SELENA FM GROUP

MANAGEMENT BOARD'S REPORT ON THE GROUP'S ACTIVITIES
FOR THE 6 MONTHS ENDED
30 JUNE 2017

Wrocław, 18 September 2017

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1. Financial highlights

Group's financial data

	figures in PLN thousand		EUR thousand	
	6 months ended 30 June 2017 (unaudited)	6 months ended 30 June 2016 (unaudited)	6 months ended 30 June 2017 (unaudited)	6 months ended 30 June 2016 (unaudited)
Revenue from sales	541 148	456 034	127 407	104 105
Operating profit (loss)	17 225	17 026	4 055	3 887
Profit (loss) before tax	973	26 389	229	6 024
Profit (loss) after tax	-4 911	20 123	-1 156	4 594
Profit (loss) attributable to the shareholders of the parent	-4 939	20 024	-1 163	4 571
Comprehensive income	-11 242	21 337	-2 647	4 871
Comprehensive income attributable to shareholders of the parent	-11 221	21 239	-2 642	4 849
Net cash flows from operating activities	-11 593	2 262	-2 729	516
Net cash flows from investing activities	-7 971	-12 173	-1 877	-2 779
Net cash flows from financing activities	48 738	17 846	11 475	4 074
Number of shares	22 834 000	22 834 000	22 834 000	22 834 000
Earnings per ordinary share (PLN/share) /EUR/share)	-0,22	0,88	-0,05	0,20
	30 June 2017 (unaudited)	31 December 2016	30 June 2017 (unaudited)	31 December 2016
Total assets	960 929	803 063	227 358	181 524
Non-current liabilities	184 629	178 215	43 684	40 284
Current liabilities	360 263	190 719	85 239	43 110
Equity	416 037	434 129	98 435	98 130
Registered capital	1 142	1 142	270	258

Financial data of the Parent Company

	PLN thousand		EUR thousand	
	6 months ended 30 June 2017 (unaudited)	6 months ended 30 June 2016 (unaudited)	6 months ended 30 June 2017 (unaudited)	6 months ended 30 June 2016 (unaudited)
Revenue from sales	229 317	211 271	53 990	48 230
Operating profit (loss)	4 890	-11 473	1 151	-2 619
Profit (loss) before tax	-22 615	-7 399	-5 324	-1 689
Profit (loss) after tax	-20 260	-7 868	-4 770	-1 796
Comprehensive income	-20 260	-7 868	-4 770	-1 796
Net cash flows from operating activities	-16 793	-6 915	-3 954	-1 579
Net cash flows from investing activities	-6 292	-6 328	-1 481	-1 445
Net cash flows from financing activities	49 927	16 946	11 755	3 869
Number of shares	22 834 000	22 834 000	22 834 000	22 834 000
Earnings per ordinary share (PLN/share) /EUR/share)	-0,89	-0,34	-0,21	-0,08
	30 June 2017 (unaudited)	31 December 2016	30 June 2017 (unaudited)	31 December 2016
Total assets	613 537	527 649	145 164	119 270
Liabilities	366 670	253 672	86 755	57 340
Equity	246 867	273 977	58 409	61 930
Registered capital	1 142	1 142	270	258

2. Information about the Group

2.1 Group's activities

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

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

- Polyurethane mounting foams and foam adhesives
- Construction sealants (silicones, acrylic products)
- Construction and mounting adhesives
- Roofing membranes and shingles
- Bituminous masses
- thermo-reflexive roof 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 are 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. The Group also has an associated company, Hamil-Selena Co. Ltd, in South Korea and a joint venture House Selena Company Ltd. in China.

2.2 Parent Company

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

2.3 Management Board

As at 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.

Changes in the Management Board in 2017:

- On 30 January 2017, the Supervisory Board of Selena FM S.A. appointed Mr Marcin Macewicz as Vice-President for Sales and Marketing.
- As of 1 March 2017, the Supervisory Board of Selena FM S.A. appointed Ms Agata Gładysz-Stańczyk to the position of Member of the Management Board.

As at 30 June 2017, the Parent Company's Management Board was composed of:

- Jean-Noël Fourel – Management Board President
- Marcin Macewicz – Vice-President of the Management Board for Sales and Marketing
- Hubert Rozpędek – Vice-President of the Management Board for Finance
- Agata Gładysz-Stańczyk – Management Board Member.

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

2.4 Supervisory Board

As at 31 December 2016, 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.
- Hans Kongsted – Supervisory Board Member
- Francisco Azcona – Supervisory Board Member.

Changes in the Supervisory Board composition in 2017:

- on 26 May 2017, Mr. Francisco Azcona resigned from the position of Member of the Supervisory Board as of 26 May 2017.
- on 20 June 2017, Mr. Hans Kongsted resigned from the position of Member of the Supervisory Board effective from 23 June 2017.

As at 30 June 2017, the Parent Company's Management Board was composed of:

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

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

2.5 Group structure

A detailed geographic and ownership structure, and division into geographic segments were described in the interim condensed consolidated financial statements of the Group for the year ended 30 June 2017 (Note 1.5).

