

SELENA FM S.A.
WROCLAW, 2-4 STRZEGOMSKA STREET

FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR 2017

WITH
AUDITOR'S REPORT

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REPORT ON THE ACTIVITIES OF THE COMPANY FOR THE FINANCIAL YEAR 2017

AUDITOR'S REPORT

To the Shareholders and Supervisory Board of Selena FM S.A.

Auditor's report

We have audited the attached annual financial statements of Selena FM S.A. with its registered office in Wrocław, 2-4 Strzegomska Street (hereinafter: "Company") comprising: a statement of financial position prepared as at 31 December 2017, statement of comprehensive income, statement of changes in equity, statement of cash flows prepared for the financial year from 1 January 2017 to 31 December 2017 and notes comprising a summary of significant accounting policies and other explanatory information ("financial statements").

Responsibility of the Company's manager and those charged with governance for the financial statements

The Management Board of the Company is obliged to prepare the financial statements based on properly kept accounting records and to present them fairly in line with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and other applicable laws as well as the entity's articles of association. The Management Board of the Company is also responsible for ensuring internal control necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Under the Accounting Act, the Management Board of the Company and members of its Supervisory Board obliged to ensure that the financial statements meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2018, item 395, as amended), hereinafter referred to as the "Accounting Act".

Auditor's responsibility

Our responsibility was to express an opinion whether the financial statements give a true and fair view of the financial and economic position as well as the financial performance of the entity in line with the applicable International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and the adopted accounting principles (policies).

Our audit of the financial statements has been performed in accordance with:

- 1) the Act on statutory auditors, auditing companies and public oversight of 11 May 2017 (Journal of Laws of 2017, item 1089, as amended) ("Act on statutory auditors");
- 2) National Auditing Standards in the wording of the International Standards on Auditing adopted by resolution No. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015, as amended, in connection with resolution No. 2041/37a/2018 of 5 March 2018 on national professional standards;

- 3) Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (OJ EU L 158, 27 May 2014, p. 77 and OJ EU L 170, 11 June 2014, p. 66) ("*Regulation 537/2014*").

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The objective of the audit is to obtain reasonable assurance about whether the financial statements as a whole have been prepared based on properly kept accounting records and are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board of the Company, as well as evaluating the overall presentation of the financial statements.

The scope of the audit does not include an assurance regarding the future profitability of the audited entity or the effectiveness of the Company's Management Board in managing the Company's affairs at present and in future.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The audit opinion is consistent with the additional report to the Audit Committee issued as of the date of this auditor's report.

Independence

During the audit the key certified auditor and the audit firm remained independent of the audited entity in accordance with the provisions of the Act on statutory auditors, Regulation 537/2014 and the ethical requirements set out in resolution of the National Council of Statutory Auditors.

We certify that, to the best of our knowledge and belief, we have not provided non-audit services, which are prohibited under Article 136 of the Act on statutory auditors and Article 5.1 of Regulation 537/2014.

Choice of audit firm

We were appointed to audit the financial statements of the Company by resolution of Supervisory Board adopted on May 25, 2016. We have been auditing the financial statements of the entity for an uninterrupted period beginning with the financial year ended December 31, 2013 i.e. for 5 consecutive financial years.

Most significant risks

During the audit we identified the following, most significant risks of material misstatement, also resulting from fraud, and we designed audit procedures responsive to those risks. Where deemed appropriate for the understanding of the identified risks and the audit procedures performed by the auditor, we also included the most important findings related to those risks.

Description of the type of risk of significant misstatement	Auditor procedures in response to the identified risk and key observations related to these types of risk
<i>Recoverability of the book value of shares and loans granted in subordinate units</i>	
<p>In Note 17 of the financial statements for the year 2017, the Company presented disclosures regarding impairment tests of shares in Selena Sulamericana Ltda, TOO Selena Insulation, Selena Nantong Building Materials Co. Ltd and Selena Romania srl and loans granted to Selena Nantong Building Materials Co., Ltd, Selena Romania srl and EURO MGA Product srl, including assumptions, test results and sensitivity of the test to changes of selected assumptions.</p> <p>Conducting impairment tests is related to the Management Board's making judgments, including concerning the calculation methodology used and the necessity of adopting a number of different assumptions.</p> <p>As a result of the test, the Management Board recognized the impairment:</p> <ul style="list-style-type: none"> - shares in the amount of PLN 3,594 thousand and loans in the amount of PLN 7,165 thousand in Selena Sulamericana Ltda - shares in the amount of PLN 1,206 thousand PLN and loans in the amount of PLN 5,631 thousand PLN in TOO Selena Insulation. <p>As the key area of risk of the study, we believe that the risk is based on judgment and elements of prediction primarily related to the assumptions about future cash flows, calculation of the discount rate, residual value estimation included in the discounted cash flow model being the basis for the write-down.</p>	<p>Our examination procedures included in particular:</p> <ul style="list-style-type: none"> • understanding of the internal control environment regarding the process of testing for impairment, • verification of the mathematical correctness and methodological cohesion of the valuation models prepared by the Management Board, • critical assessment of the assumptions and estimates adopted by the Management Board regarding the calculation of future cash flows (with the support of valuation experts Deloitte), including: <ul style="list-style-type: none"> - a comparison of the assumptions made for future flows with approved budgets, - analysis of key assumptions adopted by the Management Board regarding future cash flows in the context of current and expected market conditions, - evaluation of the methodology for determining residual values after the period covered by the forecast and compliance of the methodology with international financial reporting standards, - analysis of the correctness of the WACC calculation used to discount estimated future cash flows, • evaluation of the sensitivity analysis of the key assumptions made by the Management Board for the valuation result, • assessment of the correctness and completeness of disclosures in the Company's financial statements.

