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## SELENA FM S.A.

MANAGEMENT BOARD'S REPORT ON THE COMPANY'S  
ACTIVITIES FOR 2015

Wrocław, 21 March 2016

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## **1. CHARACTERISTICS OF THE COMPANY'S OPERATIONS**

### **1.1. Key details of the Company**

Selena FM S.A. having its registered office at ul. Strzegomska 2-4 in Wrocław is entered in the business register of the National Court Register kept by the District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register under KRS no. 0000292032.

The Company was formed through conversion of the limited liability company Selena FM sp. z o.o. into a joint stock company, approved by the Extraordinary General Meeting on 26 September 2007. On 31 October 2007, the new entity was registered in the National Court Register by the District Court for Wrocław-Fabryczna in Wrocław. The Company received statistical number REGON 890226440. Its duration is indefinite (it is a going concern).

On 18 April 2008, the Company debuted on Warsaw Stock Exchange.

Selena FM S.A. has no branches.

### **1.2. Products and services**

The core business of Selena FM S.A. as the parent entity in Selena FM Group 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. The Company is responsible for strategic management of Selena Group, which comprises the entities referred to in section 1.4.

### **1.3. Distribution markets**

Selena FM S.A. generates 93% of its sales in transactions with related parties (vs. more than 91% in 2014).

Sales are generated in Poland (up to PLN 23m) and abroad, mainly in the geographies where the Group-owned companies are located. The Company's tangible assets are located in Poland.

The subsidiaries which contribute more than 10% to total sales of the Company include Selena Vostok OOO (52%) and Selena Ca LLP (14%).

### **1.4. Connected companies and equity investments**

The stake in share capital and the book value of the individual investments are presented in the table below.

Entity	Reg. Office	Activity	Share in capital		Book value of shares	
			31 December 2015	31 December 2014	31 December 2015	31 December 2014
Selena S.A.	Wroclaw	Distributor	100.00%	100.00%	62 781	62 781
Carina Silicones Sp. z o.o. (dawniej Carina Sealants Sp. z o.o. S.K.A.)	Siechnice	Manufacturer of sealants, distributor	-	100.00%	0	2 069
Selena Labs Sp. z o.o.	Siechnice	R&D	99.65%	99.65%	1 400	1 400
Orion PU Sp. z o.o. (dawniej Orion Polyurethanes Sp. z o.o. S.K.A.)	Dzierżonów	Manufacturer of foams, adhesives, distributor	-	99.95%	0	8 174
Libra Sp. z o.o.	Dzierżonów	Manufacturer of sealants, adhesives, distributor	-	100.00%	0	5 589
Tytan EOS Sp. z o.o.	Wroclaw	Manufacturer of loose materials	100.00%	100.00%	4 007	4 007
PMI "IZOLACJA - MATIZOL" S.A.	Gorlice	Manufacturer of roof coverings, hydroinsulation, distributor	100.00%	100.00%	17 852	17 852
Orion Polyurethanes Sp. z o.o.	Dzierżonów	Legal administration	100.00%	100.00%	8	8
Carina Sealants Sp. z o.o.	Siechnice	Legal administration	100.00%	100.00%	8	8
Selena Industrial Technologies Sp.z o.o.	Warsaw	Operational administration	100.00%	-	15 872	-
Selena Deutschland GmbH	Hagen	Distributor	100.00%	100.00%	4	4
Selena Italia srl	Limena	Distributor	100.00%	100.00%	0	0
Selena Iberia slú	Madrid	Manufacturer of sealants and adhesives, distributor	100.00%	100.00%	20 565	20 565
Selena USA Inc.	Holland	Distributor	100.00%	100.00%	0	0
Selena Sulamericana Ltda	Curitiba	Manufacturer of foams, distributor	95.00%	100.00%	3 594	3 783
Selena USA Specialty Inc	Holland	Property management and distribution	100.00%	100.00%	1 300	1 300
Selena Romania SRL	Ilfov	Distributor	100.00%	100.00%	0	0
Selena Bohemia s.r.o	Prague	Distributor	100.00%	100.00%	0	0
Selena Hungária Kft.	Pécs	Distributor	100.00%	100.00%	0	0
Selena Bulgaria Ltd.	Sofia	Distributor	100.00%	100.00%	0	0
Chemistry for Building s.r.o. (dawniej Selena Slovakia s.r.o.)	Nitra	Distributor	100.00%	100.00%	0	0
EURO MGA Product SRL	Ilfov	Manufacturer of loose materials	0.13%	0.13%	1	1
Selena Ukraine Ltd.	Kiev	Distributor	99.00%	99.00%	0	0
Selena CA L.L.P.	Almaty	Distributor	100.00%	100.00%	9 029	9 029
TOO Selena Insulations	Astana	Manufacturer of insulation systems	100.00%	100.00%	1 206	1 206
Weize (Shanghai) Trading Co., Ltd.	Shanghai	Distributor	100.00%	100.00%	0	0
Selena Nantong Building Materials Co., Ltd.	Nantong	Manufacturer of foams, distributor	100.00%	100.00%	0	0
Selena Vostok	Moscow	Distributor	99.00%	99.00%	11 197	11 197
Selena Malzemeleri Yapi Sanayi Tic. Ltd.	Istambul	Manufacturer of foams and sealants, distributor	100.00%	100.00%	0	0
					<b>148 824</b>	<b>148 973</b>

1 - Other shares owned by Krzysztof Domarecki (Supervisory Board Chairman of Selena FM S.A.)