Detailed description of changes in the Group structure in the first half of 2017 is presented in Note 1.5 to the condensed consolidated financial statements of the Group
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3. Key developments

3.1 Awards and recognitions

Promoter of the Polish Economy

At the 9th European Economic Congress, which took place on 11-12 May 2017, Selena received the award of a "Promoter of the Polish Economy". The award, conferred for the first time in history – as an idea of the "Teraz Polska" (Now Poland) Foundation – is designed to promote the companies whose achievements successfully build the awareness of the "Poland" brand, both at home and abroad. The European Economic Congress has been a regular feature in Katowice's events calendar since 2009 and is the largest business event in Central Europe. It attracts the most important representatives of the world of politics, science and business, including CEOs of the largest corporations and investors.

Selena S.A. receives six STATUETTES TOPBUILDER 2017

Selena S.A. was awarded as many as six TopBuilder 2017 statuettes, one of the most prestigious awards in the Polish construction market. The awarded products were: TYTAN Professional EVOMER – Quick Primer; Filling Putty and Quick Coating; TYTAN Professional 60 Seconds Universal Quick Foam Adhesive; Tytan Professional STD Polyurethane Foam with a new ERGO applicator and TYTAN Professional FIX² GALLOP mounting adhesive. In the annual competition organised by the *Builder* monthly, awards are conferred to recognise construction products and solutions of the highest quality as well as IT products that are used for architecture and construction.

3.2 Group promotion

Gala of the Builder monthly, 14th edition - Selena S.A. (25 January 2017)

At the Builder Awards Gala, the Polish distribution company - Selena S.A. was awarded, for the fifth time, as the "Construction Company of the Year 2016" and its CEO – Andrzej Ulfig, was hailed as the "Personality of the Industry 2016", a recognition conferred for effective management of the company, expansion of its potential, building its competitive advantage as well as for entrepreneurship, business acumen and supporting the initiatives that were important for the sector.

Competing in the *Builder* competition were contractors, developers, architects as well as producers and distributors of solutions for the construction sector, and companies and institutions from outside the sector, who support the sector's development. Its goal was to identify the companies and persons that stand out in the Polish construction sector, promote them and disseminate best practices and business relationships in the construction sector. The aspects assessed were e.g. market position, achievements vs. peers and the quality of products and services.

Press conference and meetings with customers – Selena Bugaria (2 February 2017)

In the local market, in Sofia, Selena organised a press conference, where it outlined the company's development strategy and plans for the Bulgarian market. The matters discussed included e.g. actions programme with a focus on the latest trends and solutions existing in the local construction sector. The event was attended by more than 20 media representatives. At the conference, Selena's new product was presented – COOL-R, the innovative roofing coating. On the same day, meetings were organised for the key business partners of the Bulgarian company, attended by the CEO of Selena FM S.A. Jean-Noël Fourel, Vice-President of the Management Board responsible for Sales and Marketing – Marcin Macewicz and Managing Director of Selena Bulgaria – Diyan Dimitrov. More than 80 people attended the evening meeting with customers, including representatives of Selena's most important partners in Bulgaria such as Bright 2000, Te-Trade Group, Argos 71, Stad Bliznakov, HVG Komers, Toplivo, Bulgarian Association of Thermal Insulation and Waterproofing, Eco Savro, V-Eland, Inter al-Pin and many more.

Silver Partner of the "Turbo Roofer" competition – Selena S.A. (7 – 10 February 2017)

At the International Construction and Architecture Fair BUDMA 2017, the Polish Association of Roofers arranged the first roofing competition called "Turbo Roofer", and Selena S.A. became a Silver Partner of that event. During the event, TYTAN Professional and Matizol products were presented. BUDMA is one of the most important meeting places for producers of modern technologies and construction materials, architects, contractors and investors.

YugBuild exhibition (WorldBuild Krasnodar) – Selena Vostok (28 February – 3 March 2017)

Selena Group's Russian company – Selena Vostok – participated in international fairs, the largest ones in the south of Russia, with construction and finishing materials, engineering equipment and architectural products: "YugBuild/WorldBuild Krasnodar". Selena Vostok mainly presented the products of Tytan Professional brand and COOL-R – highly reflective, waterproof roof coating. The event was attended by nearly 5 thousand representatives of retail and wholesale trading companies, 3.5 thousand representatives of companies dealing with construction, repair and renovation, 600 architects and designers.

Selena Iberia at FIGAN Fair (31 March 2017)

Selena Iberia was one of the exhibitors at the FIGAN Fair, which took place in Zaragoza at the end of March 2017. The company presented COOL-R, Selena's innovative product which helps improve thermal conditions in animal breeding. The FIGAN International Fair is an event that brings together industry professionals, manufacturers and entrepreneurs offering the best solutions to the farming sector. The main theme of the thirteenth edition of the fair was innovation and technology.

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.

