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SELENA FM GROUP

MANAGEMENT BOARD'S REPORT
ON THE GROUP'S ACTIVITIES FOR 2016

Wrocław, 21 March 2017

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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 2016:

- On 28 July 2016, Krzysztof Kluza resigned as Vice-President of the Management Board responsible for Finance.
- On 29 August 2016, the Supervisory Board removed Jarosław Michniuk from his post of Management Board President.
- On 2 September 2016, the Company's Supervisory Board adopted a resolution appointing, as of 5 September 2016, Mr. Jean-Noël Fourel as the President of the Management Board of the Parent Company.
- On 26 September 2016, the Company's Supervisory Board adopted a resolution appointing, as of 4 October 2016, Mr. Hubert Rozpędek as the Vice President of the Management Board responsible for finance.
- On 16 December 2016, the Supervisory Board adopted a resolution removing Mr Andrzej Feruga from his post of Management Board Member.

As at 31 December 2016, the Parent Company's Management Board was composed of:

- Jean-Noël Fourel – Management Board President
- Hubert Rozpędek – Vice-President of the Management Board for Finance
- Marcin Macewicz – Management Board Member.

On 30 January 2017, the Supervisory Board of Selena FM SA appointed Mr Marcin Macewicz as Vice-President for Sales and Marketing.

As of 1 March 2017, the Supervisory Board of Selena FM SA appointed Ms Agata Gładysz to the position of Management Board Member.

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 2016:

- On 14 June 2016, the Annual General Meeting of Shareholders appointed Mr. Hans Kongsted and Mr. Francisco Azcona to the Supervisory Board.

As at 31 December 2016, the Company's Supervisory Board was composed of:

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

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

1.4. Key products and services

Selena FM Group is an international producer and distributor of construction chemicals. The Group's Parent is Selena FM S.A. of Wrocław, which on 18 April 2008 debuted on the main market of the Warsaw Stock Exchange.

The core business of the Group includes production, distribution and sale of building chemistry products and general building accessories. The Group's product range includes:

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

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

The Group's production plants are located in Poland, Brazil, China, Romania, Turkey, Spain and Kazakhstan and its products are available in the markets of more than 70 countries in the world. The Group also carries on R&D activity in Poland, Spain, Turkey and China. Selena Group also has an affiliated undertaking in South Korea – Hsmil - 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 2.1 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 2016 and 31 December 2015.

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.

Region	Country	Entity	Reg.Office	Activity	Group's Share 31 December 2016	31 December 2015	Owner	
European Union	Poland	Selena FM S.A.	Wroclaw	Group Head Office			-	
		Selena S.A.	Wroclaw	Distributor	100.00%	100.00%	FM	
		Orion PU Sp. z o.o. **	Dzierżoniów	Manufacturer of foams, adhesives, distributor	99.95%	99.95%	SIT 1	
		Carina Silicones Sp. z o.o. ***	Siechnice	Manufacturer of sealants, distributor	100.00%	100.00%	SIT	
		Libra Sp. z o.o.	Dzierżoniów	Manufacturer of sealants, adhesives, distributor	100.00%	100.00%	SIT	
		PMI "IZOLACJA - MATIZOL" S.A.	Gorlice	Manuf. of roof coverings, hydroinsulation, distributor	100.00%	100.00%	SIT	
		Tytan EOS Sp. z o.o.	Wroclaw	Manufacturer of loose materials	100.00%	100.00%	SIT	
		Selena Labs Sp. z o.o.	Siechnice	Research and Development	99.65%	99.65%	FM 1	
		Selena Marketing International Sp. z o.o. *	Wroclaw	Intellectual property management	100.00%	100.00%	SA	
		Orion Polyurethanes Sp. z o.o. *****	Dzierżoniów	Legal administration	100.00%	100.00%	FM	
	Carina Sealants Sp. z o.o.	Siechnice	Legal administration	100.00%	100.00%	FM		
	Selena Industrial Technologies Sp. z o.o.	Warsaw	Production management	100.00%	100.00%	FM		
	Oligo Sp. z o.o.	Katowice	Research and Development	24.00%	0.00%	SL		
	Western Europe	Spain	Selena Iberia slú	Madrid	Manufacturer of sealants, adhesives, distributor	100.00%	100.00%	FM
		Italy	Selena Italia srl	Limena	Distributor	100.00%	100.00%	FM
		Germany	Selena Deutschland GmbH	Hagen	Distributor	100.00%	100.00%	FM
	Central and Eastern Europe	Czech Republic	Selena Bohemia s.r.o.	Prague	Distributor	100.00%	100.00%	FM
		Romania	Selena Romania SRL	Ilfov	Distributor	100.00%	100.00%	FM
			EURO MGA Product SRL	Ilfov	Manufacturer of adhesives and cement mortars	100.00%	100.00%	ROM
		Hungary	Selena Hungária Kft.	Pécs	Distributor	100.00%	100.00%	FM
Bulgaria		Selena Bulgaria Ltd.	Sofia	Distributor	100.00%	100.00%	FM	
	Slovakia	Chemistry for Building s.r.o.****	Nitra	Distributor	0.00%	100.00%	-	
Eastern Europe and Asia	Russia	Selena Vostok Moscow	Moscow	Distributor	100.00%	100.00%	FM 2	
		Selena Sever Moscow	Moscow	Distributor	100.00%	100.00%	SA	
	Kazakhstan	Selena CA L.L.P.	Almaty	Distributor	100.00%	100.00%	FM	
		TOO Selena Insulations	Astana	Manufacturer of insulation systems	100.00%	100.00%	FM	
		TOO Big Elit	Astana	Manufacturer of dry mortars	100.00%	100.00%	CA	
	Ukraine	Selena Ukraine Ltd.	Kiev	Distributor	100.00%	100.00%	FM 2	
Asia	China	Weize (Shanghai) Trading Co., Ltd.	Shanghai	Distributor	100.00%	100.00%	FM	
		Selena Nantong Building Materials Co., Ltd.	Nantong	Manufacturer, distributor	100.00%	100.00%	FM	
	Foshan Chinuri-Selena Chemical Co.	Foshan	Manufacturer of sealants, distributor	84.57%	84.57%	SA 1		
S.Korea	Hamil - Selena Co. Ltd	Kimhae	Manufacturer of foams	30.00%	30.00%	SA 3		
Middle East	Turkey	Selena Malzemeleri Yapi Sanayi Tic. Ltd.	Istanbul	Man. of foams and sealants, distributor	100.00%	100.00%	FM	
		POLYFOAM Yatırım Sanayi ve Tic Ltd.	Istanbul	Distributor	100.00%	100.00%	SA 2	
N&S America	N&S America	Brazil	Selena Sulamericana Ltda	Curitiba	Manufacturer, distributor	100.00%	100.00%	FM 3
		USA	Selena USA, Inc.	Holland	Distributor	100.00%	100.00%	FM
			Selena USA Specialty Inc.	Holland	Property management	100.00%	100.00%	FM

* renamed on 20 April 2015 from Virgo Project Sp. z o.o.

