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**SELENA FM S.A.**

MANAGEMENT BOARD'S REPORT ON THE COMPANY'S  
ACTIVITIES FOR 2018

Wrocław, 25 April 2019

|       |   |    |
|-------|---|----|
| 1.    | INFORMATION ABOUT THE COMPANY'S OPERATIONS .....                                    | 3  |
| 1.1.  | Characteristics of the Parent Company .....   | 3  |
| 1.2.  | Products and services .....   | 3  |
| 1.3.  | Distribution markets .....  | 3  |
| 1.4.  | Connected companies and equity investments .....                                    | 3  |
| 1.5.  | Key developments.....   | 4  |
| 1.6.  | Achievements in research and development .....                                      | 4  |
| 1.7.  | Description of risks and threats .....  | 4  |
| 1.8.  | Expected development of the Company .....   | 5  |
| 1.9.  | Investment plans .....  | 5  |
| 2.    | FINANCIAL POSITION.....   | 5  |
| 2.1.  | The Company's revenue and earnings .....  | 5  |
| 2.2.  | The Company's key balance sheet figures .....                                       | 6  |
| 2.3.  | Cash flows of the Company .....   | 6  |
| 2.4.  | Loans received .....  | 7  |
| 2.5.  | Loans granted and bonds purchased .....   | 7  |
| 2.6.  | Guarantees and off-balance sheet items .....  | 9  |
| 2.7.  | Financial instruments and financial risk management principles.....                 | 9  |
| 2.8.  | Assessment of financial resources management.....                                   | 9  |
| 3.    | OTHER INFORMATION .....   | 9  |
| 3.1.  | Material agreements.....  | 9  |
| 3.2.  | Related party transactions .....  | 9  |
| 3.3.  | Issue of securities .....   | 9  |
| 3.4.  | Acquisition of own shares.....  | 9  |
| 3.5.  | Delivery of forecasts .....   | 9  |
| 3.6.  | Litigations .....   | 9  |
| 3.7.  | Unusual events and factors .....  | 10 |
| 3.8.  | Changes to the governance principles .....  | 10 |
| 3.9.  | Agreements with directors .....   | 10 |
| 3.10. | Remuneration of the Management Board and the Supervisory Board .....                | 10 |
| 3.11. | Shareholdings by executive and non-executive directors.....                         | 10 |
| 3.12. | Agreements affecting changes in the proportion of shareholdings .....               | 10 |
| 3.13. | Control of Employee Share Programmes .....  | 10 |
| 3.14. | Information on the audit of the financial statements.....                           | 10 |
| 4.    | CORPORATE GOVERNANCE PRINCIPLES.....  | 11 |
| 4.1.  | Corporate governance principles in use.....   | 11 |
| 4.2.  | Exceptions to the Corporate Governance Principles .....                             | 11 |
| 4.3.  | Internal control over financial reporting .....                                     | 11 |
| 4.4.  | Significant shareholders .....  | 12 |
| 4.5.  | Holder of shares with special control rights .....                                  | 12 |
| 4.6.  | Limitations on voting rights .....  | 13 |
| 4.7.  | Limitations on transfer of title to the Company's shares .....                      | 13 |
| 4.8.  | Appointment and powers of the Management Board .....                                | 13 |
| 4.9.  | Amending the Articles of Association of the Company .....                           | 13 |
| 4.10. | General Meeting and the rights of shareholders.....                                 | 13 |
| 4.11. | Membership of the Management Board and the Supervisory Board .....                  | 15 |
|       | MANAGEMENT BOARD'S ASSURANCE STATEMENT ON RELIABILITY OF THE FINANCIAL REPORT ..... | 18 |

## **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 92% of the Company's revenues (more than 94% in 2017).

Sales are generated in Poland (PLN 1.1 million to non-connected companies and PLN 117.3 million to connected companies) and abroad (PLN 37.7 million to non-connected companies, PLN 334.0 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 (30%) and Selena S.A. (23%).

