recipes for an enhanced effectiveness, and working on new products and new production technologies as well as extending the laboratory facilities and expanding competences in research.

1.10. Investment plans

The Group does not plan any major capital expenditures in 2013. It intends to focus on the optimum use of its production potential, making investments or upgrades into the technological lines of the existing production plants. Higher expenditure will be spent on development of IT systems to support Group management. Also, investments into laboratory equipment are planned.

2. Financial position

2.1. Financial performance

The tables below show selected items of the consolidated profit and loss account and selected financial ratios.

Figures in PLN thousand	Year ended 31 December 2012	Year ended 31 December 2011	Change	Change %
Revenue from sales	1 060 883	1 022 067	38 816	4%
Cost of goods sold	767 888	745 456	22 432	3%
Gross profit on sales	292 995	276 611	16 384	6%
Selling and marketing costs	171 364	172 306	-942	-1%
General and administrative expenses	77 403	80 656	-3 253	-4%
Other operating profit (loss)	-16 842	-18 448	1 606	-
EBITDA (operating profit + depreciation)	52 360	29 798	22 562	76%
Operating profit (loss) (EBIT)	27 386	5 201	22 185	427%
Net finance income	-20 843	1 139	-21 982	-
Profit (loss) before tax	6 543	6 340	203	3%
Profit (loss) after tax	4 338	17 985	-13 647	-76%

			Change in p.p.
Gross profit margin	27,6%	27,1%	0,6
Selling costs / revenue from sales	16,2%	16,9%	-0,7
General and administrative expenses / revenue from sales	7,3%	7,9%	-0,6
EBITDA margin %	4,9%	2,9%	2,0
Operating profit margin (EBIT%)	2,6%	0,5%	2,1
Net profit margin	0,4%	1,8%	-1,4

EBIT % – operating profit / sales
EBITDA % - EBITDA / sales

Revenue from sales

In 2012, consolidated revenue from sales amounted to PLN 1,061m, which is by 4% (PLN 38.8m) more than in the corresponding period of the previous year.
Despite the adverse macroeconomic situation and the slowdown in the construction sector, the revenue growth was achieved through organic development, consistent expansion of product offering and improved effectiveness of sales efforts.

The Group recorded its strongest organic growth in the market of construction materials in the Central and Eastern Europe, where a two-digit sales increase was achieved.

The sales of Selena Group are presented by three geographical segments: the European Union (including Poland), Eastern Europe and Asia (including Russia and China), and Northern and South America (USA and Brazil). The sales structure by segments is stable and has not changed compared with 2011. Even though the European Union remains the key segment (accounting for 63% of sales), it loses its share in the Group sales structure in favour of Eastern Europe and Asia (4% lost year-on-year). In the Western Europe, especially in Spain and Italy, the strongest sales decrease was observed, while in the Central and Eastern Europe the sales level was rather stable. The Polish companies' share in the Group sales fell from 45% to 43%. Sales in the segment of North and South America showed a negative growth. Like in the previous year, the segment had 3% share in the Group's sales.

Segment	Segment's contribution to Group's revenues				Change in revenues
	Year ended 31 December 2012		Year ended 31 December 2011		2012 / 2011
European Union, including:		63%		67%	-2%
Poland	*43%*		*45%*		*-1%*
Other countries	*20%*		*22%*		*-5%*
Eastern Europe and Asia		34%		30%	18%
North America and South America		3%		3%	-7%

Profit before tax

In 2012, gross profit amounted to nearly PLN 293m, which was PLN 16.4m more than in the previous year.

Gross profit margin was rebuilt at 27.6%, which is 0.6 p.p. higher than in 2011. The growth was achieved on the back of the reduced product manufacture costs, which grew slower than sales, mainly thanks to the production optimisation programmes.

The gross profit margin was positively affected by the increase in the Group's sales structure of the traditional business segment, which generates higher margins than the products of the newly acquired or newly established companies.