** change of legal form on 1 July 2015 from Orion Polyurethanes Sp. z o.o.

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

**** renamed on 22 September 2015 from Selena Slovakia s.r.o.

***** change of shares owner to Selena Industrial Technologies Sp. z o. o. on 20 January 2017 + resolution to rename the company as Taurus Sp. z o.o.



Selena FM Group

Management Board's Report on the Group's Activities for 2016

Explanations to the "Owner" column

FM - 100% stake owned by Selena FM

FM 1 – shares 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 S.A.

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

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

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

SL - shares owned by Selena Labs Sp. z o.o. (24%), other shares outside the Group

SA - 100% 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

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

CA - 100% shares are owned by Selena CA L.L.P.

1.6.2. Changes in the Group structure

Reduction of the share capital in Selena Malzemeleri Yapi Sanayi Tic. Ltd

On 4 April 2016, the share capital in Selena Malzemeleri Yapi Sanayi Tic. Ltd. was reduced to cover the company's losses from previous years. The value of cancelled equity shares was 10,844 thousand Turkish liras. The transaction did not have any impact on the Group's organisational structure.

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

As part of another phase of reorganisation of the management structure of the manufacturing plants in Poland, on 9 June 2016, 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 non-cash contribution was in the form of shares of Tytan EOS Sp. z o.o. The value of the increased share capital is PLN 14,400k, including 288,000 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 355,105k. The valuation of Tytan EOS Sp. z o.o. was made on the basis of an appraisal by an independent advisor. Book value of the shares provided as a non-cash contribution to Selena Industrial Technologies Sp. z o.o. is PLN 4,007k. As a result of the transaction, Selena Industrial Technologies Sp. z o.o. became 100% owner of Tytan EOS Sp. z o.o.

On 18 November 2016, 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 non-cash contribution was in the form of shares of Izolacja-Matizol S.A. having its registered office in Gorlice. The value of the increased share capital is PLN 47,900k, including 958,000 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 403,005k. The valuation of Izolacja-Matizol S.A. was made on the basis of an appraisal by an independent advisor. Book value of the shares provided as a non-cash contribution to Selena Industrial Technologies Sp. z o.o. is PLN 18,500k. As a result of the transaction, Selena Industrial Technologies Sp. z o.o. became 100% owner of Izolacja-Matizol S.A.

Purchase of shares of Oligo Sp. z o.o. (formerly Pretorian Sp. z o.o.)

On 1 August 2016, Selena Labs Sp. z o.o., the issuer's subsidiary, entered into an agreement to purchase 24% shares of Pretorian Sp. z o.o. for PLN 6 750. On 19 August 2016, the company was formally renamed from Pretorian Sp. z o.o. to Oligo Sp. z o.o. The transaction did not have any significant impact on these financial statements.

Sale of shares of Chemistry for Building s.r.o.

On 23 December 2016, Selena FM S.A. entered into an agreement to sell 100% shares of Chemistry for Building s.r.o. for PLN 5,000. As a result of the transaction, Selena FM SA lost control over the company and as at the date of disposal ceased to consolidate the results of Chemistry for Building s.r.o. The loss of PLN 20k resulting from the loss of control was presented in other operating costs of the statement of comprehensive income.

Other events

On 21 December 2016, Selena Nantong Building Materials Co., Ltd. entered into a framework agreement with Shanghai Haozheng Construction Engineering Co. Ltd – a Chinese entity operating in the market of polyurethane foams and other construction chemicals. The agreement provided for strategic cooperation between the Parties. The framework agreement sets out the key strategic directions of the cooperation and defines next steps to be taken by the Parties to finalise individual agreements referred to in the framework agreement. Under the agreement, the Companies will set up a new joint venture, in which Selena Nantong Building Materials Co Ltd will take up 40% stake and its partner, Haozheng Construction Engineering Co. Ltd. – 60% stake. The objects of the new company will include distributing and selling in China: foams, silicones and mounting adhesives under the brands owned by Selena Group and the Partner, pursuant to licence agreements.

Events occurring after the balance sheet date

On 20 January 2017, Selena FM S.A. entered into an agreement with its connected company (Selena Industrial Technologies Sp. z o.o.) to sell its 100% stake in Orion Polyurethanes Sp. z o.o. The sales price was PLN 5,000. The share disposal did not

have any impact on the Group's organisational structure. At the same time, on 20 January 2017, the General Meeting of Orion Polyurethanes Sp. z o.o. adopted a resolution renaming the company as Taurus Sp. z o.o.

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 2016

Due to the continued difficulties in the Eastern markets, Selena Group continued to develop its sales in mature markets. New and technologically advanced products were prepared and intensive work commenced on development of new product categories. Product sales in Eastern Europe were increased – both under own brands and with private labels.

1.7.2. Dividend

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

1.7.3. Rankings, awards and recognitions

Selena FM S.A.: listed company of the year

In the general ranking of companies listed on Warsaw Stock Exchange in Warsaw Selena was ranked 43rd. However, it should be noted that Selena took 12th position in the category Growth Outlook and 13th in the category Innovation of Products and Services.

Selena SA again named Construction Company of the Year

For the fourth time in a row, Selena SA (Poland) was recognised for its richest construction chemicals proposition in the Polish market and for effective adaptation of its product range to changing requirements and customer expectations.

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

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

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

In February 2016, Selena S.A. received the award of Construction Company of the Year 2015. The company was recognised for its richest construction chemicals proposition in the Polish market and for effective adaptation of its product range to changing requirements and customer expectations. It was the 13th edition of the Construction Company of the Year competition, in which the Scientific Council and the editing board of the Builder magazine conferred awards to companies from

the construction sector for their rapid development and their position in the construction market. The managers of those companies were awarded for effective management and market successes. The jury of the competition also awarded sector leaders with the special accolade of "Personality in the Sector". An award in this category again went to the CEO of Selena S.A. - Andrzej Ulfig. At the gala, the TOPBuilder awards were also conferred, which recognised construction products and solutions of the highest quality as well as IT products that are used for architecture and construction. This year, Selena S.A. received five such statuettes.

