# SELENA FM GROUP

MANAGEMENT BOARD'S REPORT
ON THE GROUP'S ACTIVITIES
FOR THE 6 MONTHS ENDED 30 JUNE 2013

Wrocław, 30 August 2013

# 1. Financial highlights

## Financials of the Group

| | PLN thousand | | EUR thousand | |
|---|---|---|---|---|
| | 6 months ended 30 June 2013 | 6 months ended 30 June 2012 | 6 months ended 30 June 2013 | 6 months ended 30 June 2012 |
| Revenue from sales | 485 503 | 475 708 | 115 212 | 112 604 |
| Operating profit (loss) | 8 488 | 5 475 | 2 014 | 1 296 |
| Profit (loss) before tax | 4 616 | -4 212 | 1 095 | -997 |
| Profit (loss) after tax | 3 295 | -7 142 | 782 | -1 691 |
| Profit (loss) attributable to the shareholders of the parent | 3 378 | -7 050 | 802 | -1 669 |
| Comprehensive income | 8 870 | -10 121 | 2 105 | -2 396 |
| Comprehensive income attributable to shareholders of the Parent | 8 930 | -10 000 | 2 119 | -2 367 |
| Net cash flows from operating activities | 2 891 | -8 602 | 686 | -2 036 |
| Net cash flows from investing activities | -6 875 | -8 287 | -1 631 | -1 962 |
| Net cash flows from financing activities | 23 407 | 13 388 | 5 555 | 3 169 |
| Number of shares | 22 834 000 | 22 834 000 | 22 834 000 | 22 834 000 |
| Earnings per share (PLN/EUR) /eur/share) | 0,15 | -0,31 | 0,04 | -0,07 |
| | 30 June 2013 | 31 December 2012 | 30 June 2013 | 31 December 2012 |
| Total assets | 819 023 | 693 810 | 189 186 | 169 710 |
| Non-current liabilities | 73 362 | 103 887 | 16 946 | 25 411 |
| Current liabilities | 369 607 | 214 062 | 85 375 | 52 361 |
| Equity | 376 054 | 375 861 | 86 865 | 91 938 |
| Registered capital | 1 142 | 1 142 | 264 | 279 |

## 1.1 Financials of the Parent Company

| | PLN thousand | | EUR thousand | |
|---|---|---|---|---|
| | 6 months ended 30 June 2013 | 6 months ended 30 June 2012 | 6 months ended 30 June 2013 | 6 months ended 30 June 2012 |
| Revenue from sales | 184 515 | 148 712 | 43 786 | 35 201 |
| Operating profit (loss) | -93 | -6 852 | -22 | -1 622 |
| Profit (loss) before tax | -19 717 | -17 631 | -4 679 | -4 173 |
| Profit (loss) after tax | -20 936 | -17 260 | -4 968 | -4 086 |
| Comprehensive income | -20 936 | -17 260 | -4 968 | -4 086 |
| Net cash flows from operating activities | -211 | 1 757 | -50 | 416 |
| Net cash flows from investing activities | -4 286 | -6 238 | -1 017 | -1 477 |
| Net cash flows from financing activities | 24 682 | 1 080 | 5 857 | 256 |
| | 30 June 2013 | 31 December 2012 | 30 June 2013 | 31 December 2012 |
| Total assets | 449 222 | 383 918 | 103 766 | 93 909 |
| Liabilities | 237 725 | 142 808 | 54 912 | 34 932 |
| Equity | 211 497 | 241 110 | 48 854 | 58 977 |
| Registered capital | 1 142 | 1 142 | 264 | 279 |
| Number of shares | 22 834 000 | 22 834 000 | 22 834 000 | 22 834 000 |
| Earnings per share (PLN/EUR) /eur/share) | -0,92 | -0,76 | -0,22 | -0,18 |

# 2. Information on the Group

## 2.1 Activities of the Group

Selena FM Group is an international manufacturer and distributor of construction chemicals. The Group's Parent is Selena FM S.A. of Wrocław, which on 18 April 2008 debuted on the main market of the Warsaw Stock Exchange.

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 and ARTELIT.

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

## 2.2 Parent Company

The core business of Selena FM S.A. is distribution of the Group's products into foreign markets, and provision of advice to its subsidiaries with regard to strategic management, finance management, sales strategy and maintenance of accounting books for customers.

