SELENA FM GROUP

MANAGEMENT BOARD'S REPORT
ON THE GROUP'S ACTIVITIES
FOR THE 6 MONTHS ENDED 30 JUNE 2014

Wrocław, 29 August 2014

1. Financial highlights

Financial data of the Group

	PLN thousand		EUR thousand	
	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)
Revenue from sales	502 852	485 503	120 346	115 212
Operating profit (loss)	14 697	8 488	3 517	2 014
Profit (loss) before tax	4 211	4 616	1 008	1 095
Profit (loss) after tax	680	3 295	163	782
Profit (loss) attributable to the shareholders of the parent	672	3 378	161	802
Comprehensive income	707	8 870	169	2 105
Comprehensive income attributable to shareholders of the Parent	707	8 930	169	2 119
Net cash flows from operating activities	-31 648	2 891	-7 574	686
Net cash flows from investing activities	-8 344	-6 875	-1 997	-1 631
Net cash flows from financing activities	31 091	23 407	7 441	5 555
Number of shares	22 834 000	22 834 000	22 834 000	22 834 000
Earnings per share (PLN/share) /EUR/share)	0,03	0,15	0,01	0,04
	30 June 2014 (unaudited)	31 December 2013	30 June 2014 (unaudited)	31 December 2013
Total assets	803 890	731 275	193 201	176 330
Non-current liabilities	145 889	99 198	35 062	23 919
Current liabilities	275 176	243 565	66 134	58 730
Equity	382 825	388 512	92 005	93 681
Registered capital	1 142	1 142	274	275

Financial data of the Parent Company

	PLN thousand		EUR thousand	
	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)
Revenue from sales	185 226	184 515	44 329	43 786
Operating profit (loss)	-11 920	-93	-2 853	-22
Profit (loss) before tax	-29 513	-19 717	-7 063	-4 679
Profit (loss) after tax	-29 538	-20 936	-7 069	-4 968
Comprehensive income	-29 538	-20 936	-7 069	-4 968
Net cash flows from operating activities	-25 321	-211	-6 060	-50
Net cash flows from investing activities	-21 798	-4 286	-5 217	-1 017
Net cash flows from financing activities	22 591	24 682	5 407	5 857
Number of shares	22 834 000	22 834 000	22 834 000	22 834 000
Earnings per share (PLN/share) /EUR/share)	-1,29	-0,92	-0,31	-0,22
	30 June 2014 (unaudited)	31 December 2013	30 June 2014 (unaudited)	31 December 2013
Total assets	429 514	407 984	103 226	98 376
Liabilities	201 008	143 547	48 309	34 613
Equity	228 506	264 437	54 917	63 763
Registered capital	1 142	1 142	274	275

2. Information on the Group

2.1 Group activity

Selena FM is an international producer 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 building chemistry products 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;
- Adhesives and joint fillers for ceramic tiles;
- Application equipment;
- Wood preservatives;
- Solutions 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 17 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 31 December 2013, 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.

On 10 March 2014, the Supervisory Board accepted resignation of Ms Beata Pawłowska as Vice-President of the Management Board.

As at 30 June 2014, the Parent Company's Management Board was composed of:

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

By the date of publication of this report, no changes took place in the composition of the Parent Company's Management Board.

2.4 Supervisory Board

As at 30 June 2014, the Supervisory Board was composed of the following members:

- Krzysztof Domarecki – Supervisory Board Chairman;
- Krzysztof Kluza – Supervisory Board Secretary;
- Grzegorz Kostrzyński – Supervisory Board Member;
- Andrzej Krämer – Deputy Chairman of the Supervisory Board;
- Paweł Wyrzykowski – Supervisory Board Member;
- Czesław Domarecki - Supervisory Board Member

On 9 June 2014, the Annual General Meeting of Selena FM S.A. appointed Czesław Domarecki and Marcin Wower as new members of the Supervisory Board. On 13 June 2014, Marcin Wower resigned as Supervisory Board Member as he decided to pursue a new professional challenge that involves a ban on holding directorships in other companies.

The terms of office of the Supervisory Board is three years. As at the date of publication of this report, the Supervisory Board consisted of 6 persons.

