SELENA
GLOBAL EXPERIENCE

SELENA FM GROUP

MANAGEMENT BOARD'S REPORT
ON THE GROUP'S ACTIVITIES
FOR THE 6 MONTHS ENDED 30 JUNE 2016

Wrocław, 31 August 2016

1. Financial highlights

Group's financial data

	PLN thousand		EUR thousand	
	6 months ended 30 June 2016 (unaudited)	6 months ended 30 June 2015 (unaudited)	6 months ended 30 June 2016 (unaudited)	6 months ended 30 June 2015 (unaudited)
Revenue from sales	456 034	458 454	104 105	110 896
Operating profit (loss)	17 026	10 407	3 887	2 517
Profit (loss) before tax	26 389	9 285	6 024	2 246
Profit (loss) after tax	20 123	3 221	4 594	779
Profit (loss) attributable to the shareholders of the parent	20 024	3 225	4 571	780
Comprehensive income	21 337	2 600	4 871	629
Comprehensive income attributable to shareholders of the parent	21 239	2 581	4 849	624
Net cash flows from operating activities	2 262	17 206	516	4 162
Net cash flows from investing activities	-12 173	-16 780	-2 779	-4 059
Net cash flows from financing activities	17 846	1 631	4 074	395
Number of shares	22 834 000	22 834 000	22 834 000	22 834 000
Earnings per ordinary share (PLN/share) /EUR/share)	0.88	0.14	0.20	0.03
	30 June ended (unaudited)	31 December 2015	30 June ended (unaudited)	31 December 2015
Total assets	893 718	755 064	201 947	177 183
Non-current liabilities	153 299	101 008	34 640	23 702
Current liabilities	322 164	250 288	72 797	58 732
Equity	418 255	403 768	94 510	94 748
Registered capital	1 142	1 142	258	268

Financial data of the Parent Company

	PLN thousand		EUR thousand	
	6 months ended 30 June 2016 (unaudited)	6 months ended 30 June 2015 (unaudited)	6 months ended 30 June 2016 (unaudited)	6 months ended 30 June 2015 (unaudited)
Revenue from sales	211 271	146 710	48 230	35 488
Operating profit (loss)	-11 473	-24 852	-2 619	-6 011
Profit (loss) before tax	-7 399	-3 693	-1 689	-893
Profit (loss) after tax	-7 868	-1 959	-1 796	-474
Comprehensive income	-7 868	-1 959	-1 796	-474
Net cash flows from operating activities	-6 915	24 621	-1 579	5 956
Net cash flows from investing activities	-6 328	-17 825	-1 445	-4 312
Net cash flows from financing activities	16 946	-1 716	3 869	-415
Number of shares	22 834 000	22 834 000	22 834 000	22 834 000
Earnings per ordinary share (PLN/share) /EUR/share)	-0.34	-0.09	-0.08	-0.02
	30 June 2016 (unaudited)	31 December 2015	30 June 2016 (unaudited)	31 December 2015
Total assets	588 349	494 548	132 945	116 050
Liabilities	329 367	220 848	74 425	51 824
Equity	258 982	273 700	58 520	64 226
Registered capital	1 142	1 142	258	268

2. Information about the Group

2.1 Group's activities

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 and foam adhesives
- Construction sealants (silicones, acrylic products)
- Construction and mounting adhesives
- Roofing membranes and shingles
- Bituminous masses
- thermo-reflexive roofing coating
- Building insulation systems
- Adhesives and joint fillers for ceramic tiles
- Application equipment
- Wood preservatives
- Agents for roofs and walls
- Foils and membranes.

The products on offer include both solutions addressed to professionals and to individual users. The Group's leading brands include Tytan, Quilosa, Artelit and Matizol.

The Group's production plants are located in Poland, Brazil, China, Romania, Turkey, Spain and Kazakhstan and its products are available in the markets of more than 70 countries in the world. The Group also carries on R&D activity in Poland, Spain, Turkey and China. Selena Group also has an affiliated undertaking in South Korea – Selena Co. Ltd.

2.2 Parent Company

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

2.3 Management Board

As at 30 June 2016, the Parent Company's Management Board was composed of:

- Jarosław Michniuk – Management Board President
- Krzysztof Kluza – Vice-President of the Management Board
- Andrzej Feruga – Management Board Member
- Marcin Macewicz – Management Board Member.

On 28 July 2016, Krzysztof Kluza resigned as Vice-President of the Management Board responsible for finance.

On 29 August 2016, the Supervisory Board of Selena FM S.A. removed Jarosław Michniuk from his post of Management Board President.

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

2.4 Supervisory Board

As at 31 December 2015, the Supervisory Board of the Parent Company was composed of:

- Krzysztof Domarecki – Supervisory Board Chairman
- Borysław Czyżak – Supervisory Board Member
- Stanisław Knaflewski – Supervisory Board Member
- Andrzej Krämer – Supervisory Board Member
- Sylwia Sysko-Romańczuk – Supervisory Board Member.

Changes in the Supervisory Board composition in 2016:

On 14 June 2016, the Annual General Meeting of Shareholders appointed the following persons to the Supervisory Board:

- Hans Kongsted – Supervisory Board Member
- Francisco Azcona – Supervisory Board Member.