### **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 2018 |                |                | 31 December 2017<br>restated data** |                |                 |
|---|------------------|----------------|----------------|-------------------------------------|----------------|-----------------|
|   | Gross            | Write-down     | Net            | Gross                               | Write-down     | Net             |
| Selena S.A.                                 | 62,781           | 0              | <b>62,781</b>  | 62,781                              | 0              | <b>62,781</b>   |
| Selena Labs Sp. z o.o.                      | 1,400            | 0              | <b>1,400</b>   | 1,400                               | 0              | <b>1,400</b>    |
| Carina Sealants Sp. z o.o.                  | 8                | 0              | <b>8</b>       | 8                                   | 0              | <b>8</b>        |
| Selena Industrial Technologies Sp. z o.o.   | 38,379           | 0              | <b>38,379</b>  | 38,379                              | 0              | <b>38,379</b>   |
| Selena Deutschland GmbH                     | 4                | 0              | <b>4</b>       | 4                                   | 0              | <b>4</b>        |
| Selena Italia srl                           | 1,884            | 1,884          | <b>0</b>       | 1,884                               | 1,884          | <b>0</b>        |
| Selena Iberia slú                           | 43,478           | 22,913         | <b>20,565</b>  | 43,478                              | 22,913         | <b>20,565</b>   |
| Uniflex S.p.A.                              | 7,109            | 0              | <b>7,109</b>   | 7,109                               | 0              | <b>7,109</b> ** |
| Selena USA Inc.                             | 1,289            | 1,289          | <b>0</b>       | 1,289                               | 1,289          | <b>0</b>        |
| Selena Sulamericana Ltda                    | 3,594            | 3,594          | <b>0</b>       | 3,594                               | 3,594          | <b>0</b>        |
| Selena USA Specialty Inc                    | 2,418            | 1,118          | <b>1,300</b>   | 2,418                               | 1,118          | <b>1,300</b>    |
| Selena Romania SRL                          | 11,944           | 11,944         | <b>0</b>       | 11,944                              | 11,944         | <b>0</b>        |
| Selena Bohemia s.r.o                        | 9,936            | 0              | <b>9,936</b>   | 9,936                               | 0              | <b>9,936</b>    |
| Selena Hungária Kft.                        | 679              | 679            | <b>0</b>       | 679                                 | 679            | <b>0</b>        |
| Selena Bulgaria Ltd.                        | 0                | 0              | <b>0</b>       | 0                                   | 0              | <b>0</b> *      |
| EURO MGA Product SRL                        | 1                | 0              | <b>1</b>       | 1                                   | 0              | <b>1</b>        |
| Selena Ukraine Ltd.                         | 0                | 0              | <b>0</b>       | 0                                   | 0              | <b>0</b> *      |
| Selena CA L.L.P.                            | 9,029            | 0              | <b>9,029</b>   | 9,029                               | 0              | <b>9,029</b>    |
| Selena Insulations                          | 1,206            | 1,206          | <b>0</b>       | 1,206                               | 1,206          | <b>0</b>        |
| Weize (Shanghai) Trading Co., Ltd.          | 0                | 0              | <b>0</b>       | 0                                   | 0              | <b>0</b> *      |
| Selena Nantong Building Materials Co., Ltd. | 33,910           | 33,910         | <b>0</b>       | 33,910                              | 33,910         | <b>0</b>        |
| Selena Vostok                               | 11,197           | 0              | <b>11,197</b>  | 11,197                              | 0              | <b>11,197</b>   |
| Selena Malzemeleri Yapi Sanayi Tic. Ltd.    | 23,765           | 23,764         | <b>1</b>       | 23,765                              | 23,764         | <b>1</b>        |
| <b>Value of shares</b>                      | <b>264,011</b>   | <b>102,301</b> | <b>161,710</b> | <b>264,011</b>                      | <b>102,301</b> | <b>161,710</b>  |

\* value of shares below PLN 400

\*\* the reasons and effects of the restated data published in earlier periods are described in Note 3.2.1 of the Company's 2018 financial statements.

### 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 2018.

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 2019, 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
- concentration on close cooperation with end users
- increasing the competitiveness of products
- securing the Group's liquidity.

## 1.9. Investment plans

The Company's investments in 2019 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 2018.

