SELENA FM GROUP

MANAGEMENT BOARD'S REPORT
ON THE GROUP'S AND THE PARENT'S ACTIVITIES
FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2010

Wrocław, 30 August 2010

1. ADDITIONAL INFORMATION TO THE HALF-YEARLY REPORT

1.1 Financial Highlights

1.1.1 Consolidated financials of the Selena Group

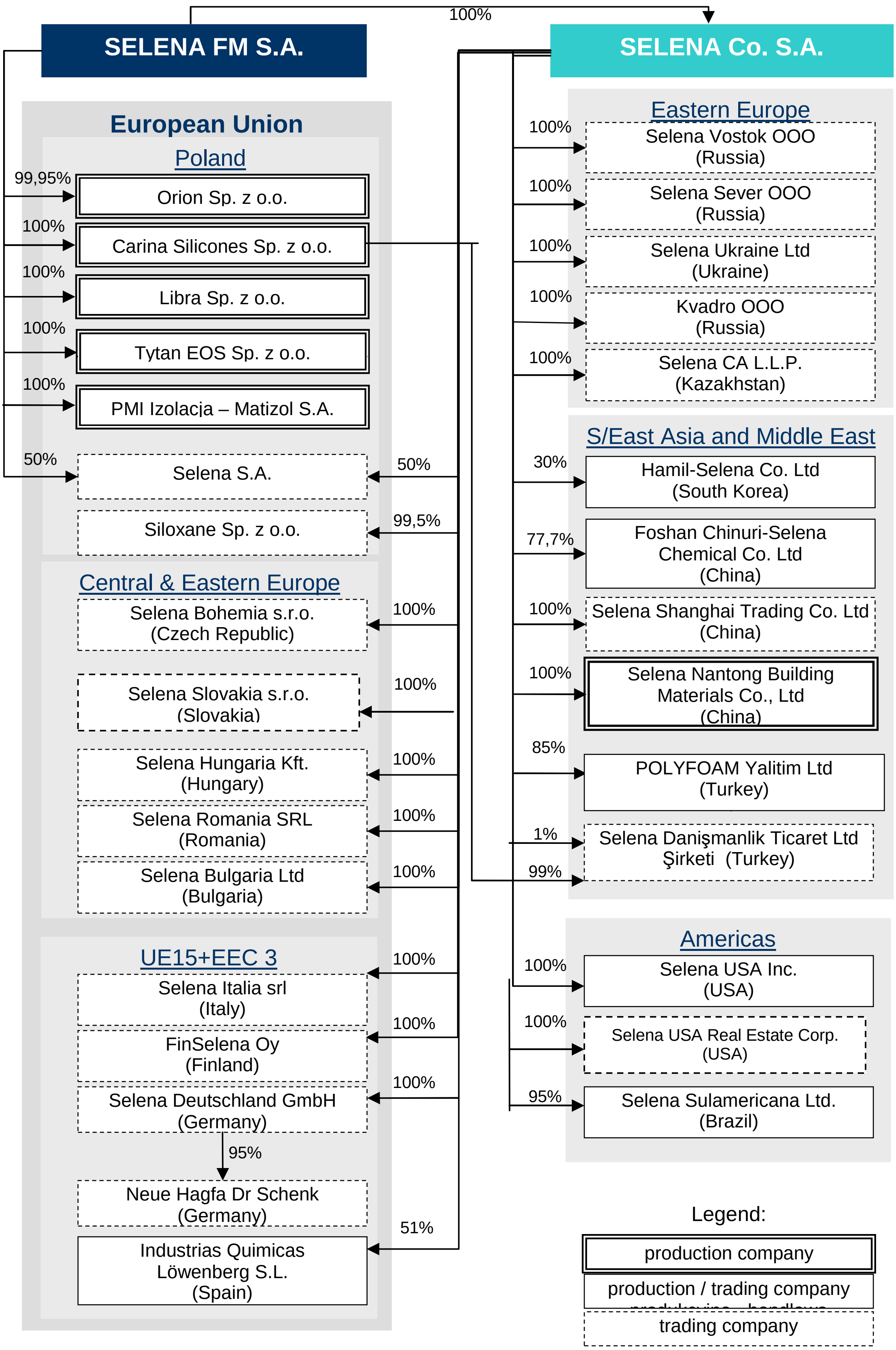
	PLN k		EUR k	
	6 months ended 30 June 2010	**6 months ended 30 June 2009**	**6 months ended 30 June 2010**	**6 months ended 30 June 2009**
Revenue from sales	367 656	252 175	91 818	55 811
Operating profit (loss)	9 266	10 118	2 314	2 239
Profit (loss) before tax	17 357	12 650	4 335	2 800
Profit (loss) after tax	14 796	11 361	3 695	2 514
Profit (loss) attributable to the shareholders of the parent	14 642	11 155	3 657	2 469
Net cash flows from operating activities	-6 349	3 543	-1 586	784
Net cash flows from investing activities	-29 979	-16 677	-7 487	-3 691
Net cash flows from financing activities	15 651	-15 121	3 909	-3 347
	30 June 2010	**31 December 2009**	**30 June 2010**	**31 December 2009**
Total assets	655 444	539 328	158 098	131 281
Non-current liabilities	87 189	90 597	21 031	22 053
Current liabilities	215 010	112 533	51 862	27 392
Equity	353 245	336 198	85 206	81 836
Share capital	1 136	1 136	274	277
Number of shares	22 724 000	22 724 000	22 724 000	22 724 000
Earnings per share (PLN/share) /eur/share)	0,64	0,49	0,16	0,11