## 2.3 Management Board

As at 30 June 2013 and 31 December 2012, the Parent Company's Management Board was composed of:

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

As at the date of publication of this report, no changes took place in the Management Board's composition.

## 2.4 Supervisory Board

As at 30 June 2013 and 31 December 2012, the Supervisory Board consisted 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.

The term of office of the Supervisory Board is three years. The existing Board was appointed on 19 June 2012 by the General Meeting of Selena FM S.A. As at the date of publication of this report, no changes took place in the Supervisory Board's composition.

### 2.5 Group structure

A detailed geographic and ownership structure, and division into geographic segments were described in the interim condensed consolidated financial statements of the Group for the year ended 30 June 2013 (Note 1.4).

On 28 June 2013, Selena Vostok Moscow was merged with OOO Kvadro. The merger was effected under the agreement of 22 April 2013. In consequence, OOO Kvadro was struck off the business register. The business operations of OOO Kvadro are continued by Selena Vostok Moscow.

Between the balance sheet date and the date of publication of this report a change occurred in the structure of the shareholdings in EURO MGA Product SRL. On 21 August 2013, the transaction of purchase of the shares in EURO MGA by Selena FM S.A. became legally binding under the Romanian law. Effective since 21 August 2013, Selena Group FM has owned 100% stake in the company.

## 3. Key developments

### 3.1 Dividend

On 18 June 2013, the AGM of Selena FM S.A. adopted a resolution to allocate a part of the supplementary capital to the payment of dividend of PLN 8,676,920, i.e. PLN 0.38 per share. The dividend was paid on 14 August 2013. For more details, see Note 11 to the condensed consolidated financial statements.

### 3.2 Awards and recognitions

At this year's TobBuilder 2013 gala held in January 2013, Selena S.A. set a innovation record as it received as many as **8 TopBuilder statuettes** for its following products: Thin-Coat Mortar, Low-Expansion Foam Tytan Professional, Tytan Professional Roofing Adhesive, FIX$^2$ Rapid High Tech Adhesive, NW Wood Preservative, Tytan Professional Deep Penetrating Primer, Abizol S and a line of zolosilicone Tytan EOS products.

In March 2013, Selena was again recognised by the construction sector for its "remarkable achievements and a strong position in the construction sector, and for the effective business management" . Selena S.A. and the CEO Andrzej Ulfig received the title and the statuette **Golden Polish Hercules 2012**. The award is given to the innovative construction products, IT products for the construction sector as well as other projects and services in this industry.

During this year's PSB Fairs on 11–12 April 2013, Selena Group created the world's largest glazed ceramic sculpture, a fact that was entered in the Guinness Book of Records.

In April 2013, Selena took part in one of the Poland's largest career fairs Career Expo in Wrocław. Selena's stand was situated in a prestigious zone especially prepared for the participants of the Polish Champion Programme.

In May 2013, as part of the European Economic Congress, the Supervisory Board Chairman took part in the economic forum organized by PAIZ (Polish Information and Foreign Investment Agency) under the title "European Union - China". The purpose of the Forum was to present the current and prospective economic relations between the EU and China.
In June 2013, a new website was launched with the Group's flagship brand – Tytan.

In the rankings of the biggest Polish companies, Selena Group was ranked 287$^{th}$ (advancing by 11 positions vs. the previous year) in the List of 500 compiled by the Rzeczpospolita daily, while in the list of the largest exporters Selena Group was ranked 47th. In the List of 500 compiled by the *Polityka* magazine Selena Group was ranked 232nd (241st in the previous years), while in the list of the best players in the chemical sector the Group was 13th.

### 3.3 Key investments

In 2011, Selena Group began its investment in the acquired entity EURO MGA Products SRL, Romania. The company is steadily regaining is market position, as once it was among the largest companies in its sector in Romania. In 2013, two of the three planned lines for the production of mortar adhesives were put in operation. The lines are located in the newly built plant, whose development may will help increase the available production capacity and will support Selena's growing sales in the Romanian market of thermal insulation systems and dry mortars. The whole project is to be completed in mid-2013. The new production capacity will help position EURO MGA Products SRL as one of the market leaders.

