

A large, stylized globe graphic, similar to the one in the logo, is positioned on the right side of the page. It is composed of horizontal, overlapping, curved segments in shades of white and light blue, creating a 3D effect. The globe is partially obscured by a semi-transparent blue horizontal band that spans the width of the page.

## SELENA FM GROUP

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

Wrocław, 21 March 2016

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## **1. Information about the Group**

### **1.1. Characteristics of the Parent 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.

### **1.2. Management Board of the Parent Company**

As at 31 December 2015, 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.

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

As at 31 December 2014, the Parent 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.

### **1.3. Supervisory Board of the Parent Company**

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 2015

As at 31 December 2014, the Supervisory Board of the Parent Company 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.

#### **1.4. Key products and services**

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
- Building insulation systems
- 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 and ARTELIT.

The Group has manufacturing plants in Poland, Spain, Turkey, China, Brazil, Kazakhstan and Romania, with distribution companies present in 16 countries in Europe, Asia and both Americas. 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.

#### **1.5. Distribution markets**

For management purposes, the Group has identified 3 geographic segments: European Union (including: Poland and Spain), Eastern Europe and Asia (including Russia and China) and North and South America (the USA and Brazil).

See Note 1.6.1 for a detailed structure of the individual segments, and Note 1.6.1 for a share in sales of the individual segments in the Group sales.

Due to the nature and geographic scale of the business, both the Group's suppliers and buyers are diversified – the share of individual entities in the Group's total purchasing or sales does not exceed 10%.

#### **1.6. Group composition, related parties and equity investments**

##### **1.6.1. Group structure**

The table below shows the ownership and organisational structure of the Group and division into operating segments.

The data are presented as at 31 December 2015 and 31 December 2014.

No changes in the Group structure occurred between the balance sheet date and the date of publication of this report.

All the companies in the table are consolidated using the full (line-by-line) method, except the associated company Hamil - Selena Co. Ltd., which is consolidated using the equity method. Selena Co. Ltd, which is consolidated using the equity method.

Region	Country	Entity	Reg.Office	Activity	Group's Share		Owner	
					31 December 2015	31 December 2014		
Unia Europejska	Poland	Poland		Wroclaw	Group Head Office			-
				Wroclaw	Distributor	100,00%	100,00%	FM
				Dzierżoniów	Manufacturer of foams, adhesives, distributor	99,95%	99,95%	SIT 1
				Siechnice	Manufacturer of sealants, distributor	100,00%	100,00%	SIT
				Dzierżoniów	Manufacturer of sealants, adhesives, distributor	100,00%	100,00%	SIT
				Gorlice	Manuf. of roof coverings, hydroinsulation, distributor	100,00%	100,00%	FM
				Wroclaw	Manufacturer of loose materials	100,00%	100,00%	FM
				Siechnice	Research and Development	99,65%	99,65%	FM 1
				Wroclaw	Intellectual property management	100,00%	100,00%	SA
		Dzierżoniów	Legal administration	100,00%	100,00%	FM		
		Siechnice	Legal administration	100,00%	100,00%	FM		
		Warsaw	Production management	100,00%	-	FM		
		Spain		Madrid	Manufacturer of sealants and adhesives, distributor	100,00%	100,00%	FM
	Western Europe	Italy		Limena	Distributor	100,00%	100,00%	FM
		Germany		Hagen	Distributor	100,00%	100,00%	FM
		Czech Republic		Prague	Distributor	100,00%	100,00%	FM
	Central and Eastern Europe	Romania		Ilfov	Distributor	100,00%	100,00%	FM
				Ilfov	Manufacturer of adhesives and cement mortars	100,00%	100,00%	ROM
		Hungary		Pécs	Distributor	100,00%	100,00%	FM
Bulgaria			Sofia	Distributor	100,00%	100,00%	FM	
Slovakia			Nitra	Distributor	100,00%	100,00%	FM	
E. Europe and Asia	Eastern Europe	Russia		Moscow	Distributor	100,00%	100,00%	FM 2
				Moscow	Distributor	100,00%	100,00%	SA
				Almaty	Distributor	100,00%	100,00%	FM
		Kazakhstan		Astana	Manufacturer of insulation systems	100,00%	100,00%	FM
				Astana	Manufacturer of dry mortars	100,00%	100,00%	CA
		Ukraine		Kiev	Distributor	100,00%	100,00%	FM 2
	Asia	China		Shanghai	Distributor	100,00%	100,00%	FM
			Nantong	Manufacturer, distributor	100,00%	100,00%	FM	
			Foshan	Manufacturer of sealants, distributor	84,57%	84,57%	SA 1	
S.Korea			Kimhae	Manufacturer of foams	30,00%	30,00%	SA 3	
Middle Eas		Turkey		Istambul	Man. of foams and sealants, distributor	100,00%	100,00%	FM
			Istambul	Distributor	100,00%	100,00%	SA 2	
N & S America	N & S America	Brazil		Curitiba	Manufacturer, distributor	100,00%	100,00%	FM 3
		USA		Holland	Distributor	100,00%	100,00%	FM
			USA		Holland	Property management	100,00%	100,00%

\* renamed on 20 April 2015 - previous name Virgo Project Sp. z o.o.