As at 30 June 2016, the Parent Company's Management Board was composed of:

- Krzysztof Domarecki – Supervisory Board Chairman
- Borysław Czyżak – Supervisory Board Member
- Stanisław Knaflewski – Supervisory Board Member
- Andrzej Krämer – Supervisory Board Member
- Sylwia Sysko-Romańczuk – Supervisory Board Member.
- Hans Kongsted – Supervisory Board Member
- Francisco Azcona – Supervisory Board Member.

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

2.5 Group structure

A detailed geographic and ownership structure, and division into geographic segments were described in the interim condensed consolidated financial statements of the Group for the year ended 30 June 2016 (Note 1.5).

Detailed description of changes in the Group structure in the first half of 2016 is presented in Note 1.5 to the condensed consolidated financial statements of the Group.

3. Key developments

3.1 Dividend

On 14 June 2016, the AGM of Selena FM S.A. adopted a resolution on dividend payment in respect of a part of the Parent Company's profit for 2015 in a total amount of PLN 6,850,200.00, i.e. PLN 0.30 per share. The record date, when the list of shareholders eligible for dividend is determined, was set to 1 August 2016. The shares of all series carry the same dividend rights. The dividend was paid on 16 August 2016.

3.2 Awards and recognitions

Selena FM S.A. recognised in the competition titled "Eagles of Exports of the Dolnośląskie Province"

Selena was recognised by the *Rzeczpospolita* daily in the prestigious competition 2016 Eagles of Exports of the Dolnośląskie Province. The award gala took place on 12 May at the conference that is a part of the Exports Development Programme. Eagles of Exports is a Poland-wide cycle of events designed to promote exports and export-related matters by discussing the most interesting sales destinations, indicating sectors with the highest exports potential and identifying and awarding regional export leaders. Speaking at the conferences are renowned experts and representatives of local and national authorities. The meetings are addressed to representatives of the local business, including owners of production companies and trade, sales and exports executives.

Selena S.A. CONSTRUCTION COMPANY OF THE YEAR 2015/ 5 TOPBUILDER STATUETTES IN 2016

In February 2016, Selena S.A. received the award of Construction Company of the Year 2015. The company was recognised for its richest construction chemicals proposition in the Polish market and for effective adaptation of its product range to changing requirements and customer expectations. It was the 13th edition of the Construction Company of the Year competition, in which the Scientific Council and the editing board of the Builder magazine conferred awards to companies from the construction sector for their rapid development and their position in the construction market. The managers of those companies were awarded for effective management and market successes. The jury of the competition also awarded sector leaders with the special accolade of "Personality in the Sector". An award in this category again went to the CEO of Selena S.A. - Andrzej Ulfig. At the gala, the TOPBuilder awards were also conferred, which recognised construction products and solutions of the highest quality as well as IT products that are used for architecture and construction. This year, Selena received five such statuettes.

Selena S.A. as a Leader of Construction Chemistry 2016

The *Home & Market* magazine prepared a list of the best companies from the construction chemistry sector in Poland. The companies were recognised with the title of a Leader of Construction Chemistry 2016. One of the award-winners is Selena S.A. The list was compiled based on 2015 reports, manufacturers' websites, discussion forums for construction chemicals users and information about company activities. In this way, the jury identified the key market players. Selena obtained a place on the list thanks to its rapid development and undeniable advantages of the products it offers.

3.3 Group promotion

14. PSB Group Fair (2-3 March 2016)

It was the 14th fair organised by Polskie Składy Budowlane (PSB) Group over its 18-year history. The fair is held for the Group's partners - construction depots, PSB-Profi units and PSB – Mrówka stores. Present at the PSB Group Fair were the largest manufacturers of construction chemicals and building materials. The event also included speeches from invited guests and an inauguration banquet. At its stand, Selena promoted its new products from different categories, including the innovative NoEM paint that absorbs electric fields or TYTAN Professional, a super-strong adhesive from the fix² GALLOP series. As part of the presentation under the title "Europe 1975 - 2025. Technological acceleration vs. changes in the structure of distribution channels", Krzysztof Domarecki - the owner and Chairman of the Supervisory Board of Selena FM S.A - outlined how the construction chemicals market is affected by the changing conditions.

Tektónica (4-7 May 2016)

TEKTÓNICA 2016 is an international building and construction fair that took place in Lisbon. This is the biggest fair in the sector in Portugal. This year, it attracted 73 000 visitors. Among the 500 exhibitors were manufacturers of security systems and alarms, manufacturers of bathroom equipment; facilities management companies, manufacturers of construction technologies, manufacturers of floor finishings, doors and windows. The visitors included architects, designers, construction and housing associations, representatives of construction firms, governmental agencies and building professionals. Also, Selena Iberia presented its proposition at this year's event.

Impact'16 Congress (15-16 May 2016)

On 15-16 June, the ICE Krakow Congress Centre hosted the Impact'16 Congress, where Selena presented its two latest products, and Krzysztof Domarecki – Chairman of the Supervisory Board of FM S.A. – took part in the debate on innovation, discussing the problem of barriers to business in Poland. At the congress, Selena presented its two innovative products launched this year: NoEM Electro Protector – the world's first screen in the form of a paint that affords protection against low-frequency electric fields and Cool-R, a highly-reflexive hydro-insulation protective coating that reduces temperature on and below the roof while ensuring full water-resistance.