Selena Sulamericana at FEICON BATIMAT 2017 (4-8 April 2017)

In April 2017, Selena Sulamericana took part in the largest industry event in South America – FEICON BATIMAT 2017 fair, which attracted more than 90,000 visitors this year. In Brazil, the company presented innovative building chemicals developed in its own laboratories. In the Brazilian market, Selena offers more than 70 different products, six of which made their debut at FEICON BATIMAT 2017. At the the Selena's stand, visitors could participate in live demonstrations of the latest solutions, including Selena's innovative TYTAN 60 SECONDS foam adhesive. They also had the opportunity to test the exhibited products on their own.

Selena Iberia at the Tektónica 2017 fair (4–7 May 2017)

On 4–7 May 2017, Selena Iberia participated in the largest Portuguese construction fair – Tektónica 2017. The company presented its product offer, but mainly focused on presentation of its waterproofing products (Aqua Protect), the new polyurethane foams (Orbafoam) and the Betamex adhesive. Tektónica is the largest event of such type in Portugal. Visitors mainly include contractors and construction consultants, engineers, architects, designers, local authorities, representatives of universities and colleges, including technical ones, associated entities and sectoral bodies.

Selena Group – local events marking the 25th anniversary (1 January–30 June 2017)

In 2017, the Selena Group celebrates 25 years of its existence. Since the beginning of the year, meetings have been held at Selena's local companies to celebrate the anniversary, sum up the achievements to date, present key products and a strategy for the future. In H1 2017, we celebrated Selena's anniversary in, *inter alia*, Italy and Romania. Each of these events is attended by representatives of the Group's Management Board, business partners and customers. The celebration events help strengthen the relationships with regional markets and with the Group's employees at individual companies.

Selena FM at Korea EXPO 2017 (29–30 June 2017)

On 29 and 30 June 2017, Selena FM S.A. participated in the Korea EXPO 2017 exhibition, which took place in Warsaw, in the Palace of Culture and Science, and was organised by the Embassy of the Republic of Korea to Poland. The purpose of the event is to forge cultural and business ties between the two countries. At the opening gala, Michał Specjalski, Head of Marketing of Selena Group, delivered a speech about conducting business in South Korea from the perspective of a foreign investor. Selena FM SA has been present in Korea for more than 16 years. With its stake in Hamil Selena Co. Ltd, Selena is one of the leading manufacturers of single-component polyurethane foams.

3.2.1 New products in the portfolio

In the first quarter of 2017, the following waterproofing systems for flat roofs (category of roof coverings and waterproofing products) were added to the portfolio: a system of mechanically fastened roofs TACK-R, a reverse roof system TACK-R, a self-adhesive roof system TACK-R, green room systems TACK-R Green and a waterproofing system for underground parts TACK-R. The solutions are based on Selena's own innovative technology. They are adapted to different needs and weather conditions, forming solutions that respond to the various requirements of investors and contractors. Selected TACK-R systems have Broof t1 certification (prevention of fire spreading) and FLL (resistance to outgrowing roots). The system of TACK-R green roofs (biologically active surfaces), extensive and intensive, are additionally optimised in terms of selection of greenery, additional load on roofs and system components.

In Q2 2017, Selena expanded its product range to include a primer for concrete surfaces, designed for strengthening the grip of parquet adhesives (based on hybrid adhesives) and a two-component bituminous compound for thick-layer waterproofing coatings.

3.2.2 Research and development

In the first quarter of 2017 Selena Labs's research and development team focused primarily in the area of adhesives and sealants. Nine new product formulations were developed, including two new formulations for neutral silicones and low-module hybrid sealant. The first quarter was also an intensive period of developing input data for new optimisation projects and well as new products connected with foam adhesives and two-component systems and Spray-type systems.

In the second quarter of 2017, Selena continued optimisation work on the technology of production of hybrid and polyurethane adhesives. For example, a formulation was developed for the hybrid HIGH TACK adhesive in five new colours, formulations for neutral silicones that do not emit harmful substances (classified as NO MEKO) or a formulation for low-modulus hybrid sealant.

3.3 Investments

Modernisation investments at Libra, Selena Insulations in Kazakhstan, Selena Iberia and Selena Nantong were the projects which had the highest share in the capital expenditure spent in H1 2017. As part of the construction of a new R&D laboratory in Dzierżoniów, the necessary building permits were obtained, the general contractor was selected in a public tender and the building process was started. The new laboratory building is to bring together most of the Group's distributed R&D functions.

3.4 Significant events occurring after the balance sheet date

On 25 July 2017, AD Niva Sp. z o.o. used the right of early redemption of some bonds (PLN 20 million) purchased by Selena FM S.A. Details are provided in Note 14 of the condensed unconsolidated financial statements of Selena FM S.A. for the six months ended 30 June 2017.

On 27 July 2017, the subsidiary Selena Vostok entered into a working capital line agreement. The available line is RUB 400 million. The credit line was granted for 18 months. It will be secured by a corporate guarantee of Selena FM S.A.

4. Financial position

4.1 Financial performance

The tables below show selected items of the consolidated income statement for the 6 months and 3 months ended 30 June 2017 and 30 June 2016, respectively, as well as selected financial ratios.