Selling costs and the general and administrative expenses

The selling costs in 2012 amounted to PLN 171.4m, and decreased by 0.7 p.p (i.e. by nearly PLN 1m) year-on-year. Despite the higher sales, the selling and marketing costs were kept down. The ratio of selling costs to the revenue from sales is steadily reduced, and in 2012 it fell by 0.7 p.p. y-o-y.

The general and administrative expenses in 2012 amounted to PLN 77.4m, and fell by 4% (PLN 3.3m) compared with the previous year. The lower value of this line results from the completed savings projects. Also, the first positive effects of restructure of new companies, namely reduction of their general costs (especially Selena Iberia and Selena Nantong), are already to be seen. The ratio of general and administrative costs to sales is steadily falling, and in 2012 it stood at 7.3%.

Operating profit (loss)

In 2012, the Group generated an operating profit of PLN 27.4m versus PLN 5.2m in the previous year.

The operating result in 2012 was affected by the increase in sales, improved gross profit margin, reduced cost of operations of the Group and the negative balance on other operations.

The result on other operations was negative at –PLN 16.8m. This line was primarily affected by the impairment losses on receivables and inventory. Due to the prevailing macroeconomic situation, an in-depth analysis was carried out of the likelihood of recovery of past-due receivables, and a revision was made of the net realisable sales price of goods and merchandise, and on this basis a decision was made to post relevant impairment losses on receivables (PLN 8.9m) and on inventory (PLN 4.8m). The cost of liquidation of inventory amounted to PLN 3m. Furthermore, the balance of other operating costs and revenues in 2012 was affected by the cost of unutilised production capacity.

The result on other operations was positively affected by the indemnity of PLN 0.9m paid by the insurer, reversal of the impairment loss posted on the value of a production building in the USA (PLN 1.6m) as the building was put up for sale, and the excess of the net assets value over the purchase price of EURO MGA (PLN 5.4m) recognised in the profit and loss account.

Profit (loss) after tax

In 2012, Selena Group generated a net profit of PLN 4.3m, i.e. PLN 13.6m less than in the previous year. In 2011, the net profit was positively affected by: the net income from financial activity of PLN 1m and the recognition of an asset in respect of the tax value of trademarks (PLN 15.5m).

The operating profit in 2012 was reduced by the loss on financial activity of PLN 20.8m. FX losses exceeded FX gains by nearly PLN 9.8m, which was an effect of appreciation of the zloty vs. euro in 2012. The zloty appreciation was to some extent absorbed by the FX gains resulting from changes in the local currency rates (especially with respect to the the Russian rouble, Kazakh tenge and Ukrainian hryvnia) against the euro. The cost of interest on loans and advances and finance leases totalled PLN 9.7m net (after reduction by the achieved interest income from bank deposits).

In 2012, an additional asset was recognised in respect of the tax value of trademarks (PLN 6.6m) and in respect of the possibility to use the tax losses from the previous years (PLN 2.8m). Selena used the investment relief granted for conducting operations in the special economic zone (PLN 1.7m) and wrote-off an asset in respect of the losses carried over from previous years in the subsidiary Selena Iberia (PLN 4.4m). The current income tax charge was PLN 7m.

In 2012, EBITDA was PLN 52.4m (including depreciation: PLN 25m) and was by PLN 22.6m higher year-on-year.

2.2. Asset and financial position

The table below shows selected figures of the consolidated statement of financial position as at 31 December 2012 and 31 December 2011.