VIII European Economic Congress (18-20 May 2016)

The European Economic Congress is one of the key economic and political events in our part of Europe. A number of discussion panels were held with a wide group of experts and practitioners, including: John Godson – President of the African Institute; Jacek Jankowski – Poland's Ambassador to Ethiopia; Philip Guchuki – Cooperatives Development Commissioner at the Ministry of Industry, Investments and Trade in Kenya, Marek Zmysłowski– CEO and founder of HotelOga, Philipa Marmo – Tanzania's Ambassador to Germany; Jean Martin Rakotozafy – Senator from Nigeria, Robert Zduńczyk – President of the Poland-East Africa Economic Foundation and Krzysztof Domarecki – Chairman of the Supervisory Board of Selena FM S.A, who participated in a discussion panel relating to African markets ("Afryka: Energy Shortages, Untapped Resources").

EURO 2016 with Tytan Professional

Q2 2016 saw the end of the promotional campaign held by Selena Ukraine for its distributors. On the basis of the results achieved by the participants, winners were identified, who went to see the Poland-Ukraine football game held on 21 June 2016 in Marseilles. In accordance with the established criteria, when the sales target of EUR 11,000 was achieved in the period of the five months of the campaign, the distributor qualified for one ticket for the game. An additional criterion was the sales of STYRO products at the minimum level of 20% of sales in the evaluation period. The promotional campaign was also open to the sales managers of Selena Ukraine. When 100% of the plan was achieved, the person who recorded the highest excess over the mark was awarded with a trip to France. The campaign brought very good results, including maintenance of prices and sales despite the severe crisis in Ukraine and extension of the range of deliveries to distributors.

3.4 Research and Development

Since the beginning of 2016, the Group's R&D activities have been a continuation of the strategy concerning the product stream selected in 2015, and partly in 2016. Selena Labs Sp. z o.o., the company which coordinates R&D in the Group, focused its activity on the following main areas:

- In Q2 2016, Selena Labs carried out tasks under the projects financed by the EU as part of the Applied Research Programme (PBS), including the AgNASIL project, which relates to the use of nanoparticles in sealants and a project to develop a new category of self-stratifying adhesives. These projects will become active in 2017.
- As part of the work on adhesives, formulations were developed for hybrid and polyurethane adhesives. These products are characterised by a short bonding time and high transparency.

- Also, the project of modification of the technology of thick masses was continued for Matizol. The modified technology is expected to increase product stability and improve economic effects.
- Work is continued on modification of Cool Roof coverings for the hydro-insulation division. The purpose of the modifications is to improve fire-resistance and thermo-insulation properties of the roof coverings.

3.5 Charitable activities and sponsoring

Financing for the "Little Poland in Nepal" foundation

On the initiative of the employees of Selena FM S.A. a USD 5,000 sponsorship agreement was signed with the "Little Poland in Nepal" foundation, whose primary objective is to help the persons affected by the earthquake that hit Nepal in late April and early May 2015. The organisation operates in the village of Dumre, 29 km away from Kathmandu, which was obliterated by the disaster. Nearly 100 people from Dumre were left homeless and the sources of water that the residents used before the earthquake were not fit for use anymore. And it was restoring drinking water supply in the village that became the foundation's main objective. In May, the project participants, village residents and labourers from Nepal finished reconstruction of the school, but there is also an ongoing construction of the Polish House, which will become a place of work for doctors and volunteers. Residential houses also need to be rebuilt. Regrettably, the few buildings that remained in Dumre were beyond repair, therefore work needs to be done from scratch. In addition to rebuilding the village, the "Little Poland in Nepal" foundation regularly provides assistance by financing children education and medical care.

3.6 Key investments

Kazakhstan is one of the key areas of activity and development for Selena Group. With a view to increasing the market share, a strategic decision was taken to build a production plant for insulations and dry mortars in the "Astana-New City" Special Economic Zone. The project includes not only construction of a production plant, but also a modern distribution centre for a wide range of Selena's products in Kazakhstan. The investment process is carried out with full involvement from the local firms, supervised by a general contractor from Kazakhstan. The investment is expected to result in achievement of a production capacity estimated at more than 120k tonnes of modern dry mortars and innovative thin-coat acrylic, silicone and silicate plasters. Production is to be launched at the end of September 2016. The investment will be a platform for Selena to continue to build its competitive advantage by developing innovative product solutions and delivering them to the local market and to the markets of Central Asia.

3.7 Significant events occurring after the balance sheet date

On 8 July 2016, Selena FM S.A., together with its subsidiaries: Orion PU Sp. z o.o., Carina Silicones Sp. z o.o. and Selena S.A. signed an annex to the multi-facility agreement of 22 February 2011. The annex increased the credit limit available to the companies from PLN 40m to PLN 70m. In addition, Selena S.A. joined the debt as a joint and several debtor. The increased limit expires on 6 July 2018. The loan is secured by mortgages on the properties owned by the subsidiaries: Carina Silicones Sp. z o.o., Selena Labs Sp. z o.o. and Tytan EOS Sp. z o.o., a registered pledge on the properties of Carina Silicones Sp. z o.o. and Tytan EOS Sp. z o.o., Orion PU Sp. z o.o., Libra Sp. z o.o. and Selena S.A. together with assignment of insurance policies for the above properties and civil law guarantees of Tytan EOS Sp. z o.o. and Libra Sp. z o.o. The companies also issued blank promissory notes to the bank, alongside promissory note declarations. The loan bears a variable interest rate of 1M WIBOR + margin.