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 2014 (Note 1.4).

On 20 January 2014, the Parent Company lost control over FinSelena Oy. Detailed description of changes in the Group structure in the first half of 2014 are presented in Note 1.4 to the condensed consolidated financial statements of the Group.

3. Key developments

3.1 Dividend

On 9 June 2014, the AGM of Selena FM S.A. adopted a resolution on distribution of the profit earned in 2013, allocating a portion of the profit to dividend. The proposed dividend payout was PLN 6,393,520, i.e. PLN 0.28 per share. The record date, when the list of shareholders eligible for dividend is determined, was set to 30 June 2014. The shares of all series carry the same dividend rights. The dividend was paid on 16 July 2014.

3.2 Awards and recognitions

Economic Award from the Polish President for "Sustainable Succes"
Selena Group found itself among the group of companies bestowed with the Economic Award from the Polish President. Selena received the award in the "Sustainable Success" category, which was granted for the first time in the award's history. Jarosław Michniuk, the CEO, received the award from the President of the Republic of Poland Bronisław Komorowski. The award ceremony took place on 2 June 2014 at the opening gala of the International Poznań Trade Fair.

Award of Excellence – Romania
Selena Romania received the Award of Excellence 2014 and the Euro-Fereastra Trophy 2014 for promoting innovative solutions in the insulation market and for its contribution to development of the construction and installation sector in Romania. The recognitions were conferred at the international conference Construct Romania 2014.

3.3 Group promotion

Bonding and training trip to Brazil for the key clients
More than 120 of the Group's largest clients from across the world took part in a bonding and training session in Rio de Janeiro and Sao Paulo, Brazil, which was prepared especially for them.

Further Selena websites launched across the globe
As part of the process, Selena was gradually adding new functions in the individual language versions of the TYTAN PROFESSIONAL website, reflecting the model of the Polish website (www.tytan.pl). Country-specific websites were launched in e.g.

- Bulgaria www.tytan.bg
- Czech Republic www.tytan.cz
- Kazakhstan www.tytan.kz
- Russia www.tytan-professional.ru
- Romania www.tytan.ro
- Slovakia www.tytanpro.sk
- Ukraine www.tytan.ua
- Hungary www.tytan.hu
- and in Italy www.tytan-italia.it

The local websites, integrated with the dedicated YouTube channels, are supposed to support the local companies of Selena FM Group in the process of increasing the awareness and building the image of Selena brands among Internet users.

3.4 Research and Development

New products

In the second quarter, the painting acrylic put on the Polish market was very well received by contractors. With its innovative formula, once hardened, the joint imitates the surface texture, and the filled gap is exactly the same as the rest of the substrate.

TP Roof & Flashing was launched on the America market. This is a product for roofing applications, created in a new technology, combining PU and Bitumen. It is used both of post-treatment and finishing new roofs, as well as for repairs. The product is UV-resistant and holds well in rain and snow.

Selena also introduced in the US market the Seam Seal Sealant, a product used for joining vapour barrier membranes in the construction of timber frame houses. It is also used for joining metal sheets to protect them against water and wind.

Development of R&D operations

Selena Group carries out its R&D activity through Selena Labs Sp. z o.o. On 27 May 2014, Selena Labs Sp. z o.o. signed an agreement with the National Centre for Research and Development to subsidise the project titled: Development of modern product formulas for the global construction chemicals market. The project is a part of the Operational Programme Innovative Economy (POING 1.4) and is expected to be completed by the end of 2015.

Also in May 2014, as part of the continuous improvement of the quality of its delivered R&D services, Selena Labs implemented a management system compliant with ISO 9001:2008.

3.5 Launch of the "Intelligent Start" programme

On 2 June 2014, Selena started the programme called "Intelligent Start". Its aim is to support young Poles who have graduated from or study at foreign colleges and universities in pursuing their careers in international units of Polish companies. By facilitating the acquisition of workforce in the new markets, the Smart Start foundation that is in charge of the programme also supports the international expansion of Polish companies by ensuring they can obtain subsidies for the initial period of work of their new hires. In this way, the new organisation will help employers take on Polish staff, who know the culture and language of the country in which the Polish company operates or intends to operate.