Figures in PLN thousand	6 months ended 30 June 2017 (unaudited)	6 months ended 30 June 2016 (unaudited)	Change Change	Change %
Revenue from sales	541 148	456 034	85 114	18,7%
Cost of sales	378 105	303 563	74 542	24,6%
Gross profit on sales	163 043	152 471	10 572	6,9%
Selling and marketing costs	95 844	85 013	10 831	12,7%
General and administrative expenses	47 648	38 515	9 133	23,7%
Other operating profit (loss)	-2 326	-11 917	9 591	-
EBITDA – operating profit + depreciation / amortisation	29 716	27 779	1 937	-
Operating profit (loss) (EBIT)	17 225	17 026	199	-
Net financial income (loss)	-16 737	8 882	-25 619	-
Profit (loss) before tax	973	26 389	-25 416	-
Profit (loss) after tax	-4 911	20 123	-25 034	-
Total other net comprehensive income	-6 331	1 214	-7 545	-
Total comprehensive income	-11 242	21 337	-32 579	-

EBITDA – operating profit + depreciation/amortisation

			Change in p.p.
Gross profit margin	30,1%	33,4%	-3,3
Selling costs / revenue from sales	17,7%	18,6%	-0,9
General and administrative expenses / revenue from sales	8,8%	8,4%	0,4
EBITDA margin %	5,5%	6,1%	-0,6
Operating profit margin (EBIT%)	3,2%	3,7%	-0,6
Net profit margin	-0,9%	4,4%	-5,3

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

Figures in PLN thousand	3 months ended 30 June 2017 (unaudited)	3 months ended 30 June 2016 (unaudited)	Change	Change %
Revenue from sales	321 043	277 338	43 705	15,8%
Cost of sales	225 323	182 641	42 682	23,4%
Gross profit on sales	95 720	94 697	1 023	1,1%
Selling and marketing costs	51 824	46 305	5 519	11,9%
General and administrative expenses	24 847	19 179	5 668	29,6%
Other operating profit (loss)	364	-8 208	8 572	-
EBITDA – operating profit + depreciation / amortisation	21 151	19 092	2 059	-
Operating profit (loss) (EBIT)	19 413	21 005	-1 592	-
Net financial income (loss)	-12 258	11 355	-23 613	-
Profit (loss) before tax	7 640	32 841	-25 201	-
Profit (loss) after tax	3 622	26 568	-22 946	-
Total other net comprehensive income	-4 536	2 249	-6 785	-
Total comprehensive income	-914	28 817	-29 731	-

EBITDA – operating profit + depreciation/amortisation

			Change in p.p.
Gross profit margin	29,8%	34,1%	-4,3
Selling costs / revenue from sales	16,1%	16,7%	-0,6
General and administrative expenses / revenue from sales	7,7%	6,9%	0,8
EBITDA margin %	6,6%	6,9%	-0,3
Operating profit margin (EBIT%)	6,0%	7,6%	-1,5
Net profit margin	1,1%	9,6%	-8,4

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

Sales

Consolidated revenue from sales in the first half of 2017 amounted to PLN 541.1m, which is by 18.7% (by PLN 85.1m) more than in the corresponding period of the previous year.

The sales growth was mainly driven by sales increases, in terms of value, in Russia, Poland and Spain. Sales increased notably also in other European countries, and in Turkey, Brazil, China and Kazakhstan.

The sales of Selena Group are presented by three geographical segments: the European Union (including Poland), Eastern Europe and Asia (including Russia and China), and North and South America (USA and Brazil). The sales structure by segments has not changed significantly compared with 2016. The European Union remains the key segment, which generated 64% of total sales (vs. 66% in 2016). Poland sub-segment recorded a decrease of 3 p.p., despite a growth in value in real terms (+11%). The geographical segment Eastern Europe and Asia increased its share in total sales from 27% to 30% thanks to improved sales in Russia, Kazakhstan and China. The segment of North and South America increased its share by 1 p.p. to 6%, with a sales growth of 4%.

Segment	Segment's share in the Group's revenues		Change
	6 months ended 30 June 2017 (unaudited)	6 months ended 30 June 2016 (unaudited)	2017 / 2016
European Union, including:	64%	66%	14%
Poland	*38%*	*41%*	*11%*
Other countries	*26%*	*25%*	*19%*
Eastern Europe and Asia	30%	27%	35%
N&S America	6%	7%	4%

Gross profit on sales

In H1 2017, Selena Group generated gross profit of PLN 163.0m, i.e. PLN 10.6m more year-on-year.

Gross profit margin was 30.1%, i.e. by 3.3 p.p. less than last year. The decline was due to the dramatic increases in raw material prices, which could not be fully transferred to the market in a short time.

Selling costs and the general and administrative expenses

Selling costs in H1 2017 were PLN 95.8m, up by PLN 10.8m, i.e. 12.7% YoY. Their share in sales decreased by 0.9 p.p. from 18.6% to 17.7%.

In Q2 2017, selling costs were PLN 51.8m, up by PLN 11.9% YoY. There share in sales decreased to 16.1%.

