SELENA FM GROUP

MANAGEMENT BOARD'S REPORT ON THE GROUP'S ACTIVITIES FOR THE 6 MONTHS ENDED 30 JUNE 2012

Wroclaw, 23 August 2012

1. Financial highlights

1.1 Financials of the Group

	PLN thousand		EUR thousand	
	6 months ended 30 June 2012	6 months ended 30 June 2011	6 months ended 30 June 2012	6 months ended 30 June 2011
Revenue from sales	475 708	432 169	112 604	108 933
Operating profit (loss)	5 475	-7 060	1 296	-1 780
Profit (loss) before tax	-4 212	-10 128	-997	-2 553
Profit (loss) after tax	-7 142	-3 626	-1 691	-914
Profit (loss) attributable to the controlling interest	-7 050	-3 971	-1 669	-1 001
Net cash flows from operating activities	-8 602	-62 124	-2 036	-15 659
Net cash flows from investing activities	-8 287	-41 221	-1 962	-10 390
Net cash flows from financing activities	13 388	122 243	3 169	30 813
Number of shares	22 834 000	22 724 000	22 834 000	22 724 000
Earnings per share (PLN/share) /eur/share)	-0,31	-0,17	-0,07	-0,04
	30 June 2012	31 December 2011	30 June 2012	31 December 2011
Total assets	806 996	737 143	189 378	166 895
Non-current liabilities	50 531	55 748	11 858	12 622
Current liabilities	387 461	302 393	90 926	68 464
Equity	369 004	379 002	86 594	85 809
Registered capital	1 142	1 136	268	257

1.2 Financials of the Parent Company

	PLN thousand		EUR thousand	
	6 months ended 30 June 2012	6 months ended 30 June 2011	6 months ended 30 June 2012	6 months ended 30 June 2011
Revenue from sales	148 712	141 871	35 201	35 760
Operating profit (loss)	-6 852	-8 582	-1 622	-2 163
Profit (loss) before tax	-17 631	27 572	-4 173	6 950
Profit (loss) after tax	-17 260	28 399	-4 086	7 158
Net cash flows from operating activities	1 757	-41 742	416	-10 522
Net cash flows from investing activities	-6 238	-1 708	-1 477	-431
Net cash flows from financing activities	1 080	68 599	256	17 291
	30 June 2012	31 December 2011	30 June 2012	31 December 2011
Total assets	455 003	460 038	106 776	104 156
Liabilities	186 030	173 915	43 656	39 376
Equity	268 973	286 123	63 120	64 781
Registered capital	1 142	1 136	268	257
Number of shares	22 834 000	22 724 000	22 834 000	22 724 000
Earnings per share (PLN/share) /eur/share)	-0,76	1,25	-0,18	0,32

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 felt, felt adhesives;
- Bituminous masses;
- Building insulation systems;
- Application equipment:
- Wood impregnating agents;
- 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, the USA 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 the Company as the holding entity in the Group is provision of advice on strategic management, finance management, sales strategy and maintenance of accounting books for customers. In 2011, the Company also took over from its subsidiary (Selena Co. S.A.) distribution of products to foreign markets and ownership supervision over foreign affiliates.

2.3 Management Board

Since 2 November 2011, the Management Board of the Parent Company consisted of the following persons:

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

On 4 June 2012, the Supervisory Board of Selena FM S.A. appointed Beata Pawłowska as Vice-President of the Management Board responsible for sales and marketing.

As at the date of publication of this report, the Management Board consisted of the following persons:

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

2.4 Supervisory Board

On 19 April 2012, the General Meeting of Shareholders of Selena FM S.A. dismissed the previous Supervisory Board consisting of:

- Krzysztof Domarecki – Supervisory Board Chairman
- Grzegorz Forczek – Supervisory Board Member
- Maria Godoś – Supervisory Board Member
- Anna Kozłowska – Supervisory Board Member, and
- Andrzej Kozłowski – Supervisory Board Member

A new Supervisory Board was appointed for a joint 3-year term of office, consisting 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

2.5 Group structure

A detailed geographic and ownership structure, as division into geographic segments were described in the interim condensed consolidated financial statements of the Group for the year ended 30 June 2012 (Note 1.4).