On 22 August 2016, Selena FM S.A., together with its subsidiaries: Carina Silicones Sp. z o.o., Selena Labs Sp. z o.o., Tytan EOS Sp. z o.o., Orion PU Sp. z o.o., Libra Sp. z o.o. and Selena S.A. started the process of formal establishment of new and modification of existing securities:

1. Reflecting the existing nature of the debt in the entries of mortgages created over the properties in Siechnice, owned by the subsidiaries Carina Silicones Sp. z o.o. and Selena Labs Sp. z o.o. and the properties in Krzeszowice and Lubin owned by Tytan EOS Sp. z o.o.
2. Reflecting the existing nature of the debt in the entries of registered pledges over properties owned by Carina Silicones Sp. z o.o. and Tytan EOS Sp. z o.o.
3. Establishing a civil-law guarantee by Tytan EOS Sp. z o.o.

4. Establishing a civil-law guarantee by Libra Sp. z o.o.
5. Establishing a registered pledge up to PLN 111 million over properties owned by Orion PU Sp. z o.o. The pledge is to be established over inventories with a total value of PLN 24,350 thousand as at 30 April 2016.
6. Establishing a registered pledge over movables up to PLN 111 million owned by Libra Sp. z o.o. The pledge is to be established over inventories with a total value of PLN 13,680 thousand as at 30 April 2016.
7. Establishing a registered pledge over movables up to PLN 111 million owned by Selena S.A. The pledge is to be established over inventories with a total value of PLN 23,075 thousand as at 30 April 2016.

At the same time, Carina Silicones Sp. z o.o., Selena Labs Sp. z o.o., Tytan EOS Sp. z o.o., Orion PU Sp. z o.o., Libra sp. z o.o. and Selena S.A. will sign assignment agreements with the bank to transfer to the bank, as security, their respective rights, receivables and claims arising from the insurance policies for the said mortgaged/pledged assets. The assignment agreements will cover both existing and any future insurance policies for the companies' assets subjected to the mortgage or pledge, as the case may be. The process of formal establishment of new and modification of existing securities on connection with the annex to the multi-facility agreement (item 3 in the list) has not been finished until the publication of this report.

Conclusion of a multi-purpose credit limit agreement

On 5 August 2016, Selena FM S.A. singed a multi-purpose credit limit agreement. The borrowers, in addition to Selena FM S.A., include Orion PU Sp. z o.o., Carina Silicones Sp. z o.o., Libra Sp. z o.o. and Izolacja-Matizol S.A. In order for the agreement to become effective, it needs to be signed by all the Borrowers and the Bank, which has not yet happened until the publication of this consolidated financial statements. The amount of the credit limit is PLN 50m. It was sanctioned for 36 months from the date of the agreement. The loan proceeds will be used to finance working capital requirements. The loan is secured by the properties held in perpetual usufruct by Izolacja-Matizol S.A., registered pledge of the properties of Izolacja-Matizol S.A. together with insurance policy assignment, civil law guarantee of Selena S.A. and a transfer of trade receivables due from third parties to Orion PU Sp. z o.o. and Carina Silicones Sp. z o.o., Libra Sp. z o.o., together with insurance policy assignment. The companies issued blank promissory notes to the bank, alongside promissory note declarations. The security is to be established on the assets of Izolacja-Matizol once the security created in favour of the European Bank for Reconstruction and Development has been released. The security on the trade receivables of Orion PU Sp. z o.o., Carina Silicones Sp. z o.o., Libra Sp. z o.o. is to be established once it has been released by the bank that is a beneficiary of the security. The interest rate is variable, based on 1M WIBOR + margin for the funds used in PLN and 1M EURIBOR + margin for the funds used in EUR.

4. Financial position

4.1 Financial performance

The tables below show selected items of the consolidated income statement for the 6 months and 3 months ended 30 June 2016 and 30 June 2015, respectively, as well as selected financial ratios.