1.1.2 Financials of the Parent Company

	PLN k		EUR k	
	6 months ended 30 June 2010	**6 months ended 30 June 2009**	**6 months ended 30 June 2010**	**6 months ended 30 June 2009**
Revenue from sales	4 593	2 637	1 147	584
Operating profit (loss)	-4 972	-4 807	-1 242	-1 064
Profit (loss) before tax	168 333	-827	42 039	-183
Profit (loss) after tax	168 668	-619	42 123	-137
Net cash flows from operating activities	-4 055	-704	-1 013	-156
Net cash flows from investing activities	-17 660	21	-4 410	5
Net cash flows from financing activities	12	0	3	0
	30 June 2010	**31 December 2009**	**30 June 2010**	**31 December 2009**
Total assets	366 389	197 966	88 376	48 188
Liabilities	2 695	2 772	650	675
Equity	363 694	195 194	87 726	47 513
Share capital	1 136	1 136	274	277
Number of shares	22 724 000	22 724 000	22 724 000	22 724 000
Earnings per share (PLN/share) /eur/share)	7,42	-0,03	1,85	-0,01

1.2 Group structure

The chart below shows the structure of Selena Group, ownership connections and division into geographical segments as at 30 June 2010.



Changes in the Group organisation in the reporting period were described in detail in Note 1.3 of the Condensed Consolidated Financial Report for the 6 months ended 30 June 2010.

1.3 Material developments in the reporting period

Changes in the Group structure in the reporting period were described in detail the Condensed Consolidated Half-Yearly Financial Report in Note 1.3.

On 30 June, the subsidiary Orion Sp. z o.o. paid a dividend of PLN 168,302 k to the Parent. The payment was settled by transferring the receivables of the subsidiary Selena Co. S.A. from Orion Sp. z o.o. to Selena FM S.A. The transaction was described in detail in Note 6.1of the Condensed Unconsolidated Financial Report of Selena FM S.A. as at 30 June 2010. Also, on the same day, the General Meeting of Carina Silicones sp. z o.o. resolved to pay a dividend of PLN 2,000 k to Seleny FM S.A. Both transactions do not have any impact on the consolidated financial statements.

Selena Group entered the top ten in the ranking published by Parkiet daily Pearls of the Polish Stock Exchange, in the category "industry and construction", encompassing 110 companies.

Selena was also selected as one of the 25 Polish companies competing for European Business Awards 2010.

In June 2010, the Group's leading brand – TYTAN PROFESSIONAL – received the most prominent award in the Polish construction market – the Construction Brand of the Year. TYTAN PROFESSIONAL is a brand that is valued most by professionals in the category of foams and silicones.

1.4 Performance drivers

1.4.1 Profit and loss account

The table below shows selected figures of the consolidated profit and loss account for the first half-year of 2010 and the first half-year of 2009.