2 - Other shares outside the Group

3 - Other shares owned by subsidiary Selena Romania SRL

4 - Other shares owned by subsidiary Selena S.A.

#### Establishment of a new company

On 22 June 2015, Selena Industrial Technologies Sp. z o.o. was entered in the register of entrepreneurs. Selena FM S.A. is the sole shareholders of the entity. The company's share capital is PLN 5k. Establishment of the company was the first phase of the project of streamlining the organisational structure of Selena Group whereby a management structure will be separated for the manufacturing plants in Poland.

#### Increase in the share capital of Selena Industrial Technologies Sp. z o.o.

On 10 November 2015, Selena FM S.A. signed an agreement with Carina Sealants Sp. z o.o. to buy 5 shares in Carina Silicones Sp. z o.o. (formerly Carina Sealants sp. z o.o. S.K.A.) and signed an agreement with Orion Polyurethanes Sp. z

o.o. to buy 1 share in Orion PU Sp. z o.o. (formerly Orion Polyurethanes Sp. z o.o. S.K.A.). As a result of the transactions, the share of the parent company Selena FM S.A. in the registered capital of the above entities was as follows:

- Carina Silicones Sp. z o.o. (formerly Carina Sealants sp. z o.o. S.K.A.) – 100% stake;
- Orion PU Sp. z o.o. (formerly Orion Polyurethanes Sp. z o.o. S.K.A.) – 99.95% stake.

As part of another phase of reorganisation of the management structure of the manufacturing plants in Poland to improve the effectiveness of production, on 10 November 2015, the share capital of Selena Industrial Technologies Sp. z o.o. (SIT) was increased through a non-cash contribution by Selena FM S.A. The contribution included shares of Carina Silicones Sp. z o.o. (formerly Carina Sealants sp. z o.o. S.K.A.), Orion PU Sp. z o.o. (formerly Orion Polyurethanes Sp. z o.o. S.K.A.) and Libra Sp. z o.o. The value of the increased share capital is PLN 340,700k, including 6,814,000 new shares with a minimum nominal value of 50.00 each. On acquisition of the new shares, Selena FM S.A. holds 100% stake in the registered capital of Selena Industrial Technologies Sp. z o.o., and the nominal value of all the shareholdings of Selena FM S.A. will amount to PLN 340,705k. The valuation of the companies whose shares were contributed was performed based on a valuation prepared by an independent advisor. The book value of the shares contributed in-kind to Selena Industrial Technologies spółka z o.o. is PLN 15,868k.

As a result of the transaction, Selena Industrial Technologies Sp. z o.o. became an owner of 100% stake in Carina Silicones Sp. z o.o. (formerly Carina Sealants sp. z o.o. S.K.A.), and 99.95% stake in Orion PU Sp. z o.o. (formerly Orion Polyurethanes Sp. z o.o. S.K.A.) as well as owner of 100% stake in Libra Sp. z o.o.

#### Cancellation of shares in the subsidiary Selena Industrial Technologies Sp. z o.o.

On 14 December 2015, due to occurrence of the event specified in the Articles of Selena Industrial Technologies Sp. z o.o. that triggered automatic share cancellation, 1,005,282 shares in the company's share capital with a total nominal value of PLN 50,264k were cancelled. As a result, in accordance with the Deed of Incorporation of Selena Industrial Technologies Sp. z o.o., the parent company Selena FM S.A. received remuneration of PLN 50,264k for the shares cancelled. The remuneration was paid before the end of 2015.

#### Other events

On 28 January 2015, Selena FM S.A. signed an agreement with its subsidiary Selena S.A. to sell 3,700 in Selena Sulamericana Ltda., which is 5% of the company's share capital.

On 20 April 2015, Virgo Project Sp. z o.o. was renamed as Selena Marketing International Sp. z o.o. The change is connected with expansion of the company's operations to include marketing services rendered to Selena Group.

On 26 June 2015, a share capital increase of EUR 807k in Selena Slovakia s.r.o. was registered. The company used the proceeds to repay its trade liabilities and loans, mainly to Selena FM S.A.

On 1 July 2015, the following subsidiaries had their legal form changed:

- Carina Sealants sp. z o.o. S.K.A. was renamed as Carina Silicones Sp. z o.o.
- Orion Polyurethanes sp. z o.o. S.K.A. was converted to Orion PU Sp. z o.o.

On 22 September 2015, the subsidiary Selena Slovakia s.r.o. was renamed as was renamed as Chemistry for Building s.r.o.

Full structure of the Group, including the Company's indirect affiliates, is presented in the consolidated financial statements of Selena FM Group for 2015.