Figures in PLN thousand	6 months ended 30 June 2016 (unaudited)	6 months ended 30 June 2015 (unaudited)	Change	Change %
Revenue from sales	456 034	458 454	-2 420	-0.5%
Cost of sales	303 563	318 474	-14 911	-4.7%
Gross profit on sales	152 471	139 980	12 491	8.9%
Selling and marketing costs	85 013	81 770	3 243	4.0%
General and administrative expenses	38 515	39 976	-1 461	-3.7%
Other operating profit (loss)	-11 917	-7 827	-4 090	-
EBITDA – operating profit + depreciation / amortisation	27 779	23 073	4 706	-
Operating profit (loss) (EBIT)	17 026	10 407	6 619	-
Net financial income (loss)	8 882	-1 611	10 493	-
Share in net profit/loss of the associate	481	489	-8	-
Profit (loss) before tax	26 389	9 285	17 104	-
Profit (loss) after tax	20 123	3 221	16 902	-
Total other net comprehensive income	1 214	-621	1 835	-
Total comprehensive income	21 337	2 600	18 737	-

EBITDA – operating profit + depreciation/amortisation

			Change in p.p.
Gross profit margin	33.4%	30.5%	2.9
Selling costs / revenue from sales	18.6%	17.8%	0.8
General and administrative expenses / revenue from sales	8.4%	8.7%	-0.3
EBITDA margin %	6.1%	5.0%	1.1
Operating profit margin (EBIT%)	3.7%	2.3%	1.5
Net profit margin	4.4%	0.7%	3.7

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

Figures in PLN thousand	3 months ended 30 June 2016 (unaudited)	3 months ended 30 June 2015 (unaudited)	Change	Change %
Revenue from sales	277 338	272 667	4 671	1.7%
Cost of sales	182 641	187 701	-5 060	-2.7%
Gross profit on sales	94 697	84 966	9 731	11.5%
Selling and marketing costs	46 305	43 060	3 245	7.5%
General and administrative expenses	19 179	19 740	-561	-2.8%
Other operating profit (loss)	-8 208	-3 925	-4 283	-
EBITDA – operating profit + depreciation / amortisation	19 092	18 479	613	-
Operating profit (loss) (EBIT)	21 005	18 241	2 764	-
Net financial income (loss)	11 355	-3 000	14 355	-
Share in net profit/loss of the associate	481	489	-8	-
Profit (loss) before tax	32 841	15 730	17 111	-
Profit (loss) after tax	26 568	11 003	15 565	-
Total other net comprehensive income	2 249	108	2 141	-
Total comprehensive income	28 817	11 111	17 706	-

EBITDA – operating profit + depreciation/amortisation

			Change in p.p.

Gross profit margin	34.1%	31.2%	2.9
Selling costs / revenue from sales	16.7%	15.8%	0.9
General and administrative expenses / revenue from sales	6.9%	7.2%	-0.3
EBITDA margin %	6.9%	6.8%	0.1
Operating profit margin (EBIT%)	7.6%	6.7%	0.9
Net profit margin	9.6%	4.0%	5.6

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

Revenue from sales

Consolidated revenue from sales in the first half of 2016 amounted to PLN 456.0m, which is by 0.5% (by PLN 2.4m) less than in the corresponding period of the previous year.

The decrease in sales expresses in PLN is largely (PLN 23.8m on balance) a result of changes in the local currency rates, which mainly have a negative effect on the value of sales achieved by the Group's foreign affiliates after conversion to the Group currency. The effect of movements in the local currency rates was mainly observed in Kazakhstan and Russia (total impact of PLN 26.5m).

The sales of Selena Group are presented by three geographical segments: the European Union (including Poland), Eastern Europe and Asia (including Russia and China), and North and South America (USA and Brazil). The sales structure by segments is stable and has changed slightly compared with the corresponding period of 2015. The European Union remains the key segment, which generated 66% of total sales, while the sales increase was 4% YoY. The Poland subsegment noted a 1 pp increase, which mainly results from higher sales generated by the local production plants to private label buyers. The geographic segment of Eastern Europe and Asia decreased its share in total sales to 27% vs. 31% last year. The segment of North and South America increased its share by 1 pp to 7%, with a sales growth of 21%.

Segment	Segment's share in the Group's revenues		Change
	6 months ended 30 June 2016 (unaudited)	6 months ended 30 June 2015 (unaudited)	2016 / 2015
European Union, including:	66%	63%	4%
Poland	*41%*	*40%*	*2%*
Other countries	*25%*	*23%*	*9%*
Eastern Europe and Asia	27%	31%	-15%
N&S America	7%	6%	21%

Gross profit on sales

For 2016 months of 2016, Selena Group generated gross profit of PLN 152.5m, i.e. PLN 12.5m more year-on-year. The increase is owed to improvement of the sales structure, operational measures and falling commodity prices. The gross profit increase of 8.9% is 9.4 pp higher than the decrease in sales, so the gross profit margin was 33.4% vs. 30.5% achieved in H1 2015. In the second quarter of 2016, the gross profit margin increased to 34.1%. The increase is attributable to the optimisation efforts in the area of product mix, R&D activities and negotiations with suppliers coupled with falling commodity prices.

Selling costs and the general and administrative expenses

Selling costs in H1 2016 were PLN 85.0m, up by PLN 3.2m, i.e. 4% YoY. The increase in the reporting period primarily results from higher sales in the United States and Spain and from development of sales structures connected with the launch of strategic projects.

In Q2 2016, selling costs were PLN 46.3m, up by PLN 7.5% YoY.

In H1 2016, **general and administrative expenses** were PLN 38.5m, down 3.7% compared with the previous year. The decrease is connected with, inter alia, optimisation of the cost structure of the companies that experience a decrease in sales or are affected by an adverse macroeconomic situation (Russia, Kazakhstan).

The ratio of selling, general and administrative expenses to sales was 27.1% in H1 2016, up 0.5 pp YoY.