## 4. Financial position

### 4.1 Financial performance

The tables below show selected items of the consolidated profit and loss account for the 6 months and 3 months ended 30 June 2013 and 30 June 2012, respectively, as well as selected financial ratios.

| Figures in PLN thousand | 6 months ended 30 June 2013 | 6 months ended 30 June 2012 | Change | Change % |
|---|---|---|---|---|
| Revenue from sales | 485 503 | 475 708 | 9 795 | 2% |
| Cost of sales | 346 032 | 344 057 | 1 975 | 1% |
| Gross profit on sales | 139 471 | 131 651 | 7 820 | 6% |
| Selling and marketing costs | 79 603 | 84 412 | -4 809 | -6% |
| General and administrative expenses | 37 991 | 38 259 | -268 | -1% |
| Other operating profit (loss) | -13 389 | -3 505 | -9 884 | - |
| EBITDA – operating profit + depreciation / amortisation | 20 967 | 17 539 | 3 428 | 20% |
| Operating profit (loss) (EBIT) | 8 488 | 5 475 | 3 013 | 55% |
| Net finance income | -4 276 | -9 687 | 5 411 | - |
| Profit (loss) before tax | 4 616 | -4 212 | 8 828 | - |
| Profit (loss) after tax | 3 295 | -7 142 | 10 437 | - |
| Total other net comprehensive income | 5 575 | -2 979 | 8 554 | - |
| Total comprehensive income | 8 870 | -10 121 | 18 991 | - |

*EBITDA – operating profit + depreciation/amortisation*

| | 6 months ended 30 June 2013 | 6 months ended 30 June 2012 | Change in p.p. |
|---|---|---|---|
| Gross profit margin | 28,7% | 27,7% | 1,1 |
| Selling costs / revenue from sales | 16,4% | 17,7% | -1,3 |
| General and administrative expenses / revenue from sales | 7,8% | 8,0% | -0,2 |
| EBITDA margin % | 4,3% | 3,7% | 0,6 |
| Operating profit margin (EBIT%) | 1,7% | 1,2% | 0,6 |
| Net profit margin | 0,7% | -1,5% | 2,2 |

*EBIT % – operating profit / sales*

*EBITDA % - EBITDA / sales*

| Figures in PLN thousand | 3 months ended 30 June 2013 | 3 months ended 30 June 2012 | Change | Change % |
|---|---|---|---|---|
| Revenue from sales | 301 292 | 288 858 | 12 434 | 4% |
| Cost of sales | 212 404 | 207 977 | 4 427 | 2% |

| | | | | |
|---|---|---|---|---|
| Gross profit on sales | 88 888 | 80 881 | 8 007 | 10% |
| Selling and marketing costs | 44 462 | 45 303 | -841 | -2% |
| General and administrative expenses | 18 980 | 19 357 | -377 | -2% |
| Other operating profit (loss) | -8 788 | -4 442 | -4 346 | - |
| EBITDA – operating profit + depreciation / amortisation | 23 007 | 17 998 | 5 009 | 28% |
| Operating profit (loss) (EBIT) | 16 658 | 11 779 | 4 879 | 41% |
| Net finance income | -4 746 | -1 068 | -3 678 | - |
| Profit (loss) before tax | 12 316 | 10 711 | 1 605 | 15% |
| Profit (loss) after tax | 11 607 | 6 963 | 4 644 | 67% |
| Total other net comprehensive income | 1 625 | 2 347 | -722 | -31% |
| Total comprehensive income | 13 232 | 9 310 | 3 922 | 42% |

*EBITDA – operating profit + depreciation/amortisation*

| | | | Change in p.p. |
|---|---|---|---|
| Gross profit margin | 29,5% | 28,0% | 1,5 |
| Selling costs / revenue from sales | 14,8% | 15,7% | -0,9 |
| General and administrative expenses / revenue from sales | 6,3% | 6,7% | -0,4 |
| EBITDA margin % | 7,6% | 6,2% | 1,4 |
| Operating profit margin (EBIT%) | 5,5% | 4,1% | 1,5 |
| Net profit margin | 4,4% | 3,2% | 1,2 |

*EBIT % – operating profit / sales*

*EBITDA % - EBITDA / sales*

**Revenue from sales**

Consolidated revenue from sales in the first half of 2013 amounted to PLN 485.5m, which is by 2% (PLN 9.8m) more than in the corresponding period of the previous year.

In Q2 2013, sales amounted to PLN 301.3m. In Q2 2013, sales increased by 4% year-on-year.