### 1.5. Key developments

The information on loan agreements and investments into related parties are described in other sections of this report. The key developments for Selena FM Group were described in the Management Board's report on the activities of Selena FM Group.

### 1.6. Achievements in research and development

Selena FM S.A. does not carry out R&D activity directly. R&D is co-ordinated by the subsidiary Selena Labs Sp. z o.o. and the research units in the subsidiaries that carry out production activity (in Spain, Turkey and China, in addition to Poland).

### 1.7. Description of risks and threats

Selena FM S.A. as a holding entity is not exposed to any specific risks or threats. The risk factors and threats that the Group as a whole is exposed to were described in the Management Board's report on the activities of Selena FM Group for 2015.

### 1.8. Expected development of the Company

Development of the Company is based on the adopted and communicated strategy for the years 2015 – 2016, which was updated for 2015 and 2016 to reflect the situation in the Eastern markets (in Russia, Ukraine and Kazakhstan). The Company is to continue as a centre responsible for planning and coordinating Selena Group's operations world-wide.

In 2016, Selena FM S.A. is to focus on implementation of its key strategic programmes in the following areas:

- **Product competitiveness** - further development of competitiveness of innovative products in cooperation with the end users, including in the mature markets of Western Europe.
- **Business development** – further development of the business line and proposition of the hydro-insulation division; intensification of sales in the markets of Western Europe and South & North America; consolidation of market position in the segment of adhesives and sealants world-wide.
- **Continued improvement of operational effectiveness** – full implementation of the integrated ERP-class system in the Polish Group companies and preparation of roll-out to the Group companies in other countries.
- **Continued improvement of financial performance** – continuation of the solutions designed to hedge the Group's FX exposures and thus reducing the impact of FX differences on the net profit.

### 1.9. Investment plans

The Company's investments in 2016 are mainly connected with financing and capital support for its subsidiaries. The level of investment depends on the current and expected performance of the subsidiaries and their capex plans. Since the beginning of 2015, the key investment project in Selena FM S.A. and the whole Group is the implementation of the ERP-class system based on Microsoft Dynamics AX 2012. The Company also remains willing to consider acquisitions should an attractive opportunity arise. The Group's investment plans are presented in Note 1.12 of the Management Board's report on the Group's activity for 2015.

## 2. FINANCIAL POSITION

### 2.1. The Company's revenue and earnings

Data in PLN thousand	2015	2014	Change	Change %
Revenue from sales	352 359	405 347	-52 988	-13%
Cost of sales	311 397	359 793	-48 396	-13%
Gross profit on sales	40 962	45 554	-4 592	-10%
Selling and marketing costs	21 373	20 926	447	2%
General and administrative expenses	17 553	15 942	1 611	10%
Other operating profit (loss)	-27 566	-16 248	-11 318	-
EBITDA – operating profit + depreciation / amortisation	-23 321	-5 339	-17 982	-
Operating profit (loss) (EBIT)	-25 530	-7 562	-17 968	-
Net finance income	69 200	-12 430	81 630	-
Profit (loss) before tax	43 670	-19 992	63 662	-
Profit (loss) after tax	43 498	-21 448	64 946	-
Total comprehensive income	43 498	-21 448	64 946	-

*EBITDA – operating profit + depreciation/amortisation*

In 2015, total sales fell by 13% as a result of lower sales to the subsidiaries located in eastern markets: in Russia and Kazakhstan.

In 2015, gross profit fell by PLN 4.6m compared with the previous year, while gross profit margin increased by 0.4 pp. The higher gross profit margin achieved by Selena FM S.A. is an aggregate effect of marketing of new, high-margin products and lower raw material costs for most product groups.

In 2015, cost of sales increased by PLN 0.4m driven by costs associated with offsetting the decrease in sales in Eastern markets with sales in developed countries.

At the end of 2015, general and administrative expenses were PLN 17.5m, which is PLN 1.6m higher than last year. One of the drivers of these costs was development of the sales structure of the insulation systems division (ETICS) and the hydro-insulation division as well as development of the strategy, quality and treasury departments.

In 2015, Selena FM generated a loss on other operations of -PLN 27.6m. The Management Board analysed the potential to recover the assets invested in subsidiaries. On this basis, appropriate impairment charges were posted for receivables. The loss was primarily affected by impairment charges posted on trade receivables (PLN 24.4m in total), including: Selena Iberia slr- PLN 10.7m, Selena Romania SRL – PLN 5.9m, Selena Sulamericana Ltda – PLN 4.6m, Selena USA Inc. – PLN 0.8m, Selena Nantong Building Materials Co. Ltd – PLN 0.7m, Selena Bulgaria Ltd. – PLN 0.6m, Selena Ukraine Ltd. – PLN 0.5m, Selena Italia srl– PLN 0.4m.

These charges did not have any impact on the Group's consolidated result for 2015.

The result on financial activity was PLN 69.2m. Key items of financial revenues included: dividends and shares in profits of PLN 22.5m; interest on loans and bonds of PLN 4.7m; FX gains of PLN 1.3m and reversed impairment write-downs on loans of PLN 1.6m. The key revenue item under this line was the revenue from cancellation of shares in the share capital of the subsidiary Selena Industrial Technologies Sp. z o.o. (PLN 50.3m).

