

Wrocław, 21 March 2013

To Our Shareholders,

Publication of the 2012 trading performance of Selena Group is a good opportunity to give you an overview of the current situation of the business and to make a short summary of the key actions taken by our organisation in the previous year.

In 2012, the situation in the construction sector in Selena's key markets was overwhelmingly difficult. After a strong beginning, Poland suffered a major decline in the second half of the year, which resulted in lower sales year-on-year. In the CEE, an evident stagnation was observed in the national economies, while in the south of Europe – in Spain or Italy – the construction sector experienced dramatic declines. Upon revision of the sales strategy, a slight decrease in sales was also noted in Brazil. However, due to the geographic diversification, we managed to compensate for these negative trends with a more than 20% increase in sales in the Eastern Europe – notably in Russia and Kazakhstan, as well as in the USA and China. Overall, in this challenging environment, the Group achieved a global increase in sales by 4%.

As you are aware, 2012 was significantly different from the previous years in terms of the key priorities adopted by the Management Board of Selena Group. After the years of rapid growth and a number of major acquisitions and development projects, last year we decided to focus on the following actions: business consolidation and integration of new entities, reduction of demand for working capital and a significant improvement in profitability. For this reason, we launched a number of programmes designed to improve the operating profit margin and the effectiveness of business processes in the Group. As we emphasised multiple times, our key objective was to ensure stability of our organisation as a whole and to create solid foundations for future growth. Our initiatives are long-term in nature and will be continued into 2013.

As the key actions in this area I should indicate the organisational changes resulting in establishment of the Central Purchasing Department, centralising the research activity in a single R&D unit, and a major empowerment of the Global Production Director along with Supply Chain Management, as well as the strengthening of the HR function. With such redefined organisational structure in place, we initiated specific operational optimisation programmes. As regards working capital management, we managed to shorten the cash conversion cycle at the year-end by 12 days. This was a combined effect of reduction of the warehouse stock and extension of the payment terms from our suppliers. At the year end, we managed to improve the average payment terms of our creditors by nearly 10 days. The Group achieved a positive balance on operating cash flows of approx. PLN 50m, which in turn helped improve the ratio of EBITDA to consolidated net debt to 2.3. At the same time, we reduced general and administrative expenses by 2 p.p. and completed the production optimisation programmes, reducing production costs to below 5%.

Selena Bulgaria Ltd.	Selena Iberia S.L.U.	Carina Silicones Sp. z o.o.	EURO MGA Product.SRL	Selena Ukraine Ltd.
Selena Sulamericana Ltda	FinSelena Oy	Libra Sp. z o.o.	Hamil - Selena Co. Ltd	Selena USA, Inc
Selena Nantong Building Materials Co., Ltd.	Selena Hungária Kft.	Orion Sp. z o.o.	Selena Vostok	
Foshan Chinuri Selena Chemical Co.	Selena Italia srl	Izolacja Matizol Sp. z o.o.	Kvadro OOO	
Selena Bohemia s.r.o.	Selena CA L.L.P.	Tytan EOS Sp. z o.o.	Selena Slovakia s.r.o.	
Selena Deutschland GmbH	Selena S.A.	Selena România SRL	Selena Yapı Malzemeleri Ltd.Şti.	



At the same time, we clearly improved our operating effectiveness, increasing the EBITDA margin to 4.9%. As part of the review of the loss-making businesses, we decided to close the sealants production in the USA, end own distribution business in Finland and replace it with a distribution agreement with an external partner – Rakennuskemia, and reorganise our trading activity in Russia by merging Kvadro into Selena Vostok. We also continued a number of turnaround programmes in the companies that generated the highest losses, namely: Selena Iberia (former Quilosa, Spain), Selena Nantong (China), Matizol (Poland) and Selena Yapi in Turkey. In terms of development investments, we successfully completed the take-over of Euro MGA, Romania from the receiver, and achieved a strong increase in the sale of dry mortars. In the Matizol plant in Chelmża we launched own production of liquid bituminous masses, notably increasing our margins on this product line.

Strong and effective R&D activity and the knowledge-sharing between the R&D units allow us to achieve competitive advantages and obtain a relative protection against the impact of negative fluctuations in commodity prices on the margins generated on finished goods. For this reason, we decided to centralise our R&D functions to improve creativity of our teams and innovation of the developed solutions, thus paving the way towards establishment of interdisciplinary teams focused on delivering new value to the end-users of our products.

We also took a number of actions in the HR area, starting from the valuation of job positions in the Polish companies to reorganisation of the pay systems to defining our core competencies and adding feedback on the staff soft skills to the performance evaluation system.

We set clear objectives for ourselves for 2013: continue the restructure and optimisation programmes, further reduce the demand for working capital and further improve profitability through a tighter cost discipline and an increase in margins on finished goods. I am confident that the consistent delivery of the strategy aimed at building the Polish organisation as a global player will result in a further increase in the value of shares of Selena FM S.A., bringing real value to its Shareholders.

Let me extend my thanks to you for your continued trust and give my assurance on behalf of the whole Management Board and the Supervisory Board that we will make every effort to ensure that Selena FM S.A. is an attractive investment.

Jarosław Michniuk  
CEO and President of the Management Board  
Selena FM S.A.

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