Figures in PLN thousand	31 December 2012	31 December 2011	Change	Change %
Non-current assets	**320 009**	**326 392**	**-6 383**	**-2%**
Property, plant and equipment	238 004	235 421	2 583	1%
Intangible fixed assets	33 476	31 923	1 553	5%
Other long-term assets	48 529	59 048	-10 519	-18%
Current assets	**373 801**	**410 751**	**-36 950**	**-9%**
Inventories	115 030	131 818	-16 788	-13%
Trade debtors	177 496	184 516	-7 020	-4%
Cash	41 056	42 665	-1 609	-4%
Other current assets	40 219	51 752	-11 533	-22%
Equity	**375 861**	**379 002**	**-3 141**	**-1%**
Liabilities	**317 949**	**358 141**	**-40 192**	**-11%**
Loans and advances	127 647	151 020	-23 373	-15%
Trade creditors	94 321	103 214	-8 893	-9%
Other liabilities	95 981	103 907	-7 926	-8%

	31 December 2012	31 December 2011
Current liquidity	1,7	1,4
Quick liquidity	1,2	0,9

Current liquidity – current assets / current liabilities

Quick liquidity – current assets less stocks / current liabilities

The Group's asset position and a decrease in total assets by PLN 43.3m was strongly affected by the reduction of working capital with the attendant decrease in external finance.

The value of the tangible and intangible fixed assets increased mainly as a result consolidation of the manufacturing company EURO MGA Product (PLN 20.9m in total) and the acquisition of the organised part of the enterprise of Izolmas (in total by PLN 1.4m). In 2012, depreciation / amortisation amounted to PLN 25m.

The decrease in other long-term assets results from settlement of the acquisition of EURO MGA Product – the investment of PLN 13.6m was until the date of acquisition of control, i.e. to 31 January 2012, recognised as shares under "other financial assets".

The decrease in inventory by PLN 16.8m at the end of 2012 vs. the previous year mainly results from implementation of the optimisation projects in the inventory management processes and the conservative valuation of the finished goods and merchandise held.

The decrease in the balance of trade debtors vs. 31 December 2011 (by PLN 7m) is caused by changes in the sales structure and the increase in the share of sales with shorter payment terms (in Eastern Europe). Furthermore, due to the macroeconomic situation, a conservative valuation was made and relevant impairment losses were posted on debtors.

The current and quick liquidity ratios (1.7 and 1.2, respectively) are higher than the ratios achieved last year, and confirm the Group's ability to meet its current liabilities. These ratios were primarily affected by the repeated presentation of all bank loans in accordance with their maturities as long-term or short-term. In the previous year, due to the breach of the consolidated ratios declared in the loan agreements with banks, in accordance with IAS 1 the Group was required to present a part of the loans as short-term (payable on demand). The improvement in the operating margin and the decrease in the debt level helped achieve all the financial ratios required by the lenders as at 31 December 2012.

2.3. Debt

Net debt figures and debt ratios are presented in the table below.

Figures in PLN thousand	31 December 2012	31 December 2011
Interest bearing borrowings	127 647	151 020
Other financial liabilities	34 847	47 459
Less cash and cash equivalents	-41 056	-42 665
Net debt	**121 438**	**155 814**
Equity attributable to the shareholders of the parent	375 392	378 274
Equity and net debt	**496 830**	**534 088**
Gearing (net debt / equity + net debt)	24%	29%
Debt ratio (liabilities / total assets)	46%	49%
Ned debt / EBITDA*	2,32	5,23

** debt as at the balance sheet date; EBITDA for the last 4 quarters.*

As at the balance sheet date, the debt on bank and other loans decreased to less than PLN 127.6m vs. 31 December 2011. The decrease mainly resulted from repayment of loans from operating cash flows (ca. PLN 48m) with an optimised demand for working capital.

At the end 2012, the debt ratio amounted to 46% and was by 3 p.p. lower than at the end of 2011. The change results from the decrease in bank loans and other financial obligations.

2.4. Cash flows

The tables below show selected items of the consolidated cash flow statement for 2012 and 2011.

