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SELENA FM S.A.

MANAGEMENT BOARD'S REPORT ON THE COMPANY'S
ACTIVITIES FOR 2017

Wrocław, 20 April 2018

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1. INFORMATION ABOUT THE COMPANY'S OPERATIONS

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.

Selena FM S.A. has no branches.

1.2. Products and services

The core business of Selena FM S.A. as the parent entity in Selena FM Group is distribution of the Group's products into foreign markets and into the domestic market (as a multi-distributor), and provision of advice to its subsidiaries with regard to strategic management, finance management, sales strategy and maintenance of accounting books for customers. The Company is responsible for strategic management of Selena Group, which comprises the entities referred to in section 1.4.

1.3. Distribution markets

Related parties accounted for more than 94% of the Company's revenues (more than 94% in 2016).

Sales are generated in Poland (PLN 0.9 million to non-connected companies and PLN 125.0 million to connected companies) and abroad (PLN 24.7 million to non-connected companies, PLN 353.0 to connected companies), mainly in the geographies where the Group-owned companies are established. The Company's tangible assets are located in Poland.

The subsidiaries which contribute more than 10% to total sales of the Company include Selena Vostok OOO (35%) and Selena S.A. (22%) and Selena CA L.L.P (10%).

1.4. Connected companies and equity investments

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

Figures in PLN thousand	31 December 2017			31 December 2016		
	Gross	Write-down	Net	Gross	Write-down	Net
Selena S.A.	62,781	0	62,781	62,781	0	62,781
Selena Labs Sp. z o.o.	1,400	0	1,400	1,400	0	1,400
Taurus Sp. z o.o. **	0	0	0	8	0	8
Carina Sealants Sp. z o.o.	8	0	8	8	0	8
Selena Industrial Technologies Sp. z o.o.	38,379	0	38,379	38,379	0	38,379
Selena Deutschland GmbH	4	0	4	4	0	4
Selena Italia srl	1,884	1,884	0	1,884	1,884	0
Selena Iberia slu	43,478	22,913	20,565	43,478	22,913	20,565
Uniflex S.p.A.	12,429	0	12,429	0	0	0
Selena USA Inc.	1,289	1,289	0	1,289	1,289	0
Selena Sulamericana Ltda	3,594	3,594	0	3,594	0	3,594
Selena USA Specialty Inc	2,418	1,118	1,300	2,418	1,118	1,300
Selena Romania SRL	11,944	11,944	0	11,944	11,944	0
Selena Bohemia s.r.o	9,936	0	9,936	0	0	0 *

Selena Hungária Kft.	679	679	0	679	679	0
Selena Bulgaria Ltd.	0	0	0	0	0	0 *
EURO MGA Product SRL	1	0	1	1	0	1
Selena Ukraine Ltd.	0	0	0	0	0	0 *
Selena CA L.L.P.	9,029	0	9,029	9,029	0	9,029
Selena Insulations	1,206	1,206	0	1,206	0	1,206
Weize (Shanghai) Trading Co., Ltd.	0	0	0	0	0	0 *
Selena Nantong Building Materials Co., Ltd.	33,910	33,910	0	33,910	33,910	0
Selena Vostok	11,197	0	11,197	11,197	0	11,197
Selena Malzemeleri Yapi Sanayi Tic. Ltd.	23,765	23,764	1	12,793	12,793	0
Value of shares	269,331	102,301	167,030	236,002	86,530	149,472

* value of shares below PLN 400

** 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. (formerly Orion Polyurethanes Sp. z o.o.)

Sale of shares in Taurus Sp. z o.o.

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. The changed name was registered on 25 April 2017.

Take-over of control over Uniflex S.p.A.

On 29 March 2017, under the agreement signed between Selena FM S.A. and natural persons, Selena FM S.A. acquired 64% stake in the share capital of Uniflex S.p.A. with its registered office in Mezzocorona, Italy, becoming a majority owner of Uniflex S.p.A.

Selena FM S.A. acquired 192 000 shares of Uniflex S.p.A. with a nominal value of EUR 1 per share, representing 64% stake in the company's registered capital, for a total amount of EUR 1 664k. The shares of the acquired company were taken up in full and paid up in cash.