In 2012, a key change in the Group's structure was the take-over of control over EURO MGA Product sarl on 31 January 2012. Details of the transaction were described in Note 5 the consolidated financial statements of Selena FM Group for the period ended on 30 June 2012.

3. Key developments

3.1 Appointment of a new Management Board Member

As stated in Note 2.3, on 4 June 2012 the Supervisory Board of Selena FM S.A. appointed Beata Pawłowska as Vice-President of the Management Board responsible for Sales and Marketing.

Beata Pawłowska graduated from the Warsaw School of Economics (SGH). In 1991–1998, she worked with Procter&Gamble Poland, first as a sales representative, then as a Business Unit Manger, and next progressed to the Regional Director, Head of Network Clients Division and Head of Pharmacy Division. In 1998, she joined International Paper Corp of Klucze as Sales and Marketing Director, and then as General Director. In 2002-2007, she worked with The Coca Cola Company Polska (CEO and Management Team Member in charge of the CEE Division), MTV Networks Polska (General Director), HOOP S.A. (General Director) and XL Energy Drink Company (Managing Director). In 2007–2009, she run her own consultancy business providing customers with support in restructuring, professional organisation management, strategy building, financial performance improvement and team building and motivation. In 2009 – 2011, she acted as General Director of Royal Unibrew, where shaped the regional beer brand Łomża.

She also worked with Madej&Wróbel Sp. z o.o., a meat processing plant, as the CEO. Numerous brands that she created and developed are now at the forefront of the market, including Hoop Cola, Arctic, Kropla Beskidu, Velvet hygiene products or Łomża beer.

3.2 New logo of Selena

On 1 July 2012, Selena Group changed its logo. The new logo with the slogan "Global Experience" emphasises the brand's market presence in more than 70 countries world-wide. The new visual communication is designed to strengthen the identity of the Selena brand and built its recognition in the market.

The change in corporate communication is supposed to increase the awareness of the Selena brand to make it equally recognisable as its trademarks: Tytan Professional or Artelit. The new logo emphasises the international profile of the Group, whose nearly 70% sales are generated abroad.

At the same time, the image of the Group's flagship brand – Tytan Professional – has also been facelifted.

3.3 Purchase of an organised part of Izolmas business

On 17 May 2012, the acquisition of an organised part of Izolmas sp. z o.o. of Płock was finalised. The acquired business was included in the operating structure of PMI Izolacja-Matizol S.A. As a result of expansion of the Matizol's operations with bituminous masses, the company expects to increase its sales and improve profitability of the entire product group. The acquisition price was PLN 1,925k.

3.4 Change of the operating model of Selena USA

As part of the projects designed to optimise operating effectiveness, the Management Board decided to change the operating model of Selena USA. In July and August 2012, the production of sealants in the company was discontinued, and the production line will soon be moved to Poland. In consequence, Selena USA will be only distribution business that will be supplied by other production plants of Selena Group (including Selena Iberia).

3.5 Awards and recognitions

Selena was awarded in this year's edition of the Teraz Polska (Poland: Now) competition. This year, for the first time in the competition's history, an award was conferred in the category "Foreign Investment". The award was granted to Selena, as the only company in this edition, for the launch of its polyurethane foams plant in Nantong, China.

On behalf of the company, the statuette was received by the Supervisory Board Chairman of Selena FM SA Krzysztof Domarecki. The gala ceremony took place on 11 June 2012 in the National Theatre in Warsaw. "Teraz Polska" awards are given in 5 categories: products, services, innovative projects and municipalities, as well as, starting from this year - investments.

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 2012 and 2011, respectively, as well as selected financial ratios.