Operating profit (loss)

In H1 2016, the Group generated an operating profit of PLN 17m versus PLN 10.4m in H1 2015. At the same time, in Q2 2016, the operating profit was PLN 21m.

The result on other operations was negative at -PLN 11.9m vs. -7.8m in the corresponding period of 2015, which means it deteriorated by PLN 4.1m. The figure was influenced by the cost of unutilised production capacity (PLN 3.3m in total), impairment charges on debtors, debts were written off (PLN 7.3m) and impairment charges for inventories and inventory liquidation costs (PLN 2.4m).

Profit after tax

In H1 2016, the Group achieved a net profit of PLN 20.1m vs. PLN 3.2m posted in the corresponding period of 2015. In Q2 2016, the Group's net profit was PLN 26.6m, up PLN 15.6m on Q2 2015.

The Group's net result was influenced by the net financial income, including by valuation of open currency positions (trading settlements and loans received/granted). The operating profit was increased in H1 2016 by the profit on financial activity of PLN 8.9m (PLN 11.3m in Q2 alone).

The cost of interest on loans and finance leases totalled PLN 1.6m net (after reduction by the interest on bank deposits and interest income from bonds) compared with PLN 2.4m incurred in H1 2015.

In H1 2016, the income tax charge was PLN 6.3m. In Q2 2016, the income tax charge amounted to PLN 6.3m.

In H1 2016, EBITDA was PLN 27.8m (including depreciation/amortisation: PLN 10.7m), which was by PLN 4.7m 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 2016 and 31 December 2015.

Figures in PLN thousand	30 June 2016 (unaudited)	31 December 2015	Change	Change %
Non-current assets	**389 821**	**380 982**	**8 839**	**2%**
Property, plant and equipment	232 401	226 854	5 547	2%
Intangible fixed assets	52 019	49 061	2 958	6%
Other long-term assets	105 401	105 067	334	0%
Current assets	**503 897**	**374 082**	**129 815**	**35%**
Inventories	177 376	116 974	60 402	52%
Trade receivables	217 561	165 522	52 039	31%
Cash	49 694	41 899	7 795	19%
Other current assets	59 266	49 687	9 579	19%
Equity	**418 255**	**403 768**	**14 487**	**4%**
Liabilities	**475 463**	**351 296**	**124 167**	**35%**
Loans and advances	219 070	194 670	24 400	13%
Trade liabilities	172 015	92 127	79 888	87%
Other liabilities	84 378	64 499	19 879	31%

	30 June 2016 (unaudited)	31 December 2015
Current liquidity	1.6	1.5
Quick liquidity	1.0	1.0

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

The increase in current assets vs. 31 December 2015 (+PLN 129.8m) is a natural consequence of growing sales in Q2 2016 vs. Q4 2015, which is mainly reflected in the value of trade receivables and inventories.

The increase in inventories vs. 31 December 2015 (+PLN 60.4m) mainly results from seasonal factors - accumulation of finished goods before high sales season.

The increase in trade receivables vs. 31 December 2015 (+PLN 52m) was caused by growing sales driven by seasonality. The debtor days ratio increased by 1 day vs. the corresponding period of 2015.

The current and quick liquidity ratios (1.6 and 1.0 respectively) confirm the lack of any liquidity problems of Selena Group and point to its ability to meet its obligations in a timely manner.

4.3 Debt

Figures in PLN thousand	30 June 2016 (unaudited)	31 December 2015
Interest bearing borrowings	219 070	194 670
Other financial liabilities	23 390	20 973
Less cash and cash equivalents	-49 694	-41 899
Net debt	**192 766**	**173 744**
Equity attributable to the shareholders of the parent	417 826	403 436
Equity and net debt	**610 592**	**577 180**
Gearing (net debt / equity + net debt)	32%	30%
Debt ratio (liabilities / total assets)	53%	47%
Ned debt / EBITDA*	2.18	2.08

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

The increase in debt on loans vs. 31 December 2015 mainly resulted from the seasonal factors and the ensuing higher working capital requirements.

In consequence, as at 30 June 2016, the debt ratio amounted to 53% and was 6 pp higher than at the end of 2015. The change results from an increase in the bank loans, and from the seasonal increase in trade liabilities.

4.4 Cash flows

The tables below show selected items of the consolidated statement of cash flows for the six months ended 30 June 2016 and 30 June 2015, respectively.

Figures in PLN thousand	6 months ended 30 June 2016 (unaudited)	6 months ended 30 June 2015 (unaudited)	Change
Net cash flows from operating activities	2 262	17 206	-14 944
Net cash flows from investing activities	-12 173	-16 780	4 607
Net cash flows from financing activities	17 846	1 631	16 215
Change in cash and cash equivalents:	**7 935**	**2 057**	**5 878**

In H1 2016, net cash flows were PLN 7.9m.

Net cash flows from operating activities amounted to PLN 2.3m. Changes in net current assets compared with 31 December 2015: receivables (-PLN 51.7m), inventories (-PLN 52.8m) and liabilities (PLN 87.7m). Cash flows from operating activities were positively affected by changes in liabilities (an increase of PLN 34.1mvs. a corresponding period of 2015) - an effect of successful programme of negotiating commodities supply contracts and extension of payment terms with selected suppliers. The figure was also negatively affected by a higher value of inventories in H1 2016 (up PLN 60.4m vs. H1 2015).