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

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

Selena S.A. among the 25 Best Employers of 2016

Selena S.A. was awarded by *Gazeta Finansowa* with the title of the Best Employer 2016. Each year, the weekly's business report presents a list of 25 best companies from different sectors that offer their employees the most comfortable working environment, friendly atmosphere and career growth opportunities.

Selena S.A. – Certificate of Business Credibility

Selena S.A. was again recognised with the Certificate of Business Credibility, awarded by D&B Poland, an international business information provider. The certificate confirms the company's stable position and is a recommendation for its potential business partners.

Selena S.A. – leader of the joinery market in 2016

It is the sixth time that Selena S.A. received the award of Joinery Market Leader in its core segment of Foams and Silicones. At the award gala held on 19 October in the headquarters of the Polish Crafts Association – the Chodkiewiczów Palace, sales champions from the sector of windows and doors were recognised and honoured.

Recognition for Selena FM S.A. – Polish company, International Champion

Selena FM S.A. has been awarded in the competition titled "Polish Company – International Champion", under the auspices of the Ministry of Foreign Affairs and the Ministry of Development. The purpose of the competition is to promote the Polish companies that are successful in foreign markets as investors or exporters, and to promote the benefits flowing from such activities both for the companies themselves and for the Polish economy as a whole. Selena was recognised in the "Exporter" category, in the group of large privately-owned companies.

Selena S.A. – another six TopBuilder 2017 statuettes in the Building Products category for:

- TYTAN Professional 60 seconds, Selena S.A.
- TYTAN Professional EVOMER Filling Putty
- TYTAN Professional EVOMER Quick Coating
- TYTAN Professional EVOMER Quick Primer
- TYTAN Professional Mounting Adhesive Fix2 GALLOP
- Tytan Professional Mounting Foam STD ERGO

SELENA S.A. has been awarded with as many as six statuettes of TopBuilder 2017, which is one of the most prestigious awards in the Polish construction market. The competition organised by the Builder monthly is held to award the best innovative construction products, IT solutions, projects, services and undertakings for the entire sector.

Selena S.A. – Construction Company of the Year for the fifth time

At the prestigious BUILDER AWARDS gala, Selena S.A. was awarded – for the fifth time – as the CONSTRUCTION COMPANY OF THE YEAR, and the Company's CEO Andrzej Ulfig was named the PERSONALITY OF THE SECTOR IN

2016. At the award gala, which took place in the auditorium of the Warsaw's Multikino in the Złote Tarasy shopping centre, the best companies from the construction sector received their accolades.

OTHER RANKINGS:

Forbes:

27 January – Forbes Diamonds – revenues from PLN 5m to 50m – ranked 16th out of 30

Wprost:

24 January – ranking of family-run companies – ranked 62th out of 100

9 May – 200 largest Polish companies – ranked 112th out of 200

Gazeta Finansowa:

24 June – 1000 largest companies in Poland – ranked 288th out of 1000

Rzeczpospolita:

29 April – 500 largest Polish companies – ranked 279th out of 500

23 June – Polish medium-sized companies by revenues – ranked 1st out of 25

23 June – Highest development investments among Polish companies – ranked 25th out of 35

24 November – the List of 2000 – Selena FM SA ranked 85th out of 400 in the category of Largest Polish Exporters

24 November – the List of 2000 – Selena FM SA ranked 334th out of 2000 in the category of Largest Polish Companies

19 December – Ranking of innovative companies – ranked 25th out of 35

Modern Business Institute/Businessnow.pl

“Business Cheetah 2015: Trade Sector” – Selena SA ranked 240th out of 7410

“Business Cheetah 2015: Sale of Construction Products” – Selena SA ranked 3rd out of 505

“Business Cheetah 2016: companies whose market value during the year increased by more than 10%” – Selena Labs Sp. z o.o. ranked 444th out of 2583

“Business Cheetah 2016: companies whose market value during the year increased by more than 10%” – Selena Marketing International Sp. z o.o. ranked 229th out of 3422.

New Industry

October – Special Report 2016 – 800 largest industrial companies in Poland – ranked 71st out of 800

Gazeta Bankowa

November – Companies with Energy 2016 – Selena SA ranked 16th out of 29 in the category of large companies

1.7.4. Group promotion

KDT12 at the Poland's Young Roofers Championship (2-3 February)

On 2-3 February, during the International Construction and Architecture Fair BUDMA 2016, Selena S.A. (Poland) participated in the 8th Young Roofers Championship, one of the key events in the roofing sector. For the first time in the history of the Championship, TYTAN Professional KDT12 roofing foam adhesive was used in the “Flat Roof” category. Nine teams representing roofers from across the country competed for the title of the best contractors at the BUDMA Fair in the “Good Roof Zone”. Supported by their Mentors, they put their skills at work in three categories: sloping roofs, metal roofs and flat roofs. Selena SA was again one of the sponsors. The contestants used, inter alia, such TYTAN Professional products as the innovative KDT12 roofing foam-adhesive, the 65 polyurethane foam and the specialist roofing sealant for applications in extreme conditions.

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

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

Tektónica (4-7 May 2016)

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

Impact'16 Congress (15-16 May 2016)

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

VIII European Economic Congress (18-20 May 2016)

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

EURO 2016 with Tytan Professional

Q2 2016 saw the end of the promotional campaign held by Selena Ukraine for its distributors. On the basis of the results achieved by the participants, winners were identified, who went to see the Poland-Ukraine football game held on 21 June 2016 in Marseilles. In accordance with the established criteria, when the sales target of EUR 11,000 was achieved in the period of the five months of the campaign, the distributor qualified for one ticket for the game. An additional criterion was the sales of STYRO products at the minimum level of 20% of sales in the evaluation period. The promotional campaign was also open to the sales managers of Selena Ukraine. When 100% of the plan was achieved, the person who recorded the highest excess over the mark was awarded with a trip to France. The campaign brought very good results, including maintenance of prices and sales despite the severe crisis in Ukraine and extension of the range of deliveries to distributors. 25-26 May – Economic Forum in Astana.