\*\* Change of legal form on 1 July 2015 from Orion Polyurethanes Sp. z o.o. SKA

\*\*\* Change of legal form on 1 July 2015 from Carina Sealants Sp. z o.o. SKA

\*\*\*\* renamed on 22 September 2015 - previous name Selena Slovakia s.r.o.

#### Explanations to the "Owner" column

FM - 100% stake owned by Selena FM

FM 1 - shares are owned by Selena FM, other shares are owned by Krzysztof Domarecki (Supervisory Board Chairman of Selena FM)

FM 2 - shares are owned by Selena FM (99%) and Selena Co. (1%)

FM 3 - shares are owned by Selena FM (95%) and Selena SA (5%)

SIT - 100% stake owned by Selena Industrial Technologies Sp. z o.o.

SIT 1 - shares are owned by Selena Industrial Technologies Sp. z o.o. (99.95%), the remaining state is outside the Group

SA - 100% stake owned by Selena SA

SA 1 - shares are owned by Selena SA, the remaining shares are held outside of the Group

SA 2 - shares are owned by Selena SA (85%) and Carina Silicones Sp. z o.o. (15%)

SA 3 - associate – shares are owned by Selena SA udziałów jest Selena SA

ROM - 99.87% shares owned by Selena Romania, other shares held by Selena FM

CA - 100% stake is owned by Selena CA L.L.P.

### **1.6.2. Changes in the Group structure**

#### **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% share of the registered capital.
- Orion PU Sp. z o.o. (formerly Orion Polyurethanes Sp. z o.o. S.K.A.) – 99.95% share of the registered capital.

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 Carina Silicones Sp. z o.o.**

On 9 December 2015, the Extraordinary General Meeting of Carina Silicones Sp. z o.o. decided to cancel 2,475 shares in the company's share capital with a total nominal value of PLN 247.5k, held by Selena Industrial Technologies Sp. z o.o. The shares were cancelled voluntarily, with the shareholder's consent, following their purchase by the company. The total remuneration for the shares cancelled was PLN 11,597k. The remuneration was paid before the end of 2015. The funds earmarked for payment to the shareholder for the shares cancelled came from the clean profit generated by the company. The share cancellation did not entail reduction of the share capital.

#### **Cancellation of shares in the subsidiary Orion PU Sp. z o.o.**

On 9 December 2015, the Extraordinary General Meeting of Orion PU Sp. z o.o. decided to cancel 3,228 shares in the company's share capital with a total nominal value of PLN 322.8k (3,226 shares held by Selena Industrial Technologies Sp. z o.o. and 2 shares held by a minority shareholder). The shares were cancelled voluntarily, with the shareholders' consent, following their purchase by the company. The total remuneration for the shares cancelled was PLN 38,691k (including: PLN 38,667k paid to Selena Industrial Technologies Sp. z o.o. and PLN 24k paid to the minority shareholder). The remuneration was paid before the end of 2015. The funds earmarked for payment to the shareholders for the shares cancelled came from the clean profit generated by the company. The share cancellation did not entail reduction of the share capital.

#### **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 Chemistry for Building s.r.o.

### **Changes after the balance sheet date**

No changes in the Group structure occurred between the balance sheet date and the date of publication of this report.

#### **1.6.3. Financing investments**

Investments were funded from equity, subsidies and bank loans. See Note 2.5 for details.

#### **1.6.4. Branches**

Selena FM S.A. has no branches.

### **1.7. Key developments**

#### **1.7.1. Execution of Selena Group's strategy in 2015**

Due to the continued difficulties in the Eastern markets, Selena Group shifted its focus onto mature markets. To this end, new and technologically advanced products were prepared and work commenced on development of new product categories. In addition, the sales organisation started to be adjusted to support more intensive business in the markets of Eastern Europe and both Americas.

#### **1.7.2. Dividend**

On 29 May 2015, the AGM of Selena FM S.A. adopted a resolution on dividend distribution in respect of 2014 in a total amount of PLN 6,393,520.00, i.e. PLN 0.28 per share. The record date, when the list of shareholders eligible for dividend is determined, was set to 15 June 2015. The shares of all series carry the same dividend rights. The dividend was paid on 30 June 2015 from the Company's supplementary capital.