Data in PLN thousand	6 months ended 30 June 2012	6 months ended 30 June 2011	Change	Change %
Revenue from sales	475 708	432 169	43 539	10%
Cost of goods sold	344 057	310 324	33 733	11%
Gross profit on sales	131 651	121 845	9 806	8%
Selling and marketing costs	84 412	80 079	4 333	5%
General and administrative expenses	38 259	39 747	-1 488	-4%
Other operating profit (loss)	-3 505	-9 079	5 574	-
EBITDA (operating profit + depreciation)	17 539	4 367	13 172	-
Operating profit (loss) (EBIT)	5 475	-7 060	12 535	-
Net finance income	-9 687	-3 068	-6 619	-
Profit (loss) before tax	-4 212	-10 128	5 916	-
Profit (loss) after tax	-7 142	-3 626	-3 516	-

			Change in p.p.
Gross profit margin	27,7%	28,2%	-0,5
Selling costs / revenue from sales	17,7%	18,5%	-0,8
General and administrative expenses / revenue from sales	8,0%	9,2%	-1,2
EBITDA margin	3,7%	1,0%	2,7
Operating profit margin (EBIT%)	1,2%	-1,6%	2,8
Net profit margin	-1,5%	-0,8%	-0,7

EBIT % – operating profit / sales

EBITDA % - EBITDA / sales

Data in PLN thousand	3 months ended 30 June 2012	3 months ended 30 June 2011	Change	Change%
Revenue from sales	288 858	261 963	26 895	10%
Cost of goods sold	207 977	189 934	18 043	9%
Gross profit on sales	80 881	72 029	8 852	12%
Selling and marketing costs	45 303	42 715	2 588	6%
General and administrative expenses	19 357	20 816	-1 459	-7%
Other operating profit (loss)	-4 442	-5 456	1 014	-
EBITDA (operating profit + depreciation)	17 998	9 061	8 937	-
Operating profit (loss) (EBIT)	11 779	3 042	8 737	-
Net finance income	-1 068	-2 393	1 325	-
Profit (loss) before tax	10 711	649	10 062	-
Profit (loss) after tax	6 963	21	6 942	-

			Zmiana w p.p.
Gross profit margin	28,0%	27,5%	0,5
Selling costs / revenue from sales	15,7%	16,3%	-0,6
General and administrative expenses / revenue from sales	6,7%	7,9%	-1,2
EBITDA margin	6,2%	3,5%	2,8
Operating profit margin (EBIT%)	4,1%	1,2%	2,9
Net profit margin	2,4%	0,0%	2,4

EBIT % – operating profit / sales

EBITDA % - EBITDA / sales

Revenue from sales

Consolidated revenue from sales in the first half of 2012 amounted to PLN 475.7m, which is by 10% (PLN 43.5 m) more than in the corresponding period of the previous year.

In Q2 2012, sales amounted to PLN 288.9m. In Q2 2012 vs. Q2 2011 sales likewise increased by 10%.

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. Sales in Poland remained at the last year's level.

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 changed slightly compared with the previous year. European Union remains the key segment. It generated 67% of revenues from sales, i.e. 3 p.p. less than last year (70%). The geographic segment of Eastern Europe and Asia was growing at the fastest pace, increasing its share in total sales to 30%, and recording the highest growth of sales (23%). North and South America maintained its share in total sales, and notes a negative sales growth.

Segment	Segment's share in Group revenues		Revenue growth
	6 months ended 30 June 2012	6 months ended 30 June 2011	2012 / 2011
European Union, including:	67%	70%	6%
Poland	*44%*	*45%*	*7%*
Other countries	*23%*	*25%*	*3%*
Eastern Europe and Asia	30%	27%	23%
North and South America	3%	3%	-2%

Sales to customers in Poland were PLN 146m compared with PLN 147m observed in the first half of 2011. The share of domestic sales to total sales of the Group decreased from 34% to 31%.

Gross profit

In the first half of 2012, Selena Group generated gross profit of PLN 131.6m, an increase of PLN 9.8m on the previous year. In Q2 2012, the gross profit decreased from PLN 72m recorded in the corresponding period of the previous year to PLN 80.9m.

The gross profit margin was 27.7%, i.e. 0.5 p.p. less than in the first half of the previous year (28.2%). In Q2 2012, the gross profit margin was 28%, which is an improvement on Q2 2011. This performance resulted from the implemented profitability improvement initiatives and stabilisation of commodity prices.

The gross profit generated in H1 2012 by the Group's original business segment (understood as the Group's core, before acquisitions and new entities founded over the last 3 years) was PLN 99.4m, with a gross profit margin of 29.3%. In the reporting period, the new entities recorded a total gross profit of PLN 32.2m with a gross profit margin of ca. 23.7%. At the same time, in Q2 2012, the contribution of sales of the newly acquired companies to the Group sales decreased, mainly as a result of the weak market in Spain and the poor performance of the Turkish operations.