Figures in PLN thousand	**6 months of 2010**	**6 months of 2009**	**Change in PLN**	**Change %**
Revenue from sales	367 656	252 175	115 481	46%
Gross profit (loss)	120 050	90 206	29 844	33%
Selling expenses	70 788	47 324	23 464	50%
General and administrative expenses	35 419	25 496	9 923	39%
Operating profit (loss) (EBIT)	9 266	10 118	-852	-8%
Profit on financial activity	8 091	2 532	5 559	220%
Profit (loss) before tax	17 357	12 650	4 707	37%
Profit (loss) after tax	14 796	11 361	3 435	30%
EBITDA	18 343	16 430	1 913	12%

	6 months of 2010	**6 months of 2009**	**Change in p.p.**
Gross profit margin	32,7%	35,8%	-3,1
Operating profit margin (EBIT%)	2,5%	4,0%	-1,5
Net profit margin	4,0%	4,5%	-0,5
EBITDA %	5,0%	6,5%	-1,5

EBITDA – operating profit + depreciation / amortisation
EBIT % – operating profit / sales
EBITDA % - EBITDA / sales

Revenue from sales

Consolidated revenue from sales in the first half-year of 2010 amounted to PLN 368 m, which is by 46% more than in the corresponding period of the previous year.

The increase in sales was mainly driven by the consolidation of the newly acquired / established companies in the Selena FM Group. The uplift in sales, compared with the first half of 2009, generated by Quilosa, Matizol, Selena Turkey, Kvadro and Tytan EOS amounted to approx. PLN 104 m.

The sales of Selena Group are presented by three geographical segments: the European Union including Poland, Eastern Europe and Asia (including Russia and China), and Northern and South America (USA and Brazil). The sales structure by segments has not changed significantly since publication of the report for the corresponding period of the previous year. The European Union remains the key segment, which generated 62% of total sales compared with 58% a year ago. However, the structure of this segment is undergoing a material change as the share of foreign sales has grown from 30% to 46%. This is mainly an effect of consolidation of the newly acquired Spanish Quilosa.

Domestic sales amounted to PLN 123 m and were higher by 19% compared with the sales achieved in the corresponding period of the previous year (PLN 103 m). The share of domestic sales to total sales of the Group decreased from 41% to 33% due to the rapid increase in sales in foreign markets.

In Q2 2010, sales amounted to PLN 237 m. As a result of consolidation of revenues of the new companies, restoration of the sales levels in the domestic market after the challenging Q1 2010 (long and harsh winter) and reinforcement of Selena's position in the Russian market, the Group managed to achieve sales that were 58% higher year-on-year.

Gross profit

In the first half-year of 2010, Selena FM Group generated gross profit of PLN 120 m, up 33% (i.e. by PLN 30 m) on the corresponding period of 2009. The gross profit was mainly driven by the consolidation of the newly acquired companies (Quilosa, Matizol, Selena Turkey, Kvadro, Tytan EOS), whose combined gross profit was PLN 27.7 m.

During the first 6 months of 2010, gross profit margin amounted to 32.7%, which is 3% lower year-on-year. The Group performance was negatively affected by appreciation of the zloty vs. euro early in 2010, which brought down the gross profit, revenue from sales and profitability of exports. The gradual increase in commodity prices and the price competition also had a negative impact on the gross profit margin. The gross profit margin was also affected by the relatively lower profitability of the newly acquired entities (Quilosa, Matizol) and those which are only starting their business (Chinurri, Tytan EOS, Selena Turcja).

In the first half-year of 2010, **selling expenses** increased by PLN 23.5 m (50%) compared with the corresponding period of the previous year. The growth was mainly driven by consolidation of the selling / distribution costs of the newly acquired entities: Quilosa, Matizol, Kvadro (increase by PLN 19.2%). Selling expenses went up in line with development of sales in the eastern markets - Russia, Kazakhstan, Ukraine (increase by PLN 1.6 m). The other reasons for the increase included the growth of sales of new product groups (insulations system) in Poland and the Czech Republic (PLN 0.6%), the cost of franchise development in Brazil (PLN 0.7 m) and the cost of product marketing (PLN 1 m).

The general and administrative expenses increased by 39% (i.e. by PLN 9,9 m) compared with the corresponding period of the previous year. The increase is attributable to the wider scale of the Group activities following acquisition and formation of new entities (total impact of PLN 8 m) Other factors affecting the increase in general and administrative expenses were the integration costs, (PLN 0.7 m), increase in spend on research and development (PLN 0.6 m).

Operating profit (EBIT)

In the first half of 2010 Selena Group posted operating profit of PLN 9.3 m compared with PLN 10.1 m achieved in the corresponding period of 2009. The operating profit margin fell by 2.5% mainly as a result of lower gross profit margin, Group integration costs, franchise development and R&D expenses.

Other operating income / costs

In the first two quarters of 2010, the net balance of other operating income and costs was negative at PLN 4.6 m. The figure was mainly affected by the impairment of goodwill of Selena Bohemia and Chinuri (combined impact of PLN 2 m).