#### **1.7.3. Rankings, awards and recognitions**

##### **Selena SA as a leader in the Polish market of wood joinery**



In October 2015, Selena SA (Poland) was recognised – another year in a row – with the title of Wood Joinery Market Leader, in the segment of Foams and Silicones. The award is conferred on the basis of market analyses conducted by the Industry Analyses Centre (Centrum Analiz Branżowych) for the *Forum Branżowe* monthly. The purpose of the award is to recognise the companies that record outstanding sales results in the Polish market of wood joinery.

### **TYTAN No. 3 in Brazil**

TYTAN Pro 30 straw polyurethane foam is the third most recognisable foam in Brazil. According to the annual industry ranking published by REVENDA, TYTAN advanced by 2 places vs. 2014.

### **5 TopBuilders 2016 for Selena in Poland**

On 10 December in Warsaw, Selena SA (Poland) received further TopBuilder awards – one of the most prestigious industry awards in Poland, increasing its collection of the statuettes to 35. No other Polish company participating in the eight editions of the competition has been able to achieve such a result. The competition recognised construction products and solutions of the highest quality, as well as projects that employed modern architectural, structural, material and technological solutions and IT products that are used for architecture and construction. The TopBuilder title and statuette is also awarded to the financial services and products as well as projects, initiatives and programmes from the construction sector.



### **Pro Tool Innovation for Selena USA for its revolutionary technology**

Selena ISA was awarded for two foam adhesives based on gel technology.. As well as having excellent filling properties, the product formulation is particularly efficient. This is why a typical American 29oz Subfloor cartridge may replace as many as twelve traditional 28oz adhesive cartridges and a single 12oz Outdoor & Landscape cartridge may replace a box of traditional 10oz stone adhesives.



#### **1.7.4. Group promotion**

### **Krzysztof Domarecki hailed the “Visionary of International Expansion”**

Krzysztof Domarecki, founder and Chairman of the Supervisory Board of Selena FM Group, was honoured with the special award for the “Visionary of International Expansion” in the competition “Polish Firm – International Champion”, organised by PwC Poland and the *Puls Biznesu* magazine . A total of six recognitions were awarded in this year’s fourth edition of the event. The award gala took place in Warsaw on 2 December 2015.



### **Selena at the Polish-Chinese Economic Forum in Shanghai**

During the Economic Forum, honoured by the presence of the President of Poland Andrzej Duda, Selena presented its activity as an example of cooperation between Poland and China and a case study of a Polish firm doing business in the Middle Kingdom. A presentation of Selena’s activities in China was made by Jakub Stępień – Head of Research and Development of Selena Nantong, the Chinese arm of Selena Group. The meeting was also attended by JK Tan, Managing Director of Selena Nantong Building Materials Co. Ltd.

#### **1.7.5. Corporate Social Responsibility**

### **Intelligent Start Foundation**

As one of the founders of the Intelligent Start Foundation, Selena FM S.A. continues the organisation’s statutory mission. The foundation seeks to support professional development of young Poles and foreign expansion of Polish companies.



### Supporting the development and entrepreneurship of students

The PWRacing Team, supported by Selena, closed its successful racing season and started working on a new car. In October, selected persons took part in a special training course in Cologne, Germany. Optimum G, a company employing Formula 1 engineers, instructed the participants how to set up a car for optimum racing performance.

### Supporting the development of amateur musicians

Selena supported the statutory activities of the Lower-Silesian Musical Association (Dolnośląskie Towarzystwo Muzyczne), which promotes musical development among amateurs and encourages people to engage in music without having a formal educational background in this area.

#### 1.7.6. Other significant events

In 2015, no significant events occurred for the Group other than those described in this report or in the Group's financial report for 2015.

### 1.8. Development of R&D operations

The Group's R&D activity is carried out by Selena Labs sp. z o.o. and through the labs in China, Spain, Turkey and Brazil. The experts working in Selena Labs mainly prepare recipes for new products and deal with technical support for the Group companies. The company prepares new formulations of adhesives, sealants, hydro-insulation products and single-component polyurethane foams. At the beginning of 2015, the company became responsible for development of dry mortars and mineral adhesives.

In 2015, the key activities of Selena Labs w 2015 involved cost optimisation of formulations and research into a new group of foam adhesives. The range of mounting adhesives was expanded to include hybrid adhesives based on silanised polyurethanes. Such adhesives are characterised by a strong initial grip and a strong bond.