Figures in PLN thousand	Year ended 31 December 2012	Year ended 31 December 2011	Change
Net cash flows from operating activities	48 081	-22 199	70 280
Net cash flows from investing activities	-13 115	-57 292	44 177
Net cash flows from financing activities	-36 302	86 491	-122 793
Change in cash and cash equivalents	**-1 336**	**7 000**	**-8 336**

In 2012, net cash flows were negative at - PLN 1.3m.

The positive net cash flows from operating activities were PLN 48.1m, up by nearly PLN 70.3m year-on-year. Despite the business expansion, the Group decreased the contribution of cash to its net current assets: receivables (+PLN 11.9m), inventory (+PLN 18.5m) and liabilities (-PLN 10.5m). In 2012, operating cash flows were positively affected by the increase in the operating profit margin as a result of the completed restructuring programmes.

Net cash flows from investing activities were negative at - PLN 13.1m compared with the negative balance of -PLN 57.3m recorded in 2011. In 2012, capital expenditures were limited, and only the necessary development projects were being progressed. Last year, the key contributing factors included exercise of the option to buy out minority interests in Selena Iberia (PLN 21.2m), purchase of tangible and intangible assets of PLN 35.1m, and net outlays on acquisition of EURO MGA (PLN 3.7m).

Net cash flows from financing activities amounted to - PLN 36.3m. This figure was mainly affected by the net outflows on account of loan repayments (-PLN 20.6m), interest paid (PLN 9.8m) and finance lease payments (PLN 4.5m).

2.5. Loans received

The balance of bank borrowings as at 31 December 2012 is presented in the table below.

#	Loan type	Due date	31 December 2012 Long-term portion	31 December 2012 Short-term portion	31 December 2011 Long-term portion	31 December 2011 Short-term portion
1	Working capital loan	04/2013	*0*	*3 939*	*0*	*0*
2	Working capital loan	06/2013	*0*	*4 980*	*0*	*2 757*
3	Non-renewable	06/2013	*0*	*5 524*	*5 508* *	*13 966*
4	Working capital loan	11/2013	*0*	*4 928*	*0*	*8 175*
5	Revolving loan	11/2013	*0*	*6 097*	*0*	*6 921*
6	Working capital loan	12/2013	*0*	*21 363*	*0*	*19 260*
7	Working capital loan	02/2014	*14 090* *	*0*	*15 606* *	*0*
8	Working capital loan	03/2014	*13 483* *	*0*	*12 837* *	*0*
9	Investment loan	03/2014	*450*	*2 280*	*2 730*	*2 280*
10	Working capital loan	06/2014	*10 640* *	*0*	*16 085* *	*0*
11	Non-renewable	07/2014	*11 772* *	*4 434*	*17 488* *	*4 770*
12	Investment loan	06/2015	*879* *	*581*	*1 465* *	*597*
13	Investment loan	03/2018	*7 083* *	*1 667*	*8 611* *	*1 443*
14	Other	different	*3 219*	*10 238*	*3 768*	*6 754*
			61 616	***66 031***	***84 097***	***66 924***

* portions of long-term obligations presented as short-term in the balance sheet

Details of the lending terms are presented in Note 28.2 of the consolidated financial statements for 2012.

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. At the balance sheet date 31.12.2012 all the financial ratios were met.

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.

2.6. Loans granted

In 2012, the Group did not grant any new loans or advances to any third party.

2.7. Guarantees and off-balance sheet items

The Group companies did not give any material guarantees to non-Group members. Specification of the guarantees provided by the Parent Company to Group companies is contained at Note 29 of the unconsolidated financial statements for 2012.

2.8. Financial instruments and financial risk management principles

Details of the Group's financial instruments are presented in Note 39 of the Group's consolidated financial statements for 2012.

The Group's risk financial risk management principles (covering FX risk, interest rate risk, credit risk and liquidity risk) are presented in detail in Note 38 of the Group's consolidated financial statements for 2012.

2.9. Investments

In 2012, the Group did not complete any major investments, other than the necessary development initiatives.