The foundation was founded by Krzysztof Domarecki – the Supervisory Board Chairman of Selena FM SA, with contributions to be coming from the Polish industry leaders and companies with a major track-record in promoting Polish business abroad: Fakro Sp. z o.o., KGHM Polska Miedź SA, Maspex Wadowice Group, Nowy Styl Group, PKO BP SA, Selena Group and Solaris Bus & Coach SA. The Smart Start programme is co-financed by the Foreign Affairs Ministry.

3.6 Key investments

In the first half of 2014, Selena Group started delivery of the initiatives provided for in the Strategy for the years 2014-2016.

The key project, whose objective is to improve the Group's IT environment, is the first phase of implementation of the ERP-class system: Microsoft Dynamics AX. Until 30 June 2014, the Group spend PLN 1.6m on the project.

In addition, in order to strengthen the sealants and adhesives line, Selena launched the project of modernisation of the production lines for these products in Libra Sp. z o.o. Similar improvement projects were started in TYTAN EOS Sp. z o.o. Their objective is to facilitate the growth of the line of products including building insulation systems. Selena also continues the projects started last year, including: modernisation of the plants producing hyrdo-insulation products (Matizol S.A.) and purchase of equipment of the R&D labs of Selena Labs Sp. z o.o. In H1 2014, the Group's capital expenditure totalled PLN 3.6m.

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 2014 and 30 June 2014, respectively, as well as selected financial ratios.

Data in PLN thousand	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)	Change	Change %
Revenue from sales	502 852	485 503	17 349	3,6%
Cost of sales	355 019	346 032	8 987	2,6%
Gross profit on sales	147 833	139 471	8 362	6,0%
Selling and marketing costs	85 527	79 603	5 924	7,4%
General and administrative expenses	39 115	37 991	1 124	3,0%
Other operating profit (loss)	-8 494	-13 389	4 895	-
EBITDA – operating profit + depreciation / amortisation	27 125	20 967	6 158	-
Operating profit (loss) (EBIT)	14 697	8 488	6 209	-
Net finance income	-10 905	-4 276	-6 629	-
Profit (loss) before tax	419	404	15	-
Profit (loss) after tax	4 211	4 616	-405	-
Total other net comprehensive income	680	3 295	-2 615	-
Total comprehensive income	27	5 575	-5 548	-
Revenue from sales	707	8 870	-8 163	-

EBITDA – operating profit + depreciation/amortisation

			Change in p.p.
Gross profit margin	29,4%	28,7%	0,7
Selling costs / revenue from sales	17,0%	16,4%	0,6
General and administrative expenses / revenue from sales	7,8%	7,8%	0,0
EBITDA margin %	5,4%	4,3%	1,1
Operating profit margin (EBIT%)	2,9%	1,7%	1,2
Net profit margin	0,1%	0,7%	-0,5

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

Data in PLN thousand	3 months ended 30 June 2014 (unaudited)	3 months ended 30 June 2013 (unaudited)	Zmiana kwotowa	Change %
Revenue from sales	302 724	301 292	1 432	0,5%
Cost of sales	213 996	212 404	1 592	0,7%
Gross profit on sales	88 728	88 888	-160	-0,2%
Selling and marketing costs	46 256	44 462	1 794	4,0%
General and administrative expenses	17 909	18 980	-1 071	-5,6%
Other operating profit (loss)	-4 456	-8 788	4 332	-
EBITDA – operating profit + depreciation / amortisation	26 355	23 007	3 348	-
Operating profit (loss) (EBIT)	20 107	16 658	3 449	-
Net finance income	1 630	-4 746	6 376	-
Profit (loss) before tax	419	404	15	-
Profit (loss) after tax	22 156	12 316	9 840	-
Total other net comprehensive income	17 480	11 607	5 873	-
Total comprehensive income	531	1 625	-1 094	-
Revenue from sales	18 011	13 232	4 779	-

EBITDA – zysk operacyjny powiększony o amortyzację

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

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

Revenue from sales

Consolidated revenue from sales in the first half of 2014 amounted to PLN 502.9m, which is by 3.6% (PLN 17.3m) more than in the corresponding period of the previous year.