The range of R&D activities has been expanded significantly to include:

- analysis of product properties (e.g. thickness, volatility, softening temperature, viscosity, hardness, water content, vapour permeability, grain size);
- product tests for flammability or environmental impact;
- detailed analysis of the composition of liquid raw materials and additional standard mechanical tests of sealants to determine their suitability for a variety of applications, including the bonding strength with substrate;
- testing the mechanical properties of products;
- testing crosslinking agents and dispersions used in sealants;
- conducting research into the process of aging in different climatic conditions in order to prolong product life;
- mechanical tests according to different standards (e.g. US standards);
- testing the existing formulations of sealants, adhesives, polyurethane foams and hydro-insulations and preparation of new formulations;
- testing and development of new product colours;
- preparation of technical specifications for new formulations of sealants, adhesives, foams and hydro-insulations;
- testing and creating recipes for synthetic rubber and bitumen products;
- preparing commercial samples of new products;
- analysing the properties of raw materials in order to choose the right supplier for Selena Group;
- preparing and testing mortars.

The following are examples of new, innovative products developed in 2015:

- new, high-efficiency polyurethane mounting foams
- thin-coat mortar (polyurethane-based)
- fire-rated silicone
- modern hybrid adhesive with a fast initial grip
- new range of mounting adhesives
- innovative foam adhesives

- acrylic sealants
- roofing sealants
- sealants for roofs.

Before the end of 2015, Selena Labs completed all the tasks under POIG 1.4 (Innovative Economy Operational Programme) in the area of all the core product groups: polyurethane foams, sealants and adhesives and products for the hydro-insulation division.

In the years 2015-2016, Selena Labs, as a consortium leader, will be doing the AgNASIL research & development project subsidised under the Applied Research Programme of the National Centre for Research and Development (NCBiR). The total subsidies for the Company and its partners is to amount to PLN 1,530k.

### 1.9. Key investments

In 2015, Selena Group carried out necessary development investments, mainly modernisations, in all its European production plants. In Quer, Spain, Selena focused on commissioning of new machines for production of new adhesive types. In Polish plants, the Group mainly concentrated on improving the production process and enhancing health & safety and fire safety conditions. In 2015, the Group's key project was extension of the production infrastructure of the Big Elit plant in Kazakhstan, a production line for "white" and "grey" products and warehousing facilities.

The key project in 2015, whose objective is to improve the Group's IT environment, was implementation of the ERP-class system: Microsoft Dynamics AX. Until 31 December 2015, the Group spent a total of PLN 17.7m on the project. The system went live in December 2015.

In December 2015, Selena Malzemeleri Yapi Sanayi (Turkey) acquired a land and a building (EUR 0.8m) adjacent to the company's plant in Bolu. In 2016, in the new part of the factory the company began production of silicones and acrylics and set up a warehouse.

### 1.10. Description of risks and threats

The key factors that in the Management Board's opinion may affect the Group's performance in the following periods are described below.

**The macroeconomic situation in Poland and world-wide.** The European Union's forecast published on 4 February 2016 concerning the situation in the European economy it is indicated that in 2016 the GDP in the EU economy will grow by 1.9% (i.e. the same as in 2015) vs. 3.3% in the world's GDP (3.0% in 2015). As regards the key markets of Selena Group in Europe, it is important to note that the Spanish economy is expected to grow by 2.8% (vs. 3.2% in 2015). Positive GDP growth will also be observed by other countries where Selena is present, including: Romania 4.2%, Hungary 2.1%, Czech Republic 2.3% and even Italy 1.4%. For Poland, the European Commission forecasts growth of 3.5%, like in 2015. According to the forecast published by the Institute of Market Economy Research (IBnGR) on 29 January 2014, the GDP growth in Poland in 2014 will be slightly higher (3.6%), but with a disturbing downward trend between individual quarters (3.9%, 3.6%, 3.5%, 3.3%). The World Bank's forecasts published on 19 January 2016 point to the following GDP growth figures in 2016:: USA 2.6%, China 6.3%, with declines in Brazil -3.5% and Russia -1.0%.

**Situation in the construction sector.** In the same forecast, the European Commission estimates that in 2016 the outlays on construction in the EU countries will increase by 2.2% on 2015 (1.7%). The outlays in Spain are expected to grow by 3.4%, in Italy by 2.4%, in Romania by 2.9% and in Poland by 3.7%, while a decline is expected in the Czech Republic: -3.9% and in Hungary: -1.4%. According to the January IBnGR report, in 2016 the added value in the construction sector will grow by 5.6% after the good growth of 4.4% in 2015. Demand in the construction chemistry market will be influenced by the situation in the residential construction segment, where these materials are used to the largest degree. According to the data released by Central Statistics Office (GUS) on 22 January 2016, the General Business Indicator in the construction sector was -12.7 (-16.1 a month before). An improvement was signalled by 10.3% of enterprises, with 23.1% pointing to a deterioration (vs. 8.9% and 25.0%, respectively, a month before). In September 2015, the analyses of order portfolios, assembly and construction output and financial position became increasingly negative, but the corresponding forecasts in January are less pessimistic than those made in December.