In 2011, the Group was engaged in acquisition of the Romanian company EURO MGA Product sarl, as described in Note 1.5.2. The entity's business (production of adhesives and cement mortars) is closely linked to the Group's core business. As at 31 December 2011, the value of the investment was PLN 13.6m (Note 20 of the Group's consolidated financial statements for 2012). The investment is chiefly financed by obligations towards the bank of the acquired company in respect of purchase of the company's receivables (see Note 29 of the Group's consolidated financial statements for 2012).

2.10. Assessment of financial resources management

As at 31 December 2012, the ratio of current assets to short-term liabilities (current liquidity ratio) was 1.75. The Group's current assets amounted to PLN 373.8m, while short-term liabilities were PLN 214m. With such a structure, the Management Board sees no material risks to the Group with regard to liquidity and timely payment of obligations.

As at 31 December 2012, the Group's cash position was PLN 41m. The Group also has undrawn credit limits of PLN 54.4m, which in the opinion of the Management Board ensure financial liquidity and stable funding for the Group entities.

The Company meets its financial obligations in a timely manner and has no liquidity problems. In the Management Board's opinion, there are no risks to the Company's capacity to service its obligations in a timely manner.

To ensure funding for the Group's further organic growth and to secure its liquidity, steps are taken to expand co-operation with banks and other financial institutions.

3. Other information

3.1. Material agreements

In 2012, the Group entered into the following material agreements:

- Bank credit agreements (Note 2.5);
- Agreement to purchase an organised part of the enterprise of Izolmas sp. z o.o. of Płock (Note 1.6.3).

As deliveries and sales take place on an ongoing basis, no single material agreements were concluded in the ordinary course of business.

The table below shows material insurance agreements signed by the Group companies in 2012.

Insured	Subject of insurance	Insured amount (million)	Ccy	Term of insurance
Companies registered in Poland	Insurance of assets against all risks, electronics, loss of profit	265	PLN	16/06/2012 - 15/06/2013
	General liability insurance	17	PLN	16/06/2012 - 15/06/2013
	Insurance against accidents and cost of medical service during foreign business trips	20	USD	11/06/2012 - 10/06/2013
	Trade credit insurance (SELENA SA)	12	PLN	01/10/2012 - 30/09/2013
	Directors' liability insurance	30	PLN	31/10/2012 - 30/10/2013
Selena Iberia	Asset insurance	21	EUR	01/01/2012 - 01/01/2013
	Receivables insurance	2	EUR	
	Insurance against loss of profit due to business interruptions	10	EUR	

The Management Board has no information about any agreements between shareholders.

3.2. Related party transactions

The companies from the Selena FM Group did not enter into any unusual transactions or transaction made on non-commercial terms whose total value would meet the materiality criteria (10% of equity).

3.3. Issue of securities

As part of execution of the management options programme described in Note 3.11, on 16 March 2012, 110,000 ordinary series D shares of Selena FM S.A. were put on the market. The capital increase was registered by the court on 12 April 2012.

3.4. Acquisition of treasury shares

The Parent Company and the Group members did not own treasury shares of Selena FM S.A as at 31 December 2012. The list of treasury shares held by the Company's directors is presented in Note 3.12 of this report.

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

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.

3.5. Delivery of forecasts

The Company did not publish its stand-alone forecasts for 2012.

3.6. Litigations

The total value of all court, arbitration or administrative proceedings pending as at 31 December 2012 did not exceed 10% of the Company's equity. Other material litigations that might give rise to liabilities are described in Note 32.3 of the Group's consolidated financial statements for 2012.

3.7. Unusual events and factors

Other key factors affecting the Group's performance in 2012 were described in Note 2 of this report.

3.8. Changes to the governance principles

During the reporting period no major changes occurred in the main governance principles, either in the Parent Company or in the Group. The changes in the principles of the Group's Head Office organisation is described in Note 1.5.2.