Net cash flows from investing activities were negative at -PLN 12.2m and investment expenses were down PLN 4.6m year-on-year.

Net cash inflows from financing activities amounted to PLN 17.8m. This figure was mainly affected by the bank loans (PLN 23.7m) obtained to fund working capital requirements and investments, interest paid (-3.6m) and finance lease payments (-PLN 2.2m).

4.5 Seasonality of activities

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 2014-2015, one may conclude that sales in individual quarters have the following contribution to the total annual sales: Q1 – 18%, Q2 - 27%, Q3 - 30%, 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 Selena Group did not publish any performance forecast for 2016.

4.7 Factors that will affect financial performance in the next quarter

The macroeconomic situation in Poland and world-wide. The global economy forecast published by the International Monetary Fund (IMF) in April 2016 and updated in July 2016 sustains positive trends in economic development. This year, the global economy is expected to see GDP growth of 3.1% (the same as last year), with highly developed countries to observe a growth of 1.8%. In 2016, the euro zone economy will grow by merely 1.6%. As regards the key European markets of Selena Group, particularly important is the continuation of growth in the Spanish economy with an expected GDP increase of 2.6%. Positive GDP growth is also expected in the other European geographies of Selena Group: Romania +4.2%, Hungary +2.3%, Czech Republic +2.5%,Bulgaria +2.3% or Italy +0.9%. IMF expects that Poland will see GDP growth corresponding to one recorded last year, i.e. + 3.6%. In its report of 29 July 2016, IBnGR projects a growth that is 0.2% lower. As regards Selena's other markets, the IMF projections point to the GDP growth in 2016: USA 2.2%, China 6.6%, Turkey 3.8% (although this value may be adversely affected by the political situation), and Kazakhstan merely 0.1% (a clear economic slowdown), while Ukraine should report a growth of 1.5%. In turn, GDP decreases are to be observed by such countries as Russia: -1.2% (an improvement of 0.6% vs. the April forecast) and Brazil: -3.3% (an improvement of 0.5% vs. the April forecast).
Situation in the construction sector. According to the report published by the Institute of Market Economy Research (IBnGR) on 29 July 2016, Poland's construction sector in 2016 is to report a 0.7% decrease in added value growth, mainly because of weak first six months; a slight growth is expected in the second half of the year. Demand in the construction chemicals market will be influenced by the situation in the residential construction segment, where these materials are used to the highest degree. Data published by the Central Statistics Office (GUS) on 18 April 2016 point to a major growth in house completions in H1: 15.1% more than in 2015. At the same time the number of construction permits increased by 13.6%, while the number of commenced housing investments increased by 7.5%. In H1 2016, the construction and assembly production was by 11.9% lower vs. H1 2015.

According to the data released by GUS on 22 July 2016, the General Business Indicator in the construction sector was -1.9 (-1.4 in June). An improvement was signalled by 14% of enterprises, with 15.9% pointing to a deterioration. Other enterprises believe that their position has not changed. After improvement in the financial position expected to start in April, enterprises believe that the situation may remain unchanged over the next three months. Furthermore, there is an observed increase in delays in payments for construction and assembly works. The situation in the construction sector in Selena's other geographies is expected to be volatile, but overall positive, except Russia, Kazakhstan and Ukraine, where a major slowdown in the sector is observed.

Availability of financing. According to the report published by Amron-Sarfin in May 2016, in Q1 2016 the overall debt on housing loans remained rather stable (an increase of 0.13%), while the number and value of loans granted fell by 8.15% and 10.85%, respectively. According to the results of the PENGAB banking business sentiment index published by the Polish Banks Association, in April 2015 the polled bankers remained optimistic in their projections. For 6-month forecasts, 41% of bankers point to prospective growth, 9% expect a decline and others (50%) believe that the number of housing loans will remain flat.

FX rates. The available projections show that the coming months should not bring any dramatic changes in the FX markets. According to the forecast of Raiffeisen Bank International of 5 August 2016, the currencies of the countries of Central Europe, Turkey and Russia should remain rather stable. Polish zloty is expected to be at 4.35 vs. EUR at the year-end.

Collection risk. In the second quarter, the receivables cycle was 87 days, which is the same as a year before and 3 days more than in Q1. The extension is caused by the prolonged crisis in Russia and China and the difficult situation in Kazakhstan and Turkey. This trend is expected to continue in the upcoming months.

Commodity prices. Prices of key commodities used for production of construction chemicals were highly stable in H1 2016, with slight decreases for most raw materials used by Selena. The second half of the year should see a slight growth in the prices of most commodities for the production of foams and silicones.

5. Other information

5.1 Guarantees 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.

Group companies provide cross-guarantees to each other in connections with jointly incurred bank debt, and as part of commercial transactions. These are intercompany dealings (the guarantees cover the obligations presented in the consolidated balance sheet), therefore the obligations in respect of such guarantees are not presented in the consolidated accounts.
Such guarantees given to the subsidiaries by Selena FM S.A. were described in detail in Note 28.1 of the unconsolidated financial statements of Selena FM S.A. for 2015 and in Note 18.1 of the condensed unconsolidated financial statements of Selena FM S.A. for the period of 6 months ended 30 June 2016.