Selena S.A. as a partner of the programme of revitalisation of Polish cities – "Metamorphosis"

Revitalisation projects are quite a challenge for all investors in Poland. Appreciating the need for education in this area, the Builder monthly started the programme called "Metamorphosis – revitalisation of Polish cities". The programme seeks to provide expert knowledge, demonstrate examples of excellent execution and promote the best construction solutions. Selena S.A. is a partner of the programme.

"Polish Scientific Networks: Science & Business" (30 June – 2 July 2016)

On 30 June – 2 July 2016, the Wroclaw Research Center EIT+ hosted the second edition of the conference titled Polish Scientific Networks: Science & Business organised by the Ministry of Science and Higher Education, Academy of Young Scientists of the Polish Academy of Sciences (PAN) and the Club of Scholarship Holders of the Foundation for Polish Science. The purpose of the conference was to discuss methods of commercialisation of research results and assistance in establishing cooperation between the scientific community and business and organisations interested in implementing innovative technologies. The conference was accompanied by a project organised by EIT+ called "Headhunters's Zone" (Strefa Łowców Głównych) or an initiative addressed to the companies interested in developing innovative solutions and looking for skilled and talented people willing to work for them. Selena was one of the companies participating in the Zone.

"Summer of Quality" campaign - Selena S.A. (July – August 2016)

Selena S.A took part in the 9th edition of the promotional campaign of organised by the Builder magazine, whose purpose was to present the brands that ensure the highest quality of offer. As part of the campaign, Andrzej Ulfig – CEO of Selena S.A. spoke about the definition of a good and modern product. Selena also presented Tytan Professional 60 SECONDS foam adhesive and a comment from Łukasz Maślanka, Category Manager.

Polish-Kazakh Economic Forum (23 August 2016)

On the occasion of the visit of Nursultan Nazarbayev, the President of the Republic of Kazakhstan, the Warsaw's Sheraton became a venue of the Polish-Kazakh Economic Forum. The event also included B2B meetings for Polish and Kazakh entrepreneurs and agreements were signed between the two states, individual ministries and businesses, for a value estimated at USD 1 billion. Speaking at the Forum were, among others, Krzysztof Domarecki – Supervisory Board Chairman of Selena FM S.A, which has been present in Kazakhstan since 2002. In his speech, Krzysztof Domarecki referred to the lead theme of next year's EXPO 2017 – "Energy of the Future".

11th FESQUA Fair in Brazil - Selena Sulamericana (21 – 24 September 2016)

On 21 and 24 September, the 11th FESQUA trade fair took place in Sao Paulo, Brazil. This is the largest fair for the segment of windows and doors (W&D) in South America. FESQUA is an international trade fair for frames, hardware and components. It is a meeting place for leading manufacturers and buyers of doors, windows and components of metal, wood, steel and PVC. This year, the fair attracted 24,000 people. During the fair, at its stand of 36m², Selena Sulamericana presented the key products from the portfolio for the W&D segment, including: Espuma Portas e Janelas (low-expansion gun foam), Silicone Portas e Janelas (neutral silicone for windows and doors), Selante Akryl (acrylic sealant) and MS35. In addition, Selena presented straw foams, sealants and adhesives.

Selena S.A. as a strategic partner at the "Science, Business, Construction" conference (22 – 23 September 2016)

To confront business community with representatives of the world of science – this was the main purpose of the scientific conference titled "Science, Business, Construction" organised by the Builder monthly, Scientific Council, Programme Council and local and foreign reviewers. Selena S.A acted as a Strategic Partner at this two-day event, which took place in Warsaw at Polonia Palace hotel. A number of lectures were delivered at the conference, including one by the CEO of Selena S.A., Andrzej Ulfig. On the second day, the conference participants took part in the debate called "Science and Business in Construction and Architecture – mutual expectations and benefits from cooperation between companies, research institutions and universities, as well as common working areas and goals". In the debate, Selena was represented by Beata Toboła, Manager of the Product Development Department.

New production plant and a distribution centre in Kazakhstan

In Kazakhstan, Selena launched a new factory and a distribution centre in the Special Economic Zone "Astana – New City", continuing its global expansion and consolidating its position as a leading global producer and distributor of modern construction chemicals. The investment will substantially increase the company's production capacity and will allow approx. 120 thousand tonnes of modern construction chemicals to be manufactured per year. 6 December 2016 saw an official opening of Selena's new plant. The event was attended by Kazakhstan's President Nursultan Nazarbayev and was broadcast on TV.

Selena FM SELENA FM S.A. and Selena S.A at the IV Conference of the Construction Chemicals Industry

On 6 December, EPS Media, publisher of the *Chemia i Biznes* monthly, organised the IV Conference of the Construction Chemicals Industry, which took place in Warsaw. The event, in which we actively participated, again attracted tens of visitors – executives and representatives of R&D, marketing and procurement functions of the firms from the construction chemicals sector.

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.

Financing for the "Little Poland in Nepal" foundation

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

Supporting the development and entrepreneurship of students

One of the examples of a transfer of knowledge between the world of business and science is the cooperation between Selena Group and PWR Racing Team, a team of students from the Wrocław University of Technology, who have had a joint objective since 2009: to build a racing car and take part in the international "Formula Student" competition. The world-famous "Formula Student" competition is an opportunity for teams, in their roles as entrepreneurs, to present a ready prototype of a racing car complete with a business, production and marketing plan, to produce 1000 of such vehicles per year. It is not only the car's performance that matters. Equally important are reasonable production costs, a sound business plan and design solutions for the vehicle. The team must prove its worth in many interdisciplinary contests. So this is more than a competition of student-made racing cars: it is also a comprehensive engineering contest that requires a lot of preparation and project work like in a well-organised enterprise. The students have been cooperating with Selena's R&D (Selena Labs) for two years, seeking the best solutions to help them build their racing cars. In 2016, the university's representatives were invited to visit the Orion Production Plant in Dzierżoniów, where they had an opportunity to talk about the technologies they might use in their work in the next season, and to have a look at how the laboratory worked. PWR Racing and Selena Group made a joint appearance at the conference inaugurating the project LOWER SILESIA. INNOVATION VALLEY, at which Selena FM S.A. presented its innovative COOL-R technology, highly reflective, waterproof roof coating. At the Group's invitation, representatives of PWR Racing also presented their achievements and their racing car was displayed for all before the entry to the Business Incubator building.

1.7.6. Other significant events

In 2016, no significant events occurred for the Group other than those described in this report or in the Group's financial report for 2016.