Selling costs and the general and administrative expenses

In the first half of 2012, **selling costs** amounted to PLN 84.4m, and increased by PLN 4.3m (5%) compared with the corresponding period of the previous year. The increase mainly results from the higher sales, although the selling costs were rising slower than sales. In the second quarter of 2012, selling costs amounted to PLN 45.3m and were higher by 6% than in the corresponding period.

In the first half of 2012, the **general and administrative expenses** amounted to PLN 38.3m, and were lower by 4% (PLN 1.5m) compared with the previous year. The decrease resulted from the restructuring measures adopted both in the newly acquired entities and the Selena's original business operations. In the second quarter of 2012, the general and administrative expenses amounted to PLN 19.4m and were lower by PLN 1.5m than in the corresponding period of the previous year.

In the first half of 2012, the ratio of selling costs and general and administrative expenses to revenues from sales was 25.7%, which is 2 p.p. less year-on-year.

Operating profit (loss)

In the fist half of 2012, the Group posted an operating profit of PLN 5.5m compared with the operating loss of PLN 7m recorded in the first half of 2011. At the same time, the operating profit achieved in Q2 2012 was PLN 11.8m, which is by PLN 8.7m higher than in the corresponding period of the previous year.

The operating result in the first half of 2012 was affected by decelerated growth of the gross profit margin, lower general and administrative expenses of the Group and the negative result on other operations (-PLN 3.5m).

In the second quarter of 2012, the result on other operations amounted to -PLN 4.4m vs. -PLN 5.5m in the corresponding period of the previous year.

The negative result on other operations was mainly affected by the asset impairment charges. In H1 2012, impairment charges for receivables amounted to PLN 3.4m, and impairment charges for inventory were PLN 0.7m (furthermore, the cost of liquidation of inventory was PLN 0.4m). The negative net balance on other operations was affected by the sanctions and compensations paid (PLN 2m) in the restructured entities. A key item of other operating costs is the cost of unused production capacity (PLN 2.7m). The result on other operations was positively affected by the indemnity of PLN 0.8m paid by the insurer, and the excess of the net assets value over the purchase price of EURO MGA (PLN 5.4m) recognised in the profit and loss account.

In the second quarter of 2012, the impairment losses amounted to PLN 1.3m, and were by PLN 1m lower than those posted in profit and loss of the previous year.

Profit (loss) after tax

In the first half of 2012, Selena Group posted a net loss of PLN 7m, which is by PLN 3.5m higher than the loss recorded in the previous year.

The operating profit was reduced by the loss on financial activity of PLN 9.7m. The negative result on FX differences was -PLN 4.5m, which resulted from the appreciation of the zloty vs. euro by more than 3% over 6 months of 2012. The local currencies of the subsidiaries were also highly volatile vs. euro, but the total result on FX differences was close to nil.

The cost of interest on loans and advances and finance leases, totalled PLN 4.3m (after reduction by the achieved interest income from bank deposits). The negative balance on financial activity in the second quarter of 2012 (PLN 1m) was mainly affected by interest on loans, finance leases (PLN 2.3m), which was partly compensated for by the positive result on FX differences of PLN 1.8m.

In the first half of 2012, the income tax charge was PLN 2.9m. In Q2 2012, the income tax reduced the net profit by PLN 3.7m.

In the first half of 2012, EBITDA was PLN 17.5 m (including depreciation: PLN 12.1m), which was by PLN 13.2m 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 2012 and 31 December 2011.

Data in PLN thousand	30 June 2012	31 December 2011	Change	Change %
Non-current assets	**327 070**	**326 392**	**678**	**0%**
Property, plant and equipment	247 451	235 422	12 029	5%
Intangible fixed assets	35 474	31 923	3 551	11%
Other long-term assets	44 145	59 047	-14 902	-25%
Current assets	**479 926**	**410 751**	**69 175**	**17%**
Inventories	162 700	131 817	30 883	23%
Trade debtors	227 464	184 516	42 948	23%
Cash	38 725	42 665	-3 940	-9%
Other current assets	51 037	51 753	-716	-1%
Equity	**369 004**	**379 002**	**-9 998**	**-3%**
Liabilities	**437 992**	**358 141**	**79 851**	**22%**
Loans and advances	170 078	151 020	19 058	13%
Trade creditors	160 050	103 214	56 836	55%
Other liabilities	107 864	103 907	3 957	4%

	30 June 2012	31 December 2011
Current ratio	1,2	1,4
Quick ratio	0,8	0,9

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 70m vs. 31 December 2011 mainly as a result of business expansion and the seasonal increase in current assets (inventory, receivables) and the associated increase in external finance.