The sales increase results from organic growth – improved effectiveness of the sales force and expansion of the product range – in the CEE markets, and particularly in Eastern Europe, where two-digit sales growth figures were noted.

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 North and South America (USA and Brazil). The sales structure by segments has changed slightly compared with the previous year. European Union remains the key segment. It generated 62% of revenues from sales, i.e. 5 p.p. less than last year (67%). The geographic segment of Eastern Europe and Asia was growing at the fastest pace, increasing its share in total sales to 34%. The segment of North and South America increased its share by 1 p.p. to 4%, with a growth dynamics of 34%.

| Segment | Segment's share in the Group's revenues | | Change |
|---|---|---|---|
| | 6 months ended 30 June 2013 | 6 months ended 30 June 2012 | 2013 / 2012 |
| European Union, including: | 62% | 67% | -6% |
| *Poland* | *41%* | *44%* | *-5%* |
| *Other countries* | *21%* | *23%* | *-9%* |
| Eastern Europe and Asia | 34% | 30% | 18% |
| North America and South America | 4% | 3% | 34% |

Sales to customers in Poland were PLN 133m compared with PLN 146m observed in the first half of 2012. The share of domestic sales to total sales of the Group decreased from 31% to 27%.

### Gross profit

In the first half of 2013, Selena Group generated gross profit of PLN 139.5m, an increase of PLN 7.8m on the previous year. In Q2 2013, the gross profit decreased from PLN 80.9m recorded in the corresponding period of the previous year to PLN 88.9m.

The gross profit margin was 28.7%, i.e. 1.1 p.p. more than in the first half of the previous year. In Q2 2013, the gross profit margin was 29.5%, which is an improvement on Q2 2013. This performance resulted from the implemented profitability improvement initiatives and the stable level of commodity prices.

### Selling costs and the general and administrative expenses

In the first half of 2013, **selling costs** amounted to PLN 79.6m, and decreased by PLN 4.8m (6%) compared with the corresponding period of the previous year. The decrease in costs is a result of the restructure processes commenced in 2012, including improvement of sales effectiveness, optimisation of logistic processes and postponement of the planned marketing initiatives until further quarters of the year due to the long winter. In the second quarter of 2013, selling costs amounted to PLN 44.5m and were lower by 2% than in the corresponding period.

**General and administrative expenses** in the first half of 2013 amounted to PLN 38m and decreased by PLN 0.3m (i.e. 1%) vs. the previous year and remained at the level posted in the first half of 2012. In the second quarter of 2013, the general and administrative expenses amounted to PLN 19.0m and were lower by PLN 0.4m than in the corresponding period of the previous year.

In the first half of 2013, selling costs and general and administrative expenses to revenues from sales was 24.2%, which is 1.6 p.p. less year-on-year.

### Operating profit (loss)

In the first half of 2013, the Group posted an operating profit of PLN 8.5m compared with the operating profit of 5.5m recorded in the first half of 2012. At the same time, the operating profit achieved in Q2 2013 was PLN 16.7m, which is by PLN 4.9m higher than in the corresponding period of the previous year.

The impact of non-recurring items on the operating result in H1 2013 is presented in the table below:

| | 6 months ended 30 June 2013 | 6 months ended 30 June 2012 | 3 months ended 30 June 2013 | 3 months ended 30 June 2012 |
|---|---|---|---|---|
| **EBIT as per profit and loss account** | **8 488** | **5 475** | **16 658** | **11 779** |
| Settlement of acquisition of EURO MGA | | 5 406 | | |
| **Adjusted EBIT** | **8 488** | **69** | **16 658** | **11 779** |
| Adjusted operating profit margin | 1,7% | 0,0% | 5,5% | 4,1% |

The result achieved in the first six months of 2012 was primarily affected by the settlement of the acquisition of the Romanian company EURO MGA Product. The profit earned on the settlement ("negative goodwill") of PLN 5.4m was recognised in other operating income in Q1 2012.

In the reporting period, after elimination of non-recurring items, the Group achieved an improved adjusted EBIT margin of 1.7%.

The result on other operations was negative at -PLN 13.4m. It was influenced by the cost of unutilised production capacity (PLN 2.9m in total) and the impairment charges on debtors and stock (total impact of -PLN 7.6m on the result on other operations). In the first half of 2013, a provision was raised for the obligations of Selena Nantong Building Materials Co., Ltd in respect of the VAT payable for the period from December 2011 to June 2013 in connection with the export sales of PLN 2.9m.
In the second quarter of 2013, the result on other operations amounted to -PLN 8.8m vs. -PLN 4.4m in the corresponding period of the previous year.