In Q2 2014, sales amounted to PLN 302.7m. In Q2 2014, the increase in sales was 0.5% year-on-year.

The increase results from organic growth, mainly observed in Poland and in North and South America, where sales to the Private Label segment increased. In 2014, sales decreased in Eastern Europe and Asia in comparison with the previous year.

The sales of Selena Group are presented by three geographical segments: the European Union (including Poland), Eastern Europe and Asia (including Russian and China) and North and South America (USA and Brazil). The sales structure by segments has changed slightly compared with the previous year. The European Union remains the key segment, which generated 63% of total sales, i.e. 1 p.p. more than in the previous year (62%). The geographic segment of Eastern Europe and Asia decreased its share in total sales from 34% to 32%. The segment of North and South America increased its share by 1 p.p. to 5%, with a growth dynamics of 29%.

Segment	Segment's share in the Group's revenues		Change
	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)	2014 / 2013
European Union, including:	63%	62%	6%
Poland	*43%*	*41%*	*8%*
Other countries	*20%*	*21%*	*3%*
Eastern Europe and Asia	32%	34%	-4%
North America and South America	5%	4%	29%

In H1 2014, sales in Poland amounted to PLN 216m, compared with PLN 200m in H1 2014. The share of domestic sales to total sales of the Group increased from 41% to 43%.

Gross profit on sales

In the first half of 2014, Selena Group generated gross profit of PLN 147.8m, an increase of PLN 8.4m on the previous year. In Q2 2014, gross profit fell slightly to PLN 88.7m from PLN 88.9m posted a year before.

The gross profit margin was 29.4%, i.e. 0.7 p.p. more than in the first half of the previous year. In Q2 2014, the gross profit margin changed slightly vs. Q2 2013, and amounted to 29.3%. The gross profit margin was affected by the profitability improvement initiatives and the stable prices of raw materials.

Selling costs and the general and administrative expenses

In the first half of 2014, **selling costs** amounted to PLN 85.5m, and increased by PLN 5.9m (i.e. by 7 p.p.) compared with the corresponding period of the previous year. The increase in costs results from the changes implemented in the Group's sales structures, designed to strengthen the local distribution forces in such countries as Brazil, Spain and Romania. Selling costs were also affected by the increased share in sales of heavy hyrdo-insulation products in Poland, which was reflected in higher transport costs. The selling costs of 2014 also include the cost of organisation of the training and bonding event in Brazil for the Group's largest distributors.

In Q2 2014, selling costs were PLN 46.3, up 4% on the corresponding period of the previous year.

In the first half of 2014, **general and administrative expenses** amounted to PLN 39.1m, and increased by PLN 1.1m (i.e. by 3 p.p.) compared with the corresponding period of the previous year. The increase was driven by e.g. the spend on development of the insulation business structures and the cost of acquisition of EU funds. In Q2 2014, general and administrative expenses were PL 17.9m, down PLN 1.1m year-on-year.

In H1 2014, the ratio of selling costs to general and administrative expenses was 24.8%, 0.6 p.p. higher than in the corresponding period of the previous year.

Operating profit (loss)

In H1 2014, Selena FM Group achieved operating profit of PLN 14.7m vs. PLN 8.5m achieved in the corresponding period of the previous year. At the same time, the operating profit achieved in Q2 2014 was PLN 20.1m and was higher by PLN 3.4m year-on-year.

The result on other operations was negative at PLN 8.5m compared with PLN 13.4m reported in the corresponding period of 2013, which means an improvement of PLN 4.9m. The result was influenced by the cost of unused production capacity (PLN 3m), the impairment charges for receivables (PLN 4.1m) and impairment charges for inventory and the cost of inventory liquidation (PLN 1.6m). In the second quarter of 2014, the result on other operations amounted to -PLN 4.5m vs. -PLN 8.8m in the corresponding period of the previous year.