5.2 Litigations

The total value of all court, arbitration or administrative proceedings pending as at 30 June 2016 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 2015 (Note 31.3) and in the interim condensed consolidated financial statements of Selena FM Group for the period ended 30 June 2016 (Note 18.2).

Dispute between Carina Silicones sp. z o.o. and Bank Millennium S.A.

On 27 March 2009, Carina Silicones sp. z o.o. ("Carina") filed a suit with the Regional Court in Wrocław, X Commercial Division, against Bank Millennium S.A. of Warsaw to repudiate the FX options agreements of 8 July 2008. The case was referred to resolution to the Regional Court in Warsaw.

Details of the lawsuit and its origins were presented in the Group's consolidated financial statements for 2009 (Note 33.2). The bank presented to the court an estimated obligation of PLN 6.9m in respect of settlement of the FX transactions.

After 31 December 2010, the court heard the case on 12 April and 8 November 2011 and 28 February, 12 June and 14 September 2012. On 27 February 2015, the Regional Court in Warsaw passed a judgement on the strength of which the court of first instance dismissed the claim. The judgement is not final and binding. On 14 May 2015, the company lodged an appeal. The Court of Appeal in Warsaw set the appeal hearing to take place on 2 September 2016.

On 11 March 2013, Carina Silicones sp. z o.o. (now: Carina Silicones Sp. z o.o.) received from the District Court in Warsaw, XVI Economic Division a copy of the claim for payment made by Millennium Bank, dated 4 January 2013. The bank stated its total claim amount at PLN 10,256k. The claim relates to the purported conclusion of FX transactions between the company and the bank in 2008. In the same case, a lawsuit is pending, filed by Carina Sealants sp. z o.o. SKA (now: Carina Silicones Sp. z o.o.).

Acknowledging the opinion of the Management Board of Carina Sealants sp. z o.o. SKA (now: Carina Silicones Sp. z o.o.) in that case, the Management Board of the Parent sustains its opinion that the bank's claims are unwarranted. Based on the legal opinion received, the company responded to the claim and moved that it should be dismissed in its entirety, proposing the proceedings to be suspended until determination of the fact of existence of the contested transaction. On 11 May 2013, the District Court in Warsaw, accepted the request of Carina Sealants sp. z o.o. SKA (now: Carina Silicones Sp. z o.o.) and decided to suspend the proceedings.

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 20 to the condensed unconsolidated financial statements of Selena FM S.A. as at 30 June 2016.

5.4 Shareholders of the Parent

In the reporting period, no changes occurred to the shareholding of the significant shareholders of the Parent.

On 7 July 2016, Quercus Towarzystwo Funduszy Inwestycyjnych S.A. an investment fund company acting on behalf of the investment funds under its management, namely: Quercus Parasolowy SFIO, Quercus Absolute Return FIZ, Quercus Absolutnego Zwrotu FIZ and Acer Aggressive FIZ (Funds), advised that the Funds have jointly increased their share in the total voting power of Selena FM S.A., exceeding the 5% mark in the total number of votes held in the Company.

The table below shows distribution of share capital and voting power among shareholders of the Parent Company as at 7 July 2016.

Shareholder	Share types	Number of shares acquired	Share in registered capital	Number of votes	Share in votes at the AGM
AD Niva Sp. z o.o. *	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%
Quercus Towarzystwo Funduszy Inwestycyjnych S.A. **	Bearer shares	1 367 141	5.99%	1 367 141	5.09%

** entity controlled by Krzysztof Domarecki, Supervisory Board Chairman*
***As at 7 July 2016*

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 14 June 2016, the AGM of Selena FM S.A. adopted a resolution on dividend payment in respect of a part of the Parent Company's profit for 2015 in a total amount of PLN 6,850,200.00, i.e. PLN 0.30 per share. The record date, when the list of shareholders eligible for dividend is determined, was set to 1 August 2016. The shares of all series carry the same dividend rights. The dividend was paid on 16 August 2016.

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	Role	Number of shares held	Nominal value of 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	Vice-President of the Management Board	6 000	300
Marcin Macewicz	Management Board member	600	30

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

5.8 Equity-based remuneration programmes

In 2015, no equity based remuneration programmes were in operation.

5.9 Information on the audit of the financial statements

On 25 May 2016, 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 2016 and 2017. The audit agreement was concluded on 6 July 2016.

MANAGEMENT BOARD'S ASSURANCE STATEMENT ON RELIABILITY OF THE FINANCIAL REPORT

The Management Board of Selena FM S.A. hereby confirms that to the best of its knowledge the interim condensed financial statements of Selena FM S.A. and the interim condensed consolidated financial statements of Selena Group FM for the period of 6 months ended 30 June 2016 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 Group and their financial performance and that the Management Board's report on activities 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 financial statements of Selena FM S.A. and the interim condensed consolidated financial statements of Selena Group for the period of 6 months ended 30 June 2016 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.

Management Board Member

………………………………
Andrzej Feruga

Management Board Member

………………………………
Marcin Macewicz