

CAPITAL GROUP SELENA FM S.A.

**LONG-FORM AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

I. GENERAL NOTES

1. Background

The holding company of the SELENA FM S.A. Group (hereinafter 'the Group' or 'the Capital Group') is SELENA FM S.A. ('the holding company', 'the Company').

The holding company was incorporated on the basis of a Notarial Deed dated 28 December 1993. The Company's registered office is located in Wroclaw at Strzegomska 2-4.

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, polish special edition chapter 13, title 29 page 609) and, based on the article 55.5 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU.

The holding company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000292032 on 10 September 2002.

The Company was issued with tax identification number (NIP) 884-00-30-013 on 20 January 1994 and statistical number (REGON) 890226440 on 13 February 2007.

The principal activities of the holding company are as follows:

- Advisory services in strategic management;
- Advisory services in financial management;
- Advisory services in sales strategy;
- Accounting services.

The scope of activities of the Group's subsidiaries, jointly controlled entities and associates are production, distribution and sales of building materials used for doors, windows and general building.

As at 31 December 2010, the Company's issued share capital amounted to 1.136 thousand zlotys. Equity as at that date amounted to 359.177 thousand zlotys.

In accordance with Company's share register as at 31 December 2010, the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
Krzysztof Domarecki	9,538,000	13,538,000	476,900	41.97%
Syrius Investments S.a.r.l.	8,050,000	8,050,000	402,500	35.43%
Other shareholders	5,136,000	5,136,000	256,800	22.60%
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Total	22,724,000	26,724,000	1,136,200	100.00%
	=====	=====	=====	=====

There were no changes in the ownership structure of the Company during the reporting period as well as during the period from the balance sheet date to the date of the opinion.

There were no movements in the share capital in the reporting period.

As at 29 April 2011, the Company's Management Board was composed of:

Krzysztof Domarecki	- President
Kazimierz Przełomski	- Vice-president
Elżbieta Agnieszka Szymańska	- Member

There were no changes in the Company's Management Board composition during the reporting period as well as from the balance sheet date to the date of the opinion.

2. Group Structure

As at 31 December 2010, the SELENA FM S.A. Group consisted of the following subsidiaries (direct or indirect):

Entity name	Consolidation method	Type of opinion	Name of authorised entity that audited financial statements	Balance sheet date
Orion Sp. z o.o.	Full consolidation	During audit	Ernst & Young Audit Sp. z o.o.	31.12.2010
Libra Sp. z o.o.	Full consolidation	During audit	Ernst & Young Audit Sp. z o.o.	31.12.2010
Carina Silicones Sp. z o.o.	Full consolidation	During audit	Ernst & Young Audit Sp. z o.o.	31.12.2010
Selena Co S.A.	Full consolidation	During audit	Ernst & Young Audit Sp. z o.o.	31.12.2010
Selena S.A.	Full consolidation	During audit	Ernst & Young Audit Sp. z o.o.	31.12.2010
Tytan EOS Sp. z o.o.	Full consolidation	During audit	Ernst & Young Audit Sp. z o.o.	31.12.2010
PMI „Izolacja-Matizol” S.A.	Full consolidation	During audit	Ernst & Young Audit Sp. z o.o.	31.12.2010
Selena Romania SRL	Full consolidation	No audit obligation	No audit obligation	31.12.2010
Selena Bohemia s.r.o.	Full consolidation	No audit obligation	No audit obligation	31.12.2010
Selena Hungária Kft.	Full consolidation	No audit obligation	No audit obligation	31.12.2010
Selena Slovakia s.r.o.	Full consolidation	No audit obligation	No audit obligation	31.12.2010
Selena USA, Inc.	Full consolidation	No audit obligation	No audit obligation	31.12.2010
Selena USA Real Estate Corp.	Full consolidation	No audit obligation	No audit obligation	31.12.2010
Selena Deutschland GmbH	Full consolidation	No audit obligation	No audit obligation	31.12.2010
Neue Hagfa Dr Schenk Niemcy	Full consolidation	No audit obligation	No audit obligation	31.12.2010
Selena CA L.L.P. (Kazakhstan)	Full consolidation	During audit	„Audit-Ekspress-Serwis”	31.12.2010
Selena Ukraine Ltd.	Full consolidation	No audit obligation	No audit obligation	31.12.2010