Net profit

The consolidated net result in the first half 2010 was PLN 14.8 m. In the corresponding period of 2009, Selena FM Group posted a net profit of PLN 11.4 m.

The operating profit was increased by the profit on financial activity of PLN 8.1 m. The positive net balance of financial revenues and expenses was mainly driven by the FX gains of PLN 12 m arising as a result of stronger local currencies (particularly: Russian rouble, Kazakh tenge, Ukrainian hryvnia and Turkish lira) against the euro – an increase by more than 10% over 6 months of 2010.

The net figure was reduced by the cost of interest on loan and financial lease (PLN 2.4 m), other financial expenses connected with valuation of financial obligations (PLN 0.6 m) and settlement of acquisition of control over Finselena in accordance with IFRS 3 (PLN 0.3 m).

In the first half of 2010, EBITDA amounted to PLN 18.3 m (including depreciation of PLN 9 m), which is by PLN 1.9 m higher year-on-year.

1.4.2 Asset and financial position

The table below shows selected figures of the consolidated balance sheet as at 30 June 2010 and 31 December 2009.

Figures in PLN thousand	**30 June 2010**	**31 December 2009**	**Change in PLN**	**Change in percentage**
Non-current assets	**257 320**	**228 146**	**29 174**	**13%**
Property, plant and equipment	206 956	185 508	21 448	12%
Other long-term assets	50 364	42 638	7 726	18%
Current assets	**398 124**	**311 182**	**86 942**	**28%**
Inventory	127 813	92 107	35 706	39%
Trade debtors	180 575	109 187	71 388	65%
Cash	54 015	72 897	-18 882	-26%
Other current assets	35 721	36 991	-1 270	-3%
Equity	**353 245**	**336 198**	**17 047**	**5%**
Liabilities	**302 199**	**203 130**	**99 069**	**49%**
Non-current liabilities	87 189	90 597	-3 408	-4%
Current liabilities	215 010	112 533	102 477	91%

	30 June 2010	**31 December 2009**
Current liquidity	1,9	2,8
Quick liquidity	1,3	1,9
Debt ratio	46%	38%

Current liquidity – current assets / current liabilities
Quick liquidity – current assets less stocks / current liabilities
Debt ratio – liabilities / total assets

The Company's assets were materially affected by the acquisition of Matizol in March 2010, described in detail in Note 12.2 of the Condensed Consolidated Financial Report of the Group.

The increase in the value of property, plant and equipment versus 31 December 2009 (by PLN 21.4 m) mainly results from the consolidation of Matizol (as at the balance sheet date the company's fixed assets amounted to PLN 14 m), expansion of production capacity in Tytan EOS and Matizol (PLN 5.5 m) and continuation of the investment in Nantong (PLN 3 m).

The growth in the balance of intangible fixed assets was mainly driven by the recognition of goodwill of PLN 2.8 m arising on provisional valuation of the acquisition of Matizol and implementation of SAP BI system (PLN 1 m).

The increase in the value of stocks compared with 31 December 2009 (by PLN 35.7 m) mainly results from the consolidation of Matizol. The value of the company's stocks was PLN 6 m as at 30 June 2010. Also, the production and trading companies gathered stock of commodities and finished goods in anticipation of the peak sales season in Q3.

The increase in the net value of trade debtors versus 31 December 2009 (by PLN 71.4 m) results from the consolidation of Matizol. As at 30 June 2010, its trade debtors amounted to PLN 17.8 m. In addition to the seasonal increase in trade debtors on the back of higher sales, receivables also increased as a result of application of extended payment terms for some customers, which was designed to maintain the sales level and the market share despite the difficult macroeconomic and weather conditions.

The table below presents the age structure of trade debtors. The table does not include the debtors which have been written down in full.

Figures in PLN thousand	Total	Up-to-date	Overdue, not written down in full (days in arrears):						
			< 30	30 – 60	60 – 90	90 – 120	120-150	150-180	>180
30 June 2010	180 575	157 347	17 095	3 604	882	751	494	402	0
31 December 2009	109 187	85 198	15 115	4 626	2 057	1 113	1 078	0	0

The decrease in cash position compared with 31 December 2009 (by PLN 18.9 m) is mainly attributable to the acquisition of Matizol financed primarily by the Parent. The acquisition price was PLN 18.5 m.