Profit (loss) after tax

For the first half of 2014, Selena FM Group posted a net profit of PLN 680k vs. a net profit of PLN 3.3m posted in the corresponding period of 2013. In Q2 2014, the net profit was PLN 17.5m, up PLN 5.9m on the net profit achieved in Q2 2013.

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). In H1 2014, the net profit was reduced by the loss on financial activity of PLN 10.9m. The negative balance on FX differences was PLN 6.9m, and resulted from depreciation of the currencies from the Eastern Europe segment: the Ukrainian hryvnia fell vs. euro by 45%, the Kazakh tenge by 18% and the rouble by 2% in the period from 31 December 2013 to 30 June 2014, which - on account of the Group's currency exposure - resulted in negative FX differences.

The interest on loans and finance leases, reduced by interest earned on bank deposits, was PLN 2.6m vs. PLN 3.3m in H1 2013.

In H1 2014, the income tax charge was PLN 3.5m. In Q2 2014, the income tax reduced the net profit by PLN 4.7m.

In the first half of 2014, EBITDA was PLN 27.1m (including depreciation: PLN 12.4m), which was by PLN 6.2m 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 2014 and 31 December 2013.

Data in PLN thousand	30 June 2014 (unaudited)	31 December 2013	Change	Change %
Non-current assets	**299 015**	**301 443**	**-2 428**	**-1%**
Property, plant and equipment	217 864	220 558	-2 694	-1%
Intangible fixed assets	34 430	34 849	-419	-1%
Other long-term assets	46 721	46 036	685	1%
Current assets	**504 875**	**429 832**	**75 043**	**17%**
Inventory	158 017	116 725	41 292	35%
Trade receivables	237 599	193 633	43 966	23%
Cash	60 764	69 539	-8 775	-13%
Other current assets	48 495	49 935	-1 440	-3%
Equity	**382 825**	**388 512**	**-5 687**	**-1%**
Liabilities	**421 065**	**342 763**	**78 302**	**23%**
Loans and advances	161 372	124 924	36 448	29%
Trade liabilities	163 129	132 724	30 405	23%
Other liabilities	96 564	85 115	11 449	13%

	30 June 2014 (unaudited)	31 December 2013
Current liquidity	1,8	1,8
Quick liquidity	1,3	1,3

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

The change in the Group's asset position and an increase of PLN 72.6m in total assets vs. 31 December 2013 was driven by expansion of the Group's scale of business and the seasonal increase in current assets (inventory, receivables and liabilities) and their associated increase in external finance.

The increase in the value of inventories versus 31 December 2013 (by PLN 41.3m) mainly results from seasonal factors: gathering stocks of finished goods ahead of the peak of the sales season and the decrease in sales in H1 2014 in Eastern markets.

The increase in the balance of trade debts vs. 31 December 2013 (up PLN 44m) is due to the seasonal increase in sales. The debtors days ratio improved by 4 days compared with the corresponding period of 2013.

The current and quick liquidity ratios (1.8 and 1.3 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 are the same as those reported as at 31 December 2013.

4.3 Debt

Data in PLN thousand	30 June 2014 (unaudited)	31 December 2013
Interest bearing borrowings	161 372	124 924
Other financial liabilities	29 234	28 653
Less cash and cash equivalents	-60 764	-69 539
Net debt	**129 842**	**84 038**
Equity attributable to the shareholders of the parent	382 494	388 385
Equity and net debt	**512 336**	**472 423**
Gearing (net debt / equity + net debt)	25%	18%
Debt ratio (liabilities / total assets)	52%	47%
Ned debt / EBITDA*	1,58	1,11

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

The increase in loans and advances compared with 31 December 2013 mainly resulted from seasonality of the business, which leads to a higher demand for working capital finance.

As at 30 June 2014, the debt ratio was 52% and was 5 p.p. higher than at the end of 2013. The change results from an increase in the bank loans, and from the seasonal increase in trade creditors.

4.4 Cash flows

The tables below show selected items of the cash flow statement for the 6 months ended 30 June 2014 and 30 June 2013.