Recognition of sales revenues in the correct reporting period

The company sells goods based on various delivery terms (Incoterms formulas) and the associated different moment of risk and benefit transfer to the recipient.

As part of the closing procedures for the reporting period, the Company verifies the correct allocation of sales to the relevant reporting periods.

The issue of correct recognition in the period of sales revenues was the subject of our analysis due to the significance of items in the financial statements of the Company and vulnerability to the risk of intentional distortion.

Our examination procedures included in particular:

- understanding of the internal control environment in the area of correct allocation of revenues to the relevant reporting periods,
- assessment of the effectiveness of the implemented controls in the Company in the area of correct allocation of revenues to the relevant reporting periods,
- assessment of the correctness, on a selected sample of transactions at the turn of the year, recognition of sales revenues in the appropriate reporting period in accordance with the risk and benefits per recipient resulting from the delivery conditions,
- assessment of the correctness and completeness of disclosures regarding the adopted policy of recognizing and presenting sales revenues.

Opinion

In our opinion, *the attached annual financial statements:*

- give a true and fair view of the economic and financial position of the Company as at December 31, 2017 and its financial performance during the financial year from 1st January to 31st December 2017, in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and the adopted accounting principles (policies);
- have been prepared based on properly kept — in line with chapter 2 of the Accounting Act — accounting records
- comply, with respect to their form and content, with the applicable provisions of law, including the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state (Journal of Laws of 2014, item 133, as amended) and the articles of association of the entity.

Report on other legal and regulatory requirements

Opinion on the report on the activities

We do not express an opinion on the report on the activities.

The Management Board of the Company and members of the Supervisory Board are responsible for the preparation of the report on the activities in line with the provisions of law.

Under the act on statutory auditors we were obliged to issue an opinion as to whether the report on the activities complies with the provisions of law and is consistent with underlying information disclosed in the attached financial statements. Additionally, it was our responsibility to indicate whether we have detected any material misstatement in the report on the activities and to describe the misstatement (if any), based on our knowledge of the Company and its business environment obtained in the course of the audit.

In our opinion, the report on the activities has been prepared in line with the applicable provisions of law and is consistent with the underlying information disclosed in the attached financial statements. Furthermore, we represent that based on our knowledge of the entity and its business environment obtained in the course of the audit of the financial statements, we believe that the report on the activities is free from material misstatements.

Opinion on the statement of compliance with corporate governance principles

The Management Board of the Company is responsible for the preparation of the statement of compliance with corporate governance principles in line with the provisions of law. The Management Board of the Company and members of the Supervisory Board are obliged to ensure that the statement of compliance with corporate governance principles meet the requirements of the provisions of law.

As the auditors of the financial statements we were obliged — under the act on statutory auditors — to issue an opinion as to whether the issuer, required to submit a statement of compliance with corporate governance principles, which constitutes a separate part of the report on the activities, included in such statement the legally required information and — with respect to specific information so required or required by other rules — a declaration whether it complies with applicable regulations and is consistent with the information included in the annual financial statements.

In our opinion, the statement of compliance with corporate governance principles includes information specified in Article 91.5.4 letters a, b, g, j, k and l of the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state (Journal of Laws of 2014, item 133, as amended) ("*Ordinance*"). The information specified in Article 91.5.4 letters c-f, h and i of the Ordinance given in the statement of compliance with corporate governance principles is consistent with the applicable provisions of law and the information presented in the financial statements.

Information about the non-financial statement

In accordance with the requirements set out in the Act on statutory auditors, we would like to inform you that the entity has prepared a non-financial statement referred to in Article 49b.1 of the Accounting Act which constitutes a separate part of the report on the activities.

We have not performed any assurance works as regards the non-financial statement and we do not express any assurance regarding that statement.

On behalf of Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. (until 18 march 2018 operating under the name Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. k.) — entity entered under number 73 on the list of audit firms kept by the National Council of Statutory Auditors:

Marcin Diakonowicz
Key certified auditor
No. 10524

Warsaw, April 20, 2018

This Report is an English version of the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.