**Profit (loss) after tax**

For the first half of 2013, Selena FM Group posted a net profit of PLN 3.3m vs. a net loss of PLN 7.1m posted in the corresponding period of 2012. In Q2 2013, the net profit was PLN 11.6m, up PLN 4.6m on the net profit achieved in the period from April to June 2012.

The Group's net result was primarily influenced by the net finance income, including the valuation of the open currency positions (trading settlements and loans received/granted). The operating profit was reduced by the loss on financial activity of PLN 4.3m. Net balance of FX differences was positive at PLN 0.3m as a result of the 6% depreciation in the Polish zloty vs. euro, and the 6% depreciation of the rouble vs. euro in the period from 31 December 2012 to 30 June 2013, which gave rise to FX gains posted on the existing currency exposures.
The cost of interest on loans and finance leases, totalled PLN 3.3m (after reduction by the achieved interest income from bank deposits) compared with PLN 4.3m incurred in H1 2012.

In the first half of 2013, the income tax charge was PLN 1.3m. In Q2 2013, the income tax reduced the net profit by PLN 0.7m.
In the first half of 2013, EBITDA was PLN 21.0m (including depreciation: PLN 12.5m), which was by PLN 3.4m higher year-on-year.

## 4.2 Asset and financial position

The table below shows selected figures of the consolidated balance sheet as at 30 June 2013 and 31 December 2012.

| Figures in PLN thousand | 30 June 2013 | 31 December 2012 | Change | Change % |
|---|---|---|---|---|
| **Non-current assets** | **322 997** | **320 009** | **2 988** | **1%** |
| Property, plant and equipment | 239 837 | 238 004 | 1 833 | 1% |
| Intangible fixed assets | 33 755 | 33 476 | 279 | 1% |
| Other long-term assets | 49 405 | 48 529 | 876 | 2% |
| **Current assets** | **496 026** | **373 801** | **122 225** | **33%** |
| Inventory | 147 143 | 115 030 | 32 113 | 28% |
| Trade receivables | 242 221 | 177 496 | 64 725 | 36% |
| Cash | 59 776 | 41 056 | 18 720 | 46% |
| Other current assets | 46 886 | 40 219 | 6 667 | 17% |
| **Equity** | **376 054** | **375 861** | **193** | **0%** |
| **Liabilities** | **442 969** | **317 949** | **125 020** | **39%** |
| Loans and advances | 159 210 | 127 647 | 31 563 | 25% |
| Trade liabilities | 173 657 | 94 321 | 79 336 | 84% |
| Other liabilities | 110 102 | 95 981 | 14 121 | 15% |

| | 30 June 2013 | 31 December 2012 |
|---|---|---|
| Current liquidity | 1,3 | 1,7 |
| Quick liquidity | 0,9 | 1,2 |

*Current liquidity – current assets / current liabilities*
*Quick liquidity – current assets less stocks / current liabilities*

The Group's asset position underwent a change, with total assets growing by PLN 125.2m vs. 31 December 2012 mainly as a result of business expansion and the seasonal increase in current assets (inventory, receivables) and the associated increase in external finance.

The increase in the value of inventory compared with 31 December 2012 (by PLN 32.1m) mainly results from seasonal factors: building a stock of finished goods before the peak of the sales season, and the increase in the Group's scope of operations and expansion of the product range.

The increase in trade debtors vs. 31 December 2012 (by PLN 64.7m) is attributable to the increase in the Group sales, sales seasonality, and application of extended payment terms for some customers to maintain sales levels and market shares in the context of the strong market competition.

The current and quick liquidity ratios (1.3 and 0.9 respectively) confirm the lack of any liquidity problems of Selena Group and point to its ability to meet its obligations in a timely manner. Both ratios decreased compared with 31 December 2012 mainly as a result of financing the business growth.