**Availability of financing.** According to the latest AMRON – SARFIN report published on 23 February 2016, banks issued 48.7k new housing loans with a value of PLN 10.6bn. Consequently, the year 2015 closed with 181k housing loans originated totalling PLN 39.3bn – which is by 4.16% and 6.78% more on 2014, respectively. This is the best result since 2012 and a good sign of the banking sector's capability to finance the growth of residential construction in 2016.

**FX rates.** The year 2016, like the previous year, seems very difficult in term of plausible forecasts for the currencies of the Central and Eastern Europe countries, including the zloty, but in particular the rouble, Ukrainian hryvnia and Kazakh tenge, which may be expected to depreciate in 2016. According to the forecast of Raiffeisen Bank International published on 4 March 2016, the currencies of the Central European countries should be rather stable vs. euro (CZK, RON). The Hungarian forint (HUF) and Turkish lira (TRY) might slightly depreciate, though. The Polish zloty/euro rate is expected to remain at PLN 4.30.

**Collection risk.** The Group companies do not see a material increase in overdue debtors. The age structure of trade receivables is presented in Note 22.1 of the consolidated financial statements.

**Commodity prices.** The prices of the key commodities used for the production of construction chemicals in 2015 dropped by several percent, despite major declines in oil prices. The deepest price cuts were observed in the bitumen group, while an increase was observed in the prices of raw materials for the production of sealants. Due to the slight overall improvement of the economy in 2016, we do not expect any serious changes in commodity prices.

### 1.11. Expected development of the Group

Development of Selena Group is based on the adopted and communicated strategy for the years 2014 – 2016, which was seriously reviewed for 2016 to reflect the situation in the Eastern markets, particularly in Russia and Ukraine. The newly developed portfolio of strategic products was based on several new products, innovative on a European scale.

The priority areas for the upcoming years are as follows:

- Balanced growth of sales in many markets, notably in the economically stable ones
- Development of sales of modern and constantly enhanced products
- Development of the insulation and dry materials product group (ETICS)
- Rapid development of the hydro-insulation product group
- Strengthening of market position in the group of adhesives and sealants in the global markets
- Consolidation in the mature Polish market
- Continued improvement of operational efficiency, including leveraging off the effects of the ERP class system deployed early in 2016 in the Polish companies and commencement of roll-out of the system in selected foreign companies of the Group
- Operational optimisation - conducting numerous savings projects in the area of optimisation of production, procurement, logistic and R&D processes.

### 1.12. Investment plans

In 2016, the Group intends to increase its production capacity for the insulation systems product group in Kazakhstan, completing its investments in the economic zone of Astan. In other plants, the Group intends to focus on the optimum use of its production potential, making investments or upgrades into the technological lines.

In Libra, the Group plans to develop a project on an undeveloped site, consisting in construction of new production halls and extension of the machine park. The project is expected to be completed in 2021.

The Group's major project in 2016 will be the implementation of the ERP class IT system based on Microsoft Dynamics AX 2012 in selected European companies. The Group will also continue investments into laboratory facilities and equipment of the Selena's Research Centre.

If the economic conditions are attractive enough, Selena might consider business investments (acquisitions).

## 2. Financial position

### 2.1. Financial performance

The tables below show selected items of the consolidated income statement and selected financial ratios.

Data in PLN thousand	Year ended 31 December 2015	Year ended 31 December 2014	Change	Change %
Revenue from sales	997 867	1 103 387	-105 520	-9,6%
Cost of sales	680 895	774 185	-93 290	-12,1%
Gross profit on sales	316 972	329 202	-12 230	-3,7%
Selling and marketing costs	168 725	171 410	-2 685	-1,6%
General and administrative expenses	74 761	76 847	-2 086	-2,7%
Other operating profit (loss)	-14 580	-15 297	717	-
EBITDA – operating profit + depreciation / amortisation	83 568	90 498	-6 930	-
Operating profit (loss) (EBIT)	58 906	65 648	-6 742	-
Net finance income	-21 438	-38 104	16 666	-
Share in profit of an associate	489	419	70	-
Profit (loss) before tax	37 957	27 963	9 994	-
Profit (loss) after tax	26 803	20 793	6 010	-
Total other net comprehensive income	-24 768	5 243	-30 011	-
Total comprehensive income	2 035	26 036	-24 001	-

	Year ended 31 December 2015	Year ended 31 December 2014	Change in p.p.
Gross profit margin	31,8%	29,8%	1,9
Selling costs / revenue from sales	16,9%	15,5%	1,4
General and administrative expenses / revenue from sales	7,5%	7,0%	0,5
EBITDA margin %	8,4%	8,2%	0,2
Operating profit margin (EBIT%)	5,9%	5,9%	0,0
Net profit margin	2,7%	1,9%	0,8
<i>EBIT % – operating profit / sales</i>			
<i>EBITDA % - EBITDA / sales</i>			

### Revenue from sales

In 2015, consolidated revenue from sales amounted to PLN 997.9m, down by PLN 105.,5m vs. previous year. The more than 9% decline in sales primarily results from continued decrease in the Russian market and in other countries of the Commonwealth of Independent Nations. The increases in the markets of Western Europe and both Americas were not sufficient to compensate for those decreases.