In H1 2017, **general and administrative expenses** were PLN 47.6m, up 23.7% compared with the previous year. The expenses increased as a result of the unfavourable exchange rates between the local currencies and the Group's functional currency; recognition of the costs of Uniflex (PLN 1.1m) acquired in 2017; the start of amortisation of the ERP system (in Q2 2017); the depreciation charge in Selena Iberia, the increase in salaries in the Polish companies of Selena Group (increasing the manpower) and the market pressure on salary increases.

The ratio of selling, general and administrative expenses to sales was 26.5% in H1 2017, down 0.6 p.p. YoY.

Operating profit (loss)

In H1 2017, the Group generated an operating profit of PLN 17.2m versus PLN 17.0m in H1 2016. At the same time, in Q2 2017, the operating profit was PLN 19.4m.

The result on other operating activities was negative and amounted to PLN -2.3m compared to PLN -11.9m in the corresponding period of 2016, which means an improvement of PLN 9.6m. The balance of other operating activities was negatively affected by the cost of unused power (PLN 1.6 million), write-offs updating the value of receivables and depreciated receivables (PLN 16 thousand) and inventory revaluation write-downs, stock liquidation costs and inventories shortages (PLN 1.8 million).

Profit after tax

In H1 2017, the Group posted a net loss of PLN 4.9m vs. net profit PLN 20.1m reported in the corresponding period of 2016. In Q2 2017, net profit was PLN 3.6m, down by PLN 22.9m on Q2 2016.

In the case of Selena FM Group, the net result was influenced by the result on financial activity, mainly driven by the existing currency exposure. In H1 2017, the impact on financial activity was significant, at PLN -16.7 million, mainly including the result on valuation of open currency positions (trading settlements and loans received/granted) of PLN -16.3 million. For comparison, over the six months ended 30 June 2016, the Group posted FX gains of PLN 12.6 million. Negative FX differences on valuation in 2017 mainly result from unrealised FX losses (PLN -14.6 million), while the remaining part of PLN -1.7 million relates to realised FX differences. The main negative factor that affected the balance sheet valuation of the Group's currency exposures as of 30 June 2017 was the weakening of eastern markets currencies (the rouble, tenge, hryvnia) against the euro and the appreciation of the zloty against the euro. Selena Group hedges a part of its currency exposure relating to trade receivables and liabilities by using multi-currency credit lines and applying the Currency Risk Management, in particular by entering into forward transactions, primarily in EUR/RUB and EUR/PLN.

The cost of interest on loans and finance leases totalled PLN 0.8m net (after reduction by the interest on bank deposits and interest income from bonds) compared with PLN 1.6m incurred in H1 2016.

In H1 2017, the income tax charge was PLN 5.9m. In Q2 2017, the income tax charge amounted to PLN 4.0m.

In H1 2017, EBITDA was PLN 29.7m (including depreciation/amortisation: PLN 12.5 million) and was PLN 1.9 million higher than EBITDA in the corresponding period of the previous year.

4.2 Asset and financial position

The table below shows selected figures of the consolidated statement of financial position as at 30 June 2017 and 31 December 2016.

Figures in PLN thousand	30 June 2017 (unaudited)	31 December 2016	Change	Change %
Non-current assets	**322 212**	**327 114**	**-4 902**	**-1%**
Property, plant and equipment	226 275	231 803	-5 528	-2%
Intangible fixed assets	57 197	54 110	3 087	6%
Other long-term assets	38 740	41 201	-2 461	-6%
Current assets	**638 717**	**475 949**	**162 768**	**34%**
Inventories	193 947	144 844	49 103	34%
Trade receivables	248 630	181 630	67 000	37%
Cash	83 664	54 704	28 960	53%
Other current assets	112 476	94 771	17 705	19%
Equity	**416 037**	**434 129**	**-18 092**	**-4%**
Liabilities	**544 892**	**368 934**	**175 958**	**48%**
Loans and advances	231 691	178 090	53 601	30%
Trade liabilities	202 942	109 570	93 372	85%
Other liabilities	110 259	81 274	28 985	36%

	30 June 2017 (unaudited)	31 December 2016
Current liquidity	1.8	2.5
Quick liquidity	1.2	1.7

Current liquidity – current assets / current liabilities

Quick liquidity – current assets less stocks / current liabilities

The increase in current assets vs. 31 December 2016 (+PLN 162.8m) is a natural consequence of growing sales in Q2 2017 vs. Q4 2016, which is mainly reflected in the value of trade receivables and inventories.

The increase in inventories as compared to 31 December 2016 (by PLN 49.1 million) results primarily from seasonal factors - stockpiling of finished goods before the peak of the sales season, and also the take-over of control of Uniflex SpA (driving the inventory level up by PLN 5.5 million). Taking into account the seasonality of the Group's sales, as compared to the inventory level as of 30 June 2016, an increase of PLN 16.6 million was posted (9.3%), with a concurrent increase in sales of 18.7%, which means an improvement in the stock days ratio from 71 days to 65 days.

The increase in trade receivables vs. 31 December 2016 (+PLN 67.0m) was mainly caused by the strong increase in sales in Q2 2017, the FX rates prevailing as at the balance sheet date and the acquisition of Uniflex SpA (which drove receivables by PLN 14.9 million).