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Selena Italia srl	Full consolidation	No audit obligation	No audit obligation	31.12.2010
Selena Sulamericana Ltda	Full consolidation	No audit obligation	No audit obligation	31.12.2010
RCoCT (formerly Siloxane Sp. z o.o.)	Full consolidation	No audit obligation	No audit obligation	31.12.2010
Selena Bulgaria Ltd.	Full consolidation	No audit obligation	No audit obligation	31.12.2010
Selena Vostok Moskwa	Full consolidation	During audit	ZAO „Centr Audita i Konsultinga Fin audit”	31.12.2010
Selena Sever Moskwa	Full consolidation	No audit obligation	No audit obligation	31.12.2010
Selena Shanghai Trading Co., Ltd.	Full consolidation	During audit	Shanghai Dong Rui Certified Public Accountants Co., Ltd.	31.12.2010
Foshan Chinuri Selena Chemicals Co. Ltd	Full consolidation	No audit obligation	No audit obligation	31.12.2010
Selena Nantong Building Materials Co., Ltd.	Full consolidation	During audit	Nantong Wanlong Certified Public Accountants	31.12.2010
POLYFOAM Yalitim Sanayive Tic Ltd.	Full consolidation	No audit obligation	No audit obligation	31.12.2010
Industrias Quimicas Löwenberg S.L.	Full consolidation	During audit	Ernst & Young	31.12.2010
OOO Kvadro (Russia)	Full consolidation	No audit obligation	No audit obligation	31.12.2010
Selena Danişmanlik Ticaret Ltd	Full consolidation	During audit	Ernst & Young	31.12.2010
FinSelena Oy (Finland)	Full consolidation	No audit obligation	No audit obligation	31.12.2010

As at 31 December 2010 shares in the following associates (direct and indirect) were recognised in the Group's consolidated financial statements using the equity method:

Name and registered office	Type of activity
Hamil - Selena Co Ltd.z siedzibą w Kimhae (Korea)	Production of polyurethane foam and aerosol products
"Borkan Prefabrik Yapi Elemanlari ve Dis Ticaret" A.S z siedzibą w Istanbul (Turkey)	wholesale of building materials

Details of the type and impact of changes in entities included in the consolidation as compared to the prior year may be found in Note 1.3 of the summary of significant accounting policies and other explanatory notes (“the additional notes and explanations”) to the consolidated financial statements of the Group for the year ended 31 December 2010.

3. Consolidated Financial Statements

3.1 Auditors' opinion and audit of consolidated financial statements

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audit sp. z o.o. was appointed by Supervisory Board on 30 April 2010 to audit the Group's financial statements.

Ernst & Young Audit sp. z o.o. and the key certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649).

Under the contract executed on 23 July 2010 with the holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2010.

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to express an opinion on the consolidated financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the consolidated financial statements taken as a whole.

Based on our audit, we issued an auditors' opinion dated 29 April 2011, stating the following:

'To the General Shareholders' Meeting of Selena FM S.A.

1. We have audited the attached consolidated financial statements of Selena FM S.A. Group ('the Group'), for which the holding company is Selena FM S.A. ('the Company') located in Wroclaw at Strzegomska 2-4, for year ended 31 December 2010 containing, the consolidated statement on financial position as at 31 December 2010 the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flow for the period from 1 January 2010 to 31 December 2010 and the summary of significant accounting policies and other explanatory notes ('the attached consolidated financial statements').
2. The truth and fairness¹ of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the

¹ Translation of the following expression in Polish: 'rzetelność i jasność'

attached consolidated financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies and whether they truly and fairly² reflect, in all material respects, the financial position and results of the operations of the Group.

3. We conducted our audit of the attached consolidated financial statements in accordance with:

- chapter 7 of the Accounting Act,
- national auditing standards issued by the National Council of Statutory Auditors,

in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. In our opinion, the attached consolidated financial statements, in all material respects:

- present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2010 to 31 December 2010, as well as its financial position³ as at 31 December 2010;
- have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;
- are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

5. We have read the 'Directors' Report for the period from 1 January 2010 to 31 December 2010 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259).

6. As at the date of this opinion, the consolidated financial statements for the year ended 31 December 2009 have not been submitted for publication in Monitor Polski-B, as required by the Accounting Act.'

We conducted the audit of the consolidated financial statements during the period from 22 November 2010 to 29 April 2011. We were present at the holding company's head office from 22 November 2010 to 26 November 2010 and from 7 March 2011 to 11 March 2011.

² Translation of the following expression in Polish: '*rzetelne i jasne*'

³ Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the truth and fairness⁴ of the consolidated financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 29 April 2010, from the Management Board of the holding company confirming that:

- the information included in the consolidation documentation was complete,
- all contingent liabilities had been disclosed in the consolidated financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the consolidated financial statements,

and confirmed that the information provided to us was true and fair to the best of the holding company Management Board's knowledge and belief, and included all events that could have had an effect on the consolidated financial statements.

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2009 were audited by Ewa Kowalczyk, key certified auditor no. 9263, acting on behalf of Ernst & Young Audit Sp. z o.o.. The key certified auditor issued a qualified opinion on the consolidated financial statements for the year ended 31 December 2009. The consolidated financial statements for the year ended 31 December 2009 were approved by the General Shareholders' Meeting on 11 June 2010.

The consolidated financial statements of the Group for the financial year ended 31 December 2009, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 9 July 2010 with the National Court Register.

As at 29 April 2010, neither the consolidated balance sheet as at 31 December 2009, the consolidated profit and loss account, the statement of changes in consolidated equity and the consolidated cash flow statement for the year ended 31 December 2010, nor the auditors' opinion and a copy of the resolution approving the financial statements have been submitted for publishing in Monitor Polski B.