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). Revenues are allocated to segments based on the seller's registered office location. The sales structure by segments is stable and has not changed significantly compared with 2014. The European Union remains the key segment, which generated 60% of total sales. The 14% decrease in the Poland subsegment largely results from the decline in sales by Polish companies to eastern markets. The decrease was counterbalanced by an increase in sales reported by other companies established in the EU countries. The share of sales to the Eastern Europe and Asia segment 15% declined by 3%. Sales in the segment of North and South America continued to grow strongly – by 16%. This segment had 6% share in the Group's sales.

Segment	Segment's share in the Group's revenues		Change
	Year ended 31 December 2015	Year ended 31 December 2014	2015 / 2014

European Union, including:	60%	60%	-9%	
<i>Poland</i>		39%	41%	-14%
<i>Other countries</i>		20%	19%	3%
Eastern Europe and Asia	34%	36%	-15%	
North America and South America	6%	4%	16%	

#### Gross profit on sales

Even though sales decreased by 9.6% in 2015, the gross profit on sales was merely 3.7% lower than a year before, amounting to PLN 317.0m. This means an increase in the gross profit margin to 31.8% vs. 29.8% a year before. The increase resulted from a reduction in the raw materials prices and on the other hand was an effect of marketing of new, high-margin products.

#### Selling costs and the general and administrative expenses

**Selling costs** in 2015 were PLN 168.7m, down by only PLN 2.7m year-on-year. The higher share of selling and marketing costs in percentage terms was a consequence of the actions taken in the markets of Western Europe and both Americas, aiming at increases sales in those regions, which are higher than in developing countries.

**General and administrative expenses** in 2015 were reduced by more than PLN 2m. This means acceleration of the positive downward trend observed in the previous years, which is a direct effect of the Group's restructuring and optimization programmes.

**The result on other operations was negative at** -PLN 14.6m. This line was primarily affected by the impairment losses on receivables and inventories. After a recoverability analysis, impairment losses on receivables were posted (PLN 5.9m), debts were written off (PLN 0.6m) and an impairment charge for inventories and inventory liquidation costs was recognised (PLN 5.3m). Furthermore, the balance of other operating costs and revenues in 2015 was affected by the cost of unutilised production capacity (PLN 6.9m).

The result on other operations was primarily influenced by the subsidies received (PLN 2.2m), reversed impairment charges on receivables and inventories (PLN 1.0m) and gains on disposal of non-financial fixed assets (PLN 0.8m).

#### Operating profit (loss)

In 2015, the Group generated an operating profit of PLN 58.9m versus PLN 65.6m in the previous year. Operating profit margin was maintained and amounted to 5.9%, like in 2014. Despite the major decline in sales, the reduced cost of functioning of the Group allowed the margin to be kept unchanged in percentage terms.

#### Profit after tax

In 2015, Selena Group generated net profit of PLN 26.8m, with an increase of 0.8 p.p. in net profit margin (2.7% vs. 1.9% in 2014). The Group's net result was primarily influenced by the net financial income, including by valuation of open currency positions (trading settlements and loans received/granted). The operating profit was reduced in 2015 by the loss on financial activity of PLN 21.4m. The negative net FX position was PLN 17.8m, mainly due to depreciation of the currencies of the emerging countries vs. euro in the period from 1 January to 31 December 2015 (Russian rouble, Kazakh tenge, Ukrainian hryvnia, Turkish lira and Brazilian real).

The cost of interest on loans and advances and finance leases totalled PLN 5.4m net (after reduction by the achieved interest income from bank deposits). Interest income from bonds was PLN 1.2m. The result on exercised and valued financial derivatives (FX forwards and options) was positive at PLN 2.4m.

In 2015, the income tax charge was PLN 11.2m.

In 2015, EBITDA was PLN 83.6m (including depreciation/amortisation: PLN 24.6m) and was by PLN 6.9m lower than in 2014.

## 2.2. Asset and financial position

The table below shows selected figures of the consolidated statement of financial position as at 31 December 2015 and 31 December 2014.