Net financial income was reduced by financial expenses of PLN 11.9m, including loan interest of PLN 2.4m, impairment write-down on shares of PLN 3.3m, impairment write-down on loans of PLN 3.9m and a loss on exercise of derivative instruments of PLN 1.9m. These charges did not have any impact on the Group's consolidated result for 2015.

## 2.2. The Company's key balance sheet figures

Data in PLN thousand	31 December 2015	31 December 2014	Change	Change %
Shares in subsidiaries	148 824	148 973	-149	0%
Loans granted, bonds purchased, equity contributions	167 920	70 701	97 219	138%
Trade receivables	133 399	149 544	-16 145	-11%
Cash	4 815	5 163	-348	-7%
Other assets	39 590	36 181	3 409	9%
<b>Total assets</b>	<b>494 548</b>	<b>410 562</b>	<b>83 986</b>	<b>20%</b>
Equity	273 700	236 596	37 104	16%
Bank loans	137 445	78 802	58 643	74%
Trade liabilities	78 490	89 041	-10 551	-12%
Other liabilities	4 913	6 123	-1 210	-20%
<b>Total equity and liabilities</b>	<b>494 548</b>	<b>410 562</b>	<b>83 986</b>	<b>20%</b>
Debt ratio*	45%	42%		

\* Total liabilities/ Total equity and liabilities

The balance sheet total at the end of 2015 was PLN 494.5m, up by nearly PLN 84m on the balance sheet total posted at the end of 2014. The growth was mainly driven by bank loans (up PLN 44.9m) and equity (up PLN 37.1m).

## 2.3. Cash flows of the Company

Data in PLN thousand	2015	2014	Change
Net cash flows from operating activities	-26 893	-10 664	-16 229
Net cash flows from investing activities	-32 301	-33 461	1 160
Net cash flows from financing activities	59 959	14 177	45 782
<b>Change in cash and cash equivalents</b>	<b>765</b>	<b>-29 948</b>	<b>30 713</b>

Cash flows from operating activities were PLN 26.9m, up PLN 16.2m vs. 2014.

The cash flows from investing activities of -PLN 32.3m were connected with the provision of loans of PLN 17.0m (net) to subsidiaries and acquisition of PLN 60.9m worth of bonds as well as the spend on the investment into ERP. The Company received remuneration of PLN 50.3m for the cancelled shares in its subsidiary Selena Industrial Technologies sp. z o.o.

The inflows of cash from financing activities of PLN 60.0m result from an excess of the bank debt incurred (PLN 92.6m) over repayment of banks loans (PLN 23.5m). The Company repaid financial leases of PLN 0.5m and paid interest of PLN 2.2m.



## 2.4. Loans received

Ref	Loan type	Maturity date	31 December 2015		31 December 2014	
			Long-term portion	Short-term portion	Long-term portion	Short-term portion
1	Working capital loan	06/2016	0	53 606	11 515	0
2	Working capital loan	07/2016	0	12 312	14 793	0
3	Working capital loan	01/2017	0	0	24	20 885
4	Working capital loan	02/2018	58 728	0	9 169	0
5	Loan	12/2016	0	6 220	0	6 400
6	Loan	12/2018	2 450	0	6 451	0
7	Loan	12/2019	0	0	3 000	130
8	Loan	12/2019	1 500	130	1 500	0
9	Loan	12/2019	1 705	45	1 705	33
10	Loan	12/2019	749	0	3 197	0
<b>Total loans</b>			<b>65 132</b>	<b>72 313</b>	<b>51 354</b>	<b>27 448</b>

\* LT portion of the loan agreements for which the consolidated covenants were not met at the balance sheet date (see Note 28.3)

Details of the lending terms are presented in Note 27 of the Company's financial statements for 2015.

As part of the loan agreements signed by the Parent Company separately or jointly with its subsidiaries, Selena FM undertook to maintain certain financial ratios at the levels agreed with banks. As at the balance sheet date, Selena Group did not meet the DSCR (Debt Service Cover Ratio) covenant under the loan agreement with EBRD. In 2015, Selena Group maintained other consolidated financial ratios at the levels required by the lenders.

## 2.5. Loans granted and bonds purchased

To ensure funding for its subsidiaries, the Company purchases their bonds and provides them with loans.

The table below presents a summary of changes to the financing extended to other companies in 2015.

Type of connection	Data in PLN thousand	31 December 2014	Principal		Interest		Valuation	Write-down	31 December 2015
			Increase	Decrease	Accrued	Paid			
	Bonds	35				-35			
	Loans								
Subsidiaries	Gross value	116 504	39 281	-3 845	3 240	-600	1 037		155 617
	Impairment charge	-45 838	-3 934	1 518			-346		-48 600
	Net value	70 666	39 281	-3 845	3 240	-600	1 037	-2 762	107 017
Other connected entities	Bonds		60 850	-150	1 239	-1 186			60 753
Non-connected	Valuation of financial derivatives						150		150
<b>TOTAL</b>		<b>70 701</b>	<b>100 131</b>	<b>-3 995</b>	<b>4 479</b>	<b>-1 821</b>	<b>1 187</b>	<b>-2 762</b>	<b>167 920</b>

including long-term: 66 483

158 128

Details of the financing provided to subsidiaries were presented in detail in Note 18 of the Company's financial statements for 2015.