## 2. FINANCIAL POSITION

### 2.1. The Company's revenue and earnings

| Figures in PLN thousand   | Year ended 31<br>December 2018 | Year ended 31<br>December 2017 | Change  | Change % |
|---|--------------------------------|--------------------------------|---------|----------|
| Revenue from sales  | 490,084                        | 503,588                        | -13,504 | -3%      |
| Cost of sales   | -422,937                       | -450,996                       | -28,059 | 6%       |
| Gross profit  | 67,147                         | 52,592                         | 14,555  | 28%      |
| Selling and marketing costs                                     | -34,462                        | -30,432                        | 4,030   | -13%     |
| General and administrative expenses                             | -28,707                        | -29,210                        | -503    | 2%       |
| Other operating profit (loss)                                   | -973                           | 22,863                         | -23,836 | -        |
| Impairment (-)/ reversal of impairment of financial receivables | 5,445                          | 0                              | 5,445   | -        |
| EBITDA – operating profit + depreciation/ amortisation          | 11,926                         | 18,636                         | -6,710  | -        |
| Operating profit (EBIT)   | 8,450                          | 15,813                         | -7,363  | -        |
| Net financial income (loss)                                     | 23,060                         | 8,267                          | 14,793  | -        |
| Profit (loss) before tax  | 31,510                         | 24,080                         | 7,430   | -        |
| Profit (loss) after tax   | 30,515                         | 25,822                         | 4,693   | -        |
| Total comprehensive income                                      | 30,515                         | 25,822                         | 4,693   | -        |

*EBITDA – operating profit + depreciation/amortisation*

In 2018, revenue from sales were PLN 490.1 million, up PLN 13.5 million year-on-year. At the same time, cost of sales decreased by PLN 28.1 million. As a result, the gross profit margin was PLN 14.6 million higher than the margin achieved in the previous year. Selena FM S.A. acts as a multi-distributor for distribution companies. In addition, as a multi-distributor, Selena FM S.A. faced residual risk related to external factors, such as volatility of raw material prices, which it could not transfer in full to subsidiaries during the year.

Selling costs in 2018 were PLN 34.5m, up 13%. The increase in selling costs was due to the fact that some people from the marketing unit of Selena Marketing International were reassigned to the marketing unit of Selena FM S.A. This is also an effect of salary increases stimulated by the situation prevailing in the labour market. The ratio of selling costs to revenue from sales was 7.0%, up 1.0 pp on 2017.

In 2018, general and administrative expenses were PLN 28.7 million, down PLN 0.5m on the previous year. The decrease was helped by the stabilisation of the ERP system, and hence, reduction of service costs and business travel costs. In 2017, general administrative expenses in 2017 were higher due to the 25th anniversary of Selena FM.

The result on other operations was positive at PLN 4.5 million, taking into account the impairment loss in respect of financial assets. Since 1 January 2018, as required by the new IFRS 9 standard, the Group has reported the net balance of impairment of financial assets in a separate line in the income statement. The value of reversed impairment of financial assets was PLN 5.5 million.

The result on financial activity was PLN 23.1 million. Key items of financial revenues included: dividends and shares in profits of PLN 26.5 million; interest on loans and bonds of PLN 7.3 million and reversed impairment allowances on loans of PLN 21.3 million.

Net financial income was reduced by financial expenses of PLN 32.4 million, including loan interest of PLN 3.2 million, cancellation of loans of PLN 27.3 million (for details on loan impairment allowances see Note 15 of the unconsolidated financial statements of Selena FM S.A.) and FX losses of PLN 1.1 million.

## 2.2. The Company's key balance sheet figures

|  | 31 December 2018 | 31 December 2017 restated data* | Change        | Change %  |
|--|------------------|---------------------------------|---------------|-----------|
| <b>Figures in PLN thousand</b>                             |                  |                                 |               |           |
| Shares in subsidiaries                                     | 161,710          | 161,710                         | 0             | 0%        |
| Loans granted, bonds repurchased, valuation of derivatives | 123,413          | 105,890                         | 17,523        | 17%       |
| Trade receivables  | 159,235          | 143,958                         | 15,277        | 11%       |
| Cash   | 1,849            | 10,121                          | -8,272        | -82%      |
| Other assets   | 45,358           | 47,182                          | -1,824        | -4%       |
| <b>Total assets</b>  | <b>491,565</b>   | <b>468,861</b>                  | <b>22,704</b> | <b>5%</b> |
| Equity   | 306,838          | 292,949                         | 13,889        | 5%        |
| Bank and other loans                                       | 91,966           | 87,671                          | 4,295         | 5%        |
| Trade liabilities  | 85,597           | 84,297                          | 1,300         | 2%        |
| Other liabilities  | 7,164            | 3,944                           | 3,220         | 82%       |
| <b>Total equity and liabilities</b>                        | <b>491,565</b>   | <b>468,861</b>                  | <b>22,704</b> | <b>5%</b> |
| Debt ratio*  | 38%              | 38%                             |               |           |

\* Total liabilities/ Total equity and liabilities

The balance sheet total at the end of 2018 was PLN 491.5 million, up by PLN 22.6 million on the balance sheet total posted at the end of 2017. The increase was caused, *inter alia*, by an increase in loans granted to related parties.