Acquisition of the majority shareholding by Selena FM S.A. is intended to strengthen the Group's position in Italy and in Western Europe. Thanks to synergies and cooperation with Selena Group, Uniflex S.p.A. will be able to supplement its products portfolio for the customers in Italy and Western Europe. At the same time, Selena Group will significantly increase its position in the market of acrylic products in Europe. The transaction will result in mutually complementary technologies, geographical development of distribution markets and synergies in the form of reduction of manufacturing costs and thus the costs of purchase of raw materials.

In addition, on 29 March 2017, both minority shareholders of Uniflex S.p.A. entered into an agreement where Selena FM S.A. made an irrevocable offer to purchase the remaining shares (call option), while the minority shareholders guaranteed to Selena FM S.A. an exercise of the option to purchase the remaining shares (put option). The put and call options may be exercised between 1 April and 30 June 2019 or between 1 April and 30 June 2020.

A unit value of a share representing the exercise price for the put and call option will be determined on the basis of valuation of Uniflex S.p.A. as at the day the option is exercised. In accordance with the agreement, the valuation of Uniflex S.p.A. will take place on the basis of a multiplier of the company's EBITDA (adjusted in accordance with the agreement). The ratio will be calculated on the basis of the financial results from the last two approved financial statements of the company, preceding the year when the option was exercised.

Details of the provisional settlement of the acquisition were presented in Note 1.5 of the Group's consolidated financial statements for the year ended 31 December 2017.

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

On 24 October 2017, due to occurrence of the event specified in the Articles of Selena Industrial Technologies Sp. z o.o. that triggered automatic share cancellation, 1,081,248 shares in the company's share capital with a total nominal value of PLN 54,062 thousand were cancelled. As a result, in accordance with the Deed of Incorporation of Selena Industrial Technologies Sp. z o.o., the parent company Selena FM S.A. received remuneration of PLN 63,912 thousand for the shares cancelled. The remuneration was paid by 26 October 2017.

Increasing the share capital of Selena Bohemia s.r.o.

On 7 November 2017, the General Meeting of Shareholders of Selena Bohemia s.r.o adopted a resolution to increase the share capital by CZK 60 million through a cash contribution. The increase in the share capital of the subsidiary was registered on 3 January 2018. Selena Bohemia s.r.o used the proceeds to repay its liabilities and loans to Selena FM S.A.

Increasing the share capital of Selena Malzemeleri Yapi Sanayi Tic. Ltd.

On 25 December 2017, the share capital of Selena Malzemeleri Yapi Sanayi Tic Ltd was increased by 11,825 thousand Turkish lira, by issuing 11,825 shares worth 1,000 Turkish lira each. The capital was increased by converting the loans of EUR 2,449 thousand and EUR 200 thousand dollars (with a fair value of PLN 0 as at the conversion date) which the company obtained from Selena FM S.A. The increase in the share capital of the subsidiary was registered on 27 December 2017.

1.5. Key developments

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

1.6. Achievements in research and development

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

1.7. Description of risks and threats

The Management Board of Selena FM S.A., the parent entity of Selena Group, is responsible for the risk management system and the internal control system as well as for reviewing these systems in terms of operational efficiency. These systems help identify and manage risks. However, the systems are not able to reduce the risk of fraud and law breaches to zero. The risk factors and threats that the Group (including Selena FM S.A.) is exposed to were described in the Management Board's report on the activities of Selena FM Group for 2017.

As Selena FM S.A. plays the role of a multi-distributor for its distribution companies (Selena FM S.A. orders production from domestic manufacturers from whom it purchases finished goods branded with the Group's trademarks and sells them on to local distributors), the Company incurs a key risk (market risk). The multi-distributor incurs residual risk related to external factors, such as volatility of raw material prices, varying demand in the market and competitive activities.

1.8. Expected development of the Company

The Company is to continue as a centre responsible for planning and coordinating Selena Group's operations world-wide.

In 2018, Selena FM S.A. is to focus on implementation of its key strategic programmes in the following areas:

- maintaining and strengthening the core business areas
- continuing the improvement of operational effectiveness of the trading and production companies
- developing business initiatives in Western Europe and in China

- developing new product groups, including foam adhesives and Cool-R
- increasing the competitiveness of products
- securing the Group's liquidity.