The value of property, plant and equipment increased as a result of consolidation of the newly acquired Romanian production company EURO MGA sarl (PLN 17.6m). In addition, replacement and modernisation investments were carried out.

Compared with 31 December 2011, the net value of tangible assets increased by PLN 12m, while depreciation for 6 months of 2012 amounted to PLN 12m.

The increase in the value of inventory compared with 31 December 2011 (by PLN 31m) 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 2011 (by PLN 43m) 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 despite the difficult macroeconomic conditions.

The current and quick liquidity ratios (1.2 and 0.8 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 2011 mainly as a result of financing the business growth. The ratios are affected by presentation, in accordance with the IAS, of a portion of long-term loans as short-term, due to the breach of the financial covenants (consolidated ratios) stipulated in the loan agreements with banks.

4.3 Debt

Data in PLN thousand	30 June 2012	31 December 2011
Interest bearing borrowings	170 078	151 020
Other financial liabilities	42 663	47 459
Less cash and cash equivalents	-38 725	-42 665
Net debt	**174 016**	**155 814**
Equity	368 383	378 274
Equity and net debt	**542 399**	**534 088**
Gearing (net debt / equity + net debt)	32%	29%
Debt ratio (liabilities / total assets)	54%	49%

The increase in debt on loans and advances vs. 31 December 2011 mainly resulted from the working capital requirements and fixed asset investments (PLN 8m).

As at 30 June 2012, the debt ratio was 54% and was 5 p.p. higher than at the end of 2011. 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 2012 and 2011.

Data in PLN thousand	6 months ended 30 June 2012	6 months ended 30 June 2011	Change
Net cash flows from operating activities	-8 602	-62 124	53 522
Net cash flows from investing activities	-8 287	-41 221	32 934
Net cash flows from financing activities	13 388	122 243	-108 855
Change in cash and cash equivalents:	**-3 501**	**18 898**	**-22 399**

In the first half of 2012, net cash flows were negative at - PLN 3.5m.

Net cash flows from operating activities were negative at PLN 8.6m. As the business expanded, the Group increased the amount of cash in its net current assets: receivables (PLN 50m), inventory (PLN 30m) and liabilities (PLN 63m).

Net cash flows from investing activities were negative at - PLN 8.3m, down by PLN 32.9m on the previous year as a result of limited fixed asset and equity investments.

In the first half of 2011, the cash flows from financing activities were significantly affected by the exercise of the option to buy minority interests in Quilosa (now: Selena Iberia) – PLN 21.2m, and an additional investment in the Wałbrzych Economic Zone (PLN 6.7m).

Net cash inflows from financing activities amounted to PLN 13.4m. This figure was mainly affected by the borrowings (PLN 20.9m) incurred to fund working capital requirements and investments, interest paid (PLN 4.8m) and finance lease payments (PLN 2.3m).

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 2010 and 2011, one may conclude that the sales in the individual quarters have the following contribution to the total annual sales: Q1 – 16%, Q2 – 26%, Q3 – 32%, Q4 – 26%. 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 2012.

4.7 Performance drivers in the subsequent quarter

The factors outlined above are in the opinion of the Group's Management Board key to the future performance of the Group.