## 2.3. Cash flows of the Company

| Figures in PLN thousand                     | 2018          | 2017         | Change         |
|---|---------------|--------------|----------------|
| Net cash flows from operating activities    | -10,818       | -78,589      | 67,771         |
| Net cash flows from investing activities    | 10,081        | 123,199      | -113,118       |
| Net cash flows from financing activities    | -7,555        | -40,737      | 33,182         |
| <b>Change in cash and cash equivalents:</b> | <b>-8,292</b> | <b>3,873</b> | <b>-12,165</b> |

Cash flows from operating activities were PLN -11.0 million, up PLN 67.6 million vs. 2017.

Cash flows from investing activities of PLN 10.1 million were mainly related to the dividend obtained from subsidiaries (PLN 26.7 million). At the same time, the Company provided loans to subsidiaries in the net amount of PLN 15.9 million.

Net cash flows from financing activities amounted to PLN -7.6 million. This figure was mainly affected by net loan payments (3.1 million), interest paid (PLN -3.1 million) and finance lease payments (PLN -0.7 million). At the same time, in settlement of the dividend payout, the Company paid shareholders PLN 6.9 million in cash in 2018.

## 2.4. Loans received

| Ref                | Loan type            | Maturity date | 31 December 2018  |                    | 31 December 2017  |                    |
|--------------------|----------------------|---------------|-------------------|--------------------|-------------------|--------------------|
|                    |                      |               | Long-term portion | Short-term portion | Long-term portion | Short-term portion |
| 1                  | Working capital loan | 07/2020       | 14,270            | 0                  | 0                 | 21,109             |
| 2                  | Working capital loan | 07/2021       | 21,856            | 0                  | 0                 | 4,705              |
| 3                  | Working capital loan | 12/2019       | 0                 | 4,759              | 0                 | 41,792             |
| 4                  | Working capital loan | 06/2021       | 16,154            | 0                  | 4,798             | 0                  |
| 5                  | Working capital loan | 11/2021       | 7,987             | 0                  | 0                 | 0                  |
| 6                  | Non-bank loan        | 12/2023       | 2483              | 0                  | 0                 | 2,419              |
| 7                  | Non-bank loan        | 12/2019       | 0                 | 1,011              | 1,500             | 41                 |
| 8                  | Non-bank loan        | 12/2019       | 0                 | 1,728              | 1,668             | 15                 |
| 9                  | Non-bank loan        | 12/2019       | 0                 | 765                | 750               | 20                 |
| 10                 | Non-bank loan        | 09/2022       | 8,700             | 70                 | 8,800             | 54                 |
| 11                 | Non-bank loan        | 12/2023       | 12,000            | 183                | 0                 | 0                  |
| <b>Total loans</b> |                      |               | <b>83,450</b>     | <b>8,516</b>       | <b>17,516</b>     | <b>70,155</b>      |

Details of the lending terms are presented in Note 19 of the Company's financial statements for 2018.

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 2018, 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 2018.

| Type of connection          | Figures in PLN thousand                  | 31 December 2017 | Impact of IFRS 9 | 1 January 2018 | Principal     |                |               |              | Interest      |               |                 | FX differences arising on balance sheet valuation | 31 December 2018 |
|-----------------------------|--|------------------|------------------|----------------|---------------|----------------|---------------|--------------|---------------|---------------|-----------------|---|------------------|
|                             |  |                  |                  |                | Loans granted | Repayment      | Write-off     | Accrued      | Paid          | Written off   | Withholding tax |   |                  |
| Loans                       |  |                  |                  |                |               |                |               |              |               |               |                 |   |                  |
| Subsidiaries                | Gross value                              | 224,893          | 0                | 224,893        | 32,977        | -11,115        | -25,099       | 7,320        | -1,538        | -2,241        | -477            | -2,064  | 222,656          |
|                             | Gain/ loss on impairment (loss reversal) | -119,361         | -746             | -120,107       | -439          | 650            | 21,130        | 0            | 0             | 0             | 0               | -803  | -99,569          |
|                             | Net value                                | 105,532          | -746             | 104,786        | 32,538        | -10,465        | -3,969        | 7,320        | -1,538        | -2,241        | -477            | -2,867  | 123,087          |
| Non-connected entities      | Loans                                    | 49               | 0                | 49             | 0             | 0              |               | 1            | -2            |               | 0               | 0   | 48               |
|                             | Valuation of derivatives                 | 309              | 0                | 309            | 0             | -32            |               | 0            | 0             |               | 0               | 0   | 277              |
| <b>TOTAL</b>                |  | <b>105,890</b>   | <b>-746</b>      | <b>105,144</b> | <b>32,538</b> | <b>-10,497</b> | <b>-3,969</b> | <b>7,321</b> | <b>-1,540</b> | <b>-2,241</b> | <b>-477</b>     | <b>-2,867</b>                                     | <b>123,412</b>   |
| <i>including long-term:</i> |  | 90,953           | -746             | 90,207         |               |                |               |              |               |               |                 |   | 98,364           |