The current and quick liquidity ratios (1.8 and 1.2 respectively) confirm the lack of any liquidity problems of Selena Group and point to its ability to meet its obligations in a timely manner.

4.3 Debt

Figures in PLN thousand	30 June 2017 (unaudited)	31 December 2016
Interest bearing borrowings	231 691	178 090
Other financial liabilities	27 786	21 305
Less cash and cash equivalents	-83 664	-54 704
Net debt	**175 813**	**144 691**
Equity attributable to the shareholders of the parent	415 505	433 576
Equity and net debt	**591 318**	**578 267**
Gearing (net debt / equity + net debt)	30%	25%
Debt ratio (liabilities / total assets)	57%	46%
Ned debt / EBITDA*	2,87	2,44

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

The increase in debt on loans vs. 31 December 2016 mainly resulted from the seasonal factors and the ensuing higher working capital requirements.

In consequence, as at 30 June 2017, the debt ratio amounted to 57% and was 11 p.p. higher than at the end of 2016. The change results from an increase in the bank loans, and from the seasonal increase in trade liabilities.

4.4 Cash flows

The tables below show selected items of the consolidated statement of cash flows for the six months ended 30 June 2017 and 30 June 2016, respectively.

Figures in PLN thousand	6 months ended 30 June 2017 (unaudited)	6 months ended 30 June 2016 (unaudited)	Change
Net cash flows from operating activities	-11 593	2 262	-13 855
Net cash flows from investing activities	-7 971	-12 173	4 202
Net cash flows from financing activities	48 738	17 846	30 892
Change in cash and cash equivalents:	**29 174**	**7 935**	**21 239**

In H1 2017, net cash flows were PLN 29.2 million.

Net cash flows from operating activities amounted to PLN -11.6 million. Changes in net current assets compared with 31 December 2016: receivables (PLN -84.2m), inventories (PLN -53.4m) and liabilities (PLN -99.9m). The change in current assets of PLN -37.7 million (compared to PLN -16.8 million in the first half of 2016), which had a negative impact on cash flows from operating activities, was influenced by a YoY increase in sales and an ensuing change in working capital.

Net cash flows from investing activities were negative at -PLN 8.0m and investment expenses were down PLN 4.2m year-on-year. An important investment cash flow was the settlement of the acquisition of Uniflex SpA shares (cash flow of PLN -3.7 million).

Net cash inflows from financing activities amounted to PLN 48.7 million. The balance comprised mainly net borrowings (PLN 54.0 million) for financing operating and investing activities, interest paid (PLN -2.9 million) and repayment of finance lease liabilities (PLN -2.4 million).

4.5 Seasonality of activities

The building materials industry in which Selena Group operates is characterised by seasonality of sales. Lower activity is seen in the winter and early spring months, while in the subsequent quarters sales increase to usually peak in the third quarter. Looking at the figures for 2015-2016, one may conclude that sales in individual quarters have the following contribution to the total annual sales: Q1 – 18%, Q2 - 27%, Q3 - 30%, Q4 - 25%. Seasonal fluctuations of sales are primarily affected by the weather and fluctuations in sales in the individual geographies where the Group operates.

4.6 Delivery of forecasts

The Selena Group did not publish any performance forecast for 2017.

4.7 Factors that will affect financial performance in the next quarter

The macroeconomic situation in Poland and world-wide. The global economy forecast published by the International Monetary Fund (IMF) in April and updated on 23 July 2016, and the forecast of the European Bank for Reconstruction and Development (EBRD) of May 2017 sustains positive trends in economic development. This year, the global economy is expected to see GDP growth of 3.5% (up 0.3 p.p. on the previous year), with developed countries to observe a growth of 2.0%. In 2017, the GDP in the euro zone economy will grow only slightly slower, by 1.9%. As regards the key European markets of Selena Group, particularly important is the continuation of growth, including in the Spanish economy (an expected GDP increase of 3.1%). Positive GDP growth is also expected in the other European geographies of Selena Group: Romania +4.0%, Hungary +3.0%, Czech Republic +2.5%, Bulgaria +3.2% and Italy +1.3%. The EBRD expects that Poland will see GDP growth of +3.2%. As regards Selena's other markets, the IMF projections point to the GDP growth in 2017: USA 2.1%, China 6.7%, Russia 1.4% and merely 0.3% for Brazil (vs. -3.6% in 2016). For other Selena markets, the EBRD also forecasts positive GDP growth in 2017: Turkey 2.6%, Kazakhstan 2.4% (an increase after a pronounced economic slowdown in previous years). The growth in Ukraine is expected to be at 2.0%.

Situation in the construction sector. According to the Deloitte report, Poland with its 372 housing units per 1000 inhabitants is lagging far behind Germany or France, which have more than 500 housing units per 1000 inhabitants. This means a significant development potential for residential construction in Poland. Data published by the Central Statistics Office (GUS) on 18 August 2017 point to a major growth in house completions over 7 months (7.9% more than in 2016). At the same time the number of construction permits increased by 29.7%, while the number of commenced housing investments increased by 22.7%. For 7 months of 2017, construction and assembly output was 10.6% higher than in the corresponding period of the previous year.