1.9. Investment plans

The Company's investments in 2018 are mainly connected with financing and capital support for its subsidiaries. The level of investment depends on the current and expected performance of the subsidiaries and their capex plans. The Company also remains willing to consider acquisitions should an attractive opportunity arise. The Group's investment plans are presented in Note 1.13 of the Management Board's report on the Group's activity for 2017.

2. FINANCIAL POSITION

2.1. The Company's revenue and earnings

Figures in PLN thousand	2017	2016	Change	Change %
Revenue from sales	503,588	430,062	73,526	17%
Cost of sales	450,996	374,455	76,541	20%
Gross profit on sales	52,592	55,607	-3,015	-5%
Selling and marketing costs	30,432	27,212	3,220	12%
General and administrative expenses	29,210	22,000	7,210	33%
Other operating profit (loss)	22,863	-10,647	33,510	-
EBITDA – operating profit + depreciation / amortisation	18,636	-2,702	21,338	-
Operating profit (loss) (EBIT)	15,813	-4,252	20,065	-
Net financial income (loss)	8,267	13,114	-4,847	-
Profit (loss) before tax	24,080	8,862	15,218	-
Profit (loss) after tax	25,822	7,127	18,695	-
Total comprehensive income	25,822	7,127	18,695	-

EBITDA – operating profit + depreciation/amortisation

	Change in p.p.		
Gross profit margin	10.4%	12.9%	-2.5
Selling costs / revenue from sales	6.0%	6.3%	-0.3
General and administrative expenses / revenue from sales	5.8%	5.1%	0.7
EBITDA margin %	3.7%	-0.6%	4.3
Operating profit margin (EBIT%)	3.1%	-1.0%	4.1
Net profit margin	5.1%	1.7%	3.5

EBIT % – operating profit / sales

EBITDA % - EBITDA / sales

In 2017, sales were PLN 503.6 million, up PLN 73.5 million year-on-year. At the same time, cost of sales increased by PLN 76.5 million. As a result, the gross profit margin PLN 3.0 million lower than the margin achieved in the previous year. Selena FM S.A. acts as a multi-distributor for distribution companies. The Company's revenue from the sale increased on the back of higher sales achieved by its subsidiaries in 2017. Gross profit was significantly influenced by high prices of production raw materials during 2017. As a multi-distributor, Selena FM S.A. incurs residual risk related to external factors, such as volatility of raw material prices.

In 2017, selling costs were PLN 30.4 million and grew in line with the increase in sales (vs. 2016). The ratio of selling costs to sales was at 6.0%, down 0.3 pp on 2016.

In 2017, general and administrative expenses were PLN 29.2 million, which is PLN 7.2 million higher than last year, partly reflecting the increase in sales. One of the reasons for the increase in general and administrative expenses was the start of ERP system amortisation from 1 April 2017. The amortisation charge for 2017 was PLN 1.8 million. Also in 2017, costs incurred for research and development activities presented in general and administrative expenses increased by PLN 4.1 million vs. 2016 (including PLN 2.8 million due to a change in the presentation of costs, and PLN 1.3 million due to an increase in R&D expenditure). General and administrative expenses were also influenced by appointment of new members of the Group's executive team at the N and N-1 levels.

In 2017, Selena FM generated a profit on other operations of PLN 22.9 million. The Company also reversed allowances for receivables from subsidiaries of PLN 27.5 million and created allowances for receivables from connected companies of PLN 4.9 million. Impairment allowances were reversed primarily due to conversion of trade receivables into loans (the impairment allowances also covered the loans which originated as a result of the conversion) and as a result of repayment of loans (Selena Bohemia).

The result on financial activity was PLN 8.3 million. Key items of financial revenues included: dividends and shares in profits of PLN 8.0 million; revenue from cancellation of shares in a subsidiary (Selena Industrial Technologies Sp. z o.o.) of PLN 63.9 million; interest on loans and bonds of PLN 9.4 million; realised gains on derivatives of PLN 1.2 million and reversal of an impairment allowance on loans of PLN 3.3 million.