The macroeconomic situation in Poland and world-wide. In its report released on 13 July 2012, the European Bank for Reconstruction and Development estimates that in 2012 Poland will achieve GDP growth of 2.9%, and merely 2.4% in 2013, which confirms the data from the Purchasing Managers Index whose reading is still maintained below the neutral 50-level, while the New Orders Index was trending downwards. Also, according to the report published by the Institute of Market Economy Research on 2 August, GDP growth in 2012 is estimated at 2.8% and 2.7% in 2013. As regards the Group's main markets, in 2012 and 2013 GDP growth is estimated as follows: Central Europe: 1.7% and 1.9%, Russia: 3.1% and 3.3%, Turkey: 2.7% and 3.5%, Ukraine 2.5% and 4.0%, Kazakhstan: 5.0% and 6.0%. According to the July figures presented by the IMF, in 2012, the eurozone is expected to see a decline in the GDP (-0.3%), while a moderated growth (+0.7%) is expected in 2013. However, GDP is likely to fall in Italy (-1.9% and -0.3%) and in Spain (-1.5% and -0.6%). According to the IMF, the Chinese market should see a GDP growth in these years by 8.0% and 8.5%.

Situation in the construction sector. The August report of the Institute of Market Economy Research, the added value in the construction sector is losing its momentum: in Q1 2012 is was 9.6%, and in Q2 2.5%. In the next quarters of 2012, the added value should grow by 2.5%, while in 2013 a growth of 3.2% is to be seen.

On 26 July 2012, the Polish Central Statistical Office published a report "Update on the social and economic situation in Poland in the first half of 2012", where it confirms that in the first half of the year the construction/assembly production was by 8% higher than in 2011. The report also points to the decrease of 5.1% in June, but the production value for buildings remained unchanged (the decreases relate to the infrastructure investments). A major increase in production (31.9%) was noted in the enterprises that carry out finishing works, a segment where the sale of construction chemicals is the highest. The General Business Indicator in the construction sector is still unfavourable.

The number of home completions in the first half of 2012 increased by 24.9% vs. 2011. A particular growth (50%) was noted in the real estate development business, which was connected with the so-called Development Act adopted in April. The number of new home investments increased during the half-year by a mere 0.8%, while the number of building permits remained unchanged. In June, a total of 736.4k apartments were being built in Poland, which is 2.6% more than a year ago. Assuming that the construction investments maintain their pace, the demand for finishing materials (including construction chemicals) should be at least the same as before.

Availability of funding for customers. According to the data published by the Rzeczpospolita daily on 31 July 2012, the value of new loans in the first half of 2012 is estimated at PLN 18-19bn vs. PLN 25.6bn issued in the same period of the previous year, which is a drop by 25%. This results from the lower availability of subsidies to home loans as part of the state-subsidised loans programme "Rodzina na swoim", withdrawal of currency loans from offering and tightening of the lending policies by banks in response to the updated Recommendation S.

FX rates. It is still hard to obtain reliable projections on FX rates applicable to the Group's main markets in the near future. According to the report of the Institute of Market Economy Research, the EUR and USD rates will be PLN 4.2 and PLN 3.3, respectively, and in 2013: PLN 4.0 and 3.2. This means that the Polish zloty should appreciate over the next 18 months.

Interest rates. The interest rates applicable to the Group's bank loans have a major bearing on Selena's performance. It should be expected that the Monetary Policy Council may want to reduce interest rates in the next months on account of the unfavourable data from the Polish economy, namely: the falling exports and the internal demand, and the poorer industrial output indicators.

Collection risk. Due to continuation by the Group of its conservative debtors policy and consistent use of relevant instruments in this area, the Group companies have not recorded any significant increase in the volume of overdue receivables. The value of debtors to the generated revenues was similar in 2012 and 2011 (year-on-year).

Availability and prices of commodities. In the first half of 2012, there was a growth in the prices of key inputs for the production of polyurethane foams (an increase of approx. 5–10%) and for the production of roofing felt and shingles (7%). The prices of other commodities and accessories did not undergo any major change, slightly trending downwards. Given the economic stagnation in many countries and the resulting decrease in demand for commodities, as well as active reduction of the supply of commodities by chemical concerns, one should not expect any dramatic reductions in commodity prices in the following quarters, let alone some downward corrections. In that period, the risk of increases in the prices of chemical commodities should be seen as relatively low.

Other risks. The Management Board believes that the profile of the macroeconomic risk associated with the Group's operations in the Eastern markets will not change significantly any time soon. As regards trading risks, experience from those markets and the ongoing monitoring of the situation do not show any major risks emerging in the following quarters.