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.

In 2016, Selena Labs launched the project "Research into ultra-modern polyurethane foams and foam adhesives in 1K and 2K systems using nanotechnology" under sub-measure 1.2.1 of the Lower Silesian Provincial Operational Programme 2014-2020.

In 2016, the company also received a subsidy under Horizon 2020, an R&D programme financed by the European Commission for the implementation of the project "Development of innovative lightweight and highly insulating energy efficient components and associated enabling materials for cost-effective retrofitting and new construction of curtain wall facades - EENSULATE". Other entities involved in the programme include, among others, Ulster University, Focchi SPA, Evonik Nutrition & Care GMBH or University College London.

In 2016, the Company also signed a subsidy agreement relating to the project carried out under the Intelligent Development Operational Programme, Measure 2.1. The investment project is titled "Establishment of Central Research and Development Laboratory". It will be delivered in the years 2017-2018.

In 2016, the Company's employees presented the Company's achievements at various conferences, including at the Donauchem Symposium.

Work on innovative projects has resulted in the patent application, submitted in 2016, for "Mounting foam and its application as an adhesive or sealant, for coating or filling empty structures (working name: STYRO Fast Grab). This application was made with EPO (European Patent Office), EAPO (Eurasian Patent Organization) as well as China, Canada, Chile and Argentina. Furthermore, on 30 September 2016, in South Korea, the Company obtained a patent for the invention "One-component mixture of isocyanate prepolymer the production of a polyurethane product in a single-step process (following an application made in 2014).

In 2016, the Company focused on designing, creating new formulations and testing existing ones in order to obtain construction chemicals of the highest quality.

2016 was a breakthrough year for research in the area of foams. Previous innovation projects focused on the development of polyurethane foam formulations for insulation and sealing. This work positioned Selena as a leader in the segment of professional, high performance foams dedicated to different climates. An example of such technology is the 2016 Tytan Ice polyurethane foam formulation, a solution that is unique in the world in that it can be used in a cartridge with a temperature of less than 5 degrees Celsius. No classic technologies ever allowed such applications before. Although foams dedicated to winter conditions were available before, and could be used at temperatures of up to -10 degrees Celsius, the cartridge, as packaging, needed to have room temperature. The new technology allows a "frozen" cartridge to be used, without negatively impacting the final product.

Another innovative product implemented in 2016 was the Tytan Ergo foam. The product is innovative in that it uses a specially developed applicator, which makes the work with the foam easier, improves ergonomics of the application and allows the foam to be used multiple times. Additionally, the unique formula of Tytan Ergo makes it possible to use the can at any position and in any season of the year. Classic polyurethane foams must be discharged in the "downward" position, while the new formula allows users to reach places that were only hardly accessible before. At present, work is underway to develop a technology to increase the foam yields.

Aerosol polyurethane adhesives in aerosol are the next group of innovative products that were successfully implemented in 2016. One of these is Tytan 60 seconds. This is a unique technology for bonding different types of items that require a strong initial grip. In this way users can bond different item sparing themselves the trouble of adjusting and keeping those items in their target position.

Another adhesive is Tytan KDS v 2.5, also implemented in 2016. This is an aerosol polyurethane adhesive designed to bond EPS and XPS insulations. Compared with similar products pre-existing in the market, Tytan KDS significantly reduces workload and minimises the necessity of troublesome adjustment of polystyrene boards as the adhesive grows when curing. With its special formula, the product can be applied even during strong wind.

As part of its activity, Selena Labs Sp. z o.o. actively develops and continues cooperation with universities and research institutes, including AGH University of Science and Technology in Kraków, Silesian University of Technology, Silesian University in Katowice, Wrocław Research Center EIT + and the Institute of Materials Science and Dyes Engineering in Toruń – Department of Paints and Plastics in Gliwice.

1.9. Key investments

In 2016, as in the previous year, Selena Group carried out necessary development investments, mainly modernisations, in all its European production plants. The Libra plant increased its production capacity by installing new mixing machines for the production of adhesives and sealants. In addition, technology for the manufacture of the innovative COOL-R product was implemented. The main investment at Matizol was installation of a colloidal mill to increase the quality of products and effectiveness of production. Investments into improvement of health & safety and fire safety were made at all Polish plants and at Quer (Spain) and Bolu (Turkey).

In 2016, Selena FM Group's key investment was the launch of a new factory and a distribution centre in the Special Economic Zone "Astana – New City" in Kazakhstan. The company's production capacity will allow approx. 120 thousand tonnes of modern construction chemicals to be manufactured per year. 6 December 2016 saw an official opening of Selena's new plant. The event was attended by Kazakhstan's President Nursultan Nazarbayev and was broadcast on TV. The total value of the investment is about EUR 4.7m.

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 13 February 2017, concerning the situation in the European economy, indicates that in 2017 the GDP in the EU economy will grow by 1.8% (0.1% less than in 2016) vs. growth of 3.4% in the world's GDP (3.0% in 2016). As regards the key markets of Selena Group in Europe, it is important to note that the Spanish economy is expected to grow by 2.3% (vs. 3.2% in 2016). Positive GDP growth will also be observed by other countries where Selena is present, including: Romania by as much as 4.4%, Hungary 3.5%, Czech Republic 2.6% and also such countries as Germany (+1.6%), France (+1.4%) and Italy (+0.9%). For Poland, the European Commission forecasts growth of 3.2%, which is higher than in 2016 (2.8%). According to the forecast published by the Institute of Market Economy Research (IBnGR) on 1 February 2014, the GDP growth in Poland will be slightly lower (3.0%), but with an upward trend between individual quarters (2.8%, 3.0%, 3.1%, 3.2%). The same forecast points to a growth of GDP in 2017 in the United States (2.3%), China (6.4%) and, importantly, Russia (0.8%).

Situation in the construction sector. In the same forecast, the European Commission estimates that in 2017 the outlays on construction in the EU countries will increase by 1.8% vs 1.7% observed in 2016. The outlays in Spain are expected to grow by 2.3%, in Germany by 1.6%, in Italy by 0.9% and, more strongly, in Romania by 4.4%, in Poland by 3.2%, in the Czech Republic by 2.6% and in Hungary by 3.5%. According to the February IBnGR report, in 2017 the added value in the construction sector in Poland will grow by 6.8% vs. the 11.9% decline in 2016.