On 24 June 2015, the Management Board of Selena FM S.A. accepted the proposal from AD Niva sp. z o.o to take up bonds with a maximum value of PLN 60m. In accordance with the proposal, AD Niva sp. z o.o. is going to issue unsecured, registered bonds solely to one buyer – Selena FM S.A. The bonds may be issued in several tranches. The issue price of a single bond is PLN 500k. The bonds' nominal value corresponded to their issue price. The interest rate on the bonds is 6.7% p.a. The bonds will be redeemed at the nominal value by 31 December 2017. The acquired assets were financed from the Company's equity. Until 31 December 2015, Selena FM S.A. acquired PLN 60m worth of bonds.

AD Niva sp. z o.o. has 50.5% votes at the General Meeting of Selena FM S.A. Krzysztof Domarecki, Chairman of Supervisory Board of Selena FM S.A., is the sole shareholder of AD Niva sp. z o.o. Krzysztof Domarecki, Chairman of Supervisory Board of Selena FM S.A., is the sole shareholder of AD Niva sp. z o.o.

## **2.6. Guarantees and off-balance sheet items**

The guarantees the Company extended to other entities, including its subsidiaries are presented in Note 28 of the Company's financial statements for 2015.

The Company does not grant guarantees for the obligations of non-connected entities.

## **2.7. Financial instruments and financial risk management principles**

The Company's financial instruments are presented in detail in Note 35 of the Company's financial statements for 2015.

The Company's risk financial risk management principles (covering FX risk, interest rate risk, credit risk and liquidity risk) are presented in detail in Note 34 of the Company's financial statements for 2015.

## **2.8. Assessment of financial resources management**

The Company meets its financial obligations in a timely manner and has no liquidity problems. In the Management Board's opinion, there are no risks to the Company's capacity to service its obligations in a timely manner.

# **3. OTHER INFORMATION**

## **3.1. Material agreements**

The agreements concluded in 2015 and deemed material for the Company's financial position, include bank loan agreements (Note 2.4), agreements connected with the financing for subsidiaries (Note 2.5) and guarantee agreements with subsidiaries (Note 2.6).

The Group's material agreements were described in detail in the consolidated report on the Group's activities for 2015 (Note 3.1).

## **3.2. Related party transactions**

In 2015, the Company and its subsidiaries entered into business-as-usual transactions. The terms of the transactions were market-based and resulted from the current activities. These transactions, and the transactions concluded with the Company's Directors, are presented in detail in Notes 31 and 32 of the Company's financial statements for 2015.

## **3.3. Issue of securities**

In 2015, the Company did not issue any securities.

### **3.4. Acquisition of own shares**

The Company did not have any treasury shares either as at 31 December 2015 or at the date of publication of this report. The list of the Company's shares held by the executive and non-executive directors of the Parent are presented in Note 3.11 of this report.

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 could be purchased by 30 June 2014. For the purpose of the resolution, in 2012 a reserve capital of PLN 8m was set up (from the supplementary capital). The Management Board did not purchase own shares as the programme's triggering criteria were not met.

### **3.5. Delivery of forecasts**

The Company did not publish its stand-alone forecasts for 2015.

### **3.6. Litigations**

The Company is not involved in any court, arbitration or administration proceedings whose value would be at least 10% of the Group's equity.

### **3.7. Unusual events and factors**

Unusual events and factors affecting the Company's business are described in Notes 2.1-2.3 Unusual Events and Factors Affecting the Group of the Management Board's Report on the Group Activities in 2015.

### **3.8. Changes to the governance principles**

In 2015, no major changes were made to the rules of managing the Group. The governing body set up in 2014 – the Executive Board – dealt with operational aspects relating to the conduct of the Group's business. As on 21 September 2015, Robert Konaszewski was dismissed as Vice-President of the Management Board, his role was taken over by the Management Board President.

### **3.9. Agreements with directors**

Neither the Parent Company nor the subsidiaries entered into any material agreements with members of the Company's executive or non-executive directors whose effects would not be disclosed in the financial statements of the Parent Company or the Group.

### **3.10. Remuneration of the Management Board and the Supervisory Board**

The remuneration of the Management and the Supervisory Board members of the Company is described in Note 32 of the Company's financial statements for 2015.

### **3.11. Shareholdings by executive and non-executive directors**

The table below shows a summary of the shareholdings in the Company by executive and non-executive directors as at the date of publication of this report.

Name	Role	Number of shares held	Nominal value (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

Krzysztof Domarecki also holds 0.35% stake in Selena Labs sp. z o.o.

### 3.12. Agreements affecting changes in the proportion of shareholdings

The Company is not aware of any agreements that in the future might affect the proportion of shareholdings of the existing shareholders.