## 4.3 Debt

| Figures in PLN thousand | 30 June 2013 | 31 December 2012 |
|---|---|---|
| Interest bearing borrowings | 159 210 | 127 647 |
| Other financial liabilities | 35 302 | 34 847 |
| Less cash and cash equivalents | -59 776 | -41 056 |
| **Net debt** | **134 736** | **121 438** |
| Equity attributable to the shareholders of the parent | 375 645 | 375 392 |
| **Equity and net debt** | **510 381** | **496 830** |
| Gearing (net debt / equity + net debt) | 26% | 24% |
| Debt ratio (liabilities / total assets) | 54% | 46% |
| Ned debt / EBITDA* | 2,42 | 2,32 |

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

The increase in debt on loans vs. 31 December 2012 to PLN 159m mainly resulted from the seasonal factors and the ensuing higher working capital requirements.

As at 30 June 2013, the debt ratio was 54% and was 8 p.p. higher than at the end of 2012. The change results from the increase in the bank loans, and from the seasonal increase in trade debtors.

## 4.4 Cash flows

The tables below show selected items of the cash flow statement for the 6 months ended 30 June 2013 and 30 June 2012.

| Figures in PLN thousand | 6 months ended 30 June 2013 | 6 months ended 30 June 2012 | Change |
|---|---|---|---|
| Net cash flows from operating activities | 2 891 | -8 602 | 11 493 |
| Net cash flows from investing activities | -6 875 | -8 287 | 1 412 |
| Net cash flows from financing activities | 23 407 | 13 388 | 10 019 |
| **Change in cash and cash equivalents:** | **19 423** | **-3 501** | **22 924** |

In H1 2013, net cash flows were positive at PLN 19.4m.

Net cash flows from operating activities amounted to 2.9m. Due to the seasonality of operations, the Group increased its cash portion of the net current assets compared with 31 December 2012: receivables (PLN 72.4m), inventory (PLN 32.1m) and liabilities (PLN 82.7m).

Net cash flows from investing activities were negative at - PLN 6.9m, down by PLN 1.4m on the first half of the previous year.

Net cash inflows from financing activities amounted to PLN 23.4m. This figure was mainly affected by the borrowings (PLN 29.9m) incurred to fund working capital requirements and investments, interest paid (-PLN 3.5m) and finance lease payments (-PLN 2.2m).

## 4.5 Seasonality of business

The building materials industry in which Selena Group operates is characterised by seasonality of sales. Lower activity is seen in the winter and early spring months, while in the subsequent quarters sales increase to usually peak in the third quarter. Looking at the figures for 2011 and 2012, one may conclude that the sales in the individual quarters have the following contribution to the total annual sales: Q1 – 17%, Q2 – 25%, Q3 – 31%, Q4 – 27%. Seasonal fluctuations of sales are primarily affected by the weather and fluctuations in sales in the individual geographies where the Group operates.

## 4.6 Delivery of forecasts

The Parent Company did not publish any performance forecast for 2013.

## 4.7 Performance drivers in the subsequent quarter

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.** Most of the economic climate projections indicate the falling trend in GDP forecasts for individual countries. In its announcement from the meeting held on 2-3 July 2013, the Monetary Policy Council estimated the GDP to grow by 0.5% - 1.7% in 2013, and by 1.2% - 3.5% in 2014 (optimistically). Positive message for the EU economies are coming from the economic indicators published in July 2013: ESI (up from 91.3 to 92.5) and PMI. According to the report published by the Institute of Market Economy Research, the GDP growth in Poland in 2013 will be 1.2%. After the weak first six months, the second half of the year should see an economic recovery – in Q3, economic growth is expected to reach 1.5%, and 1.9% in Q4.
According to World Bank forecast published on 12 June, the expected economic growth rate for the euro zone in 2013 will be -0.3%, while the global economy will grow by 2.2% (the economies of the developing countries are to grow by 5.1%). The forecast indicates the following growth rates for the Selena's key geographies: Russia 2.3%, China 7.7%, Kazakhstan 5.0%, Romania 1.7%, Turkey 3.6%, Ukraine 1.0%.

**Situation in the construction sector.** Demand in the construction chemicals market is mainly influenced by the situation in the housing construction, where such materials are used to the biggest extent. According to the report published on 19 August 2013 by the Central Statistics Office titled "Housing Construction in I-VII 2013", in the first half of 2013, the house completions rate levelled off in Poland, increasing by 1.7% vs. 2012, with a concurrent decrease in the number of construction permits (up 22.3%) and a decrease in the number of commenced housing projects (down 21.8%).
In the period from January to July 2013, the construction & assembly production was by 17.7% lower year-on-year.
In July 2013, the overall economic climate in the construction was at -15 (vs. -17 in June) and has been gradually recovering since the beginning of the year.
In the forecast published on 29 July 2013 by the Institute of Market Economy Research, the added value in the construction sector is to fall by 7.4% in 2013, although the declines in H2 are expected to be less severe than in H1 (one-digit falls). At the same time, a recovery is expected in 2014 with a 4.6% increase in the added value in the construction sector.