Demand in the construction chemicals market will be influenced by the situation in the residential construction segment, where these materials are used to the highest degree. According to the data released by Central Statistics Office (GUS) on 17 February 2016, the number of home completions in January 2017 increased by 12.5% vs. January 2016, when a growth of 8.8% was observed vs. January 2015. In January 2017, the number of building permits issued or building notifications received was 47.8% higher vs. January 2016 (when a decline of 3.6% was reported). Also, the number of started residential projects increased by 55.0% (vs. a 0.1% decline in 2016), which augurs well for the Polish market. In turn, according to the report on market climate published on 21 February 2017, in February the General Business Indicator in the construction sector was -6.8 (vs. 9.8 a month before). An improvement was signalled by 16.0% of enterprises, with 22.8% pointing to a deterioration. It should be emphasised that the data relate to the whole construction sector, including the infrastructure segment.

Availability of financing. According to the latest AMRON – SARFiN report published on 28 February 2017, in 2016 banks issued 178.1k new housing loans with a value of PLN 39.5bn. This was close to the value reported in 2015. According to the results of the PENGAB banking business sentiment index published by the Polish Banks Association in January 2017, for 6-month projections 58% of the the polled bankers pointed to an increase, 50% to stabilisation and merely 7% to a decline in the volume of housing loans.

FX rates. 2017 is another year when it is difficult to predict exchange rates for currencies of the countries in Central and Eastern Europe. According to the forecast of Raiffeisen Bank International published on 3 March 2017, the currencies of the Central European countries should be rather stable vs. euro. The zloty should remain at 4.30-4.30 vs. euro. Another essential forecast is for the rouble and dollar rate, which should stand at 60 USD/RUB until the end of 2017.

Collection risk. The Group companies do not see a material increase in overdue debtors. The age structure of trade receivables is presented in Note 20.1 of the consolidated financial statements.

Commodity prices. The prices of the key commodities used for the production of construction chemicals remained rather stable in the first three quarters of 2016. The only increase was observed in the prices of raw materials for the production of sealants. However, in the fourth quarter of 2016, the prices of key commodities started to grow and this trend is expected to continue throughout 2017.

1.11. Expected development of the Group

In 2017, the growth of Selena FM Group will continue to be driven by boosting sales in mature markets, particularly in Western Europe, with a support from the markets of Eastern Europe. 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 the sales of products that are innovative on an European scale
- Constant improvement of the existing products
- Rapid development of the hydro-insulation product group, including a robust growth in the sales of COOL-R
- 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 effectiveness of the Group companies to optimise the use of their production potential.

1.12. Investment plans

After the launch of the new production plant in Astana, Kazakhstan on 6 December 2017, Selena FM Group plans to focus on modernisation investments to increase the effectiveness and efficiency of production lines and on investments into work safety. The Group will also continue investments into laboratory facilities and equipment of the Selena's Research Centre as part of Selena Labs.

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 ERP class IT system based on Microsoft Dynamics AX 2012 will be rolled out to selected European companies after ensuring stable operation of the system at Polish companies. This phase is expected to start in late 2017/early 2018.

If the economic conditions are attractive enough, Selena FM Group 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.

Figures in PLN thousand	Year ended 31 December 2016	Year ended 31 December 2015	Change	Change %
Revenue from sales	1,013,819	997,867	15,952	1.6%
Cost of sales	680,849	680,895	-46	0.0%
Gross profit on sales	332,970	316,972	15,998	5.0%
Selling and marketing costs	180,386	168,725	11,661	6.9%
General and administrative expenses	81,976	74,761	7,215	9.7%
Other operating profit (loss)	-34,977	-14,580	-20,397	-
EBITDA – operating profit + depreciation / amortisation	59,220	83,568	-24,348	-
Operating profit (loss) (EBIT)	35,631	58,906	-23,275	-
Net financial income (loss)	8,644	-21,438	30,082	-
Share in net profit/loss of the associate	481	489	-8	-
Profit (loss) before tax	44,756	37,957	6,799	-
Profit (loss) after tax	32,249	26,803	5,446	-
Total other net comprehensive income	4,962	-24,768	29,730	-
Total comprehensive income	37,211	2,035	35,176	-

			Change in p.p.
Gross profit margin	32.8%	31.8%	1.1
Selling costs / revenue from sales	17.8%	16.9%	0.9
General and administrative expenses / revenue from sales	8.1%	7.5%	0.6
EBITDA margin %	5.8%	8.4%	-2.5
Operating profit margin (EBIT%)	3.5%	5.9%	-2.4
Net profit margin	3.2%	2.7%	0.5

EBIT % - operating profit / sales

EBITDA % - EBITDA / sales

Revenue from sales

In 2016, consolidated revenue from sales amounted to PLN 1,013.8m, slightly up on last year (+16.0m). Sales continued to decline in the Russian market (although at a slower pace), in Kazakhstan, China and Poland. One of the factors that led to weaker sales results in the first half of the year included the technical problems with implementation of the ERP IT system. Increases were observed in the markets of Western Europe and both Americas.

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 2015. The European Union remains the key segment, which generated 62% of total sales. The stable share of the Poland subsegment results from the increase of sales of the Polish production companies in the markets of Western Europe, among others. The sales of the companies established in the EU countries increased as well. The share of sales to the Eastern Europe and Asia in total Group sales declined by 3 p.p., mainly due to the Russian and Kazakh market. Sales in the segment of North and South America continued to grow strongly – by 21%. This segment had 8% share in the Group's sales.

Segment	Segment's share in the Group's revenues		Change 2016 / 2015
	Year ended 31 December 2016	Year ended 31 December 2015	
European Union, including:	62%	61%	5%
<i>Poland</i>		39%	39%
<i>Other countries</i>		22%	21%
Eastern Europe and Asia	31%	34%	-8%
N&S America	8%	6%	21%

Gross profit on sales

With sales similar to the level reported in 2015 (an increase of PLN 16m), gross profit was 5.0% higher than a year before, amounting to PLN 333.0m. This means an increase in the gross profit margin to 32.8% vs. 31.8% a year before. The increase resulted from stable prices of raw materials over the first three quarters of 2016 and from the gradual marketing of new, high-margin products.

Selling costs and general and administrative expenses

Selling costs in 2016 were PLN 180.4m, growing only partly due to the increase in sales. Their key growth drivers included the spend on boosting sales in Western Europe and in Americas and effect of conversion of local currencies. In addition, the value of selling costs was affected by the launch of new products (including COOL-R) – an effect of building sales force for new products at Selena Italia, Selena Iberia, Selena Romania and Selena CA.