### 3.13. Control of Employee Share Programmes

In 2015, no employee shares programmes were in place in the company.

### 3.14. Information on the audit of the financial statements

On 23 May 2014, the Supervisory Board of Selena FM S.A. resolved to appoint Deloitte Polska sp. z o.o. as the auditor responsible for review of the interim financial statements and audit of the annual financial statements of the Parent Company, and the Group's consolidated financial statements for 2014 and 2015. The audit agreement was concluded on 18 June 2014.

## 4. CORPORATE GOVERNANCE PRINCIPLES

### 4.1. Corporate Governance Principles applied

In 2015, the Company adopted the Corporate Governance principles approved by the Resolution of the Stock Exchange Council no. 19/1307/2012 of 21 November 2012. Full text of the principles is published at:

[http://www.corp-gov.gpw.pl/assets/library/polish/regulacje/dobre\\_praktyki\\_16\\_11\\_2012.pdf](http://www.corp-gov.gpw.pl/assets/library/polish/regulacje/dobre_praktyki_16_11_2012.pdf)

At the same time, the Company tries to apply in practice European Commission Recommendation No 2054/208 of 9 April 2014 on the quality of corporate governance reporting ("comply or explain" approach).

### 4.2. Exceptions to the Corporate Governance Principles

The Company's Management Board hereby declares that in 2015 the Company complied with the corporate governance principles presented in the Code of Best Practice for the WSE Listed Companies, except:

- (i) principle no. I.12 – giving shareholders the possibility to exercise - personally or by proxy - the right of vote at the General Meeting by using remote means of electronic communication.
- (ii) principle II.1 point 7) regarding publication on the website of the shareholders' questions regarding matters included in the agenda, asked before and during the general meeting, with answers thereto.
- (iii) principle no. II. 1 point 9a) regarding the audio or video record of the General Meeting.
- (iv) principle no. IV. 10 – enabling the shareholders to participate in the General Meeting using means of electronic communication.

Principle no. I.12 and principle no. IV.10. - ensuring that the shareholders can actively participate in the General Meeting via means of electronic communication. The Company does not apply these principles and does not intend to apply the same in the near future. The high level of risk arising from technical difficulties or broken connection may result in a shareholder being unable to exercise his/her voting rights. By complying with all the terms applicable to the notice of General Meeting, the Company ensures that its shareholders can participate in such a meeting.

Rule no. II.1 point 7) and no. II. 1 point 9a) are not and will not be applied. The Company does not keep a detailed record (in paper or electronic version) of the course of each General Meeting – such information can be derived from the notarial deed of the General Meeting, but the deed does not contain all the statements made, questions asked and answers given at the General Meeting. Individual matters are put on the General Meeting agenda by the Chairman of the General Meeting taking account of the applicable law, importance of the matter and reasonable demands of the shareholders. As stipulated by the Commercial Companies Code, the participants of the General Meeting have the right to make written statements that are attached to the minutes. The Management Board of the Company believes that such rules ensure transparency of the General Meeting and protect the Company against potential claims of the shareholders who might not wish to have their image or statements published.

At the same time, the Management Board declares that in 2016 the Company adopted and agreed to comply with the Code of Best Practice for the WSE Listed Companies for 2016, introduced by the Resolution of the Warsaw Stock Exchange Council, except for those described in the EBI report no. 1/2016 of 09.03.2016.

#### **4.3. Internal control over financial reporting**

The Company's Management Board is responsible for effective functioning of the system of internal control over financial reporting.

To ensure reliability of its financial accounts, the Company has implemented and has been actively upgrading its internal control and risk management system. The system covers, among others, the following areas:

- Controlling and management accounting
- Accounting, including financial reporting and consolidation
- Forecasting and financial analyses
- Internal audit.

As part of the internal control and risk management system there are organisational solutions and corporate standards/procedures in place that ensure effectiveness of the control over financial reporting and identification / elimination of risks in this area. The following measures should be noted:

- Harmonisation of the accounting policies, financial reporting and accounting procedures
- Application of a standardised financial reporting model for external and internal purposes
- Clear division of roles and responsibilities of the financial functions and the middle and upper management
- Regular and formalised process of reviewing and updating the budget assumptions and financial projections
- Having the financial accounts reviewed and audited by an independent auditor
- Implementation of a common IT platform SAP BI for the all the Group companies
- Conduct of internal review of correctness of financial information prepared by the Group members.

The Finance Director (Vice-President of the Management Board) has oversight over preparation of the financial statements and financial reports of the Company. Preparation of the annual and interim financial statements is the responsibility of the Company's finance function. The Company keeps abreast of the legal developments relating to the stock exchange reporting and makes sure it is prepared for their implementation well in advance.

Each month, upon closing on the books of account, a management report is put together with details on the key financials and ratios for particular business segments. The Management Board and unit managers analyse and discuss the Company's and subsidiaries' performance.

Each quarter, the Company's Management Board verifies the reliability and currency of the annual budgets and internal short-term projections. Where appropriate, the Management Board liaises with the management of the Group companies to review and update the previous budget assumptions.