Data in PLN thousand	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)	Change
Net cash flows from operating activities	-31 648	2 891	-34 539
Net cash flows from investing activities	-8 344	-6 875	-1 469
Net cash flows from financing activities	31 091	23 407	7 684
Change in cash and cash equivalents:	**-8 901**	**19 423**	**-28 324**

In H1 2014, net cash flows were negative at PLN -8.9m.

Net cash flows from operating activities amounted to -31.6m. Due to the seasonality of operations, the Group increased its cash portion of the net current assets compared with 31 December 2013: receivables (PLN 42.6m), inventory (PLN 41.3m) and liabilities (PLN 36.8m). Last year, the operating cash flows were positively affected by the programme of negotiation of raw materials supply agreements. In effect, in 2013, the payment terms in transactions with certain suppliers were extended by 10-30 days. Furthermore, in connection with the higher level of inventories and the simultaneous slump in sales in the Eastern markets in H1 2014, the stock days ratio was reduced by 5 days. At the same time, the debtors days ratio improved by 4 days compared with a corresponding period of the previous year.

Net cash flows from investing activities were negative at -PLN 8.3m, and capital expenditure increased by PLN 1.5m on H1 2013.

Net cash inflows from financing activities amounted to PLN 31.1m. This figure was mainly affected by the borrowings (PLN 36.5m) incurred to fund working capital requirements and investments, interest paid (-PLN 2.7m) and finance lease payments (-PLN 2.1m).

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 2012 and 2013, one may conclude that the sales in the individual quarters have the following contribution to the total annual sales: Q1 – 17%, Q2 – 27%, Q3 – 31%, Q4 – 25%. 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 forecasts for 2014.

4.7 Factors that will affect financial performance in the next 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. The global economy forecast published by the International Monetary Fund (IMF) on 28 April and updated on 24 April 2014 points to a number of positive trends in economic development. Instead of the 3% growth observed in 2013, this year, GDP is to grow by 3.4% and by as much as 4% in 2015. Importantly, highly developed economies are expected to see a growth of 1.8%. However, the projection was then revised downwards by 0.2 to 0.4%. In 2014, after a period of stagnations, the EU economy of the euro zone countries is to reach 1.1% GDP growth. As regards the key European markets of Selena Group, particularly noteworthy is the recovery of the Spanish economy from -1.2% to +1,2% of the GDP in 2014. Positive GDP growth will also be observed by other European countries where Selena in present: Romania +2.2%, Hungary +2.0%, Czech Republic +1.9%, Bulgaria +1.6% or Italy +0.3%. For Poland, the IMF forecasts a GDP growth of 3.1%, which is higher than last year. According to the forecast published by the Institute of Market Economy Research on 31 July 2014, the GDP growth in Poland in 2013 will be +3.5%, and in the last two quarters the GDP is to grow by 3.5% and 3.6%, respectively. For the other markets of Selena Group, the IMF forecasts for GDP growth in 2014 are as follows: USA +1.7%, Kazakhstan +5.7%, Russia +0.2%, China +7.4%, Brazil +1.3%. The actual economic development, particularly in Europe, and in Russia, Ukraine and Kazakhstan, will be influenced by the political events in Ukraine (for which forecasts have been put on hold) and the consequences of the economic sanctions, which are bound to weigh heavily on the projected indicators.

Situation in the construction sector. According to the July report published by the Institute of Market Economy Research, the added value in the construction sector is to increase by 6.1% in 2014. The demand in the construction chemicals market will be strongly influenced by the residential construction segment, where the use of these materials is the highest. According to the data released by the Central Statistics Office on 19 August for 7 months of 2014, the number of house completions is to fall by 2.7% year-on-year, but the number of construction permits issued and the number of new residential projects are to increase by 15.8% and 21.8%, respectively. This means deceleration of the very high growth rate observed in the first quarter. Over the first 7 months of 2014, the construction & assembly production was by 7.3% higher year-on-year, when a decline of 17.7% was noted.

According to the report published by the Central Statistics Office on 22 August 2014, in August the overall economic climate in the construction sector was similar to the situation observed in July (-4%). However, the level of orders and the construction & assembly production remained stable. The situation in the construction sector in Selena's other geographies is expected to be volatile, but with a positive bias, except Russia, where a major slowdown is projected, and Ukraine, where unstable political situation persists.