General and administrative expenses in 2016 increased by PLN 7.2m year-on-year. The increase results e.g. from the market pressure on increasing wages in the Group companies. Another factor contributing to the increase in this line item is the cost arising from the need to stabilise operation of the ERP system, incurred in 2016. General and administrative expenses were also affected by the conversion of local currencies into the Group's functional currency.

The result on other operations was negative at PLN -35m. This line was primarily affected by the impairment losses on receivables and inventories. After a recoverability analysis, impairment losses on receivables were posted (PLN 10.9m), debts

were written off (PLN 1.0m) and an impairment charge for inventories and inventory liquidation costs was recognised (PLN 5.0m). In 2016, the companies from Selena Group created provisions of PLN 10.4m posted in other operating costs. The item is described in Note 7.2. of the consolidated financial statements. Furthermore, the balance of other operating costs and revenues in 2016 was affected by the cost of unutilised production capacity (PLN 6.2m).

The result on other operations was primarily influenced by the subsidies received (PLN 1.3m) and reversed impairment charges on receivables and inventories (PLN 0.5m).

Operating profit (loss)

In 2016, the Group generated an operating profit of PLN 35.6m versus PLN 58.9m in the previous year. The change in operating profit results from the change in selling, general and administrative expenses, as described above, and in the revenue from sales.

Profit after tax

In 2016, Selena Group generated net profit of PLN 32.2m, vs. PLN 26.8m achieved last year, which means a higher net profit margin (up by 0.5 p.p. (3.2% vs. 2.7% in 2015)). 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 increased in 2016 by FX gains of PLN 16.2m (on balance). The positive net FX position was due to appreciation of the local currencies vs. euro in the period from 1 January to 31 December 2016 (Russian rouble, Kazakh tenge and Brazilian real).

The cost of interest on loans and advances and finance leases totalled PLN 6.9m. Interest income from bonds was PLN 4.2m. The result on exercised and valued financial derivatives (FX forwards and options) was negative at PLN 1.3m.

In 2016, the income tax charge was PLN 12.5m.

In 2016, EBITDA was PLN 59.2m (including depreciation/amortisation: PLN 23.6m) and was by PLN 24.3m lower than in 2015.

2.2. Asset and financial position

The table below shows selected figures of the consolidated statement of financial position as at 31 December 2016 and 31 December 2015.

Figures in PLN thousand	31 December 2016	31 December 2015	Change	Change %
Non-current assets	327,114	380,982	-53,868	-14%
Property, plant and equipment	231,803	226,854	4,949	2%
Intangible fixed assets	54,110	49,061	5,049	10%
Other long-term assets	41,201	105,067	-63,866	-61%
Current assets	475,949	374,082	101,867	27%
Inventories	144,844	116,974	27,870	24%
Trade receivables	181,630	165,522	16,108	10%
Cash	54,704	41,899	12,805	31%
Other current assets	94,771	49,687	45,084	91%
Equity	434,129	403,768	30,361	8%
Liabilities	368,934	351,296	17,638	5%
Loans and advances	178,090	194,670	-16,580	-9%
Trade liabilities	109,570	92,127	17,443	19%
Other liabilities	81,274	64,499	16,775	26%
	31 December 2016	31 December 2015		

Current liquidity	2.5	1.5
Quick liquidity	1.7	1.0
Debt ratio	46%	47%
<i>Current liquidity – current assets / current liabilities</i>		
<i>Quick liquidity – current assets less stocks / current liabilities</i>		

The Group's balance sheet total increased by PLN 48.0m. Non-current assets decreased by PLN 53.9m as a result of reclassification of PLN 60m worth of bonds acquired from long-term to short-term financial assets. Current assets increased by PLN 101.9m year-on-year. The Group's liabilities increased by PLN 17.6m, with a strong impact from the provisions raised in 2016.

The current and quick liquidity ratios (2.5 and 1.7, 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.

	Figures in PLN thousand	31 December 2016	31 December 2015
Interest bearing borrowings		178,090	194,670
Other financial liabilities		21,305	20,973
Less cash and cash equivalents		-54,704	-41,899
Net debt		144,691	173,744
Equity attributable to the shareholders of the parent		433,576	403,436
Equity and net debt		578,267	577,180
Gearing (net debt / equity + net debt)		25%	30%
Debt ratio (liabilities / total assets)		46%	47%
Net debt / EBITDA*		2.44	2.08

* 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 decreased vs. 31 December 2015 to PLN 178.1m (down by PLN 16.6m).

At the end of 2016, the debt ratio amounted to 46% and was lower than the ratio posted a year before (47%).

2.4. Cash flows

The tables below show selected items of the consolidated cash flow statement for 2016 and 2015.

	Year ended 31 December 2016	Year ended 31 December 2015	Change
Figures in PLN thousand			
Net cash flows from operating activities	69,925	54,688	15,237
Net cash flows from investing activities	-21,011	-96,520	75,509
Net cash flows from financing activities	-36,031	34,520	-70,551
Change in cash and cash equivalents:	12,883	-7,312	20,195

In 2016, net cash flows were PLN 12.9m vs. - PLN 7.3m in 2015.

Positive net cash flows from operating activities were PLN 69.9m versus PLN 54.7m in 2015.

Net cash flows from investing activities were negative at -PLN 21.0m compared with the negative balance of -PLN 96.5m recorded in 2015.

Net cash flows from financing activities amounted to -PLN 36.0m. This figure was mainly affected by net loan payments (-PLN17.3m), interest paid (-PLN 6.8m) and finance lease payments (-PLN 5.2m). The parent company Selena FM S.A. paid shareholders PLN 6.9m in cash in 2016 as part of settlement of dividend payout.

2.5. Loans received

The balance of bank borrowings as at 31 December 2016 is presented in the table below.

Ref	Loan type	Maturity date	31 December 2016		31 December 2015	
			Long-term portion	Short-term portion	Long-term portion	Short-term portion
1	Invoice purchase loan	10/2016	0	0	0	5,050
2	Working capital loan	07/2018	51,469	0	0	68,327
3	Working capital loan	07/2018	25,401	0	0	35,193
4	Working capital loan	01/2017	0	10,536	10,113	0
5	Working capital loan	02/2018	55,861	0	61,043	0
6	Investment loan	03/2018	440	1,759	2,118	1,694
7	Working capital loan	09/2019	19,805	0	0	0
8	Other	Different	5,754	7,065	6,580	4,552
			158,730	19,360	79,854	114,816

Details of the lending terms are presented in Note 24.2 of the consolidated financial statements for 2016.