According to the Eurostat reports, in the EU states, production in the construction sector has been falling month-on-month (except February) as well as year-on-year (in May 2013, the strongest decline vs. May 2012 was reported by Poland - 28.8%, while the highest growth was observed by Spain: +11.1%).

**Availability of financing.** According to the AMRON–SARFiN report 1/2013, in the first quarter of 2013, the number and value of loans granted fell by 12.5% and 9.3%, respectively.
According to the Polish Central Bank (NBP), the lower growth rate in housing loans observed in Q1 2013 was connected with a falling demand for loans, affected by the end of the State-sponsored subsidised loan programme and the deteriorating economic situation of households.

**FX rates.** The available projections show that the coming months should not bring any material changes in the FX markets. The projections of Raiffeisen Bank International of 9 August 2013 indicate that over the next two quarters the CEE currencies should be rather stable vs. the euro. The currencies of other countries, such as Russia or Turkey, should likewise be stable vs. US dollar. In Poland, the rate of zloty vs. euro should stabilise in the third quarter of the year at around 4.2 and slightly appreciate towards the year end to ca. 4.15.

**Collection risk.** In the first half of 2013, the Group companies reported a slight increase in the ratio of trade debtors to sales (+0.5 p.p.) vs. the corresponding period of the previous year. This is a consequence of the pressure on payment terms extension exerted by the construction market on the suppliers of construction materials. On the other hand, the companies do not observe a material growth in overdue debtors, and thanks to the concurrent extension of payment terms from the Group suppliers and the shortening of stock-days, the working capital conversion cycle has been reduced. The first signs of economic recovery inspire optimism about the level of overdue trade receivables.

**Commodity prices.** In the reporting period of 2013, the prices of the basic commodities used for production of construction chemistry products were mainly stable and some even noted a slight decline. Given the modest projected growth rates for GDP and construction expenditure, one should rather see the commodity prices stabilise by the end of 2013. Obviously, certain individual price drivers might emerge, causing upwards or downward movements. If a major economic recovery is observed in Europe in 2014, prices would most probably go up.

# 5. Other information

## 5.1 Guarantees given and off-balance sheet items

Either the Parent Company or any members of the Group did not give to third parties any guarantees whose value would exceed 10% of the Parent's equity.

The Group companies, including Selena FM S.A., give each other cross-guarantees as security for the working capital loans incurred jointly by several Group members. Details of these transactions as at 31 December 2012 were described in the unconsolidated financial statements of Selena FM for 2011 (Note 29.1).

The guarantees given by Selena FM S.A. to its subsidiaries in H1 2013, were described in Note 18.1 of the condensed unconsolidated financial statements of Selena FM S.A.

## 5.2 Litigations

The total value of all court, arbitration or administrative proceedings pending as at 30 June 2013 did not exceed 10% of the Company's equity. Other material litigations that might give rise to obligations are described in the Annual Consolidated Financial Statements of Selena Group for 2012 (Note 32.3) and in the interim condensed consolidated financial statements of Selena FM Group for the period ended 30 June 2013 (Note 20.2).

## 5.3 Other information

As described in Note 19 of the Condensed Consolidated Financial Statements of Selena FM Group, in June 2013, Selena Nantong Building Materials Co., Ltd. was advised by the Chinese Customs Office about incorrect - in the officials' opinion -

assignment of classification code for the finished goods. The company is taking steps to determine if the opinion of the Chinese officials is justified. Selena Nantong Building Materials created a provision of PLN 2,863k for the possible VAT correction relating to the effected export sales.