Net financial income was reduced by financial expenses of PLN 77.8 million, including loan interest of PLN 4.1 million, impairment allowance on loans of PLN 44.1 million (for details, see Note 18 of the unconsolidated financial statements of Selena FM S.A.); impairment allowances on shares of PLN 15.8 million (for details, see Note 18 of the unconsolidated financial statements of Selena FM S.A.) and FX losses of PLN 13.6 million.

2.2. The Company's key balance sheet figures

Figures in PLN thousand	31 December 2017	31 December 2016	Change	Change %
Shares in subsidiaries	167,030	149,472	17,558	12%
Loans granted, bonds repurchased, valuation of derivatives	105,890	185,884	-79,994	-43%
Trade receivables	143,958	156,581	-12,623	-8%
Cash	10,121	6,275	3,846	61%
Other assets	47,182	29,437	17,745	60%
Total assets	474,181	527,649	-53,468	-10%
Equity	292,949	273,977	18,972	7%
Bank and other loans	87,671	117,878	-30,207	-26%
Trade liabilities	84,359	129,754	-45,395	-35%
Other liabilities	9,202	6,040	3,162	52%
Total equity and liabilities	474,181	527,649	-53,468	-10%
Debt ratio*	38%	48%		

* Total liabilities/ Total equity and liabilities

The balance sheet total at the end of 2017 was PLN 474.2 million, down by PLN 53.5 million on the balance sheet total posted at the end of 2016. The decrease was caused, among others, by the purchase of bonds issued by AD Niva Sp. z oo in July and December 2017 (PLN 60 million) and a significant repayment of trade liabilities to connected companies (PLN 45.5 million). The decrease in the balance sheet total was also significantly affected by the decrease in the balance of loan debt at the year-end.

2.3. Cash flows of the Company

	Figures in PLN thousand	2017	2016	Change
Net cash flows from operating activities		-78,589	39,805	-118,394
Net cash flows from investing activities		123,199	-5,950	129,149
Net cash flows from financing activities		-40,737	-32,441	-8,296
Change in cash and cash equivalents:		3,873	1,414	2,459

Cash flows from operating activities were PLN -78.6 million, down PLN 118.4 million vs. 2016. Negative cash flows from operating activities result to a large extent from the repayment of trade liabilities to subsidiaries.

Cash flows from investing activities of PLN 123.2 million were mainly related to the funds obtained on the cancellation of bonds (PLN 60.3 million) and remuneration received from the cancellation of shares in a subsidiary (Selena Industrial Technologies Sp. z o.o.) – PLN 63.9 million. At the same time, the Company received dividend income from subsidiaries of PLN 7.1 million and proceeds from repayment of interest of PLN 3.5 million. In the first quarter of 2017, Selena FM SA acquired a 64% stake in Uniflex SpA – PLN 7.1 million (equivalent to EUR 1.7 million) was paid for the shares. In the fourth quarter, the share capital of Selena Bohemia sro was increased; the funds transferred for the increase in the subsidiary's share capital were PLN 10.0 million.

The inflows of cash from financing activities of PLN 40.7 million result from an excess of the bank debt paid (PLN 49.5 million) over the bank debt incurred during the period (PLN 20.2 million). The Company repaid financial leases of PLN 0.7 million, paid interest of PLN 3.9 million and distributed PLN 6.9 million in dividends.

2.4. Loans received

Ref	Loan type	Maturity date	31 December 2017		31 December 2016	
			Long-term portion	Short-term portion	Long-term portion	Short-term portion
1	Working capital loan	07/2018	0	21,109	35,686	0
2	Working capital loan	07/2018	0	4,705	1,042	0
3	Working capital loan	01/2017	0	0	0	3,030
4	Working capital loan	12/2018	0	41,792	51,752	0
5	Working capital loan	09/2019	4,798	0	19,805	0
6	Non-bank loan	12/2018	0	2,419	2,588	0
7	Loan	12/2019	1,500	41	1,500	0
8	Non-bank loan	12/2019	1,668	15	1,725	0
9	Non-bank loan	12/2019	750	20	750	0
10	Non-bank loan	09/2022	8,800	54	0	0
Total loans			17,516	70,155	114,848	3,030

Details of the lending terms are presented in Note 27 of the Company's financial statements for 2017.