Details of the financing provided to subsidiaries were presented in detail in Note 15 of the Company's financial statements for 2018.



## **2.6. Guarantees and off-balance sheet items**

The guarantees the Company extended to other entities, including its subsidiaries are presented in Note 21 of the Company's financial statements for 2018.

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 27 of the Company's financial statements for 2018.

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 28 of the Company's financial statements for 2018.

## **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 2018 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 2018 (Note 3.1).

## **3.2. Related party transactions**

In 2018, 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 24 and 25 of the Company's financial statements for 2018.

## **3.3. Issue of securities**

In 2018, 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 2018 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 2018.

## **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 were described in the Management Board's report on the Group's activities for 2018.

### 3.8. Changes to the governance principles

In 2018, 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 25 of the Company's financial statements for 2018.

### 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                       |

\* entity controlled by Krzysztof Domarecki, President of the Management Board, through Syrius Investment s.a.r.l.

\*\* entity controlled by Krzysztof Domarecki, President of the Management Board

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 2018, no employee shares programmes were in place in the company.

### 3.14. Information on the audit of the financial statements

On 13 May 2018, the Supervisory Board of Selena FM S.A. resolved to appoint PricewaterhouseCoopers Sp. z o.o. Audyt Sp. k. (formerly: PricewaterhouseCoopers 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 2018, 2019 and 2020. The audit agreement was concluded on 23 April 2018.

Note 26 of the Company's 2018 financial statements contains details of the remuneration paid to the auditor of the Company's 2018 and 2017 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", issued on 13 October 2015, 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](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 or its key managers. The Company does not ensure a balanced participation of women and men on the Management Board or 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 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 judgement. 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 Code of Best Practice for the WSE Listed Companies for 2016, introduced by the Resolution of the Warsaw Stock Exchange Council of 13 October 2015, except for those described in the EBI report no. 1/2018 of 12.01.2019.

### 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 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. As of 20 October 2017, the Audit Committee appointed by the Supervisory Board has oversight over the entire financial reporting process at the Company.

#### 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

\*\*As at 7 July 2016

#### 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, particularly in the following matters:

- 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. Voting at the General Meeting is open. Secret vote 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 Statutes. 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**

##### **Management Board of the Company**

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, Production and Logistics Operations Director.

Changes in the Management Board in 2018:

- on 5 January 2018, Jean-Noël Fourel resigned as Management Board President of the Company.
- on 12 January 2018, the Company's Supervisory Board adopted appointed Marcin Macewicz as acting Management Board President pending election of a new Management Board President.
- on 15 June 2018, the Supervisory Board of the Company appointed the following Management Board members for a joint three-year term of office: Marcin Macewicz – Management Board President, Management Board Member, Artur Ryglowski – Management Board Member.
- on 19 November 2018, the Company's Supervisory Board adopted a resolution appointing Elżbieta Korczyńska as a Management Board member and a CFO of Selena Group pending appointment of Vice President of the Management Board for Finance.
- on 5 December 2018, Marcin Macewicz, acting Management Board President, passed away;
- on 7 December 2018, the Supervisory Board of the Company adopted a resolution delegating the duties of the Management Board President to Krzysztof Domarecki, the Supervisory Board Chairman, for the following three months, but no longer than until appointment of the new President of the Company's Management Board;
- on 19 December 2018, the Supervisory Board removed Agata Gładysz-Stańczyk from the Management Board as Management Board Member and accepted the resignation of Artur Ryglowski, who was a Management Board Member.