The increase in loans and advances versus 31 December 2009 (both for long and short-term loans - by PLN 25.7m) mainly resulted from the working capital loans of Selena S.A. (PLN 14.6 m as part of the Group agreement with DZ Bank) and Tytan EOS Sp. z o.o. (PLN 4.7 m under the same agreement). Furthermore, as at 30 June 2010, Matizol – which was acquired on 12 March 2010 – posted borrowings of PLN 5.4 m.

The table below shows the net debt over 6 months of 2010.

Figures in PLN thousand	**30 June 2010**	**31 March 2010**	**31 December 2009**
Interest bearing borrowings	53 546	44 003	27 801
Other financial liabilities	59 661	54 996	58 296
Less cash and cash equivalents	-54 015	-52 861	-72 897
Net debt	**59 192**	**46 138**	**13 200**
Equity	**352 551**	**315 976**	**335 490**
Equity and net debt	**411 743**	**362 114**	**348 690**
Gearing	**14%**	**13%**	**4%**

The current and quick liquidity ratios (1.9 and 1.3 respectively) confirm the lack of any liquidity problems of Selena FM Group and point to its ability to meet its obligations in a timely manner. Both ratios decreased compared with 31 December 2009 mainly as a result of the cash spent on the acquisition of Matizol. At the end of Q2 2010, the debt ratio amounted to 46% and was 8% higher year-on-year. The change results from the seasonal increase in the loans and advances for working capital funding as well as from consolidation of borrowings of the newly acquired Matizol.

1.4.3 Cash flows

The table below shows selected figures of the consolidated cash flow statement for the first half of 2010 and the first half of 2009.

Figures in PLN thousand	**6 months ended 30 June 2010**	**6 months ended 30 June 2009**	**Change in PLN**
Net cash flows from operating activities	-6 349	3 543	-9 892
Net cash flows from investing activities	-29 979	-16 677	-13 302
Net cash flows from financing activities	15 651	-15 121	30 772
Change in cash and cash equivalents:	**-20 677**	**-28 255**	**7 578**

In the first half of 2010, total net cash flows amounted to - PLN 20.7 m.

Net cash flows from operating activities amounted to – PLN 6.3 m. The net operating cash flows were mainly affected by an increase in net current assets (trade debtors, inventories, trade creditors) connected with an increase in sales and operations of the Group, and preparation for the peak sales season (Q3).

As regards the investing activities. outflows exceeded inflows due to acquisition of Matizol (PLN 18.5 m) and purchase of tangible and intangible assets. Cash flows from investing activities amounted to PLN 30 m and were higher by PLN 13.3 m compared with the corresponding period of the previous year.

Net cash flows from financing activities amounted to PLN 15.7 m. This figure was mainly affected by the borrowings (PLN 20.7 m), interest paid (PLN 1.7 m) and finance lease payments (PLN 3.4 m).

1.5 Seasonality of business

The building materials industry in which Selena FM 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 2008 and 2009 (taking account of the impact of new acquisitions), one may conclude that the sales in the individual quarters have the following contribution to the total annual sales: Q1 – 20%, Q2 and Q4 – 25%, Q3 – 30%.

In Q1 2010 sales were relatively low (compared with the projected annual revenues) due to the long and harsh winter. In Q2, despite the negative impact of the flood, the decrease was absorbed, and the contribution of the half-yearly revenues to the projected annual revenues is close to the figures observed in the previous years.

1.6 Delivery of forecasts

The Selena FM Group did not publish any performance forecast for 2010.

1.7 Issue, redemption and repayment of non-equity or equity instruments

(in PLN thousand)

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

1.8 Payment of dividend

In the reporting period the Parent Company did not pay or declare dividend pay-out.

1.9 Shareholders of the Parent

The table below shows the share of significant shareholders in the share capital and voting power of the Company.

Shareholder	**30 June 2010**
Krzysztof Domarecki	
Share in equity	41,97%
Voting power	50,66%
*Syrius Investments S.a.r.l (Luxemburg)**	
Share in equity	35,43%
Voting power	30,12%
Other shareholders	
Share in equity	22,60%
Voting power	19,22%

* The only shareholder of Syrius Investments S.a.r.l. is Krzysztof Domarecki.

Either in the reporting period or thereafter until approval of this financial report no changes occurred in the shareholding of the significant shareholders in the voting power or share capital of the Parent Company.

1.10 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 31 June 2010.