As part of the loan agreements signed by the Parent Company separately or jointly with its subsidiaries, Selena FM S.A. undertook to maintain certain financial ratios at the levels agreed with banks. In 2016, Selena Group maintained 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. 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. 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 Sirius Investments S.a.r.l., which 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 2016.

2.8. Financial instruments and financial risk management principles

Details of the Group's financial instruments are presented in Note 35 of the Group's consolidated financial statements for 2016. 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 34 of the Group's consolidated financial statements for 2016.

2.9. Investments

In 2016, 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 2016, the ratio of current assets to current liabilities (current liquidity ratio) was 2.5. The Group's current assets amounted to PLN 475.9m, while current liabilities were PLN 190.7m. 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 2016, the Group's cash position was PLN 54.7m. The Group also has undrawn credit limits of PLN 78.9m, 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 2016, 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 2016.

Contracting company	Insurance	Sum insured (million)	Ccy	Insurance period
All companies established in Poland	Insurance of assets against all risks, electronics, loss of profit	284.74	PLN	16/06/2016 - 15/06/2017
	General liability insurance (for the conducted business and property held)	20.00	PLN	16/06/2016 - 15/06/2017
	Motor insurance	Different	PLN	12 months
	Insurance against accidents and cost of medical service during foreign business trips	20.00	USD	1/08/2016 - 31/07/2017
	Liability insurance for firms providing accounting services to third parties (Selena FM SA)	0.30	PLN	Different
	Electronic equipment insurance	3.64	PLN	16/06/2016 - 15/06/2017
	Loss of profit insurance	34.49	PLN	16/06/2016 - 15/06/2017
	D&O insurance	50.00	PLN	1/11/2016-31/10/2017
Selena Iberia	Asset insurance	30.31	EUR	
	Insurance against loss of profit due to business interruptions	11.73	EUR	
	Goods-in-transit insurance	Different	EUR	1/11/2016-31/10/2017
	Liability insurance for natural environment	3.00	EUR	
	General liability insurance (for the conducted business and property held)	3.00	EUR	
Global agreements	Trade credit insurance	24.00	EUR	
	Trade credit insurance	38.00	PLN	1/11/2016-31/10/2017
Other foreign affiliates	Insurance of assets against all risks, electronics, loss of profit	8.30	RON	16/06/2016 - 15/06/2017
		9.27	TRY	
	General liability insurance (for the conducted business and property held)	2.00	EUR	28/08/2016-15/06/2017

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 2016, no securities were issued.

3.4. Acquisition of own shares

The Company did not have any treasury shares either as at 31 December 2016 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.

3.5. Delivery of forecasts

The Company did not publish its consolidated forecasts for 2016.

3.6. Litigations

The total value of all court, arbitration or administrative proceedings pending as at 31 December 2016 did not exceed 10% of the Company's equity.

On 8 September 2016, the Court of Appeal in Warsaw heard the claim of Carina Silicones Sp. z o.o against Bank Millennium S.A. of Warsaw to repudiate the FX options agreements of 8 July 2008. The court upheld the decision dismissing the claim.

In the same case, a lawsuit is pending where Millennium Bank claims a payment of PLN 10,256k from the company. A detailed description of the case is contained in Note 28.3 of the Group's consolidated financial statements for 2016. The Management Board of the Parent Company sustains its opinion that the Bank Millennium's claim is groundless.

Selena S.A. is a party to customs proceedings, initiated by the Heads of Customs Offices in Gdynia and Gdańsk, relating to the imposition by the customs authorities of anti-dumping duty on the company in connection with the import of open-mesh fabrics. At present, there are 32 proceedings pending relating to the decisions on imposition of customs duties, contested by Selena S.A., including 28 proceedings being on hold as at 31 December 2016. A provision was raised for the amount of potential future customs obligations. The provision was posted in the 2016 costs. A detailed description of the case is contained in Note 28.3 of the Group's consolidated financial statements for 2016.

Other material litigations that might give rise to liabilities are described in Note 28.3 of the Group's consolidated financial statements for 2016.

3.7. Unusual events and factors

Other key factors affecting the Group's performance in 2016 were described in Note 2 of this report.

3.8. 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 32 of the Group's consolidated financial statements for 2016.

3.9. Equity-based remuneration programmes

In 2016, no equity based remuneration programmes were in operation.

3.10. Shareholdings by executive and non-executive directors

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

Name	Role	Number of shares held	Nominal value of shares (PLN)
AD Niva Sp. z o.o. *	-	9,538,000	476,900
Syrius Investments s.a.r.l.**	-	8,050,000	402,500
Marcin Macewicz	Management Board member	600	30

* entity controlled by Krzysztof Domarecki, Supervisory Board Chairman, through Syrius Investment s.a.r.l.

** entity controlled by Krzysztof Domarecki, Supervisory Board Chairman

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

3.11. 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.

3.12. Control of Employee Share Programmes

In 2016, no employee shares programmes were in place in Selena FM S.A..

3.13. Information on the audit of the financial statements

On 25 May 2016, the Supervisory Board of Selena FM S.A. resolved to appoint Deloitte Polska Sp. z o.o. as the auditor responsible for review of the interim financial statements and audit of the annual financial statements of the Parent Company, and the Group's consolidated financial statements for 2016 and 2017. The audit agreement was concluded on 6 July 2016.

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 2016.

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

The Management Board of Selena FM S.A. hereby confirms that to the best of its knowledge the consolidated financial statements for 2016 and the comparable data have been prepared in accordance with the applicable accounting policies and give a true, fair and clear picture of the affairs of Selena FM Group and its financial performance and that the Management Board's annual consolidated 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 consolidated financial statements of the Group for 2016 was selected in accordance with the law and that the audit firm and its auditors fulfilled the necessary criteria to be able to issue an unbiased and independent opinion of the annual financial statements in accordance with the applicable laws and professional standards.

Management Board President

.....
Jean-Noël Fourel

**Vice-President of the Management
Board
for Finance**

.....
Hubert Rozpędek

**Vice-President of the Management
Board
for Sales and Marketing**

.....
Marcin Macewicz

Management Board Member

.....
Agata Gładysz