## 5.4 Information about the possible performance of contractor obligations

The data contained in the consolidated statement of financial position might be presented separately with respect to selected items of receivables and liabilities, in accordance with the applicable accounting policies. Selena Group uses the separate presentation for the following items: VAT settlements, deferred tax and cash and cash equivalents used in cash-pool settlements.
To assess the capitalisation ratio calculated as equity to total assets, shown below is a transformation of the foregoing items in a consolidated form.

| Figures in PLN thousand | 30 June 2013 (unaudited) |
|---|---|
| **Balance sheet total** | **819 023** |
| Equity | 376 054 |
| Capitalisation rate | 46% |
| Presentation: | |
| Balance of settlements in respect of VAT | 13 631 |
| Balance of cash and cash pool settlements | 44 110 |
| Balance of deferred tax settlements | 2 689 |
| **Balance sheet total after the presentation change** | **758 593** |
| **Capitalisation rate** | **50%** |

## 5.5 Related party transactions

In the reporting period, the Parent Company did not enter into any material transactions with its related parties on non-arm's length basis.

The material transactions between Selena FM and its subsidiaries were described in Note 19 to the Condensed Unconsolidated Financial Report of Selena FM S.A. as at 30 June 2013.

## 5.6 Main shareholders of the Parent Company

The table below shows distribution of share capital and voting power among shareholders of the Parent Company as at the date of publication of this report.

| Shareholder | Share type | Shares acquired | Share in capital | Number of votes | Voting power |
|---|---|---|---|---|---|
| AD Niva Sp. z o.o. * | Reg. preference shares | 4 000 000 | 17,52% | 8 000 000 | 29,81% |
| | Bearer shares | 5 538 000 | 24,25% | 5 538 000 | 20,64% |
| Syrius Investments S.a.r.l.* | Bearer shares | 8 050 000 | 35,25% | 8 050 000 | 30,00% |

** entity controlled by Krzysztof Domarecki*

## 5.7 Issue, redemption and repayment of non-equity or equity instruments

In the first quarter of 2010, Selena FM S.A. did not issue, redeem or repay any non-equity or equity securities.

## 5.8 Dividend declared or paid

On 18 June 2013, the AGM of Selena FM S.A. adopted a resolution to allocate a part of the supplementary capital to the payment of dividend of PLN 8,676,920, i.e. PLN 0.38 per share. The dividend record date, when the list of shareholders eligible for dividend is determined, was 30 July 2013. The dividend was paid on 14 August 2013. Details of the transaction are described in Note 11 of the condensed consolidated financial statements for the period ended 30 June 2013.

## 5.9 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 | Shares held | Nominal value of the shares (PLN) |
|---|---|---|---|
| Kazimierz Przełomski | Vice-President of the MB | 9 800 | 490 |
| AD Niva Sp. z o.o. * | - | 9 538 000 | 476 900 |
| Syrius Investments s.a.r.l.* | - | 8 050 000 | 402 500 |
| Krzysztof Kluza | Secretary of the SB | 6 000 | 300 |

* Entity controlled by Krzysztof Domarecki, Supervisory Board Chairman

On 25 June 2013, the Supervisory Board Chairman Krzysztof Domarecki entered into an agreement to transfer the ownership of 9,538,000 registered and ordinary shares to AD Niva Sp.z o.o. AD Niva Sp. z o.o. is fully controlled by Krzysztof Domarecki.
Krzysztof Domarecki also holds 0.5% stake in Research Centre of Construction Technology sp. z o.o. (now Selena Labs sp. z o.o.).

## 5.10 Equity-based remuneration programmes

The entity operates a share-based incentive programme. Details of the programme were described in the Interim Consolidated Financial Statements of the Group for the 6 months ended 30 June 2013 (Note 25).

## 5.11 Information on the audit of the financial statements

On 4June 2013, the Supervisory Board of Selena FM S.A. resolved to appoint Deloitte Polska 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 2013. The audit agreement was concluded on 1 July 2013.

# MANAGEMENT BOARD'S ASSURANCE ON RELIABILITY OF THE FINANCIAL STATEMENTS

The Management Board of Selena FM S.A. hereby confirms that to the best of its knowledge the interim condensed unconsolidated financial statements of Selena FM S.A. and the interim condensed consolidated financial statements of Selena FM Group for the 6 months ended 30 June 2013, 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 S.A. and Selena FM Group, and their financial performance, and that the Management Board's interim report gives a true picture of the Company's and 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 interim condensed unconsolidated financial statements of Selena FM S.A. and the interim condensed consolidated financial statements of Selena FM Group for the 6 months ended 30 June 2013 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**

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**Jarosław Michniuk**

**Vice-President of the Management Board**
**Financial Director**

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**Kazimierz Przełomski**

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

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**Beata Pawłowska**