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. As at 31 December 2017, Selena Group maintained the consolidated financial ratios at the levels required by the lenders.

2.5. Loans granted and bonds purchased

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

The table below presents a summary of changes to the financing extended to other companies in 2017.

Type of connection	Figures in PLN thousand	31 December 2016	Principal		Interest		Reduction by withholding tax	Valuation	Write-down	31 December 2017
			Increase	Decrease	Accrued	Paid				
Loans										
Subsidiaries	Gross value	195,541	58,100	-26,048	5,947	-5,407	-782	-19,175	16,717	224,893
	Impairment charge	-70,134	-44,072	3,334	0	0	0	8,228	-16,717	-119,361
	Net value	125,407	58,100	-26,048	5,947	-5,407	-782	-19,175	-49,227	105,532
Other connected entities										
	Bonds	60,396	0	-60,350	3,413	-3,459	0	0	0	0
Non-connected entities										
	Loans	71	0	-25	3	0	0	0	0	49
	Valuation of derivatives	10	0	0	0	0	0	299	0	309
TOTAL		185,884	58,100	-86,423	9,363	-8,866	-782	-18,876	-49,227	105,890
<i>including long-term:</i>		<i>119,858</i>								<i>90,953</i>

Details of the financing provided to subsidiaries were presented in detail in Note 18 of the Company's financial statements for 2017.

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 60 million. The bonds' nominal value corresponded to their issue price. The bonds' interest rate was 6.7% p.a. The bonds were to be redeemed at the nominal value by 31 December 2017. Selena FM S.A. acquired PLN 60 million worth of bonds.

On 25 July 2017, AD Niva Sp. z o.o. used the right of early redemption of some bonds purchased by Selena FM S.A. The earlier redemption related to the bonds with a total value of PLN 20 million.

On 26 December 2017, AD Niva Sp. z o.o. used the right of early redemption of some bonds purchased by Selena FM S.A. The earlier redemption related to the bonds with a total value of PLN 23 million.

On 29 December 2017, AD Niva Sp. z o.o. used the right of early redemption of some bonds purchased by Selena FM S.A. The earlier redemption related to the bonds with a total value of PLN 17 million.

As at the balance sheet date, AD Niva Sp. z o.o. redeemed all the bonds it had issued and which had been taken up by the Company.

2.6. Guarantees and off-balance sheet items

Guarantees and off-balance sheet items The guarantees the Company extended to other entities, including its subsidiaries are presented in Note 29 of the Company's financial statements for 2017.

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

2.7. Financial instruments and financial risk management principles

The Company's financial instruments are presented in detail in Note 36 of the Company's financial statements for 2017.

The Company's risk financial risk management principles (covering FX risk, interest rate risk, credit risk and liquidity risk) are presented in detail in Note 35 of the Company's financial statements for 2017.

2.8. Assessment of financial resources management

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

3. OTHER INFORMATION

3.1. Material agreements

The agreements concluded in 2017 and deemed material for the Company's financial position, include bank loan agreements (Note 2.4), agreements connected with the financing for subsidiaries (Note 2.5), guarantee agreements with subsidiaries (Note 2.6) and agreements relating to shares held (Note 1.4).

The Group's material agreements were described in detail in the consolidated report on the Group's activities for 2017 (Note 3.1).

3.2. Related party transactions

In 2017, the Company and its subsidiaries entered into business-as-usual transactions. The terms of the transactions were market-based and resulted from the current activities. These transactions, and the transactions concluded with the Company's Directors, are presented in detail in Notes 32 and 33 of the Company's financial statements for 2017.

3.3. Issue of securities

In 2017, the Company did not issue any securities.

3.4. Acquisition of own shares

The Company did not have any treasury shares either as at 31 December 2017 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 stand-alone forecasts for 2017.

3.6. Litigations

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

3.7. Unusual events and factors

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

3.8. Changes to the governance principles

In 2017, no major changes were made to the rules of managing the Group.

3.9. Agreements with directors

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

3.10. Remuneration of the Management Board and the Supervisory Board

The remuneration of the Management and the Supervisory Board members of the Company is described in Note 33 of the Company's financial statements for 2017.