Data in PLN thousand	31 December 2015	31 December 2014	Change	Change %
<b>Non-current assets</b>	<b>380 982</b>	<b>320 036</b>	<b>60 946</b>	<b>19%</b>
Property, plant and equipment	226 854	223 493	3 361	2%
Intangible fixed assets	49 061	48 909	152	0%
Other long-term assets	105 067	47 634	57 433	121%
<b>Current assets</b>	<b>374 082</b>	<b>411 477</b>	<b>-37 395</b>	<b>-9%</b>
Inventory	116 974	130 802	-13 828	-11%
Trade receivables	165 522	175 372	-9 850	-6%
Cash	41 899	48 972	-7 073	-14%
Other current assets	49 687	56 331	-6 644	-12%
<b>Equity</b>	<b>403 768</b>	<b>408 150</b>	<b>-4 382</b>	<b>-1%</b>
<b>Liabilities</b>	<b>351 296</b>	<b>323 363</b>	<b>27 933</b>	<b>9%</b>
Loans and advances	194 670	144 541	50 129	35%
Trade liabilities	92 127	100 444	-8 317	-8%
Other liabilities	64 499	78 378	-13 879	-18%
	<b>31 December 2015</b>	<b>31 December 2014</b>		
Current liquidity	1,5	2,1		
Quick liquidity	1,0	1,4		
Debt ratio	47%	44%		

*Current liquidity – current assets / current liabilities*

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

The Group's balance sheet total increased by PLN 23.5m. Non-current assets increased by PLN 60.9m, mainly on the back of the continued investment in the ERP system and an increase in LT financial assets. Current assets decreased by PLN 37.4m year-on-year. Liabilities increased by PLN 27.9m.

The current and quick liquidity ratios (1.5 and 1.0, respectively) confirm the Group's ability to meet its current liabilities.

## 2.3. Debt

Net debt figures and debt ratios are presented in the table below.

Data in PLN thousand	31 December 2015	31 December 2014
Interest bearing borrowings	194 670	144 541
Other financial liabilities	20 973	28 318
Less cash and cash equivalents	-41 899	-48 972
<b>Net debt</b>	<b>173 744</b>	<b>123 887</b>
Equity attributable to the shareholders of the parent	403 436	407 812
<b>Equity and net debt</b>	<b>577 180</b>	<b>531 699</b>
Gearing (net debt / equity + net debt)	30%	23%
Debt ratio (liabilities / total assets)	47%	44%
Net debt / EBITDA*	2,08	1,37

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

As at the balance sheet date, the debt on bank and other loans increased vs. 31 December 2014 to PLN 194.7m.

At the end of 2015, the debt ratio amounted to 47% and was higher than the ratio posted a year before (44%).

## 2.4. Cash flows

The tables below show selected items of the consolidated cash flow statement for 2015 and 2014.

Data in PLN thousand	Year ended 31 December 2015	Year ended 31 December 2014	Change
Net cash flows from operating activities	54 688	30 385	24 303
Net cash flows from investing activities	-96 520	-42 635	-53 885
Net cash flows from financing activities	34 520	-8 187	42 707
<b>Change in cash and cash equivalents:</b>	<b>-7 312</b>	<b>-20 437</b>	<b>13 125</b>

In 2015, net cash flows were - PLN 7.3m vs. - PLN 20.4m.

Positive net cash flows from operating activities were PLN 54.7m versus PLN 30.4m in 2014.

Net cash flows from investing activities were negative at -PLN 96.5m compared with the negative balance of -PLN 42.6m recorded in 2014.

Net cash flows from financing activities amounted to -PLN 34.5m. This figure was mainly affected by the net loan repayments (PLN 51.6m), interest paid (-PLN 5.2m) and finance lease payments (-PLN 4.5m). In settlement of the dividend payout, the parent company Selena FM S.A. paid shareholders PLN 6.4m in cash in 2015.



## 2.5. Loans received

The balance of bank borrowings as at 31 December 2015 is presented in the table below.

Ref	Loan type	Maturity date	31 December 2015		31 December 2014	
			Long-term portion	Short-term portion	Long-term portion	Short-term portion
1	Invoice purchase loan	01/2016	0	5 050	0	8 775
2	Working capital loan	08/2015	0	0	0	5 605
3	Working capital loan	06/2016	0	68 327	36 017	0
4	Working capital loan	07/2016	0	35 193	35 857	0
5	Working capital loan	01/2017	10 113	0	5 948	20 885
6	Working capital loan	02/2018	61 043	0	13 753	0
7	Investment loan	03/2018	2 118	1 694	3 828	1 701
8	Investment loan	09/2020	0	0	4 983	787
9	Other	różne	6 580	4 552	2 020	4 382
			<b>79 854</b>	<b>114 816</b>	<b>102 406</b>	<b>42 135</b>

Details of the lending terms are presented in Note 27.2 of the consolidated 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.

## 2.6. Loans and bonds

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 nominal value of a bond is the same as its 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 will be 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.