As required by law, the Company has its financial accounts audited (reviewed) by an independent auditor. The auditor is selected by the Supervisory Board from among the recognised audit firms which ensure high standards of service and professional independence.

The auditor presents the audit (review) results to the Company's Supervisory Board and the Management Board, and then in the auditor's opinion and report. The audit of financial statements also includes verification of the Company's internal control system. The findings, observations and recommendations for improvement of the internal control system stemming from the audit of financial statements are presented to the Company in the form of a Management Letter.

After the balance sheet date, on 1 March 2016, a legal and audit department was set up, reporting directly to the Management Board's President.

#### 4.4. Significant shareholders

According to the Company's knowledge, as at the date of publication of this report, the following shareholders hold the shares which carry at least 5% votes at the General Meeting:

Shareholder	Share type	No. of shares acquired	Share in capital	No. of votes	Share in votes at 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%

\* entity controlled by Krzysztof Domarecki, Supervisory Board Chairman

#### 4.5. Holders of shares with special control rights

No securities exist which would carry any special control rights in the Company.

#### 4.6. Limitations on voting rights

There are no limitations on the exercise of votes from the Company's shares.

#### 4.7. Limitations on transfer of title to the Company's shares

There are no limitations on the transfer of title to the Company's shares.

#### 4.8. Appointment and powers of the Management Board

The Company's Management Board may consist of one to five members appointed for a joint 3-year term of office. The number of the Management Board members is determined by the Supervisory Board. The Management Board members, including the Management Board President, are appointed and removed by the Supervisory Board.

The Management Board led by the Management Board President manages the Company and represents it outside. The authority to represent and bind the Company is vested in two Management Board members acting together or one Management Board member acting jointly with a proxy.

The Company is represented by the Supervisory Board in any contracts between the Company and the Management Board members or in any disputes between the Company and the Management Board members.

Management Board resolutions are adopted by absolute majority of votes of the Management Board members present at the meeting.

The Management Board acts pursuant to the Terms of Reference of the Management Board approved by the Supervisory Board.

Each Management Board member may manage the Company's affairs independently in relation to the ordinary course of the Company's business. Any matters that go beyond the ordinary course of the Company's businesses require a resolution of the Management Board. Also, the Management Board shall adopt resolutions at the request of any single Management Board member. The Management Board shall adopt resolutions on the following matters in particular:

- 1) reports, motions and other matters submitted to the Supervisory Board and the General Meeting
- 2) granting the power of proxy (prokura)
- 3) convening annual and extraordinary General Meetings of Shareholders on its initiative or at a written request of the Supervisory Board or other competent bodies acting in accordance with the applicable laws or the Statutes, and defining the agenda of the General Meeting.

The right to take a decision on the issue or redemption of the Company's shares is regulated by the Commercial Companies Code.

#### **4.9. Amending the Articles of Association**

Any changes to the Company's Statutes require a resolution of the General Meeting adopted by an absolute majority of votes in accordance with Article 415 §. Article 3 and Article 416 §1 of the Commercial Companies Code.

On 29 May 2015, the Articles were last amended, by adding new objects to §4(1):

- 46.72.Z Wholesale of metals and metal ores
- 46.73.Z Wholesale of wood, construction materials and sanitary equipment
- 46.74.Z wholesale of metal products and hydraulic and heating equipment and additional fittings
- 49.41.Z Road transport of goods
- 52.29.A Activity of marine forwarding agencies
- 52.29.C Activity of other forwarding agencies

#### **4.10. General Meeting and the rights of shareholders**

The General Meeting operates pursuant to the Company's Statutes and the Terms of Reference of the General Meeting, which are available to the public. The General Meeting is convened in the Company's registered office or in Warsaw at the date specified in the Company's current reports and on its website. In addition to the shareholders, the General Meeting may be attended by the members of the Management Board and the Supervisory Board, and: directors, officers and other employees of the Company or its subsidiaries invited by the Company's Management Board – when the General Meeting considers an item of the agenda falling within the scope of responsibility of such persons, as well as the experts invited by the authority which convened the General Meeting - when the General Meeting considers an item of the agenda subject to assessment by experts, or – where approved by the Shareholders representing the ordinary majority of votes – when the General Meeting considers other items of the agenda: representatives of the media, other persons – where approved by Shareholders – when the General Meeting considers particular items of the agenda or during the entire General Meeting.

The Terms of Reference of the General Meeting lay down the rules of election of the General Meeting Chairman, the role of the Chairman and the rules of election and the duties of the Ballot Commission. Voting at the General Meeting is open. Secret vote is ordered for: appointment or removal of members of the Company's governing bodies; motions to bring a member of the Company's governing bodies to liability; in personal matters and at the request of at least one authorised voter.