3.11. Shareholdings by executive and non-executive directors

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

Name	Role	Number of shares held	Nominal value of shares (PLN)
AD Niva Sp. z o.o. *	-	9,763,000	488,150
Syrius Investments s.a.r.l.**	-	8,050,000	402,500
Artur Ryglowski	Management Board member	7,600	380.00
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.

3.12. Agreements affecting changes in the proportion of shareholdings

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

3.13. Control of Employee Share Programmes

In 2017, no employee shares programmes were in place in the company.

3.14. 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.

Note 24 of the Company's 2017 financial statements contains details of the remuneration paid to the auditor of the Company's 2017 and 2016 financial statements.

4. CORPORATE GOVERNANCE PRINCIPLES

4.1. Corporate governance principles in use

In 2017, Selena FM S.A. adopted and agreed to comply with the corporate governance code "Best Practice for GPW Listed Companies 2016", with the exceptions described at point 4.2.

Full text of the principles is published at:

https://static.gpw.pl/pub/files/PDF/inne/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf

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

4.2. Exceptions to the Corporate Governance Principles

The Company's Management Board hereby declares that in 2017 the Company complied with the corporate governance principles presented in the Best Practice for GPW Listed Companies 2016, except:

- 1) Principle I.Z.1.11. The Company did not develop the rules for changing the auditor of its financial statements. The decision on whether or not to continue cooperation with the auditor is taken on a case-by-case basis.
- 2) Principle I.Z.1.15. The Company did not develop and does not apply the policy of diversity with regard to the Company's governing bodies and key management. The Company does not ensure a balanced participation of women and men on the Management Board and the Supervisory Board. The roles of executive and non-executive directors were allocated to selected individuals on the basis of their expertise and experience rather than their gender, education or age.
- 3) Principle I.Z.1.16. The Company does not publish information about planned broadcasts of General Meetings as no broadcasts are envisaged.
- 4) Principle I.Z.1.20. The Company does not publish any audio or video record of the General Meeting. The Company does not keep a detailed record of the course of General Meetings – such information can be derived from the notarial deed of the General Meeting, but the deed does not contain all the statements made, questions asked and answers given at the General Meeting. Individual matters are put on the General Meeting agenda by the Chairman of the General Meeting taking account of the applicable law, importance of the matter and reasonable demands of the shareholders. As stipulated by the Commercial Companies Code, the participants of the General Meeting have the right to make written statements that are attached to the minutes. The Management Board of the Company believes that such rules ensure transparency of the General Meeting and protect the Company against potential claims of the shareholders who might not wish to have their image or statements published.
- 5) Principle IV.Z.2. The Company does not provide real-time broadcasts of its General Meetings as their participants do not agree to their images being made public.
- 6) Principle IV.Z.3. The Company allows the shareholders participating in the General Meeting to decide on whether or not to make the meeting available to media representatives.
- 7) Principle VI.Z.4. The Company does not use this rule. Remuneration of Management Board members is determined by the Supervisory Board, using fair judgment. The Supervisory Board determines remuneration of the key management personnel taking into account market standards and the Company's needs. In its annual report the Company publishes information about the emoluments of Management Board members, as required by the relevant legal provisions set out in the Regulation of the Minister for Finance on current and financial information (...).

At the same time, the Management Board declares that in 2018 the Company adopted and agreed to comply with the Best Practice for GPW Listed Companies 2016, introduced by the Resolution of the Warsaw Stock Exchange Council, except for those described in the EBI report no. 1/2018 of 31 January 2018.

4.3. Internal control over financial reporting

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

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

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

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

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

- Conduct of internal review of correctness of financial information prepared by the Group members.

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

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

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

As required by law, the Company has its financial accounts audited (reviewed) by an independent auditor. The auditor is selected by the Supervisory Board from among the recognised audit firms which ensure high standards of service and professional independence, following competition rules, in accordance with the "Policy and procedure of selection of an auditor to carry out a statutory audit of the financial statements of Selena FM S.A. of Wrocław and Selena Group".