According to the data released by GUS on 23 August 2017, the General Business Indicator in the construction sector was +5.2 (vs. 6.3 in July). An improvement was signalled by 17.8% of enterprises, with 12.7% pointing to a deterioration. Other enterprises believe that their position has not changed. August is the third consecutive month when the portfolio of orders and the construction and assembly output are positive. The situation in the construction sector in Selena Group's other geographies is expected to be volatile, but overall positive. A significant improvement was observed in the construction market in Russia and Kazakhstan.

Availability of financing. According to the report published on 30 August 2017 by Amron-Sarfin, in Q2 2017 the overall debt on housing loans remained increased slightly (PLN 992 million, up 0.23%), and so did their number (up 1.2%). According to the results of the PENGAB banking business sentiment index published by the Polish Banks Association, in June 2016 the polled bankers remained optimistic in their projections.For 6-month forecasts, 46% of bankers point to prospective growth, 6% expect a decline and others (47%) believe that the number of housing loans will remain flat.

FX rates. The available projections show that the coming months should not bring any dramatic changes in the FX markets. According to the forecast by Raiffeisen Bank International of 10 August 2017, by the end of September the zloty may depreciate to 4.3 vs. th euro, but should return to 4.2 by the end of the year.

Commodity prices. The third quarter of 2016 started a growing trend in commodity prices, particularly the prices of materials for the manufacture of polyurethane foams.The prices of the raw materials for the production of sealants are also expected to increase. The high prices and shortages commodity supplies should be expected to continue at least until the end of 2017.

5. Other information

5.1 Guarantees and off-balance sheet items

Either the Parent Company or any members of the Group did not give to third parties any guarantees whose value would exceed 10% of the Parent's equity.

Group companies provide cross-guarantees to each other in connections with jointly incurred bank debt, and as part of commercial transactions. These are intercompany dealings (the guarantees cover the obligations presented in the consolidated balance sheet), therefore the obligations in respect of such guarantees are not presented in the consolidated accounts.
Such guarantees given to the subsidiaries by Selena FM S.A. were described in detail in Note 29.1 of the unconsolidated financial statements of Selena FM S.A. for 2016 and in Note 19.1 of the condensed unconsolidated financial statements of Selena FM S.A. for the period of 6 months ended 30 June 2017.

5.2 Litigations

As at the date of approval of these financial statements, neither the Parent Company nor any Group company were a party to any court, arbitration or administrative proceedings whose value would exceed 10% of the Parent Company's equity.

Other significant court disputes were described in the consolidated financial statements of Selena FM Group for 2016 (Note 28.3).

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

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

The bank presented to the court an estimated obligation of PLN 6.9m in respect of settlement of the FX transactions. On 27 February 2015, the Regional Court in Warsaw passed a judgement on the strength of which the court of first instance dismissed the claim. The Company appealed. On 8 September 2016, the Court of Appeal in Warsaw passed a judgement concerning the claim filed by Carina Silicones Sp. z o.o. against Bank Millennium S.A. and upheld the decision of the District Court in Warsaw of 27 February 2015.

On 11 March 2013, Carina Silicones received from the District Court in Warsaw, XVI Economic Division, a copy of the claim for payment made by Millennium Bank, dated 4 January 2013. The bank stated its total claim amount at PLN 10,256k. The claim relates to the purported conclusion of FX transactions between the company and the bank in 2008. Repeating the opinion of the Management Board of Carina Silicones, supported with legal opinions, the Management Board of the Parent sustains its opinion that the bank's claims are unwarranted. Based on the legal opinion received, the company responded to the claim and moved that it should be dismissed in its entirety, proposing the proceedings to be suspended until determination of the fact of existence of the contested transaction. On 11 May 2013, the District Court in Warsaw, accepted the request of Carina Silicones and decided to suspend the proceedings.

At the request of Bank Millennium, the Regional Court in Warsaw resumed the proceedings. During the first hearing on 14 March 2017, the attorney of Bank Millenium filed a motion to refer the case to mediation. The court decided to defer its decision regarding the motion. At the current stage of the proceedings, witnesses are being questioned. The last hearing was held on 21 August 2017, the next one was scheduled for 23 October 2017.

Administrative proceedings between Selena S.A. and the Customers Office

Selena S.A. is a party to customs proceedings relating to the imposition by the customs authorities of anti-dumping duty on the company in connection with the import of open-mesh fabrics of glass fibres from Taiwan. The goods were imported in e.g. 2011-2012. At that time, no anti-dumping duty was in effect that would relate to the imports of certain types of open-mesh fabrics of glass fibres forwarded from Taiwan. The anti-dumping duty on this mesh was introduced on 25 May 2012, on the basis of Regulation No. 437/2012 of 23 May 2012 in conjunction with Regulation No. 21/2013 of 10 January 2013.