Name	**Number of shares**	**Nominal value of the shares [PLN]**
Executive Directors:		
Krzysztof Domarecki	9 538 000	476 900
Kazimierz Przełomski	200	10
Non-executive Directors:		
Anna Kozłowska	4 000	200
Andrzej Kozłowski	132 000	6 600

Also, Anna Kozłowska holds 10 shares of the subsidiary Orion sp. z o.o. with a total nominal value of PLN 1,000.

Until the date of publication of this report, the status of shareholding by the executive and non-executive directors of the Parent Company did not change.

1.11 Litigations

At the date of approval of this report, the Parent Company was not a party to any court proceedings where the claim value would exceed 10% of the Company's equity.

Other significant court disputes were described in detail in the consolidated financial statements of Selena FM Group for 2009. The status of these cases did not change materially in the reporting period.

1.12 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. Other intra-group transactions were described in Note 1.3 of this report.

1.13 Guarantees given

Either the Parent Company or any members of the Group did not give any guarantees whose value would exceed 10% of the Parent's equity. Other material guarantees were described in detail in the unconsolidated financial statements of the Parent Company and in the consolidated financial statements of Selena FM Group for 2009. No material changes occurred in the value of these guarantees in 2010.

1.14 Events occurring after the balance sheet date

Material events occurring after the balance sheet date, before approval of this report, were described in Note 28 of the Condensed Consolidated Financial Report for the 6 months ended 30 June 2010.

1.15 Performance drivers in the subsequent quarter

The economic situation in Poland and other European countries indicates that no significant increases should be expected in the construction materials sectors at least until the end of 2010. Still, one may be moderately optimistic about the increase in demand for construction chemistry products in 2011 and thereafter. Also, the Group expects that positive trends in sales will be maintained in such markets as Russia, Brazil and Turkey.

The key factors that might potentially influence the Group's performance in the next quarter include:

- The macroeconomic situation in Poland and world-wide: According to the report published by the Institute of Market Economy Research on 29 July 2010, the GDP in Poland will grow by 3.2% in 2010, and by 3.4% in 2011, while the added value growth in the construction sector in 2010 will be 3.5% and as much as 8.3% in 2011. The European Bank for Reconstruction and Development expects that the Polish economy will grow by 2.7% in 2010 and by 3.3% in 2011. EBRD estimates that the Central Europe and the Central Asia (including Turkey) will experience a growth of 3.5% in 2010, and 3.9% in 2011.
- Situation in the construction sector: according to the data published by the Central Statistical Office on 17 August 2010, the number of home completions decreased by 19% compared with 2009, while the number of new housing projects increased by as much as 20.6% year-on-year. The former figure is an effect of putting projects on hold in 2009 and confirmation of the stagnant demand in 2010. The latter figure augurs well for 2011. The increase in the number of tenders for construction projects by 11.8% in the first half of 2010 seems to support the positive forecasts for 2011.
- Availability of loans for the construction sector, particularly home mortgages: a notable improvement is noted in the availability of loans for home buyers in Poland;
- Sources of demand: due to the weaker demand for properties in the primary market, the second half of 2010 should see an increase in demand for construction materials on account of renovation projects.

- Payments: possible increased delays in debtors collection / payment backlogs, particularly by the countries with a severely depressed economy, e.g. Romania;
- FX rates: unstable currency rates in the markets where the Group companies operate; maintained strength of local currencies vs. euro, including further appreciation of the zloty; according to the projections of Raiffeisen Bank Polska S.A. of 17 August 2010, one should expect the PLN to appreciate against the EUR from 4.0 projected at 15 September 2010 to 3.85 at the end of 2010;
- New products: the speed and effectiveness of the process of launching new products, including the products offered as a result of integration with Quilosa;
- Commodity prices and sales prices: In March and April 2010, most world markets suffered from shortages in the basic commodities used for manufacturing of building chemistry products. In consequence the prices of most commodities went up; in Q3, the prices of some commodities began to fall; at the same time, in the second half of 2010 one may expect that the earlier commodity price increases will be reflected in the market prices of the construction chemistry products offered by most manufacturers.

1.16 Changes in contingent liabilities and assets

In the reporting period no material changes occurred in the contingent liabilities or assets.

1.17 Other significant information

This report presents information which might have a significant impact on the assessment of Selena's employment, asset or financial position, and which is key to assessment of its ability to meet its obligations.

President of the
Management Board
…..……………………….
Krzysztof Domarecki

Vice-President of the
Management Board
Financial Director
……..…………………….
Kazimierz Przełomski

Management Board Member
…..……………………….
Elżbieta A. Szymańska