As at 31 December 2018, the Parent Company's Management Board was composed of:

- Krzysztof Domarecki – acting Management Board President
- Elżbieta Korczyńska – Management Board Member, CFO

On 7 January 2019, the following persons were appointed to the Management Board of Selena FM S.A.:

- Dariusz Ciesielski, who was appointed Vice President of the Management Board for Sales, and
- Bogusław Mieszczak, who was appointed Management Board Member for Operations.

As of 1 March 2019, the following persons were appointed to the Management Board of Selena FM S.A.:

- Krzysztof Domarecki, who was appointed President of the Management Board and
- Christian Dölle, who was appointed Vice President of the Management Board for Marketing.

The new Management Board members were appointed for a term of three years served jointly with the other Management Board Members and commenced on 15 June 2018.

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 2017, 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

- Marlena Łubieszko-Siewruk – Supervisory Board Member
- Jacek Olszański – Supervisory Board Member
- Mariusz Warych – Supervisory Board Member.

Changes in the Supervisory Board composition in 2018:

On 14 June 2018, the Annual General Meeting of Shareholders of Selena FM S.A. adopted a resolution on appointment of the following Supervisory Board members for a joint three-year term of office:

- Krzysztof Domarecki – Supervisory Board Chairman
- Borysław Czyżak – independent Supervisory Board Member
- Andrzej Krämer – independent Supervisory Board Member
- Marlena Łubieszko-Siewruk – independent Supervisory Board Member
- Mariusz Warych – independent Supervisory Board Member.

On 7 December 2018, the Company's Supervisory Board adopted a resolution to delegate the Chairman of the Supervisory Board Krzysztof Domarecki to the Management Board for a maximum period of 3 months.

As at 31 December 2018, the Company's Supervisory Board was composed of:

- Krzysztof Domarecki – Supervisory Board Chairman, temporarily delegated to the Management Board
- Borysław Czyżak – independent Supervisory Board Member
- Andrzej Krämer – independent Supervisory Board Member
- Marlena Łubieszko-Siewruk – independent Supervisory Board Member
- Mariusz Warych – independent Supervisory Board Member.

On 28 February 2019, Krzysztof Domarecki resigned from the Supervisory Board and from the role of the Chairman of the Supervisory Board effective from 28 February 2019.

On the same day, the Extraordinary General Meeting of Shareholders nominated Andrzej Krämer as the Chairman of the Company's Supervisory Board and appointed Czesław Domarecki to the Supervisory Board.

The new member of the Supervisory Board is appointed for a term of three years served jointly with the other Supervisory Board members.

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

#### **Audit Committee and Strategy and Innovation Committee**

As at 31 December 2017, the Parent Company's Audit Committee was composed of:

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

Changes in the Audit Committee composition in 2018.

Since 15 June 2018, the Audit Committee has consisted of:

- Mariusz Warych – Chairman of the Audit Committee
- Marlena Łubieszko-Siewruk – Audit Committee Member
- Krzysztof Domarecki – 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.

Since 1 March 2019, the Audit Committee has consisted of:

- Mariusz Warych – Chairman of the Audit Committee
- Andrzej Krämer – Audit Committee Member
- Marlena Łubieszko-Siewruk – 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.

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

In October 2017, the Supervisory Board appointed the Strategy and Innovation Committee. As at 31 December 2017, the Committee was composed 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.

Since 15 June 2018, the Strategy and Innovation Committee has consisted of:

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

By the date of publication of this report, no changes took place in the Strategy and Innovation Committee's composition.

On 15 June 2018, the Supervisory Board of Selena FM S.A. appointed the Nominations and Remuneration Committee consisting of:

- Borysław Czyżak – Chairman of the Nominations and Remuneration Committee
- Marlena Łubieszko-Siewruk – member of the Nominations and Remunerations. Committee

By the date of publication of this report, no changes took place in the Nominations and Remuneration Committee's composition.

## **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 2018 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.

**Management Board President  
Krzysztof Domarecki**

**Vice President for Sales**

**Dariusz Ciesielski**

**Vice President for Marketing**

**Christian Dölle**

**Management Board Member  
Elżbieta Korczyńska**

**Management Board Member for  
Operations**

**Bogusław Mieszczak**