Availability of financing. The banking sector climate survey carried out by PENGAB polling institute in July 2014, and whose results were published by the Polish Banks Association, shows that the polled bankers are less optimistic about the outlook for the sector, but still remain positive in their forecasts. For 6-month forecasts, as many as 54% of bankers point to prospective growth, 43% expect stagnation and only 3% believe that the number of housing loans will be decreasing. Such forecasts are in line with the trend in new mortgage loans in 2014: in the second quarter, a growth of 8.5% was observed vs. the previous quarter, and the value of new loans was PLN 9.6bn.

FX rates. The available currency projections indicate that the coming months will not bring any sudden changes on FX markets. According to the projections released by Raiffeisen Bank International on 22 August 2014, for 2014, the currencies of the CEE countries should be relatively stable, while the Russian currency might depreciate slightly versus euro. The currencies of Turkey and Kazakhstan should mildly appreciate versus euro. The relation of the hryvnia versus euro and the inflation in Ukraine are still hard to predict. Even though the Polish zloty is currently weaker, it is expected to appreciate versus euro to around 4.10 at the year-end.

Collection risk. Compared with the first quarter of 2014, at the end of H1, the share of receivables that are more than 30 days past due in the total value of receivables improved from 6.4% to 3.8%. The debtor days ratio also improved year-on-year from 90 to 86 days. These data coupled with the noticeable improvement in the economy in 2014 permit some optimism about the value of trade debtors, with due allowance made for situation in the Ukrainian and Russian markets.

Commodity prices. Like the first quarter of 2014, the second quarter maintained the tendency of stable commodity prices observed in 2013, except for the market of commodities for the production of sealants where a shortage of certain raw materials occurred, which pushed up the prices. In the third quarter most commodity prices were stable. Nonetheless, the fourth quarter might bring some price increases as the overall economy improves.

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 2013 were presented in the unconsolidated financial statements of Selena FM S.A. for 2013 (Note 28.1).
The guarantees given by Selena FM S.A. to its subsidiaries in H1 2014 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 2014 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 2013 (Note 32.3) and in the interim condensed consolidated financial statements of Selena FM Group for the period ended 30 June 2014 (Note 20.2). No material changes occurred in the period until approval of this report.

5.3 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 2014.

5.4 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, Supervisory Board Chairman*

5.5 Issue, redemption of repayment of non-equity and equity instruments

In the period covered by this report, Selena FM S.A. did not issue, redeem or repay any non-equity or equity securities.

5.6 Dividend declared or paid

On 9 June 2014, the AGM of Selena FM S.A. adopted a resolution on distribution of the profit earned in 2013, allocating a portion of the profit to dividend. The proposed dividend payout was PLN 6,393,520, i.e. PLN 0.28 per share. The record date, when the list of shareholders eligible for dividend is determined, was set to 30 June 2014. The shares of all series carry the same dividend rights. The dividend was paid on 16 July 2014.

5.7 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)
AD Niva Sp. z o.o. *	-	9 538 000	476 900
Syrius Investments s.a.r.l.*	-	8 050 000	402 500
Krzysztof Kluza	Sekretarz Rady Nadzorczej	6 000	300

** entity controlled by Krzysztof Domarecki, Supervisory Board Chairman*

On 31 March 2014, the Parent Entity was advised by Kazimierz Przełomski, the Vice-President of the Management Board, in the procedure provided for under Article 160 of the Act on trading in financial instruments of 29 July 2005, that on 26 and 27 March 2014 he had sold 9,800 shares in Selena FM S.A. (on 26 March - 1,300 shares at the average price of PLN 24.22 per share; and 27 March - 8,500 shares at the average price of 22.60 per share); Current Report of 31 March 2014.

5.8 Equity-based remuneration programmes

In H1 2014, no equity based remuneration programmes were in operation.

5.9 Information on the audit of the financial statements

On 23 May June 2014, 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 2014 and 2015. The audit agreement was concluded on 18 August 2014.

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 2014, 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 2014 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