The auditor presents the audit (review) results to the Company's Supervisory Board and the Management Board, and then in the auditor's opinion and report. The audit of financial statements also includes verification of the Company's internal control system. The findings, observations and recommendations for improvement of the internal control system stemming from the audit of financial statements are presented to the Company in the form of a Management Letter. In order to strengthen oversight and to respond to legal developments, on 20 October 2017, the Supervisory Board of Selena FM S.A. appointed an Audit Committee.

4.4. Significant shareholders

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

Shareholder	Share 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%
Quercus Towarzystwo Funduszy Inwestycyjnych S.A. **	Bearer shares	1,367,141	5.99%	1,367,141	5.09%

* entity controlled by Krzysztof Domarecki, Supervisory Board Chairman

4.5. Holders of shares with special control rights

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

4.6. Limitations on voting rights

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

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

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

4.8. Appointment and powers of the Management Board

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

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

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

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

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

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

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

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

4.9. Amending the Articles of Association of the Company

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

4.10. General Meeting and the rights of shareholders

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

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

Shareholder rights

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

4.11. Membership of the Management Board and the Supervisory Board

The Management Board of the Company

As at 31 December 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.
- On 22 September 2017, the Supervisory Board of Selena FM S.A. appointed Ms Agata Gładysz-Stańczyk to the position of Vice President of the Management Board.
- On 22 September 2017, the Supervisory Board of Selena FM S.A. appointed Mr Artur Ryglowski to the position of Management Board Member.

As at 31 December 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 – Vice President of the Management Board, Innovation and Development Director.
- Artur Ryglowski – Management Board Member, Industrial and Logistics Operations Director.

On 5 January 2018, Jean-Noël Fourel resigned as Management Board President.

On 12 January 2018, the Company's Supervisory Board adopted a resolution appointing Marcin Macewicz as acting Management Board President pending election of a new Management Board President.

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

Company's Supervisory Board

As at 31 December 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;
- on 16 October 2017, the Extraordinary General Meeting of Shareholders adopted a resolution on extending the composition of the Supervisory Board by appointing new members: Ms Marlena Łubieszko-Siewruk, Mr Jacek Olszański and Mr Mariusz Warych.

As at 31 December 2017, the Company's Supervisory Board was composed of:

- Krzysztof Domarecki – Supervisory Board Chairman
- Borysław Czyżak – Supervisory Board Member
- Stanisław Knaflewski – Supervisory Board Member
- Andrzej Krämer – Supervisory Board Member
- Sylwia Sysko-Romańczuk – Supervisory Board Member.
- Marlena Łubieszko-Siewruk – Supervisory Board Member
- Jacek Olszański – Supervisory Board Member
- Mariusz Warych – Supervisory Board Member.

Audit Committee and Strategy and Innovation Committee

On 20 October 2017, the Supervisory Board of Selena FM S.A. appointed Audit Committee consisting of:

- Mariusz Warych – Chairman of the Audit Committee
- Stanisław Knaflewski – Audit Committee Member
- Jacek Olszański – Audit Committee Member.

In the opinion of the Supervisory Board, the Audit Committee, in the aforementioned composition, fulfills the independence criteria and other requirements specified in Article 128(1) and Article 129(1), (3), (5) and (6) of the Statutory Auditors Act. The Issuer advises that until now the tasks of the Audit Committee were entrusted to Supervisory Board as a whole body.

On 20 October 2017, the Supervisory Board also decided to appoint the Strategy and Innovation Committee consisting of:

- Andrzej Krämer – Chairman of the Strategy and Innovation Committee
- Borysław Czyżak – member of the Strategy and Innovation Committee
- Sylwia Sysko-Romańczuk – member of the Strategy and Innovation Committee.

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

The Management Board of Selena FM S.A. hereby confirms that to the best of its knowledge the financial statements for 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 its financial performance and that the Management Board's report on activities gives a true picture of the Group's development, achievements and standing, including description of the key risks and threats.

THE MANAGEMENT BOARD'S STATEMENT ON SELECTION OF AUDITOR

The Management Board of Selena FM S.A. hereby declares that the auditor of the annual financial statements of the Company for 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.

acting Management Board President

.....
Marcin Macewicz

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

.....
Hubert Rozpędek

Vice-President of the Management Board

.....
Agata Gładysz-Stańczyk

Management Board Member

.....
Artur Ryglowski