Shareholder rights

1. Shareholders representing at least a half of the share capital or at least a half of the total voting power may convene an Extraordinary General Meeting.
2. The Shareholder(s) representing at least 1/20 of the share capital shall have the right to convene the General Meeting if the General Meeting was not convened at their prior request and the registry court authorised them to convene the same. The court shall appoint the Chairman of the General Meeting so convened.
3. The Shareholder(s) representing at least 1/20 of the share capital may demand that certain items be included in the agenda of the next General Meeting and propose draft resolutions.
4. A Shareholder has the right to receive a certified copy of the Management Board's report on the Company's operations, the financial statements and the auditor's opinion as well as certified copies of the documents indicated in §15 section 2 point a) and point p) of the Company's Statutes. The documents shall be provided to the shareholders on request, no later than 15 days before the General Meeting.
5. The Shareholder shall have the right to demand receipt of certified copies of the proposals on any matters included in the agenda within a week before the General Meeting.
6. The Shareholder has the rights to demand that the list of registered General Meeting participants be forwarded to the indicated e-mail address.
7. The following persons shall have the right to participate in and exercise voting rights at the General Meeting:
  - 1) Shareholders holding registered shares, provided that their names are recorded in the book of shares at least a week before the date of the General Meeting
  - 2) Shareholders who 16 days before the General Meeting date (record date) held on their securities account dematerialised shares in Selena FM S.A.
  - 3) Proxies of the persons specified in point 2) and 3) above.
8. The basic rights and obligations of the persons authorised to vote (Shareholders or their proxies) include:
  - 1) exercising their right of vote in an unrestricted way
  - 2) making formal proposals
  - 3) demanding that a secret vote be held
  - 4) demanding that their objections be recorded in the minutes
  - 5) demanding that their written statements be recorded in the minutes
  - 6) asking questions and demanding explanations from the Management / Supervisory Board members, auditors and experts present at the General Meeting on matters connected with the agenda
  - 7) ensuring compliance with the agenda, applicable laws, Statutes, the Terms of Reference of the General Meeting and the best practice in public companies that the Company has bound itself to observe.
9. At the request of the Shareholders representing at least a fifth of the Company's share capital, the Supervisory Board shall be elected by the next General Meeting through a vote by separate groups. If the Supervisory Board is to be elected through a vote by groups:
  - 1) it is up to the Shareholders to create such groups
  - 2) a Shareholder may belong to one group only
  - 3) the minimum number of shares required to create a separate group is the product of the number of shares represented at the General Meeting and the number of Supervisory Board members to be elected
  - 4) creation of a separate group is reported by the Shareholders to the General Meeting Chairman
  - 5) each separate group chooses their leader who shall hold the election
  - 6) the leader of each group shall prepare and sign the attendance list for the group and then shall proposed candidates for the Supervisory Board members and presents to the General Meeting Chairman the results of the election in his group
  - 7) the General Meeting Chairman shall announce the results of the elections in particular groups and shall determine the number of the Supervisory Board members yet to be elected
  - 8) the Shareholders who did not participate in any of the groups shall elect the remaining Supervisory Board members.
10. Shareholders shall have all the other rights conferred upon them by the Commercial Companies Code.

#### **4.11. Membership of the Management Board and the Supervisory Board**

##### **The Management Board of the Company**

As at 31 December 2015, the 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.

#### Changes in the Management Board in 2015:

As at 31 December 2014, the Company's Management Board was composed of:

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

On 21 September 2015, the Supervisory Board of the Parent Company dismissed Robert Konaszewski from his role as Vice President of the Management Board.

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

#### Company's Supervisory Board

As at 31 December 2015, the Company's Supervisory 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.

#### Changes in the Supervisory Board composition in 2015

As at 31 December 2014, the Company's Supervisory Board was composed of:

- Krzysztof Domarecki – Supervisory Board Chairman
- Andrzej Krämer – Deputy Chairman of the Supervisory Board
- Czesław Domarecki – Supervisory Board Member
- Grzegorz Kostrzyński – Supervisory Board Member
- On 20 April 2015, the Extraordinary General Meeting appointed Sylwia Sysko-Romańczuk to the Supervisory Board.
- On 29 May 2015, the term of the then-existing Supervisory Board of Selena FM S.A. expired. On the same day, the AGEM of Selena FM S.A. appointed a new Supervisory Board for a joint, three-year term of office.

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

As the Supervisory Board consists of 5 person, on 4 December 2009 the Supervisory Board adopted a resolution to delegate to the whole Supervisory Board the responsibilities of the audit committee, as referred to in § 86 section 7 of the Act on Statutory Auditors and their Self-Government, entities entitled to audit financial statements, and the public oversight, dated 7 May 2009. The resolution was implemented in 2015.

## **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 financial statements for 2015 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 its financial performance and that the Management Board's report

on activities gives a true picture of 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 annual financial statements of the Company for 2015 was selected in accordance with the law and that the audit firm and its auditors fulfilled the necessary criteria to be able to issue an unbiased and independent opinion of the financial statements in accordance with the applicable laws and professional standards.

**President of the Management Board**

.....

**Jarosław Michniuk**

**Vice-President of the Management Board  
responsible for finance**

.....

**Krzysztof Kluza**

**Management Board Member**

.....

**Andrzej Feruga**

**Management Board Member**

.....

**Marcin Macewicz**