On 24 February 2014, the Head of the Customs Office in Gdynia initiated the first proceedings against Selena S.A. concerning determination of anti-dumping customs duty on the imports of the open-mesh fabrics from Taiwan. On 27 May 2014, the Head of the Customs Office in Gdańsk initiated further 27 proceedings to determine the amount of the anti-dumping duty for the same goods. The basis for initiation of the procedure by the Polish customs authorities was the receipt of a report drafted by the European Anti-Fraud Office (OLAF) on the investigation carried out by OLAF in Taiwan in 2013 concerning the suspected circumvention of the anti-dumping duty imposed on the imports of open-mesh fabrics.

At present, there are 32 proceedings pending, in which anti-dumping duties of PLN 7,992.9k in total were imposed on the Company in the first instance. The decisions taken by the courts of the first instance to impose the anti-dumping duty are solely based on the OLAF's report on the completed investigation, and actually, fact sheets sent by the Taiwanese authorities (tables appended to the to OLAF's report), whose quality and content cause the Company to have reasonable doubt, a fact that has been consistently brought to the court's attention. Where an authority of the second instance adopts an unfavourable decision, a complaint can be lodged with the Supreme Administrative Court.

Until 15 December 2016, the outcomes of the proceedings before administrative courts were favourable for the Company. The first unfavourable court ruling in customs matters was issued on 15 December 2016, after another examination of the above cases. The court dismissed the complaints made by Selena S.A., but did not refer to the inconsistent data arising from the OLAF report or the supplementary correspondence with OLAF. The above unfavourable ruling relating to the three complaints filed with the Supreme Administrative Court against the decision of the Head of Customs Chamber, increased the risk of a negative outcome of the dispute, so a decision was made to raise a provision for this purpose. The Company does not agree with the court decisions and on 20 and 22 February lodged appeals to the Supreme Administrative Court.

Currently, 15 proceedings previously suspended by the Head of the Customs Chamber in Gdynia have been resumed. The Company used the opportunity to comment on the evidence collected. Now a decision is being awaited. Other proceedings (13 proceedings pending before the Provincial Administrative Court suspended at the request of the Parties) remain suspended.

5.3 Related party transactions

In the reporting period, the Parent Company did not enter into any material transactions with its related parties on non-arm's length basis.

The material transactions between Selena FM and its subsidiaries were described in Note 20 to the condensed unconsolidated financial statements of Selena FM S.A. as at 30 June 2017.

5.4 Shareholders of the Parent

On 30 June 2017, the Management Board of Selena FM S.A. received a notice from AD Niva Sp. z o.o. with its registered office in Wrocław, a subsidiary of Krzysztof Domarecki, of the purchase of 225,000 ordinary shares.

The table below shows distribution of share capital and voting power among shareholders of the Parent Company as at 30 June 2017.

Shareholder	Share types	Number of shares acquired	Share in registered capital	Number of votes	Share in votes at the AGM
AD Niva Sp. z o.o. *	Registered preference shares	4 000 000	17.52%	8 000 000	29.81%
	Bearer shares	5 763 000	25.24%	5 763 000	21.48%
Syrius Investments S.a.r.l.*	Bearer shares	8 050 000	35.25%	8 050 000	30.00%

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

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

In the period covered by this report, Selena FM S.A. did not issue, redeem or repay any non-equity or equity securities.

5.6 Dividend declared or paid

On 23 June 2017, 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 2016 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 2017. The shares of all series carry the same dividend rights. The dividend was paid on 16 August 2017.

5.7 Shareholdings by executive and non-executive directors

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

Name	Role	Number of shares held	Nominal value of shares (PLN)
AD Niva Sp. z o.o. *	-	9 763 000	488 150.00
Syrius Investments s.a.r.l.*	-	8 050 000	402 500.00
Marcin Macewicz	Vice-President of the Management Board	600	30.00

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

5.8 Equity-based remuneration programmes

In H1 2017, no equity based remuneration programmes were in operation.

5.9 Information on the audit of the financial statements

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

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

The Management Board of Selena FM S.A. hereby confirms that to the best of its knowledge the interim condensed financial statements of Selena FM S.A. and the interim condensed consolidated financial statements of Selena Group FM for the period of 6 months ended 30 June 2017 and the comparable data have been prepared in accordance with the applicable accounting policies and give a true, fair and clear picture of the affairs of Selena FM S.A. and Selena Group and their financial performance and that the Management Board's report on activities gives a true picture of the Company's and the Group's development, achievements and standing, including description of the key risks and threats.

THE MANAGEMENT BOARD'S STATEMENT ON SELECTION OF AUDITOR

The Management Board of Selena FM S.A. hereby declares that the auditor of the interim condensed financial statements of Selena FM S.A. and the interim condensed consolidated financial statements of Selena Group for the period of 6 months ended 30 June 2017 was selected in accordance with the law and that the audit firm and its auditors fulfilled the necessary criteria to be able to issue an unbiased and independent opinion of the financial statements in accordance with the applicable laws and professional standards.

Management Board President

……………………………

Jean-Noël Fourel

Vice-President of the Management for Sales and Marketing

……………………………

Marcin Macewicz

Vice-President of the Management Board

……………………………

Hubert Rozpędek

Management Board Member

……………………………

Agata Gładysz-Stańczyk