Changes in corporate governance were described in the unconsolidated financial statements of the Parent Company for 2012.

3.9. Agreements with directors

The employment agreement signed on 4 June 2012 between Selena FM S.A. and Beata Pawłowska, appointed as Vice-President of the Management Board, does not contain any special or non-standard provisions.

3.10. Remuneration of the Management Board and the Supervisory Board

The remuneration of the Management and the Supervisory Board members of the Parent Company is described in Note 36 of the Group's consolidated financial statements for 2012.

3.11. Equity-based remuneration programmes

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 1,633k, 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.

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 based on the data presented in this report, the general objective has not been met, the cost of the programme delivery for 2011 was not recognised.

The programme ended after a formal confirmation at the Supervisory Board meeting that the general objective for 2011 had not been met.

3.12. Shareholdings by executive and non-executive directors

The table below shows a summary of the shareholdings in the Parent Company by executive and non-executive directors as at the date of publication of this report.

Name	Title	Number of shares held	Nominal value of shares (PLN)
Kazimierz Przełomski	Vice-President of the Management Board	9 800	490
Krzysztof Domarecki	Supervisory Board Chairman	9 538 000	476 900
Syrius Investments s.a.r.l.*	-	8 050 000	402 500

* entity controlled by Krzysztof Domarecki

At that date of dismissal from the Supervisory Board, Andrzej Kozłowski held 132,000 shares in Selena FM S.A, and Anna Kozłowska held 4,000 shares as well as 10 shares in the subsidiary Orion sp. z o.o. (with a total nominal value of PLN 1,000).

Krzysztof Domarecki also holds 0.5% stake in Research Centre of Construction Technology sp. z o.o.

Furthermore, as at the date of her dismissal from the Supervisory Board (see Note 2.4), Anna Kozłowska held 10 shares in the subsidiary Orion sp. z o.o. for a total nominal value of PLN 1,000.

3.13. Agreements affecting changes in the proportion of shareholdings

As part of delivery of the management options programme described in Note 3.11, 110,000 shares were issued to the Group's employees, including a Management Board member.

The Company has not other information on any agreements that in the future might affect the proportion of shareholdings of the existing shareholders.

3.14. Control of employee shares programmes

In 2012, no employee shares programmes were in place in Selena FM S.A.

3.15. Information on the audit of the financial statements

On 29 June 2012, the Supervisory Board of Selena FM S.A. resolved to appoint Ernst&Young Audit sp. z o.o. as the auditor responsible for review of the interim financial statements and audit of the annual financial statements of the Parent Company, and the Group's consolidated financial statements for 2012. The audit agreement was concluded on 30 July 2012.

4. Corporate governance principles

Corporate governance principles applied by the Group are presented in detail in the report on the activities of the Parent Company – Selena FM S.A. for 2012.

MANAGEMENT BOARD'S ASSURANCE STATEMENT ON RELIABILITY OF THE FINANCIAL REPORT

The Management Board of Selena FM S.A. hereby confirms that to the best of its knowledge the consolidated financial statements for 2012 and the comparable data have been prepared in accordance with the applicable accounting policies and give a true, fair and clear picture of the affairs of Selena FM Group and its financial performance and that the Management Board's annual report on the Group operations gives a true picture of the Group's development, achievements and standing, including description of the key risks and threats.

THE MANAGEMENT BOARD'S STATEMENT ON SELECTION OF AUDITOR

The Management Board of Selena FM S.A. hereby declares that the auditor of the annual consolidated financial statements of the Group for 2012 was selected in accordance with the law and that the audit firm and its auditors fulfilled the necessary criteria to be able to issue an unbiased and independent opinion of the financial statements in accordance with the applicable laws and professional standards.

President of the Management Board

....

Jarosław Michniuk

Vice-President of the Management Board
Financial Director

....

Kazimierz Przełomski

Vice-President of the Management Board
responsible for Sales and Marketing

....

Beata Pawłowska