## 2.7. Guarantees and off-balance sheet items

The Group companies did not give any material guarantees to non-Group members. Specification of the guarantees provided by the Parent Company to Group companies is contained at Note 28.1 of the unconsolidated financial statements for 2015.

## 2.8. Financial instruments and financial risk management principles

Details of the Group's financial instruments are presented in Note 38 of the Group's consolidated financial statements for 2015.

The Group's risk financial risk management principles (covering FX risk, interest rate risk, credit risk and liquidity risk) are presented in detail in Note 37 of the Group's consolidated financial statements for 2015.

## 2.9. Investments

In 2015, the Group did not complete any major investments, other than the necessary development initiatives.

## 2.10. Assessment of financial resources management

As at 31 December 2015, the ratio of current assets to current liabilities (current liquidity ratio) was 1.4. The Group's current assets amounted to PLN 374.1m, while current liabilities were PLN 250.3m. With such a structure, the Management Board sees no material risks to the Group with regard to liquidity and timely payment of obligations.

As at 31 December 2015, the Group's cash position was PLN 41.9m. The Group also has undrawn credit limits of PLN 26.2m, which in the opinion of the Management Board ensure financial liquidity and stable funding for the Group entities.

The Company has no problems maintaining liquidity. 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

In 2015, the Group entered into the following material agreements:

- bank credit agreements (Note 2.5).

As deliveries and sales take place on an ongoing basis, no single material agreements were concluded in the ordinary course of business.

The table below shows material insurance agreements signed by the Group companies in 2015.

Contracting company	Insurance	Sum insured (million)	Ccy	Insurance period
All companies established in Poland	Insurance of assets against all risks, electronics, loss of profit	272	PLN	16/06/2015 - 15/06/2016
	General liability insurance (for the conducted business and property held)	20	PLN	16/06/2015 - 15/06/2016
	Motor insurance	Different	PLN	12 months
	Insurance against accidents and cost of medical service during foreign business trips	20	USD	11/06/2015-10/06/2016
	Liability insurance for firms providing accounting services to third parties (Selena FM SA)	0	EUR	02/02/2015- 01/02/2016
	Trade credit insurance	35	PLN	1/11/2015-31/10/2016
	D&O insurance	40	PLN	1/12/2015-30/11/2016
Selena Iberia	Asset insurance	30	EUR	
	Insurance against loss of profit due to business interruptions	12	EUR	
	Goods-in-transit insurance	Different	EUR	01/01/2015 -31/12/2015
	Liability insurance for natural environment	3	EUR	
	General liability insurance (for the conducted business and property held)	3	EUR	
Other foreign affiliates	Trade credit insurance	24	EUR	
	Trade credit insurance	35	PLN	1/11/2015-31/10/2016

### 3.2. Related party transactions

The companies from the Selena FM Group did not enter into any unusual transactions or transaction made on non-commercial terms whose total value would meet the materiality criteria (10% of equity).

### **3.3. Issue of securities**

In 2015, no securities were issued.

### **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 Company's supplementary capital). Until 31 December 2015, the Management Board did not purchase treasury shares as the programme's triggering criteria were not met.

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

The Company did not publish its consolidated forecasts for 2015.

### **3.6. Litigations**

The total value of all court, arbitration or administrative proceedings pending as at 31 December 2015 did not exceed 10% of the Company's equity. On 27 February 2015, the Regional Court in Warsaw heard the claim of Carina Silicones z o.o. SKA against Bank Millenium S.A. of Warsaw to repudiate the FX options agreements of 8 July 2008. 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.

In the same case, a lawsuit is pending where Millenium Bank claims a payment of 10,256k from the company. A detailed description of the case is contained in Note 31.3 of the Group's consolidated financial statements for 2015. The Management Board of the Parent Company sustains its opinion that the Bank Millenium's claim is groundless.

Other material litigations that might give rise to liabilities are described in Note 31.3 of the Group's consolidated financial statements for 2015.

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

Other key factors affecting the Group's performance in 2015 were described in Note 2 of this report.

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

In 2015, no changes were made to the rules of managing the Group. 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, while direct supervision over trading companies was distributed between Executive Board members.

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

The remuneration of the Management and the Supervisory Board members of the Parent Company is described in Note 35 of the Group's consolidated financial statements for 2015.

### 3.10. Equity-based remuneration programmes

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

### 3.11. 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
AD Niva Sp. z o.o. *	-	9 538 000	476 900
Syrius Investments s.a.r.l.*	-	8 050 000	402 500
Krzysztof Kluza	VP 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 has not other information on 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 Selena FM S.A..

### 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

Corporate governance principles applied by the Group are presented in detail in the report on the activities of the Parent Company – Selena FM S.A. for 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 consolidated 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 Group and its financial performance and that the Management

Board's annual report on the Group operations 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 consolidated financial statements of the Group 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**