Group's restructure. Starting from 2012, the Management Board has been working on restructure and optimisation programmes designed to improve the Group's operational effectiveness and financial performance. So far, the programmes have included:

- Reduction of the net current assets – compared with 30 June 2011, the value of inventory was reduced by PLN 12m, while the renegotiation of payment terms for some suppliers helped increase free cash flows by approx. PLN 7m;
- Reduction of the selling and administration costs – reorganisation of the Group's head office and the merger of Selena Co. S.A. and Selena S.A., and delivery of the employment restructure programme in Selena Iberia resulted in reduction of the selling and administration costs by approx. PLN 3m over the six months.
- Review of the Group's portfolio – as a result of the review, a decision was made to transfer the production of sealants from the USA to Europe.

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 2011 were described in the unconsolidated financial statements of Selena FM for 2011 (Note 26.1).

5.2 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 Parent Company's equity.

On 16 June 2012, another court sitting took place in the dispute with Bank Millenium (described in detail in Note 32.2 of the Group's consolidated annual report for 2011). However, no final decision was made. A next court hearing is to take place on 14 September 2012. The Management Board sustains its opinion that the bank's claim is unwarranted.

Other significant court disputes were described in the consolidated financial statements of Selena FM Group for 2011 (Note 32.2).

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 16 to the unconsolidated financial report of Selena FM S.A.

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	Number of shares acquired	Stake in share capital	Total votes	Share in votes at the AGM
Krzysztof Domarecki	Registered 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*

As part of the management options programme, on 16 March 2012, 110,000 new ordinary D series shares were issued. In effect, the share of the previous major shareholders was reduced – the table above shows their share in the share capital and voting power at the date of publication of this report.

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

As part of execution of the management options programme, 110,000 new series D ordinary shares were issued. The request for admission of the new shares to trading was filed on 7 February 2012. On 16 March 2012, the shares were introduced to public trading. On 12 April 2012, the share capital increase was registered in the National Court Register (KRS), and on 16 August 2012, the entry on the conditional increase of share capital was removed from the KRS.

Moreover, in accordance with the resolution of the Extraordinary General Meeting of 31 January 2012, the Management Board of Selena FM S.A. was authorised to acquire treasury shares in the maximum amount of 2 million shares, for a unit price not higher than PLN 8 per share. The shares may be purchased by 30 June 2014.

The shares will be offered as part of the incentive programme to the key management personnel of the Group. In case the shares are not taken up by the persons covered by the Programme, the shares will be sold to the entities or persons that do not participate in the programme, will be converted into equity in the course of the acquisitions or reorganisations made by the Company, or will be cancelled.

For the purpose of the EGM resolution, on 31 January 2012 a reserve capital of PLN 8m was set up (from the supplementary capital).

Details of the incentive programme will be elaborated by the Supervisory Board.

5.6 Dividend declared or paid

In the reporting period no dividend was declared or paid to shareholders.

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	Number of shares held	Nominal value of shares (PLN)
Executive director		
Kazimierz Przełomski	9 800	490
Non-executive directors		
Krzysztof Domarecki	9 538 000	476 900
Syrius Investments s.a.r.l.*	8 050 000	402 500
*Anna Kozłowska***	*4 000*	*200*
*Andrzej Kozłowski***	*132 000*	*6 600*

** entity controlled by Krzysztof Domarecki*

** number of shares held on the date of dismissal from the Supervisory Board (Note 2.4)

Krzysztof Domarecki also holds 0.5% stake in Research Centre of Construction Technology sp. z o.o.

Furthermore, as at the date of her dismissal from the Supervisory Board (see Note 2.4), Anna Kozłowska held 10 shares in the subsidiary Orion sp. z o.o. for a total nominal value of PLN 1,000.

5.8 Equity-based remuneration programmes

The Company operated a share-based incentive programme. Details of the programme operation and settlement in 2011 were described in the interim consolidated financial statements of the Group for the 6 months ended 30 June 2012 (Note 25).

5.9 Information on the audit of the financial statements

On 29 June 2012, the Supervisory Board of Selena FM S.A. resolved to appoint Ernst&Young Audit 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 2012. The audit agreement was concluded on 30 July 2012.

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 2012, 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 2012 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 Executive Board
Financial Director

....

Kazimierz Przełomski

Vice-President of the Executive Board
responsible for Sales and Marketing

....

Beata Pawłowska