4. Analytical Review

4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2008 – 2010. The ratios were calculated on the

⁴ Translation of the following expression in Polish: "rzetelność i jasność"

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basis of financial information included in the financial statements for the years ended 31 December 2009 and 31 December 2010.

	2010	2009	2008
Total assets	603,887	529,314	431,809
Shareholders' equity	359,177	325,040	323,421
Net profit/ loss	24,660	4,545	15,171
Return on assets (%)	4.1%	0.9%	3.5%
$\frac{\text{Net profit/loss} \times 100}{\text{Total assets}}$			
Return on equity (%)	7.3%	1.4%	10.2%
$\frac{\text{Net profit/loss} \times 100}{\text{Shareholders' equity at the beginning of the period}}$			
Profit margin (%)	2.8%	0.7%	2.9%
$\frac{\text{Net profit/loss} \times 100}{\text{Sales of finished goods, goods for resale and raw materials}}$			
Liquidity I	2.06	2.87	3.46
$\frac{\text{Current assets}}{\text{Short-term creditors}}$			
Liquidity III	0.21	0.67	1.29
$\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$			
Debtors days	57 days	62 days	67 days
$\frac{\text{Trade debtors} \times 365}{\text{Sales of finished goods, goods for resale and raw materials}}$			
Creditors days	36 days	51 days	49 days
$\frac{\text{Trade creditors} \times 365}{\text{Costs of finished goods, goods for resale and raw materials sold}}$			

This is a translation of a document originally issued in the Polish language.

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	2010	2009	2008
Inventory days	52 days	80 days	68 days
$\frac{\text{Inventory} \times 365}{\text{Costs of finished goods, goods for resale and raw materials sold}}$			
Stability of financing (%)	73.1%	79.3%	79.8%
$\frac{(\text{Equity} + \text{long-term provisions and liabilities}) \times 100}{\text{Total liabilities, provisions and equity}}$			
Debt ratio (%)	40.5%	38.6%	25.1%
$\frac{(\text{Total liabilities and provisions}) \times 100}{\text{Total assets}}$			
Rate of inflation:			
Yearly average	2.60%	3.50%	4.20%
December to December	3.10%	3.30%	3.30%

4.2 Comments

The following trends may be observed based on the above financial ratios:

- Return on assets decreased in 2009 to 0.9% from 3.5% in 2008. In 2010 ratio increased to 4.1%.
- Return on equity increased in 2010 to 7.3%. In 2009 decreased to 1.4% from 10.2% in 2008.
- Profit margin increased in 2010 to 2.8% from 0.7% in 2009. In 2008 the ratio increased to 2.9%.
- Liquidity I decreased in 2010 to 2.06 from 2.87 in 2009 and 3.46 in 2008.
- Liquidity III decreased in 2010 to 0.21 from 0.67 in 2009. In 2008 the ratio amounted to 1.29.
- Debtors days decreased in 2010 to 57 days from 62 days in 2009 and 67 days in 2008.
- Creditors days decreased in 2010 to 36 days from 51 days in 2009. In 2008 the ratio amounted to 49 days.
- Inventory days decreased to 52 days in 2010 from 80 days in 2009. In 2008 the ratio amounted to 68 days.
- Stability of financing decreased in 2010 to 73.1% from 79.3% in 2009 and 79.8% in 2008.
- Debt ratio increase to 40.5% in 2010 from 38.6% in 2009 and 25.1% in 2008.

4.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the holding company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2010 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 2.5 of the additional notes and explanations to the audited consolidated financial statements for the year ended 31 December 2010, the Management Board of the holding company has stated that the financial statements of the Group entities included in the consolidated financial statements were prepared on the assumption that these entities will continue as a going concern for a period of at least twelve months subsequent to 31 December 2010 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

The Group's accounting policies and rules for the presentation of data are detailed in note 4 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2010.

3. Structure of assets, liabilities and equity

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2010.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1 Goodwill on consolidation and amortisation

The method of determining goodwill on consolidation, the method on determining impairment of goodwill, the impairment charged in the financial year and up to the balance sheet date were presented in note 16 of the additional notes and explanations to the consolidated financial statements.

3.2 Shareholders' funds including non-controlling interest

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Non-controlling interest amounted to 723 thousand zlotys as at 31 December 2010. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 26 of the additional notes and explanations to the consolidated financial statements.

3.3 Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2010 and include the financial data for the period from 1 January 2010 to 31 December 2010.

4. Consolidation adjustments

4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in a subordinated entity

During the financial year the Group did not sell any shares in subordinated entities.

6. Items which have an impact on the group's result for the year

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2010.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting

8. Additional Notes and Explanations to the Consolidated Financial Statements

The additional notes and explanations to the consolidated financial statements for the year ended 31 December 2010 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

9. Directors' Report

We have read 'the Directors' Report for the period from 1 January 2010 to 31 December 2010 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and

conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259).

10. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board of the holding company confirming that no laws, regulations or provisions of the Group entities' Articles of Association were breached during the financial year.

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

Ewa Kowalczyk
certified auditor
no. 9263

Wroclaw, 29 April 2011